



# **Sarhad Journal of Management Sciences**

# **SJMIS**

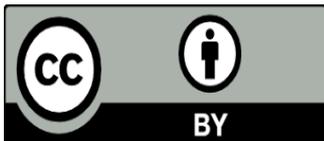
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## **Volume 8 Issue 2**



**Sarhad  
University**  
of Science & Information Technology  
Peshawar - Pakistan

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Peshawar - Pakistan

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Sarhad Journal of Management Sciences (SJMS) is the 2<sup>nd</sup> 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 biannually. 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.

### **Scope of the Journal**

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 The journal welcomes unpublished, original research papers, review papers, research survey and even tutorials.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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# AN EXPLORATORY INVESTIGATION OF THE DIGITAL ECONOMY ON FINANCIAL INSTITUTIONS IN PAKISTAN

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**Abstract.** *The delivery of financial services was revolutionized by digitization, which compelled financial institutions to adopt technology that enables them to provide the best appropriate service at a reasonable price. However, due to recent disruption in the country's financial system, financial institutions must incorporate modern technologies to help lower ineffectiveness and improve service quality. This study investigates the impact of digital economy on financial sector competence. According to literature studies, financial organizations in Pakistan are attempting to adopt and integrate digitization into their operations. Given that a generous portion of Pakistan's population is considered digitally illiterate, the number of people who signed up for and used digital financial products was staggering. Therefore, financial institutions must incorporate their business functions with pertinent technology to maintain and improve profitability. Furthermore, they must invest in digital infrastructure and human resource training to incorporate technology in providing services. Policymakers should also strengthen data security and cybercrime laws, policies, and regulations to allow market participants for free and confident operation.*

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**Keywords:** Exploratory inquiry, Digital Economy, Financial institutions, Pakistan.

## Introduction

The significance of the digital economy has been recognized by academicians, economists, corporate leaders, statisticians, authors, and business owners. The effect of the digital economy on restructuring the existing economic system, reshaping customers' behaviors, business models and interactions, and all other sectors can be noted. For instance, the fourth industrial revolution, assumes that

corporate operations and production will alter as a result of the usage of robotics, artificial intelligence, and big data in manufacturing and other company activities.

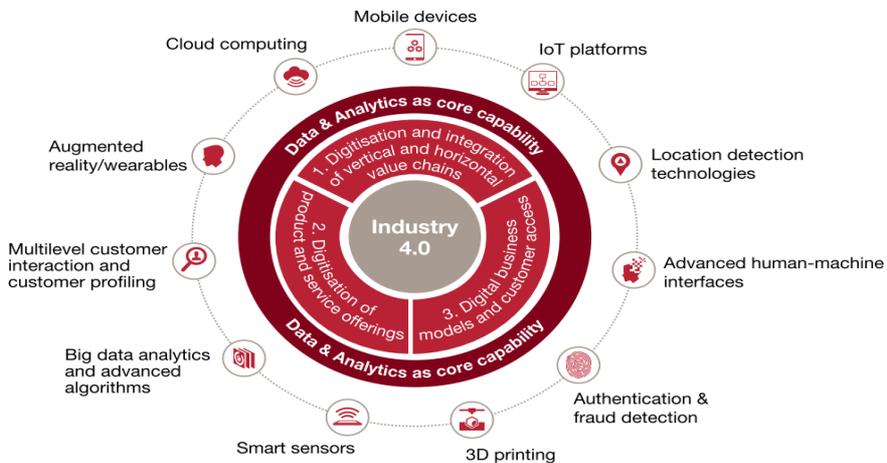


Figure 1 Industrial 4 Revolution (Geissbauer et al., 2016).

Digital technologies assist organizations to choose significant production processes, utilize newest data, minimize production expenses, develop goods quality and pledge the prompt production of goods that fulfill customer needs (Chirkunova et al., 2021).

Zhang et al. (2021) revealed that digitization is the primary driver of economic progress in emerging countries. It boosts equity, increases workforce productivity, decreases transaction expenses, and encourages country inclusion in the international market. The digital economy is becoming the primary force behind growth, competition, and innovation. Digital technology has a significant impact on the socioeconomic system. The global economy is on the verge of revolutionary change. Ongoing digitization is transforming the economy by lowering costs, storage, and data processing, minimizing the industrial chains. In addition, the rising digitization processes contribute to the warping of physical and geographical borders (Rudyk et al., 2022).

Internet and systems of communications are developing and changing quickly in digital economy, presenting novel challenges and opportunities to manage financial risk. New financial solutions for financial risk management will continue to expand, such as rising e-commerce, information sharing, and e-payment. Digital innovation is considered the heart of every organization, enhancing systems connection, internal operation, workforce performance, and business processes. It also minimizes cost and produces new and valuable data. These advancements have lowered transaction and operating expenses and led to a new business model and new entrants (Feyen et al., 2021). Information can be seen as a risk-reducing

or risk-increasing tool. Accurate information would lead to effective risk management and enhanced decision-making. As the digital economy has grown, it has become clear that individuals and organizations can quickly access more valuable and timely information regularly. Policy and decision-makers can evaluate internal information and outside market reports and receive rivals' information on their desktop.

Financial institutions in Pakistan struggle with information asymmetry, which negatively affects selection, moral hazard, and credit evaluation (Ahad & Imran, 2021). Loan default and third-party transactions are two essential issues that many financial institutions encounter. The challenge is the accessibility, validity, precision, and customer information management to guide credit-issuing choices.

It is vital to limit the issue of information overload by ensuring the appropriate use of the Internet, improving the users, and enhancing the voluntary interchange of the data may provide a better understanding of circumstances relating to the dynamic of a business or commercial connection. This enables increased detection, prevention, control, and risk management options. The organization believes that the best way is to accept that they will be exposed to risks. The optimum strategy is to become more mindful, take the initiative of the dangers, and respond more rapidly should such risks manifest.

The growth of an effective digital economy contributed to improving the position of firms, enhancing the standard of corporate governance principles, and increasing the communication and coherence of the essential structure of financial organizations. These advancements far outweigh the initial adjustments made to information and communication technologies (ICT), primarily responsible for expanding the digital economy. The changes due to the digital economy took place in every market sector: consumer preferences, competitive structure, marketing tactics, purchasing habits, internal management systems, production operation, managing supply chain, and due to promotion of global economy. Most business professionals feel that the uncertainties and dangers associated with the management of their organizations rise as a result of such changes. The key to surviving in the digital era is the ability of management to properly employ ICT to control these hazards (Ritchie & Brindley, 2005).

Although there is evidence that digital technologies are impacting the socioeconomic system, most important issues are still not sufficiently addressed (Chernyakov et al., 2019). There has been little emphasis on the impact of risk on the growth of digital potential, which may contribute to organizations' innovative development. The difficulty of business development in context of digital economy is not elaborated. The system of modern economic relations does not address the emergence of new challenges associated with digital economy.

This study examines how Pakistan's financial institutions can become more efficient by taking advantage of the digital economy. The study aims to enhance customer service, lessen waste, and keep a competitive edge. The study's explanation of 'digital economy' operationalized the application of technology in providing financial services and creating new goods and services. The following queries were the focus of this study:

1. How the digital economy accelerates financial service delivery.
2. How the digital economy helps to make financial services more affordable.
3. How digitization aids in financial deepening.

The study contributes to the body of knowledge regarding use of technology and digitization in the provision of financial matters. In addition, it demonstrates how developing nations like Pakistan handle changes in the economic landscape of the digital age.

The remaining paper is divided into four sections. Literature reviews are covered in section two, and discussion and research methodologies are covered in section three: Parts four and five covered analysis, conversation, conclusion, and recommendation.

## **Literature Review**

### **Digitization in Pakistan**

Digitalization in Pakistan is accelerating amazingly fast. The new broadband service replaced the previous dial-up connection, and 4G and recently 5G mobile internet was just introduced (Rasheed et al., 2019). With projected revenues of \$628 million in 2020 and \$6 billion in 2021, Pakistan is among the major e-commerce markets, ranking 37th ahead of Iran and behind Israel. (Statista, 2022). Pakistan's e-commerce industry progressed by 45% 2021, thereby impacting international growth by 29 percent. E-commerce revenue is expanding, new markets are developing, and established markets have room for development. Limelight.pk with a sales revenue of fifty million dollars in 2021 is the leading player in Pakistan's e-commerce sector, followed by Gulahmadshop.com with forty-eight million-dollar and Khadi.com with sales of 30 million dollars. These stores are ranked according to their income-generating potential. Bagallery.com is one of Pakistan's fastest-growing retailers, with a US \$0.1 million sales revenue in 2021, up more than 250 percent from the previous year. The digital market outlook from Statista predicts that market growth in Pakistan will persist for a while. Because of the crowded market, the compound annual growth graph for the next four years is expected to be 7%, compared to a year-over-year growth rate of 45%. Another sign of market saturation is Pakistan's 19% internet market penetration.

The ongoing digitization of service offerings may promote growth from macroeconomic dimensions. This point of view is substantiated by the recent developments and predictions for the future. For example, a McKinsey Global Institute (MGI) analysis suggests that between 2016 and 2025, an escalation in use of digital financial services (DFS) alone could increase Pakistan's GDP by 7% (or roughly 36 billion US dollars) and make a way for over four million job opportunities.

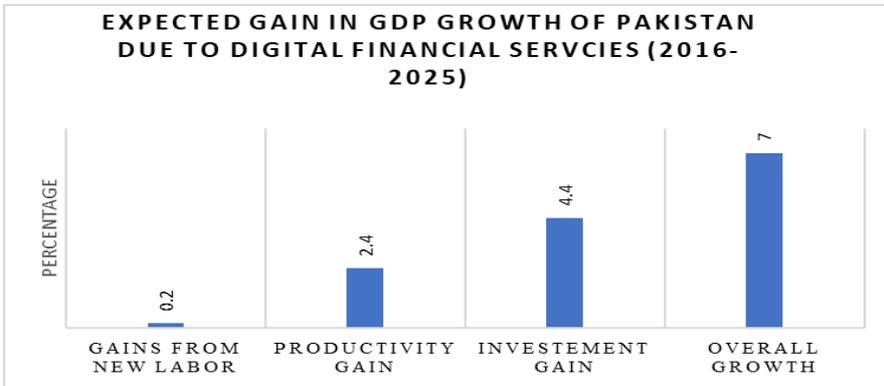


Figure 2 Expected Gain in GDP Growth (McKinsey Global Institute, 2016)

Pakistan has seen an exponential increase in financial technology (FinTech) and digitalization. Using emails, cell phones, and telephones to provide financial services contributes to economic development. FinTech is reflected in banking institutions, non-banking firms, insurance companies, and the capital market.

The chart of payment system transactions in Pakistan from 2<sup>nd</sup> quarter of 2020 to the 2<sup>nd</sup> quarter of 2021 (in a million).

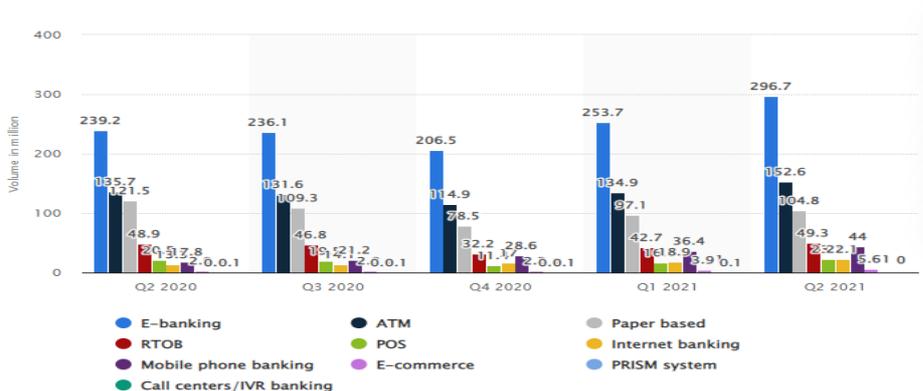


Figure 3 Payment System Transactions in Pakistan (2020 to the 2<sup>nd</sup> quarter of 2021 (in a million)).

Several online and digital platforms are being developed at the financial sector's business, industry, and regulatory levels to streamline transactions and promote financial inclusion. The country has roughly 52 self-described incubation and acceleration centers, and 7 to 15 startups graduate each year. Local startup activities are increasing, attributed to the maturing support system. As per the estimate, around 500 new businesses were launched in 2017. Co-working spaces, 11 fellowship programmes, a rise in angel investment, incubators, and accelerators, as well as establishment of regional affiliates of international programmes like Startup Cup, Startup Weekend, Startup Grind, and Lean Startup Machine all contributed to the improvement of the startup ecosystem. Domestic startup activity has increased due to opening regional chapters for The Indus Entrepreneurs (TiE) and the Organization of Pakistani Entrepreneurs (OPEN). Additionally, nationwide meetings for the Google Business Group and Google Developer Group are held regularly.

### Prominent Startup Incubators in Pakistan

 <b>Plan9</b> <small>Where ideas take flight</small> <b>LAHORE</b> <small>www.plan9.ptib.com.pk</small>	<b>PROMINENT STARTUPS</b> Groopic, HomeTown, Technolsys, XGear & BookMe
 <b>LUMS</b> CENTER FOR ENTREPRENEURSHIP <b>LAHORE</b> <small>www.lce.lums.edu.pk</small>	<b>THE FOUNDATION PROMINENT STARTUPS</b> Savaree, BizClout
 <b>LAHORE</b> <small>www.venexel.com</small>	<b>PROMINENT STARTUPS</b> KickStoro, TechJuice
 <b>ISLAMABAD</b> <small>www.invest2innovate.com</small>	<b>PROMINENT STARTUPS</b> Popinjay, 3restart
 <b>ISLAMABAD</b> <small>http://www.nust.edu.pk/INSTITUTIONS/Directories/TIC</small>	<b>PROMINENT STARTUP</b> TunaCode & Cricout
 <b>PESHAWAR</b> <small>www.basecamp.pk</small>	No prominent startups but in a short span, the space has become hub of everything related to IT in Peshawar.

### Others..



TECHJUICE

Figure 4 Sources: TECHJUICE.PK

Table 1 *Pakistan's Notable Accelerators and Incubators*

	<b>Nature</b>	<b>Major Supporter</b>	<b>Portfolio firm(s)**</b>
Plan X	Accelerator	Punjab IT Board (PITB)	Mangobaaz; BeautyHooked
Invest2Innovate	Accelerator	Dotzero; Pasha Fund for Social Innovation	Popinjay; DoctHers
10Xc	Accelerator	Planeta	Labcloud; Fix My Phone
The Nest I/O	Incubator	Google for Entrepreneurs, Samsung	Mandi Express; ConnectHear
NIC Lahore (formerly LCE)	Incubator	LUMS; Ignite; MOITT	InteraCta; AutoGenie.pk
Plan 9	Incubator	PITB	Patari; Bookme
Social Innovation Lab	Incubator	LUMS	FindMyAdventure; Tahafuz
Nspire	Incubator	Netsol	Shop desk; surge
DotZero Ventures	Incubator	Foundation for Information Technology	Deal today.pk; PerkUp
Founder Institute	Incubator		Approvers; Verifapp
Artech Hatchery	Incubator		EatOye; Shops

\* In some instances, the entities serve as both incubators and accelerators

\*\* Only one or two associated startups are mentioned. At times, a startup may be associated with multiple incubators/accelerators

### **Theoretical and empirical reviews**

The digital economic phenomenon has no generally accepted definition in the modern world. Digital economy is not just network technology and artificial intelligence. It illustrates the connection between creativity, novel economies, businesses, knowledge, and technology for the formation of social and wealth development. The book Don Tapscott wrote in 1995 highlighted the way the Internet might influence business in coming days. He was the first who mentions the concept of the digital economy. There is no analogue equivalent system in the digital economy, which only consists of the digital sector and incorporating ICTs in all zones of the economy (Bukht & Heeks, 2017). Creating and using digital technology in both the private and public sectors are included in the general definition of digital economy. The entire economy's digital dividends are captured by it.

This concept was pertinent to develop States and Sustainable Development Goals (Hanna, 2020). It sees the digital economy as an evolutionary process having focus on growing culture of digital technology across the economy. However, the explanation of the digital economy has been the most perplexing element of it. According to Barefoot et al. (2018) one fundamental issue with the digital economy is that of having single and proper definition of the notion.

According to Belousov and Timofeeva (2019), the digital economy is the activity of people that focuses on the fact that the influence of producer of products is not on the object of labor and tools but the management system of such equipment. Similarly, Schön (2017) elaborated the digital economy as the ability and execution of exchanging goods and services via e-commerce.

According to Brynjolfsson and Kahin (2002) the changing properties of information, computation, and communications are the primary drivers of economic development and social transformation. The digital economy is the application of technology to all aspects of life. It is related to digitalized technology in delivering socioeconomic activities in society. Although experts have struggled to define it, the digital economy and digitalization have significantly influenced culture. Various researchers have approached this issue from multiple angles. It applies to modern economic activities that use digital data in their operation in (IMF, 2018).

According to Jing and Sun (2019) the essence of the digital economy is informatization which has the characteristics of excessive permeability, remarkable speed, sustainability and externality. The digital economy is critical for promoting investment, consumption, and in creation of jobs (Zhao et al., 2020).

This digital economy, known as the information economy, has a dynamic nature and has significant applications for businesses and consumers. It includes artificial intelligence, sophisticated data processing, big data analysis, cloud computing, 3D printing, face recognition, and digital banking (Barefoot et al., 2018).

Elmasry et al. (2016) described the digital economy as value creation that helps boost customer involvement, firms' capabilities, and deals with all sections of commercial activities. Bukht and Heeks (2017) illustrated the digital economy as the number of industrial products developed exclusively or primarily from digital technologies. They explained that a digital economy is a comprehensive approach that covers the digital sector and major digital activities, including software and IT consulting, telecommunication, hardware manufacturing, information services, e-trade, digital services, platform economy, and sharing economy, without internalizing the notion that digitized activities are included in digital economy.

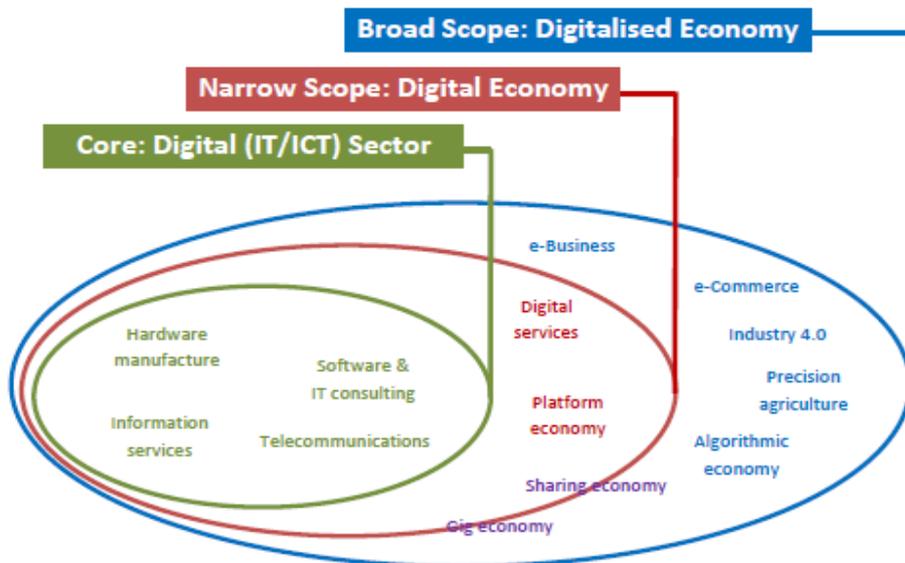


Figure 5 Types of Economies (Bukht & Heeks, 2017).

This paper defines digital economy as the use of technology and promotion of financial services, and development of new financial goods as well. The finance-growth nexus (Schumpeter, 2003) proves finance's significance as an engine of economic growth and development. Moreover, the theory of neoclassical growth presents a case for finance in forecasting economic growth by focusing on material, labor, and technology. According to researchers (Atje & Jovanovic, 1993) capital stock is divided into two, i.e., the stock market capital and non-stock market capital. This concept contends that the digital economy (technology) has a crucial role in economic growth. According to indigenous theory and the neoclassical model (Solow and Swan), technology is critical for economic progress.

The integration of digital economies with the social and economic fields is growing in both breadth and depth, having a significant impact on production and lifestyle. The influence of the digital economy on macro level not only reflected on the scale of production but also improves the quality and efficiency (Viollaz, 2019). Through network externalities, the digital economy can generate economies of scale which lower businesses' marginal costs (Chen et al., 2020). A number of studies (Afonasova et al., 2019; Myovella et al., 2020) also demonstrated the effects of technology, particularly digital economy, on economic expansion and development.

According to Wang and Chen (2019), the digital economy demonstrates dependency on electronic items, new information networks and flexible means of

production to break the conventional mass production model having its roots in techno-economic paradigm theory.

According to Chavula and Chekol (2011), digital economy is based on electronic items manufactured via electronic companies and delivered through electronic means. It is an economic activity and commercial and business transaction through information technologies. This approach recommends various business structures and techniques (Strømmen-Bakhtiar, 2019). Meanwhile, the financial market focuses on risk exposure, governance and regulatory or non-compliance requirement (Amuakwa-Mensah & Boakye-Adjei, 2015; Benson, 2019; Madugu et al., 2020; Osman, 2019). Certainly, the latest research revealed that these factors significantly impact financial institutions' performance (Awo & Akotey, 2019; Osman, 2019).

The nature of technology, systems, operations, commodities, and processes put in place to provide the financial services, are ancillary to the business's existence (Mwashuuya & Mbamba, 2020). The advent of digital economy shifted the way at which financial services are provided (Swamy, 2020). In digital economy, services related to finance are digitalized and supported by internet websites and software. The objective is to diminish operational expenditures and intensify the firm's performance. Process expenditures, employee productivity, facility costs, and, in certain situations, automobiles and transportation are all part of a financial institution's operating costs (Madugu et al., 2020).

According to Aloqab et al. (2018), risk management is viewed as managing the financial institution's activities. The managers' responsibilities are to recognize tools and develop strategies to reduce and, in certain cases, eradicate the risks. One of the most important of these hazards is operational risk. This risk arises due to insufficient or failing internal procedures, people, systems, and events such as legal risk. When these risks are not appropriately handled, they can lead to operational inefficiency, financial difficulty, and business collapse. As a result of using the conventional approach, the business would have to recruit additional individuals, raising its personnel costs. Staff expenses are a significant portion of the expenses incurred by financial organizations (Jenkins & Mathurin, 2012).

It is generally said that platforms related to finance like MOMO aids in improving approach to financial services and mobilizing savings. Financial service firms are concentrated in metropolitan areas; digitization, platforms, and mobile phones are effective means to mobilize savings. Because of its fastest service of delivery, the Internet for financial services providers has gained significant attention. Mobile and internet banking are much efficient in-service delivery than traditional banking, which reduces human contact. Online banking provides the facilities of fund transfer, digital banks statements, balance inquiry, and payment confirmation (Jakšič & Marinč, 2019).

The emergence of digitalization boosted financial innovation and creation of new products and processes. At present, at least one innovative product is available from thirty-three commercial banks and eleven micro-finance banking organizations working in Pakistan. These products offered by these institutions are somehow web or smart phone based. Likewise, other financial firms including development financial institutions, leasing companies, investment banks, modaraba companies, and Mortgage Houses, are converting to internet-based products or processes. These products are debit cards, credit cards, mobile money, electronic wallets, ATMs, mobile banking, email banking, and e-payment. Some specific accounts, such as Roshan Digital Account, are offered by various banking institutions for Pakistani nationals outside the country. These financial improvements boosted banking efficiency, operations, and performance.

One cause for the country's slow pace of technology adoption is a lack of digital literacy among a significant percentage of the population. For example, financial institutions were required to encourage their consumers to do more online transactions to lower the number of operations in banking area. However, more financial transactions still take place in banks using and required manual processes.

The digital economy showcased financial institutions to national and global service providers. For example, internet banking provides facilities for the worldwide consumers to manage and retain their saving and checkable accounts across boundaries. Although data are not directly available, public discussions and media reports indicate that an increasing number of people are interested in trading digital financial products such as bitcoin and cryptocurrencies.

Furthermore, there is the option of using a worldwide platform such as Visa, PayPal, MasterCard, American Express, and express Pay. Foreign financial institutions' offering of such services in country leaving the sector to considerably harsher competition. Although physical access by foreign institutions is complex, virtual financial services delivered via digitalized technology make entry simple. As a result, the degree of bank rivalry has increased which help to enhance customers services by provide more better services alternative. However, it has a detrimental influence on local banks that lack the financial resources to purchase the technologies required to provide digital financial services. The next critical issue is regulating virtual financial firms, particularly in unfair competition and unethical banking activities. The Pakistani digital economy has not been without consequences. According to Hutton (2017) online information has significant value to business transactions. Poor digital economy regulation provides spaces for cybercrimes which affect the digital economy. Digital technologies promote businesses but also face the pyramid banking schemes like Ponzi and deceptive financial games. Cyber criminals are early users of digital money technologies,

particularly when the characteristics of the financial product can potentially assist them in evading the law (Fanusie & Robinson, 2018).

As stated previously, financial institutions show response to the process and product digitalization at a cool pace. Among the causes are cyberattacks, promotion of anti-money laundering, encouraging illegal online gaming, and financial frauds, particularly in countries with weak cyber laws (Fanusie & Robinson, 2018; Şcheau & Pop Zaharie, 2017). These factors nurture financial institutions that lack a solid ICT infrastructure hesitant to efficient engagement in digital financial services' supply. Building a more robust ICT infrastructure for offering digitized financial services necessitates a significant investment. Multinational IT corporations frequently give servers and IT solutions due to insufficient investments by various financial institutions in the country. Financial institutions lack complete control over consumer data, leading to risks. The prevalence of online scam cases erodes public trust in digitalized financial services.

### **Research Methods**

The review's goal was to examine the digital economy and deduce conclusions about Pakistan's financial sector. The study employed an exploratory inquiry. Secondary data sources included articles, journals, publications, periodical, unpublished thesis/ case studies, and projects. Secondary data were gathered from online resources, websites, and databases. The collected data were analyzed using qualitative content analysis (QCA) (Hsieh & Shannon, 2005; Selvi, 2019). In international business and management research, the use of content analysis for quantitative and qualitative analysis has increased (Gaur & Kumar, 2018). In literature reviews, it is used to evaluate existing information and comprehend intellectual structure. Many researchers have employed content analysis, according to (Duriau et al., 2007; Short & Palmer, 2007) to detect and summarize trends in literature and quantify latent dimensions in quantitative research when valid, trustworthy data are hard to come by from traditional sources. The qualitative content analysis was considered well in investigating the theme, and subject matter of digital economy as a subjectivist analysis of data. The technique helped examine the perspectives and theories of this phenomenon. Lastly, themes developed from the contents of numerous elements synthesized. This helps develop suitable conclusions about the topic issue.

### **Analysis and discussion**

Themes from the previous research syntheses include: customer preferences for digital financial service delivery; digital platforms as a source of saving mobilization; increased financial deepening; the digital economy as a source of financial innovation; digitization as a catalyst for financial sector competition; and as a risk factor for financial institutions and customers.

### Customer preference for digital financial service delivery

Evidence shows that country’s utilization of digital technology is expanding at a high rate. The employment of digital technology is the only feasible choice for a society with a considerable population residing in places with poor transportation networks and primitive infrastructure to develop financial access and promote inclusion. This is one of the business strategies to attract access to undeveloped areas, enhance the financial institution’s consumer share, and make the business feasible. This, however, has repercussions for infrastructure development investment.

### Financial deepening with digital platforms

The earlier works’ synergies showed that digital platforms serve as savings mobilization and expanding financial depth. Mobile money transfers were the most widely used digital financial services provider technology. The broadband services in Pakistan reached a remarkable milestone of one hundred million subscriber in March 2021. Telecom and ICT services covering over 89% of the population. Teledensity has touched 87% of which cellular mobile phone penetration comprises over 86 %. Similarly, the number of cellular subscribers has risen to 188 million, taking the total telecom subscriber base to 191 million.

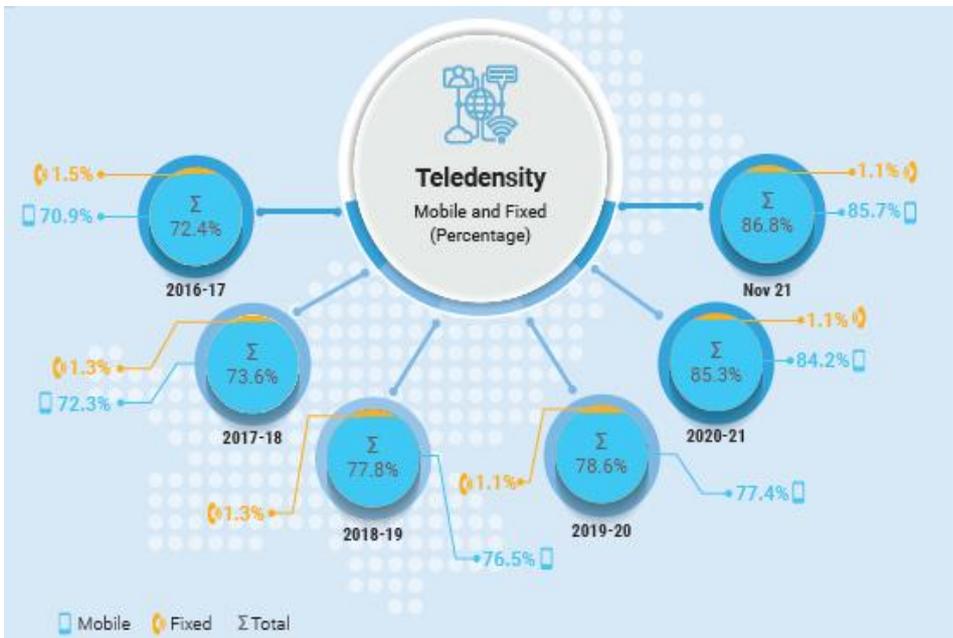


Figure 6 Source: PTA annual Report 2021.

## Financial innovations

One of the challenges that arose was the digital economy as a mean of financial innovation. This suggests that financial organizations emphasize online, Internet, and mobile banking over traditional location and branch financial services. Such financial services delivery practices remove the human element, slowing down service speed. This might also cut employee costs and other operational expenditures (such as stationery costs), raising financial service prices. Digital facilities are now available to seven hundred educational institutions, 330 hospitals and healthcare facilities, and 170 financial institutions and banks for online banking and ATM services.

## Financial sector competition

One major issue emerged due to digitalization, which promoted banking sector rivalry. The problems highlighted indicated that digitalization lowers the barrier to entry into the banking sector. This suggests that financial institutions presently compete with financial institutions and goods on domestic and Internet marketplaces. Customers benefit from this by having access to a wide range of high-quality financial products at low costs.

## Exposure to risks

According to the assessment, digitizing the financial industry exposes financial organizations and clients to dangers. Online financial fraud was one of the most severe threats. The digitization of financial services also benefits internet criminals such as money-laundering, illegal online gamblers, scam artist and financial fraudsters. This becomes upshots for public trust in digitalization and online financial transactions. As a result, to capitalize the opportunities provided by the digital economy, financial institutions must establish and maintain a solid IT infrastructure as well as a dependable and reputable database. In Pakistan, an increase in online attacks poses security and financial risks to users across the board, including individuals, businesses, sectors, and states.

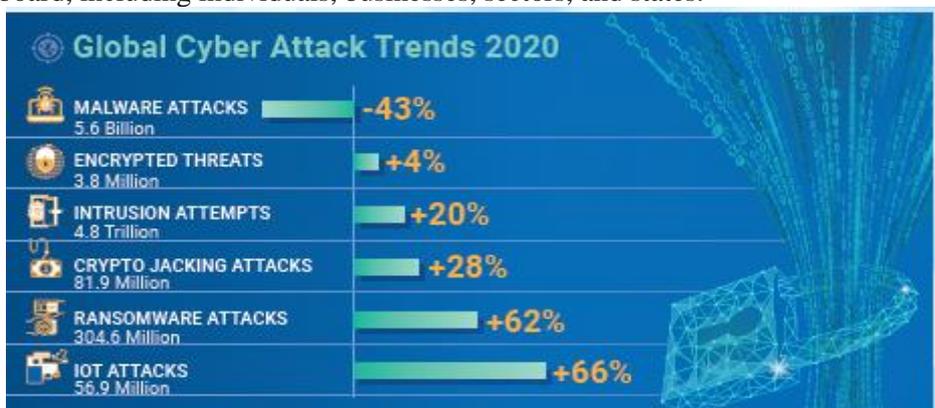


Figure 7 Global cyber-attacks trends, cyber threat report 2021, Sonic Wall.

## **Conclusions and recommendations**

Based on evaluations of the country's financial services ecosystem, it is possible to infer those financial institutions attempt to integrate digitization into their service delivery. Mobile money platforms are widely accepted as the most popular method of transferring funds and making payments. Likewise, the digital economy accelerates the mobilization of funds and expands accessing financial services. Digitization and the usage of the platform reduce banks operational expenses. Internalizing digital economy promotes a cashless society, freeing up funds for productive operations in businesses. The State Bank's efforts to clean up the financial industry has exposed organizations to multiple operational inefficiencies in expenses, management, and strategy. Increase in the minimum capital requirement necessary to operate in a specific sub-sector meant that the companies involved to incur more expenditures. This indicates that financial institutions should use technology to offer services far more effectively. Based on the findings, it was determined that the digital economy tends to minimize operational expenses through lowering workforce and transaction costs. This also helps to improve access to the financial services and customer's preference for the service alternatives. It aids in reducing the risk, expense, and time involved with clearing of cheque. It aids in in-time delivery of services to clients.

The digital economy serves as the foundation for gathering and storing copious amounts of data about financial institution clients. Such information is ancillary to the institution's decision-making. However, there are hazards linked with financial services digitization. Among these hazards is the security of clients' data, which might encourage anti-money laundering in nations with lax financial rules and laws of data protection.

## **Practical recommendations**

Human resource development and capacity improvement of financial institution workers are required. This begins with creating a business strategy and incorporating digitization into the supply of financial services. Moreover, it necessitates investment in the necessary infrastructure, both physical and software. Furthermore, for financial institutions to fully capitalize on the potential presented by the digital economy, the major players, particularly the institutions' consumers, must be educated. A customer's education on utilizing a financial institution's application helps to increase its use. The Central Bank must use digital technology in its surveillance and supervision of the country's financial institutions. Purchasing of apps that allow the Bank to monitor and even permit certain types of transactions conducted by financial institutions should be implemented. This ought to be done in conjunction along on-site visits to financial institutions.

## Policy recommendations

As far as recommendations are concerned, the first stage should be to establish the legal framework, guiding principles, standards, and code of behavior. There is a need to tighten data protection and cybercrime laws, policies, and regulations. System for storing and disseminating creditor information. A database is required to assist financial firms in dealing with information asymmetry and challenges of moral asset selection. Future research may concentrate on using quantitative approaches to examine the influence of digital economy aspects on the effectiveness of financial institutions. The constituents of digital economy should be defined and operationalized in a future study. There is also a need to reconsider the central bank's role in supervision.

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# EFFECT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE ON FINANCIAL PERFORMANCE IN BANKING INDUSTRY OF PAKISTAN

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**Abstract.** *Corporate social responsibility is now one of the main areas of study in the realm of finance and is taken into consideration when*

*making investment decisions. Investigating the effect of corporate social responsibility (CSR) disclosure on financial performance in the Pakistani banking sector is the goal of this research study. The Pakistan Stock Exchange (PSX) official website and the annual reports of listed banks were the sources of the quantitative secondary data used in this study, which covered the years 2010 through 2020. Ordinary least squares (OLS) regression, a fixed effect model (FEM) or random effect model (REM), together with other prerequisite diagnostic tests, had been used for the quantitative data analysis. The study used the five dimensions of CSR disclosure as an independent variable, while return on assets (ROA) and return on equity (ROE), which measure financial success, are used as dependent variables. These aspects are, in order, financial, environmental, legal, moral, and charitable. In the study, control variables including business size, debt ratio, and capital ratio were also included. The study's conclusions showed a strong correlation between financial performance in Pakistan's banking sector and averages across all categories of corporate social responsibility. The findings also show a substantial correlation between each chosen CSR disclosure factor, such as ethical, environmental, economic, and philanthropic, however only the legal factor significantly affects the financial performance of Pakistan's banking sector. This study aids businesses in realizing the value of CSR disclosure, which is crucial for improving the banking sector's financial performance. The results of this study should have beneficial practical ramifications for businesses, decision-makers in government, financial advisors, and Pakistan's banking sector.*

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## **1. Introduction**

The term "Corporate Social Responsibility (CSR)" refers to corporate initiatives and guidelines that assess, oversee, and control an organization's social and environmental obligations (Aerts & Cormier, 2009). CSR is a key area for businesses in which the relationship between the organization and the community can grow. According to the notion of CSR, a company's everyday business decisions and strategy should take into account its stakeholders, including its employees, suppliers, consumers, shareholders, and other stakeholders. CSR is a part of a business's ethical, moral, and legal actions (Moravcikova et al., 2015). The foundations of Corporate Social Responsibility (CSR) in organizations are multifaceted and range from instrumental goals (like improving profit) to non-instrumental purposes, depending on what the corporation views as its role (such as boosting social well-being). Corporate reputation will improve as a result of CSR practices (Godfrey, 2005; Saleem et al., 2022). Due to the failure of commercial banks during the financial crisis, which resulted in macroeconomic catastrophes, decreased consumption, and elevated unemployment in the real economy, prior study has only focused on the financial sector. CSR initiatives are carried out by banks and other financial institutions for the benefit of society and long-term economic growth. Businesses that engage in CSR initiatives are more likely to experience positive revenue shocks, which improve their yields and short-term market performance through factor-adjusted anomalous returns and also help their CSR reputation (Sehrish et al., 2012). The effective distribution of capital is significantly aided by the banking sector. The banking industry is aware that all considerations, including social welfare and regulatory compliance, must be taken into account when weighing economic benefits (Kiliç et al., 2015). To protect the legitimate interests of its stakeholders, banks are urged to conduct their financing and investing business in a more moral and socially responsible manner (Chiu, 2014; Saleem et al., 2022). Semenescu and Curmei (2015) claim that in order to prove their financial soundness to stakeholders, banks with higher risk, as determined by a higher debt-to-equity ratio, should push more CSR initiatives (Wadood et al., 2020).

In the literature on CSR, there are three schools of thought that have been established. The first school of thinking contends that there is a correlation between corporate social responsibility and financial performance that is favorable (Huy & Phuc, 2020). The second school of thinking asserts that there is a bad correlation between financial performance and corporate social responsibility (Hirigoyen & Poulain, 2015). The third school of thinking, meanwhile, demonstrates a neutral relationship with CSR and FP. Bagh et al. (2017), revealed that CSR and FP have a more developed and well-examined relationship. There is currently no consensus among scholars as to whether there is a positive, negative, or neutral relationship between corporate social responsibility and financial performance (Roberts, 1992; Saleem, 2018).

CSR is a corporate action for the benefit of society as a whole, independent of legal requirements and the primary objective that corporations are intended to carry out for the wellness of shareholders only. According to the notion of corporate social responsibility (CSR), a company's everyday business decisions and strategy should take into account its stakeholders, including its employees, suppliers, consumers, shareholders, and other stakeholders. In Pakistan, CSR is still in its infancy. With time, more ideas about CSR are developed. We chose the period 2010 to 2020 for data collection because it encompasses a number of important environmental, social, and governance (ESG) initiatives as well as the implementation of green banking, its regulations, and Pakistan's corporate governance standards in 2012, 2017 and 2019. Finally, this study offers managers and policymakers in the banking sector practical recommendations for evaluating the value of CSR disclosure reporting and how it affects overall company performance. To investigate the effects of each chosen aspect of CSR disclosure on the Pakistani banking sector's financial performance. Corporate social responsibility and financial performance have a more developed and well-examined relationship. There is currently no consensus among scholars as to whether there is a positive, negative, or neutral relationship between corporate social responsibility and financial performance. As a result, the goal of this research study is to determine how each chosen CSR dimension affects the financial performance of Pakistan's banking sector.

## **2. Literature Review**

Corporate social responsibility (CSR) ensures that businesses treat their employees fairly, provide them with regular vacation time, and care for the environment in addition to performing humanitarian deeds. It is described as an umbrella phrase that encompasses a number of interrelated fields, including corporate sustainability, stakeholder theory, stakeholder theory, and corporate citizenship. Thuy et al. (2021) study the relationship between CSR disclosure and financial performance with the mediating function of financial statement comparability (FSC). In order to create a CSR disclosure score, the study used content analysis of the data from the GRI Standards on annual reports. The study made use of a dataset of 1125 firm-year observations from 225 companies listed between 2014 and 2018 on the Vietnam Stock Exchange. According to the results of the OLS and GMM estimate techniques, CSR disclosure improves the financial performance of Vietnam's listed enterprises. Platonova et al. (2018) investigate the relationship between corporate social responsibility (CSR) and financial performance for Islamic banks in the Gulf Cooperation Council (GCC) region over the period 2000-2014 by collecting CSR-related data through disclosure analysis of the annual reports of the sampled banks. The findings of this study indicate a significant positive relationship between Islamic banks' financial success in the GCC countries and their CSR disclosure. The results show a significant

relationship between CSR disclosure and the financial success of Islamic banks in the GCC, indicating that these banks' continuous CSR initiatives may have a long-term impact on their financial performance. According to Hoang and Tran (2022), between 2014 and 2018, businesses listed on the Vietnam Stock Exchange demonstrated a link between CSR disclosure and financial performance. Okafor et al. (2021) looked into the connection between CSR proxies and corporate financial performance. The key findings demonstrate that tech companies who invest more in CSR have a simultaneous growth in revenue and profitability.

Based on a thorough literature analysis, Barauskaite and Streimikiene (2021) analyzed the advantages and disadvantages of CSR and created a conceptual framework for connecting CSR with corporate financial success. According to the study, the majority of studies indicated that CSR and financial outcomes had a favorable or unfavorable association. Although the adverse and alternative linkages between these concerns are less usually found in scientific studies, they must nonetheless be included in the study and given the necessary attention and further thought. In an Indian context, Maqbool and Zameer (2018) made an effort to investigate the link between corporate social responsibility and financial performance. For a period of ten years, secondary data have been gathered for 28 Indian commercial banks listed on the Bombay Stock Exchange (BSE) (2007–16). The findings show that CSR has a favourable effect on the financial health of Indian institutions. The study's conclusions offer valuable guidance to management on how to incorporate CSR into the company's strategic goals and transform their old profit-driven business philosophy into a socially conscious one. The impact of corporate social responsibility (CSR) investments and transparency on financial performance of businesses is examined by Oyewumi et al. (2018). To evaluate the effects of voluntary CSR disclosure on financial performance (FP) in the sub-Saharan banking industry, Siueia et al. (2019) analyse the top-ranked banks in Mozambique and the Republic of South Africa. In this study, content analysis was used to evaluate the return on assets (ROA) and return on equity (ROE), two broad financial performance measures that are presented in yearly reports in accordance with International Financial Reporting Standards (IFRS). This study used panel data from the years 2012 to 2016 to regress FP on CSR disclosure. It found a significant and positive connection between FP and CSR disclosure, demonstrating that CSR conduct can help banks perform better.

In light of the findings of earlier studies, it is critical to emphasize the multidimensional nature of corporate social performance and the necessity of breaking it down into sub-dimensions in order to better comprehend the relationship under investigation. As a result, it is anticipated that each of the CSR disclosure's unique dimension variables—economic, environmental, ethical, legal, and philanthropic—will have a favorable impact on the financial performance of Pakistan's banking sector. As a result, the following theories are developed by this research:

**H<sub>1</sub>:** All the dimensions of CSR disclosure have a positive impact on the financial performance of the banking industry in Pakistan.

**H<sub>2</sub>:** All the dimensions of CSR disclosure have an individual positive impact on the financial performance of the banking industry in Pakistan.

### **3. Research Methodology**

To investigate the association, the study used a fixed or random effect model along with some specific diagnostic tests. Carroll's CSR model, which covers the five pillars of CSR—ethical, legal, economic, environmental, and philanthropic—serves as the conceptual foundation for the study (Carroll, 2021). For data collection, the study used annual reports from all banks listed on the Pakistan Stock Exchange between 2010 and 2020. In accordance with prior research, a dichotomous process was utilized to collect data for the CSR index, with an unweighted scoring method. If an item is disclosed in a bank's report, it is given a value of 1, otherwise it is given a value of 0 (Gupta & Bansal, 2013). The total CSR disclosure for each sample bank is increased by aggregating these scores.

Firm Performance (ROA & ROE) =  $\alpha + \beta_1$  (Ethical) +  $\beta_2$  (Legal) +  $\beta_3$  (Economic) +  $\beta_4$  (Environmental) +  $\beta_5$  (Philanthropic) + Control variable (size, debt ratio, capital ratio) + e

### **4. Result and Discussion**

#### **4.1. Descriptive statistics**

Descriptive statistics provide summary statistics of a given data of financial firms listed in Pakistan stock exchange. In modest words, descriptive statistic presents elementary features of the data by reducing big data into simple summary. Descriptive statistics of variables under research for banking industry top 20 listed banks in Pakistan stock exchange are presented below table 1 to better recognize the behavior of variables.

Table 1: *Descriptive Statistics (N=220)*

	<b>Mean</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Std. Dev.</b>
<b>ROA</b>	-3.30	2.04	0.12	1.88
<b>ROE</b>	-2.12	4.52	2.17	1.57
<b>ECO</b>	-0.16	1.33	1.29	0.18
<b>ENV</b>	-0.64	0.69	0.61	0.29
<b>ETH</b>	-0.28	0.99	0.28	0.18
<b>LEG</b>	-0.23	0.52	0.21	0.17
<b>PHI</b>	-0.66	0.47	0.08	0.60
<b>CR</b>	-1.99	2.95	-5.17	1.42
<b>DR</b>	-0.19	0.74	-8.29	0.64
<b>FS</b>	2.10	3.87	-0.20	0.24

Table 1 shows the results of the descriptive statistic of banking industry to 20 listed banks in Pakistan stock exchange for ROA, ROE, FS, CR, DR, ETH, PHI, ECO, ENV, and LEG. All these variables show 220 annual observations. Descriptive statistic test is used to give descriptive on data for minimum value, maximum value and standard deviation, also to recognize variables used in this research, as seen in Table 1. The result for ROA data over time exhibit a mean value of -3.3016 with the standard deviation of 1.9. The mean value of ROE is -2.12 and standard deviation is 1.57. The range of the ECO data shows the minimum and maximum values, which are 1.2862 and 1.3335 with a standard deviation of 0.1802 respectively. ENV has a mean value of -0.6394 and the minimum and maximum value is 0.61 and 0.70. ETH has a mean value -0.28 and the maximum value is observed in this series is 0.99. The LEG represents the mean value -0.23. The maximum value and the minimum values are 0.52 and 0.21. PHI has a mean value -0.66. The variable PHI has a range from 0.08 to 0.47 as its maximum and minimum values. The capital ratio has a mean value of -1.20 and a standard deviation of 1.42, with the lowest figure being -5.17 and the highest being 2.20. The statistics for debt ratio range from -8.29 to 0.74, with a mean value of -0.19 and a standard deviation of 0.64, indicating an increase in debt levels. Additionally, the company size has a mean value of 2.10 and a range of -0.20 to 3.87, indicating a general expansion in the size of the banks and assets over the given period.

## 4.2. Correlation

Correlation shows the interdependency and association between two variables. The correlation coefficient is calculated of the significance in a correlation. The correlation coefficient has a value between -1 and 1. The table 2 shows the correlation matrix among financial performance (ROA, ROE), environmental CSR, ethical CSR, legal CSR, economic CSR, philanthropic CSR and other control variables are also including in the matrix such as capital ratio, debt ratio and firm size ROE and ROA is a dependent variable measure of financial performance.

Table 2: *Correlation Statistics*

	ROA	ROE	ECO	ENV	ETH	LEG	PHI	CR	DR	FS
<b>ROA</b>	1.00									
<b>ROE</b>	0.03**	1.00								
<b>ECO</b>	0.01**	0.04**	1.00							
<b>ENV</b>	0.02**	0.04**	0.03**	1.00						
<b>ETH</b>	0.05*	0.03**	0.1*	0.02**	1.00					
<b>LEG</b>	0.06*	0.03**	0.01**	0.07*	0.02**	1.00				
<b>PHI</b>	0.08*	0.02**	0.02**	0.05*	0.03**	0.03**	1.00			
<b>CR</b>	0.02**	0.02**	0.04**	0.01**	0.05*	0.01**	0.05*	1.00		
<b>DR</b>	0.01**	0.01**	0.02**	0.06*	0.01**	0.23*	0.01**	0.03**	1.00	
<b>FS</b>	0.04**	0.02**	0.12*	0.02**	0.07*	0.02**	0.05*	0.03**	0.02*	1.00

ROA= Return on Asset, ROE=Return On Equity, Corporate Social Responsibility Demission are (ECO=Economic, ENV=Environment, ETH=Ethical, LEG=Legal, PHI=philanthropic), CR=Capital Ratio, DR=Debt Ratio, FS=Firm Size. P < 0.05 \* ,P< 0.01\*\* and P <0.001 \*\*\*

### 4.3. Heteroscedasticity

To check whether there is heteroscedasticity in the econometric regression model, the current study used the white test. It is very important to check the heteroscedasticity in the data set as its arrangement it may damage results by providing false values of t-test and f-test. When error do not consist of constant variance heteroscedasticity will occur. If p value is greater than 0.05 it means, there is no heteroscedasticity in the model and if p value is less than 0.05 its means there is heteroscedasticity in the model. Table 3 presents heteroscedasticity test results for the banking sector listed in Pakistan Stock Exchange. The P-value of ROA is 0.006 and ROE is 0.0000 this means that model is fit and has no issue of heteroscedasticity.

Table 3: *Heteroscedasticity Test Results for Banking Sector*

	<b>Value</b>	<b>Probability</b>
ROA	30.58271	0.006
ROE	108.4836	0.000

### 4.4. Hausman test

To select the best model between FEM and REM, the Hausman test is used. Because it allows for the selection of an appropriate model for regression analysis, this test is essential before regression. Table 4 displays the Hausman test results for the financial institutions listed on the Pakistan Stock Exchange (top 20 listed banks). The outcome of this test demonstrates that FEM is suitable for all models.

Table 4: *Hausman Test Results*

<b>Test Summary</b>	<b>Chi-Sq. Statistic</b>	<b>Chi-Sq. d.f.</b>	<b>Prob.</b>
<b>ROA</b>	16.476	8	0.036
<b>ROE</b>	13.847	8	0.009
<b>ROA with CSR Dimensions</b>	4.993	4	0.028
<b>ROE with CSR Dimensions</b>	10.342	4	0.035

### 4.5. Fixed effect model

The present study used a fixed-effects model for regression analysis and results are report in tables for the banking sector listed in Pakistan Stock Exchange.

Table 5: *Fixed Effect Results for ROA and ROE*

<b>Variable</b>	<b>ROA</b>		<b>ROE</b>	
	<b>Coefficient</b>	<b>Prob.</b>	<b>Coefficient</b>	<b>Prob.</b>
<b>ECO</b>	1.717**	0.018	0.921**	0.021
<b>ENV</b>	1.227***	0.006	0.499**	0.017
<b>ETH</b>	0.272***	0.007	0.631***	0.003
<b>LEG</b>	-0.402**	0.050	-0.400*	0.053

<b>PHI</b>	0.419*	0.053	0.001**	0.049
<b>CR</b>	0.167**	0.014	0.181*	0.054
<b>DR</b>	0.350***	0.008	0.237**	0.015
<b>FS</b>	0.038***	0.009	0.583**	0.021
<b>C</b>	2.602	0.043	0.588	0.057
<b>R-squared</b>	0.839		0.803	
<b>Prob (F-statistic)</b>	0.000		0.000	

ROA= Return on asset, ECO=Economic CSR, ENV=Environment CSR, ETH=Ethical CSR, LEG=Legal CSR, PHI=philanthropic CSR, CR=Capital Ratio, DR=Debt Ratio, FS=Firm Size, P < 0.05 \*, P < 0.01 \*\* and P < 0.001 \*\*\*

The fixed effect model's findings for ROA and ROE of financial firms listed on the Pakistan Stock Exchange are shown in table 5, which shows how the dependent and independent variables are related. From 2010 through 2020, a total of 11 years, 220 yearly observations are included in the model. The direction of the link between the dependent and independent variables is indicated by the sign of the coefficient. Therefore, a positive sign of coefficient signifies a positive relation between variables. As shown in table, the sign of coefficient for ECO, ENV, ETH and PHI are positive indicating a significant positive relationship with ROA and ROE. Whereas, LEG have negative sign of coefficient means legal CSR exhibits negative significant relationship with ROA and ROE. There are some controls variables used in the study and they all shows significant positive relationship with ROA and ROE. The value of R square represents the goodness of fit. In this model, the value of R squared is 883% and 80% which is good enough and F-statistic significant indicates the ability of explanatory variable the overall outcome of the variables. In this table shows the value of F statistic is 0.000 are at the significant level.

Table 6 shows the results of FEM for ROA and ROE with average of all dimensions. The findings showed that there is a significant positive relationship AVG of all dimensions both with ROA and ROE. Likewise, all the control variables like CR, DR and FS have also shows significant positive results with ROA and ROE. R square is the measure of accuracy of the model or the percentage of explained variances represented by the explanatory variables out of all variances. In this research R-square value is 86% and 84% for ROA and ROE respectively.

Table 6: *Fixed Effect Results of ROA & ROE with Average of all Dimensions*

Variable	ROA		ROE	
	Coefficient	Prob.	Coefficient	Prob.
<b>AVG</b>	0.695**	0.048	0.440*	0.059
<b>CR</b>	0.213**	0.027	0.197**	0.033
<b>DR</b>	0.235***	0.002	0.258**	0.011
<b>FS</b>	0.328***	0.005	0.536**	0.026
<b>C</b>	3.763***	0.001	0.705**	0.050

<b>R-squared</b>	0.869	0.845
<b>Prob(F-statistic)</b>	0.002	0.000

ROA= Return on asset, AVG= overall dimensions of CSR, CR=Capital Ratio, DR=Debt Ratio, FS=Firm Size, P < 0.05 \* ,P< 0.01\*\* and P <0.001 \*\*\*

## **5. Conclusion, Recommendation and Future Directions**

In this study, we look at the impact of CSR dimension on FP in Pakistan's banking sector over an 11-year period (2010-2020). Our findings indicate a significant positive relationship between CSR and FP of banks in Pakistan. According to the findings of this study, companies that spend more on CSR build a physically powerful relationship with their customers, which help them reduce their financial risk. This study concludes that banks should priorities CSR activities in order to improve their profitability. To achieve a higher level of CSR, the government should encourage banks to participate in CSR activities.

After observing the results of CSR impact on financial performance, the company should have a CSR policy in place the firm is ready to assist the community by providing numerous benefits. The CSR should be well-known in a way that benefits the corporation as well. The CSR should be implemented rather than just written down. When a company spends money on the society (donation), the society benefits, but this does not mean that the society will not pay the organization back. Society also compensates the firm in the form of goodwill, reputation, or a positive image of the firm in the mind of customers and investors. Our finding shows that Pakistani banks are mostly working on these five dimensions of corporate social responsibility such as ethical, economic, environmental, legal and philanthropic. This study helps the firm managers can improve their information on corporate social responsibility that they can adapt disclosure practices relevant to firm. The result of this study is useful for the firms to recognize their performance aspect that are important to attractive for their CSR disclosure.

Practically, the findings of current work are beneficial for the firms which maintain their ideal level of CSR. Managers should take measures to boost the firm's worth through the CSR activities so that the firms' performances can be increase. Findings are also important from for managers in making financial decisions. Academically, the findings can enhance the understanding of the researchers understanding the factors that affect the organizations CSR reporting disclosure. In this way, the findings can be applied to similar emerging markets. Hence an extension would be carried by exploring differences and similarities with other emerging stock market. This study depends on quantitative information publish in annual reports. Future research may be needed to adopt qualitative data and used other research methodology to provide enhanced evidence on the link between CSR and financial performances.

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# INTERNAL AUDITING PRACTICES AND INTERNAL CONTROL QUALITY IN STATE-OWNED ENTERPRISES: EVIDENCE FROM PAKISTAN

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**Abstract.** *This study examines the role of internal auditing practices compliance with the International Standards for the Professional Practice of Internal Auditing (ISPPA) in enhancing internal control quality in Pakistani State-Owned Enterprises (SOEs). Data was collected through an online survey of Chief Audit Executives (CAEs) of SOEs from various sectors. An ordinal logistic regression model was used to test the influence of compliance with international best practice guidelines of the Institute of Internal Auditors (IIA) related to independence of the internal audit function, competence of the internal audit function, quality assurance and improvement programmes, and audit committee characteristics over seventeen principles of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control Framework. The results indicate that the independence of the internal audit function (IAF) and the characteristics of the audit committee have a statistically significant positive impact on the internal control system. However, findings related to quality assurance and improvement programs, and competence of the IAF, were deemed insignificant. The study is expected to contribute to accountability theory by highlighting that how quality internal audit practices can enhance internal control and thereby strengthen the accountability mechanism in public sector. The results are also expected to have important practical implication, both locally and globally.*

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## Introduction

Internal auditing is an integral part of the corporate governance structure based on the agency theory notion of ownership and control separation (Jensen & Meckling, 2019). This agency relationship emphasizes the development and execution of a control mechanism to protect the interest of the shareholder and the assessment of such mechanism by external and internal auditors (Shleifer & Vishny, 1997). External auditing ensures that the board of directors and management are discharging their accountability obligations by providing their

independent view about financial statements (Power, 2000), whereas internal auditing assists the board and management in discharging their duties and responsibilities by providing assurance and consultancy services over the quality of internal control mechanisms formulated and executed by them across the governance paradigm (Beasley et al., 2000; Coram et al., 2008; Gramling et al., 2004; Spira & Page, 2003).

Although, the development, implementation and maintenance of internal control is the ultimate duty of management, the legitimate role of internal auditing is to assist and support management in carrying out those duties and responsibilities (IIA, 2017). Despite its role in corporate governance arena, major corporate scandals in recent decades have raised concerns about internal audit, which is not addressing the key risks or performing the role it should. It means that what standards expect from internal audit differs from what it delivers in practice, which Kotb et al. (2020) referred to as “performance gap of internal audit value adding role.”

Motivated by this research gap, this study is concerned with internal auditing practice compliance with *the International Standards for the Professional Practice of Internal Auditing (ISPPIA)* issued by the *Institute of Internal Auditing (IIA)* and its impact on internal control quality in Pakistani SOEs. IIA is the international regulatory authority issue best practice guidelines for the professional practice of internal auditing, and compliance with *ISPPIA* strengthens the delivery of internal audit services, which in turn helps organizations improve governance processes, manage risks, and design and implement controls to more effectively achieve their goals. Internal auditors, audit committees, management, boards, shareholders, and regulators can all benefit from it (IIA, 2017). According to the *Security and Exchange Commission of Pakistan (SECP)*, the implementation of international standards of IIA is mandatory for state-owned enterprises in Pakistan (SECP, 2017). SOEs in Pakistan are underperforming, which is attributed to poor financial management as a result of poor governance (Cheema, 2020). Furthermore, for Iftikhar (2015), poor performance of SOEs is primarily due to the fact that they have too many layers of accountability and lack a good accountability system.

Keeping in view the importance of internal auditing as an accountability mechanism, this research investigated the role of a compliant IA practice with *ISPPIA* in enhancing the internal control quality of commercial SOEs in Pakistan. The impact of independence, quality assurance and improvement programmes, IA competence, and audit committee characteristics on internal controls was tested using ordinal logistic regression. An online survey was conducted, and 72 usable responses were collected. The regression results show that the independent variables have direct association with the internal control quality. However, the positive effects of quality assurance and improvement programmes and the competence of the internal auditing, were statistically insignificant.

The overall findings of the study contribute to the existing body of knowledge in numerous ways. To our knowledge, this is the only study that empirically test the impact of compliant IA practice in enhancing the quality of internal control in SOEs, particularly in an emerging economy with a weak governance structure. Second, the study is expected to contributes to accountability theory by highlighting that how quality internal audit practices can enhance internal control and thereby strengthen the accountability mechanism in public sector. Third, the study results reveal that attribute standards of independence, competence, quality assurance, and improvement programmes, as well as the involvement of the audit committee in the internal auditing process, have useful implications for SOEs' internal control systems. Fourth, the findings show that internal auditing practice that adheres to international best practices guidelines contributes to the governance of low-performing SOEs. Finally, the findings are expected to be of interest to policymakers and regulators as they develop and implement policies in public sector organizations.

### **Governance Structure of SOEs in Pakistan**

State-owned enterprises (SOEs) are public sector organizations established by the government under some legal arrangements with a full or semi-autonomous status, providing goods or services to public on a full or partial self-financing basis and over which the state has full or partial of control. State owned entities have significant contribution in the economies of to both developed and developing countries. Therefore, an effective governance structure of public sector enterprises is essential for financial stability and sustainable growth (OECD, 2021).

In Pakistan, there are 204 state-owned enterprises (SOEs), which include public-sector companies (PSCs), federal authorities (FDs), and developing finance institutions (DFIs) (MoF, 2017). Companies in the public sector are further classified as commercial or non-commercial. In Pakistan, SOEs are established under two legal frameworks: statutory corporations and public companies. Statutory corporations are established under public laws, whereas public companies are formed under private laws. With a few exceptions, the corporate governance model is present in both types of entities. However, adoption of the model varies across both types of organizations. Statutory corporations have more state control, while public companies have greater organizational autonomy (Naveed et al., 2018).

The *Security and Exchange Commission of Pakistan (SECP)* is the legislative body in charge of developing rules and regulations for the country's businesses. SECP is constantly striving to improve the governance structure of SOEs in order to bring them more competitive in the global business market. However, the level of compliance remains inadequate and requires further amendment in legislative

reforms (Ameer, 2013). The SECP has clearly stated in the *Public Sector Companies (Corporate Governance) Rules, 2013*, that there should be an independent internal audit function in public sector companies, and the chief internal auditor shall report to the audit committee. Furthermore, internal audit practices in public sector organizations must comply, to the maximum extent possible, with the IIA best practice guidelines of internal auditing (SECP, 2017).

## **Literature Review**

### **Internal control quality and IAF independence**

The IIA and published research have established best practice guidelines for internal auditors to follow in order for them to remain objective and independent in their value-added role. According to *Attribute Standard 1110* of the *International Standards for the Professional Practice of Internal Auditing* “Internal audit activity must be independent, and internal auditors must be objective in performing their work”. The ability of auditors to be free from such circumstances that threaten their ability to perform their duties in an unbiased manner is known as independence, whereas objectivity is the auditors' unbiased mental attitudes in carrying out their responsibilities, and they trust their work and make no quality compromises (IIA, 2017).

Established literature also provides guidelines for the independence of IAF and objectivity of auditors. For example, Sarens and De Beelde (2006) suggest that IAF should have an appropriate organizational status to remain objective and independent because internal auditors are both employees of the organizations and assess and monitor management decisions and assist them in making decisions regarding internal controls. Christopher et al. (2009) emphasize the importance of establishing IAF independence through proper CAE reporting lines. Threats to independence arise from the audit committee's lack of accounting expertise, lack of full authority over hiring, firing, and evaluating the performance of CAE, and CAE's failure to report to the audit committee. Other authors have made similar suggestions, such as having a more independent audit committee, expertise in accounting finance, and private audit committee meetings with CAE, all of which have a significant association with internal auditing function's independence and objectivity (Goodwin, 2003; Raghunandan et al., 2001; Turley & Zaman, 2007). Independence and objectivity are necessary for IAF (Alzaban & Gwilliam, 2014) to be implemented in the organisation and can affect the quality and performance of IAF (Tahajuddin & Kertali, 2018).

Similarly, several other studies have associated internal audit functions' independence to their quality and effectiveness (Cohen & Sayag, 2010; Dellai & Omri, 2016; Endaya & Hanefah, 2016; Oussii & Taktak, 2018). Limited studies have examined the association between internal audit independence and internal control system. Zhang et al. (2007), for example, argue that higher independence of internal auditors is expected to be associated with the identification of internal

control weaknesses. Fadzil et al. (2005) on the other hand, observed no significant impact of IAF independence on any aspect of the internal control system.

Given that internal audit independence undoubtedly has a significant impact on IAF quality and effectiveness, it can be proposed that internal audit independence will lead to improved internal control quality. Furthermore, little is known about the compliance of Attribute Standards 1110 of the IIA regarding independence and its association with internal control quality in developing-country SOEs, which leads to the development of the first hypothesis.

*H1: The higher the independence of the internal audit function, the higher the quality of internal controls.*

### **Internal audit competence and internal control quality**

Internal auditors, like other professionals, must have specific skills and abilities to perform their duties and discharge their responsibilities with professional diligence care (McIntosh & Auditors, 1999). “Individual auditors and the internal audit function collectively must possess the knowledge, skill, and competences required to perform their tasks with proficiency and due professional care”, according to IIA Attribute Standard 1200 (IIA, 2017). Internal auditors should be competent in three areas, according to the IIA *Research Foundation's Common Body of Knowledge (CKOB)* survey (2010): knowledge, behavioural, and technical skills and abilities. Rose (2016) identified a list of personal and technical skills required by CAEs to overcome technical deficiencies and meet the value-added expectations of stakeholders in another report based on the CKOB 2015 survey. Personal skills of CAEs include analytical/critical reasoning and interpersonal skills, and technical skills includes accounting, risk management assurance, computer skills, industry related know how and data analysis skills.

Prior research has documented the effects of internal audit competence on a variety of variables. Several studies, for example, have linked the role of a competent internal audit function to its quality and effectiveness (Baharud-din et al., 2014; Drogalas et al., 2015; Salehi, 2016; Saputra et al., 2020). Breger et al. (2020) suggest in a recent study that external auditors rely more on internal audit functions that meet ISPPA standards of proficiency and due professional care. Internal audit competence has been linked to IA effectiveness and financial reporting quality in the public sector organizations (Gamayuni, 2018). Similarly, Kabuye et al. (2017) linked the competence of the IAF to the enhancement of frauds detection. Ismael and Kamel (2021) associated internal audit competence to a reduction in income-increasing earning management in UK firms.

There have been very few studies providing evidence on the relationship between internal audit competence and internal control quality and have produced

multiple results. Oussii and Taktak (2018) indicated that internal auditor competence in terms of qualification, experience, and training has negative association with the detecting internal control weaknesses and thus improving internal control quality. Lin et al. (2011) observed similar findings regarding internal auditor competence with regard to internal control weaknesses. Similarly, Chang et al. (2019) discovered that IA competence is positively associated to the effectiveness of internal control over compliance. However, Fadzil et al. (2005) revealed negative influences of IA professional proficiency over the various aspects of internal control quality.

The preceding discussion demonstrates that the literature linking the compliance of internal audit Attribute *Standard 1200 of proficiency and due professional care* with internal audit quality is very limited and provides contradictory results. This leads to the formulation of our second hypothesis.

*H2: The more competent the internal audit function, the higher will be the internal control quality*

### **Quality assurance and improvement programs and internal control quality**

Quality assurance and improvement programmes have a positive relationship with IAF, having active role in corporate governance (Sarens et al., 2012). The IIA *Attribute Standard 1300* requires “the chief audit executive must develop and maintain Quality Assurance and Improvement Programmes that covers all aspects of internal audit activity”. Quality assurance and improvement programmes are intended to expediate the assessment of IA practice compliance with the international standards and the application of the Code of Ethics. It also evaluates the quality of internal auditing activities and explores opportunities for advancement. The CAE should assure the board of directors over the quality assurance and improvement program (IIA, 2017).

Existing research shows that quality assurance and improvement programmes have a variety of effects on internal auditing quality. Lin et al. (2011), for example, propose that internal audit function with quality assurance and improvement programmes can help prevent material weaknesses. According to Johl et al. (2013), IAF quality assurance and improvement programmes help reduce earnings management. . Pizzini et al. (2015) suggest Quality assurance and improvement programmes can help prevent audit delays. Few studies have been conducted to investigate the effects of quality assurance and improvement programmes on the effectiveness of internal control. For example, Oussii and Taktak (2018) conclude that internal audit quality assurance and follow-up processes reduce internal control weaknesses.

Based on the preceding arguments, it can be proposed that *Quality Assurance and Improvement Programmes* would improve the quality of internal controls, leading to the development of our third hypothesis.

*H3: Internal audit functions with quality assurance and improvement programmes are more likely to improve internal control quality.*

### **Audit committee characteristics and internal control quality**

The main function of the audit committee is to monitor the activities of the IAF, and existing literature has documented the positive effects of audit committee characteristics on the different aspects of IAF quality and effectiveness. Frequent audit committee meetings with internal auditors improve internal audit effectiveness (Arena & Azzone, 2009). The oversight role of audit committee can improve audit quality by identifying the strengths and weaknesses of internal audit activities and ensures that IA recommendations are implemented (Alzeban & Sawan, 2015). According to Abdullah et al. (2018), audit committee monitoring of internal audit process can improve audit performance and quality of various audit stages, particularly in planning stage. Al-Dhamari et al. (2018) observed that audit committee meetings and the index have a positive influence on investment in internal audit functions, whereas audit committee tenure has a negative influence on internal audit budget.

Several studies have linked various audit committee characteristics to various reporting qualities. For example, Alzeban (2018) suggests that a reporting relationship between the AC and internal auditors improves the quality of financial reporting. Similarly, Alzoubi (2019) linked the existence of an audit committee and an internal audit function to a reduction in earnings management and the number of meetings between audit committee and internal audit to financial reporting quality. Furthermore, Alzeban (2020) identified three audit committee characteristics: independence, expertise in accounts and auditing, and the number of annual interactions to play a mediating role in the impact of internal audit independence on firm performance.

Furthermore, some studies show that internal audit functional competence has a positive impact on IA quality. According to Khlif and Samaha (2016), audit committee characteristics have a significant positive effect on the quality of internal controls. Furthermore, Lin et al. (2011) show that when the AC reviews IA activities and processes on a regular basis, it improves internal control quality and helps the internal audit function detect more internal control weaknesses. Similarly, Oussii and Taktak (2018) believe that audit committee qualities such as independence, accounting and finance expertise, and frequent meetings with IA are negatively associated with internal control weaknesses. Furthermore, Alzeban (2019) provides an evidence that the number of independent members, members with accounting and auditing expertise, and audit committee meetings with chief internal auditors have a positive relationship with internal control quality and decrease internal control weaknesses.

From the discussion above we anticipate that audit committee characteristics like AC independence, accounting and finance expertise, meetings with IA, and reporting relationship with IA will have a positive impact on internal control quality. Therefore, the following hypothesis is developed to test our anticipation.

*H4: The audit committee's characteristics are likely to have an impact on the quality of internal controls.*

### **Theoretical Framework**

Agency theory has traditionally dominated the auditing literature and is widely used in external auditing perspectives. Business contracts involve agency issues, and audit services are used to reduce agency costs (Watts & Zimmerman, 1983). It has also been associated to the existence, functions, duties and authorities of internal audit function, where the principal incurs the monitoring cost to ensure that the managers are acting responsibly, while the auditee incurs the bonding cost to signal the principals that they are acting in accordance with the terms of employment (Adams, 1994). However, internal audit in agency-oriented theorization has been criticized because it ignores the structural organizational origins and complicated social setting in which internal auditing is positioned as a technological tool for exercising power (Mihret & Grant, 2017). Furthermore, the agency relationship is market-driven, with information asymmetry issues shared with external parties via external audit reports, whereas internal audit is not market-driven. Shareholders and the market do not have access to internal audit reports (Mihret et al., 2010).

Agency theory have also been challenged by the scholars and proposed their own theoretical perspectives for conceptualizing internal audit research. E.g., transaction cost economics (Roussy, 2013), labour process theory (Mihret, 2014), and institutional theory (Lenz et al., 2018) among others. Others, such as Christopher (2010) argue that internal audit is a multifaceted phenomenon that cannot be conceptualized through the lens of a single theory, necessitating a multi-theoretical approach. Similarly, (Mihret et al., 2010) combines institutional theory and Marxist theory of the industrial capital circuit to provide a theoretical framework for internal audit research.

Because the existing literature lacks an integrated conceptual framework for explaining the role of internal audit, additional research should be conducted under the accountability framework (Mihret & Khan, 2013). Individuals are required to accept responsibility for their actions and provide reasons for their actions under the accountability framework. Accountability is associated with the delegation of power from shareholders (principal) to managers (agent) to ensure that the way between both parties is maintained (Sinclair, 1995). However, accountability is not limited to agent and principal relationships; it can also be applied to more complex relationships in which the actor is accountable to multiple stakeholders both inside and outside of the organisation organization (Greiling & Spraul, 2010). Because accountability necessitates the assurance of various financial and operational data

by internal auditors, IAF is a critical component of the accountability mechanism of public sector organizations. Almqvist et al. (2013) use accountability theory to conceptualize the role of internal auditing in the governance in government organizations.

The modern metamorphosis of capitalism has made the structure of capitalist organizations more complex by separating ownership and control, with the board overseeing and controlling management's actions, while management controls and monitors employees' activities (Burawoy, 1982). These multiple controls are located at the board, management, and operational levels in today's corporate governance model (Christopher, 2010). These controls help improve accountability in the value creation processes (Bryer, 2006).

Internal audit is viewed as risk management and control technology that serves to align the interests of various stakeholders (shareholders, board, management, and employees) through assurance and consultancy services under this accountability framework of multiple controls (Mihret & Khan, 2013). Internal audit may be conceptualized as an assurance and consultancy service within this accountability framework to promote internal controls and risk management and to enhance the multi-layered accountability structure within the contemporary corporate governance framework. Internal audit provides assurance and consultancy services to highlight areas where management intervention is required to run business operations in accordance with the accountability demands of boards and other stakeholders.



*Figure 1* Conceptual Model

***Sample and data collection***

Pakistan currently has 212 SOEs operating in various sectors. There are 85 commercial SOEs, 44 non-commercial SOEs, and 83 subsidiaries of commercial SOEs (MoF, 2017). Our research sample consists of all 85 commercial SOEs. Structured questionnaires were used to collect information. The questionnaire is

divided into two sections. The first part of the questionnaire ascertains compliance with the *ISPPIA* in terms of *Attribute Standard 1100 (Independence and Objectivity)*, *Standard 1200 (Proficiency and Due Professional Care)*, and *Standard 1300 (Quality Assurance and Improvement Program)*. The first section also contains information about the audit committee's working relationship with the internal audit function. The second part of the questionnaire assesses the quality of internal control. Questionnaires were emailed to the chief internal auditors of all 85 commercial SOEs. A phone call follow-up process was used to increase response rate.

A total of 77 responses were received from the 85 emailed questionnaires. The remaining 5 questionnaires were rejected due to incomplete responses. When compared to other studies in the literature, the overall response rate was around 83 percent, which is a relatively high rate for an online survey (Alzeban, 2019, 2020; Alzeban & Sawan, 2015; Christopher et al., 2009; Oussii & Taktak, 2018). This high response rate can be attributed to our text message and phone call follow-up process. Table II summarizes the sampling design.

Table 1 *Sampling Design Statistics*

<b><i>Sample Selection</i></b>		
Number of SOEs register in 2021		85
SOEs deleted because of non-response to the survey		-8
SOEs deleted because of incomplete responses		-5
Total usable sample		72
<b><i>Sample breakdown by industry/sector</i></b>		
	<b><i>No.</i></b>	<b><i>% (Sample)</i></b>
Energy	28	38.9
Financial Services	16	22.2
General Services	13	18.1
Manufacturing	5	6.9
Transportation and Communication	6	8.3
Others	4	5.6
Total	72	100

## **Variables Measurement**

### ***The independent variables***

The level of compliance with ISPPIA of IIA was measured using four independent variables. The first variable is internal auditor independence, which is measured using statements evolved from IIA attribute standards and published literature. To assess the independence of the internal audit function, six indicators were used (Christopher et al., 2009): functional reporting line, administrative reporting line, budget approval of the internal audit function, input in audit planning, approval of the audit plan, and appointment and dismissal of CAE. These indicators were scored on a five-point Likert scale. The competence of the internal audit function is

the second independent variable, which is measured using five indicators: academic qualification, professional qualification, certification, experience, and training.

The third independent variable is the quality assurance and improvement program, which is measured by indicators such as the use of ongoing monitoring by an internal assessor, self-assessment, periodic assessment by an independent internal assessor, and external assessment. Each indicator's score was calculated using These indicators were scored on a five-point Likert scale (Oussii & Taktak, 2018). Two more items were added to the quality assurance and improvement program variable: external assessments conducted over the previous five years and reporting of quality assurance and improvement program results. The characteristics of audit are the fourth independent variable. The following items are included: the audit committee composition (number of members, number of independent members, member(s) with accounting and finance background, percentage of time spent on internal audit topics), and the invitation of the chief audit executive to the audit committee.

Control variables were also included in the model to validate the relevance of related factors that can affect the findings of the regression analysis. Organization size (SIZ\_ORG) was measured as the number of employees, and internal audit department/section size (SIZ\_IAF) was measured as the number of internal auditing staff serving in the department. Previous studies in the IA literature (Coram et al., 2008; Goodwin-Stewart & Kent, 2006; Zain et al., 2006) also used these control variables.

### ***Dependent variable***

The majority of studies used publicly available data on internal control to assess internal control quality (Barua et al., 2010; Krishnan & Visvanathan, 2007; Lin et al., 2011; Zhang et al., 2007). However, due to a lack of information about internal control in SOEs in Pakistan, we rely on survey data obtained from internal auditors about internal control in their respective organizations. We used the internal control framework 2013 of the *Committee of Sponsoring Organizations (COSO) of the Treadway Commission* to measure internal control quality for this purpose. This model has extensively been used as a commonly accepted framework for internal control and is widely recognized as the conclusive standard against which the effectiveness of their internal control quality is measured.

Numerous studies have used the *COSO* internal control framework to assess the quality of internal control (Chan et al., 2021; Fourie & Ackermann, 2013; Saleem et al., 2019). The control environment, risk assessment, control activities, information and communication, and monitoring activities are the five components of the framework. Seventeen internal control principles related to these *COSO*

internal control framework components were chosen as indicators of internal control quality, and a five-point *Likert scale* (*Strongly disagree*= 1 to *strongly agree*= 5) was used to assess these indicators. The median of all the statements was computed to represent the variable. We anticipate that more compliant internal audit practices in SOEs will result in higher quality internal control. The impact of internal audit compliance on the internal control system was modelled using the regression models below.

$$ICQ = \beta_1 IND + \beta_2 COMP + \beta_3 QUAL + \beta_4 ACCH + \beta_5 SIZ\_ORG + \beta_6 SIZ\_IAF + \varepsilon$$

Table 2 *Variables Used in the Model*

ICQ	A composite score measuring the Control Environment component. The variable is formed by taking median of 17 items which are the principles of COSO model, and each principle was measure on a five-point Likert Scale (1= strongly disagree to 5= strongly agree).
IND	A composite score measuring the Independence of Internal Audit Function. The score is formed by 8 items: IA administratively reporting to executive management, IA functionally reporting to AC/BOD, IA budget is approved by AC/BOD, Input for IA planning is given by AC/BOD, IA planning is approved by AC/BOD, IA head is appointed, dismissed and evaluated by AC/BOD and movement of internal audit to other function
COMP	A composite score measuring the competence of the IAF staff. The score is formed by standardizing Academic Qualification, Professional Qualification, Certification, Years of Experience and Training received in hours per years.
QUAL	A composite score measuring the quality assurance and improvement program of internal audit function. The score is formed by aggregating 6 variables: having a quality assurance and improvement program, ongoing monitoring by internal assessor, periodic monitoring through self-assessment, periodic monitoring by an independent internal assessor, external assessment, and external assessment during the past five years
ACCH	A composite score measuring the Audit Committee characteristics. The score is formed by aggregating 5 variables: number of audit committee member, number of independent members, members having accounting or finance background, percent of time spent on IA topics, and the invitation of CAE to audit committee.
SIZ_ORG	A control variable and was measured by the number of total employees within the organization.
SIZ_IA	A control variable and was measured by taking the number of internal auditors working in the organization.

Each item was measure on a five-point Likert Scale (1= strongly disagree to 5= strongly agree). The median of all the five statements was computed to represent the variable.

## **Analysis and Findings**

### ***Descriptive statistics***

Table III shows descriptive statistics of all the variables of the variables. In the dependent variables Internal Control Quality (ICQ) has a median value of 4, indicating that internal control quality has mostly responded as “Agree”. The independence variable has a median of 5 indicating that mostly the respondents have selected the “Strongly Agree” option in the scale and it reveals that independence is the most compliant function of IA in the sample. While quality assurance and improvement programs, competence of IA and Audit Committee characteristics have respectively a median value of 4 of each.

Table 3 *Descriptive Statistics*

	<i>Min</i>	<i>Max</i>	<i>Median</i>	<i>Std. Devn</i>	<i>Skewness</i>	<i>Kurtosis</i>
ICQ	1	5	4	1.15	-0.81	-0.40
IND	2	5	5	0.71	-1.86	4.27
COMP	2	5	4	0.75	-0.98	1.52
QUAL	1	5	4	0.73	-1.40	3.33
ACCH	2	5	4	0.97	-0.99	0.07
SIZ_ORG	1	5	2	1.19	1.44	1.23
SIZ_IA	1	5	3	1.27	0.38	-1.29
AGE	2	4	3	0.62	-0.19	-0.52
GEND	1	2	1	0.40	1.58	0.50

The descriptive statistics also include Skewness and Kurtosis to check for the problem of normality in the variables and the results indicate that the highest value for skewness is 1.58 which is within the limit of the prescribed values of  $\pm 1.96$ . However, the highest value for kurtosis is 4.27 which violate the threshold value of  $\pm 2.00$  (Rahman & Ali, 2006). Therefore, the study proceeds with nonparametric analysis to avoid the strict assumptions of parametric tests.

### ***Correlation analysis***

Table 4 shows the correlation results of the variables. Spearman correlation was done to avoid the strict assumptions of parametric analysis. The independent variables: independence of IA function, quality assurance and improvement programs, competence of the internal audit function and characteristics of the audit committee have significant positive correlation with all the dependent variable, (Internal Control Quality). However, the correlation among the independent

variables; size of the organization (SIZ\_ORG), size of the internal audit department (SIZ\_IAF) and age of the respondents are insignificant. Further, the correlation coefficients among the independent variables are below the threshold of 0.70, showing the absence of the statistical problems of multicollinearity (Kervin, 1995). Further, we also calculated the variance inflation factor (VIF) to confirm the absence of multicollinearity and the highest value of VIF was found 1.946, which is also below the threshold value of 10.

Table 4 *Correlation Statistics*

No.	Variables	1	2	3	4	5	6	7	8	9
1	ICQ	1.00								
2	IND	0.31**	1.00							
3	COMP	0.29*	0.30**	1.00						
4	QUAL	0.48**	0.27*	0.27*	1.00					
5	ACCHR	0.57**	0.24*	0.28*	.479**	1.00				
6	SIZE_ORG	-0.10	-0.10	-0.20	-0.145	0.208	1.00			
7	SIZE_IAF	0.11	0.23	0.23	.234*	.339**	.373**	1.00		

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

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

### **Regression analysis**

Table V shows the result of Ordinal Logistic Regression. This model was used to avoid the strict assumptions of parametric test like ordinary least square (OLS) model and to enhance the reliability of the model, since the dependent variable was measured on Likert scale. The results of the approximate likelihood-ratio test ( $\chi^2 = 28.71$ ,  $p = 0.05$ ) indicate that the proportional odds assumption has not been violated.

The first independent variable in the model is the IAF independence (IND). This variable is included to test H1. The second variable in the model is the (QUAL) quality assurance and improvement programs which is included to test the second hypothesis (H2) of the study. The third hypothesis (H3) was tested by incorporating the independent variable the characteristics of audit committee (ACCH). Finally, the independent variable competence of the internal audit function (COMP) was used to test the final hypothesis (H4).

Table IV shows the model is statistically significant ( $LR \chi^2 = 35.74$ ,  $p = 0.000$ ,  $Pseudo R^2 = 0.42$ ) and this indicates that approximately 42 percent changes in the dependent variable are explained by the dependent variables. All the independent variables; independence of the internal audit function (IND), competence of the internal audit function (COMP), quality assurance and improvement programs (QUAL) and characteristics of audit committee (ACCH) have positive impacts on the internal control quality (ICQ). However, the results of QUAL and COMP are

statistically non-significant. Therefore, H1 and H4 are accepted while H2 and H3 are rejected.

Further, the control variables; size of the organization (SIZ\_ORG) and size of the internal audit department/section (SIZ\_IAF) also provide non-significant results and indicate and the size of organization and size of internal audit staff has no role in enhancing the internal control quality of the organization. The overall regression results indicate that all the five components of internal control system of COSO internal control framework are positively influenced by only two of the attribute standards; Independence of IAF and audit committee characteristics and therefore we accept H1 and H4. While quality assurance and improvement programmes and competence of IAF have no significant impact on the different components of internal control and therefore, we reject H2 and H3.

Table 5 *Parameter Estimates*

<b>Variables</b>		<b>Estimate</b>	<b>Std. Error</b>	<b>Wald</b>	<b>Sig.</b>
Threshold	[ICQ = 1.00]	6.16	2.19	7.92	0.01
	[ICQ= 2.00]	8.76	2.21	15.71	0.00
	[ICQ = 3.00]	9.41	2.25	17.45	0.00
	[ICQ = 4.00]	11.83	2.43	23.76	0.00
	IND	0.76	0.35	4.69	0.03
Location	COMP	0.23	0.36	0.41	0.52
	QUAL	0.67	0.35	3.65	0.06
	ACCH	1.11	0.29	14.78	0.00
	SIZ_OR	0.09	0.22	0.15	0.70
	SIZ_IA	-0.25	0.22	1.34	0.25

## **Discussion**

This study investigates the role of internal audit compliance with the international best practice guidelines of IIA in enhancing the internal control system of commercial SOEs in Pakistan. All the commercial SOEs of Pakistan have been taken as a study sample and an online survey was conducted to collect the responses from chief audit executives. Independence of IAF, competence of internal auditors, quality assurance and improvement program and characteristics of audit committee were taken as the independent variables while seventeen principles of COSO internal control framework were taken as the dependent variable. The Ordinal Logistic Regression results show that all the independent variables; Independence of the internal audit function, competence of the internal audit function, quality assurance and improvement program and audit committee characteristics have positive influences over the internal control quality.

Findings related to the independence of internal audit function reveal that independence of the internal audit function, in terms of IA reporting relationship, IA planning and budget approval, inputs for internal audit plans and movement of internal auditors to other functions, have statistically significant association with internal control quality and therefore support H1 of the study. These findings provide evidence that independence according to *attribute standards 1110 of IIA* has significant association with internal control quality. If auditors are more independent in performing their duties and responsibilities, it is likely to improve the quality of internal controls. These results are consistent with prior studies of Zhang et al. (2007). However, the results are contrary to the study of Fadzil et al. (2005). Results related to the competence of the internal audit function in terms of educational qualification, professional qualification, training and experience, are statistically insignificant which does not support our second hypothesis H2. These results suggest that internal auditors with higher academic and professional qualification, having more training and experience have no effects on internal control quality. These results contradict with majority of the previous studies like (Chang et al., 2019; Lin et al., 2011; Oussii & Taktak, 2018).

Similarly, the regression findings related to quality assurance and improvement programs show statistically insignificant association with internal control quality and therefore do not provide support for the third hypothesis H3. It means that internal audit function having quality assurance and improvement programs for monitoring assessing the internal audit activities according to international standards have no effects on internal control quality. These results are inconsistent with the prior results of Oussii and Taktak (2018). Finally, findings related to audit committee characteristics in terms of size of AC, independence of AC, specialty in accounting and finance and interaction with the chief audit executives have positive and statistically significant association with internal control quality and provides support for our fourth hypothesis H4. These findings are support majority of the literature (Alzoubi, 2019; Khlif & Samaha, 2016; Krishnan & Visvanathan, 2007; Lin et al., 2011; Oussii & Taktak, 2018).

The overall findings suggest that independence which is one of the most important characteristics of IAF and different dimensions of audit committee; size, independence, expertise in accounting and finance and frequency of meetings and interaction with chief audit executives can enhance the internal control quality in SOEs. While, academic and professional qualification of the auditors, area of specialization, training and experience and quality assurance and improvement programs of IAF have no significant role in improving internal control quality. However, the study sample is only limited to commercial SOEs, further research should be conducted to include non-commercial SOEs and other public sector organizations. Further, this study examined the influence of attribute standards of independence, competence of IA, quality assurance and improvement programs and audit committee characteristics over the internal control quality. Future studies

should incorporate other dimensions of attribute and performance standards of IIA to have a complete understanding of the situation.

## **Conclusion**

The aim of this paper is to empirically examine the role of IA practices compliance with IIA best practice guidelines on internal control quality in commercial SOEs in Pakistan. To investigate the issue, international standards related to internal audit function independence, competence, quality assurance and improvement programmes, and audit committee characteristics were used to test their impact on the seventeen principles of the *Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control Framework 2013*.

Data were collected from the chief audit executives of 72 commercial SOES from various sectors using an online questionnaire. Ordinal logical regressions were used to examine the impact of standard compliance on internal control quality. The findings indicate that conforming internal audit practices to international standards has a beneficial impact on internal control quality. Compliance with internal auditing function independence and audit committee features has a considerable positive impact on internal control quality. While the outcomes of the IAF competence and quality assurance and improvement initiatives were deemed to be inconsequential. Two control variables; size of the organisation and the size of the internal audit department, were included in the model, however, their results were also found to be insignificant.

The overall findings indicate that internal audit practices that comply to international best practices guidelines have a considerable influence over internal control quality. The results of the study would be helpful both in theory and in practice. To the best of our knowledge, this is the first study to look into the role of internal audit in SOEs in Pakistan. Theoretically, the study is expected to contribute to accountability by highlighting that compliant internal audit practices can improve the internal control system and thereby enhancing the accountability mechanism in public sector organizations. The findings could be useful for both international and domestic regulators and standard-setters with respect to state owned enterprises. Further, the findings are also expected to have important implications for government policymakers in enhancing accountability mechanisms in public sector organizations in developing nations with similar social and economic characteristics.

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# THE MULTIDIMENSIONAL EFFECT OF WORKPLACE SPIRITUALITY ON EMPLOYEE WORK INTENSION WITH MODERATING ROLE OF ETHICAL LEADERSHIP AMONG THE EMPLOYEES OF CIVIL SECRETARIAT KHYBER PAKHTUNKHWA

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**Abstract.** *This study investigated the degree to which workplace spirituality linked to work intentions, with ethical leadership acted as a mediator in this relationship. A sample 303 employees working full-time in Civil Secretariat Khyber Pakhtunkhwa, Pakistan was polled. Smart-PLS has been employed for data analysis. Results revealed a favorable strong link between “workplace spirituality” and “employee work intentions”, as well as “mediation via ethical leadership”, using correlation and route analysis. Both assumptions were supported by the study's findings. The results of the study have both theoretical and practical contributions. This study extends the extant literature by adding new insights to workplace spirituality literature. Side by side, the results have a lot for the organizations' managers to understand employees' behaviour in the light of their spirituality and their intension of working with their interplay with ethical leadership.*

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## Introduction

Academicians and researchers have shown more interest in workplace spirituality during the 1990s, causing a paradigm change in organizational research and management theory (Qasim et al., 2021). Workplace spirituality is defined as "the belief that workers at work have an internal world that is formed and fed by essential work and occurs within the framework of their work organization" (Lata & Chaudhary, 2022). Several emerging factors have already been attributed to an increase in the importance of the context of workplace spirituality: (1) an ambition on the part of some industries to promote their employees' devotion to their job positions and ties to the place of work (Fry & Nisiewicz, 2020); 2 a switch from such an industrial to an information-based society, uses the concept to decentralize and successfully communicate with various stakeholder groups nearly anywhere in the world (Usman et al., 2021); (3) a shift from a job.

Human resource development necessitates a trade-off between performance management and the essence of humankind for an organization to survive (Chalofsky, 2010). Employees are discouraged from viewing themselves as assets and instruments to be used to assist the organization accomplish its goals when the focus is on the whole organization (Lysova et al., 2019). The principles of Meaningful Work (MW), Workplace Spirituality (WS), Alignment Organizational Value (AOV), and Sense of Community (SC) are useful as mechanisms for accomplishing organizational goals.

Intentions are also a road plan for taking deliberate action and a mental image of the conduct that an employee desires to display (Ajzen, 1980). Overall work happiness, task engagement, and organizational engagement have all been found to be less predictive of turnover than behavioral intentions, such as plans to leave (Vardaman et al., 2015; Steel and Ovalle, 1984). Employee turnover is influenced by age, seniority, work happiness, total job satisfaction, job commitment, and behavioral desire to stay. These features support theories that emphasize the role of purpose in achieving behavioral intentions (Ajzen & Fishbein, 1980).

As workplace ethics receives increasing attention, particularly in the field of leadership, examining the role of ethical leadership fills a gap in the issue of ethical work environments. Mendonca and Kanungo (2006) describe ethical leadership as aiming to model normatively acceptable conduct through actions and inactions and prosocial behaviors, as well as encouraging followers to do so through two forms of communication: encouragement and decision-making. The study of people's moral judgments about what is good and wrong is known as ethics (Atwater, 1992). Because of their hierarchy of responsibility and reputation as behavioral role models, ethical leaders are reliable predictors of employee mentoring (Brown et al., 2005). Scholars believe that spiritual workplace culture is linked to ethical standards because individuals respond favorably to traits like tolerance, honesty, compassion, and fairness (Issa and Issa, 2020). Despite their similarities, movements for spirituality and ethics in the workplace have evolved, but both are concerned with personal dignity, ethical development, and trying to make the modern business environment more inclusive, guided by great leadership, empowered by the environment.

## **2. Literature Review and Hypotheses Development**

This study aims to look at the connection between workplace spirituality (WPS) and its three aspects (MW, AOV, and SC) and employees' job intentions (EWI). Furthermore, this research will look at whether ethical leadership (EL) may act as a moderator in the interaction between (WPS) and its three aspects (MW, AOV, SC, and EWI). The hypothesized link is depicted in the conceptual figure below.

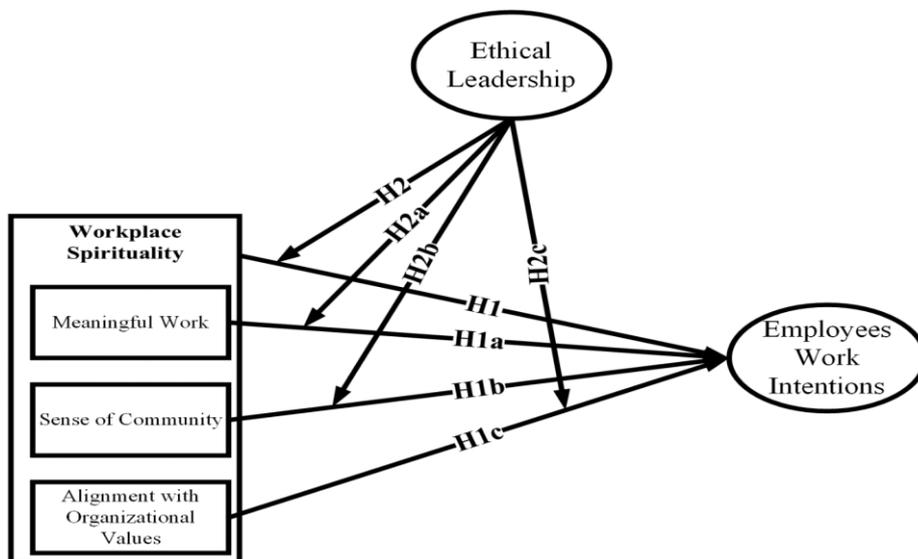


Figure 1. Conceptual Diagram

## 2.1 Workplace spirituality and employee work intentions

“Workplace Spirituality” is described as “the recognition that workers can get a spiritual existence that may be fostered and nourished via purposeful research in the domain of the communities” (Ashmos & Duchon, 2000). According to Mitroff and Denton (1999), the majority of firms are spiritually impoverished, and executives surveyed want greater spiritual openness in the workplace. Their research focused mostly on people's perspectives on religion and spirituality. As a consequence, the emphasis of their research was on the "evolving" views of spirituality and religion held by CEOs. They abstained from providing an a priori definition of religion and spirituality, opting instead to allow it to emerge through the responses of the respondents. According to the comments of the participants, religion was largely seen as an ideological and institutionalized phenomenon, but spirituality was seen as a phenomenon that occurred only inside individuals (Mitroff & Denton, 1999).

The suggested research looked at three different aspects of spirituality in the workplace. The first component of meaningful work is characterized by the extent to which individuals feel their daily activities at work are imbued with a profound sense of meaning and purpose. Spirituality in the workplace is described as “recognition that people have an intrinsic presence that may be cultivated and nourished. Meaningful work is considered a part of workplace spirituality that occurs on an individual level and shows how employees interact with their day-to-day jobs. Meaningful work is a phenomenon that happens at the level of the person (Milliman et al., 2003). How individuals see themselves to be related to one

another via the existence of some kind of connection between their inner selves and the inner selves of other individuals is the first component, which makes a sense of community. A workplace spirituality is found at the collective level, which is observed in employees' relationship and it gives a feeling of community. This aspect of workplace spirituality happens in the workplace (Milliman et al., 2003).

The third aspect of having values that are aligned with those of the company is having the perspective of having a strong feeling of connection between one's values and the vision and purpose of the organization. The employee's and organization values need to be aligned for the success of an organization as well as for the employees work intentions (Milliman et al., 2003). These characteristics were chosen for the research for three primary reasons: first, it was believed that they had a significant attachment with employee work intentions and they were thought to be relatively easy to measure. Second, they have been scrutinized in earlier research, which concluded that they are of use (Rego et al., 2007; Duchon & Plowman, 2005). Thirdly, these aspects explain the organization as well as employee manifestation of spirituality at the workplace, and have the opportunity to enhance an explanation of this developing concept in the workplace.

According to the notion of reasoned action, the purpose is the primary determinant of conduct (Ajzen et al., 2007). This study examined the predictability of work goals by workplace spirituality, utilizing the intention-behavior paradigm as a basis, to increase our understanding of human behavior in the workplace. Zigarmi et al., (2012) presented a model of "work intentions", wherein, assessment was made for the purpose to accommodate employees wishes and aims, developed in them with the passage of time for their own well-being. During the study, positive relationships were noticed between the "work intentions" and "positive job-related affect", like the employee, who was found more positive towards his job, strived hard work, remained loyal, spent more time with that organization as well as promoted in the same organization (Roberts & Zigarmi, 2014).

By applying the same justification and/or reasons of spirituality in workplace, that the employees of an organization are affected and influenced by the meaningful work. Further, alignment of organization and their values will affect their intentions. Furthermore, ethical leadership facilitates the relationship between favorable workplace intentions and spirituality in the workplace, which is acceptable. Whereas, the non-existence of ethical leadership may put the relationship between favorable workplace intentions and spirituality at the disadvantageous position.

Prior research on workplace spirituality has revealed a favorable correlation with several desired organizational outcomes, including dedication, contentment, performance, productivity, and decreased absenteeism and attrition (Otaye-Ebede et al., 2020; Fry & Nisiewicz, 2013; Pattanawit & Charoensukmongkol, 2022);

therefore, based on the abovementioned arguments and prior published work in this realm, we hypothesized the following:

- H1:** There is a significant relationship between workplace spirituality (WPS) and employee work intentions (EWI).
- H1a:** There is a significant relationship between meaningful work (MW) and employee work intentions (EWI).
- H1b:** There is a significant relationship between a sense of community (SC) and employee work intentions (EWI).
- H1c:** There is a significant relationship between alignment with organizational values (AOV) and employee work intentions (EWI).

## **2.2 Ethical leadership as a moderator between workplace spirituality & employee work intentions**

Based on Bandura's theory of social learning, Brown et al., (2005) have conceptualized the notion of ethical leadership. This idea demonstrates that people observe and imitate trustworthy role models to acquire ethical behavior norms. As moral persons, ethical leaders live moral lives, exhibit ethical behavior, and promote ethical principles and conduct in the workplace. When working with employees, ethical leaders demonstrate honesty, integrity, and fairness. Ethical leaders, as moral managers, actively impart ethical ideals to subordinates and promote right subordinate behavior via punishment, rewards, and performance assessment (Brown et al., 2005). In other words, ethical leaders want their people to act morally and ethically.

Leaders are responsible for maintaining higher moral standards by setting an exemplary example and ensuring that moral standards are balanced (Brown & Mitchell, 2010). Due to their significant function, they have the potential to influence how others see their work (Yukl et al., 2013). Brown et al. (2005) described ethical leaders as those who not only promote moral behavior in their followers but also model proper behavior for their followers via their actions and interactions. Leadership has been demonstrated to have a substantial impact on a variety of positive organizational outcomes, according to considerable studies conducted in the past. For instance, research (Moon & Jung, 2018; Freire & Bettencourt, 2020) has shown a correlation between ethical leadership and positive organizational and individual results.

Spirituality in the workplace has drawn several scholars, managers, and specialists over the last few years (Otaye-Ebede et al., 2020; Fry & Nisiewicz, 2013; Pattanawit & Charoensukmongkol, 2022). We used Milliman et al. (2003)'s concept of WPS as a three-dimensional construct made up of value alignment, a sense of belonging, and meaningful work. Meaningful labor entails "a strong sense of meaning and purpose in one's work" (Milliman et al., 2003). Hackman et al.,

(1980) identified "skill diversity, task identity, and task significance" as the three fundamental core employment attributes for employees to sense meaningfulness. Haldorai et al. (2020) characterized a sense of community as "the extent to which individuals consider that their values are aligned with the goal of an organization." The third element, value alignment, incorporates the idea that "an individual's purpose is bigger than itself and should serve others community" (Milliman et al., 2003). Similarly, value-congruence models have examined the relationship between organizational and personal values in organizational behavior and psychology (McKee et al., 2011).

There is a close connection between spirituality and leadership (Lawande & Jadhav, 2020). Islam et al. (2020) credited as a trailblazer in the field, Fairholtz (1998) established the relationship between spirituality and leadership as a means of producing novel research concepts. Leadership is essential to the development of a structure that stokes the intellectual stimulation and devotion of its constituents. A recent study by Riasudeen and Singh (2021) found a positive relationship between leadership and workplace spirituality in the South Indian information technology sector. According to McKee et al. (2011), leaders may influence the degrees of job commitment, meaningfulness, and identity among their workers, which seem to be the three pillars of workplace spirituality. According to Duchon and Plowman (2005), to fulfill the spiritual needs of workers, a company has to have strong leadership capabilities, especially in the area of ethical leadership. Empirical evidence is provided by Minon (2017) and Haldorai et al. (2020) that demonstrates a favorable correlation between workplace spirituality and justice, which is a characteristic of ethical leadership.

Based on the aforementioned theory and prior studies, the following study hypotheses are proposed:

- H2:** Ethical leadership (EL) moderates the workplace spirituality (WPS)-employee work intentions (EWI) relationship.
- H2a:** Ethical leadership (EL) moderates the meaningful work (MW)-employee work intentions (EWI) relationship.
- H2b:** Ethical leadership (EL) moderates the sense of community (SC)-employee work intentions (EWI) relationship.
- H2c:** Ethical leadership (EL) moderates the alignment with organizational values (AOV)-employee work intentions (EWI) relationship.

### **3. Research Methodology**

This study opted to use a quantitative approach to its research methodology. Quantitative research is characterized by its emphasis on objective measures and the statistical, mathematical, or numerical analysis of data collected via polls, questionnaires, and surveys, in addition to the editing of post-survey material through the use of computer tools (Fogg et al., 2001).

### **3.1 Sample size**

Secretariat personnel makes up the majority of the population of Peshawar, Pakistan. Employees from the secretariat are randomly chosen for the sample size. The sample size of a research refers to the number of individuals or observations included in it. This number is frequently represented by the letter n. The sample size has an influence on two statistical aspects, according to Israel (1992): 1) the precision of our estimations, and 2) the study's capacity to draw conclusions.

The formula to be used for determining the sample size will be,

$$n = [(z^2 * p * q) + ME^2] / [ME^2 + z^2 * p * q / N].$$

### **3.2 Sample technique**

Simple random sampling will be applied in this investigation. A simple random sample is one drawn at random from the whole target population. A simple random sample is a subset of a statistical population from which each individual has an equal probability of being selected. The purpose of a basic random sample is to correctly represent a population (Olken, & Rotem, 1986).

### **3.3 Data collection and analysis**

The data is collected from sources. Questionnaires devised by previous researchers are used to collect data. WPS will be measured using a 19-item questionnaire adapted from (Ashmos & Duchon, 2000) and Milliman et al. (2003). Nimon and Zigarmi's Employee Work Intention (EWI) scale was used (2015). Finally, Yukl et al. developed a 15-scale ethical leadership questionnaire (2013).

## **4. Results**

Following a thorough description of the respondents' demographic characteristics and a test to rule out the common method bias (CMB). After the confirmation that there is no CMB, measurement model has been run in SmartPLS through PLS algorithm. Testing the suggested relationships was done as the following step after analyzing the validity and reliability of the data. The bootstrapping method is used in this stage to estimate the coefficients and suggested associations' strengths and significance levels. These aforementioned steps are discussed in the proceeding sections in more details.

## 4.1 Demographics

Table 1. *Respondents Demographic (N=303)*

<b>Gender</b>				
	Frequency	Percent	Valid Percent	Cumulative %
Male	201	66	66	66
Female	102	34	34	100.0
<b>Age</b>				
18-24	22	7.3	7.3	7.3
25-34	73	24.1	24.1	31.4
35-44	68	22.4	22.4	53.8
45-54	79	26.1	26.1	79.9
55-64	61	20.1	20.1	100.0
65 and Above	0	0.0	0.0	100.0
<b>Experience</b>				
1-3 year	21	6.9	6.9	6.9
4-6 year	14	4.6	4.6	11.6
7-9 year	71	23.4	23.4	35.0
10-12 year	64	21.1	21.1	56.1
13-15 year	76	25.1	25.1	81.2
Above 16 years	57	18.8	18.8	100.0
<b>Qualification</b>				
Matriculation	8	3	3	3
Intermediate	8	3	3	5
Bachelors	48	16	16	21
Masters	164	54	54	75
MS/MPhil	55	18	18	93
PhD	20	7	7	100.0
Total	303	100.0	100.0	
<b>Job Level</b>				
Senior Mgt	120	39.6	39.6	39.6
Mid-career	148	48.8	48.8	88.4
Intermediate	19	6.3	6.3	94.7
Entry level	16	5.3	5.3	100.0

## 4.2 Common method bias (CMB)

CMB is a problem associated with the measurement methodology and is not related to the constructs. This problem occurs when we collect data for both independent and dependent variables from same respondents at the same time (Podsakoff et al., 2003). This problem is of serious concern because it can bias the results. Researchers have highlighted some techniques to avoid this problem. For instance, Podsakoff et al. (2003) argue that this problem can be avoided through presenting the questions regarding dependent and independent variables on

different pages. Researchers have provided several methods to test CMB problem, including Kock's inner VIF method (Kock, 2015), Bagozzi approach (Bagozzi et al., 1991), and Harman single factor test (Harman, 1976). The most recent measure of CMB is Kock's inner VIF method.

This alternative method applies full collinearity test for CMB detection. Kock (2015) suggested a threshold value for inner VIF as 3.3. Value greater than 3.3 suggests that there is CMB problem. Table 3 presents the results of Knock Inner VIF test, which show that all values are less than 3.3. This also suggest that there is no issue of CMB.

Table 2. *Common Method Bias Test (Knock Inner VIF test)*

<b>Constructs</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Alignment with Organizational Values		1.97	1.87	2.53	2.86
Employee Work Intentions	2.12		1.84	2.95	2.77
Ethical Leadership	1.01	1.00		1.01	1.02
Meaningful Work	1.74	1.88	1.86		1.92
Sense of Community	1.53	1.35	1.50	1.52	

### **4.3 Reliability and validity**

Henseler et al. (2009) argue that overall reliability of all indicator of a construct is tested by composite reliability. Fornell and Larcker (1981) suggested that the threshold value for composite reliability is 0.60. Table 2 provides results of composite reliability, which indicate that all values are above the minimum threshold value of 0.60. This confirm the composite reliability of the data. The theoretical link between a model's constructs is shown by convergent validity. The degree of correlation between the study's variables within the framework of a single model is indicated by convergent validity. There is no need to combine the variables into one model if there is no correlation between them. Fornell and Larcker, (1981) argue that the minimum threshold value for CV is 0.50 and it is measured through average variance extracted (AVE). Table 2 presents the values of AVE which indicates that all values are greater than 0.50. This confirm interlink between constructs.

Table 3. *Reliability and Validity*

<b>Item Code</b>	<b>Factor Loading</b>	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>	<b>Av. Variance Extracted (AVE)</b>	<b>VIF</b>
AOV1	0.67				2.02
AOV2	0.70				2.43
AOV3	0.72	0.887	0.912	0.600	2.55
AOV4	0.80				2.58

AOV5	0.84				4.27
AOV6	0.83				4.21
AOV7	0.86				3.15
<b>Ethical Leadership</b>					
ELS1	0.82				4.08
ELS2	0.78				3.80
ELS3	0.83				4.15
ELS4	0.86				4.04
ELS5	0.89				4.09
ELS6	0.91				3.83
ELS7	0.87	0.978	0.972	0.711	3.95
ELS9	0.90				4.51
ELS10	0.80				4.19
ELS11	0.85				4.44
ELS12	0.83				4.11
ELS13	0.86				4.15
ELS14	0.81				4.12
ELS15	0.79				4.00
<b>Meaningful Work</b>					
MFW1	0.86				2.56
MFW2	0.88				3.07
MFW3	0.91	0.897	0.925	0.713	3.82
MFW4	0.87				2.80
MFW5	0.69				1.43
<b>Sense of Community</b>					
SOC1	0.9				3.71
SOC2	0.86				3.06
SOC3	0.89				4.20
SOC4	0.89	0.947	0.957	0.759	3.72
SOC5	0.89				4.31
SOC6	0.85				2.89
SOC7	0.82				2.53
<b>Employee Work Intentions</b>					
EWI1	0.687				1.82
EWI2	0.680				2.60
EWI3	0.761				3.03
EWI4	0.766	0.929	0.939	0.544	3.25
EWI5	0.608				1.78
EWI6	0.801				3.05
EWI7	0.743				2.55

EWI8	0.820	3.01
EWI9	0.685	2.08
EWI10	0.776	2.78
EWI11	0.699	1.95
EWI12	0.760	2.76
EWI13	0.773	2.26

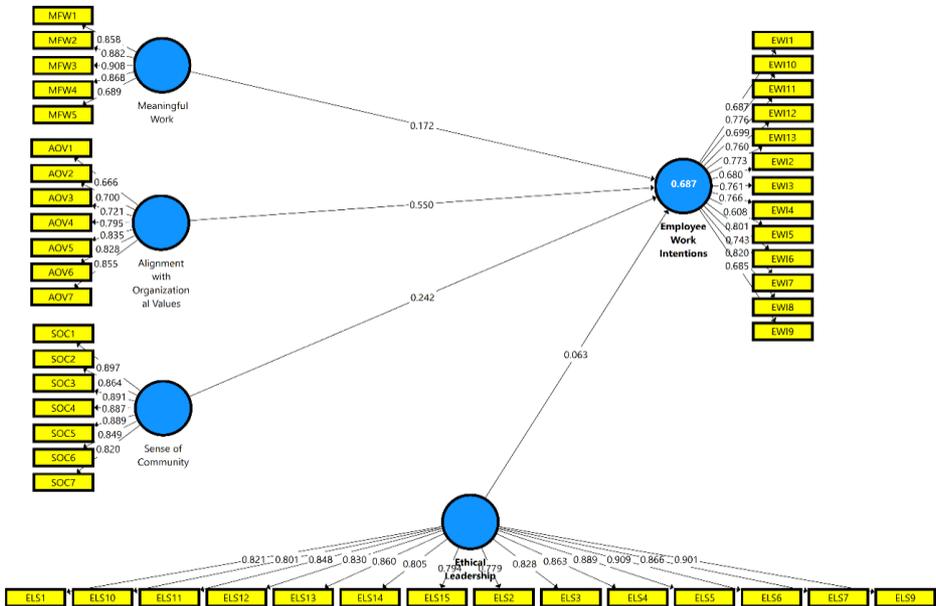


Figure 2. Measurement Model

#### 4.4 Discriminant validity (DV)

Joseph F Hair et al. (2019) argue that discriminant validity measures how distinct the study's constructs are within the framework of the same structural model. If there is no distinction between two constructs, there is no justification for treating those variables as two separate constructs; instead, they must be treated as one. The literature uses a variety of methodologies to assess the discriminant validity, but the most widely used is Hetrotrait-Monotrait (HTMT) ratio

Higher factor loading in today's research context can defect the Fornell-Larcker criterion results and subsequently the discriminant validity of conceptions. Henseler et al. (2015) recommended the HTMT ratio as a second measure of discriminant validity to overcome this problem. HTMT is a ratio of within- and between-trait correlations based on Monte Carlo simulation. HTMT ratio is thought to be a better or more precise measure of discriminant validity than other measures. Henseler et al. (2015) suggested 0.90 as a threshold value for HTMT.

Table 4 presents results of HTMT. It can be observed that all values are less than the threshold value. This confirms the discriminant validity.

Table 4. *HTMT Ratio (Discriminant Validity)*

	1	2	3	4	5
Alignment with Organizational Values	1.00				
Employee Work Intentions	0.855	1.00			
Ethical Leadership	0.065	0.045	1.00		
Meaningful Work	0.764	0.705	0.059	1.00	
Sense of Community	0.523	0.618	0.037	0.474	1.00

#### 4.5 Overall model fit

The overall model fit is calculated by SmartPLS as well. While the inner model assesses the predicted efficiency of the model using various assessment criteria proposed by the researcher, the outside model determines reliability and validity. A model fit index is provided by SmartPLS. Only two of the values produced by the model fit index have been used by the researchers to evaluate the overall model fit, the first being the Standardized Root Mean Square Residual (SRMR), which has a minimum acceptable value of 0.08. (Hu & Bentler, 1999). The Normed Fit Index (NFI) is the other value. Lohmöller (1989) argue that higher values are favored for the NFI's chi square index, hence a value close to 1 is thought to be favorable. The SRMR and NFI values in this study were acquired using the same methodology. The model fit index obtained from SmartPLS is shown in Table 5. There are two columns: one is labelled "saturated model," and the other is "estimated model." The researchers advise using saturated model values. In contrast to the standard of 0.08, the SRMR value under the saturated model is 0.06 instead. The NFI value is 0.806, which is close to 1 and regarded as sufficient. These values indicates that the model is good fit.

Table 5. *Model Fit Indices*

	<b>Saturated Model</b>	<b>Estimated Model</b>
SRMR	0.060	0.060
NFI	0.806	0.806

#### 4.6 The coefficient of determination ( $R^2$ )

The dependent variable's variance resulting from independent factors is measured by the  $R^2$  or coefficient of determination. There is no set minimum threshold value for  $R^2$ , and the amount of variance explained by the obtained value varies entirely on the study context and discipline (Hulland, 1999). Coefficient of determination predicts the model's overall predictive performance and shows the total variance of all independent variables.

Table 6. *Coefficient of Determination*

	<b>R Square</b>	<b>R Square Adjusted</b>
Employee Work Intentions	0.687	0.683

**4.7 Hypothesis testing**

H1 to H8 are the direct relationships. In H1 a direct and positive effect was proposed between workplace spirituality and work intentions, results reported in Table 7 supporting this hypothesis ( $\beta=0.782$ , T-value= 18.00  $p<0.001$ ). A positive and moderating effect of ethical leadership as proposed in H2, results also provide support for this hypothesis ( $\beta=0.136$ , T-value= 1.848  $p<0.10$ ).

Table 7. *Bootstrapping Results of Overall Model*

<b>Sr. No</b>	<b>Hypothesis</b>	<b>Path Coefficient</b>	<b>Standard Deviation</b>	<b>T Statistics</b>	<b>P Values</b>
H1	Workplace Spirituality-> Project Success Moderating Effect 1 ->	0.782	0.043	18.000	0.000
H2	Project Success	0.136	0.073	1.848	0.065

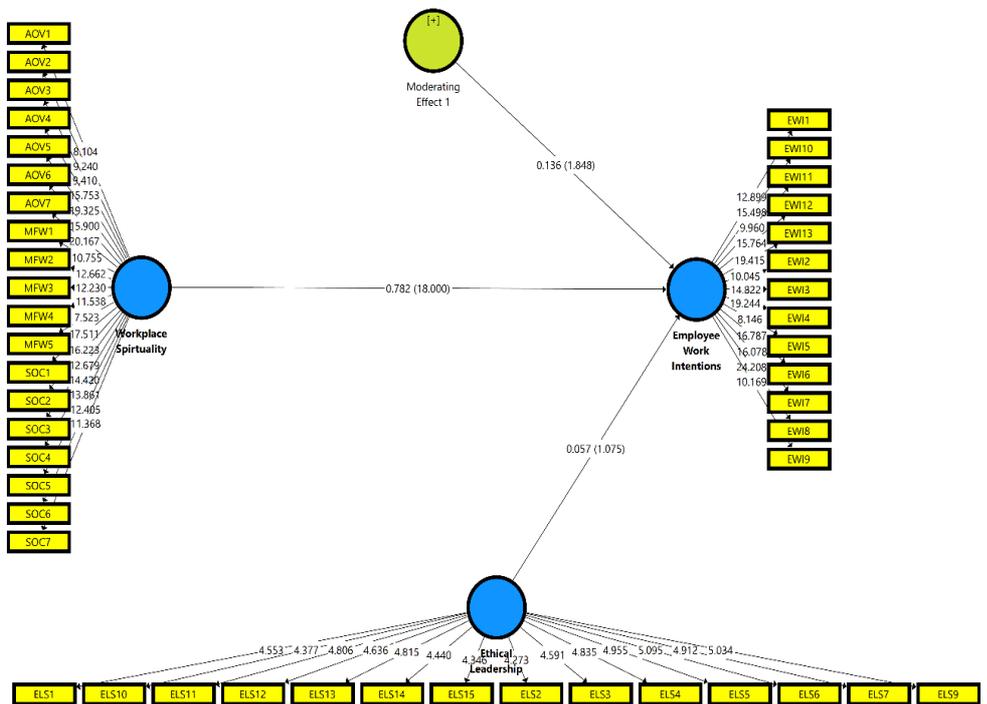


Figure 3. Structural Model 2<sup>nd</sup> Order

Table 8 presents the results of 1<sup>st</sup> order model. It is observed that there is positive impact of meaningful work (MW) on employee work intentions (EWI) ( $\beta=0.174$ , T-value= 2.626,  $p<0.01$ ). Hence, hypothesis H1a is supported. Table 4.11 also shows that sense of community (SC) has positive impact on EWI ( $\beta=0.223$ , T-value= 3.712,  $p<0.01$ ). Hence, hypothesis H1b is also supported. Further, the results indicate that alignment with organizational value (AOV) has positive impact of EWI ( $\beta=0.528$ , T-value= 7.488,  $p<0.01$ ). Therefore, hypothesis H1c is also supported. Results in Table 5.11 do not support hypotheses H2a and H2b as the p-values are greater than 0.05. Finally, results in Table 4.11 indicate that hypothesis H2c is supported ( $\beta=0.148$ , T-value= 1.955,  $p<0.1$ ).

Table 8. Bootstrapping Results of 1st Order Model

#	Hypothesis	Path Coefficient	Standard Deviation	T Statistics	P Values
H1a	Meaningful Work -> Employee Work Intentions	0.174	0.066	2.626	0.009
H1b	Sense of Community -> Employee Work Intentions	0.223	0.06	3.712	0
H1c	Alignment with Organizational Values -> Employee Work Intentions	0.528	0.07	7.488	0
H2a	Moderating Effect 1 -> Employee Work Intentions	-0.067	0.075	0.895	0.371
H2b	Moderating Effect 2 -> Employee Work Intentions	0.045	0.072	0.628	0.53
H2c	Moderating Effect 3 -> Employee Work Intentions	0.148	0.076	1.955	0.051

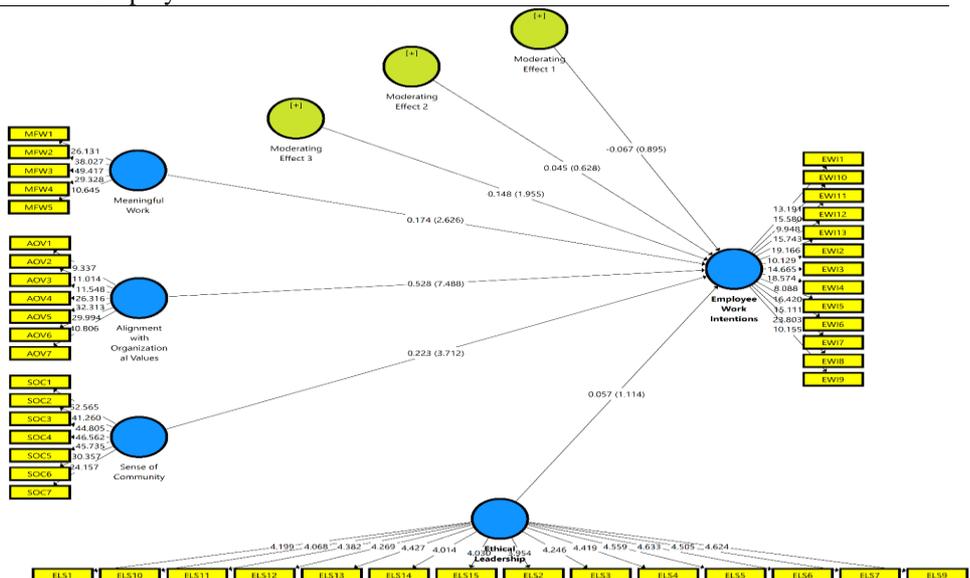


Figure 4. Structural Model (1<sup>st</sup> Order)

## **5. Conclusion**

It is a novel study carried out, wherein, the multidimensional effect of workplace Spirituality on work intentions has been tested. In this study, the analysis of both the aspects and all the hypothesis have been tested. Workplace spirituality has been remained a burning topic in the last two decades (Duchon & Plowman, 2005; Giacalone & Jurkiewicz, 2010) and it is described as emerging concept in the literature (Ashmos & Duchon, 2000; Giacalone & Jurkiewicz, 2003), and when an organization realizes that its employees have certain beliefs and wishes, which need to be fulfilled by providing a meaningful work, which takes place in the setting of community.

According to earlier studies (Benefiel, 2003; Giacalone & Jurkiewicz, 2010; Karakas, 2010; Milliman, Czaplewski, & Ferguson, 2003; Pandey, Gupta, & Arora, 2009), workplace spirituality was linked to advantageous outcomes for both employees and enterprises. When it comes to an organization, benefits for customer experience, ethical principles, productive cultures, job performance, and employee attitudes are linked to workplace spirituality. Workplace spirituality leads to loyalty and long-term bonds of employees with an organization apart from doing hard work to achieve the objectives of an organization. Employees of an organization remain calm, enjoy their work, having maximum job satisfaction apart from getting different benefits from an organization (Giacalone & Jurkiewicz, 2010); improved dedication, personal satisfaction, honesty, and trust (Krishnakumar & Neck, 2002); and minimum level of annoyance or conflict in work exist (Kolodinsky, Giacalone, & Jurkiewicz, 2008). For an employee, both the work environment and job are critical for the quality of life, they spent outside the organization and their self-concept, because they spend the majority of their waking hours and most of their efforts there (Giacalone & Jurkiewicz, 2010).

Now a days, it is one of the most difficult tasks for managers to provide an environment to employees, wherein, they may provide an opportunity and purpose in their job, a sense of community by having positive relationships, and organizational and personal values alignment (Milliman et al., 2003). The results of the existing research confirmed (Mitroff & Denton, 1999) initial conclusion that workplace spirituality gives firms a competitive advantage.

## **6. Implications**

The results of this study provide crucial clues that firms may use to gauge how well employees are treated at work and how it affects their intention to engage in productive behaviors. The relationship between appraisal, intentionality, and conduct has previously been demonstrated by theory and study (Ajzen, Albarracin, & Hornik, 2007).

In this study, the work environment in light of meaningful work, a sense of community and personal as well as organizational values alignment were analyzed and made addition to the body of knowledge in workplace spirituality theory by giving the impact on work intentions. A relationship has been established between the ethical leadership and workplace spirituality (Giacalone & Jurkiewicz, 2003; Issa & Pick, 2010); however, previous research has been scarce and has primarily focused on work values, which include traits like justice, moral philosophy, altruism, and decency.

The study can also be useful to understand the relationship of the three variables used and how these variables interact with one another. Moreover, findings of this study help in conceptual growth and theoretical understanding of workplace spirituality and the status given to it in an organization. The development of the workplace spirituality idea would benefit from additional empirical research on the connections between these concepts.

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# EXAMINING THE IMPACT OF ROLE OVERLOAD AND RESOURCES ON EMPLOYEE ENGAGEMENT AMONG OPERATIONAL EMPLOYEES OF RESCUE-1122: A PARTIAL LEAST SQUARE APPROACH

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**Abstract.** *The basic purpose of this study is to explore the relationship of role overload (RO) and resources (R) with employee engagement (EE) among the operational employees of Rescue (1122), District Mardan. The role overload and resources have not been studied with the relationship of employee engagement in emergency services (Rescue-1122) in Pakistan. Data was collected from 154 employees using adopted questionnaire. The respondents are Fire Rescuers (FR), Lead fire rescuers (LFR), DERT (Disaster emergency response team) Rescuer, Emergency Medical Technician (EMT) and Divers only of district Mardan. The WarpPLS was used for data analysis and concluded the negative impact of role overload on employee engagement, while positive impact of resources on employee engagement in Rescue-1122, Mardan. Thus, the present study provides help to top brass of the organization during formulation of strategy in order to overcome the problem of role overload which eventually affects employee engagement.*

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**Keywords:** Role Overload, Resources, Structural Equation Modelling and Employee Engagement

## 1 Introduction

The purpose of the study is to investigate the impact of ‘role overload’ and ‘resources’ on ‘employee engagement’. In recent era, the focus of every organization is on the Employee engagement is the most crucial element of achievement of organization goals. The employee engagement is affected by different factors such as nature of job, qualification, rewards, role overload, available resources and leader’s behavior etc. Practically, the employees of emergency service (Rescue-1122) face the problem stress, role overload and resources availability at work as they are responding to hazardous situation during fire emergency, medical and drowning emergencies etc. on daily basis. This issue, which is becoming worse every day and causes stress and conflicts between work

and personal responsibilities, lowers staff morale, which in turn negatively affect the employee engagement and performance. Therefore, the role overload and available resources play a crucial role in the achievement of organizational goal as it directly affects the engagement level of employees specifically in emergency rescue services.

In the current study, the first concept is role overload, it is a condition in which employees often performed extra and challenging duties with limited resources (Glazer & Beehr, 2005). The second concept of the study is resources which is defined as the things, energies or conditions that enable the individual to achieve the targeted goal of the organization (Schmitt, Den Hartog, & Belschak, 2016; Venz & Sonnentag, 2015). The last concept is employee engagement which is defined as the individual willingness, satisfaction, and involvement to do extra ordinary work for the organization (Muthike, 2016).

## **2. Literature Review**

### **2.1 Role overload**

According to Altaf and Awan (2011) the role overload is an important and challenge issue arise in any organization. Role overload is defined as, the individual perception that the task assigned to him is very hard and challenging to complete within a limited resources and time (Jex, 1998). Moreover, it is a condition illustrated by extended working period, feeling pressure and stress to do overtime duties either paid, restriction on casual leave, limited time and resources for attainment of organizational goals. In addition, overloaded workers frequently find themselves complaining about unfair job responsibilities, continuously involve in hard activities, have not sufficient holidays and breaks, as well as work for irregular hours.

### **2.2 Resources**

Resources are defined as, all those things and instruments which facilitate the employees to achieve the objectives of the organization (Venz & Sonnentag, 2015). The resources are helpful objects that reduces stress and improve engagement level of worker with organization (Ragsdale & Hoover, 2016; Sulea, Fischmann, & Filipescu, 2012). Employees strive to safeguard, acquire, and maintain resources in order to prevent further losses and improve their own engagement level with job (Hobfoll, 1989). Additionally, resources for work include any elements that are social, physical, or organizational that aid in attaining objectives or fostering individual development and growth (Bakker & Demerouti, 2008; Schaufeli & Bakker, 2004).

### **2.3 Employee engagement**

The main theory on which the study is based is Social Exchange Theory. This theory explains the reasons of employee engagement at work. Some employees may be less engaged and some may be more engaged in the organization. Employee engagement defined by Saks (2006), is the degree of employee happiness and involvement in their work. Employee engagement is based on satisfaction and commitment, as well as positive thinking, which boosts employees' vigour, enthusiasm, and commitment to their jobs. In addition, engagement is derived from the employee's attachment with organization and job in terms of enthusiasm to facilitate, be a good player of a team, understanding the big picture and ready to go beyond the requirement of the job (Schaufeli, Salanova, González-Romá, & Bakker, 2002). The core of employee engagement is pride in the company and having a pleasant attitude at work (Kahn, 1990; Xu & Cooper, 2011).

### **2.4 Role overload and employee engagement**

Ali and Farooqi (2014) concluded from his research study that role overload has negative significant impact on employee engagement. He also stated that if employees do extra work on daily basis, then his engagement level decline gradually which eventually affect the performance. Similarly, some of the research study revealed that role overload has significant and negative relationship with employee engagement and performance (Astuti & Palupiningdyah, 2018; Haq, Alam, Mulk, & Rafiq, 2020; Jalagat, 2017).

### **2.5 Resources and employee engagement**

Various studies have concluded the positive significant impact of resources on employee engagement such as autonomy, social support, support of supervisor and learning opportunities (Bakker & Demerouti, 2008; Schaufeli et al., 2002). Similarly, Haider, Ahmad, Farooq, Rasheed, and Parveen (2014), indicated that the resources of a firm develop a creative environment for employees to fulfill their job, resolutely boost satisfaction, loyalty and employee engagement.

### **2.6 Development of hypotheses**

The following hypotheses have been developed in light of the above literature.

- H1: There is negative impact of role overload on employee engagement in Rescue-1122.
- H2: There is positive impact of resources on employee engagement in Rescue-1122.

## 2.7 Conceptual Framework

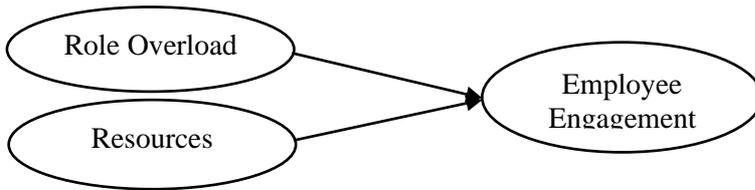


Figure 1 Conceptual Model of the study

## 3. Methodology

The methodology part of the present study covers the following parts;

### 3.1 Population

The present study population is the operational category of employees including LFR, FR, EMT, DERT rescuers, diver supervisor and divers only of Rescue-1122 of Mardan. The total size of the targeted population is 257.

### 3.2 Sample Size

The sample size for the present study is 154 which was calculated through Krejcie and Morgan (1970) formula. The simple random sampling technique is used in the study for selection of the desired sample size. So, one hundred and fifty four (154) participants selected randomly from a pool of two hundred and fifty seven operational category of employees.

### 3.3 Variables

The variables of the study were Role Overload (RO), Resources (R) and Employee Engagement (EE). Role overload and resources were the independent whereas employee engagement was the dependent variables of the study.

### 3.4 Data collection and instrument

The adopted questionnaires were sent to the operational staff members in district Mardan who were chosen at random as part of the data collection process. In the present study, three different questionnaires were used for role overload, resources and employee engagement which was adopted from Pareek (1983), Temkin-Greener, Zheng, Katz, Zhao, and Mukamel (2009) and Schaufeli and Bakker (2003) respectively. Both the role overload and resources have five (5) questions whereas, employee engagement has 9 questions. Total 154 questionnaires were distributed, out of which 142 received back which are completed from all aspects. The collected data was recorded through 5-point Likert Scale and later on for detail analysis Warp PLS was used.

#### **4. Data Analysis**

The Warp PLS was used for analysis of the data.

##### **4.1 Demographics**

It is shown from the demographics analysis that 90% participants are male while 10% are female, in which, 29% are FR, 22% are LFR, 9% are DERT rescuer, 28% are EMT, 3% are diver supervisors and 9% are Divers.

##### **4.2 Reliability analysis**

The reliability assessment of the scale has been determined by composite, Dijkstra PLSc, Cronbach alpha, factor reliability and True composite reliability. For the present study the table 1, shows the values of these reliability assessments. As shown from the table all the value are in acceptable range, as its greater than threshold value (0.70) (Canatay, Emegwa, Lybolt, & Loch, 2022; Ibrahim, Shiratuddin, & Wong, 2015).

Table 1 *Reliability Analysis*

	<b>RO</b>	<b>R</b>	<b>EE</b>
Composite reliability,	0.918	0.915	0.918
Cronbach's alpha,	0.888	0.896	0.888
Dijkstra's PLSc reliability,	0.889	0.906	0.889
True composite reliability,	0.918	0.915	0.918
Factor reliability,	0.918	0.915	0.918

*RO= Role overload, R= Resource, EE= Employee Engagement*

##### **4.3 Discriminant validity**

The Hetrotrait-Monotrait Ratio (HTMT) value is calculated for checking the discriminant validity. The critical point for HTMT is 0.9 which is written as HTMT<sub>0.90</sub>.The HTMT values for the present study is shown in table 2, all constructs HTMT value is less than the critical point. So, this validates that the constructs have good discriminant validity (Hair, Hollingsworth, Randolph, & Chong, 2017).

Table 2 *Discriminant Validity (HTMT 0.9)*

	<b>RO</b>	<b>R</b>	<b>EE</b>
<b>RO</b>			
<b>R</b>	0.812		
<b>EE</b>	0.752	0.682	

*RO= Role overload, R= Resource, EE= Employee Engagement*

#### 4.4 Convergent validity

Two methods, Average Variance Extracted (AVE) and indicator reliability are used to find the convergent validity of the scale; however, the former method is used in the present study. Its threshold value is 0.5 and table 3, clearly shows that the AVE values for all constructs are greater than the threshold value which means that the scale has good convergent validity (Hair Jr, Sarstedt, Hopkins, & Kuppelwieser, 2014).

Table 3 *Convergent Validity (AVE)*

	RO	R	EE
RO	<b>0.841</b>		
R	0.812	<b>0.805</b>	
EE	0.761	0.753	<b>0.739</b>

RO= Role overload, R= Resource, EE= Employee Engagement

Table 4 *Fit Indices with P and Critical Value*

Indices	Value	P-Value	Critical Value
Average path coefficient (APC)	0.412	<0.001	
Standardized root mean squared residual (SRMR)	0.083		acceptable if $\leq 0.1$
R-squared (RS)	0.644	<0.001	
Adjusted R-squared (ARS)	0.642	<0.001	
Average block VIF (AVIF)	3.097		acceptable if $\leq 5$
Average full collinearity VIF	3.132		acceptable if $\leq 5$
Tenenhaus GoF (GoF)	0.621		small = 0.1, medium = 0.25, large = 0.36

#### 4.6 Testing of hypotheses

In the present study, the two independent variables (Role overload and Resources) and one dependent variable (Employee engagement) are used. The result of path coefficients for both independent and dependent variables are presented in table 5. The beta coefficient for H1 & H2 are -0.49 and 0.34 while p-value is <0.01 (for both) respectively, so it shows that the role overload has negative significant impact on employee engagement, whereas resources have positive significant impact on employee engagement.

Table 5 *Path Coefficients*

	Independent	Dependent	Coefficients	P Value	Result
H1	RO	EE	-0.49	<0.01	Supported
H2	R		0.34	<0.01	Supported

RO= Role overload, R= Resource, EE= Employee Engagement

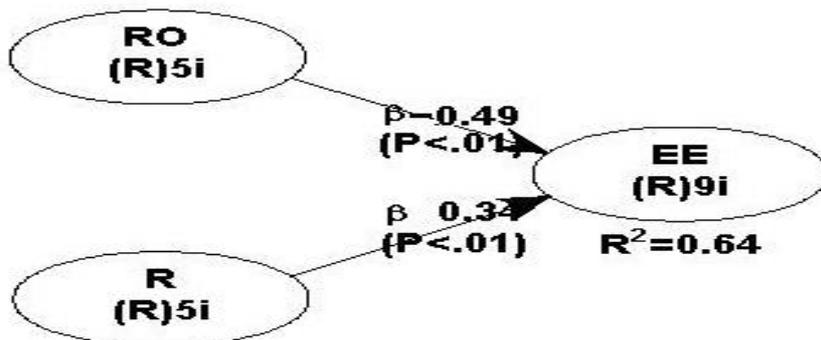


Figure 2 Model of the Study

## 5. Discussion and Conclusion

In the present study, it was hypothesized (H1) that there is a negative impact of role overload on employee engagement. The value of beta coefficient and p-value for H1 is 0.49 and <0.01 respectively which clearly confirmed that role overload strongly affects employee engagement of Rescue-1122 employees. These results are in line with the few previous results of the research study (Crawford, LePine, & Rich, 2010; Kim, Lee, & Park, 2018; Ugwu & Onyishi, 2020; Zhang, Xu, Li, & Xu, 2022). In the second hypothesis (H2), it was assumed that there is a positive impact of resources on employee engagement. The value of coefficient and p-value is 0.34 and <0.01 which shows that the resources have positive significant impact on employee engagement. These findings are supported by the previous result of research (Albrecht, Breidahl, & Marty, 2018; Hanif, Naqvi, & Hussain, 2015; Schaufeli & Bakker, 2004).

In the context of Rescue-1122, role overload and resources availability are important elements which play a crucial role in enhancement of employee engagement. Most of the operational employees of the said organization experienced high pressure due to over burden of work responsibility (role overload) and lack of resources which ultimately negatively affect their engagement with job.

In light of the results of the present study, it is concluded that the organization understands the need of their employees and provides enough resources to them during responding of any emergency. In addition, top brass of the organization also has put keen interest on the job responsibility of each employee during distribution of work load among them to overcome the issue of role overload.

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## MOBILE ADVERTISING: A USER'S PERSPECTIVE

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**Abstract.** *The purpose of this study was to explore the preferences of mobile users when it comes to mobile advertising, what they perceive are the main characteristics and functions of mobile advertising messages. Qualitative approach was used in this data was collected through focus group discussions. Qualitative thematic analysis with the help of Nvivo has been used to evaluate the texts collected from the participants of the focus groups. The findings of the study revealed that the main functions of mobile phone are personal communication, advertising and information. Moreover, mobility, immediacy and personalization have been identified as the main characteristics of mobile communication and lastly, product centred messages and customer centred messages are identified as the main categories as far as the content of mobile communication is concerned.*

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**Keywords:** Mobile advertising, qualitative, focus groups

### Introduction

Communications industry has experienced phenomenal technological development over the past decade or so. Introduction of latest technologies and growing demands of both current and potential customers have played a crucial role in the evolution of wireless communication (Park, Shenoya, & Salvendy, 2008). The introduction and growth of wireless communication offers huge potential for wireless advertising and marketers have realized the need to alter certain features of mobile and communications like the content and style of advertising messages so as to make it more meaningful and attractive to the consumers.

According to (Calin, 2011), mobile advertising is attractive due to its potential for high engagement and personalization. Each mobile device has great immediacy and is accessible around the clock as it is always in hand and as such linked to an individual. Being used as a communication channel, mobile phone is highly effective, interactive and present opportunities for effective alignment of advertising messages to the intended audience.

Since the deregulation of the telecom industry in Pakistan in 2003, telecom industry has experienced phenomenal growth in Pakistan over the last ten years attracting both national and international investment in the telecom sector. According to the estimates of Pakistan telecommunication authority released in September 2022, the number of cellular subscribers in Pakistan has crossed 180 million marks. This huge subscriber base present huge potential for marketers to communicate their messages to the prospective customers. The area of mobile advertising has been virtually unexplored till now by marketers in Pakistan. Off late a considerable number of marketers have diverted their attention towards mobile advertising. Before this promotional activities, over mobile phones were carried out mainly by telecom companies promoting their various promotional offers. Marketers can now communicate with their potential customers in a more personalized and unique way.

The aim of the paper is to find out the preferences of mobile users when it comes to mobile advertising. Apart from that, we have also tried to find out the main functions and characteristics of mobile communication messages from the users' point of view.

### **Literature Review**

Laszlo (2009) defined mobile advertising as “advertising or marketing messages delivered to portable devices, either via synchronized download or wirelessly over the air”. In literature we find SMS and MMS as two common methods that are used for mobile advertising (Samanta, Woods, & Ghanbari, 2009). Apart from this rise in technological advancement and use of internet over mobile phone offers new possibilities for interactive advertising through mobile phone (Laszlo, 2009).

The potential in mobile advertising has generated a lot of interest among researchers who have attempted to explore the adoption and success factors of mobile advertising in various countries (Park, Shenoya, & Salvendy, 2008). A study conducted by Bauer, Grether and Leach (2002) found out that location, time, information and personalization are the related factors to be considered for the acceptance of mobile advertising. In another study Barwise and Strong (2002) based on the theory of information processing argued that time, location, social norms, mode, motives of users and personal characteristics are the factors that will have an impact on the processing of mobile information by customers. In a study based on analysing the attitudes of consumers towards mobile advertising Tsang, Ho and Liang (2004) identified the effect of irritation and informativeness whereas (Bauer, Reichardt, Bames , & Neumann, 2005) found out that social utility, perceived information and entertainment are the factors that influence consumer attitudes. Xu and Gutierrez (2006) while exploring the influence of credibility, information, irritation, personalization, and entertainment on the behaviours of Chinese customers found out that all these factors have a positive influence on the attitude of Chinese customers.

In a study (Peters , Amato, & Hollenbeck, 2007) aimed at analysing the causes that determine the adoption of mobile advertising by customers, highlighted various kinds of causes like social and content needs and process motives. Similarly, Jun and Lee (2007), identified seven possible factors that may affect the attitude of customers; information, convenience, multimedia service, functional service, entertainment, and sociality. The findings of their study revealed that the influence of multimedia service and convenience were statistically significant. Some researchers (e.g., Ma, Suntompithung, & Karaatli, 2009) using quantitative approach tried to identify various factors that are influencing the acceptance of mobile advertising by customers. The findings of their study reveal that the adoption intention of the customer is significantly influenced by the creditability of perceived messages and the ability on part of consumers to embrace new technology and their motivation also influence their personal behaviours. In study conducted by (Vatanparast & Butt, 2009) considered four categories of factors in order to analyse the factors that affect the use of mobile advertising. These factors included consumer factors like performance, privacy and purpose, message factors like customization, content and creditability, media factors like policy, process and price and lastly device factors like intelligence, interface and interactivity. In spite of the importance of current research, it is quite easy to identify the inconsistencies between findings of various contemporary researches. This limitation of research may be due to the conceptualization and measurement of specific variables or due to the differences in empirical setting.

### **Methodology**

The aim of the study was to identify the preferences for commercial wireless communication among mobile users in Islamabad. The reason for conducting the study in Islamabad was that people in the city are technologically more advanced as compared to other cities that were within our reach. It was also believed that people in city will have much more awareness about mobile advertising as compared to other cities. In order to achieve the overall aim of the research study, three main objectives were defined for the study; a) to identify the user perceived characteristics of mobile communication, b) to explore and analyse the main functions of mobile communication as perceived by its users, and lastly, c) to explore and analyze mobile phone user's preferences as far as the content of mobile communication is concerned.

This research study was divided into two phases. In the first phase existing literature on the topic concerned was reviewed for the identification of relevant variables that will be useful in the development of the conceptual framework. In the second phase, three focus groups each consisting of eight mobile phone users were formed. The participants of the focus group were aged between 18 and above.

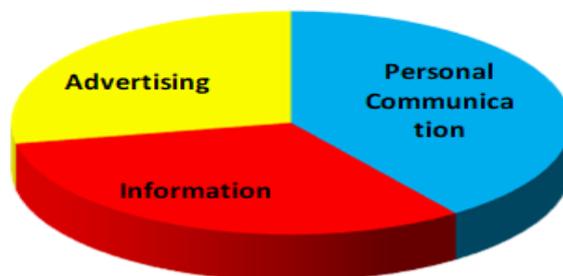
The age group of participants was divided into four broad categories; 18-27, 28-37, 38-47 and 48 and above. Each focus group comprised of two participants from each age group category. Also, in each focus group a 50% male female ratio was maintained. The reason for dividing the age into four categories was that it will ensure representation of all age groups of mobile phone users. The discussion in the focus groups lasted for about 40-45 minutes and the main focus of the discussion was three main issues: functions of mobile communication, its characteristics as a medium of commercial communication and the preferences of users in terms of commercial messages and their contents received on their mobile phones.

The discussions of the focus groups have been recorded and then transcribed. Qualitative thematic analysis with the help of Nvivo has been used to evaluate the texts collected from the participants of the focus groups. Thematic analysis helped in exploring and interpreting the convergent themes discussed by participants in their focus group discussions.

## **Finding and Discussion**

### ***Main functions of mobile communications***

Based on the discussion of the respondents in the focus groups, three broad functions of mobile communication have been identified i.e., advertising, information and personal communication. In two focus groups, personal communication was considered as the main function of mobile communication. However, in the third focus group the participants argued that the idea of personal communication is way too vague to be considered as an important function of mobile communication. They emphasized that the other two functions: information and advertising are the primary functions of mobile communication. “In my personal opinion advertising and information are the main functions of any form of mobile communication. Generally personal communication is regarded as a common way of mobile communication and since mobile phone is considered to be a very personal device... so any communication over mobile phone in which the users participate is representing a kind of personal communication” (M.J., 28 years, female).



*Figure 1* Three Broad Functions of Mobile Communication

In the focus groups discussion, many participants were of the view that it is difficult at times to identify in mobile messages only one among these three forms of communication functions. There is a tendency to develop communication messages having hybrid functions like infortising (advertising + information) (Westerink & Majoor, 2000). One of main reasons for the use of hybrid functions in mobile communication is their better efficiency and effectiveness at the communication level. "On mobile phone advertising may not be eye-catching enough as the user of the mobile phone is busy in various other activities, so in order to increase the motivation level of mobile phone users it has to include a reasonable amount of entertainment in their mobile communication messages" (Z.R., 35 years, male).

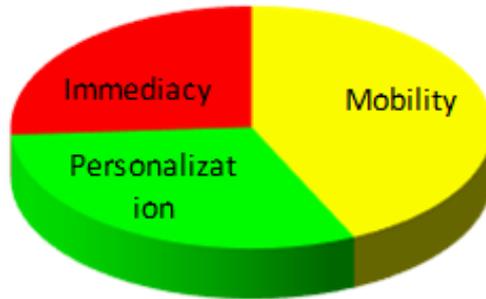
From the marketing point of view, one of the main problems identified in the use of these mobile communication functions is the lack of consumer control and interactivity. "These marketing guys are ignoring the characteristics of new technology and are still involved in using old and outdated advertising techniques. The success rate of mobile communication messages is so low because of the fact that a design message is sent to a number of people without trying any real target or interaction. You may receive a message that you don't want or is about the product that you don't want or at the wrong moment... Some customer defined filters must be used by them to avoid such things from happening" (M.N., 56 years, male).

Some of the participants address the problem of permission marketing. "Regarding messages that require user permission to send messages do not work the way they are supposed to be. All of sudden you are flooded with information messages which you may not want after agreeing to a particular type of message" (B.A., 29 years, female). In this regard the participants of the focus groups proposed solution in which customer have control over such things. "I would prefer to have an application system that is customer controlled and gives you choice to ask for specific messages" (S.Z, 26 years, female). (Bauer, Grether, & Leach, Building customer relations over the Internet., 2002) and (Xu & Gutierrez, 2006) also found similar results in their respective studies on mobile advertising.

### ***4.2 Specific characteristics of mobile communication***

The participants of the focus groups identified mobility, immediacy and personalization as the three main characteristics of mobile communication. "If one compares traditional communication devices with mobile communication one advantage that mobile communication has over traditional communication devices is mobility" (J.A., 32 years, female). Furthermore, mobile phones have pushed the mobility to extreme levels as the user can be contacted anytime and anywhere. When mobility is lost or limited for various reasons like customer has lost or

forgotten his mobile phone somewhere or due to limited or no coverage, the customer feels dissatisfied and isolated. “if due to some reason my mobile phone is not working and I am out of my residence and I need to call back home to my parents, it can be very inconvenient and problematic as it is extremely difficult to find public phones in Pakistan” (G.S., 32 years, female).



*Figure 2* Specific Characteristics of Mobile Communication

The participants of the focus groups identified personalization as the second important characteristic of mobile communication. “Cell phone is an extremely personal tool. It carries personal information like messages, videos, pictures etc. which we do not like to share it with anyone” (F.A., 41 years, female). On the other hand, due to technological development the functions of mobile phones have expanded considerably which has increased their utility as well as user dependence on them. “If I lose my phone, I don’t know what I would do, I may feel lost and cut off from the world” (A.S., 28 years, male).

Immediacy was identified as the third most important characteristic of mobile communication identified by the participants of the focus groups is immediacy. Immediacy is concerned with real time information exchange over the mobile phones. “Since the communication over mobile phone take place in real time it allows the opportunity to solve various problems immediately” (D.A., 52 years, male). Some users might perceive immediacy as a burden to them. “sometimes I receive job related calls from my immediate boss especially on non-working days that there is a particular problem and you need to address it now and at that time I wish if they would leave me alone for a while as I have to give time to my family as well” (N.R., 37 years female). In studies conducted by (Xu & Gutierrez, 2006) and (Calin, 2011) also found that personalization and mobility are the main function of mobile communication.az

As it is clearly evident from the discussion of the participants, there is an obvious linkage (positive as well as negative) between mobile communication specificity and the social and functional characteristics of mobile phones. Another important feature extracted from the discussion of the participants is the complexity in the views expressed by them. The participants highlighted both

positive and negative aspects of mobile phone communication. Negative aspects are generally related to the lack of control on the flow and frequency of communication by the user. “there is no doubt that cell phone is an important device and has become part of our daily life but I don’t like to be disturbed and harassed by people whom I don’t know. For that reason, I take great care in giving my cell number to people who are close to me and are part of my family and friends” (O.K., 47 years, male). The desire for more control as highlighted by some participants presents a limitation in the process of designing and implementing mobile advertising campaigns. The situation gets even more complex considering the fact that the level and magnitude of tolerance varies from person to person.

### **4.3 Content of mobile communication**

The participants in their discussion identified two main categories regarding the contents of mobile communication.

Customer-centred messages are those kinds of messages that are personalized in nature. Customers need to develop long-term relationship with companies or specific brands to receive this form of content. The continuous interaction between the customer and the organization provides valuable information for the firm that can be used productively to customize advertising offers and messages.



*Figure 3* Contents of Mobile Communication

Product centred messages involve advertising messages that one way or the other directly present the main features and benefits of particular products. By segmenting the market and targeting only those customers who may be interested could improve the efficiency of such messages.

The participants in their discussion highlighted the fact that ideally mobile communication messages should include both types of content. Messages should

be designed in such way that not only provides meaningful information about product that will ultimately help them in their purchase decision but also not intrude their privacy and annoy them. Many participants agreed that increased interactivity and customer control can significantly enhance the efficiency and effectiveness of mobile communication. "Suppose I am looking for a restaurant in a city where I am relatively a stranger, if I just access my mobile phone and touch a few keys that will provide me with information about good restaurants in the nearby areas with promotional offers in any then this I would say will be a good commercial communication" (I.A., 45years, male).

## **Conclusion**

The purpose of this study was to explore the preferences of mobile users when it comes to mobile advertising, what they perceive are the main characteristics and functions of mobile advertising messages. The findings of the study revealed the need for using a qualitative approach in exploring the principles and applications of mobile communication. Though previous researches in this area identified significant variables that are helpful in determining the attitude of users of mobile phones towards mobile advertising, we still lack in understanding the particular needs of the customers and their reactions to mobile advertising in real life situations. During the focus group discussions, participants actively participated in these discussions and they believed that there is great potential in revolutionizing commercial communication through mobile advertising if they focused more on catering the personal needs of the consumers. However, it will be difficult to realize this without enhancing the control of mobile phone user over the contents and functions of mobile messages.

This study has a number of limitations. These limitations are primarily determined by the selection and application of specific research strategy used in this study. The study involved participants from only one city and the number of participants in the focus groups was relatively small, hence, the findings of the study may be not be useful in drawing generalizations at the national and international level. Future studies can be carried out within this area as well as other related areas involving different research methodologies.

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# REVISITING THE RELATIONSHIP BETWEEN EUDAIMONIC WELL-BEING AND INCLUSIVE LEADERSHIP: MEDIATING ROLE OF PERCEPTION OF INCLUSION

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**Abstract.** *The main goal of the current research is to investigate the mediator role of perception of inclusion between inclusive leadership and eudaimonic well-being. The partial least square method of structural equation modeling was incorporated to test the direct effect and the mediating effect based on data collected from 401 respondents of dissimilar sectors but mainly from the pharmaceutical sector. The results exposed an insignificant direct effect and significant indirect impact of inclusive leadership on eudaimonic well-being; however, the variable perception of inclusion was found to be a significant mediator. Nevertheless, the results contribute to the prior research studies that largely investigated the direct relationship between employee well-being and leadership, by showing that perception of inclusion mediates the relationship between eudaimonic well-being and inclusive leadership. The findings of the current research study certainly will help managers working in many industries set up and maintain behaviors that can improve employees' well-being, particularly eudaimonic well-being at work.*

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**Keywords:** Inclusive Leadership, Perception of Inclusion (Sense of Belongingness & Uniqueness), Eudaimonic Well-Being

## 1 Introduction

In the modern competitive and dynamic business world, the word “Inclusion” is considered as a catchphrase today. Research scholars and practitioners have encompassed inclusion or perception of inclusion as a key for employee well-being at the workplace and sustained competitive advantage. The perception of inclusion is anticipated as a unique approach in managing a diversified workforce (Roberson, 2006), which addresses diversity positively instead of a problem to deal with it (Shore et al., 2009). Shore et al. (2011) also argued that the perception of inclusion among the employees can be inculcated by addressing their needs for uniqueness and belongingness since they could experience the feelings of being a part of the organization while at work along with their unique selves.

Thus, employees while at the workplace can capitalize their potential up to the full extent, collaborate with peers, respond to dissimilar challenges, and enhance their experience (Randel et al., 2018; Panicker et al., 2018). A leader's role in implementing and infusing perception of inclusion is very critical (Mor Barak et al., 2021). Out of various contextual factors, Shore et al. (2011) considered the inclusive leadership as one of the critical and the most contributing factors in the development of perception of inclusion besides inclusive environment and inclusive practices. In the last decades, several researchers focused on investigating the effects of inclusive leadership especially on learning from mistakes (Ye et al., 2019), psychological safety (Nembhard & Edmondson, 2006), and work engagement (Choi et al., 2015).

Though, the concept of leadership received a raised level of attention in the literature due to its importance (Lacerenza et al., 2017), yet several fundamental questions exist to be answered regarding its theorization and conceptualization since inclusive leadership has been developed recently (Shore & Chung, 2021). As Carmeli et al. (2010), the concept of inclusive leadership has been described through different perspectives and perceptions yet there is least a common agreement on a universal definition. However, research scholars augmented the current definitions of inclusive leadership by their varied elucidations (Choi et al., 2015), and enthused the concept with more with more progressive models (Ye et al., 2019), the extent to which precise contribution was grounded in inclusive leadership philosophy. However, Van Knippenberg and Sitkin (2013) argued that the fragmented comprehension of the concept and its mechanisms may cause possibly confusion about the nature and effects of inclusive leadership and this eventually deter obstruct theoretical advancements (Randel et al., 2018). Nevertheless, the primary goal of this paper is to appraise the current literature and synthesize the existing knowledge in order to comprehend the concept of inclusive leadership, models considered so far, and its outcomes in terms of eudaimonic well-being. The author hopes to deliver the answers to the questions below, in a systematic review of the literature available:

1. What relationship exists between Inclusive Leadership and Eudaimonic well-being?
2. Does perception of inclusion mediate the relationship between eudaimonic well-being at the workplace and inclusive leadership?

In order to respond to the aforementioned questions for the current research, we carried out a quantitative analysis This research study reveals nuanced aspects of leadership that have not before been fully discussed in relation to employee well-being (Eudaimonic well-being) and perceptions of inclusion (belonging-ness & uniqueness) on inclusive leadership under the light of underlying theories that underpin them.

## **Literature Review & Hypotheses Development**

### **Inclusive leadership**

Nembhard and Edmondson, first time defined Inclusive leadership as leader's words or deeds that refer to an invitation or appreciation against followers' contributions. They also projected the concept of inclusive leadership with three dissimilar perspectives: First, the leaders-subordinate relationship, that suggests that inclusive leadership inspires individuals to work autonomously and contribute to decision-making. Second, inclusive leadership, treats employees equally and fairly in different contexts. The *third* perspective was the cultural background that posits that individuals at the workplace should be inclusive of distinct behaviors, values, and also tolerant to mistakes (Tang et al., 2015).

However, this concept of inclusive leadership can be understood different ways. For instance, Carmeli et al. (2010) stated that when individuals demonstrate their availability, ensure accessibility, and are open to listening to their followers, it can be termed inclusive leadership. Hassan and Jiang (2021) on the other hand, reported that inclusive leadership ensures that followers receive adequate credit against their efforts and contributions, whatever their titles are in the organizational hierarchy.

Moreover, the existing literature on inclusive leadership has also proven its credibility for innovative behavior (Javed et al., 2017), creativity (Mikyong & Moon, 2019), and learning environment (Rahman et al., 2016, Hassan & Jiang, 2021) and for workplace engagement (Wang et al., 2019).

Inclusive leadership is an interactive, supportive, fault-tolerant, and fair style and critical organizational contextual variable which significantly impacts subordinate behaviors (Carmeli et al., 2013). Nonetheless, researchers' conceptualized inclusive leadership based on social identity theory identity theory and optimal distinctiveness theory, as a set of behaviors, which are engrossed in developing members' perception of being a part of organizational team (sense of belongingness) a part of the team (belongingness) while maintaining their sense of being unique (uniqueness) during contributing towards organizational outcomes (Shore et al., 2011).

Whereas, Carmeli et al. (2010) explained the concept of inclusive leadership as "individuals who exhibit their availability, accessibility, and availability while interacting with their followers." Subsequently, this concept as been accepted broadly and also incorporated in later advanced research studies in inclusive leadership (Rahman, & Khan, 2016, Choi et al., 2017).

## **Inclusive leadership and eudaimonic well-being**

Montano et al., (2017) argued that research studies carried so far examined the relationship between employees' well-being and leadership styles rather than the evaluation of leadership style. Although, the concept of well-being is broad and multi-facets construct that determines the level of work engagement, meaning in work, and a sense of involvement (Fisher, 2014). There is a general agreement about well-being as the "state of being well" with the presence of joyous moods and emotions, the lack of negative emotions, fulfillment, positive functioning, and satisfaction with life (Ryff & Keyes, 1995). Since prehistoric times, response to the question "how personal well-being can be achieved" had been of two categories; Eudaimonia and Hedonia. An organized review of diverse descriptions was made on Eudaimonia and hedonia, eventually used in psychology research (Disabato et al., 2016). It will be challenging for those who are not familiar with the modern philosophy of well-being and happiness but only acquainted with the ancient philosophy of eudemonism, and they might not find the distinction between happiness and well-being.

The philosophical and theoretical roots of Eudaimonic well-being can be linked to the valuable works of Greek philosopher Aristotle, who explained Eudaimonia as a result of living by one's true self or 'daimon' and by one's values while fulfilling best potential (Waterman, 1990).

The concept of well-being is a classical notion derived from ancient Greek era that is academically deliberated to hold two different dimensions: Eudaimonia and hedonia; such dimensions are confirming and distinct (Rahmani et al., 2018). According to several scholars, Eudaimonia and Hedonia, both concepts can be traced back to the ancient conceptualization of well-being, even though they have different perspectives of human nature (Ryff & Singer, 2008).

The word "Eudaimonia" is conventionally interpreted as "happiness," while in modern philosophy is translated as "flourishing." While in modern philosophy, several commentaries on and explanations of "Eudaimonia" have been identified (Tiberius, 2013). Gale et al. (2013) defined well-being in terms of patterns of behaviors and thoughts that offer fulfillment. Similarly, Danker's (2019) Eudaimonic view of well-being focuses on connotation & self-realization that explains the concept of well-being in terms of the magnitude to which an individual is copiously functioning. It also refers to the psycho-social condition – a keystone of mental well-being (Danker, 2019). However, based on Aristotle's philosophy, Eudaimonic view refers to apprehending the human capital and growth to the ensuing pursuit of life (Waterman, 1990). Distinct leadership style can influence positively sense of being well, therefore, in the current research, the author hypothesized the association between well-being of employees at the workplace and inclusive leadership behaviour as follows:

**H1.** Inclusive leadership has positive impact *on employee's Eudaimonic well-being.*

### **Inclusion and inclusive leadership**

The notion, inclusion incorporates old-fashioned definitions of diversity by examining the magnitude of one's feelings of being valued and unique team members. The basic principle is that gathering individuals from different backgrounds is not sufficient to realize the diversity initiatives; instead, individual employees must report feelings of belongingness and be valued for diversity potential benefits to be realized (Walker et al., 2019). Perception of inclusion refers to an employee's sense of belongingness towards the organizational system and having access to decision-making channels and information at the workplace (Barak, 2016). However, the concept of "Inclusion" can be delineated as an "employee's perception of being a valued member of the work team" in an organizational framework (Shore et al., 2011, Rahman et al., 2016).

The exclusion of barriers, it is argued, hinder employees from contributing to the full extent enables employees to capitalize on organizational resources, participate in decision-making, and share ideas (Nishii, 2013). Thus, employees' feelings of inclusion at the workplace may develop upon satisfaction of two accompanying needs for uniqueness and belongingness (Shore et al., 2011).

Although, developing a sense of belongingness is important but if individuals have to have to compromise on their distinct (unique characteristics), then they would not be experiencing the genuine concept of inclusion. Cottrill et al. (2014) also reported that experiencing inclusion by the individuals at the workplace holds several potential and significantly positive outcomes, and such experiences are only possible by effective leadership behavior.

Therefore, Chrobot-Mason and Ruderman (2014) stated that various leadership challenges had been articulated by scholars connected to diversity in the organizational settings. Nevertheless, there is a little research or theory that emphasizes on leadership approaches to address challenges related to diversity through promoting the experience of feelings of inclusion in the workplace (Nishii & Mayer, 2009). Nonetheless, managers and business leaders who promote and enhance the employees' experience of inclusion at the workplace interact with the workforce in such a way that goes beyond discrimination, avoidance of bias and delivers value through diverse employees' retention (Simons et al., 2015).

More specifically, if an employee is not treated as a valued and respected member for unique attributes that he or she holds at the workplace but is asked to act like other employees, he or she may be experiencing a sense of belongingness; however, it will be at the price of compromised uniqueness. Similarly, when

someone is recognized for unique characteristics but not invited to share in meetings, his need for uniqueness is met at the cost of belongingness. Employees at the workplace must perceive that they are valued and respected members of the organization through a wide range of satisfying experiences that are needed for belongingness and uniqueness.

**H<sub>2</sub>.** Inclusive leadership has significantly positive impact of employee's perception of inclusion.

### **Mediating role of perception of inclusion**

Groysberg and Connolly (2013) reported that practitioners and business leaders always appreciated the role of diversity in organizational success since diversity is linked with multiple positive outcomes not limited to creativity and innovation. Business organizations deliberately focus on bringing an outstanding level of diversity in their workforce, but regrettably, it does not guarantee the potential benefits such as increased level of creativity, innovation, and decreased employee turnover (Cook & Glass, 2014). There are cases; managers feel wonder when they do not observe any change in organizational productivity and performance, even with a diverse workforce.

Even though many organizations added more diverse workforce to their employee pool but, they do not realize the potent benefits of diversity (Cook & Glass 2014). The existing literature suggests that merely increasing a diverse workforce's representation in an organization is not enough yet. To capitalize the optimum benefits of diversity, leaders are required to involve employees in various elements of organizational operations (MOR Barak et al., 2016; Shore et al., 2018). Nonetheless, to ensure a high degree of individuals' involvement in the workplace, managers and leaders attempted to offer all team members an opportunity to utilize their full potential. Hence, scholars are concerned about how involvement can be enhanced, thus they looked into "inclusion," which means "employees perceiving that they are esteemed members of a workgroup or organizations as a results of treatment that satisfies belongingness and uniqueness related needs" the means to accomplish such objectives (Shore et al., 2011), they also conceptualized the inclusion as distinct from other perspectives, they overtly viewed inclusion as one's need for belongingness, such as having a stable and positive interpersonal relationship (Baumeister & Leary, 1995). However, the sense of belongingness and the necessity to maintain the sense of self (Synder & Fromkin, 2012) should be addressed to establish the perception of inclusion. In the existing literature on inclusion, different themes were identified and captured (Shore et al., 2011), hence the concept of inclusion can be referred to a state of being acknowledged, appreciated, and heard with unique characteristics (uniqueness) and being accepted (belongingness) (Barak, 1999).

As per the optimal distinctiveness theory, individuals are supposed to be like others and different from others simultaneously and it also supports the definitions

of inclusion that is an extension of social identity theory (Brewer, 2011). The scholars increasingly started considering inclusion (individuals' feelings that they are valued member of the organization, and their needs for belongingness and uniqueness are met) as one of the critical factors of organizational success (Shore et al., 2011).

Correspondingly, Carberry and Meyers (2017) argued that leaders who aspire perception of fairness must not forget to consider the advantages of diversity because existing research studies consider the perception of inclusion as a vital component of organizational success for instance organizational and employees' well-being. Because, employees at the workplace are inclined to feel psychological safety and enhanced well-being when they are respected, appreciated for their distinctiveness (Guillaume et al., 2014).

However, based on the elements discussed, leaders may improve employees' well-being through an elevated sense of belongingness, because, it is inferred that the perception of inclusion can mediate the relationship between eudaimonic well-being and inclusive leadership at the workplace.

What level of perception of inclusion, employees feel depends on effective leadership (Cottrill et al., 2014), and the leader who emphasizes employees' feelings of inclusion at the workplace can lead to decreased level of employee turnover and higher performance (Mor Barak, 2015).

Shore et al. (2011) used optimal distinctiveness theory to theorize one's perception of inclusion as gratifying needs for belongingness and the need for uniqueness (Brewer & Roccas, 2001). The sense of being included in the organizational systems formally and informally builds their perception of fairness and organizational justice (Ashikali & Groeneveld, 2015).

Considering different leadership styles associated with employees' well-being, current literature seeks to comprehend through which process or mechanism employees' well-being gets increased and what triggers that process yet to be investigated (Guest, 2017). However, to discover the underlying mechanism deeply the leadership and well-being, the author is intended to explore the role of Perception of Inclusion as the intervening (mediating) variable to explain the association between employees' well-being and inclusive leadership. Therefore, this relationship was hypothesized as follows:

- H3. Perception of inclusion mediates the relationship between inclusive leadership and eudaimonic well-being.

## **Research Methodology**

The rivalry in present industrial sectors demands for employees to be more professional, innovative, and competent to encounter the hurriedly varying demands of the clients (Taghizadeh, 2015). Therefore, the target population was local and multinational organizations from the dissimilar sectors including Pharmaceutical, FMCG (fast moving consumer goods), and public sector organizations. More than five hundred questionnaires were distributed and out of which 430 questionnaires were returned reflecting the response rate around 86%, and out of which 29 questionnaires were incomplete. The entire set of items was measured by seven-point Likert scale ranging from 1 "strongly disagree" and 7 "strongly agree." The predictor variable, Inclusive leadership was measured through Carmeli et al.'s (2010) three dimensions, availability, openness, and accessibility, with nine (9) items instrument based on the concept of leadership inclusion proposed by Nembhard & Edminson (2006). The dimension, availability, was measured with four (4) items, openness with three (3) items, and accessibility with two (2) items. Top-level journals and several scholars have acknowledged and recognized this inclusive leadership scale. The variable perception of inclusion was measured through the dimensions; belongingness and uniqueness, ten items were adopted from Shore et al. (2011) and the representative items related to belongingness (*e.g., I am treated as a valued member of my organization*), and for uniqueness were (*e.g., People in my team listen to me even when my views are different*). Employee eudaimonic well-being was measured through interpersonal and intrapersonal dimensions with four items each (*e.g., I feel connected to others within my team or the work environment*) and (*e.g., I feel that I am doing a purposeful work at my workplace*) adapted from Bartels et al. (2019). Around 73% of the respondents were between the ages of 20-40 years and their average experience was about 7 years.

## **Structural and measurement models evaluation**

The proposed research model was evaluated through the structural assessment and measurement elements. The main reason behind this evaluation was to determine whether both structural and measurement models fulfill the quality standards for empirical investigations (Urbach & Ahlemann, 2010). The measurement validity was determined through internal reliability, indicator reliability, convergent reliability, and discriminant validity (Lewis et al., 2005).

Traditionally, the measurement models' internal reliability can be assessed through Cronbach's alpha (CA) values. Principally, the constructs with greater Cronbach's alpha (CA) value are destined that the items (questions) within the constructs carry similar meanings and the range (Cronbach, 1971). Cronbach's alpha values deliver an estimation for the reliability-centered indicator inter-correlation. Inter-item consistency can also be measured within SmartPLS (software) through Composite Reliability (Bacon et al., 1995). Although both

Cronbach's alpha and composite reliability values measure internal consistency whereas composite reliability considers too that indicators carry different loadings. The Cronbach's alpha test may underrate or misjudge the internal consistency reliability since it does not undertake the equivalence among the measures and pre-assume all the indicators with equal weightage. The internal reliability is satisfactory when the value is greater or equal to 0.7. However, the composite reliability value and Cronbach's alpha value below 0.6 confirms the lack of reliability (Bacon et al., 1995).

## **Data Analysis and Results**

### **Reliability and validity analysis**

The reliability of the latent constructs was measured through Composite Reliability (CR) and Cronbach's Alpha Reliability. All the composite reliability (CR) values computed from the analysis were more significant than the suggested value of 0.70 (Wasko & Faraj, 2005). Hence, a measurement model confirms acceptable reliability when CR (composite reliability) for each variable (constructs) exceeds the threshold values of 0.70. While the CR (composite reliability) values for all the constructs were between the ranges from 0.905 to 0.945 (see table 1), which confirms the measurement model's reliability.

Whereas the indicator's reliability of the measurement model was assessed through item loadings. If each item's loading is on the higher side (above 0.5), the measurement model has satisfactory and acceptable indicator reliability (Hair et al., 2017). The items considered in the measurement model showed outer loadings above 0.6 ranging from 0.624 to 0.890, and significant at the level of 0.001. However, all the items, based on analysis, showed good indicators reliability. The convergent validity of the measurement model was assessed through the Average Variance Extracted (AVE) values of the latent constructs since the convergent value is known to be appropriate when the constructs exhibit AVE (average variance extracted) value is close or greater than 0.5. However, all the constructs of the current thesis are between the ranges of 0.546 to 0.702. (Table 1) Hence, the convergent validity was accepted since the AVE (Average variance extracted) values were more significant than 0.5.

Table 1: *Reliability and Validity*

Variables	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Eudaimonic Well-being	0.880	0.905	0.546
Inclusive Leadership	0.934	0.945	0.654
Perception of Inclusion	0.925	0.937	0.597

The Composite Reliability value for Eudaimonic Well-being 0.905, Inclusive Leadership 0.945, and Perception of Inclusion 0.937, were found that poses satisfactory internal reliability. The Cronbach's Alpha and Composite Reliability values were found more significant than the acceptable and recommended value of 0.70.

### Structural model

The structural model explains the paths hypothesized in the current study since it is measured based on path coefficients,  $R^2$ , and  $Q^2$  values. The goodness of the structural model is determined by the strengths of each structural path that is ascertained by the  $R^2$  value for endogenous construct (Briones Penalver et al., 2018), and  $R^2$  value must be greater than or at least equal to 0.1 for a satisfactory level of goodness of the Model (Falk & Miller, 1992). The results revealed that all the  $R^2$  values for endogenous constructs are more significant than 0.1, the goodness of the model fit was established successfully. Similarly, the model's predictive relevance was also assessed the  $Q^2$  values for each endogenous construct, and the  $Q^2$  values confirmed the predictive relevance of the endogenous constructs since the  $Q^2$  value above zero demonstrates the model's predictive relevance. The results are presented in Table 2, which explains that there is significance in predicting endogenous constructs.

Table 2: Coefficient of Determination –  $R^2$  and  $Q^2$  Values

Constructs	$R^2$	$Q^2$
Eudaimonic Well-being (EWB)	0.670	0.379
Perception of Inclusion (PI)	0.634	0.369

The  $R^2$  (coefficient of determination) value designates the extent of variance in endogenous constructs, influenced by the exogenous constructs. More specifically, the amount of variability exists in the data the measurement model describes. The value of  $R^2$  is required to be high to elucidate the endogenous latent variable's variance adequately. Therefore, the greater value of  $R^2$  is said to increase the structure model's predictive ability. In the current thesis, the  $R^2$  values were acquired through the algorithm function of SmartPLS software. Similarly, the bootstrapping function of SmartPLS develops 5000 samples from 401 cases to find to calculate t-statistics values. The structural model results demonstrated that 67% of the change in eudaimonic workplace well-being could be accounted into Inclusive Leadership and Perception of Inclusion.

Each path connects two latent constructs representing a hypothesis in the structural model. Path coefficients permit the investigator to prove or disprove each hypothesis and better comprehend the strength of association between an endogenous (dependent) variable and exogenous variables (independent). The path coefficients can be described as standardized beta ( $\beta$ ) coefficients generated in the least-squares regressions. The bootstrapping function is incorporated to determine

whether the path coefficients are significant along with *t*-statistics. The significance levels, *t*-statistics, and path coefficients for hypothesized association among variables are presented in Table 3. This research study's five thousand (5000) re-samples create 95% confidence intervals (see table 3), and a confidence interval other than zero (0) confirms the significant relationship. The path assessment results can either prove or disprove the proposed hypotheses, and the findings are discussed in the sections below. After that, the proposed hypotheses were required to be tested to determine the relationships.

Table 1: *Descriptive Statistics*

<b>Paths</b>	<b><math>\beta</math></b>	<b>STDEV</b>	<b>T Statistics</b>	<b>P Values</b>	<b>2.50%</b>	<b>97.5%</b>
IL -> EWB	0.078	0.063	1.240	0.215	-0.047	0.200
IL -> PI	0.708	0.036	19.700	0.000	0.627	0.769
PI -> EWB	0.420	0.083	5.047	0.000	0.243	0.569

The hypothesis H1 weighs whether Inclusive Leadership (IL) has a positively significant impact on Eudaimonic well-being (EWB), and the results showed that Inclusive leadership has no significant impact on Eudaimonic well-being directly (H<sub>1b</sub>:  $\beta=0.078$ ;  $t=1.240$ , and  $p=0.215$ ); however, H1 was not supported. Whereas hypothesis H2 was projected to determine whether Perception of Inclusion (PI) significantly impacts Eudaimonic well-being (EWB)? The results after the analysis revealed that perception of inclusion has a significant impact on Eudaimonic well-being. (H2:  $\beta=0.420$   $t=5.047$ , and  $p<0.001$ ), therefore, H2 was fully supported.

### **Mediation analysis**

Mediation processes are outlined in intermediate variables between exogenous and endogenous variables. Hence, three variables are required in total; *X*, *M*, and *Y*. Where *X* is the exogenous (independent) variable, *Y* is the endogenous (dependent) variable, and *M* is the mediator (hypothesized) variable, which is assumed to transfer the causal effects of exogenous variable to the endogenous variable (Aglar & De Boeck, 2017). Whereas the total effect of exogenous variable on the endogenous variable is termed TE (total effect). Then it is split into direct effect (DE) of exogenous construct on the endogenous construct and indirect effect (IE) of exogenous construct on the endogenous construct, which is transmitted through moderating latent variable. The relationship between the independent and dependent variables is decomposed into direct effect or direct link and indirect effect or indirect link (Aglar & De Boeck, 2017).

The hypothesis H3 was constructed to determine whether the perception of inclusion mediates the relationship between Inclusive leadership and Eudaimonic well-being. Based on the results presented in Table 4. The total effect of Inclusive

leadership (IL) on Eudaimonic well-being (EWB) was significant ( $H_{5a}$ :  $\beta=0.576$ ;  $t=10.713$ ,  $p < 0.001$ ). With the inclusion of the mediating variable (Perception of inclusion), the impact of Inclusive leadership (independent variable) on Eudaimonic well-being (dependent variable) became insignificant ( $\beta=0.090$ ;  $t=1.160$ ,  $p=0.246$ ). The indirect effect of Inclusive leadership (independent variable) on Eudaimonic well-being (dependent variable) through the perception of inclusion (mediating variable) was found significant ( $\beta=0.486$ ;  $t=9.041$ ,  $p < 0.001$ ). Nonetheless, it confirmed that the relationship between Inclusive leadership (IL) and Eudaimonic well-being (EWB) is completely mediated by perception of inclusion (PI). Thus, hypothesis H3 was supported and accepted (table 4)

Table 4: *H3 – Inclusive Leadership > PI -> Eudaimonic Well-being*

	Total Effect			Direct Effect			H3:IL - > PI -> EWB	Indirect Effect		
	$\beta$	$t$	$p$	$\beta$	$T$	$p$		$\beta$	$t$	$p$
IL->EWB	0.58	10.71	0.00	0.09	1.16	0.25		0.49	9.04	0.00

## Discussion and Research Questions

This study's principal objective was to comprehensively analyze the existing relationship among Inclusive leadership and Eudaimonic well-being with mediating mechanisms of perception of inclusion (sense of belongingness and uniqueness). A conceptual model was framed and tested through different statistical tools, integrating relevant theories such as optimal distinctiveness theory, self-determinant theory, job burnout theory, and social identity theory with literature on the selected variables. The contribution of this study is to address the questions of how Inclusive leadership can be constructive and functional. The research questions and hypotheses were formulated comprehensively for the current research study. The primary contribution of this research thesis was to fetch answers to the proposed research questions, how Inclusive leadership affects employee Eudaimonic well-being and the results have been discussed in the following sections with rational justifications.

To find the answer for the proposed research question, "Does Inclusive Leadership has a relationship with perception of inclusion and Eudaimonic well-being at the workplace. Hypotheses H1, H2, and H3 were framed and then tested. Consequently, the hypotheses, H2 and H3, were accepted, while H1 were rejected based on statistical results. The results for hypotheses H2 showed that Inclusive leadership behavior has a strong and significant influence on employee perception of inclusion. Hence, empirical results suggest that inclusive leadership is positively related to the perception of inclusion. In other words, inclusive leadership is a significant positive predictor of employee perception of inclusion.

More specifically, if a leader's behavior is inclusive and leader remains available, accessible, and open to listen and understand their employees' concerns,

needs, expectations, interests, and dissimilar viewpoints, then employees at the workplace feel a valued and respected members of the team that eventually, turns into an enhanced sense of belongingness. Furthermore, a leader's accessibility and availability bring to the followers' perception of approachability (Carmeli et al., 2010) and develops a quality leader-subordinate relationship (Nishii & Mayer, 2009). Employees are willing to return to the organization with "great performance and creativity" (Hollander, 2012) as an inclusive leader accomplishes work and pursues win-win outcomes with employees based on respect, recognition, reaction, and accountability.

However, the current literature on Inclusive leadership behavior proved its credibility for creativity, innovative behavior, workplace engagement, and learning environment (Hassan & Jiang, 2021).

Results also confirm that Hedonic employee well-being is also affected significantly by leaders' inclusive behavior. On the other hand, the results for hypotheses H2 explains that Inclusive leadership does not influence directly and significantly employee well-being, particularly Eudaimonic well-being at the workplace. Instead, inclusive leaders have a significant influence on employee perception of inclusion, and then the perception of inclusion has a substantial impact on employee eudaimonic well-being.

Another research question, "Does perception of inclusion mediates the relationship between inclusive leadership and eudaimonic well-being," was required to be answered through this research study. For the same, the hypotheses H3 was constructed and later tested. The results revealed that the construct, perception of inclusion plays a mediating role significantly between endogenous variable (eudaimonic well-being) and exogenous variable (inclusive leadership). Therefore, hypothesis H3 was accepted. Therefore, eudaimonic well-being at the workplace is recognized as a significant and fundamental element of an organization's success that causes desirable outcomes, such as improved performance and decreased employee turnover (Pitts, 2017).

## **Conclusion**

The statistical analysis and outcomes from the data gathered for the current study demonstrate that the conceptual model, which was based on different theories such as; optimal distinctiveness theory, self-determination theory and social identity theory are supported since the two hypotheses were accepted. Moreover, integrating the model with the different theories discussed above enabled the author to comprehend the relationships among the study variables better. The statistical results also demonstrate how leaders' inclusive behavior at the workplace can affect the perception of inclusion and other functional outcomes. The results

also reveal that Inclusive leadership behavior does not directly lead to enhanced Eudaimonic well-being but through other constructs such as perception of inclusion.

Although, a reasonable number of studies have been conducted to examine the association between leadership styles and employees' subjective well-being. Nevertheless, in the current study, the author investigated the Eudaimonic perspective of well-being and leaders' inclusive leadership style and how leaders can positively affect employees' Eudaimonic workplace well-being. An enhanced employee Eudaimonic well-being consequently led to better individual productivity and overall organizational performance.

Statistical findings designate that inclusive leadership is a significant positive predictor of employees' perception of inclusion, which means employees' perception of inclusion (sense of belongingness and uniqueness) is affected positively by Inclusive leadership behavior. If leaders are easily accessible, available, and open to listening to their employees' perspectives, then employees' sense of belongingness (perception of inclusion) gets triggered. Furthermore, employees' perception of inclusion is affected when they feel respected and treated as valued members of the team. This conclusion substantially matches a previous one of the "leadership is closely related to work attitude and employee behavior"; for example, transformational, transactional, servant, authentic leaderships can significantly affect employee engagement (Zhang & Bartol, 2010). However, these researches mostly explored leadership, while inclusive leadership stressed the two-way interaction between leaders and employee, and leadership's effect mechanisms on employee engagement should be studied from the employees' perspective. Therefore, the conclusion enriched further the theory and study perspective of leadership's effect on employee's work behavior.

### **Implications**

A few implications, either theoretical or practical ones, can be drawn from this study, for instance, this research study further develops our understanding of the phenomenon, how employee eudaimonic well-being at the workplace is affected by different constructs directly or indirectly, including the perception of inclusion, and the inclusive behaviors of the leaders. However, employees at the workplace desire to combine the self with position and exerts more energy and time at work.

If inclusive managers at the workplace recognize, value, and respect them and remain open to listening to their perspectives, and maintain a conducive environment. Therefore, it can be suggested that employee Eudaimonic well-being can be enriched by inclusive leadership; if leaders behave in such a way, employees' sense of belongingness gets developed. In practicing management, the concept of inclusive leadership can be cultured through the guidance of self-correction, consultation, and systematic reporting systems. Leaders are just meant

to exert the efforts and optimum utility to create an inclusive culture and enhance employee sense of belongingness or perception of inclusion while being unique.

Nonetheless, employee Eudaimonic workplace well-being can shape the core strength in today's competitive world. Nonetheless, the organizations must concentrate more on developing their managers as inclusive leaders, and planned training and development programs could help develop inclusive leaders (Kolbe et al., 2013). The management must formulate a strategy regarding recognizing and respecting employee differences, adequate compensation against their potential talent, and teamwork. An inclusive leader's way of giving respect and recognition to employees can positively drive the hope, tenacity, sense of belongingness, work engagement, and Eudaimonic/Hedonic well-being of employees at the workplace. Inclusive leadership is required to be allowed to develop employees' perception of inclusion (sense of belongingness) to promote Eudaimonic well-being.

### **Limitations**

The influence of inclusive leadership on employee Eudaimonic well-being was examined through an empirical approach. However, subjective and objective conditions raised the following limitations; since the data were collected from different industrial sectors, the equal representation of all the sectors got narrowed; therefore, it might confine the external validity of the conclusions. Another limitation in research design, assumed by the author, was that inclusive leadership takes time to impact employees' Eudaimonic workplace well-being, perception of inclusion (sense of belongingness), and work alienation. Nevertheless, the cross-sectional study setting (design) seems compromised to determine the causal relationship between the variables since it represents the same time point. Although, the structural equation modeling (SEM) can be incorporated to test the entire model instantaneously and facilitate the finding of causal relationships positively among the variables, there are some limitations to interpret the results.

Nonetheless, the current was the quantitative research study, and data were gathered through a self-reported questionnaire which gives rise to common method variance. No doubt, the data, collected through self-reported questionnaires, was based on respondents' subjective feelings or statements. Therefore, Chan et al. (2009) argued that the data that inherit defects fail to deliver a precise parametric estimation of the structural relationship and risk the validity. According to the literature, employee well-being, either eudaimonic or hedonic, is influenced by the individual, group, corporate characteristics, personal and workplace resources. According to situational theory, the leadership effect is the product of a combined function of the leaders, followers, and environment; thus, no leadership can fit all environments.

## **Recommendations and Future Research Directions**

Given the methodological and theoretical limitations for future research, the recommendations are put forward now. According to many scholars, management style and management practices are subject to the sector's characteristics and management life cycle. However, the applicability of any study conclusions depends on relevant management situations. Therefore, a comprehensive future verification and careful deduction with a more significant sample are necessary to determine whether the conclusions apply to other sectors, regions, and organizational developmental stages. So, the applicability of Eudaimonic/Hedonic workplace well-being and Inclusive leadership measuring scales should be further tested, particularly in this regional context.

The scales and theories of inclusive leadership and Eudaimonic workplace well-being that seem to fit the culture should be developed to enhance the practical significance and theoretical contribution. In the present research study, the impact of leadership behavior on employee eudaimonic well-being and perception of inclusion was examined solely from employees' perspectives, yet future research studies may include a broad range of other topics. The most measuring scales and theories of Inclusive leadership, perception of inclusion, and Eudaimonic workplace well-being adopted were developed and used in Western culture and have seldom been verified under Indo-Pak culture. Although the scales used in the current research are mature and widely accepted due to their verified reliability and validity yet, certain variations might be affected by administrative aspects and environment.

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# DIVERSITY MANAGEMENT PRACTICES AND ORGANIZATIONAL PERFORMANCE IN PAKISTAN

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**Abstract.** *Diversity management practices are becoming the norm of the day and a challenge for HR*

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*managers. Keeping this organizational reality in mind, the main purpose of the research is to explain the relationships between diversity management practices and organizational performance. Hypotheses has been developed and the diversity management practices, and the organizational performance have been measured using the Employees' perception of diversity management practices (EPDMP) scale and on a sample size of 514 employees from public and private sector organizations across Pakistan. The results confirm the relationship between diversity management practices and organizational performance. It has been concluded that higher workforce diversity does not automatically produce an inclusive climate, specific working environment is required to support workforce diversity where diverse employees are valued and appreciated. Lastly, some practical implications for HR managers and policy makers have also been discussed.*

**Keywords:** Workforce Diversity, Diversity Management, Organizational Performance

## 1 Introduction

Workforce diversity, without doubt is the highly significant asset of organizations in Pakistan. Globally, the organizations are becoming more diverse that necessitates incorporation of diversity management practices by the HR managers in their respective organizations. The organizations are facing challenges for managing diverse workforce in general and gender and ethnicity in particular. That is why diversity management has become a critical element for the organizational leadership to manage the workforce diversity to enhance organizational performance. The growth of gender and ethnically diverse workforce has made successful management of workforce diversity as a business essential and the

the business case for organizations (Roberson et al., 2017). Consequently, the corporations are developing strategies, rules, regulations, and policies to manage their diverse employees to avoid the resulting challenges of conflict and lack of coherence of diverse employees in their teams, etc. Thus, there is considerable scholarly important interest in how to efficiently manage the diverse employees in the organizations and its possible consequences on organizational performance. This leads to the growing interest of the professionals and academicians to identifying the controllable factors for effective workforce diversity management in Pakistan.

Diversity is the combination of differences and similarities of employee's dimensions, including gender, age, race, ethnicity, religion, culture, socioeconomic background, education level, tenure and other characteristics within an organization (Choi & Rainey, 2010; Hoang et al., 2022). The diversity management refers to the organization's rules, regulations, policies, programs and practices to promote heterogeneous workforce at workplace and to offer equal opportunities to all employees unrestricted by individual employee's identities such as gender, race, ethnicity, education, religion, function and abilities (Choi, 2009; Hoang et al., 2022; Pitts & Jarry, 2009; Sabharwal et al., 2018).

There are different views of diversity management. The first view of diversity management is traditional, which undertakes the affirmative action (AA) or equal employment opportunity (EEO) in the recruitment and selection process. The main purpose of this type of diversity management is to ensure the adequate representation of all groups including women and minorities in the organizations. The next stage of diversity management focused on different management approaches regarding diverse employee collaborations, retention, and performance. The third and the more comprehensive approach which includes all the elements of affirmative actions (AA), equal employment opportunities (EEO), employee collaborations, retention and performance. This approach considers all workforce diversity relevant systems, processes and programs under the comprehensive diversity management system (D. Pitts, 2009). Diversity Management includes all those rules, regulations, policies, guidelines, policies and practices that work as performance enhancer of the organizations through increased acceptability, recognition, innovation & creation, positive image, thinking style and behavior of employees. Therefore, Diversity Management acts beyond the traditional rules, regulations, policies, guidelines and practices and changes the overall organizational environment to effectively manage its diverse work force from the perspective of Strategic Human Resource Management (Thomas, 1990).

The employment scenario is changing very speedily in Pakistan due to increasing trend of diverse workforce in the organizations. Therefore, there is need to know the impact of diversity management practices on organizational performance in order to focus on this emerging area of human resource

management. Further, to satisfy them in every phase of the economic cycle, Diversity management is an integral component of human resource management. The rules, regulations and policies that make up the diversity management function vary among organizations, including training programs, family-friendly regulations, mentoring and coaching opportunities (Pitts, 2009). The public and private sector organizations need to develop and implement diversity management rules, regulations, and policies to attract & recruit, retain and develop a diverse workforce to increase organizational performance.

The existing research on diversity management practices has primarily been focused on advanced countries like USA, UK, etc, but has paid less attention in Pakistan to how gender and ethnic diversity related differences are managed effectively to enhance organizational performance. In this paper, we study the associations of diversity management practice and organizational performance in Pakistan.

## **Literature Review and Hypothesis Development**

### **Workforce diversity**

Workforce Diversity is the combination of differences and similarities of employee's dimension, including gender, age, race, ethnicity, religion, culture, socioeconomic background, education level, tenure and other characteristics within an organization (Choi & Rainey, 2010; Hoang et al., 2022). The workforce diversity refers to any kind of differences, including demographic and other characteristics in which employee's categories themselves and others into subgroups which has a major impact on group and teams' interactions and subsequent consequences in the organizations (DiTomaso et al., 2007).

Women participation and inclusion in education and services both in public and private sectors has been on the speedy increase in Pakistan since the last decade, taking the university graduates and workforce to a more diverse in the universities, workplace and all profit and non-profit organizations. Those organizations which will embrace the women component of the labor market will be more able to take benefit of the full potential of their employees to improve the organizational performance. In this way, their employee base will be stronger, and these organizations will be more capable to respond efficiently and effectively to the changing population needs (Pitts 2009). The total population of Pakistan is 207,774,520. The ratio of males to females is 1.06 female (Wazir & Goujon, 2019). The above statistics show that males and females are more or less equal in Pakistan for their numbers. The total number of male/men in Pakistan is 106,449,322, while the number of female/women of all ages are 101,314,780.

It is evident from the above statistics that there is diversity in the existing workforce and in the potential workforce in Pakistan. Therefore, it needs to be

managed properly as workforce diversity is double edged sword in organizations (Guillaume et al., 2017). Workforce diversity is a great source of a broad range of innovations, ideas, and skills that can improve the organizations' abilities to solve organizational problems and make better decisions (Jehn & Bezrukova, 2004). Therefore, workforce diversity is an important factor where organizations can manage their diverse employees effectively to enhance their organizational performance. The following are the major theories on the basis of which this study is being conducted.

### **Diversity management practices**

Organizational leaders have a great interest to manage the increasing diverse workforce in their organizations to improve their organizational performance. It is very important to develop effective diversity management practices in their respective organizations for successful diversity management in Pakistan. It needs more efforts to adopt international developed human resource diversity management practices to manage diverse workforce as compared to keeping the existing human resource rules and regulations intact. This emphasizes the importance of effective diversity management. Moreover, the relationship between diversity management practices and organizational performance is dependent relative on the various other factors including the role of leadership, etc. Therefore, it is very crucial to investigate the factors that impact the association of diversity management practices and organizational performance in Pakistan.

Subsequently, several research reviews and meta-analyses have investigated the effects of workforce diversity on teams and organizational performance and revealed that the connection between workforce diversity and its conclusions is complex, mixed, and equivocal (Guillaume et al., 2017). One of the reasons of the mixed and equivocal findings explained by diversity management scholars is the lack of a dependable and valid scale of measurement of the diversity management practices construct (Carstens & De Kock, 2017). Although there are certain measures of workforce diversity management, but they lack precise scale development procedures with respect to the reliability and construct validity (Richard et al., 2013). The reliability and validity of the scale is essential to ensure that it measures the same concept what is meant to measure by it in the study. Only one scale in diversity management field which was developed by Carstens and De Kock (2017) for the effective diversity management competencies has undertaken a thorough scale development procedure and process which are deemed essential for the measurement factors. Furthermore, if organizations have to establish the fairer and inclusive workplace environment, they have to evaluate how their diverse employees perceive diversity management practices in their organizations. Existing human resource management research has underlined the focus on organizations, rather than employee-focused research which is also major limitation in the previous research (Godard & Delaney, 2000). Whereas

perceptions of employees of reality are likely to affect their performance more than factual practices and policies of the organizations.

### **Social exchange theory**

Social exchange theory is the most significant theoretical model for the understanding of workplace behaviors of employees (Cropanzano & Mitchell, 2005). As per this theory, social exchanges include a series of exchanges that generate responsibilities, and these exchanges are generally understood as interdependent and conditional on the activities of another person (Cropanzano & Mitchell, 2005). The social exchange theory supports the concept that the association between organizations and their employees, such as supervisors and subordinates, is based on the exchange of determination and trustworthiness for advantages such as support and appreciation (Mayo et al., 2016).

The main purpose of diversity management is to create a workplace environment that values the employees' differences; therefore, diversity management can be regarded as investment in the form of the organizations' human capital of diverse employees. It promotes employees' perceptions regarding organizational support and stimulates the positive work attitude, mindsets, and behaviors of employees for achieving the organizational goals and objectives (Kahn et al., 2015). Based on this argument, diversity management includes the social exchange context that creates the workplace environment in which employees feel the senses of belongingness to other dissimilar group members while maintaining and having their own unique social identities in the organizations. Based on the social exchange theory, the researcher expects that employees who value workforce diversity and diversity management practices will respond through displaying their positive attitudes and behaviors that is appreciated by their organizations as social exchange indicates to a social relationship among the employees and their organizations.

### **Social identity/category theory (SCT) and optimal distinctive theory (ODT).**

The Social identity theory focused mainly on intergroup relations. Social identity theory basically is a theory of conflict and collaboration among groups, and it attributes how group of people view and behave towards each other for the opportunities available to a team and its members in order to protect and promote their positive uniqueness (Hogg et al., 2017). According to theory of social identity the employees incline to categorize themselves in their organizations and others into several social categories, such as gender, religion, gender, age, ethnicity etc, (Ashforth & Mael, 2016).

The social identity theory and optimal distinctive theory show the extent to which diverse workforce experience openness and the valuing of the differences of the employees in the organizations. The social category theory describes the

connection between social constructs and personal identities that individuals assign to their affiliation of specific identity teams and groups (Mor Barak et al., 2016). The social category theory suggests that people have an inherent aspiration to fit in to groups that provoke a constructive and distinctive identity and resultantly excludes those who are different from them due to such features (Hogg et al., 2017).

According to optimal distinctiveness theory, people instantaneously seek out resemblances with others while thinking the need for distinctiveness. As per this theory the individual feels the necessity to stay faithful to their original identities while also feeling regarded as a respected partner of the group at the same time. The inclusion depends on maintaining the balance between a shared identity and distinction from the group members (Randel et al., 2018).

The social identities result from different factors including ethnicity and cultural background. The ethnic and cultural diversity refers to people that are from socially distinctive groups in the population. Their distinctiveness is either connected with evident biological, physical and stylistic attributes or with less evident customs, beliefs and values, therefore ethnic and cultural diversity is more significant than less evident differences (Mayo et al., 2016).

As per Social Categorization Theory, individuals increase their social identity by using social categorization processes that support demographically similar group members and show biasness against other demographically dissimilar group members (Moon, 2018; Moon & Christensen, 2020). Based on these social comparisons, individuals classify & distinguish themselves and others into social categories according to their demographic attributes of gender, ethnicity, religion, race and show favoritism and support towards similar members of their group but defamation and degradation towards other non-similar group members and results in intergroup bias and conflicts in the organizations (Choi, 2009). Therefore, SCT predicts the negative relations between the workforce demographic diversity and organizational performance, which can be improved through effective role of leadership and human resource diversity management policies and practices of the organizations.

On the other hand, the diversity and inclusion are supported by ODT. As per ODT, all individuals have opposing needs that activate simultaneously, i.e., belongingness and uniqueness, tend to grow perception of one's inclusion (Oberfield, 2016) to a social group. Inclusion is degree to which extent an individual employee feels that she or he is a valuable and respectable member of the team. The belongingness means an individual's desire to establish and maintain interpersonal relations with other individuals in a team. Uniqueness means, the desire of an individual to be distinctive with other relevant individuals. Individuals need to balance these two opposing desires to feel a sense of inclusion to achieve ideal level of their social identity. Therefore, ODT proposes that the organizations

can manage their employees having different characteristics by forming such a work environment where they feel included (Shore et al., 2011). Hence, it can be assumed that diversity management practices, are related to organizational performance. A number of researchers (Groeneveld & Verbeek, 2012; Ashikali & Groeneveld, 2015; Nguyen et al., 2022) have looked at this aspect. Hence, we hypothesize that: *H*: Diversity management practices positively associates with organizational performance

### **Perceptions of organizational performance**

It is necessary to understand the effects of workforce diversity management on organizational performance and employee satisfaction, etc. A large number of workforce diversity management scholars including have contended for the effective diversity management. This study will at the perception of respondents on a five-point Likert scale by employing of scale of Dagher et al. (1998); Kundu et al. (2019), and Blouch and Azeem (2019).

1. Competitive advantage
2. Higher productivity
3. Highly motivated employees
4. Full participation of all employees
5. More innovative solutions
6. More satisfied employees
7. More diverse opinions in decision making
8. Higher morale
9. Lower turnover
10. Less internal conflict
11. Better customer service

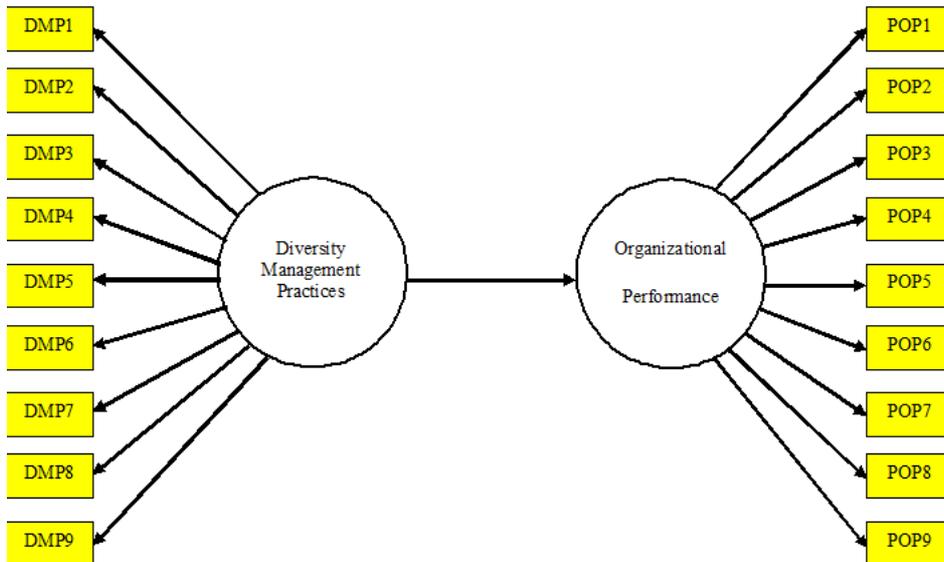


Figure 1: Conceptual Model of the Study

H: Diversity management practices positively associates with organizational performance

### Research Methodology

The research philosophy for this study is positivism because positivist scientist strictly focusses on scientific and empiricist methods to produce accurate knowledge, data, facts and figures without any kind of influence of human biases and interpretations (Saunders et al. 2019). The research approach for this study is deductive as it tests the hypotheses. The research methods of this study are quantitative. Moreover, this study is a cross sectional that utilized the purposive sampling. The Probability sampling technique could not be used in this study because the universities did not share the complete list of their employees due to certain legal and confidentiality issues. Therefore, non-probability technique of convenience sampling is used with precautionary measures as proposed by. Further, the population frame is the individual employees of universities of Pakistan, sample size is 514 individual employees and data collection tool is structured questionnaire.

Accordingly, data were gathered, through survey, using questionnaire from employees of the top five universities of all provinces and federal capital of Pakistan including the top ten universities of Pakistan as per HEC ranking. Normally for the nonprobability sampling, a large sample size is required. As recommended by Hair, et al. (2013), larger sample size is much better; therefore, to accomplish a bigger sample, this study adopted the procedure as recommended by Krejcie and Morgan, (1970), which employs 3.5% of error to determine the

maximum sample size. Thus, the sample size for the current study was determined to be 514 for achieving the significant results.

Since respondents of the study were employees of universities, the researcher decided to develop online google form as the best possible solution to collecting data more efficiently and effectively. Therefore, for collection of data for this study, the questionnaire was converted into google form in order to save postal cost, reduce delivery time, increase accuracy and reliability. The link of the questionnaire was forwarded to the employees of the universities through emails and WhatsApp messages with follow-ups through friends and colleagues. The responses to the questionnaire in google form were made mandatory except the name of respondents due to the issue of confidentiality. Therefore, the chances of unfilled incomplete questionnaire and missing values reduced to zero as google form did not allow the form submission unless the responses are made to each item of the questionnaire.

A total of 900 questionnaires were distributed amongst Vice Chancellors, Directors, Deans, Chairpersons, Registrars, Treasurers, Controller of Examinations, Faculty members and other employees of the universities in Pakistan. 550 filled questionnaires were received. However, 36 questionnaires were rejected as they look improperly filled with non-serious attitude. The required sample of 514 responses were found satisfactory which took almost a year for this data collection. There were 514 filled questionnaires, and all responses were usable for data analysis. As the response rate is higher than 50%, therefore, it is deemed to be reasonable for the current study (Bryman & Bell, 2011).

### **Sample description**

It shows that out of 514 respondents, 25.7 % were from private sector and 74.3% were from public sector. Further, 49.2% from management and 50.8% from faculty. With respect to gender diversity, 75.1% were male, .4% were transgender and 24.4% were female. Regarding religious diversity, 99.2% were Muslims, .4% were Hindus and .4% were Christian. In connection with ethnic diversity, Baluchis were 3.5%, Pashtuns 13.2%, Punjabis 73%, Sindhis 6.4%, Kashmiris 2.7% and Others 1.2%. The age of the respondents was ranging from 19 to 60 years (mean age was 33.73 years and the Std. Deviation was 10.312 years). The number of years worked ranges from 18 to 60 (mean number of years was 8.28). it shows that the current study sample is well spread over all demographic categories and therefore is a true representative of all demographics categories in Pakistan. As the collection of data was made from universities of Pakistan; hence, the education level of the respondents was very high. The PhD degree holders were 31.7%, MS/MPhil (18 years' education) degree holders were 34.2%, BS/Master (16 years' education) degree holders were 30.2% and BA (14 years' education) degree holders were 3.9%.

**Instrument to measure diversity management and organizational performance.** Employees' perception of diversity management practices scale was developed by Otake-Ebede (2018). While scale developed by Shore et al. (2011) was employed to measure organizational performance. Five points Likert scale was employed for all.

**Measurement model (validity, reliability).** Structural equation modelling (SEM) in SmartPLS 3 was employed for both the measurement and structural models. SmartPLS is generally considered one of the best statistical procedures for the structural equation (Hair et al, 2013). The PLS algorithm was done to check the reliability of the constructs. The convergent validity, discriminant validity and factor loading of the indicators of the construct were performed.

Table 2: Composite Reliability (CR), Cronbach's Alpha and AVE

		Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Diversity practices (DMP)	mgt	0.9176	0.919	0.932	0.6045
Organizational Performance (OP)		0.9324	0.934	0.9428	0.623

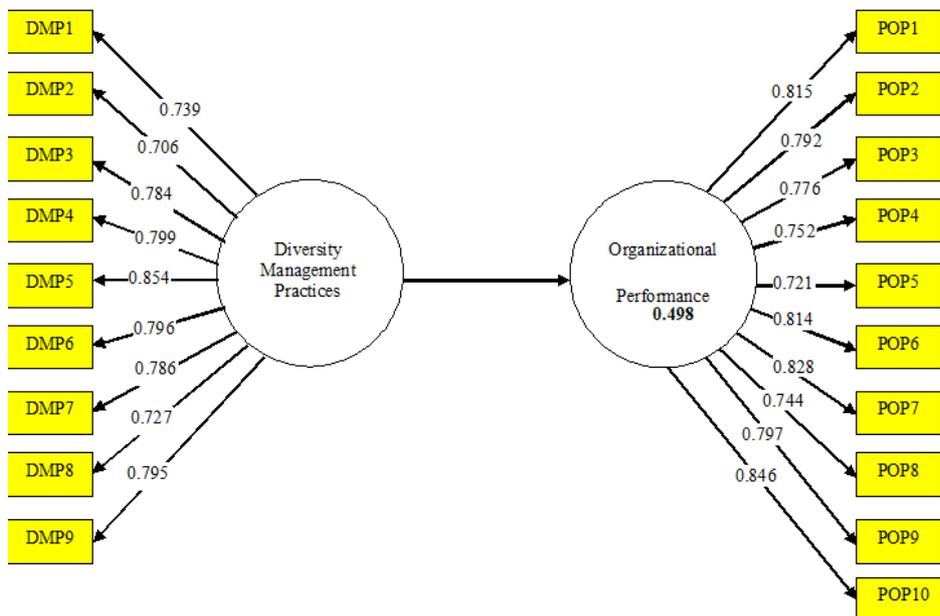


Figure 2 Measurement Model of the Study

Moreover, we assessed the Cronbach's alpha, Composite Reliabilities and Average Variance Extracted to check variance explained. The Cronbach's alpha of the constructs was 0.918 and 0.932, AVEs of the constructs were 0.605 and 0.623

and the corresponding CR values were also 0.932 and 0.943, respectively. The values of Average Variance Extracted  $\geq 0.50$  (Hair et al., 2019), Cronbach's alpha  $> 0.70$ , Ramayah (2011) and Composite Reliabilities  $> 0.70$ , (Hair et al., 2019). Therefore, it fulfils the criterion of Cronbach's alpha, convergent validity and reliability of instruments of this study.

Table 3: *Measurement model (Outer Loadings)*

<b>Constructs</b>	<b>Indicators</b>	<b>Factor Loading</b>
Diversity Management Practices (DMP)	DMP1	0.739
	DMP2	0.706
	DMP3	0.784
	DMP4	0.799
	DMP5	0.854
	DMP6	0.796
	DMP7	0.786
	DMP8	0.727
	DMP9	0.796
Organizational Performance (OP)	OP1	0.815
	OP2	0.792
	OP3	0.776
	OP4	0.752
	OP5	0.721
	OP6	0.814
	OP7	0.828
	OP8	0.744
	OP9	0.797
	OP10	0.846

**Structural model**

As per Duarte and Raposo (2010), in structural equation modeling (SEM), structural model is a representation of hypothesized relationship. The structural model or inner model shows the relationships among the constructs being assed (Hair et al., 2014).- As per Henseler et al. (2009), three criteria number 1 Coefficient of Determination (R2), number 2 Effect Size ( $f^2$ ) and number 3 Path coefficients determine the hypothesized relationships among constructs. The coefficient of determination (R2) is one of the standard assessment criteria for the assessment of the structural model (Hair et al., 2019). The R2 values of 0.25, 0.50 and 0.75 may be considered weak, moderate and substantial respectively (Hair et al., 2011). The R2 is the function of the number of predictor constructs. The greater the number of predictor constructs, the higher the R2. The R2 is also known as in sample predictive power and it ranges from 0 to 1, with greater values

indicating a higher explanatory power. R square of this study Original Sample (O) (0.50), Sample Mean (M) (0.51), Standard Deviation (0.0365), T Statistics (13.62) and P values is 0, which is acceptable. The  $f^2$  is a measure of the magnitude of the effect that is independent of sample size and its values of 0.35, or greater, 0.15, 0.02 indicating large, medium or weak effect size respectively (Benitez et al., 2020). In this study  $f^2$  of diversity management practices is 0.020. Path coefficients/Beta overall of Diversity management practices (DMP)-> Organizational Performance (OP) is Original Sample (O) (0.138), Sample Mean (M) (0.143), Standard Deviation (0.05), T Statistics (2.63) and P Values is 0.00, which is in the acceptable range.

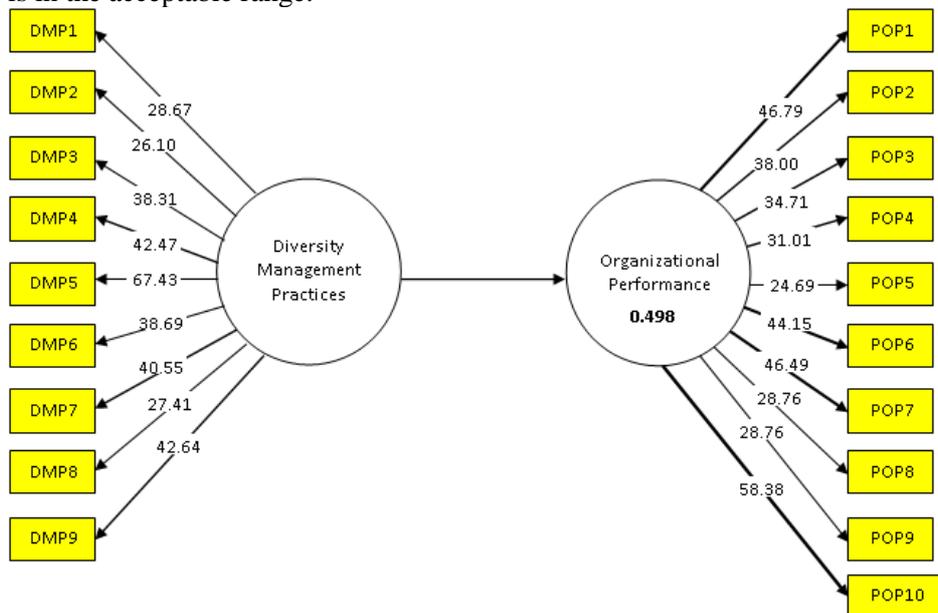


Figure 3 Structural Model of the Study

### Data Analysis and Results

The data analysis was conducted through Statistical Package for Social Sciences (SPSS. 25) and Partial Least Squares (SmartPLS) to read the connections between the constructs for determining the structural equation modelling (SEM). PLS SEM is used to access the interrelation of the constructs. Keeping in view the nature of this research study, SmartPLS is deemed as the most appropriate software for assessing the variance-based structural equation modelling. The results of hypothesis are examined on three different criteria. First of all, P-value which will be significant if less than 0.05. Then, T-value, which must be greater than 1.96 and finally bootstrapped confidence interval with 2.5% (LLCI) lower limit and 97.5% (ULCI) upper limit and there should be no zero value within the range of LLCI and ULCI.

- DMP1 This organization conveys diversity training goals to employees
- DMP2 In this organization, role models from diverse backgrounds including gender, ethnic and religion are nourished and educated to be mentors
- DMP3 This organization has formal systems for acquiring feedback on diversity management human resource practices
- DMP4 This organization spends a lot of money and time on workforce diversity awareness seminars, workshops, and related trainings, etc,
- DMP5 This organization assesses the usefulness of diversity trainings, workshops and seminars provided to employees
- DMP6 Employees of this organization normally go through trainings, seminars workshops, and diversity associated issues
- DMP7 This organization shares diversity management associated issues, memos, circulars, notifications, and office orders with employees
- DMP8 The management of this organization puts a lot of importance on having a diverse workforce
- DMP9 Employees have complete access to diversity materials and literature used in this organization

As per the results of the current study, it was confirmed that not only the perception about the stated above diversity management practices exists in the sampled organizations of Pakistan but also, they have positive and significant impact on the organizational performance in Pakistan and confirms the findings of Otaye-Ebede (2018). It was found that when employees observe that their organizations value workforce diversity through its effective implementation in their organizations, they provide high-quality services to the customers and resultantly increase in overall organizational performance. The workforce diversity management practices are the organization’s rules, regulations, policies, programs, and practices to promote heterogeneous workforce at workplace and to offer equal opportunities for all employees unhindered by individual employee’s identities such as gender, race, ethnicity, education, religion, function and (Choi, 2009; Hoang et al., 2022; Pitts & Jarry, 2009; Sabharwal et al., 2018).

Therefore, the results of this study can help leaders to evaluate DMP with respect to their own performance and to recognize their shortcomings with respect to the diversity management in their organizations.

Table 4: *Model Fitness Indices*

<b>R</b>	<b>R2</b>	<b>MSE</b>	<b>F</b>	<b>df1</b>	<b>df2</b>	<b>p</b>
0.683	0.47	0.43	49.04	9.00	504.00	.00

Table 5: *Multiple Regression Statistics*

Variables	B	SE	T	p-value	LLCI	ULCI
Constant	18.939	2.0964	9.0344	.0000	14.8210	23.058
Main effects:						
DMP	.2001	.0389	5.1395	.0000	.1236	.2766

The research was aimed to investigate the relationship of diversity management practices and its effects on organizational performance. The hypothesis H1 states “diversity management practices positively associate with organizational performance.” Table indicates that path coefficient “B” of diversity management practices (DMP) with organizational performance was reported as 0.20 and T-value was stated as 5.14, which is greater than 1.96. P-value was reported as 0.000, which is lower than 0.05 and bootstrapped interval was reported at 0.12 (2.5% LLCI) and 0.28 (97.5% ULCI). In the range of LLCI and ULCI there is no zero value. Therefore, it satisfies all the criterion of path analysis. Hence, H1 for the current research study has been accepted. Moreover, the current research study recognized a positive and significant relationship between diversity management practices and organizational performance and hypothesis H1 has been accepted. Thus, the results of this research study have showed that there is a significant and positive impact of diversity management practices on organizational performance. Further, the results of this study are consistent with previous research studies which said that diversity management has proved positive links with organizational performance (Groeneveld and Verbeek 2012), thereby challenging administrators to manage a diverse workforce in their organizations effectively.

The results of this study are also consistent with previous research studies which have claimed that diversity management practices have a positive impact on organizational performance. The literature has stated the significant relationship of diversity management, as a core function of strategic human resource management, which incorporates the organizational policies and practices to manage diverse employees at the workplace effectively and to bring value addition in the shape of creativity and innovation to increase the organizational performance (Ashikali, & Groeneveld, 2011; Pitts, 2009). Moreover, the results of this study also enlightened that the relationship of diversity management practices and organizational is significant in higher education sector in Pakistan. This indicates that diversity management is a very important factor for organizational performance. The relationship of diversity management and organizational performance is explained by information decision theory and optimal distinctive theory for effective diversity management. It is therefore very important for organizations to formulate effective diversity management practices to enhance their organizational performance. Furthermore, diversity management is a very critical factor especially in higher education sector in Pakistan, here more diverse students and faculty in terms of gender, race, ethnicity, religion, etc.

The results of this study show that the diversity management is the critical and helpful factor that contributes towards the enhancement of organizational performance in Pakistan. Therefore, the public and private sector organizations need to develop and implement diversity management rules, regulations and policies to attract & recruit, retain and develop a diverse workforce to increase organizational performance and the diversity management includes all the organizational rules, regulations, and policies to bring about the supposed value addition of workforce diversity to enhanced legitimacy, creativity, innovation, and positive employee attitudes & behaviors, ultimately boosting organizational performance (Ashikali & Groeneveld 2015). The results of study provide empirical evidence for the conception reported earlier by the scholars who have contended that employees' perceptions of human resource practices including diversity management practices and climate for diversity directly impacts employees attitude and behavior (Pitts, 2009).

### **Implications**

This study was designed to study the existence of the perception of diversity management practices in organizations in Pakistan and to investigate the impact of the diversity management practices on organizational performance. The previous research studies have shown, the effectiveness of leadership for workforce diversity management in the form of improved performance due to innovation, creativity, visibility, productivity, quality decision making and employee satisfaction (Yukl, 2012). This research made a significant and major theoretical contribution by strengthening the research and awareness on diversity management practices in Pakistan.

### **Limitations and Future Research Directions**

**Limitations.** The study has some limitations. First, this study was conducted in higher education sector of Pakistan with only workforce diversity and diversity management as variables of the study. Secondly, the focus of this study is only the employees of universities recognized by HEC. Fourth, the sample size is also restricted to a specific number of respondents for the current study.

**Future research directions.** Keeping the limitations of the study in mind, future studies can take other sectors of Pakistan into consideration. Secondly, future studies might focus on employees from manufacturing and other sectors of Pakistan. Thirdly, future studies should focus on other factors with moderating impact of leadership. Fourthly, future studies can take the whole Pakistan with equal number of respondents from each province. Lastly, the data for this study was cross sectional and collected within a specified time period, the future studies can focus on longitudinal data in the same or different contexts.

## Conclusion

The results of the study concluded that the diversity management practices have positive and significant direct impact on the organizational performance. In other words, higher workforce diversity does not automatically produce an inclusive climate, but a specific working environment is required to support workforce diversity where diverse employees feel valued and appreciated. Therefore, policy makers need to devise such human resource diversity management statutes, rules, regulations, policies, and practices to promote heterogeneous workforce at workplace and to offer equal opportunities to all employees unrestricted by individual employee's identities such as gender, race, ethnicity, education, religion, function, and abilities.

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# DYNAMICS OF STRATEGIC IMPLEMENTATION IN HIGHER EDUCATION IN KHYBER PAKHTUNKHWA (PAKISTAN) WITH FOCUS ON THE ROLE OF MIDDLE MANAGEMENT

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**Abstract.** *This study looks into various aspects of strategy execution in the context of higher education institutions in Khyber Pakhtunkhwa (Pakistan). Most studies on this subject have been conducted in developed countries leaving much room for understanding in a context characterized by a weak regulatory framework, unique socio-cultural traditions, and a complex political environment in a country like Pakistan. A standardized questionnaire was used to collect data from respondents selected through stratified random sampling technique in both academic and administrative sections of universities. The Structure Equation Modeling (SEM) was employed for exploratory and confirmatory factor analyses while Partial Least Squares Structural Equation Modeling (PLS-SEM 3.0) was used for the measurement of path models of the study. The results show that the role of middle management was significant in terms of championing alternative strategic options, synthesizing information, and executing deliberate strategy whereas it was insignificant in facilitating adaptability. The results of this study have theoretical significance in that it looks at strategy implementation from the perspective of a developing country. Practically, the results suggest giving more power to middle management in all aspects of strategic management. The results, however, have to be understood with some of the study's limitations that have been discussed later at length.*

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**Keywords:** Strategy implementation, middle management, higher education, organizational change.

## Introduction

Intense competition and complexity, the outcomes of changes in the global environment, have brought in its wake unique challenges to all sorts of organizations. Higher education institutions, in particular, are confronted with

challenges such as students' migration, dwindling educational institutions' resources, increasing education cost, changing teaching methodologies with technology, changing demographics, and maintaining high-quality standards are some of the challenges which are facing by universities both public and private facing today (Glass, 2014). It is in this context that organizations, especially HEIs (Higher Education Institutions) are increasingly focusing on formulating viable strategies and implementing them for long-term success.

The Higher Education Commission of Pakistan is committed to supporting higher education institutions in serving as engines of Pakistan's socioeconomic growth and development. In the last couple of years, Pakistan's government has prioritized the education sector, particularly higher education, which had previously been overlooked. Due to increased competitiveness in the higher education sector, different new public and private sector universities were given charters to commence and directed to expand their capacity and efficiency. Cumulative expenditures on education by both federal and provincial level governments in the financial year 2020 were was 1.5 % of the Gross Domestic Product (GDP) compared to 2.3% of GDP in Financial Year 2019. Educational expenditures had been increasing gradually by 2018-19, but in 2019-20 educational expenditures declined. However, the Government of Khyber Pakhtunkhwa allocated Rs.152.7 billion in FY: 2019-20 compared to Rs.142.6 billion in FY: 2018-19 witnessed a higher increase in it (PES, 2020-21).

Changes in the global, regional and local environment brought many challenges to organizations in terms of intense competition and complexity (Tidd & Bessant, 2020). This shift has encouraged the organization to invest their resources to develop and implement strategies to meet market demands and serve the interests of their stakeholders. In this sense, the term strategy implementation became a 'buzzword' in different organizations. Developing comprehensive strategies and implementing them accordingly is the growing demand of the stakeholders of both public and private sector organizations (Berchin et al., 2018). Strategy implementation is the total sum of choices and actions needed to execute a strategic plan (Wheelen & Hunger, 2012). It is the mechanism by which the strategies and policies are implemented by introducing new programs, and policies, allocating budgets, and adopting procedures and programs.

The process of strategy formulation in the organization is challenging and implementation of the formulated strategy throughout the organization is even more challenging. Managers have been observed to work more on the strategy formulation and pay less concentration to its implementation stage (Hrebiniak, 2006). However, in the real world, most of the time is required in strategy implementation instead of its formulation. Many real problems crop up during the implementation stage—financial, Human Resource (HR), and communication problems. Successful strategy implementation depends on the human resource

working in the organizations and can disrupt the implementation process if not efficiently dealt with.

Strategy formulation and implementation in the developed world are widely known today and are also deeply embedded in developing countries. There are growing numbers of studies found on strategy implementation in the American universities to place these universities strategically and to show advantageous performance in the changing world.

The implementation of strategy is influenced by many different factors including the role that middle managers actually play, the particular context in which the strategy is implemented, and the process being followed to put proposed changes into action.

Many factors including middle-management roles, practices, and contexts significantly Gjerde and Alvesson (2020) state that middle-management act as both subordinate to top-management and superior to its subordinates. This definition is also supported by Tarakciet al (2018) according to them a middle manager is a person who accepts the responsibilities for strategy implementation and is also responsible to his senior management as they receive directions from top-management and supervise the subordinates to ensure the smooth functioning of all units of an organization. Middle-management has been given the responsibilities of implementing strategies and at the same time facing many challenges including minimum authority. Due to a lack of autonomy middle-management is stuck in the middle to implement strategies (Creaton& Heard-Laureote, 2019).

This study has critically scrutinized different middle-management roles in both public and private sector universities to develop a conceptual view of the middle-management roles in the overall strategic plan implementation in universities of Khyber Pakhtunkhwa. The researcher's motivation for choosing this area has many aspects including: first, strategy implementation studies are found mostly in the developed world, and exploring the topic from the perspective of a developing country like Pakistan is largely missing (Sherani, 2019). Secondly, the researcher's motivation to know the missing link between strategy formulation and implementation where according to Kaplan and Norton (2005) more than percent of strategic initiatives of various organizations fail not due to ineffective formulation of strategies but due to lack of proper implementation efforts. Third, the middle management is either taken for granted during strategy formulation or they are not fully motivated/empowered to put a given strategy into effect (Kamel, 2019). Above all, the researcher wanted to see whether empirical evidence supports the idea that middle management has a defining role in the success of a particular strategy.

## **Literature Review**

According to Johnson (2002), top-level management is primarily responsible for the development of the vision and purpose of an organization, the formulation of strategic objectives, the analysis of organizational culture, and the creation of the comprehensive implementation plan of the strategy. Middle or tactical management is accountable for developing operational goals and developing communications strategy and strategy execution policies and procedures. Through introducing and implementing the different tactics described in the implementation plans and policies originating from middle-management officials, operational workers are responsible for the implementation of the strategy (Dlodlo, 2011).

### **Middle-level management and strategy implementation**

According to Weiner (2012) middle managers are supervised by top management, oversee front-line managers, and finally facilitate the strategy implementation in an organization (Liu, 2017). Mbaabu (2013) defines middle managers as those people who are responsible directly for planning, coordinating, and monitoring, and who bridge the gap between top and lower-level management. Nzinga et al. (2013) state that in the process of formulating, implementing, and controlling strategic plans in organizations, middle managers have important roles to perform.

The research indicates that the coaching role for front-line workers is played by middle managers as they assist and coach the behavior patterns of these workers to stay connected with the organization's strategic objectives (Woiceshyn, Huq, Blades, & Pendharkar, 2020). In the goal-setter role, middle managers play set the performance standards that workers need to meet following the plan. Being the motivators middle managers inspire middle-level managers, employees, and team members for achieving targets set for success (Nzinga et al., 2013). The middle managers perform their fourth role as a communicator, as they keep their group members informed about business operations, growth, and development. Negotiator and problems solver are the fifth and sixth roles respectively as they negotiate among the conflicted parties and solve the problems faced by lower-level managers or lower-level employees (Kehoe & Han, 2020). McGurk (2011) notes that maintaining organizational effectiveness is the main purpose of middle managers. Middle managers act as the bridge between top-level management and lower management (Clegg & McAuley, 2005). Middle managers convert the corporate plan into concrete, functional strategies (Cabansag, 2013). To persuade senior management, the middle managers try to achieve their strategic goals, while at the same time inspiring, directing, guiding, and controlling their front-line workforce (Anzengruber, Goetz, Nold, & Woelfle, 2017).

Birken and Weiner (2012) argue that the important roles performed by organizational middle managers include information interpretation, information dissemination, and mediation between strategy and day-to-day operations. Middle managers inspire team members to follow the appropriate behaviors following the

changes and strategic objectives. They also help the lower-level managers and staff members to identify and overcome barriers that potentially hinder their strategic objectives (Birken et al., 2012).

McGurk (2011) claims that middle managers are considered the managers of change. Middle managers play a crucial role in the execution of change strategies. As long as middle managers are dealt with and consulted can be reliable and effective stakeholders of change in the organization (Bukh & Svanholt, 2020). To facilitate the successful implementation of the business plan, the middle-management must be involved. Top-management must interact clearly during the transformation process with middle managers so that their concerns and perceptions can be addressed (Kerzner, 2019).

Much of the literature emphasizes the importance of middle managers as they connect the lower-level managers with top management (George, Walker, & Monster, 2019). Middle management, thus forms the connection between the top-management staff who devise the organizational strategy and the lower-level management who implement the strategy (Clegg, 2005; Dlodlo, 2011; White, 2011). The middle-management dual role thus leads to the company getting a competitive advantage over other market competitors who do not support this view of middle managers. White (2011) argues that these suggestions and ideas provided by lower-level management are interpreted by middle managers and then delivered in the form of standardized creative and visionary proposals to the top management. Thus, this research indicates that middle managers play an active role in implementing strategies by linking top-management with lower-level management (Kerzner, 2019).

### **Middle-Management role of championing alternatives and strategy implementation**

One key role of middle management is to persuade top management to explore new strategic options (Pfister, Jack, & Darwin, 2017). Some studies (Wang, Gibbons, & Heavey, 2017) suggest that middle managers could have a greater impact on the success of an organizational strategy by using bottom-up approach in strategy formulation. Other researchers (Dutton & Ashford, 1993) also contributed to sense the middle-management role as champion of alternatives for implementing strategy include; upward influence, claiming, and impression management actions are all part of the meaning-creation process; the ability of middle managers to arbitrate between internal and external selection settings gives them strategic power (Floyd & Wooldridge, 1997); In terms of idea production, initiative development, and strategic reintegration, middle managers' diverging activity and competencies are critical to strategy renewal (Jafar, 2017). Middle managers affect the strategic agenda, according to Dutton and Ashford (1993), by prioritizing and

determining which topics should be brought to upper management's attention during the strategy process. Through the lenses of three independent theories (i.e., impression management, social problem theory, and upward influence), they provide a conceptual framework to account for middle managers' behaviours in garnering attention and resources from senior management (Weiser, Jarzabkowski, & Laamanen, 2020).

Middle managers can also play a crucial role in reducing the gap between an organization's strategic and operational levels by proposed alternative options (Jafar, 2017). In essence, championing alternatives is all about communicating various strategic options to top management persuasively and consistently. This role is apparently different from assisting the corporate executives in adaptation to the external environment (Van Rensburg et al. 2014). Championing strategy, for the purpose of this research, is a way of influencing strategy formulation rather than limiting oneself to performing operational duties (Guo, et al., 2017). This activity is ascending and integrative, and it concerns middle-level managers' aspirations to push ideologies as well as their ability to participate in bottom-up activities that could aid their firms to renew strategy processes. Middle managers come up with alternatives to the current plan and submit them to upper management together with employee suggestions (Dery, Sebastian, & van der Meulen, 2017). The purpose of advocating alternatives is to create a strong sense of urgency for the initiative while also keeping top-management informed (Schreurs, 2010). If middle-level managers are included in planning, they will have greater power over their future in the business and will become an important component of it. Middle-level administrators must participate in planning since it may help them feel less alienated or deal with targets that they did not help set or agree to (Floyd & Woodridge, 2014). The input of middle-level managers has yet to be heavily incorporated in plan execution. Furthermore, middle-level managers have not received adequate assistance from top-management by incorporating them in the formulation and execution of strategy, even though they are familiar with the demands of consumers and operational personnel due to their day-to-day interactions with them (Jafar, 2017). Middle managers' divergent upward drives are crucial for upper management to gain a better and more comprehensive understanding of the challenges and possibilities in the external or internal business environment. As a result, most study has focused on the importance of middle managers in the early stages of strategy development. Thus, it can be hypothesized that:

H1: The role of middle managers, in championing strategic alternatives, positively affects the implementation of organizational strategy in higher education in Pakistan.

### **Middle-management role of synthesizing information and strategy implementation**

The second function is information synthesis, which is described as the interpretation and assessment of data (Engle, et al., 2017). This has an impact on the perceptions and intentions of top management, and that how middle managers can influence strategy formation from the bottom up (Floyd & Wooldridge, 1992). Middle managers interpret and send information to senior management in this function. Middle managers' synthesized data could become the major basis for upper management decision-making (Shujahat et al., 2017). Middle managers perform as uncertainty observers, relying on the consistency of their environmental judgments to build their reputations (Mantere, 2008). The synthesizing job is strongly related to the clever interpreter role described by Nordqvist and Melin (2008). "Middle-management can most effectively minimize the disturbance, fluctuations, and confusion inside an organization, the information generating structure by serving as the beginning point for action to be done by upper and lower levels," Nonaka (1988). According to Dutton and Duncan (1987), synthesizing is a requirement for pursuing a strategic aim. These findings were enhanced by Dutton et al. (2001), who sought to disentangle and make sense of the micro-processes that comprise strategic transformation. Dutton and her colleagues looked at how manager or administrator appraise the organizational backdrop for issue-selling, as well as the actions that go along with successful and unsuccessful issue-selling attempts. Their findings show that to benefit themselves and their organizations, managers must be able to read and navigate their strategic and structural settings. Balogun and Johnson (2004) have some interesting ideas about middle manager sense-making. Balogun and Johnson (2004) investigated the function of middle managers in change processes, focusing on middle managers' sense-making throughout a top-down change project. Middle-management is not beneficiaries of change only, but also implementers. Finally, Mantere, (2008) asserts that top-management responsiveness in organization is the most critical enabling condition for information synthesis. He discovered several instances in which senior managers expect input but do not respond to it in strategy practice. Synthesizers assess information from both external as well as internal sources and channel it upward through upward integrative practices to the senior management team to support strategic initiatives (Noyes et al., 2018). Reporting on the outcomes of key performance efforts and issues in present business operations is an example. Middle managers' roles have traditionally been limited in strategy research to providing feedback on strategy development, with strategy making considered to involve primarily the top manager (Wooldridge, Schmid, & Floyd 2008). Senior managers' interpretations of various challenges throughout time, based on intermediate managers' interpretation and delivery of selected informa-

tion, may lay the groundwork for strategic transformation (Floyd & Wooldridge 1992). However, there is very little empirical studies on the roles and behaviours of middle managers during strategic shift.

H2: The middle managers' role in synthesizing information positively influences the effectiveness of strategy implementation.

### **Middle-management role of facilitating adaptability and strategy implementation**

This role of middle management entails encouraging and promoting adaptation of strategy downwards in the organization (Currie & Procter, 2005). It is a kind of social craftsperson role (Nordqvist & Melin, 2008) and requires flexibility in tailoring strategy to the ground realities. This role, thus, is a kind of encouragement of behaviors and structures that might deviate from the official expectations (Floyd & Wooldridge, 1992). Middle managers have often been observed to be hiding such deviations from the top management (Moss-Kanter, 1983). Middle managers enable strategic plan effective implementation by addressing the subordinates' negative feelings about downsizing (Basuki, 2020). The expectation to ease flexibility, according to Mantere (2008), also has the potential to enable middle-management strategic agency. Based on the foregoing discussion, one can hypothesize that:

H3: The middle managers' role in facilitating adaptability positively influences the effectiveness of strategy implementation.

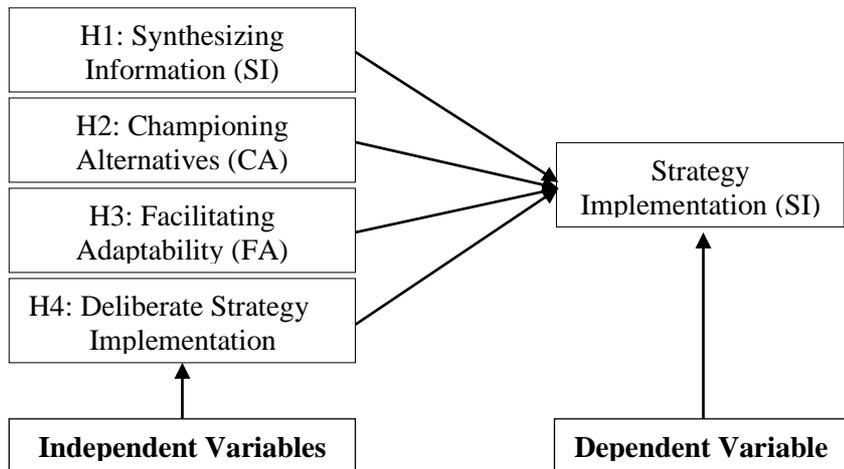
### **Middle-management role of implementing deliberate and strategy implementation**

The last responsibility is to carry out a well-thought-out strategy. As previously indicated, middle-management's involvement in strategy implementation is very important. Floyd and Wooldridge (1992) define the role of implementing deliberate strategy as managerial interventions that link organizational action to the strategic goals. Guth and MacMillan (1986) looked at how middle-management was motivated to carry out the strategy. In their study they concluded that one of the most critical general management implementation skills is the capacity to comprehend, anticipate, and manage the processes required to ensure middle management's positive and widespread commitment to the strategy. Mantere and Vaara (2008), proposed four enabling and critical criteria for the expectation of deliberate plan implementation: First and foremost, senior management should be focused and give full attention to processes that lead to the creation of the objectives to be implemented. According to Mantere (2008), this is very critical in assisting middle managers in understanding how current objectives relate to prior ones. Second, when the top-down objectives to be achieved are contextualized. When the objectives are well defined, the middle manager's task becomes more focused, and contextual decision-making becomes easier. Third, the strategy

implementation expectations in an organization may enable the middle-management agency if there is an adequate shift in resource allotment to hold up the implementation of the established and well-defined top-down objectives. According to Mantere (2008), middle-management see top-management as "walking the talk," or "suggestive of top-management commitment.". When resource allocation is consistent and aligned with top-down objectives, middle managers perceive top-management as walking the talk. Respect is the fourth and final enabling prerequisite, which entails another representation of top-management commitment to implementation with little or no resources expended. If top-management displays respect for everyday problem solving or practical coping, the execution expectation may permit middle manager agency (Chia & Holt, 2006). This enables the middle managers to see his or her work as important and worthwhile. Respect in execution may be based on the belief that top-management tactics are worthless if they aren't implemented well. As a result, the strategist requires the implementer's help and vice versa.

H4: The middle managers' role of implementing deliberate strategy positively influences the effectiveness of strategy implementation.

**Theoretical Framework**



*Figure 1* Conceptual Framework of the Study

## **Research Methodology**

### **Data collection method**

The different methods used in social science research are questionnaires, structured interviews, and content analysis, but most common among these is the questionnaire (Mohajan, 2018). Surveys are conducted in a structured way so that the results may replicate in other similar settings. In a questionnaire, the researcher is supported to collect a large amount of data (Chu & Ke, 2017). This tool helps the researcher to quantify the participants' attitudes and perceptions about the given phenomenon and to analyze it in a given social or organizational setting. There is minimum researcher interference in the data collection phase which can ensure objectivity in the study (Nardi, 2018). Based on the relevancy, merits and to check causal associations of the middle-management roles for strategy implementation in universities, questionnaire survey is considered as the most relevant tool for data collection in this study.

### **Questionnaire design**

Design and measuring scales in a questionnaire play a significant part in scientific research (Krosnick, 2018). Closed-ended and open-ended questions were classified (Alston & Bowles, 2020). They recommend using the open-ended one for comprehensive and in-depth information. However, caution should be exercised while choosing this kind because interpretation becomes a tiresome effort when dealing with a complicated and diverse set of responses (Brace, 2018). Closed-ended questionnaires, on the other hand, where a respondent must select one or more alternatives from a list, are fairly simple for both respondents and researchers. Respondents can complete surveys more quickly and precisely, and the researcher can analyze the results more objectively (Babbie, 2020). The current study adopted a questionnaire survey for the study, keeping in mind all of the requirements of the current research in connection with the advice and suggestions of many specialists in the field of survey research. Respondents were also sent a covering letter with this questionnaire (Boparai, Singh, & Kathuria, 2018).

For the purpose of data collection, questionnaire of 5-point Likert scale has been used. Other researchers have also tested it either on, a 5-point scale or 7–9-point scales, is comparable to good, and upgrading to a 7 or 9-point scale (Li & Ali, 2021). Likert scale is commonly used to measure psychometric dimensions in social sciences. All of the questions were taken from various study publications and theses by social scientists. The questionnaire has been divided into two parts: the first collect demographic information such as the respondent's name (optional), gender, age, department/section, designation, highest qualification, age, and years of experience; the second collects information on all variables of the study. Total questions in the questionnaire were 54 (Championing alternatives = 05, facilitating adaptability = 05, synthesizing information = 04, implementing deliberate strategy = 05, enhancing students' intake = 05, market expansion = 05, service quality = 04,

faculty development = 05, research promotion = 08 and provision of students' support facilities = 08). All questions were closed-ended and about the middle-management perceptions about these variables and their components.

### **Sample size**

A sample size of 100 or more than 100 is appropriate for the analysis of the data (Hair, Hollingsworth, Randolph, & Chong, 2017). On the other hand, Gaur and Gaur (2009) suggested 200 to 300 is adequate sample size for data analysis. The current study examines both public as well as private universities in the province of Khyber Pakhtunkhwa, in terms of their strategy implementation with a focus on middle managers. The study population is 572 respondents from both sector universities. The sample size selected for the current study is 231 which is selected based on Krejcie and Morgan's table, 1970.

### **Sampling technique**

This study has employed two different techniques as sampling techniques. In the first stage, stratified sampling techniques has selected in the first phase for dividing the whole population into two groups and purposive sampling technique has been used to access to middle management cadre in the target universities. The present study has selected various universities based on judgmental or purposive sampling techniques. There is a total of 38 universities in Khyber Pakhtunkhwa (HEC, 2017). The current study has taken some specific universities based on personal judgment. The logic behind the purposive sampling is some of the universities are newly born universities that cannot be compared with well-established universities. A well-established university has a formal strategic plan, a good reputation, and other factors than a new one. The study has included the universities which are founded prior to 30th of June 2010. This technique was also used by various researchers such as (Asaduzzaman, Rahman, & Hossain, 2013; Hasan & Masri 2013; Malik). The current study will use proportionate stratified random sampling techniques.

Table 1 *Population and Sample Size of Public Sector Universities (N = 174)*

<b>Strata Name</b>	<b>Public Sector Universities</b>	<b>Population</b>	<b>Sample</b>
Pb 1	Abdul Wali Khan University, Mardan	49	19
Pb 2	Hazara University, Mansehra.	43	17
Pb 3	Islamia College University, Peshawar	34	14
Pb 4	KUST Kohat	31	13
Pb 5	Shaheed Benazir Bhutto University, Sheringal	35	14
Pb 6	S. Benazir Bhutto Women University, Peshawar	41	17
Pb 7	University of Malakand, Chakdara	43	17

Pb 8	University of Peshawar, Peshawar	73	29
Pb 9	University of Science and Technology, Bannu	32	13
Pb 10	Gomal University, D.I. Khan	36	15
Pb 11	IM Sciences Peshawar	13	6

Table 2 *Population and Sample of Private Sector Universities (N = 57)*

Strata name	Private Sector Universities	Population	Sample
Pr1	Abasyn University, Peshawar	12	5
Pr2	CECOS University of IT & Emerging Sciences, Peshawar	13	5
Pr3	City University of Science & Information Technology, Peshawar	15	6
Pr4	Preston University Kohat	17	7
Pr5	Qurta University, Peshawar	16	6
Pr6	Sarhad University, Peshawar	27	11
Pr7	GIK Swabi	19	8
Pr8	Nothern University Nowshera	23	9

## Results and Discussion

The current study employed Principal Component Analysis (PCA), KMO and BTS, and the correlation matrix to validate the given instrument for data collection as well as to ensure the sample adequacy for the study.

### Reliability and validity

Cronbach's Alpha test was used for the reliability of each instrument using either independent variables or dependent variable measurement. Cronbach's Alpha has been recommended by different other researchers like Byrne, (2010) and Kline, (2011). The tables given below show the reliability statistics for each instrument of the study. According to Hair et al. (2017), Cronbach's Alpha values should be equal to or greater than 0.6. A greater value for Cronbach Alpha like 0.70 considers greater reliability. The table that follows demonstrates that both the independent variables, such as facilitating adaptability, synthesizing information, implementing deliberate strategy and Championing alternatives dependent variables, such as strategy implementation, have a greater Cronbach's Alpha value, which is almost greater than 0.70 for each of the given instruments. Other methods that can be utilized to determine whether or not a particular instrument can be relied upon are as follows: rho, where the threshold value for which is greater than 0.70; composite reliability, where the standard limit for which is larger from 0.70; and for convergent validity, the AVE, where the value should be larger from 0.50 (Hair et al. 2017). The findings of each instrument are presented in the table below, which was generated by utilising Smart-PLS.3. Each of these findings fall within the normal range, showing that each construct used in the research, whether for the

independent variable or the dependent variable, is reliable. In addition, convergent validity has indeed been proven, allowing more study to be undertaken on the issue.

Table 3 *Construct Reliability and Validity*

	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
Champ_Alter	0.898	0.957	0.927	0.762
Facili_Adapt	0.817	0.7	0.727	0.544
Imp_Deleb_Strgy	0.916	0.934	0.936	0.786
Strategy_Imp	0.817	0.829	0.792	0.626
Synth_Inform	0.947	0.947	0.96	0.826

**Discriminant validity**

The HTMT and the Fornell-Larcker Criterion are two methodologies for assessing discriminant validity. According to Fornell and Larcker (1981), Discriminant validity may be shown if the square root of AVE in each latent variable is greater than other correlation coefficients between the variables. The square root of AVE is computed by hand and placed in a visible place along the diagonal of the table. Table's bottom left triangle contains latent variable correlations taken directly from "Latent Variable Correlation" section of default report.

Table 4 *Discriminant Validity by using Fornell-Larcker Criterion*

<b>Variables</b>	<b>Champ _Alter</b>	<b>Facili _Adapt</b>	<b>Imp _Del_Str</b>	<b>Sy_In</b>	<b>Stra _Imp</b>
Champ_Alter	<b>0.872</b>				
Facili_Adapt	0.158	<b>0.782</b>			
Imp_Deleb_Strgy	0.167	0.13	<b>0.888</b>		
Strategy_Imp	0.156	0.398	0.069	<b>0.84</b>	
Synth_Inform	0.211	0.634	0.123	0.479	<b>0.909</b>

*Note: The square roots of AVE are shown diagonally in bold*

The value of the calculated AVE is written in bold in diagonal lines for all variables of the study. To establish the Discriminant validity each AVE calculated should be greater than both from horizontal line correlation as well as values given below the AVE calculated values. In this table, the AVE values are greater for synthesizing information, implementing deliberate strategy championing alternatives and facilitating adaptability in their respective columns and rows correlations values. It has now been determined that the Discriminant validity has also been confirmed based on the results.

### Discriminant validity (HTMT0.90 Criterion)

If the HTMT score is less than 0.90, Discriminant validity between two reflective constructs will consider being established.

Table 5 Discriminant Validity (HTMT0.90 Criterion)

Variable	Champ	Facili	Imp_Del	St.imp	Synth_I
Champ_Alter	1.00				
Facili_Adapt	0.344	1.00			
Imp_Deleb_Strgy	0.186	0.14	1.00		
Strategy_Imp	0.303	0.39	0.178	1.00	
Synth_Inform	0.225	0.5	0.115	0.304	1.00

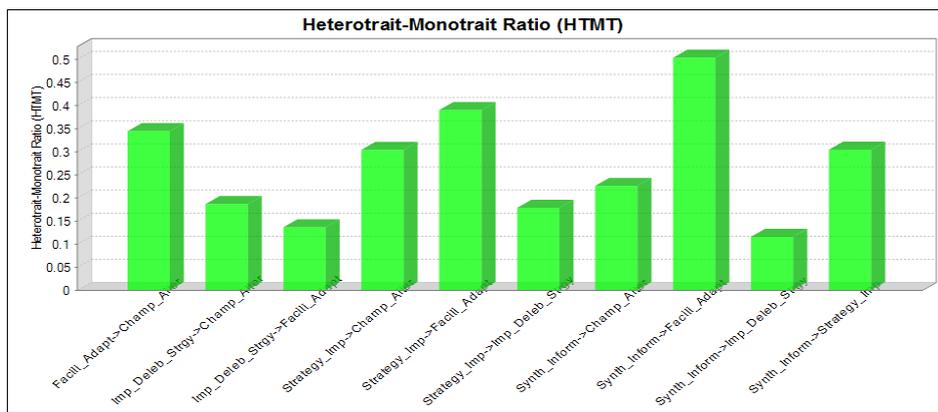
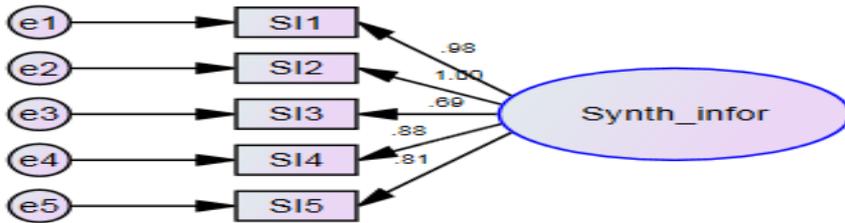


Figure 1 Discriminant Validity (HTMT0.90 Criterion)

### Structural equation modeling (SEM)

According to Kline, (2016), there are multiple models available in Structural Equation Modeling (SEM) for checking the relationship between observed variables given in the theoretical models of the study. With the help of SEM, the developed constructs are validated for further hypothesis testing in the study. SEM checks whether the observed data support the hypotheses of the study or not. The present study included four constructs of independent variables which include; synthesizing information, implementing deliberate strategy championing alternatives and facilitating adaptability. Strategy implementation has been used as a dependent variable construct. This study included each construct for confirmatory factor analysis to ensure data fitness for measurement models as well as for structural models.

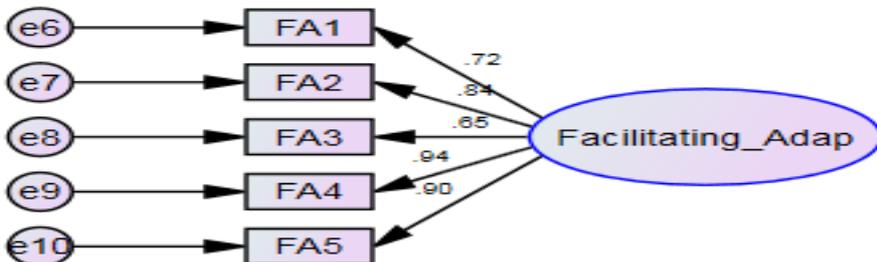
**Confirmatory Factory Analysis (CFA) for Synthesizing Information**



*Figure 2 Synthesizing Information Model*

The accompanying diagram depicts the measuring model for the concept of information synthesis. This model has a single reflecting factor with five components. The findings of the measurement confirmation analysis indicate that the supplied model is a good fit. The model fit indices also demonstrate excellent model fit, as illustrated below:

**Confirmatory Factory Analysis (CFA) for Facilitating Adaptability**



*Figure 3 Facilitating Adaptability (FA)*

*Table 6 Baseline Comparisons for Model Fit*

Model	CMIN/DF	NFI	RFI	IFI	TLI	RMSEA
<b>Default model</b>	3.792	0.97	0.93	0.97	0.94	0.97

In the above diagram, we can see how facilitating adaptability is measured. An integrated 5-item reflection factor is used in this model. Results from the examination of confirmed measurements indicate that the proposed model is a suitable fit. Here, a p-value of less than 0.001 i.e., p 0.001 indicates that the Chi-square value is really statistically significant. In addition to the RMSEA, the findings of the following model fit indices are also promising:

Table 7 Baseline Comparisons for Model fit

Model	CMIN/DF	NFI	RFI	IFI	TLI	CFI	RMSEA
Default model	2.69	0.92	0.89	0.92	0.85	0.92	0.09

### Confirmatory Factory Analysis (CFA) for Championing Alternatives

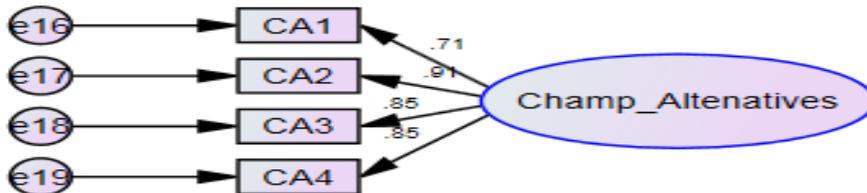


Figure 4 Championing Alternatives (CA)

In the following diagram, we can see how championing alternative is measured. The 04 components in this model all contribute to a single reflective factor. Results from the examination of confirmed measurements indicate that the proposed model is a suitable fit. A good model fit is also shown by the model fit indices in this case:

Table 8 Baseline Comparisons for model fit

Model	CMIN/DF	NFI	RFI	IFI	TLI	CFI	RMSEA
Default model	2.36	0.96	0.88	0.96	0.89	0.96	0.087

### Confirmatory Factory Analysis (CFA) for Implementing Deliberate Strategy

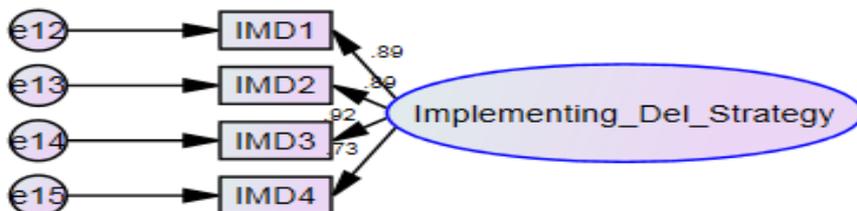


Figure 5 Implementing the Deliberate Strategy Model

The graphic above is a measuring model for the concept of implementing deliberate strategy. In this scheme, we have a single component that is reflecting and it has four things. The findings of the analysis of confirmed measurements demonstrate the validity of the proposed model. Here, too, we see excellent results from the model fit indices:

Table 9 Baseline Comparisons for Model Fit

Model	CMIN/DF	NFI	RFI	IFI	TLI	CFI	RMSEA
Default model	2.421	.958	.873	.960	.880	.960	.0967

**Summary of Confirmatory Factory Analysis (CFA) for all Independent Variables**

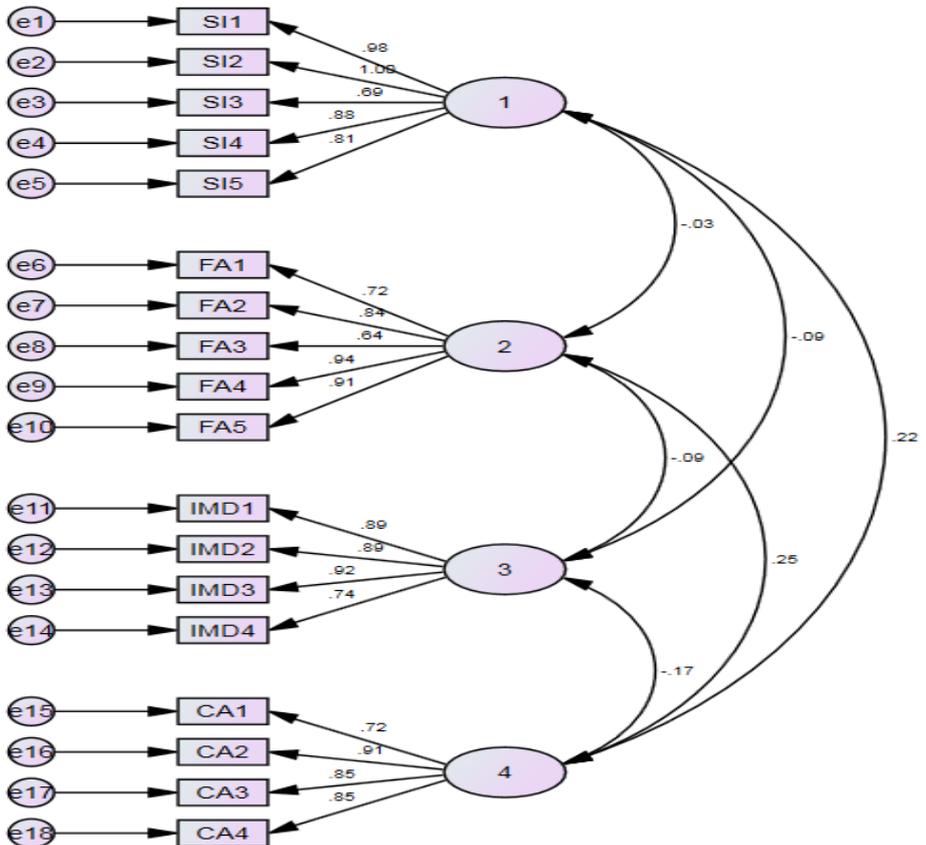


Figure 6: Summary of Confirmatory Factory Analysis (CFA) for all independent variables

The above diagram depicts the model for evaluating all of the independent variables. A total of 18 elements comprise the single reflective factor in this model. Results from the examination of confirmed measurements indicate that the proposed model is a suitable fit. A good model fit is also shown by the model fit indices in this case:

Table 10 *Baseline Comparisons for Model Fit*

Model	CMIN/DF	NFI	RFI	IFI	TLI	CFI	RMSEA
Default model	2.404	.920	.905	.951	.942	.952	.078

### Confirmatory Factory Analysis (CFA) for Strategy Implementation

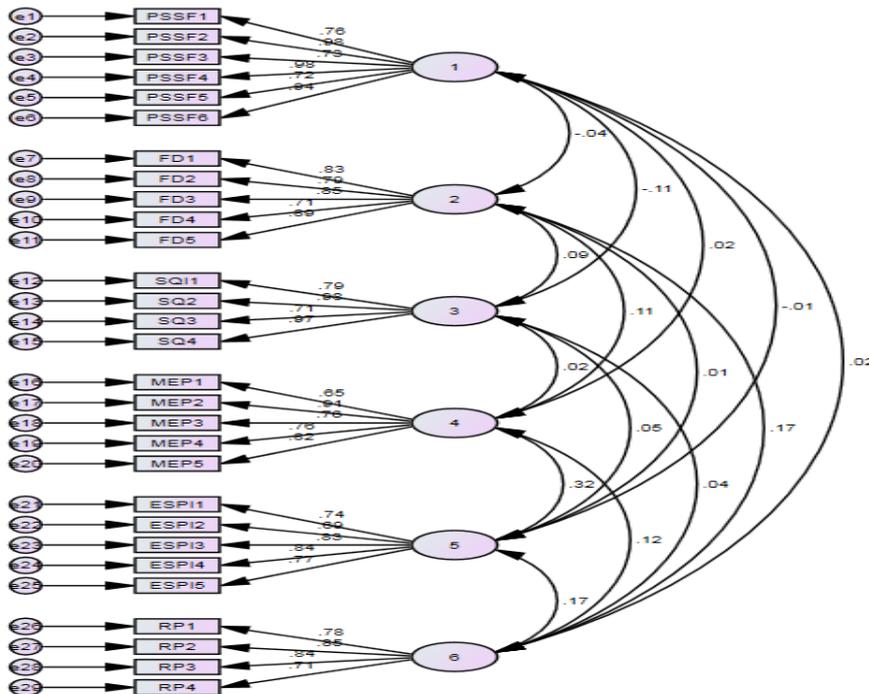


Figure 7 Strategy Implementation Model

The above diagram depicts the build measurement model for strategy implementation. A total of 29 elements comprise the sole reflective component in this model. Results from the examination of confirmed measurements indicate that the proposed model is a suitable fit. Here, a p-value of less than 0.001 i.e.,  $p < 0.001$  indicates that the Chi-square value is really statistically significant. In addition to the RMSEA, the findings of the following model fit indices are also promising:

Table 11 Baseline Comparisons for Model Fit

Model	CMIN/DF	NFI	RFI	IFI	TLI	CFI	RMSEA
Default model	3.44	.872	.854	.925	.892	.885	.109

### CFA for Overall SEM, Test of Reliability and Validity

In the previous sections, the results of Confirmatory Factor Analysis (CFA) for each component were presented separately. To assess the overall model goodness of fit, additional statistical analysis in the form of Confirmatory Factor Analysis (CFA) and Principal Confirmatory Analysis (PCA) is required. The maximum likelihood technique is used to determine the overall model goodness of fit. All of the goodness of fit indices in this investigation agreed with the overall

measurement scales. With a P-value of 0.000, the chi-square test and all other major models for fitness indicators tests, as well as the degree of freedom, produce significant results. All models of fitness indices such as CFI = 0.915, GFI = 0.912, SRMR = 0.081, and RMSEA 0.037 were used in this investigation. Using reliability statistics for the provided instruments, ensure that the internal elements are consistent with one another. Hair, among other things (Hair et al., 2018). A figure greater than 0.70 is considered acceptable in reliability statistics. Aside from that, another method for measuring the constructions' dependability is the variance extracted approach. The larger the variance extracted method's values, the better the dependability statistics will be, according to this approach. To be considered acceptable, the recovered variance values must be more than 0.50.

The above structural model illustrates the predicted relationship between four explanatory factors and a single outcome variable. The t-values of 2.900, 3.796, 4.915, and 0.643, respectively, for the management duties of advocating alternatives, implementing deliberate strategy, synthesizing information, and promoting adaptation, all showed statistical significance at the 0.0001 level, confirming the associations. The path coefficients of 0.234, 0.213, 0.290, and 0.045 show significant correlations between the first three predictor variables and the dependent variable (strategy implementation), supporting H1, H2, and H4 while showing insignificant values for implementing deliberate strategy and strategy implementation, but not supporting the last of H3.

### **The coefficient of determination (R<sup>2</sup>)**

Overall, a model's projecting power may be measured by its coefficient of determination (R<sup>2</sup>). It provides an explanation for the total amount of variability in the dependent variables attributed to all predictor factors. There is no consensus among scholars on what constitutes a sufficient R-squared number. The thresholds for high, moderate, and weak R<sup>2</sup> values were calculated to be 0.75, 0.50, and 0.25, respectively (Hair, et al., 2011). To determine whether or not one or more exogenous factors significantly explain the variation in endogenous variables, Falk and Miller (1992) suggested using an R-squared value of 0.10. Cohen (1988) suggests using a R square value of 0.26 (considerable), 0.13 (moderate), and 0.02 (minimal) as cutoff and recommended values (weak). The value of R<sup>2</sup> depends on the discipline in which the research study has been conducted. For some disciplines, this value lies close to a high threshold value and in another discipline, the value is either close to 0.50 or 0.25. In this study, the value of R<sup>2</sup> is 0.52 which shows the ideal predictive capability of the given model. Using the R<sup>2</sup> value alone to indicate a model's predictive potential is a poor technique, especially when the model contains more exogenous factors. The adjusted coefficient of determination (R<sup>2</sup> adj) is used to address this bias, which takes into account the number of

predictor variables as well as the relative sample size. The current model's modified R<sup>2</sup> value is 0.37. Researchers also propose several statistical metrics, such as the f<sup>2</sup> impact size and Q<sup>2</sup> predictive relevance, to describe how much each predictor variable contributes to the dependent variable. Because the current study's model comprises four exogenous factors and only one endogenous variable.

#### **The effect Size f<sup>2</sup> of model (Step 4)**

By making the value of f<sup>2</sup> explicit, it would be possible to correct any biases or constraints associated with R<sup>2</sup>. The removal of a predictor variable or construct from the model and the documentation of the corresponding change within R<sup>2</sup> value of the model is done in order to establish the significant impact of a predictor variable or explanatory variable in establishing the variance of a dependent variable. This is done so that it is possible to determine whether or not the predictor variable or explanatory variable is responsible for the majority of the variance of the dependent variable. This is done so that the significance of the impact of the predictor variable or explanatory variable can be established. Effect Size f<sup>2</sup> is the name of this metric. The routing model estimates twice while determining the effect size f<sup>2</sup> in PLS. When a specific predictor variable is included for the first time, and then when it is omitted for the second time. The Effect Size f<sup>2</sup> values for small, medium and large effects are 0.02, 0.15, and 0.35, respectively (Cohen, 1988). The dependent variable is unaffected by predictor factors with an f<sup>2</sup> less than 0.02. The middle-management role of synthesizing information, implementing deliberate strategy championing alternatives and facilitating adaptability have a substantial influence with f<sup>2</sup> of 0.281, 254, and 293 in the current model, whereas the FA has a slight effect with f<sup>2</sup> of 0.021.

#### **Predictive relevance Q<sup>2</sup> (Step 5)**

Predictive relevance Q<sup>2</sup> can also be used to measure how much R<sup>2</sup> a model has in terms of predicting accuracy. Smart-PLS3's blindfolding method, in which an observation is omitted after a predetermined distance D, can be used to obtain this value. Each data point of the distance is eliminated from the indication when the dependent variable's indicator is blinded, and parameters are derived using the remaining data (Henseler, et al., 2009; Lauro, 2005). These missing data points are treated as missing values by Smart-PLS, and they are calculated as such. The predictive relevance of Q<sup>2</sup> is determined by the difference between the omitted and expected values. There are three levels of predictive significance: small, medium, and large. Q<sup>2</sup> values of 0.02, 0.15, & 0.35, respectively. To compute the predictive relevance of Q<sup>2</sup>, both the cross-validated redundancy technique and the cross-validated communality approach can be employed. A cross-validated redundancy approach was applied in this study. The blindfolding method is often utilized when the dependent variables have a reflective model that has already been addressed. In this study, the endogenous variable (i.e., strategy implementation) has a predictive relevance of Q<sup>2</sup> = 0.452, indicating that the model is highly predictive.

### **Calculating the effect size $q^2$ (Step 6)**

The effect size  $q^2$  investigates the proportionate influence of predictive significance, whereas the effect size  $f^2$  analyses  $R^2$  values. The difference in R-Square after an exogenous variable has been eliminated from the model is equivalent to the value of F-Square. The F-square, according to Cohen (1988), represents the size of the influence (a small value equals 0.02, a medium value equals 0.15, and a big value equal 0.35). Based on the statistical test  $Q^2$  which measures the predictive relevance, different effect sizes, for example 0.35, 0.12 and 0.02 were categorized as larger, medium and small respectively in order to check the predictability of the independent variables. In order to measure the predictive relevance of the independent variables in this study the  $Q^2$  score is 0.43 which comes under most favorable category of the predictability of the model. Falk and Miller (1992) recommended that the threshold value for significant R-square is equal to 0.10 to explain the variance in endogenous variables caused by one or multiple exogenous variables. According to Cohen (1988), the recommended and threshold R square values are 0.26 (substantial), 0.13 (moderate), and 0.02 (weak).

### **Conclusion**

The main aim of the study is to examine the middle management roles and influence in an effective strategy implementation in both public and private universities in Khyber Pakhtunkhwa, Pakistan, plays a role in facilitating adaptability (FA), championing alternatives (CA), synthesizing information (SI), and making deliberate strategy implementations (DSI). We theoretically devised and experimentally evaluated an inclusive model of the influence of four distinctive strategizing roles of middle-management for the purpose of successful strategy execution and its dimensions. Strategy implementation consists of service enhancement, market growth, and student facilities was shown to be significantly influenced by middle management's strategic tasks of advocating alternatives (CA), synthesizing information (SI), and executing deliberate strategy (IDS). The results also showed that the strategic role of middle management in facilitating adaptability (FA) in strategy implementation is not significantly related to FA. Management and policymakers in Khyber Pakhtunkhwa, Pakistan, may use findings of the study to better understand the critical nature of middle management in higher education, particularly as it pertains to the development and execution of effective strategies in the setting of universities there. As a result, the research has relevance for both academia and business professionals in the administration as well as in the management of organization.

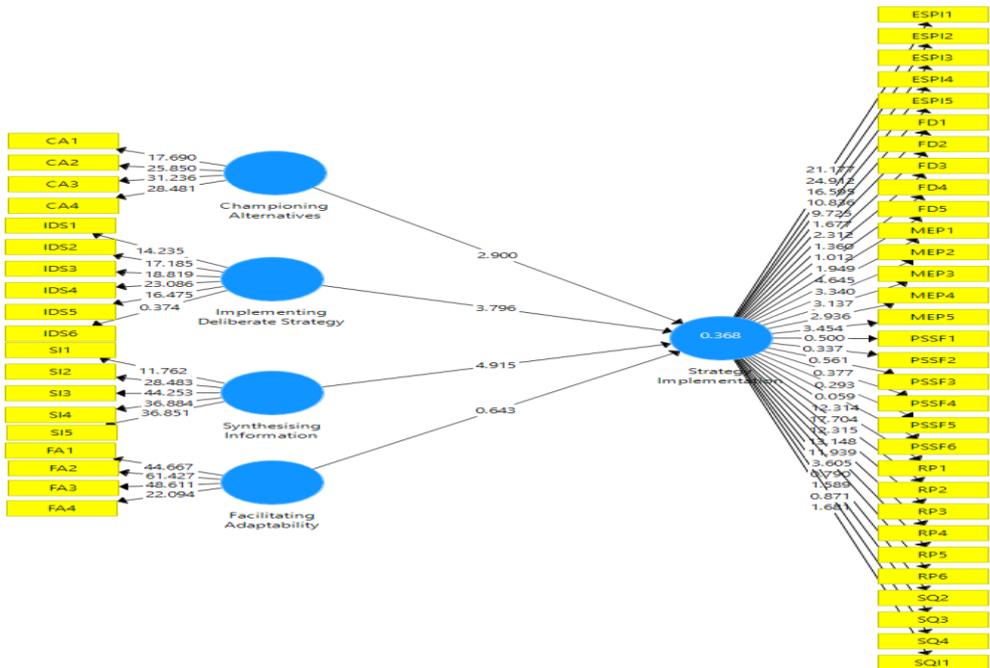


Figure 8 Path Coefficients and T Values and R Square of Structure Model for Strategy Implementation

Four distinctive strategizing roles of middle management in strategy implementation and its different unique dimensions were theoretically developed from the literature review and empirically tested as part of a single, unified model. Specifically, the results showed that the strategy implementation’s dimensions of research promotion in the university, the provision of quality education to students, expanding the markets by developing linkages with other universities and industries, and facilitating students through career counseling is significantly influenced by strategizing roles of middle management which include implementation of deliberate strategy, synthesizing information (SI), championing alternatives (CA). However, the results for the strategizing role facilitating adaptability in strategy implementation was insignificant in the context of university settings in both public and private sector universities. This may be because of the adaptation of formal procedures for conducting day today activities and formal organization structures. This study’s findings give management and policymakers with sufficient information to understand the significance of middle-management positions in academia for effective strategy creation and execution in the university contexts of both sectors universities of Khyber Pakhtunkhwa, Pakistan. Thus, the study has both theoretical as well as academic and professional contributions for scholars, administrators and management of different educational and other similar institutions. For successful and effective strategy implementations, policymakers and decision-makers in both the public and private university

sectors of Pakistan should consider the major middle-management tasks of promoting alternatives, synthesizing information, and executing a deliberate plan. According to empirical evidence, each of these three middle management roles has a considerable and positive contribution and influence on the critical strategy implementation components of enhancing student enrollment, launching aggressive promotional campaigns, especially in the untapped market, introducing attractive scholarships for talented students, and increasing alumni activities on campus.

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# THE EFFECT OF LEADERSHIP BEHAVIOURS OF MANAGERS WORKING IN BANKING SECTOR ON EMPLOYEES' JOB SATISFACTION: THE EXAMPLE OF AĞRI PROVINCE

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**Abstract.** *The aim of this research is to look into the effects of leadership behaviors of managers in the banking*

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*sector in Ağrı province on employees' job satisfaction. The sample of the research, which was designed within the framework of the survey model within the quantitative research method, consists of 130 employees of public and private banks in Ağrı province. In the study, personal information form, job satisfaction scale and leadership styles determination scale were used as data collection tools. The study used descriptive statistics for the analysis of the data. IBM SPSS 26 package program was used to analyze the data collected in the study. Results of the study revealed a positive relationship between job satisfaction and leadership behaviors. The study has implications both for the new researchers and the policy makers of the Agri province. This is the first study in the Agri province in the banking sector.*

**Keywords:** Banking Sector, Leadership Behavior, Job Satisfaction

## 1 Introduction

Banking is an important sector for both Turkey and other developing countries. The development and growth of the economic systems of countries are closely related to the effective implementation of banks' role as intermediaries for savings and investment. Leadership as a concept has been the subject of scientific research since the early 1900s and many definitions have been created by studying the concept. As a result of the studies carried out, it is observed that more than three hundred and fifty definitions of leader and leadership addressing many fields have been realized due to its presence in different fields of science (Erçetin, 2000). As a result of people starting to live together, the concept of leadership has become more prominent. Although people are social beings living in groups, they would need people to enable them to live in a well-coordinated and managed society they are supposed to live in. Therefore, leadership is a concept as deep-rooted as human history. It can be said that there is a leader in every part of the society in which people live (Aslan & Özata, 2009).

Satisfaction is defined as obtaining what one desires (Saruhan & Yıldız, 2012). It is expressed as the effort to create a product or return for a price, which occurs in

certain periods in line with the objectives within the organization and which also creates some relationships. From organization point of view, it is the accumulation of feelings related to the work of the employees in the organization. It is a situation wherein an individual personally achieves a sense of completion as a result of the conditions provided by the organization to the individual (Özpehlivan, 2018). It is a very critical issue for organizations. Job satisfaction levels of the employees directly affect the performance, productivity and quality of the organization and in addition, it is attributed to be important because it affects the intention to leave the job (Akıncı, 2002).

In this satisfaction of an employee, there are a number of factors that contribute. Leadership is one factor that either positive or negative effects on job satisfaction. This is undoubtedly due to the fact that it is known how important the concept of leadership is for organizations. Leadership is related to the management of employees, who are the most critical resources of organizations and who activate the different resources of the organization, and it affects employees in terms of achieving the goals. Job satisfaction is one of the most critical factors that increase the contribution of employees to organizational goals.

Civilized managers are expected to make the necessary efforts to ensure and increase the job satisfaction of their employees. The most important issue is that managers should get rid of their existing prejudices in order to ensure employee satisfaction. Among the most important factors affecting employee satisfaction and employee complaints within the organization are the leadership behaviors exhibited by managers. After increasing the job satisfaction levels of the employees once, it is important that the managers make continuous efforts to ensure that the job satisfaction levels remain at a constant level.

The present world has been experiencing tough competition wherein organizations are required to enable their employees to work in the most efficient way. This necessity increases the degree of importance attributed to the issue of ensuring job satisfaction of employees. Organizations have to determine and improve the factors that affect high job satisfaction within the organization for the determined goals and objectives. The leadership attitudes exhibited by managers affect employees in many ways and similarly, their presence affects the leadership behaviors of managers. Providing the factors that have an impact on increasing the job satisfaction of employees is among the most important responsibilities of leaders. Therefore, this research aims to clarify this issue and focuses on the quality of leadership approaches that may increase employees' job satisfaction.

### **Literature Review**

It is critical that the leadership style exhibited is equal to the leadership behavior expected by the employees. There is a positive correlation between job satisfaction and organizational commitment when the leadership style exhibited is close to the

leadership style expected by the employees and can meet their demands. In this study, a positive relationship between job satisfaction and leadership behavior was determined. Researchers (e.g., Tengilimoğlu & Yiğit, 2005) believe that job satisfaction increases when leadership approaches are within the expectations of employees. In this context, Bryman (1992) found that transformational leadership styles significantly affect important organizational outcomes, including job satisfaction and organizational citizenship behaviors. In this study, a positive relationship between job satisfaction and leadership behavior was found. Similarly, Chen (2004) states that employees are more satisfied with the leadership attitude in which employees are supported, their commitment to the organization increases and they are more satisfied with their work. In this study, a positive correlation was found between job satisfaction and leadership behavior.

Extant literature (e.g., Gharibvand et al., 2013) talks about the existence of a positive relationship between transformational leadership behavior and job satisfaction of employees. Elpers and Weshuis, (2008) believe that it is the difference between the leadership behavior applied by managers and the leadership behavior expected by employees that causes job dissatisfaction. Similarly, there are researches (e.g., Madlock, 2008) see a positive relationship between leadership attitudes and job satisfaction of the employees. However, there are studies (e.g., Boğa, 2010) that found a negative correlation between the leadership behaviors exhibited by managers and perceived leadership behaviors in terms of job satisfaction and leadership behaviors. This study is supposed to validate this relationship empirically.

## **Leadership**

Many studies have been conducted that look at leadership as a social phenomenon and different approaches have been included. Leadership is as old as human society is. However, its importance has been increasing day in and day out. For this reason, many definitions and explanations have been put forward around leadership as a word meaning. Although many researches have been carried out on it and different diagnoses have been obtained, a common idea has not been reached. Leadership has been seen as a complex subject due to the existence of different definitions and lack of consensus, and accordingly, it has been considered as a subject of study. Accordingly, leadership is a management tactic developed to adapt to a globalized and ever-changing world. As the requirements of the age, it constitutes the orientation to address change in every aspect, including social, economic and technological developments, and to develop and implement new management tactics at every moment of the operating time.

When we look at the ancient times of humanity, individuals have come together to form a society and have been in search of a guide for the society. Within the framework of this need humanity has created various definitions in the

phenomenon of leadership. In line with the concepts put forward in the field of leadership, a leader is an intelligent, talented and equipped person who keeps individuals together within the framework of common values; guiding, encouraging and supporting the steps to be taken. Of course, one of the most important characteristics that a leader should have the ability to gather people around common values. Accordingly, these individuals gathered around common values must also be provided with the necessary motivation. Since the transition to settled life, people have needed a leader to guide them and have been in search of a leader, and the origin of the concept of leadership, as we mentioned, dates back centuries ago. The constant change and development of many points of life, including technology, social and cultural, has made it inevitable that leaders must keep up with the requirements of the age at every moment of time. Today, however, this has become more difficult. There have always been different definitions for the concept of leader. According to the requirements of the era, a leader should be able to use his/her knowledge and abilities depending on the ever-changing conditions of the era, and should be able to influence and guide people in this way. Although there are different definitions, the clearest idea to be drawn from this is that the leader must be a part of change and development. Of course, adapting to change is not so easy. The leader who can be a part of the change should be prudent and impose this to the individuals around him/her. The way to make people who are a part of the organization accept him/herself is expected to be always open to change and equipped to lead the future, rather than using the power of sovereignty and expecting obedience as in the traditional leadership concept. In this way, the existence of the organization will be longer lasting in every developing and changing moment of time.

**Importance of leadership.** The developing competitive environment and the sophisticated structures of organizations demand good leaders which reflect the importance of leadership. In the technological world elements are in a state of change and development day by day. The main task that organizations need to do in order to maintain their existence is to adapt to change. In order to achieve such a result, they need to acquire the right knowledge and use this knowledge correctly. Therefore, every organization will need a leader. The reason why an individual in the position of a leader is so important for an organization is that the functioning and projects of the organization are not sufficiently equipped about the future. The working field of organizations is highly effective and sensitive in terms of its structure, open to change in terms of its structure, and has qualities such as a significant number of human variables being imprudent and sophisticated. For this reason, the leader of the organization must have all the necessary equipment and privileges. In this way, leaders can have high potential with the data they possess. In this volatile world, adoptive than conventional leaders are the need of the day.

Issues such as being open to the developments of our age, complexity caused by development, resistance to change, rapid development and change have gained

an important role in the lives of individuals and organizations. The continuous change in technology and science has led to the emergence of networks and virtual tools by developing structures and loyalties. As a result of this development, organizations have had to compromise both internally and with the outside world. In this adventure, the duties and responsibilities imposed on the leader have also been in a constant change. Therefore, leaders are constantly changing and renewing their strategies due to this change.

Today's leaders should carefully monitor current developments and work to make the organization compatible. Leaders a few years later will be able to easily adapt to the pace of change of the age with their level of education and prudence. Accordingly, with the right knowledge and skills, they will be able to increase their level of influence on employees and customers, make their organizations exist in the new world order and strengthen the steps taken towards the future.

### **Leadership and management**

In the literature, it is argued that there is a difference between the phenomenon of management, which is a tool for achieving organizational goals and objectives, and the phenomenon of leadership (Tengilimoğlu, 2005). However, one of the most debated issues about leadership is whether leadership is a different function and activity from management. Although the phenomena of management and leadership seem to be closely related, they are not synonymous. There may be leaders who do not have a managerial role, and there may be people who do not have a managerial role but have leadership qualities. A director can be somebody who is working for others, strives to achieve a given goals, plans, organizes, directs, coordinates, monitors and evaluates the results obtained and makes effective decisions as a result (Adıgüzel, 2020). On the other hand, a leader is a person who determines the goals of the organization to which he/she belongs and influences and mobilizes the members of the organization according to these goals. A leader is a person who reveals the common thoughts and desires of the members of the organization, but who has not been clarified as an acceptable goal, and who mobilizes the latent power of the group members around this goal. This is the main difference between manager and leader. While the manager serves the purposes set by others, the leader emerges from the organization in which he/she works, directs the same organization towards the behavior determined by him/her and sets the goals himself/herself. While the essence of management is to achieve results by managing others and the work, they are responsible for, the essence of leadership is to influence others and achieve results. While management is the authorization to have legal rights and authority, leadership is the ability to use personal power arising from one's nature. Personal characteristics, self-concept, knowledge of work, work style, the sources of power they use to influence people, views on events, attitudes towards work, risk-taking, etc. are all important factors between

leaders and managers. There seems to be a difference. Although there are differences that are generally accepted in studies, there are also those who like to highlight different aspects. These differences have been shown and listed by researchers from different points of view. Literature on the difference between the two concepts is summarized below:

- ✓ Managers are administrators, leaders are reformers.
- ✓ Managers are not original, leaders are original.
- ✓ Managers try to protect what they have; leaders try to modernize it.
- ✓ Managers target systems and structures, leaders target individuals.
- ✓ While managers try to keep their staff under control, leaders inspire them with confidence and inspiration.
- ✓ Managers accept reality as it is, while leaders control reality.
- ✓ Managers contemplate short-range and leaders contemplate long-range.
- ✓ Managers need to ask "how" and "when", leaders need to ask similar questions of "what" and "why".
- ✓ Whereas managers accept the status quo, leaders challenge it.
- ✓ Managers are usually imitators; leaders are unique personalities.
- ✓ While managers accept the status quo, leaders challenge it.
- ✓ Managers are typically good soldiers, while leaders have their own unique personalities.

### **Job satisfaction**

Achieving what one wants and reaching satisfaction is described as satisfaction (Saruhan & Yıldız, 2012). Work is the effort to create goods or services in return for receiving a wage, which occurs at a certain time in organizations within the framework of a certain purpose and reveals a number of relationships. Achieving voluntary satisfaction or the realization of desired events are also among the definitions of the concept of satisfaction. It would not be out of place to say that job satisfaction is the accumulation of emotions of the employees of the organization in relation to their work. The person has internal and external satisfaction. Internal satisfaction is the satisfaction provided by the individual as a result of his/her subjective attitude. External satisfaction is made possible by the conditions offered to the individual by the organization (Özpehlivan, 2018).

Job satisfaction is the attitudes and reactions that an individual develops towards his/her job, as well as the ability of an employee who is satisfied or dissatisfied with his/her job to respond to the expectations and needs of the person in terms of social and economic aspects, work and workplace. Job satisfaction is

important for both individuals and organizations. Because in organizations where job satisfaction is high, productivity, profitability and loyalty to the enterprise also increase, absenteeism may decrease and as a result, a positive atmosphere prevails in the enterprise. If job dissatisfaction is high, conditions such as absenteeism, intention to leave, poor work ability, psychological and physical illnesses caused by individual factors such as age, education level, gender, marital status, job satisfaction are affected by organizational factors such as earnings, experience, location, job security, promotion opportunities and rewards. People work to fulfil all their needs and expectations in order to sustain their lives. They expect material and immaterial rewards in return for their work. Again, the higher their expectations are met, the more satisfied and happier they will be. Over time, employees can develop a behavior towards the enterprises and individuals in the enterprises in which they work. In the process of determining attitudes, job knowledge, work environment and all tendencies related to the result of the work play a role. As a result of these attitudes, results such as job satisfaction or dissatisfaction arise. If the attitude is positive, the person will be satisfied with the job. However, if the attitude is negative, the person will be dissatisfied with the job (Aksu, 2012).

It can be said that job satisfaction became more important in the 1930s and 1940s. Despite many researches, it would not be wrong to argue that a clear definition of job satisfaction has not yet been reached. However, two common points have been identified in all definitions created since 1900s. Among these, happiness and satisfaction are the common denominators (Gümüş & Sezgin, 2012). In the simplest definition, job satisfaction is the reflection of the feelings towards the organization depending on the material and psychological fitness of the staff. In other words, we can say that satisfaction of job is a consideration of the benefits provided to the individual by the organization and a reflection of happiness after the relationships established with other people (Çetinkanat, 2000). According to him there are two important reasons for job satisfaction. These are:

- Employees' feelings about their jobs are important for both themselves and their jobs.
- Employees' job satisfaction helps employers to obtain information about the level of performance and productivity of their employees or how they are developing.

What Feldman and Hugh want to explain in the first article is that the positive or negative situations that employees experience in their jobs affect their feelings towards their jobs and reflect them to their environment, other members in the organization or their families. In this direction, it can be stated that job satisfaction affects employees mentally and physically. In the second article, it is stated that it helps to ensure the control of managerial changes, conformity or deficiency

situations and thus provides an effective functioning (Çetinkanat, 2000). Various definitions have been developed emphasizing different aspects of the phenomenon of job satisfaction arising from work-human relations.

In fact, job satisfaction, which can be considered as a personal concept, is an important issue for organizations. Employees' job satisfaction is considered important because it directly affects an organization's performance, productivity and efficiency levels, as well as the intention to quit. Low employee satisfaction in an organization indicates deteriorating framework conditions. Employees who are dissatisfied with their jobs weaken the organization against both internal and external threats. For this reason, job satisfaction is as important for an organization as it is for an employee. It is one of the duties of managers to increase employee satisfaction and to conduct surveys to increase satisfaction (Akıncı, 2002). The attitudes necessary for managers to increase job satisfaction are as follows (Akıncı, 2002):

- To be able to establish a quality communication with its employees,
- Endeavour of the management staff to solve employee problems,
- Ensuring the coordination of employees with each other,
- Ensuring the participation of employees in decision-making processes,
- It is required to share the information arising as a result of the work done with the employees.

Significant behavioral consequences arise when employees fail to meet their expectations in their jobs. However, the passivity, lack of responsibility and reactivity of the employee should not be attributed entirely to his/her temperament. These behavioral patterns are the indicators of the discomfort felt by the employees as a result of not meeting the needs of their social self. If employees cannot fulfil their needs for themselves through work, the following symptoms emerge (Eker, 2006):

- Laziness
- Passivity
- Resistance to Change
- Avoiding Responsibility
- Unrealistic Economic Demands
- Low Work Efficiency
- Social and Mental Disorders
- Burnout Syndrome

**Importance of job satisfaction.** Job satisfaction is an important concept in the field of organizational psychology. At the point reached as a result of human relations over the centuries, the importance of attitudes and attitudes that manifest themselves in the workplace is becoming more important. The realization of the relationships provided in the workplace in a correct and mutual understanding

increases the morale of people and increases human relations in a more conscious way. In this direction, employees who enjoy the environment more can provide job satisfaction. Hawthorne studies reveal the basis of human relations. These studies were conducted to test two main assumptions of the classical management approach. These assumptions are as follows (Can et al., 1997).

- There is a direct proportional relationship between the working environment and the productivity of workers.
- People aim to maximize their gains. For this reason, they should develop a method that will provide them with the most profit and the person should be managed externally (Can et al., 1997).

### **Job satisfaction and employee**

Increases and decreases in job satisfaction are active behaviors based on many variables. Attitudes are feelings that determine how employees perceive their environment. An employee's age, status, education level and working hours are important variables that need to be taken into account in determining job satisfaction. In high positions, employees have a high level of job satisfaction due to the coordination of working and wage conditions, and in minor organizations due to co-worker bonds and personal closeness. Job satisfaction is necessary for employees to be worry-free, satisfied and satisfied in the work environment (Aydınlı, 2005).

If an employee comes to the conclusion that the expectations of his/her work and working environment are not met, he/she will not be satisfied with the job. As a result, the efficiency of the employee will decrease, his/her commitment to work will weaken and labor turnover rate will increase. In addition, the health status of the employee will also be negatively affected here. When employees have low job satisfaction, they will be in a state of nervous and emotional breakdown. In people who experience job dissatisfaction, situations such as headache, stress and frustration are frequently seen (Akıncı, 2001). High job satisfaction contributes to the happiness of individuals, while low job satisfaction causes alienation from their jobs. As a result, low job satisfaction leads to indifference and disharmony (Bingöl, 2006).

### **Job satisfaction and employer**

Managers are of great importance in ensuring job satisfaction of employees in an organization. Employees may need to increase their efforts to increase job satisfaction in order to fulfil their jobs efficiently and to provide goods and services. When people believe in the competence of their managers and feel that they are supported, they feel more competent in their work. Personal characteristics of an organization's employees affect job satisfaction. Therefore, a manager's leadership style and individual skills have a significant effect on

employee satisfaction (Çakır, 2001). If the expectations of the employees are fully met by the employers, the employees will stick to their jobs more firmly and this will increase their productivity. Therefore, high job satisfaction of employees will be beneficial for the organization and the level of satisfaction of employers will increase (Aydın, 2005). Job dissatisfaction can lead to passivation and undesirable results in the organization due to the negative situations caused by dissatisfied people. Low job performance, high absenteeism, apathy, conflict and labor turnover are among the undesirable situations (Yeşil, 2018).

### **Consequences of job dissatisfaction**

The results of job satisfaction increase social welfare and economic development as well as improving the physical and mental health of employees, the working environment or business efficiency. On the other hand, job satisfaction indirectly reduces social waste and has a positive effect on savings. Modern management approaches are based not only on profitability, market share and the amount of taxes paid, but also on the measurement of performance with the human dimension (Akıncı, 2001).

Organization managers should not ignore the importance of job satisfaction. Because if job satisfaction is not ensured, in the long term, the organization will not be preferred by the employees, productivity will decrease, production quality will decrease and customer satisfaction will disappear. Such situations will prevent the organization from surviving in the long term (Akıncı, 2001).

### **Method**

The study was conducted using quantitative research methods. It is a research method in which observations and measurements can be made repeatedly with numerical studies. This research includes the survey method model, which is one of the quantitative research methods. The survey model is a research approach that tries to describe the past and present situation as it is. The relational survey model is a survey model that aims to determine the presence and/or extent of co-variance between two or more variables (Karasar, 2015).

### **Sample of the study**

The research was conducted with 130 people working in public and private banks in Ağrı province. Data was collected from these 130 persons through personally administered face-to-face questionnaire.

### **Data collection tools**

In this study, a personal information form consisting of six questions designed by the researcher was used as a data collection tool. In addition to these questions, a twenty-item job satisfaction scale and a thirty-six-item leadership behavior scale were used and a questionnaire was applied to the participants.

"Minnesota Job Satisfaction Scale" was used to measure the job satisfaction of the employees. This scale was developed by Weiss et al. (1967). It is a scale developed to measure the job satisfaction of employees. The Turkish version of the scale was used in studies conducted by Baycan (1985), Oran and Rashid (1989), Özdayı (1995) and Bayraktar et al. (1996). The reliability coefficient for job satisfaction in the scale was determined as 0.86. According to this coefficient, the reliability of the scale is high (Akdoğan, 2002).

Another scale, the Multifactor Leadership Scale, was developed by Bass (1985) to measure leadership behavior based on multiple factors. The Turkish version of the scale was adapted by Akdoğan (2002).

In Akdoğan's (2002) multifactor leadership scale, the maximum confidence value is 0.93 when the whole scale is calculated using Cronbach's alpha method and the minimum confidence value is 0.91 when calculated using the Guttman method. The transformative leadership factor of the scale has a maximum confidence value of 0.93 when calculated using Cronbach's alpha method and a minimum confidence score of 0.95 when calculated using the Guttman method. For the general factor of the sustainable leadership scale, 0.72 was determined by Cronbach's alpha method, .7 for the minimum confidence by Guttman's method and 0.72 for the general leadership of the scale allowing degrees of freedom. It was calculated using the Cronbach's alpha method and the minimum confidence value calculated using the Guttman method is 0.70.

### **Hypotheses of the Study**

- H<sub>1</sub>: There is a positive relationship between leadership behaviors and job satisfaction.
- H<sub>1a</sub>: There is a positive relationship between transformational leadership styles and job satisfaction
- H<sub>1b</sub>: There is a positive relationship between sustaining leadership attitudes and job satisfaction.
- H<sub>1c</sub>: There is a positive relationship between permissive leadership styles and job satisfaction.

### **Reliability analyses of the scales used in the study**

For reliability analysis, Cronbach Alpha coefficient is generally used. Cronbach Alpha coefficient is obtained by finding the variance of the questions in a scale to the overall variance. It takes a value between 0 and 1 and the reliability level increases as it approaches 1 (Karagöz, 2021). Cronbach Alpha coefficient is desired to be at least 0.7 (Altunışık et al. 2012). The results of the reliability analysis are shown in Table 1.

Table 1. *Reliability Analysis*

Scale and Subscales	Cronbach's Alpha	Article Number
Job Satisfaction	0.814	20
Internal Job Satisfaction Dimension	0.740	12
Extrinsic Job Satisfaction Dimension	0.736	8
Transformational Leadership	0.998	19
Sustaining Leadership	0.988	12
Leadership Allowing Freedom	0.984	5

The reliability coefficient of job satisfaction was found to be 0.814, the reliability coefficient of intrinsic job satisfaction dimension was found to be 0.740 and the reliability coefficient of extrinsic job satisfaction dimension was found to be 0.736.

The reliability coefficient of transformational leadership was found to be 0.998, the reliability coefficient of transactional leadership was found to be 0.988, and the reliability coefficient of permissive leadership was found to be 0.984.

It is seen that the reliability coefficients of the scales and sub-dimensions are above the minimum value specified by Altunışık et al. (2012). With these results, it is concluded that the data are reliable.

**Normal distribution analyses of job satisfaction and leadership behavior scales**

One of the ways to understand whether the data are normally distributed is to look at the skewness and kurtosis values. The responses of 4 participants were excluded from the analyses because they contained outliers. Skewness and kurtosis values between -2 and +2 indicate that the data have a normal distribution (George et al. 2010). Skewness and kurtosis values are shown in Table 2.

Table 2. *Data Distribution Characteristics*

Scales and Subscales	Skewness	kurtosis
Job Satisfaction	-0.735	-0.089
Internal Job Satisfaction Dimension	-0.990	-0.406
Extrinsic Job Satisfaction Dimension	-0.115	-0.681
Transformational Leadership	0.080	-1.937
Sustaining Leadership	0.078	-1.921
Leadership Allowing Freedom	0.083	-1.933

The skewness value of job satisfaction is -0.735 and kurtosis value is -0.089, the skewness value of intrinsic job satisfaction dimension is -0.990 and kurtosis value is -,406, the skewness value of extrinsic job satisfaction dimension is -0.115 and kurtosis value is -0.681.

Transformational leadership skewness value was found to be ,080 and kurtosis value was found to be -1.937, transactional leadership skewness value was found to be 0.078 and kurtosis value was found to be -1.921, and leadership granting freedom skewness value was found to be 0.083 and kurtosis value was found to be -1.933.

It is seen that the skewness and kurtosis values of the scales and sub-dimensions are within the limits specified by George et al. (2010). With these results, it was concluded that the data were normally distributed and parametric analysis techniques were used to test the research hypotheses.

### **Data evaluation process**

IBM SPSS 26 package program was used to analyze the data collected in the study. While creating the research report, 95% confidence interval was taken as a basis for significance level.

Frequency analyses were performed in order to learn general information about the participants and research variables. Cronbach Alpha coefficient was used to determine the reliability level of the scales. Skewness and kurtosis values were used to check whether the variables fit the normal distribution.

Correlation and simple regression analyses were conducted to test the research hypotheses. T-Test and Anova analyses were conducted to test whether the research variables differ according to demographic variables.

### **Findings**

#### **Distribution of demographic data of the participants**

The demographic characteristics of the 126 participants, the sample of the study, are shown in Table 3.

Table 3. *Demographic Characteristics*

<b>Variable</b>	<b>Category.</b>	<b>n</b>	<b>%</b>
<b>Gender</b>	Woman	33	26.2
	Male	93	73.8
<b>Age</b>	30 Years and Under	17	13.5
	31-40 Age	88	69.8
	41 Years and Over	21	16.7
<b>Education</b>	Licence	112	88.9
	Master's Degree	12	9.5
	PhD	2	1.6
<b>Marital Status</b>	Married	42	33.6
	Single	83	66.4
<b>Working Time</b>	1-5 Years	72	57.1

	6-10 Years	35	27.8
	11-15 Years	12	9.5
	16 Years and Over	7	5.6
<b>Sector</b>	Public	69	54.8
	Special	57	45.2

26.2% of the participants were female and 73.8% were male. 13.5% of the participants are 30 years old and below, 69.8% are between 31-40 years old and 16.7% are 41 years old and above 88.9% of the participants have bachelor's degree, 9.5% have master's degree and 1.6% have doctorate degree.33.6% of the participants are married, 66.4% are single, 57.1% of the participants have 1-5 years of experience, 27.8% of the participants have 6-10 years of experience, 9.5% of the participants have 11-15 years of experience, 5.6% of the participants have 16 years or more of experience. 54.8% of the participants work in public sector banks and 45.2% work in private sector banks.

### Correlation Analyses

Correlation expresses the relationship between two or more variables. The correlation coefficient takes a value between -1 and +1. As the correlation coefficient approaches 1, the strength of the relationship between two variables increases (İslamoğlu & Alnaçık, 2016).

The results of the correlation analysis conducted to determine whether there is a relationship between leadership types and job satisfaction and its sub-dimensions are shown in Table 4.

Table 4. *Correlation Analysis Results*

	Job Satisfaction		Internal Satisfaction		External Satisfaction	
	Coefficien t	p	Coefficien t	p	Coefficien t	p
Transformational Leadership	0.529	0.001*	,173	,053	,696	,001*
Sustaining Leadership	0.511	0.001*	,145	,106	,690	,001*
Leadership Allowing Freedom	0.545	0.001*	,180	,044*	,715	,001*

\*p<,05

There is a positive and statistically significant relationship between transformational leadership and job satisfaction (r=,529; p<,05).

A positive and statistically significant relationship was found between sustaining leadership and job satisfaction (r=,511; p<,05).

There is a positive and statistically significant relationship between permissive leadership and job satisfaction ( $r=,545$ ;  $p<,05$ ).

**Regression analyses**

With regression analysis, the extent to which one or more independent variables affect the dependent variable is investigated by looking at their values (Karagöz; 2021). Under this heading, the effect of leadership behaviors on job satisfaction and its sub-dimensions is discussed.

**The effect of leadership behaviors and job satisfaction**

The results of the simple regression analysis conducted to determine the effect of leadership behaviors on job satisfaction are shown in Table 5.

Table 5. *The Effect of Leadership Behaviors and Job Satisfaction*

Leadership Behaviours	Model Summary		ANOVA Analysis		Coefficients	
	R	Adj.R <sup>2</sup>	F	Sig	B	Sig
Transformational Leadership	,529	,274	48,099	,001*	,169	,001*
Sustaining Leadership	,511	,255	43,829	,001*	,170	,001*
Leadership Allowing Freedom	,545	,291	52,361	,001*	,174	,001*

(Dependent Variable: Job Satisfaction); \* $p<,05$

It is seen that the simple regression model established to determine the effect of transformational leadership behaviors on job satisfaction is significant ( $F=48.099$ ;  $p<0.05$ ). 27% of the change in job satisfaction can be said to be due to transformational leadership behaviors ( $Adj. R^2=0.274$ ). Transformational leadership behavior has a positive and statistically significant effect on job satisfaction ( $B=0.169$ ,  $p<.005$ ). As transformational leadership behavior increases, job satisfaction level also increases. With this result, hypothesis  $H_{1a}$  is accepted.

It is seen that the simple regression model established to determine the effect of sustaining leadership behaviors on job satisfaction is significant ( $F=43.829$ ;  $p<0.05$ ). It can be said that 25.5% of the change in job satisfaction is due to sustaining leadership behaviors ( $Adj. R^2=0.255$ ). It was determined that the sustaining leadership behavior had a positive and statistically significant effect on job satisfaction ( $B=0.170$ ,  $p<0.05$ ). As the sustainer leadership behavior increases, the level of job satisfaction also increases. With this result, hypothesis  $H_{1b}$  is accepted.

It is seen that the simple regression model established to determine the effect of permissive leadership behaviors on job satisfaction is significant ( $F=52,341$ ;

$p < .05$ ). 29% of the change in job satisfaction can be said to be due to permissive leadership behaviors (Adj.  $R^2 = .291$ ). It was determined that the leadership behavior that allows freedom has a positive and statistically significant effect on job satisfaction ( $B = .174$ ,  $p < .05$ ). As the leadership behavior that allows freedom increases, the level of job satisfaction also increases. With this result, hypothesis  $H_{1c}$  is accepted.

## Conclusion

The current study looked into the relationship between job satisfaction and leadership behavior. The relationship was empirically support and found significant. There is a significant relationship between leadership behavior that allows freedom and job satisfaction (Akın, 2019). The results revealed a direct proportional relationship between job satisfaction and leadership behavior. While evaluating the results of the research, suggestions were made for future research. The combined use of a qualitative and quantitative research plan in future research will bring certain advantages. It is suggested that similar studies should be conducted on a larger sample. In future studies, it is suggested that the study variables should be analyzed in other areas where key values and personal meaning are more important, across sectors or comparable to cities such as Istanbul or Izmir. It is also suggested that future researchers should carry out a study with qualitative research method to reach more comprehensive and descriptive information. In addition, it is thought that studies in which other factors affecting job satisfaction will be considered as variables in the future researches or studies in which the effect of leadership perception on which variables will be revealed will contribute to the literature.

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\*Note: This study is based on Ateş, M. (2022). The Effect of Leadership Behaviours of Managers Working in the Banking Sector on Employees' Job Satisfaction: Ağrı Province Example Yüzüncü Yıl University: Adapted from 'Master thesis'.

# DRIVERS OF CUSTOMER'S SATISFACTION: EVIDENCE FROM ISLAMIC BANKS IN PAKISTAN

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**Abstract.** *The purpose of this study is to investigate the critical drivers of Islamic Banking customer satisfaction in in the Malakand division. Quantitative techniques with survey method of data collection on five-points Likert scale is used. Self-administered questionnaires consist of 18 important questions about customer satisfaction are used to collect data. To ascertain the critical factors/ contributors to customer satisfaction, exploratory factor analysis is applied. The results indicate that the primary determinants of customer satisfaction could be condensed to five factors. Each question is assigned to a component based on its related factor component score.*

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## 1. Introduction

Islam is considered as complete code of life. It guides its followers in every arena of life; range from religious rituals to finical, social and others. Similarly, economic activities, being integral components of life are also guided by certain rules and principles of Islam. Banking system is placed a prime importance in the economic system. In the arena of globalization and technology, banking system is placed the most essential fragment of the financial system (Osman, 2021).

Strong financial systems have become increasingly essential over the last three decades, particularly since the financial crisis of 2008. Various Islamic movements have emerged in the last decade, resulting in the creation of Islamic economics and banking institutions. Not only in the Muslim world, but also in other regions, Islamic Banking has gained acceptability and popularity (Haque, Osman, & Ismail, 2009). IB system emerged to operate and paved its way to success in the last three decades. Islamic financial system is as old as religion itself (Othman & Owen, 2001). The modern IB system emerged due to increased demand from Muslim population of the world. The Muslims prefer IB not only for profitability and convenience purpose but consider it as their religious responsibility to work for development of IB (Amfani & Eziamaka, 2020). Likewise, in other parts of the

world, IB gained its importance and developed to cater the needs of the all customers in general and Muslim in specific. The interest of the Muslim population in IB is evident from the official statistics published by SBP i.e., IB hold assets share 17% and deposit 18.3% at the end of 2020. The SBP is planning to enhance these figures by 30% within five years, with 35% increase in branch network, 10% share of private sector financing through IB (SBP, 2021).

Like, in other part so the world the emergence of the IB created and environment of dual banking system. Both the banking systems are in close competition to gain maximum market share. The existence of rivalry among the banks leads to attempts to offer more and more superior services to the customers (Haque et al., 2009). Customers' satisfaction is considered as measuring rod of performance appraisal and got primary importance in the strategic drives of the banks. Customer is viewed as a critical component of any sector or corporation, and so we can assert that consumer loyalty is critical for any long-term engagement (Shrivastav & Swadia, 2019).

Satisfaction expresses consumer judgment after consumption in which it shows that the service has given with an exceptional level of satisfaction to consumer (Oliver, 2014). Satisfaction is a person's preference or annoyance as a result of comparing a product's perceived performance or outcome to his or her expectations (Harker, Brennan, Kotler, & Armstrong, 2015). Similarly, Ray defines satisfaction as consumers tend to rely on expectations and perceived performance. (Yadav & Rai, 2019). Measuring customer's satisfaction is as difficult as defining life. Therefore, multiple ways and, means are identified by numerous researchers in the field to define and measure customer's satisfaction level.

Various studies attempted to measure the degrees of satisfaction and reported, ROI, shariah compliance, referral by friends and family, location, bank image, economy in transactions, branch network etc. to be the most important determinants of the customers satisfaction (Al Qaisi & Alrosan, 2020; Amin & Isa, 2008a; Eren, 2021; Hamzah, Ishak, & Nor, 2015; Jahan, Ali, & Al Asheq, 2020; Nawreen & Shahimi, 2018; Osman, 2021; Shrivastav & Swadia, 2019; Szczepanowicz, 2011; Zubair & Hasan, 2020). The present study is an attempt to examine the determinants of customer's satisfaction in Malakand division. Moreover, the contributing components to each factor are to be determined based on the component scores of each contributor. A self-administered questionnaire divided into two parts is used to record the responses of the customers. Part one consist of the demographic data while, part 2 comprised of 18 questions relevant to the components of satisfaction based on the previous studies. Exploratory factor analyses are sued to analyses and determine the five major factors contributing to degree of customers' satisfaction of IB in Malakand Division.

Rural parts of the country accommodated majority of population, and the target market primarily lives in rural areas, the study is useful to society as a whole. Apart from society, the study is vital for policymakers to devise strategies based on the findings in order to attract more and more customers (Resources). While starting any rural development initiative, the government must first understand the intentions and key triggers of satisfaction. This research is being used to assist the government in developing initiatives. Furthermore, knowing the important factors of customer satisfaction for customers who chose Islamic banks benefits the business community in the region. This study enriches the literature, in addition to its practical relevance. Previous studies tried to investigate the area from many angles in urban portions of the country; however, this study is aimed at the economy's rural population. According to the World Bank, urban regions accounted for 35% of the total population, while rural areas accounted for 65%. In Khyber Pakhtunkhwa, rural areas make for 83 percent of the total population, while major cities and big cities account for 16.90 percent (STATISTICS, 2019). Finally, the rural populace of Khyber Pakhtunkhwa is more religious in nature and more religiously motivated, emphasizing the significance of this study.

## **2. Literature Review**

Customer satisfaction is a highest priority for every business because it is the most important source of revenue. Because of the fierce competition in the banking industry over the last decade and a half, customer satisfaction has been a primary focus. To attract and retain more customers, the majority of banks are using customer satisfaction as a competitive strategy (Khattak, 2010). A rating of output resulting from a pre-purchase association of expected performance with actual performance perceived by a customer is known as customer satisfaction (Churchill Jr & Surprenant, 1982). Employees are motivated to perform better when consumer satisfaction is assessed, as it gives them a sense of accomplishment and achievement. (Nigel, 1996; Ray Wild, 1977; R Wild, 1980). The below table may represent the journey towards adaptation of Islamic financial system in historic perspective.

Table 1 *Developments in Modern Islamic Economics and Finance*

Period	Description
Pre 1950s	In the 1890s, Barclays Bank opens a branch in Cairo to manage financing for the Suez Canal construction. Shariah scholars criticize the bank's operations, alleging it is a profit-making through interest. This criticism includes other Arab regions, such as the Indian subcontinent, which had a large Muslim population. Most Shariah scholars agree that all forms of interest contain Riba.
1950s–60s	Islamic economics' theoretical foundations are addressed. Islamic economists describe the first interest-free bank in 1953, based on either 2 different mudaraba or wakala. In Egypt, Mit Ghamr Bank and Pilgrimage Fund are established.
1970s	Dubai Islamic Bank becomes the first Islamic commercial bank in 1974, followed by Islamic Development Bank (IDB) in 1975. The accumulation of oil wealth and petrodollars drives up demand for Shariah-compliant items.
The 1980s	Islamization of economies in Iran, Pakistan, and Sudan, introducing interest-free banking. Demand draws Western institutions and intermediation. IDB establishes IRTI in 1981. Bahrain and Malaysia support IB alongside regular banking.
The 1990s	Accounting standards and a regulatory framework are discussed. Formalization of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions). The introduction of takaful. Established Islamic Equity Funds. The Dow Jones Islamic Index and the FTSE Shariah Index are formed.
2000–2011	IFSB oversees, supervises, and governs Islamic financial services. Sukuk's Awakening Shariah-compliant operations are growing rapidly in Europe, Asia, and North America. Interest and research rise, and programs at respected Western universities are offered. Profit-rate swaps are a very rare usage of financial engineering. During and after the financial crisis, defaults on Shariah-compliant transactions raise legal difficulties across borders.

(Iqbal & Mirakhor, 2011)

The degree of satisfaction in the banking sector is influenced by a number of elements. According the available literature in the field, various aspects such as religious convictions, ease of service, number of branches, official timing, economy in operations, rate of return confidence in the Shariah advisory council contribute to satisfaction. Customer satisfaction is critical for the success of any firm. The development of a bank is influenced by the high performance and satisfying customer (Hamzah et al., 2015).

Previous research has found a set of criteria that measure degree of customer satisfaction, specifically with respect to IB products and services. Customers' satisfaction was rated based on location, service quality, interest rate competitiveness, and employee capabilities (Hunjra, Akhtar, Akbar, & Niazi, 2011). Some findings indicate other variables as the most significant, including the bank's reputation, convenience and location that were dependent on customer criteria (Ahmad & Haron, 2002; Metawa & Almosawi, 1998; Naser, Jamal, & Al-Khatib, 1999). Other researchers have discovered that location, friend recommendations, bank reputations, credit availability, marketable borrowing costs, sociability of bank staff, service fees, appropriate banking hours, ATM accessibility, special services, and the quality of checking account services all are factors that influence customer satisfaction (Erol, Kaynak, & Radi, 1990).

Bearing in mind the role of the variable in the bank's success, the researchers discussed customer satisfaction and many aspects that impact their level of satisfaction. Various scholars reported the customers of Islamic banks to be satisfied with their current products and services (Amin & Isa, 2008b; Kashif, Abdur Rehman, & Pileliene, 2016; Metawa & Almosawi, 1998; Naser et al., 1999).

A study aimed to investigate customers' satisfaction with Islamic banks, and the impact on image, customer trust, and loyalty for Islamic banks in Malaysia. The study results revealed both Muslims and non-Muslims are satisfied and loyal with Islamic banks. Customers showed full confidence and trust in IB in Malaysia (Amin, Isa, & Fontaine, 2013).

According to the findings of another Malaysian study, there is a high link between service quality and satisfaction. Long-term customers are superior in satisfaction and benefits than short-term (Amin & Isa, 2008b). According to the findings of a study on attributes, benefits, satisfaction, and loyalty in financial services firms in Taiwan, established old consumers with banks have more bank balances and accounts than new ones (Liang & Wen-Hung, 2004). A Greek researcher reported that the services provided and accessibility to be important elements in the satisfaction of private bank customers. The bank's appearance, waiting time, service processes, and adequate information all were identified as services offered. The network expansion, branches, service system, and bank site all add to accessibility (Mihelis, Grigoroudis, Siskos, Politis, & Malandrakis, 2001). In Malaysia, a study aimed to investigate the relationship between the quality of Islamic banks' services and client satisfaction. According to statistics, the quality of bank services, that includes bank personnel, image, services, and accessibility, contributes greatly to client satisfaction (Hamzah et al., 2015). In the United Arab Emirates, a study was conducted to examine the relationship between

the customer satisfaction and commitment. Customers are pleased with the Shariah Advisory Committee, convenience, and efficiency, according to the results. Personnel counsel and length of association with the bank, on the other hand, were negatively and significantly related to loyalty (Sayani, 2015). A study in Pakistan focused into the quality of IB services and customer loyalty, and concluded that consumers are happy with the level of service offered. Customers focused on response and sincerity dimensions due to the risk-averse nature of Pakistani society (Kashif et al., 2016). Another study looked into the perceptions of quality and the level of IB consumers in Pakistan. Customers are more satisfied with the Shariah compliance dimension, as per the findings (Ali & Raza, 2017). Customers of Islamic banks in Pakistan were less satisfied than customers of conventional banks, according to a survey. This was attributed to a lack of awareness of IB products (Khattak, 2010).

As a result, customers in developed countries have a divided attitude, whereas in Pakistan, the majority of customers are satisfied with the Islamic system's performance. Customers of IB in KPK have also expressed pleasure with the institution's performance. Only the literature on IB is available in Pakistan's urban centers. The current study sought to determine the level of satisfaction and its contributing elements among Islamic bank customers in rural areas of Khyber Pakhtunkhwa.

According to the preceding literature, different researchers have used different factors to determine the level of satisfaction.

### **3. Methodology**

#### **3.1 Population**

The total number of clients of Islamic banks or Islamic branches of conventional banks operating in the Malakand division was included in the study's population of interest.

#### **3.2 Sampling**

The study's participants were selected using a widely used stratified random sampling technique. The government geographic division into division and districts was used as tool of stratification. Malakand, Dir and Swat districts were opted, which are meant to reflect the entire population. 260 respondents were selected randomly.

#### **3.3 Data collection**

The study was based on the positivisms and quantitative approach; the questionnaire was used to collect the data from the respondents. A self-administered questionnaire was adopted from the previous studies covering various aspects being identified as determinants of customer's satisfaction. The questionnaire was further divided into two parts covering the consumer's

demographics in part 1<sup>st</sup> and 18 questions relevant to the customer's satisfaction are asked in second part. Furthermore, five-point liker scale starting from strongly disagree to strongly agree was used to record the responses of the respondents.

### **3.4 Analysis tool/techniques**

Demographic profiles of the respondents were assessed through frequency, percentage and cumulative percentages of the various categories within the questionnaires. Furthermore, exploratory factor analysis was used to explore the determinants of customer's satisfaction in line with previous studies (Ahmed, Vveinhardt, Štreimikienė, Ashraf, & Channar, 2017; Ali & Raza, 2017; Amfani & Eziamaka, 2020; Eren, 2021; Nawreen & Shahimi, 2018; Osman, 2021).

## **4. Results and Discussion**

### **4.1 Demographics**

The demographic profile of the customers is represented in table 2. The demographic variables of Age, Education, Monthly Income and Banking experience of the customers are considered.

Table 2 *Demographics (N = 253)*

<b>Variable Name</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative %age</b>
<b>Age of the Respondents</b>			
Below 20	8	3.2	3.2
21-35	121	47.8	51.0
36-50	94	37.2	88.1
Above50	30	11.9	100.0
<b>Level of Education</b>			
Under Matric	30	11.9	11.9
Matric	46	18.2	30.0
Intermediate	75	29.6	59.7
Bachelor	102	40.3	100.0
<b>Average Monthly Income</b>			
Blow 20000	49	19.4	19.4
20000-39999	118	46.6	66.0
40000-59999	59	23.3	89.3
60000-79999	16	6.3	95.7
Above 79999	11	4.3	100.0
<b>Banking Experience</b>			
Below 2 Years	94	37.2	37.2
02-05 Years	113	44.7	81.8
06-10 Years	39	15.4	97.2
Above 10 Years	7	2.8	100.0

The above table shows the demographic information of the respondents. The results obtained from the first variable Age reveals that majority of respondents lies in the age groups of 21-35 (47.8%) and 36-50 (37.2%) followed by above 50 (11.9%) group and least contributors were of the age below 20 (3.2%). The results of the second variable Level of Education revealed that educated people chosen Islamic banks. The education level bachelors represent the highest 40.3% followed by intermediate and matric level by succoring 29.65 and 18.2%. similarly, the variable average Monthly income represented middle income level people as highest contributors to the Islamic banks comprised of 46.6% (income level 20,000 to 39999) and 23.3% (40000 to 59999). As discussed earlier, the idea of Islamic banks in new, which is evident form the above table, the people with group 2 to 5 years and least banking experience blew 2 years accosted for 44.7% and 37.25% respectively.

#### 4.2 KMO and Bartlett's test

KMO and Bartlett's tests are used to determine the adequacy of sampling and data suitability for factor analysis. The results obtained are shown below 3.

Table 3 *KMO and Bartlett's Test*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.757
Bartlett's Test of Sphericity	Approx. Chi-Square	1433.48
	df	153
	Sig.	.000

The KMO score is .757 and Bartlett's result is significant, which reveals the sampling adequacy and suitability of data for conducting factor analysis.

#### 4.3 Exploratory factor analysis

Exploratory factor analysis technique was adopted to reduce the dimension of customers' satisfaction. Total 18 variables were considered for final analysis. After determining the sampling adequacy and suitability of data, next we proceed towards factor analysis. The results obtained are discussed below:

Table 4 *Communalities (Extraction Method: Principal Component Analysis)*

Variable	Initial	Extraction
Shariah compliant products and services	1.00	0.67
Confidence on shariah supervisory board	1.00	0.62
Confidence on bank management	1.00	0.72
Friendly and cooperative staff	1.00	0.72
Qualification of the staff	1.00	0.56
A wide range of facilities offered	1.00	0.58
Cost of services offered by the bank	1.00	0.19
Efficiency and speed in completing transactions	1.00	0.77
Financial counseling provided by the bank	1.00	0.54

Number of branches	1.00	0.74
Opening hours	1.00	0.67
Efficiency of handling problems on phone	1.00	0.70
Availability of funds	1.00	0.55
Bank name and image	1.00	0.67
Convenience	1.00	0.69
Location of the bank	1.00	0.62
Return on investment	1.00	0.76
Offer same facilities as conventional banks but according to Islamic Shariah	1.00	0.57

The above table reveals the corresponding value of each factor in extraction column. The variable cost of service offered by Bank has lesser value .192 than required (0.50). However, based on the results of KMO and Bartlett's tests, all variables could be considered for factor analysis.

**Table 5 Total Variance Explained**

Com ponent	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Vrnce	Cumu lative %	Total	% of Vrnce	Cumu- lative %	Total	% of Vrnce	Cumu- lative %
1	4.42	24.57	24.57	4.42	24.57	24.57	2.95	16.39	16.39
2	2.18	12.12	36.69	2.18	12.12	36.69	2.61	14.52	30.91
3	1.99	11.08	47.77	1.99	11.08	47.77	2.13	11.80	42.71
4	1.55	8.59	56.36	1.55	8.59	56.36	2.09	11.63	54.34
5	1.19	6.59	62.95	1.19	6.59	62.95	1.55	8.61	62.95
6	0.98	5.43	68.38						
7	0.81	4.51	72.89						
8	0.68	3.75	76.63						
9	0.57	3.19	79.82						
10	0.56	3.11	82.93						
11	0.53	2.95	85.87						
12	0.50	2.76	88.63						
13	0.45	2.50	91.14						
14	0.41	2.26	93.40						
15	0.38	2.13	95.53						
16	0.33	1.85	97.38						
17	0.27	1.52	98.90						
18	0.20	1.10	100.00						

*Extraction Method: Principal Component Analysis.*

Findings in table 5 reveal the extracted factors and total respective variance explained by each factor. After rotation, the results obtained reveals that first

variable accounts for 24.57, second 12.12 third 11.08 and similarly all values are given in the column. The Eigen values of  $\geq 1$  are used as retention criteria. The Eigen values of first five factors are higher than one and hence retained.

Table 6 *Rotated Component Matrix<sup>a</sup>*

	Component				
	1	2	3	4	5
Number of branches	0.74				
Efficiency of handling problems on phone	0.72				
Offer same facilities as conventional banks but according to Islamic Shariah	0.69				
Availability of funds	0.65				
Opening hours	0.53		0.51		
A wide range of facilities offered					
Confidence on Shariah supervisory board		0.76			
Friendly and cooperative staff		0.75			
Location of the bank		0.69			
Qualification of the staff		0.51			
Cost of services offered by the bank					
Confidence on bank management			0.82		
Shariah compliant products and services			0.8		
Efficiency and speed in completing transactions				0.87	
Return on investment				0.86	
Financial counseling provided by bank				0.6	
Convenience					0.79
Bank name and image					0.67

*Extraction Method: Principal Component Analysis.*

*Rotation Method: Varimax with Kaiser Normalization.*

*a. Rotation converged in 9 iterations.*

The above table shows the final results obtained after using varimax approach. The factors' explanatory variables are listed in the table above. For the variable to be retained in the factors, a threshold value of 0.5 is set. The variables that have a factor loading of 0.5 or above are kept in the analysis. There are 18 variables in the data collected for analysis. The factors are reduced to five key predictors of the phenomena after factor analysis. The details of each factor and their components are given below:

#### 4.4.1 Factor 1

Factor 1 comprise of five components named Number of branches (0.74), Handling problems (0.72), Offers same services as conventional (0.69), availability of funds (0.65), having higher component values while opening Hours (0.53) is

least valued in the factor. Based on the nature of items the factors could be labeled as quality of service.

#### **4.4.2 Factor 2**

Second factor contain of components of Confidence on Shariah Board (0.76), Friendly Staff (0.75), and Location (0.69) with least score of Qualification of staff (0.51). considering the components of the factor, it is labeled as convenience and confidence.

#### **4.4.3 Factor 3**

Factor 3 consist of confidence on bank management (0.82), Shariah Compliance products (0.80) and of Opening hours (0.51). the factors are termed as trust.

#### **4.4.4 Factor 4**

This factor includes Efficient and Speedy Transaction (0.87), ROI (0.86) and financial Counseling (0.60). considering the characteristics of the components; the factor could be treated as financial efficiency.

#### **4.4.5 Factor 5**

The two components of convenience (0.79) and Bank Image (0.67) formed the last variable. The last factor is determined as bank image and reputation.

### **5. Conclusion**

The goal of the study was to assess the determinants of customer satisfaction of IB customers in Malakand division. Various factors being identified in various research studies were used to design the questionnaire of the study. Factor analysis was used to analyze the data. The results revealed that the components contributing towards customers' satisfaction could be represented in the five main components. The factor scores of 0.5 was used as threshold for inclusion in analyses.

### **6. Recommendations for Future Research**

The study might be replicated in the other areas of the country to enhance its generalization. The factors being identified could be used as explanatory variables, to further analyse the concept of customers' satisfaction. The study might be replicated on the conventional banks for comparison.

### **7. Significance of the Study**

The results of the study are useful to the policy makers. The factors being identified and their respective component scores might be used in identifying and targeting the customers. The government and SBP authorities might get help from the findings to attract more and more people to Islamic banks in order to make sure documentation of the economy. The research is beneficial to general public as the banks might offer superior quality services as per demands of the customers.

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Example for articles (APA-6th):

Ikram, M. (2015). Strategic importance of proper choice of organizational design. *Academy of Management Journal*, 10(2), 198-212.

Ali, S., & Javed, A. (2015). Human resource management practices and the challenges for HR managers in an overwhelmingly uncertain labour market. *Journal of Management*, 18(2), 29-45.

Example for books:

Aswathappa, K. (2008). *Human Resource Management: Text and Cases*. Delhi: Tata McGraw-Hill Publishing Com.

Example for chapter in edited book:

Arthur, M. B., & Rousseau, D. M. (1996). The boundaryless career as a new employment principle. In M. B. Arthur & D. M. Rousseau (Eds.), *The Boundaryless Career* (pp. 3- 20). New York: Oxford University Press.

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