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**Sukkur IBA** is mission driven university and committed to serve towards the socioeconomic development of Pakistan through education and research.

**Prof. Dr. Syed Mir Muhammad Shah**

Vice Chancellor, Sukkur IBA University

## Editorial

*Dear Readers,*

Once again, it's a pleasure to bring you the latest issue of **Sukkur IBA Journal of Management and Business - SIJMB**. Following our editorial policy, this issue contains double blind peer-reviewed articles which address the key business, management and economic issues pertaining to both national and international levels. The continued efforts of our editorial team and reviewers have enabled **SIJMB** to present you the high-quality research work based on the innovation, originality and contemporary issues in the core areas but, not limited to business, management and economics. **SIJMB** follows continuous improvement policy, and I thank all the stakeholders who have been the part of it. Moreover, **SIJMB** has continued its open access policy in order to reach larger audience and wider dissemination of published work.

While not forgetting that the **SIJMB** has an institutional association with **Sukkur IBA University**. In fact, the initiation of **SIJMB** is an outcome of strong research orientation followed by the Sukkur IBA and I am grateful for continuous institutional support in this regard. In addition, the **SIJMB** provides valuable platform for national and international researchers and publishes their research findings and disseminates those to the largest audience. The journal does not charge any fees and provides complimentary copy (in hard form) to each author. In addition, the supplement copies of the journal are also distributed to HEI and R&D institutions of the country. The journal has been archived by world's renowned scientific repositories. Journal has received recognition from several research agencies, universities and renowned professors. With pleasure, it is also to share with you all that the **SIJMB** has recognized by the **Higher Education Commission (HEC)**. In coming years, the journal aims to improve its current state by attracting more national and international researchers in the field of business, management and economics.

On behalf of the **SIJMB**, I welcome submissions for the upcoming issues of the journal and looking forward to receiving your valuable feedback.

**Dr. Khalid Ahmed**

*Editor-in-Chief*

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## Determinants of residents' support for Tourism development- A Pilot Study

Zaibunnisa Khan<sup>1</sup>, Mubashir Ali Khan<sup>1</sup>

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### Abstract:

This pilot study aims to test the reliability and validity of the survey instrument designed to find out the determinants of residents' support for tourism. Since the study uses an adapted questionnaire the need to assess the reliability and validity appears to be desirable. The questionnaire was distributed to altogether 70 residents of Hunza Valley. Initially, the content and face validity was authenticated by field experts, and later on, the internal construct validity was calculated through various measures. Hence, inter-item correlation shows that all the variables are correlated to each other at a significant level. Secondly, construct validity results show that all the constructs used by the study are reliable and met the level of acceptability. Therefore, the results validate that the modified instrument is valid and reliable in the context of the social lab selected i.e. residents of Hunza Valley, and a full large scale study can be carried out using this instrument.

**Keywords:** tourism impact, tourism impact dimensions, residents' support for tourism, reliability, and validity.

**JEL Classification:** M10

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### 1. Introduction

Over the decades, tourism has been developing and diversifying constantly which has led this industry to grow into a profitable industry with the fastest growth on the globe. The growing number of tourist destinations around the world and people's increasing inclination towards tourism has played a major role in this growth. This in turn helped this industry to become a leading socio-economic factor. The business dimensions today of this industry are far more than the traditional ones which make tourism the most significant part of global business and a leading revenue generation source for developed and developing countries.

Pınar & Günlü, (2012) found that constant growth in the tourism industry has risen the incomes and competition which resulted in increased demand for improved

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management and marketing strategies and made the survival of inefficient firms quite difficult at the same time. Subsequently, the tourism industry has been supported by these management and marketing strategies by many theorists. It has been found that once a particular place has become a destination for tourism it can affect the lives of residents both positively and negatively.

The phrase “tourism impacts” has acquired prominence in the literature of tourism. This “impact” can be measured by the assessment of residents of the host community (Almeida et al, 2016). The key reason for the growing interest in this area is the knowledge and awareness of tourism development and its impact on the local community, both positively and negatively (Ko & Stewart, 2002). Recent studies have found that the money generated from tourism does not only impact the country at large but also benefits the individual communities and their residents through increased employment opportunities, higher incomes, and advanced public infrastructures (Sinclair & Gursoy, 2016). Despite the fact, when residents experience the benefits of tourism for the first time, they are also getting started to understand that these advantages are complemented by disadvantages (Ko & Stewart, 2002). For instance, tourism leads to monetary growth however it also brings ecological deterioration and negative socio-cultural impacts on the residents (Choi & Sirakaya, 2005). Consequently, by reviewing the literature it appears that the tourism impacts can be studied from various aspects, such as environmental, economic, social, and cultural (K. Kim et al, 2013).

Furthermore, these tourism impacts, both positive and negative, on the life of residents of the host community can be best explained by social exchange theory (SET). As various studies conducted previously underpin the SET, particularly relating to monetary benefits that increase the tourism development support (Juan et al, 2014; Dogan et al, 2018; Nunkoo & So, 2016; Perdue et al, 1999; Pizam, 1978; Woo et al 2015); as well as the Quality of Life (QOL) issues of the residents demonstrating the more the personal advantage an individual gets the more positive their perception is formed towards the tourism (Woo et al, 2015; Woo et al, 2016).

It is said that the development of tourism does not take place exclusively; instead, it takes place within particular surroundings with its unique features. With these particular surroundings, the support of residents is said to be a major reason in tourism development (Butler, 1980; Dyer et al., 2007). Therefore, most of the researchers found this as a necessity to include the residents in the planning phases of tourism development (Liu et al, 1987). Additionally, it is found that Observing residents' perception is essential in measuring their emotional state, and such observations should be integrated into tourism development schemes. It will help organizers to concentrate on what is essential for the residents to considerate (Dyer et al., 2007). Particularly, knowing residents' perceptions may result in strategies that can reduce negative impacts on tourism development and maximize the benefit (Stylidis et al, 2014). Further, it has been noted that if residents are involved in the process of decision making of tourism development and planning, they are likely to have positive perceptions of tourism (Robson & Robson, 1996). Irrespective of the significance of the residents' perceptions towards tourism the measures that could be taken by local government and

administration are not sufficient and do not favor host community residents in taking part in the decision-making process. Political enterprises concerning the sustainability of tourism and growth can be more effective if residents are permitted to make their own wishes, objectives, and needs, and also by giving chances to get advantage from tourism both socially and economically (Almeida et al, 2016).

To measure the residents' support for tourism and its determinants this pilot study aims to test the reliability and validity of the survey instrument. A thoroughly established survey instrument if precisely measures any well-defined construct is considered to be a valid instrument for that construct. An instrument is said to be valid when it evaluates what is claimed to assess. Validity can be classified into; content validity, Face validity, criterion validity, and construct validity. Content validity pertains to the degree to which the instrument fully assesses or measures the construct of interest. Whereas face validity, which is also known as logical validity, is a simple form of validity where an expert applies a superficial and subjective assessment of whether or not the study measures what it is supposed to measure. Criterion validity is verified in the actual study to improve its requirement. It requires an in-depth knowledge of philosophy linking to the notion and measure of the relationship between measure and factors. Finally, the construct validity is used to check an instrument to accurately measure a theoretical construct that it is designed to measure. Furthermore, on the other hand, the reliability measures in which test scores are free from measurement error. Reliability concerns the measurement of a phenomenon that delivers consistent and stable results. It is a measure of internal consistency or stability of an instrument measuring certain notions.

The present study provides the social lab contribution in the existing literature, as in the Pakistani context limited literature is available on tourism studies. However, tourism studies concerning residents' perceptions of tourism impacts, their QOL, and their support for tourism development have not been reported yet in any dimension. Therefore, the findings of this study will considerably contribute to the body of knowledge of this specific area.

## **2. Literature Review**

It has become clear that a plethora of research studies investigated the perception of residents towards tourism impacts as well as those factors which influence these perceptions potentially, pointing to recognize the methods that would sustain or increase residents' Support for Tourism (SFT) development. Although several predictors have been examined in previous research studies, most of these studies did not examine the simultaneous impact of these factors together. Focusing to overcome this limitation, in the last decade, researchers have established and tested structural models for residents' SFT development, which investigates the simultaneous effect of various key variables of residents' perception of tourism impacts, which in turn affect residents' SFT and its development. Even though the factors considered in these models sometimes differ, but a common finding is that the residents' perception of tourism impacts seems to affect their SFT development. A plethora of literature examines the affiliations between residents' perceived impacts of tourism and their SFT development

(Wan & Stewart, 2002; Dogan et al, 2002; Jurowski & Gursoy, 2004; Nunkoo & Ramkissoon, 2010). Since tourism depends severely upon the goodwill of the residents, their support is important for its development, as well as for its success and sustainability in the long term, the understanding of residents' perceptions and encouragement of such support is of great significance for local government, policymakers and business (Lee, 2013).

According to Nunkoo & Ramkissoon, (2011) to follow the successful development process, a host destination needs to be supported by its residents. A potential justification for why resident support tourism is the SET. From the residents' point of view, this theory grasps that people tend to trade their SFT in exchange for the advantages they stand to get from tourism, in other words; residents SFT will depend on the benefits that they will get in return from tourism existence. Therefore it is by assessing the social, economic, environmental, and cultural concerns of the residents' on which they decide whether to support tourism or not (Lee, 2013). It means, if there are some benefits for them and comparatively decreases in social costs, then the residents are more likely to support tourism development (Ap, 1992).

Almost from the three decades, building upon the SET, several pieces of research have been conducted by presenting models to highlight the association of residents' perception of impacts of tourism and their support for the future tourism development. Probably, Perdue et al, (1990) presented the first conceptual framework on residents' SFT development. This framework was based on the individuals' characteristics and advantages from tourism which influences residents' perceptions of tourism impacts (both positive and negative), which in result affects residents' SFT. Furthermore, the study found that residents' SFT is positively related to the positive impacts and negatively related to the negative tourism impacts. This study inspired several researchers, thereafter several models have been proposed using the common structure. Jurowski et al, (1997) presented a path model in the background of the theoretical paradigm which is grounded on the principles of SET. The study revealed that the residents' perceptions of tourism impacts directly influence the "use of tourism resources", "economic gain", "eco-centric attitude" and "community attachment" and indirectly influence the level of SFT. Snaith & Haley, (1999) perceived that those residents who were monetarily dependent on tourism showed a positive and greater level of SFT. later, a simplified model was proposed by Yoon et al, (2001) where perceived tourism impacts (economic, social, environmental, and cultural) affect the perception of overall impacts, which in result influence the residents' SFT. The study concluded that tourism impacts positively influence residents' SFT. Whereas, Iroegbu & Chen, (2001) found in their study that those urban residents (specifically male) having higher education and greater income are more inclined to SFT development. Moreover, many studies' conclusions confirmed that there is a direct positive association between perceived benefits from tourism and residents SFT ( Andreck & Vogt, 2000; Dogan Gursoy et al, 2002). Because, If the perception of residents' are positive towards tourism impacts, then the residents will possibly support tourism development and express more hospitality to tourists. Generally, the tourists are more satisfied and appealed by those destinations where residents are more welcoming,

honest, friendly, and hospitable (Fallon & Schofield, 2006; Lin et al, 2017). Other scholars like Choi & Murray, (2010) investigated residents perceptions regarding SFT and the acceptance of sustainable tourism by using SET, the outcomes of the study showed that the three main constructs of sustainable tourism (tourism long term planning, community participation, and its attachment) are analytically linked to SFT, positive tourism impacts, and negative tourism impacts. Styliadis et al, (2014) proposed a model that confirmed that residents' place image has an emotional impact on their perceptions of impacts of tourism, which in turn influence their SFT. Further, the study revealed that the more positive tourism impacts dimensions lead to residents' greater SFT. As well as residents are more prepared to support tourism development policies (Brida et al, 2014).

Most of the early studies have considered the QOL as the main outcome variable in preceding tourism impacts literature (Kim, 2002; Kim et al, 2013). Improvement of the residents' QOL has become the key purpose of tourism growth by addressing the tourism impacts dimensions such as social, economic, cultural, and environmental impacts (Peters & Schuckert, 2014). Over the past few years, the association between the QOL of the residents and tourism development has been achieving an excessive amount of attention. It is also acknowledged that the success of tourism growth in the long stand needs to consider the host residents' perceptions and taken into account in the growth process of tourism (Nunkoo & Ramkissoon, 2011). However, residents can also influence their attitude about SFT growth. Many studies have proposed the potential impact of QOL on further SFT development, but there was no empirically tested results were available (Andereck et al, 2007; Ap, 1992; Croes, 2012).

Later, a new and unique model was proposed by Woo et al, (2015) which provides the theoretic and empirical verification of the relationships among the variables, the study evaluates the residents' SFT through its determinants, the perceived value of tourism development, life domain satisfaction, and their QOL. Further, the study revealed that the residents' QOL is an effective predictor of their SFT. The study also provides empirical evidence to support previous researches by investigating tourism impacts development on the QOL. Moreover, the study discovered a new relationship that explicitly states that the QOL has a positive impact on residents' perception of tourism support. Therefore, if the impacts of tourism growth affect the residents' QOL negatively, then the residents could not SFT growth in their community. Thus to create the community more sustainable and economical, tourism developers and marketers should attempt to escalate the residents' QOL. Therefore, another purpose of this study is to investigate the impact of residents' QOL on their SFT growth.

### **3. Data And Methodology**

This study uses content validity, face validity, criterion validity, and construct validity to assess the validity of the survey instrument adapted for this study. At the same time, the reliability of the instrument is also checked with Cronbach's alpha. The survey instrument was pretested on a sample of 70 residents of Hunza valley who were both employed and self-employed. The pretest was essential to conduct to make sure the

accuracy of the instrument was used. The questionnaire adopted in this study was established after a comprehensive literature review. The questionnaire is divided into three sections with a total of 61 items concerning the social lab of the study which is the resident (individual) of Hunza Valley. The survey questionnaire comprises of the residents' demographic characteristics and the dimension of tourism impacts (economic, social, cultural, and environmental), dimensions of residents' quality of life (material wellbeing, community wellbeing, emotional wellbeing, health & safety wellbeing, and quality of life in general), and residents' support for tourism. This study follows a cross-sectional research design to conduct a questionnaire survey. Following non-probability sampling, purposive sampling technique was used to collect the data. Further, the study used two different kinds of five-point Likert scale. The tourism impact dimensions & residents' SFT was answered through five points Likert scale ranges from 1 (strongly disagree) to 5 (strongly agree), whereas residents' QOL was answered through five points Likert scale ranges from 1 (very unsatisfied) to 5 (very satisfied) to quantify the items. For pretest, content and face validity were also conducted before the data collection. Statistical analysis was conducted through SPSS 23 version. The internal consistency of the item scales was assessed by using Cronbach's alpha along with intra-class correlation coefficients. Further, criterion-related validity through correlation coefficient and internal construct validity were also analyzed by inter-item correlations and co-variances.

## **4. Data Analysis & Results**

### **4.1 Face and content validity**

Validity refers to the degree to which a measurement determines what it is aimed to measure (Rosenthal & Rosnow, 1984). One of the types of validity is face validity. It is a subjective and superficial assessment of whether the measurement used in a study appears to be a valid measure of a given variable or construct. It is also called surface validity or appearance validity. Whereas, content validity refers to how adequately measurement tool taps into the various aspects of the construct in question. For assessing content and face validity two subject experts and one field expert were asked to provide comments on the content and understandability of the questionnaire. The experts were requested to edit and improve the items of the questionnaire if necessary to enhance clarity, understandability, readability, and content adequacy. Additionally, they were also asked to revise the items that were incomprehensible and needed to be improved. After a detailed review, the questionnaire was validated by the experts, and few changes were suggested, which was incorporated accordingly.

### **4.2 Construct validity and reliability**

To assess the construct validity and reliability the tests of the intra-class correlation coefficient, inter-item correlations and co-variances, criterion-related validity through correlation coefficient, and internal consistency through Cronbach's alpha were

performed respectively and are presented below.

#### 4.2.1 Reliability statistics

Cronbach's, (1951), reliability test was performed to check the internal consistency of the variables, for that the Cronbach's alpha value was recommended to be 0.7 or above, for an acceptable level of internal consistency. As higher values indicate the strong internal consistency and reliability among the items (Burns & Burns, 2008; Field, 2013). In support, Sekaran & Bougie, (2016), stated that the value of Cronbach's Alpha is accepted at 0.70 or above in most of the social science and business research.

The table below shows the reliability statistics of the items used in this study.

**Table 1:** Reliability Statistics scores

Construct	No. Items	Cronbach's Alpha (Reliability)
Economic Impact (ECOI)	8	.850
Social Impact (SCOI)	6	.791
Cultural impact (CULI)	7	.839
Environmental Impact (ENVI)	5	.761
Support for Tourism (SFT)	6	.742
Quality of life (QOL)		
a. Material wellbeing domain	5	.746
b. Community wellbeing domain	4	.749
c. Emotional wellbeing domain	5	.761
d. Health & safety wellbeing domain	5	.619
e. QOL in general	3	.747
Total Quality of Life Items	22	.747

The above table shows that the reliability statistics of the items which confirm the acceptable level of internal consistency, which is above 0.7, showing the excellent internal consistency of the items. However, the reliability of health & safety wellbeing (.619) turns out to be slightly lower than the threshold. The reason may be the smaller number of respondents which can be further improved by increasing the number of responses.

#### 4.2.2 Intra-class correlation coefficient

Another way to determine the reliability of the measurements is the intra-class

correlation (ICC). ICC represents the set of coefficients which represent the relationship between variables of the same class. The ideal value of ICC is considered to be more than 0.9 i.e., excellent reliability, the values lying between the ranges of 0.75 to 0.9 represent good reliability, values ranging from 0.5 to 0.75 represent moderate reliability, and the values less than 0.5 represent poor reliability.

The tables below show the intra-class reliability of all the variables used in this study. The values for intra-class correlation of Economic impact (.850), Social impact (.791), Cultural impact (.839), Environmental impact (.739), material wellbeing (.746), Community wellbeing (.749), emotional wellbeing (.761), overall QOL (.747) and support for tourism (.742), and health & safety wellbeing (.619), (.770), indicate that all these values fall within the ranges of moderate to excellent reliability of the ratings of this study.

**Table 2:** Intra-class Correlation Coefficient

Variable	Measure	Intra-class	Sig
Economic Impact	Single Measures	.415 <sup>a</sup>	.000
	Average Measures	.850 <sup>c</sup>	.000
Social Impact	Single Measures	.387 <sup>a</sup>	.000
	Average Measures	.791 <sup>c</sup>	.000
Cultural Impact	Single Measures	.427 <sup>a</sup>	.000
	Average Measures	.839 <sup>c</sup>	.000
Environmental Impact	Single Measures	.321 <sup>a</sup>	.000
	Average Measures	.739 <sup>c</sup>	.000
Material wellbeing domain	Single Measures	.370 <sup>a</sup>	.000
	Average Measures	.746 <sup>c</sup>	.000
Community wellbeing domain	Single Measures	.428 <sup>a</sup>	.000
	Average Measures	.749 <sup>c</sup>	.000

	Average Measures		
Emotional wellbeing domain	Single Measures	.389 <sup>a</sup>	.000
	Average Measures	.761 <sup>c</sup>	.000
Health & Safety wellbeing domain	Single Measures	.245 <sup>a</sup>	.000
	Average Measures	.619 <sup>c</sup>	.000
The overall quality of life	Single Measures	.496 <sup>a</sup>	.000
	Average Measures	.747 <sup>c</sup>	.000
Support for tourism	Single Measures	.324 <sup>a</sup>	.000
	Average Measures	.742 <sup>c</sup>	.000

#### 4.2.3 Construct Validity through Inter-item Correlations and Co-variances

The validity of a construct is assessed to test its accuracy i.e. what is to be estimated through this particular measurement. In this pilot study, the divergent, as well as convergent validity of the constructs, were measured. The convergent validity is frequently measured through the Average variance extracted (AVE). For the convergent validity, the AVE value must be higher than 0.5, which indicates that at least 50% variance of the indicators can be explained by the latent variable (Fornell & Larcker, 1981). For the discriminant validity, there is a need for a suitable Average Variance Extracted (AVE) analysis. In an AVE investigation, we examine to see if the SQRT (square root) of every AVE value belonging to each latent construct is much greater than any correlation among any pair of latent variables. As a rule of thumb, the SQRT of the AVE of each variable should be much greater than the correlation of the particular variable with any of the other variables in the model and should be at least 0.50 (Fornell & Larcker, 1981; Hair et al., 2012).



**Table 3: Convergent Validity**

Variables	No. of items	AVE (%)	AVE
ECOI	8	52.140	0.5214
SOCI	6	52.094	0.5209
CULI	7	51.700	0.5170
ENVI	5	65.041	0.6504
QOL	22	49.510	0.4951
SFT	6	44.323	0.4432

The above-mentioned table shows the convergent validity of all the constructs used in this pilot study. The values for Economic Impact (ECOI), Social Impact (SCOI), Cultural Impact (CULI), and Environmental Impact (ENVI), have the values above the threshold level of 0.05, showing that constructs are valid. However, the values of QOL and SFT are slightly lower than the threshold value, which is also considered to be acceptable. The lower values can be due to the smaller sample size which could be improved with the increase in data.

**Table 4: Discriminant Validity (Fornell-Larcker)**

Variable	ECOI	SCOI	CULI	ENVI	QOL	SFT
ECOI	<b>0.7220</b>					
SCOI	0.5565	<b>0.7217</b>				
CULI	0.4596	0.5026	<b>0.7190</b>			
ENVI	0.2052	0.3624	0.2171	<b>0.8064</b>		
QOL	0.0003	0.0013	0.0010	0.0057	<b>0.7036</b>	
SFT	0.0001	0.0005	0.0388	0.0077	0.0067	<b>0.6657</b>

*Note: Square root of AVE on the diagonal*

The above table indicates the results of the AVE analysis. It can be certainly seen that the values of AVE is above 0.5 and are exceeding the values of correlation for each variable in the table.

#### **4.2.4 Inter-Item correlations**

The tables given below show the inter-item correlations of all the variables used in this study. The table shows how each item of the study correlates to all other items. The

perfect range of average inter-item correlation is between 0.15 to 0.50; if less than this, then the items are not effectively correlated and also not assessing a similar construct, or an idea very well (if at all). If it's more than 0.50 then the items are so close as to be almost repeated. All the items show correlations with one another; however, there are some lower values as well representing that these items have less correlation with each other but are considered acceptable.

**Table 5(a): Inter-Item Correlation Matrix (Economic Impact)**

	<b>ECO _1</b>	<b>ECO _2</b>	<b>ECO _3</b>	<b>ECO _4</b>	<b>ECO _5</b>	<b>ECO _6</b>	<b>ECO _7</b>	<b>ECO _8</b>
ECO _1	1.000	.524	.633	.456	.463	.408	.675	.399
ECO _2	.524	1.000	.859	.353	.498	.422	.534	.414
ECO _3	.633	.859	1.000	.390	.507	.433	.585	.364
ECO _4	.456	.353	.390	1.000	.407	.154	.271	.362
ECO _5	.463	.498	.507	.407	1.000	.360	.479	.314
ECO _6	.408	.422	.433	.154	.360	1.000	.582	.186
ECO _7	.675	.534	.585	.271	.479	.582	1.000	.298
ECO _8	.399	.414	.364	.362	.314	.186	.298	1.000

**Table 5(b): Inter-Item Correlation Matrix (Social Impact)**

	<b>SOC_1</b>	<b>SOC_2</b>	<b>SOC_3</b>	<b>SOC_4</b>	<b>SOC_5</b>	<b>SOC_6</b>
SOC_1	1.000	.494	.588	.297	.123	.256
SOC_2	.494	1.000	.772	.613	.404	.352
SOC_3	.588	.772	1.000	.367	.460	.472
SOC_4	.297	.613	.367	1.000	.235	.112
SOC_5	.123	.404	.460	.235	1.000	.626
SOC_6	.256	.352	.472	.112	.626	1.000

**Table 5(c): Inter-Item Correlation Matrix (Cultural Impact)**

	<b>CUL_1</b>	<b>CUL_2</b>	<b>CUL_3</b>	<b>CUL_4</b>	<b>CUL_5</b>	<b>CUL_6</b>	<b>CUL_7</b>
CUL_1	1.000	.700	.359	.396	.440	.410	.264
CUL_2	.700	1.000	.516	.382	.479	.414	.345
CUL_3	.359	.516	1.000	.537	.341	.357	.296
CUL_4	.396	.382	.537	1.000	.316	.264	.168
CUL_5	.440	.479	.341	.316	1.000	.781	.607
CUL_6	.410	.414	.357	.264	.781	1.000	.677
CUL_7	.264	.345	.296	.168	.607	.677	1.000

**Table 5(d): Inter-Item Correlation Matrix (Environmental Impact)**

	<b>ENV_1</b>	<b>ENV_2</b>	<b>ENV_3</b>	<b>ENV_4</b>	<b>ENV_5</b>
ENV_1	1.000	.543	.657	.632	.307
ENV_2	.543	1.000	.637	.537	.459
ENV_3	.657	.637	1.000	.747	.409
ENV_4	.632	.537	.747	1.000	.366
ENV_5	.307	.459	.409	.366	1.000

**Table 5(e): Inter-Item Correlation Matrix (Quality of life)**

	<b>QOL_1</b>	<b>QOL_2</b>	<b>QOL_3</b>
QOL_1	1.000	.847	.326
QOL_2	.847	1.000	.358
QOL_3	.326	.358	1.000

**Table 5(f):** Inter-Item Correlation Matrix (Material wellbeing domain)

	<b>MWBD_1</b>	<b>MWBD_2</b>	<b>MWBD_3</b>	<b>MWBD_4</b>	<b>MWBD_5</b>
MWBD_1	1.000	.763	.557	.234	.239
MWBD_2	.763	1.000	.465	.301	.229
MWBD_3	.557	.465	1.000	.447	.168
MWBD_4	.234	.301	.447	1.000	.497
MWBD_5	.239	.229	.168	.497	1.000

**Table 5(g):** Inter-Item Correlation Matrix (Community wellbeing domain)

	<b>CWBD_1</b>	<b>CWBD_2</b>	<b>CWBD_3</b>	<b>CWBD_4</b>
CWBD_1	1.000	.592	.448	.326
CWBD_2	.592	1.000	.589	.444
CWBD_3	.448	.589	1.000	.168
CWBD_4	.326	.444	.168	1.000

**Table 5(h):** Inter-Item Correlation Matrix (Emotional wellbeing domain)

	<b>EWBD_1</b>	<b>EWBD_2</b>	<b>EWBD_3</b>	<b>EWBD_4</b>	<b>EWBD_5</b>
EWBD_1	1.000	.656	.184	.284	.118
EWBD_2	.656	1.000	.292	.270	.293
EWBD_3	.184	.292	1.000	.694	.570
EWBD_4	.284	.270	.694	1.000	.738
EWBD_5	.118	.293	.570	.738	1.000

**Table 5(i): Inter-Item Correlation Matrix (Health & Safety wellbeing domain)**

	<b>HSWBD_1</b>	<b>HSWBD_2</b>	<b>HSWBD_3</b>	<b>HWB_4</b>	<b>HSWBD_5</b>
HSWBD_1	1.000	.218	.264	.328	.472
HSWBD_2	.218	1.000	.051	.525	.132
HSWBD_3	.264	.051	1.000	.010	.277
HSWBD_4	.328	.525	.010	1.000	.378
HSWBD_5	.472	.132	.277	.378	1.000

**Table 5(j): Inter-Item Correlation Matrix (Support for tourism)**

	<b>ST1</b>	<b>ST2</b>	<b>ST3</b>	<b>ST4</b>	<b>ST5</b>	<b>ST6</b>
SFT1	1.000	.613	.342	.225	.187	.190
SFT2	.613	1.000	.467	.190	.138	.276
SFT3	.342	.467	1.000	.444	.386	.175
SFT4	.225	.190	.444	1.000	.657	.151
SFT5	.187	.138	.386	.657	1.000	.482
SFT6	.190	.276	.175	.151	.482	1.000

## 5. Conclusion & Policy Implications

### 5.1 Discussions

Residents' support for tourism in a community is an essential component of the tourism industry for the success of tourism development in any tourist destination. Therefore, it is essential to understand how residents' positive attitudes and perceptions can be fostered for their further support for tourism development in their respective communities. To achieve successful tourism development in the host community, support from their residents is important. Because tourism depends profoundly upon the willingness of the residents, and their support is important for its future growth, as well as for its success and sustainability in the long term. Therefore, the understanding of residents' perceptions and encouragement of such support is of great prominence for the local management, policymakers, and business organizations (Lee, 2013). As

discussed earlier, the pretest is essential to conduct before the main study as it provides the researcher with an opportunity to measure, improve, and adapt the scales used. Further, this pretest is used for attaining the immediate empirical evidence and knowledge to further improve the research design and conceptualization of the study, its interpretation of findings, and finally outcomes of the study. The survey instrument of this pilot study is adopted after an in-depth study of the literature review.

## **5.2 Implications**

The investigation of this study indicates that the values of reliability statistics (Cronbach's Alpha) are at an acceptable level as they met the threshold value. Therefore, the survey instrument of this study is manageable for further data gathering. Furthermore, the subject and field experts inspected and validated the content and face of the survey instrument. The constructs selected for this study have substantial value in tourism literature. Besides, this present study provides the social lab contribution in the existing literature, as in the Pakistani context limited literature is available on tourism studies. However, tourism studies concerning residents' perceptions of tourism impacts, their QOL, and their support for tourism development have not been reported yet in any dimension. Therefore, the findings will considerably contribute to the body of knowledge of this specific area.

## **5.3 Limitations and Future Research Agendas**

Like any other study, this study has also certain limitations that open possibilities for future research on tourism and their related indicators. In the present study, four major life domains were selected to measure the residents' QOL. However, there might be more wellbeing domains such as work-life, social life, travel life, and, household life. Therefore, future research could replicate the study findings with a more comprehensive category of wellbeing domains for measuring residents' QOL. The current study has collected data from the residents of Hunza Valley. If the study gathered data from diverse regions and tourist destinations, then the strength of the correlation between the six variables may show some variations. As a result, future research may consider gathering data from diverse destinations that may show a different level of tourism growth. This nature of investigation can help in identifying by validating empirically that how residents' QOL may be dissimilar based on the level of tourism growth. In light of the above limitations, future research is encouraged to be undertaken to determine this model more extensively. Thus, this research study providing a benchmark to conduct further studies in this particular area because particularly we do not have generalized results so far. It is, therefore, recommended that certain other elements affect the residents' SFT other than the variables included in this study, which may be included in further researches to increase the authenticity of the study.

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## Adverse Supply Shocks and the Financial Response: An Empirical Study

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### Abstract:

The present paper has examined the role of monetary policy in mitigating the adverse supply shocks (i.e. rise in oil prices). A typical monetary policy is regarded as the stabilizing policy and it is responsible to safeguard an economy in the emergence of any negative shock from the external world. Pakistan's economy has been vulnerable to oil price fluctuations and it has often faced the long run negative impact, for instance the negative effects of 2008 commodity crises which were mainly because of the abrupt rise in oil prices. The monetary policy of Pakistan usually follows the tight policy stance as a response to such adverse supply shocks but the question always remain, how effective is it in mitigating those negative effects? In this regard, the present study has explored the effectiveness of monetary policy stance in Pakistan. In order to achieve the underline objective, this study has used the Shutdown Methodology in Structural Vector Autoregressive (SVAR) models on the quarterly data from 1992 to 2016. The results from the underline model have revealed that the monetary policy of Pakistan has a limited effectiveness on its main target variables of economic output and general price level. It is advisable to monetary authority to monitor the fluctuations of international oil prices and should engage with other transmission channels of monetary policy.

**Keywords:** Monetary policy, Shutdown Method, Supply Shocks, Pakistan, SVAR

**JEL Classification:** C32, E52, E58, F40

### 1. Introduction

The ultimate objectives of economic policies are to achieve higher and stable economic growth. The government employs two key policies to achieve the underline objectives, the fiscal and the monetary policy. Due to prominent intervention of government in fiscal matters the fiscal policy is viewed with skepticism in achieving the objectives. While central bank's monetary policy is viewed as independent in formulating and achieving the economic targets. The monetary policy is mainly used to stabilize the economy during the period of economic disruptions, either internal or external. The most common among them is the sudden change in the price of crude oil internationally,

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widely known as supply shock. The past decade had witnessed prominent fluctuations in international oil prices. The highest prices ever recorded in 2008 and then a slump in oil prices from 2013 onwards. Both the sudden rise and fall is worse for global growth prospects. Countries that are mainly relying on the import of oil are exposed to these variations. The oil is considered as the crucial input for local industry in these economies, so any sudden change can directly transmit in the economy and reduces the income level and increases the domestic price level.

In order to insulate from these shocks, the monetary policy plays the central role in safeguarding the economy. The timely policy reaction can mitigate the negative effects and bring the economy back to its natural path. The policy reaction depends on the objective of monetary policy, if controlling inflation rate is the key objective rather output then the reaction of monetary authority will be to raise the short term interest rate and otherwise. The policy effectiveness depends on the time lag that it takes to stabilize the economy. In the case of Pakistan, it took almost five years to bring inflation back to single digit after the 2008 commodity crises.

The economy of Pakistan was severely affected by the 2008 commodity crises, and the soaring oil prices were the major culprit. It pushed the GDP growth rate to 1.7% from 6% annual projections and the inflation rate skyrocketed to 20% from 7% per annum. The monetary authority reacted in increasing the short term interest rates to double digits around 15% to control the rising price level in the economy. The prolonged tight policy stance kept the monetary authorities measures skeptical. However, the economy fully recovered from the crises soon after 2013<sup>2</sup>, but the tight monetary policy measures for the long duration undermined the economic output of Pakistan. This raises the concern to explore the role of the monetary policy in mitigating the adverse effects of the oil price shocks on the economy of Pakistan.

Previous studies with regard to Pakistan at large have reported that rising oil prices have negative impact on the domestic economy<sup>3</sup>. While the role of monetary policy during those negative events is unexplored. Therefore, this study provides a novel contribution in measuring the strength of monetary policy as a key stabilization policy that restricts the impact of negative shocks. In order to meet the underline objective, a robust SVAR (structural vector autoregressive) model has been employed with a nonrecursive identification scheme. A shutdown method of Ramey (1993) in SVAR modeling has been used to reveal the role of monetary policy during the event of adverse supply shocks.

The rest of the paper is organized as follows. Section 2 discusses the relevant literature. Section 3 provides the explanation of SVAR methodology. Section 4 explains the results from the SVAR model with the basic diagnosis. The last section provides the conclusion from the present study.

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<sup>2</sup> IMF country report 2014

<sup>3</sup> See Siddiqui (2004), Qazi & Riaz (2008), Zaman et al. (2011), Nazir & Qayyum (2014) and others.

## **2. Literature Review**

The literature at large provides evidence that developing and emerging countries are negatively affected by the sudden change in the oil prices (Brown & Yueel, 2002; Hooker, 2002; Cunado & Garcia, 2005; Blanchard & Gali, 2007; Nasir et al., 2018; Sheng et al., 2020). There are both positive and negative effects of the rise in oil prices. Countries that are net the exporter of oil witness the positive effects while the net importing countries witness negative effects. The oil importing countries whether developed or developing both witness negative effects. For instance, many studies conducted for the United States showed negative effects on the economy, See Burbidge & Harrison (1984), Lee et al. (1995), Bernanke et al. (1997), Bachmeier (2008) and others.

Studies like Abeysinghe (2001) have shown from the cross-country evidence that developing economies are more vulnerable to rise in oil prices. This study included ten countries from the Asian region. The changes in oil prices are directly transmitted to the domestic price level which also causes economic activity to slow down. Similar findings were also concluded by Ran & Voon (2012). Recently Cunado et al. (2015) have comprehensively studied the impact of oil shocks on the four top oil consuming countries of Asia. Including, Japan, Korea, India and Indonesia. This study used SVAR model to identify the structural shocks and concluded that supply shocks have limited impact on the economic activity of selected countries. They found that monetary policy tools are effective in mitigating the negative impact of oil prices on Korea and Japan. Apart from the impact of oil prices on the real economic variables, recently Demirer et al. (2020) have found that oil prices are also the driving force behind the global stock and bond markets. Their finding has highlighted the role of oil prices in influencing the global financial markets.

In a more recent study, Khalid et al. (2018) have examined the impact of oil shocks on the Output, price level, interest rate and exchange rates of five South Asian countries including, India, Pakistan, Sri Lanka, Bangladesh and Bhutan. Their study also relied on the SVAR model to identify the shocks and used the dynamic analysis from the impulse response functions to analyze the impact from 1982 to 2014. They found that a small shock in oil can cause significant variations in all selected variables. However, the response from each country was found different due to their respective macroeconomic policies.

Oil is a crucial input for any domestic industry, Pakistan at large relies on the imported oil, largely from the international market. Many studies have showed that sudden changes in international oil prices have adverse impact on the domestic economy of Pakistan. For instance, Nizamani et al. (2017) have found that the macroeconomic performance of Pakistan is significantly affected by the oil price shocks. Their study followed an open economy SVAR model and the generated structural impulse response functions to show the underline effects. Similarly, Khan & Ahmed (2014) have examined the effects of oil prices on the macroeconomic variables of Pakistan using

SVAR model, they also found negative effects. There are number of studies conducted on Pakistan and found similar results. (See Siddiqui (2004), Qazi & Riaz (2008) Zaman et al. (2011) and Nazir & Qayyum (2014). The previous literature on Pakistan shows a strong consensus about the negative effects of oil price shocks. However, there is a need to study whether the monetary policy can mitigate the negative effects of oil shocks on the economy. This will lead us to measure the strength of monetary policy during the adverse supply shock.

### 3. Methodology

#### Data and Variables

This study has used the quarterly data from 1992Q1 to 2016Q4, and the data have been gathered from the IMF data source. The oil prices (LOIL) is represented by the crude oil petroleum index. The industrial production index has been used to proxy the economic output (LIPI) of Pakistan. This is due to the unavailable data of GDP on a quarterly basis. The standard consumer price index has been used for the price level (LCPI) of Pakistan. The official short-term interest rate on government treasury bills (TBILL) is used to represent the interest rate level in Pakistan. The money demand (LM2) is a monetary aggregate measured as M2 of Pakistan. The exchange rates (LREER) are represented by the real effective exchange rates of Pakistan reported by the IMF. The increase in the real effective exchange rate is associated with the appreciation of the domestic currency against the basket of foreign currencies.

The selected variables are in log forms, only interest rate is kept in percentage form.

The crises dummy of 2008 global financial crises is used in the model. The data has been seasonally adjusted by standard method.

#### SVAR (Structural Vector Autoregression) Modeling

The structural representation of VAR model is given as;

$$BX_t = \Gamma_0 + \Gamma(L)X_{t-1} + \varepsilon_t \quad (1)$$

B is a coefficient matrix belongs to contemporaneous variables,  $X_t$  is a vector of endogenous set of variables i.e  $X_t = (LOIL_t \text{ LIPI}_t \text{ LCPI}_t \text{ TBILL}_t \text{ LM2}_t \text{ LREER}_t)$ ,  $\Gamma_0$  is a deterministic vector,  $\Gamma(L)$  is a lag operator in a polynomial matrix.  $\varepsilon_t$  are structural shocks with the condition  $M(\varepsilon_t) = 0$  and  $M(\varepsilon_t \varepsilon_t') = \Sigma$ , that is Identity matrix. Transforming equation (1),

$$X_t = B^{-1}\Gamma_0 + B^{-1}\Gamma(L)X_{t-1} + B^{-1}\varepsilon_t \quad (2)$$

Further simplification yields,

$$X_t = A_0 + A_1X_{t-1} + e_t \quad (3)$$

$A_0 = B^{-1}\Gamma_0$ ,  $A_1 = B^{-1}\Gamma(L)$  and  $e_t = B^{-1}\varepsilon_t$  with the condition of  $M(e_t)=0$ ,  $M(e_t e_t')=\Sigma_e$ .

Equation (3) can be estimated using the data, while the structural shocks ( $\varepsilon_t$ ) are used rather than estimated residuals ( $e_t$ ) to generate the impulse response functions (Enders 2004). Structural shocks ( $\varepsilon_t$ ) can be recovered from estimated residuals ( $e_t$ ) as:

$$\Sigma_e = M(e_t e_t') = M(B^{-1}\varepsilon_t \varepsilon_t' B^{-1'}) = B^{-1}\Sigma_\varepsilon(B^{-1})' \quad (4)$$

Hence,

$$\Sigma_\varepsilon = B\Sigma_e B' \quad (5)$$

To just identify the system, further restrictions are required of the form  $n^2-n/2$ , so as to retrieve all structural shocks ( $\varepsilon_t$ ) from the estimated residuals ( $e_t$ ). As matrix  $\Sigma_e$  have  $n^2+n/2$  unknown elements.

The SVAR model allows using economic theory to impose restrictions on the system that gives non-recursive structure on contemporaneous parameters, rather than the Cholesky decomposition that is to orthogonalize the estimated residuals from the reduced form VAR providing recursive structure of the identification.

The equation (3) is used to recover structural shocks. Given as,  $e_t = B^{-1}\varepsilon_t$ , or  $\varepsilon_t = B e_t$ . The appropriate restrictions are applied on B matrix that is shown below in the compact matrix form.

$$\begin{bmatrix} \varepsilon_{LOIL} \\ \varepsilon_{LIPI} \\ \varepsilon_{LCPI} \\ \varepsilon_{TBILL} \\ \varepsilon_{LM2} \\ \varepsilon_{LREER} \end{bmatrix} = \begin{bmatrix} 1 & 0 & 0 & 0 & 0 & 0 \\ a_{21} & 1 & 0 & 0 & 0 & 0 \\ a_{31} & a_{32} & 1 & 0 & 0 & 0 \\ 0 & a_{42} & a_{43} & 1 & 0 & 0 \\ 0 & a_{52} & a_{53} & a_{54} & 1 & 0 \\ a_{61} & a_{62} & a_{63} & a_{64} & a_{65} & 1 \end{bmatrix} \begin{bmatrix} e_{LOIL} \\ e_{LIPI} \\ e_{LCPI} \\ e_{TBILL} \\ e_{LM2} \\ e_{LREER} \end{bmatrix} \quad (6)$$

The zero restrictions on matrix B in eq (6) are employed by following the method of Amisano & Giannini (1996), the system requires minimum  $n^2-n/2 = 6^2-6/2 = 15$  zero restrictions to be exactly identified, where as in this case 17 restrictions are enough to over-identified SVAR system. The details of the above identification are explained below.

The first row includes oil prices (LOIL), that is to show that oil is relatively exogenous in the system. This identification is guided from the prior study of Kim & Roubini (2000). The remaining macroeconomic variables of Pakistan are as follows. The economic output (LIPI) and the domestic prices (LCPI) show the equilibrium condition

in the goods market. The response of second and third row is contemporaneous. This is due to the fact that a variation in (LOIL) can potentially impact the output and price level in Pakistan. The row fourth and fifth represents the money market condition. Where short term interest rate (TBILL) represent the reaction function of Pakistan's monetary policy, which contemporaneously responds to the changes in domestic output and price level. It responds to all other variables in the lag. Row fifth shows the money demand (LM2) equation. The exchange rate (LREER) is set in the bottom due to the fact that the exchange rate variations are reported more frequently than all remaining variables.

To uncover the strength of monetary policy in restricting the adverse effects of oil prices. This study uses the proposed shutdown method of Ramey (1993) in SVAR modeling. In this method the proposed variable is muted or switched off to gauge its contribution in the system. The impulse response functions generated from this method will allow analyzing them with baseline impulse response functions. For instance, the oil price shock will be analyzed under two settings. One, the effects of oil prices will be analyzed from the baseline SVAR model (i.e. equation (6)) where monetary policy is present in the model. Second, the same effect will be analyzed from the model where monetary policy (i.e. TBILL & LM2) is exogenised in (6). The variations in the impulse response functions will show the strength of monetary policy in mitigating the adverse supply shocks. The same method has been used in SVAR recently by Perera & Wickramanayake (2013) and Nizamani et al. (2016).

#### **4. Empirical Results**

The analyses are done under two settings. First, the impact of adverse supply shocks on all macroeconomic variables of Pakistan are analysed with IRF (Impulse Response Functions). Second, the relative impact of supply shocks are analysed with the shutdown method. Before discussing the final results from IRF it is pivotal to reveal the stationarity of the variables and some essential diagnosis of the SVAR model. Table 1 reports the unit root test results from the commonly used ADF (Augmented Dickey Fuller), the test results reports that all variables are I(1) only (LOIL) is I(0) at 10% significance level. This study has used variables in their level form following the prior studies of Sims et al. (1990) and Lutkepohl & Reimers (1992). Because there is a tradeoff between estimating VAR in level form and in first difference, there is loss efficiency in the level form VAR and loss of long run information in first difference.



**Table 1:** Unit Root Test (Augmented Dickey Fuller)

Variables	With Trend (SIC)		Without Trend (SIC)	
	Statistics	P-values	Statistics	P-values
LOIL	-3.605*(1)	0.093	-2.606(0)	0.856
$\Delta$ LOIL	-5.816***(0)	0.001	-5.863***(0)	0.001
LIPI	-1.394*(1)	0.856	-0.503(1)	0.884
$\Delta$ LIPI	-12.370***(0)	0.001	12.578***(0)	0.001
LCPI	-1.459(1)	0.836	-0.116(1)	0.943
$\Delta$ LCPI	-4.254***(0)	0.001	-4.238***(0)	0.001
TBILL	-2.117(1)	0.537	-2.124(1)	0.241
$\Delta$ TBILL	-6.701***(0)	0.000	-6.736***(0)	0.000
LM2	-1.726(1)	0.731	-0.486(1)	0.888
$\Delta$ LM2	-6.835***(0)	0.000	-6.861***(0)	0.000
LREER	-0.330(0)	0.988	-1.761(1)	0.397
$\Delta$ LREER	-7.577***(0)	0.000	-7.335***(0)	0.000

**Table 2:** LM test for Autocorrelation

Time Lag	Test Statistics	Probability
1	112.8353	0.0001
2	67.22080	0.3258
3	79.32632	0.0939
4	74.95145	0.1951
5	62.21823	0.5241

Note: Lagrange Multiplier Test follows the standard procedure of hypothesis testing

The different information criteria were used for the selection of optimal lag length. Including, Akaike, Schwarz and Hannan-Quinn have reported different optimal lag length. Due to the conflicting results, this study has relied on the Lagrange Multiplier (LM) test to identify the optimal lag length.

Table 2 reports the LM test results up to lag five for the serial correlation. The optimal lag length two has been selected for the estimation of the SVAR model and it is enough for the quarterly data (Disyatat & Vongsinsirikul, 2003). The stability of SVAR model with lag length two in Table A1, confirms that the model is stable with the selected lag length.

As the underline SVAR model is overidentified, so as to confirm whether the restrictions are valid or not the likelihood ratio statistics are employed. The likelihood ratio reports the value of 0.5580 with a 0.75 (P-value) of the baseline SVAR model. Hence, confirming that the additional restrictions are valid on the selected SVAR model. The estimated coefficients of SVAR model are shown in a table below.

**Table 3: Estimations from SVAR Model**

LOIL	LIPI	LCPI	TBILL	LM2	LREER
1	0	0	0	0	0
-0.0316 (0.0273)	1	0	0	0	0
-0.0190 (0.0062)	0.0220 (0.0238)	1	0	0	0
0	-9.1728 (6.2033)	-42.0412 (26.3202)	1	0	0
0	-0.0464 (0.0370)	0.6352 (0.1573)	0.0016 (0.0006)	1	0
0.0536 (0.0141)	0.0171 (0.0527)	-0.4360 (0.2492)	0.0020 (0.0009)	-0.0357 (0.1475)	1

Note: standard errors are reported in small brackets.

### Impulse Response Functions

Figure 1 and onwards provides the IRF that are generated from the underline SVAR model. The estimated response of all selected variables to a one-time shock in (LOIL) is reported in the Figure 1. The one-time shock in (LOIL) implies the sudden rise in oil prices internationally. The middle line of each figure shows the corresponding response from each variable. The two confidence bands in each figure are calculated from a bootstrapping technique.

The first row of Figure 1 shows the response of domestic output and price level to the one-time positive shock in (LOIL). Economic output (LIPI) of Pakistan shows a significant negative response to oil price shock. The initial response is positive but insignificant and short lived. Whereas in the middle to long run horizon, it is negative and significant in addition it slowly goes up as the effects are reduced in the long run.

The response of Pakistan's output is as expected because when a price of international oil increases it will adversely impact the local output. There is ample evidence in the literature that adverse supply shock reduces the output of oil importing country. The price level in Pakistan shows a significant positive response to the rise in oil prices. This is also an expected response because the price level in the country primarily responds positively with a rise in oil price.

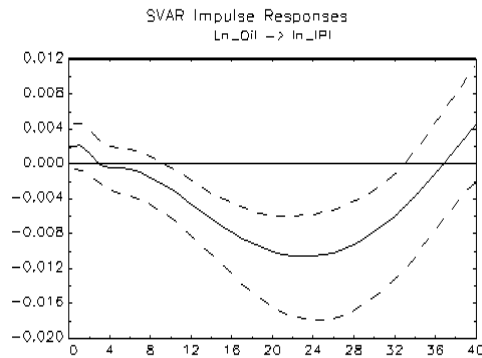
A positive response from (TBILL) in Figure 1 shows the policy stance by the monetary authority of Pakistan. Since the priority of monetary policy in Pakistan has been to control inflation so the positive response shows that the monetary policy raises the short term interest rates to counter the effects of oil prices on the domestic price level. The response of money demand (LM2) to oil price shock is negative; this is due to the slowdown in the real activity in the economy. As the pace of overall economy slows so as the demand for money also goes down. The last row in Figure 1 shows the response of exchange rate (LREER) to rise in the oil price shock. The initial positive response shows that the home currency depreciates against other currencies.

The positive and significant response implies that as the prices of international oil raises the demand for foreign currencies also raises comparatively to that of a local currency. Which in turn results depreciation in Pakistani currency.

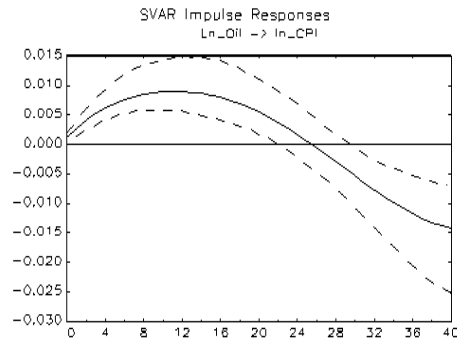
The VDC (variance decomposition) from SVAR for output (LIPI) and price level (LCPI) are given in the Table A2 and A3 of the appendix. It is evident from these tables that oil prices (LOIL) are the major source of variation in both economic output and general price level.

The relative responses from the output and price level of Pakistan are shown in the figure 2 and 3. There are two impulse responses in each figure and they are labeled accordingly. The first response is from the baseline SVAR model represented with solid line, while the second response is generated through the shutdown method represented with dashed line, where the monetary policy is muted. This is done to measure the strength of monetary policy in restricting the adverse effects of rise in oil prices. The Figure 2 shows that at the end of first year (i.e. fourth quarter) the response of domestic output is more than three-fourths of the response in baseline IRF. At the end of second year (i.e. eight quarter) it reduces to the half of the baseline response. Whereas, in the medium run (i.e. end of the fifth year) the response of domestic output in the baseline is three times higher than that without monetary policy. However, in the long run, the response of output is positive in the baseline compared to that of without monetary policy. It implies an effective monetary policy in the short-run that mitigates the adverse supply shock on the domestic output. But in the medium run the monetary policy is found to be ineffective. This is due to the weak output structure of the economy that requires some periods to recover from the shock.

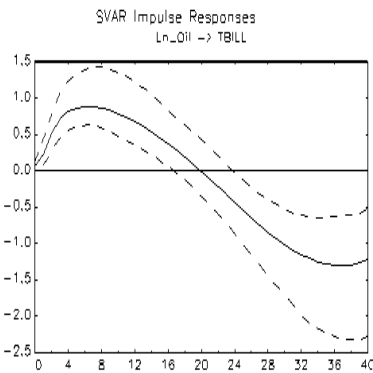
**Response of LIPI**



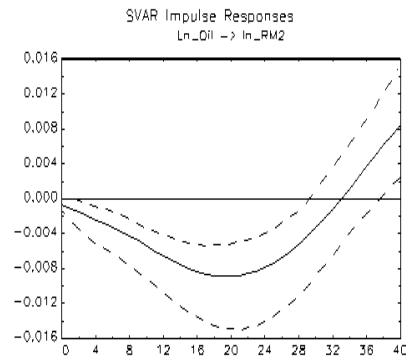
**Response of LCPI**



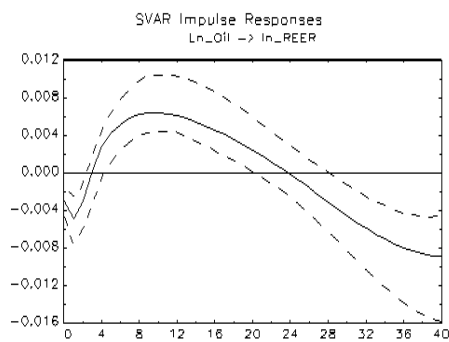
**Response of TBILL**



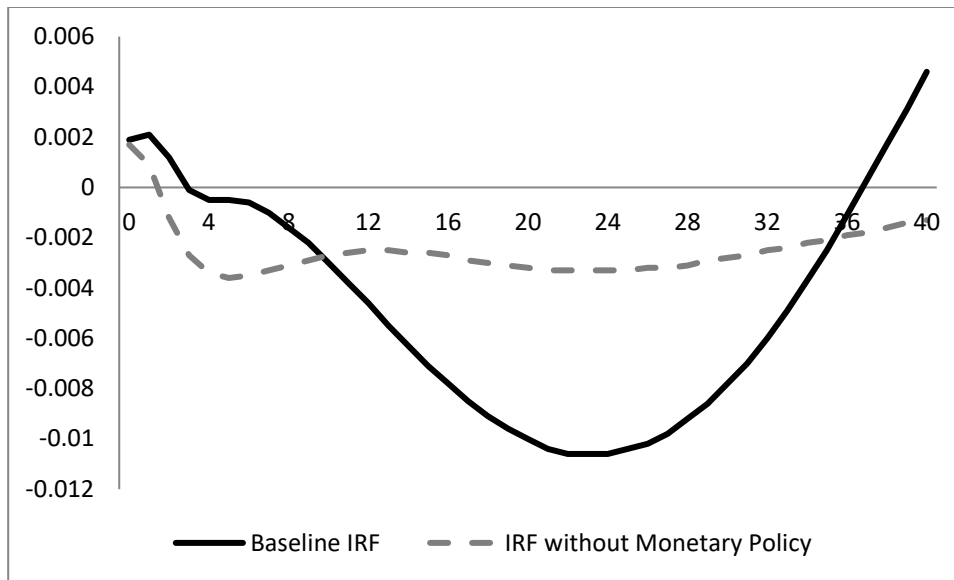
**Response of LM2**



**Response of LREER**

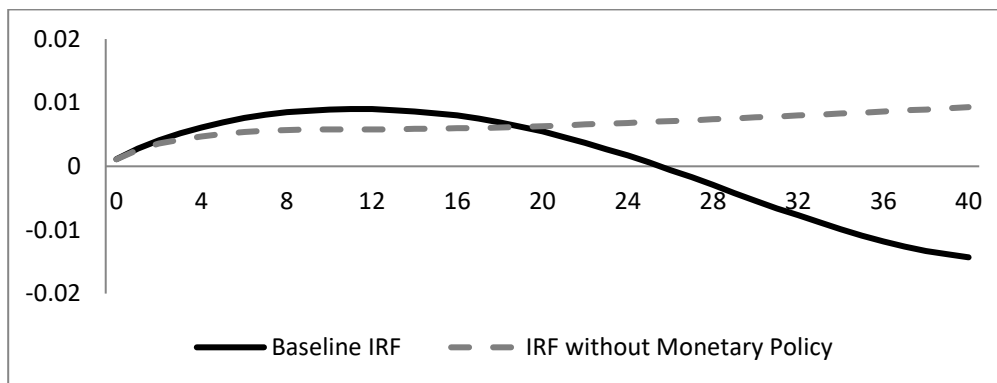


**Figure 1:** Response of Macroeconomic Variables to Shocks in Oil Prices



**Figure 2:** Relative Response from LIPI (Output)

In Figure 3, the response of price level in the baseline IRF is almost one-fourth times higher than that in IRF without monetary policy. It gradually increases till the end of fifth year and the baseline IRF start to decline onwards. Price level goes down after the seventh year in the baseline compared to that without monetary policy. This implies that the monetary policy is effective in reducing the domestic price level in the medium to long run, whereas in the short run it failed to mitigate the adverse effects of oil prices. This suggests us that there is a direct pass-through of the rise in oil prices to the domestic prices.



**Figure 3:** Relative Response from LCPI (Price level)

## 5. Conclusion

This study has mainly examined the role of monetary policy in mitigating the adverse effects of rise in oil prices on the economy of Pakistan. The underline objective is met using the shutdown methodology in SVAR modeling. The said method is most appropriate to study the strength of monetary policy in limiting the negative effects of oil shocks. The dynamic analysis has been carried out mainly on impulse response functions which are generated from the non-recursive identification in SVAR modeling. The results have revealed the following findings. Initially, the effects of oil shocks have been analyzed on macroeconomic variables (i.e. economic output, price level, interest rate, money demand and exchange rates). Oil shocks cause the economic output to go down significantly and it increases the price level. These effects were found as anticipated from the past studies. The interest rate showed a positive response to oil price shock while money demand showed a negative response. It implies that monetary policy responds with tight policy stance to a shock in oil prices. This is in line with the primary objective of monetary policy practice in Pakistan. From the shutdown method, this study has found that the monetary policy is only effective in the short run to mitigate the negative effects of oil price shocks on the economic output of Pakistan. On the other hand, the effectiveness of monetary policy is restricted to medium to long run for the domestic price level. Considering the findings of this study, it is advisable that the monetary authority must closely monitor the turbulence in the international oil prices and should engage with other transmission channels (i.e. exchange rate) to counter the negative effects on the price level.

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**APPENDIX****Table A1:** Stability Test for SVAR

<b>Root</b>	<b>Modulus</b>
0.991820	0.991820
0.953941 - 0.095671i	0.958727
0.953941 + 0.095671i	0.958727
0.878934	0.878934
0.828141 - 0.081404i	0.832132
0.828141 + 0.081404i	0.832132
0.656901 - 0.291368i	0.718620
0.656901 + 0.291368i	0.718620
0.482107 - 0.399748i	0.626279
0.482107 + 0.399748i	0.626279
0.561980	0.561980
0.087829 - 0.495862i	0.503580
0.087829 + 0.495862i	0.503580
-0.367168	0.367168
0.112604	0.112604
0.050609	0.050609
<i>*SVAR model meets the stability requirement. All root lies within the unit circle.</i>	

**Table A2: Variance Decomposition of LIPI**

<b>Steps</b>	<b>LOIL</b>	<b>LIPI</b>	<b>LCPI</b>	<b>TBILL</b>	<b>LM2</b>	<b>LREER</b>
1	0.01	0.99	0.00	0.00	0.00	0.00
10	0.03	0.43	0.24	0.02	0.23	0.05
20	0.31	0.17	0.28	0.04	0.14	0.06
30	0.42	0.07	0.16	0.04	0.25	0.06
40	0.36	0.06	0.18	0.05	0.29	0.05

**Table A3: Variance Decomposition of LCPI**

<b>Steps</b>	<b>LOIL</b>	<b>LIPI</b>	<b>LCPI</b>	<b>TBILL</b>	<b>LM2</b>	<b>LREER</b>
1	0.09	0.01	0.90	0.00	0.00	0.00
10	0.48	0.10	0.25	0.02	0.13	0.03
20	0.43	0.12	0.11	0.01	0.30	0.04
30	0.32	0.13	0.18	0.01	0.32	0.03
40	0.37	0.15	0.22	0.01	0.20	0.04

## Experiential Marketing at the Bottom of the Pyramid: Theoretical extension and analysis

Muhammad Zahid Maitlo<sup>1</sup>, Rehman Gul<sup>1</sup>, Irfan Ali<sup>1</sup>

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### Abstract:

Drawing from basic psychological need theory, this study aims to explore the effect of service experiences (e.g., education, escapism, esthetics, and entertainment) on students' passion for the university and to examine whether basic psychological needs satisfaction (e.g., autonomy, competence, and relatedness) contributes to the mediate the link between service experiences and students' passion for the university. To address this knowledge gap, we recruited n = 432 participants from Pakistan based on the convenience sampling method. The structural equation modeling technique was used as a method to test the hypothesized relationships using SmartPLS. Results show that when four dimensions of service experiences were assessed, escapism had the greatest effect on university passion followed by entertainment, esthetics, and education. Our findings further reveal that students' basic psychological needs satisfaction fully mediates the effect of service experience and students' passion for the university. Finally, we discuss the implication for theory and policy in great detail and highlighted future research agendas.

**Keywords:** service experience, esthetics, escapist, entertainment, education, basic psychological need, university passion, and structural equation modeling.

**JEL Classification:** M31

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### 1. Background

The rapid global advancement, cutting edge competition, and excessive brand clutter are the cornerstone for today's swift changes in the marketing landscape leading from product to service to experiential philosophies (Xixiang et al., 2016). Organizations are destined to rethink their marketing practices to survive and achieve sustainable growth in today's business environment (Gilal et al., 2016). Although emerging marketing philosophies are considered as key concepts today, yet there are different views, interpretations, and outcomes in terms of content and context. Consequently, it has grabbed the attention of researchers and practitioners to explore, justify and testify the

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emerging concept of experiential marketing in various contexts on national and global scales for better-desired outcomes that can uplift the organizational growth in a quicker, better, and reliable way (Gilal et al., 2016; Xixiang et al., 2016). Similarly, like other business sectors, the education sector is drastically shifting into experiential space for young and energetic students which are their customers. There is no offense to say that that education has turned into an industry where students are prioritized as prime customers. It is transforming from traditional to modern infrastructure, tools, and techniques, methodologies, and philosophies that raise student attention, love, and passion in education.

Ahn, and Thomas, (2020) found that social, hedonic, and altruistic attributes are important elements in evaluating customers' loyalty and linked to customer passion. In such a case, experiential marketing has achieved a significant amount of attention by all researchers and practitioners of the world to redefine and replace existing marketing mechanisms with experiential components to ensure sustainable development and growth in education at large (McCole, 2004). Experiential marketing is considered as the foundation of customer engagement in the marketing world today (Ghorbanzadeh, Saeednia, Rahehagh, 2020; Orus, et al., 2019; Teerlinget. al., 2018; Roy et. al., 2017). Experiential science is vastly growing and providing countless opportunities for academicians and practitioners to discover its antecedents and consequences especially in developing economies. It offers three broaden the domain of interest for researchers i.e. brand experience, service experience, and the customer experience. A large number of researchers have explored its significance and scope in detail however the education has remained untapped. Incremental experiences in education can bring revolutionary results which unfortunately have not been explored yet to the best of the author's knowledge. Consequently, this study is aimed to provide a conceptual model that independently measures the flow of university service experience and the university passion among students considered as institutional customers keeping in view their basic psychological needs.

This study will enormously contribute to the literature of marketing and consumer psychology. It will enlarge theoretical knowledge necessary for academia and industry to look after the benefits through service experience and university passion at large. It gives the implication of the general concept of how students can be passionate about education. Besides, the focus should not only be on the service experience but also on basic psychological needs because it is the nexus between service experience and university passion. Focusing alone on service experience may have a partial effect on university passion. This research is the foundation for further studies that are necessary for experiential science in today's cutting edge competition.

### **Research Gap**

Increasing the global scope and significance of experiential marketing has become a center of attention for researchers. Numerous studies are attempted to discover the origin, however contradictory results are explored owing to socio-cultural and technical factors indicating the notion that experiences vary as per environment, context, and phenomena. For instance, experiences in an online environment, tourism and

hospitality, retail, product choice, restaurants, travel, and brand choice and are not similar. In such cases, the concept of experience especially in education needs a most relevant explanation that best defines the content and phenomena. Neither theoretical nor empirical evidence is identified yet inquiring about the service experience and university passion in specific reflecting a theoretical and contextual gap that exists in past literature. Therefore, this study is aimed to explore the service experience and university passion mediated by basic psychological needs.

## **2. Literature Review**

### **Service Experience**

Experiences are the events and interactions that engage individuals in a personal way. Similarly, the service experience is the subjective personal response, feeling, or interpretation of consumers during service consumption. It has three main characteristics i.e. (i) it is phenomena, process, and a result, (ii) it is outcome-based activity (iii) it is subjective (Helkkula, 2012; Teixeira et. al., 2012; Tuominen and Toivonen 2009; Edvardsson et. al., 2005; Pine and Gilmore, 1999). Services are intangible but they are often released by physical products (Shostack, 1987). Therefore, service experiences are subjective and outcome-based (Kato et al., 2019).

Customer choice for service preferences is rapidly changing concerning socio-cultural and demographical variations. For instance, service experience flow generates customer psychological matrix that defines how a customer is feeling the moments that ultimately trigger his/her engagement and love for the service availed (Chen et al., 2019). Psychologically, customer point of judgment during the service consumption is the experience which reflects how best services are shaped and delivered (Zhang, Gursoy and Lin, 2020; Scaletti et al., 2020; Hsieh and Chang, 2016). On the other side, maximizing profitability and customer satisfaction through providing the best customer experiences is the challenging and ultimate objective of every organization (Maitlo, Jugwani, Gilal, 2017). Such high significance of service experience has discovered various opportunities for researchers to evaluate its antecedents and consequences on theoretical grounds. For instance, Table 1 indicates the most relevant and latest studies on subject grounded by traditional theories since the last decade. It focuses on how service experience is explored through context-specific dimensions in different settings grounded by traditional marketing theories in both quantitative and qualitative forms. Table 1 shows how multi-dimensionality of service experience is conceptualized as core constructs and measured through various marketing theories in the literature. Similarly, service experience in an educational context can be measured by aesthetics, escapist, education, and entertainment. These four realms are the cornerstone for further experiential development in the education context in developing economies.

**Table 1:** Past Researches on Service Experience

<b>Author (s) &amp; year</b>	<b>Dimension (s)</b>	<b>Research Theory</b>	<b>Methodology</b>	<b>Findings</b>
Michael et al. (2020)	Guestroom, Employee Interaction, Internet, facility, Hotel Service	Conceptual Research	Quantitative	Significant emergence of the experience economy
Lin, Gursoy, and Zhang, (2019)	Hedonic interaction, Expressive interaction, Functional Interaction	Appraisal theory (1991)	Quantitative	Theory Supported
Jacques & Christo (2019)	Online Service Mobile Service	Cognitive Dissonance Theory, (1958) Status Quo Bias Theory (1988), Innovation Diffusion Theory (1962)	Quantitative	Only innovation Diffusion Theory is NOT Supported.
Vanasanan Huang (2018)	Physical Environment, Therapist & Staff, Spa Products & Treatment, Other Customers	Conceptual Research	Quantitative	Supported
Viedma et al., (2017)	Education, Entertainment, Esthetics, and Escapist,	Technology Acceptance Theory (1986)	Quantitative	Theory Supported
Faizan, Amin & Cobanoglu (2016)	Physical environment, Interaction with staff, Interaction with customers	Conceptual Paper	Quantitative	Supported
Chang, & Huang (2016)	Service Atmosphere, Service Process, Service	Multiple Attribute Utility	Quantitative	Theory Supported: Waiting Time, Crowdedness

	Employee, Waiting Time, Crowdedness	Theory (1995)		are NGTVattributes than others
Wang, (2015)	Flow, Superior Functioning, Intense Joy, Stimulation, Engagement	Flow Theory (1980) & Technology Acceptance Theory (1986),	Quantitative	Theories Supported
Wong, (2013)	Service Environment, Employee Service, Service Convenience, Hedonic Service	Conceptual Paper	Quantitative	Only Employee Service rejected
Edvardsson, et. al, (2012)	Positive Deactivation, Positive Activation, Cognitive Evaluation	Cognitive Dissonance Theory, (1958)	Quantitative	Theory Supported
Xu, & Chan, (2010)	Recognition and escapism, Peace of mind and relaxation, Hedonics, Involvement	Theory of Reasoned Action (1967)	Quantitative	Theory Supported: Hedonic Involvement found as negative Contributors

**Esthetic experience:** It is the experiential state of mind which deals with the nature of beauty. It is the psychological process in which the subject mind is highly by an object without nay surrounding interference (Marković 2010). In other words, individuals put their attention on an object while other objects, events, and activities are left suppressed (Winston and Cupchik 1996). It is one of the most powerful influencers in business settings through which a customer’s attention can be diverted through physical settings and environmental effects (Wirtz and Lovelock 2004). Esthetics is viewed as predominant characteristics of service experience in an educational context that leaves a positive cognizance on the minds of customers while inspiring to be engaged in what is offered and a particular setting (Gomez, Romero, and Lorenzo, 2010). It also indicates how things are prepared in education settings so esthetically that engage customers so passionately to actively participate and immersion.

**Entertainment Experience:** It is considered as the oldest, yet persuasive elements of service experience that swiftly occupy customer readiness to a particular event (Pine

and Gilmore 2011). Entertainment is a form of activity that holds the attention and interest of viewers and offers joyfulness and pleasure (Luo, Lam and fan, 2020). Kim, Goodsir, and Zhong (2019) define that it is the service consumption state in which consumers are evaluating performance (Chi, 2019). Although, the consumer is not part of the entertainment formation process where his/her mind is so passionately engaged during the appreciation of the event (Liu, Shin and Bums, 2019; Thanh and Kirova, 2018). In the education context, it can be viewed through how well individuals are amused, interested, and delighted during the study and learning course, fun and the joy they experience through sports activities, singing festivals, religious events, and other amusing activities in university or college.

**Escapism experience:** Escapism is a bit advanced stage than entertainment as it required immense participation in service experience (Penaloza, Ruiz, and Holmqvist, 2020; Chen and Kim, 2019; Han et al., 2019). It is some one's psychological tendency or diversion from boring and unpleasant activities in which an individual is seeking to be engaged in fantasy other than regular aspects of life. It refers to dwell in one's self away from the obstinate feeling of unhappiness and sadness. Escapism can be good or bad depending on escape reasons. Good escapism is when an individual escapes from narrow into the broader world helping someone to move up from the restraints of society and to nurture the adventure and freedom. On the other hand, bad escapism is when someone escapes from the broader world into narrower preventing individuals from hard work that is necessary for self-grooming, development, and growth. Therefore, it is very crucial in designing service experience as a customer only contributes to the experience that takes them to feel destined with a new identity (Alexiou, 2020). In the education context, escapism can be designed through role-playing, documentary filming, competency-based education, etc.

### **Education Experience:**

The fourth element of service experience is education. Education represents an experience that is absorbed but requires active consumer participation (Saito et al, 2020). It is an experience in which an individual is experiencing the knowledge in specific and general (Gilmore and Pine 1999). In this case, consumer undergoes in a series of events that are highly interactive and participative in terms of mind and body (Pine and Gilmore, 2011). For instance, students experience education through class notes, books, conversations with teachers, and other educational activities imparted within the premises of the education facility. In other words, education experience is directly relational to consumer psychological interest and enrich overall service experience in university.

### **University Passion:**

Passion is a feeling of intense enthusiasm for something or compelling desire for someone and therefore is associated with higher psychological adjustments (Donovick et al., 2007; Gilal et al., 2020). It is the state of being inclined towards a self-defining



that individual love finds very important and devotes time and energy (Vallerand et al., 2015). Large compelling studies have been explored the consequences of passion in numerous domains i.e. gambling, sports, music, recreational activities, tourism, social media and work internet use, etc. (Das et al., 2019; Albert and Tullis 2013; Vallerand, 2010; Donovan et al., 2007; Vallerand & Rousseau, 2003). Likewise, university passion refers to the individuals feeling of enthusiasm towards the university services. Rationally, university consumers buy university services which ultimately left psychological effects in the shape of satisfaction, attachment, love, or passion.

## **Theoretical Framework**

The integrative theoretical research model is proposed in this study grounded by the basic psychological needs theory (Ryan and Deci, 2010). The theory states that individual basic psychological needs of autonomy, competence, and relatedness must be continuously satisfied to maintain optimal performance and well-being (Gilal et al., 2019). These are the psychological needs that drive human behavior. Relying on this theoretical notion, we therefore, expect that the relationship between service experience and university passion will be mediated by basic psychological needs.

### **Service experience, university passion, and basic psychological needs**

Cutting edge competition among service organizations has given birth to new and highly sharp strategies that aim to fasten the consumption of economic value by consumers. Today, the world is rushing in a speedy developing economy in terms of brand choices, alternative values with common organizational objectives to maximize the profits. It's beneficial for customers as they have the availability of mass production lines and service clutters in markets so that they can better compare, select, and avail services as per their customized needs. In such circumstances, the role of service experience is distinct and divergent in providing consumer value. Though, the core objective of any service provider is to satisfy and delight customers that ultimately lead to brand loyalty, love, and passion (Kim et. al., 2018; Ward, Duerden and Freeman 2015; Schmitt, 1999). Pine and Gilmore (1999) found that customer love for the consumption of service generates consumer and company long term relationships so that services should be designed in a similar way (Voss and Zomerdijk, 2010).

The studies on brand passion are remarkably presented by some of the researchers. For example, the study of Gilal et al., (2020) explored how brand passion is formed based on extrinsic and intrinsic motivations. Similarly, it is found that consumer basic psychological needs are very crucial in developing consumer perception and behavioral intentions (Gilal et al., 2020). Similarly, another study by Gilal et al., (2020) conclude that the influence of celebrity expertise, celebrity attractiveness, and trustworthiness on relatedness needs satisfaction is crucial. Likewise psychological needs like autonomy, competence, and relatedness form brand attachments (Ahn, 2019; Gilal et al., 2020), willingness-to-pay a premium, and word-of-mouth (Gilal et al., 2018). Service experience components are interpersonal and context-specific for consumers. In other words, the service experience is the direct-indirect subjective stimulus that is personally

interpreted by consumers subject to the service provider, event, or brand performance (Kim & Choi 2013). It indicates that service experience is different consumer to consumer depending upon how well elements of service experience are designed and processed that could bring desired consumer feelings. Hsieh and Yuan, (2016) claimed that customer experience is one of the most powerful tool in marketing that has significant proportions to build consumer psychological consequence. It is also endorsed by Halbrook and Hirschman (1982) that service experience includes hedonic and entertainment characteristics leading customers to the recreational outcomes of fantasy and love. However, the impression of esthetic and education components also nurtures overall consumer service experience journey with significant effects on their memory and second level attachments i.e. consumer loyalty, love, and passion.

Conclusively, esthetics, escapism, entertainment, and education are the key components of service experience which produce emotional outcome on consumer psychology in terms of product engagement, love, and passion. Generally, consumer psychological outcomes are not limited to customer attachments, loyalty, word of mouth, brand choice, and preference but also can be observed to the next level of cognitions i.e. brand love, passion, etc. However, consumer psychological outcomes are always built on theoretical grounds. Likely, Gilal et al., (2019) has endorsed that literature is replete with the use of repeated traditional theories of marketing, For instance, Maslow's hierarchy of needs theory, the theory of reasoned action, the theory of planned behavior, multiple attribute theory. Gilal et al., (2019) further suggested that the theories that can essentially capture the customers' motivations are ignored in marketing literature. Hence, this study is grounded on basic psychological need theory which is the mini theory of self-determination theory to formulate the following hypotheses (see Figure 1)

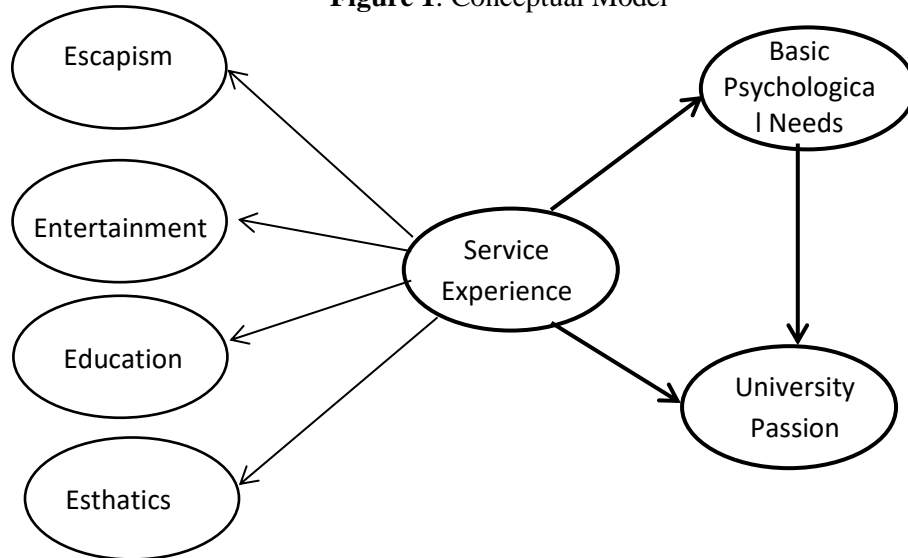
H1: Service Experience positively increases university passion among students

H2: Service experience positively satisfies university student's basic psychological needs

H3: Basic psychological needs fulfillment positively increases university passion among students

H4: Basic psychological needs fulfillment mediates the link between service experience and university passion.

**Figure 1: Conceptual Model**



### 3. Research Methodology

#### Participants and Procedure

This study opts for a deductive research approach grounded by ontological and epistemological research philosophies. The purpose is to explore the relationship between service experience and university passion based on a theoretical background in terms of basic psychological needs as in the mediating variable. Following the purpose, university students with a minimum of 20 years participated in the survey. The list of all students enrolled in universities of Pakistan was not available to the researcher nor was it possible to physically visit the university due to the COVID-19 education shutdown. Sequentially, a total number of  $n = 487$  responses were collected through Google Forms online survey and only  $n = 432$  were considered valid after the data screening and refining phase.

#### Sampling Procedure

Consequently, non-probability e-convenience sampling was preferred to address the issues highlighted in the outset. The threshold for sample size in non-probability sampling is not well clarified in the literature, however, there are valid assumptions regarding sample size determination protocols. For instance, Bougie and Sekran (2016) and Zikmund and Babin (2015) suggest that the sample size should be as big as possible as it is the best way to reduce the chances of error. Similarly, Lee and Comfrey (1992) proposed that sample size can be evaluated as 100 for poor, 200 fair, 300 good, and 500 very well. Additionally, Hair, Ringle, and Sarstedt (2013) recommend that the

minimum sample size should be equal or greater than 200 for rigorous statistical analysis i.e. structural equation modeling. In this study, a sample size of 432 qualified the sample size protocols as per literature recommendations and was considered sufficient enough to carry out further statistical analysis.

Based on prior cross-sectional studies (Pathan et al., 2017; Gong et al., 2020; Zhang et al., 2019) we adapted all scale items from prior published studies. For instance, the University passion was measured with the 10-items scale adapted from Gilal et al., (2020). The students' autonomy, competence, and relatedness satisfaction were borrowed from Gilal et al., (2018; 2020), originally was in Chen et al., (2015). In a similar vein, the service experience was measured with a dimensional scale used by (Vesci et al., 2020; Park and Lee, 2012).

## 4. Analysis And Results

### Demographics of respondents

The demographic profile of respondents is very crucial in research because results will be only valid to that particular group of respondents from whom data is collected. Any change in the demographic profile of respondents will directly affect the results of the study. Keeping in view the importance and need of the respondent profile, the researcher inserted a portion of respondent data in the survey form. It included respondent gender, age, marital status education, and university type as shown in Table 2 represents the demographic factors, profile, frequency, and percentage. It can be concluded that 55% of male and 44.9% female consumers were going through the service experience in their respective universities. These respondents belonged to three age groups in which 48.4% of consumers were from the age bracket of 20-25, 38.2% were from the age group of 26-30, and the remaining 13.4% of customers were from the age bracket of 30 and above. Similarly, in terms of marital status, there were 77.3% married consumers and 22.7% were unmarried. Likewise, 39.3% of consumes were enrolled in graduation, 31.9% were enrolled in MS./M.Phil. Program and the remaining 18.9% of students were enrolled in Ph.D. Finally, out of a total of 432 respondents, 58.1% of consumers were form public and 4.9% were from private universities.

**Table 2:** Respondent Demographics

Measurement	Profile	Frequency	Percentage (%)
Gender	Male	238	55.1
	Female	194	44.9
Age	20-25	209	48.4
	26-30	165	38.2
	30 and above	58	13.4
	Unmarried	334	77.3

Marital Status	Married	98	22.7
Education	Enrolled in Graduation	213	39.3
	Enrolled in MS./M. Phil	138	31.9
	Enrolled in PhD	81	18.8
University Type	Public	251	58.1
	Private	181	41.9

### Reliability and validity and Factor Analysis

To validate scale and measure the internal consistency among used items, three widely accepted techniques including Cronbach alpha, composite reliability, and average variance extracted were carried out. The thresholds for Cronbach alpha suggested by Nunnally and Bernstein (1994) is 0.70, for composite reliability 0.60 is suggested by Bogozzi and Yi, (1988) and for average variance extracted minimum, 0.40 is suggested by Nasip, Amirul, Sondoh & Tanakinjal, (2017) respectively. In this study, results of reliability and validity are consistent with literature recommendations where the internal consistency of all items qualified the threshold of 0.70 i.e. service experience at 0.938, basic psychological needs at 0.929, and university passion at 0.877. Similarly, composite reliability for all variables including service experience, basic psychological needs, and university passion was qualified at the value 0.931, 0.939, and 0.903 respectively. Finally, the results of the average variance extracted were also within the suggest range i.e. service experience at 0.482, basic psychological needs at 0.565, and university passion was found at 0.501 respectively. Conclusively, all latent variables used in this research qualified the reliability and validity criterion as shown in Table 3.

**Table 3:** Factor Loadings, Reliability and Validity Statistics

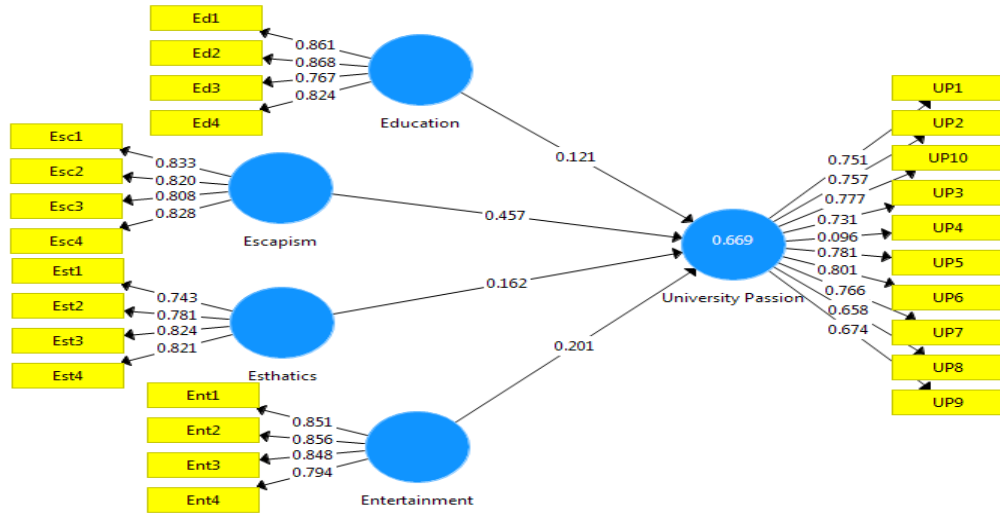
Items		Loadings	( $\alpha$ )	CR <sup>a</sup>	AVE <sup>b</sup>
<b>Service Experience (Education, Entertainment, Escapism, and Esthetics)</b>			<b>0.928</b>	<b>0.931</b>	<b>0.482</b>
<i>Education</i>					
Ed1	The experience in university has made me more knowledgeable	<b>0.615</b>			
Ed2	I learned a lot in university	<b>0.625</b>			
Ed3	University has stimulated my curiosity to learn new things	<b>0.573</b>			
Ed4	It was a real learning experience in university	<b>0.684</b>			
<i>Esthetics</i>					
Est5	I felt a real sense of harmony in university	<b>0.649</b>			

Est6	Just being in university was very pleasant	<b>0.693</b>			
Est7	The setting was very attractive in university	<b>0.706</b>			
Est8	I felt a real sense of harmony in university	<b>0.736</b>			
<b>Escapism</b>					
Esc9	Activities of others were amusing to watch in university	<b>0.770</b>			
Esc10	Watching others perform was captivating in this university	<b>0.712</b>			
Esc11	I enjoyed watching what others were in university	<b>0.755</b>			
Esc12	doing Activities of others were fun to watch in university	<b>0.731</b>			
<b>Entertainment</b>					
Ent13	I felt I played a different character in university	<b>0.740</b>			
Ent14	I felt like I was living in a different time or place in a university	<b>0.698</b>			
Ent15	I felt like I was living in a different time or place in a university	<b>0.704</b>			
Ent16	Someone else I completely escaped from reality in university	<b>0.694</b>			
<b>Basic Psychological Needs</b>			<b>0.929</b>	<b>0.939</b>	<b>0.565</b>
BPN1	University makes me feel a sense of choice and freedom.	<b>0.723</b>			
BPN2	University makes me feel like what I want	<b>0.712</b>			
BPN3	University makes me feel like who I am	<b>0.687</b>			
BPN4	University makes me feel like what interests me	<b>0.646</b>			
BPN5	I feel that the university cares about me	<b>0.769</b>			
BPN6	I feel connected with the university	<b>0.806</b>			
BPN7	I feel that this university is important to me	<b>0.791</b>			
BPN8	I experience a warm feeling with this university	<b>0.812</b>			
BPN9	University makes me feel confident.	<b>0.764</b>			
BPN10	University makes me feel capable of what I do.	<b>0.750</b>			

BPN11	University makes me feel competent.	<b>0.809</b>			
BPN12	University makes me feel successful.	<b>0.731</b>			
<b>University Passion</b>					
UP1	I have almost an obsessive feeling for this university	<b>0.772</b>	<b>0.877</b>	<b>0.903</b>	<b>0.501</b>
UP2	I have a tough time controlling my need to take/choose the university	<b>0.752</b>			
UP3	The urge is so strong; I cannot consider other universities.	<b>0.758</b>			
UP4	I am emotionally dependent on this university.	<b>0.731</b>			
UP5	I cannot travel without this university	<b>0.721</b>			
UP6	The new thing that I discover with the university is that it allows me to appreciate it even more.	<b>0.651</b>			
UP7	University is in harmony with the other activities in my life.	<b>0.780</b>			
UP8	University reflects the qualities I like about myself.	<b>0.799</b>			
UP9	University allows me to live memorable experiences.	<b>0.765</b>			
UP10	University allows me to live a variety of experiences.	<b>0.659</b>			

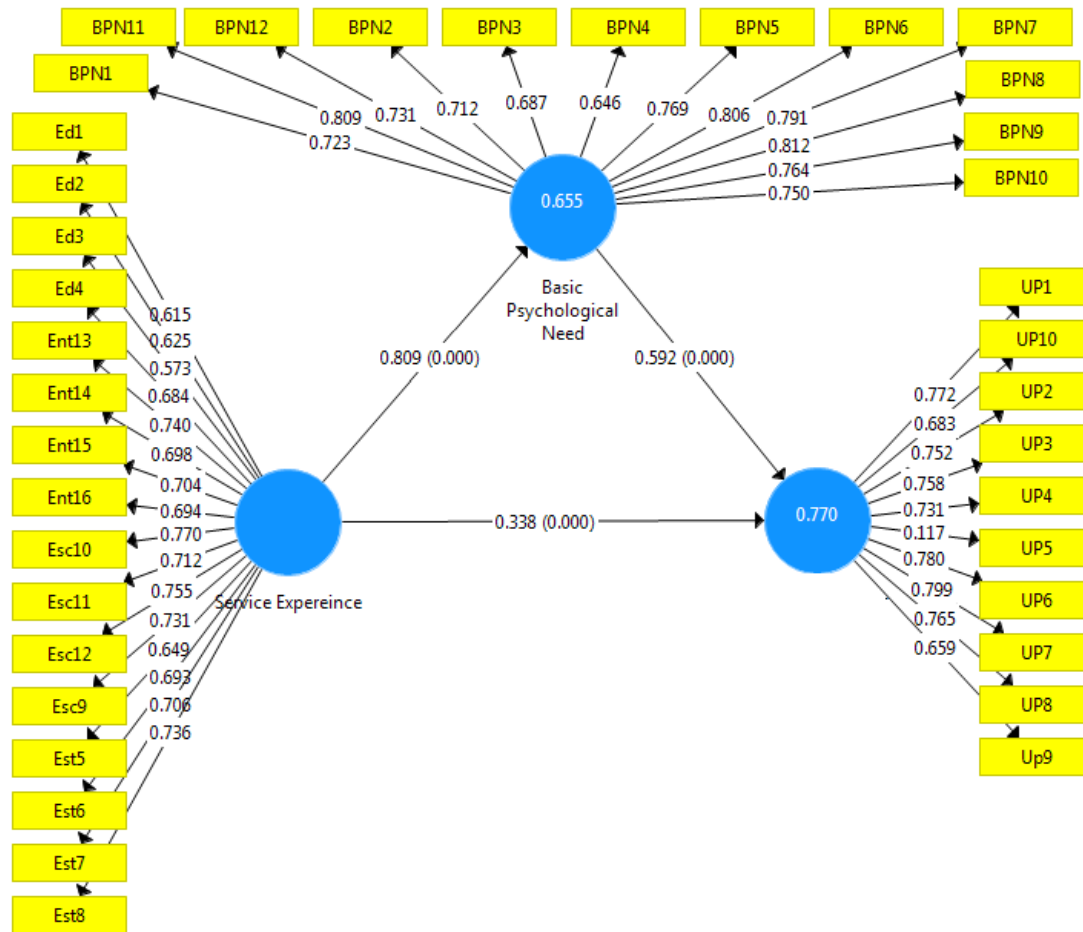
## Structural Equation Modeling

Structural Equation Modeling (SEM) is the diverse set of computer algorithms, mathematical models, and statistical methods that fit the construct data matrix. Therefore, the hypothesized model was empirically tested by performing structural equation modeling using the latest version of SmartPLS statistical software. The path value and loadings of service experience components i.e. education, escapism, esthetics, and entertainment, and university passion are graphically displayed in Figure 2. It affirms the relationship between service experience components and university passion. It can be observed that escapism contributes a larger portion at path value 0.457 where entertainment is the second-highest construct at path value 0.201, esthetics path value 0.162 and education is the least contributor at path value 0.121 significantly. Collectively, all these four dimensions of service experience namely education, escapism, esthetics, and entertainment overall influence university passion at 0.669 significantly.



**Figure 2:** Structural Model Results –A





**Figure 3: Structural Model Results – B**

Additionally, the structural model analysis was twice run using basic psychological need mediating variable between service experience and university passion to access results as per the hypothetical model. Figure 3 represents the path coefficients of all latent variables conceptualized in the hypothetical model of this study. It graphically represents the relationship and influence of the independent variable service experience to the dependent variable university passion which is mediated by basic psychological needs.

Systematically, the results of the conceptual matrix were extracted in tabular form as well. Table 4 represents the path values of a conceptual matrix, standard deviation, T statistics, and P values. The results of the hypothetical model indicate that path value-form service experience to university passion is 0.338 having a sample mean 0.339 with a standard deviation of 0.046 and T value 7.290 significant at  $p = 0.00$ . Similarly, the path value from service experience to basic psychological needs is 0.809 having a sample mean 0.811 with a standard deviation of 0.018 and T value 43.806 significant

at  $p = 0.000$ . Respectively, the path value from basic psychological needs to university passion is 0.592 having a sample mean 0.591 with a standard deviation of 0.045 and value 13.273 significant at  $p = 0.000$  respectively.

**Table 4: Path Coefficients**

	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>
Service Experience → University Passion	0.338	0.339	0.046	7.290	0.000
Service Experience → Basic Psychological Need	0.809	0.811	0.018	43.806	0.000
Basic Psychological Need → University Passion	0.592	0.591	0.045	13.273	0.000

### Mediation Results

To achieve the research aim, the mediation analysis was conducted whose results are given in Table 5. It indicates the specific indirect effect of among variables by providing the path values, the sample means, standard deviation T values, and P values. The results of the mediation analysis revealed that path value from service experience to university passion mediated by basic psychological needs is 0.479 having a sample mean 0.479 with a standard deviation at 0.036 and T values 13.279 significant at  $p = 0.000$ .

**Table 5: Mediation Analysis**

<b>Specific Indirect Effect</b>	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>
Service Experience → Basic Psychological Need → University Passion	0.479	0.479	0.036	13.279	<b>0.000</b>

### Hypothesis Testing

Hypothesis testing was conducted by analyzing the path analysis and multivariate using blindfolding and bootstrapping techniques in the latest version of SmartPLS. The hypothesis testing results are shown in table no. 07. In this study, there were four hypotheses. H1 was that there are positive relationship service experiences and

university passion which is supported at on customer  $\beta = 0.817$ ,  $t = 38.545$  significant at  $p = 0.000$ . Similarly, the second hypothesis of this study was that there is a positive relationship between survive the experience and basic psychological need which is supported at  $\beta = 0.809$ ,  $t = 43.806$  found significant at  $p = 0.000$ . The third hypothesis of this study was that there is a positive relationship between basic psychological needs and university passion which is supported at  $\beta = 0.592$ ,  $t = 13.273$  significant at  $p=0.000$ . The fourth hypothesis of this study was that the relationship between service experience and university passion is mediated by the basic psychological need which is also supported at  $\beta = 0.019$ ,  $t = 0.713$  found significant at  $p = 0.476$  as shown in Table 6.

**Table 6: Hypotheses Testing**

Hypotheses	Path	Standardized Beta	T Value	P-Value	Conclusion
H1	Service Experience → University Passion	0.817	38.545	0.000	Supported
H2	Service Experience → Basic Psychological Need	0.809	43.806	0.000	Supported
H3	Basic Psychological Need → University Passion	0.592	13.273	0.000	Supported
H4	Service Experience → Basic Psychological Need → university passion	0.479	13.279	0.000	Supported

### Model Fit Indices

Purposively, model fit indices like Chi-square, Square Root Mean Square Residuals, and Normative Fit Indices were extracted for the hypothetical model as shown in Table 7. The threshold for these indices suggested by Hu and Bentler, (1999) is  $SRMR \geq 0.08$  and  $NFI \geq 0.95$ . The results of this study indicate that model fit indices are within a suggested threshold at  $SRMS = 0.080$ ,  $Chi-Square = 4056.283$  and normative fit indices  $0.957$ .

**Table 7: Model Fit Indices**

Indices	Threshold	Saturated Model
SRMR	$\geq 0.08^*$	0.080
Chi-Square		4056.283
NFI	$\geq .95^*$	0.957

## 5. Discussion And Implications

The purpose of this study was to explore the relationship between service experience and university passion on the theoretical grounds. The hypothetical relationship between service experience and university passion is found valid and significant following the results. All hypotheses were found significant with positive relationships at H1 relationship with university passion found affirmative at  $\beta = 0.817$  significant at  $p = 0.000$ , a similar relationship between service experience and the basic psychological need was countered positive and significant at  $\beta = 0.809$  significant at  $p = 0.000$ . Likewise, the relationship between basic psychological needs and university passion is evident at  $\beta = 0.592$  and significant at  $p = 0.000$ . Finally, the service experience relationship with university passion mediated by basic psychological needs is also found positive at  $\beta = 0.479$  and significant at  $p = 0.000$ . Moreover, the results of experiential components were also found positively related to university passion and university students.

Conclusively, theoretical background in terms of basic psychological need theory is validated through this research with the notion that such theories can be applied to predict consumer psychological needs. Moreover, it is found that university passion among university students exists when service experience satisfies consumer basic psychological needs. Thus service experiences like esthetics, education, escapism, and entertainment play a most crucial role in nurturing and developing university passion among university students. It signifies that customer experience is linked directly and indirectly with university passion where basic psychological needs play a satisfactory role in generating overall passion among students. They will be more passionate if they are provided with well-designed and extraordinary experiences during their education period where they are enrolled and perusing their higher students. It also supports that the education industry requires experiential marketing integration through experiential components in such a way that brings university passion among students.

## 6. Limitations And Future Research Direction

The context itself is one of the limitations of this research. Besides time, budget, and other resources, however, there are few other limitations of this study as well. For instance, in terms of sample size, only active and full-time regular students were included which is the limitation of the study. That student who has successfully graduated from their respective universities could have provided diverse perceptions in terms of service experience and university passion and therefore a separate study is required for generalizability of results of this study is only limited to currently enrolled

students. Based on these limitations, other researchers may focus on further exploration of the idea inductively. There are various other fields and contexts such as online/distance learning education where future researchers can imply the proposed conceptual framework simultaneously and get further insights. This study is conducted from current regular students of universities irrespective of university type therefore other researchers can conduct a comparative study to predict the service experience and university passion. Other researchers can also testify that whether the effect of service experience on university passion is different for male versus female students (Gilal et al., 2020), generation Y students versus generation Z students (Gilal et al., 2020), intrinsically motivated religious students versus extrinsically motivated religious students (Gilal et al., 2020).

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## Impact of Training, Job Rotation and Managerial Coaching on Employee Commitment in Context of Banking Sector

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### Abstract:

This study investigated the impact of training, job rotation, and managerial coaching on employee commitment in the banking sectors of Faisalabad, Pakistan. Employee training is an essential element for the success of an organization to achieve its goals. Training helps the organizations in building a more productive and committed workforce. By providing opportunities for individual employees to grow professionally, training programs i.e. job rotation and managerial coaching can thus foster greater employee commitment. The data for this research was gathered through the use of close-ended questionnaire that is designed in a Likert scale format. Based on the convenience sampling method 273 participants participated in survey. Statistical package for social sciences (SPSS) was used for analyzing the data. Results obtained reveal that the training, job rotation and managerial coaching given to the employees in banking sectors of Faisalabad, Pakistan improves their commitment. At last, recommendations are also given for future research studies.

**Keywords:** Training, Job rotation, Managerial coaching, Employee commitment, Turnover

**JEL Classification:** G21, J53, J63, M14, M53

### 1. Introduction

Banking sectors are the most integral part of the financial services offered in Pakistan. To earn profit banking sectors are competing with each other. For this purpose, commitment of employees is of great importance that affects the performance of

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employee (Eriksson et al., 2006). The changing nature of workplace environment due to technological advancement cause many challenges for the organizations to remain competent, and develop knowledgeable and committed employees for achievement of organizational goals (Zahra et al., 2014). Employee commitment is considered as the most important issue in organizations today because it reduces negative behavior, such as absenteeism, lateness and turnover. Therefore, organizations should know all those factors that play important role or that have a huge impact in enhancing the commitment of its employees (Irefin et al., 2014). Organizations that find it difficult to retain their skilled employees also find it hard to optimize performance. So, the higher performance of employees in any organization depends upon the investment that organization does in creating their employees committed (Shahid et al., 2013).

Training is a form of investment in which organization invests in their employees to upgrade their skills, knowledge, competencies that help in performing the various task (Alamri et al., 2017). Training improves the effectiveness of organization by enhancing the commitment of employees towards their job. Almost every business is providing training to its employees according to their business needs (Anitha et al., 2016). Training need analysis can be done through various methods like surveys, questionnaires, observations that helps to point out areas that need training. (Zahra et al., 2014). Implementation of training programs for the development of employees will increase the employees loyalty and commitment towards the organization (Nkosi, 2015). Therefore, it is important to identify training methods that encourage allocation of learning among employees in order to achieve greater training impact (Martin, 2010). Job rotation is one of the training method, to get the desired performance among employees that helps in their personal growth as well as in the self-development, which result into the business success (Zehra, 2015). Job rotation is considered as the strongest approach to improve the employee commitment by reducing the boredom and increasing the employee interest in job (Arasi et al., 2016). Another way to keep the employees more committed to an organization is managerial coaching (Kalkavan et al., 2014). Managerial coaching takes place in the workplace as part of the day-to-day interactions between manager and employees (Matsuo et al., 2017). Today's manager shows different behavior towards their employee such as guiding, supporting, and developing them rather than traditional management that exhibits behavior like ordering and controlling the subordinates (Raza et al., 2017).

Thus, to support the development of workforces, managers are required to act as educators. In this context, application of training programs i.e. job rotation and managerial coaching positively affect the commitment of employees. Framework of the study is supported by reciprocity theory, which states that when company helps employees, they may view it having a "sense of debt" towards the organization. So, they will help the company in return. Research on this component of commitment indicates that training can play a vital role in building a sense of debt to the company. Where training that achieves reciprocity in the employee will encourage an employee commitment to the organization (Brum, 2007). The purpose of the study is to investigate the impact of training, job rotation and managerial coaching on employee commitment in banking sectors of Faisalabad, Pakistan.

Employers often experience frustration when their highly-rated employees fail to meet their expectations, resign or leave the organization. This creates a problem that management still struggles to understand, identify, and even prevent. As one preemptive measure, some managers have begun to retain and motivate their staff through proactive implementation of human resource (HR) practices and fair compensation policies. Employee commitment is a crucial factor for the organization's success since a company expends tremendous money and resources on its staff. Employees with low degree of commitment reduce the overall morale of an organization. They do not deliberately work for the mission of the organization. They only care about their own success rather than the success of the organization as a whole. Employees with low level of commitment also consider themselves as an outsider not as a long-term member of the company. If they get any attractive job offer, it will result in their departure.

Employee training can lead to the development of a number of professional skills, knowledge, and competencies which are crucial for an employee to perform specific tasks within their workplaces. Hence managers should consider training as an essential tool that helps in building a committed workforce. This study overall determines that if employees get the desired level of skills through training, in return employees consider its obligation to provide beneficial behaviors through performance towards the organization and its members. This study also recommends that using two types of training methods namely managerial coaching and job rotation, managers can identify how to add flexibility to their employees' tasks and address their weaknesses. Through these two types of training methods not only the commitment of employees increases, but it will also lead to high performance, productivity, and potential market share.

## **2. Literature Review**

### **Training**

It is very important for any organization to have an understanding about workplace training; different researchers have done research in this field. The term "Training" is defined as the process that enhance the knowledge, skills and abilities of the employees that are needed to perform specific job within an organization (Jha, 2016). Training is not limited to training an employee once and its over but training is about continuously enhance the skills of employee with respect to the change so that he could perform well in such a change. (Imran et al., 2015). In the current business environment, training is considered as the most important factor because it not only helps in building the organization effectiveness but also helps in developing the employees. Employee performance may be depends upon many factors but the most important one is "Training" (Falka, 2015). Training itself, however, will do little to enhance the performance of organization and employees unless whatever they learned in training is transferred into their on-the-job behavior (Kasim et al., 2011). Different training techniques are used by trainer to communicate information, skills, knowledge and attitude to trainee. These training techniques can take the form of on the job training or off the job training; in the organization or outside the organization (Obenge et al., 2014).

But in this study, on the job training technique that includes job rotation and managerial coaching are discussed since both of these techniques are favored more and considered more effective in Pakistan.

### **Job Rotation**

Job rotation is defined as assigning number of tasks to the employees, by shifting their position from one place to another through planned intervals (Zehra, 2015). When employees move from one position to another it results into flexibility, new experience, new skills, new professional fields, reduce boredom by working in same position for long periods of time, boost morale and motivation among employees (Saravani et al., 2013). Job rotation also allows employee to broaden their perspective by gaining experience in multiple jobs (Adjei, 2012). Job rotation can also be used as a learning tool. It does not involve learning only on the part of the employee i.e. acquiring skills and thus becoming more versatile, but also learning on the part of the organization that is to learn about employee's strengths and abilities which helps in facilitating employee development (Wagner et al., 2017). Employees get familiar with the various facets of the firm operations. Such situation adds flexibility among employees by making them well-informed with the entire work process (Nwaeke, 2014). Another major contribution of job rotation is not only to eliminate the problems employ face in a specific job they are performing but also to reduce the level of complaints and protests to work conditions (Omer et al., 2017). While applying the job rotation, organizations must take into account that their main focus should be on the quality of employ work experience rather than quantity of work. And the next rotation plan should be based on the learning capability and adjustment time of the employees (Mohan et al., 2015).

### **Managerial Coaching**

Managerial coaching is a form of coaching and is defined as coaching that is provided by a manager or supervisor who serves as a facilitator of learning (Raza et al., 2017). Being a coach, manager has to performs various tasks such as communicate clearly to subordinates, acknowledge achievement of employees, fair reward system, frequent feedback for improving employee performance, provide various learning opportunities, provide guidance and being a role model for employees (Ali et al., 2018). Managerial coaching is now recognized as one of the most desirable tools for successful management and learning in organizations (Kim et al., 2013). Organizations that implements managerial coaching has a competitive advantage by motivating and empowering employees for better performance and building more committed workforce (David et al., 2013). With the help of coaching, manager not only promotes learning and motivate employees to take ownership, but also help employees to get involve in the organization they work for (McCarthy et al., 2013). Managerial coaching can also be a part of organizational culture, so that managers take advantage of everyday opportunities for development of employees. Different researches showed that manager provide assistance to their employees by mean of counseling (Park et al., 2008). It means that manager behaves more than his official manager and subordinate relation

by acting as an ideal manager for its employees by providing them with effective managerial coaching.

### **Employee Commitment**

Employee commitment is defined as degree to which an employee considers himself as part of organization and continuously wants to contribute in it (Dixit et al., 2012). Employee commitment is a psychological attachment of employee towards the organization, It also influence the decision of employee to be employed by the organization (Andrew, 2017). Commitment benefits both employers and employees. For employees, it creates a positive relationship with organization and enhance their willingness to work. Whereas for employers, it reduces cases of absenteeism, reduce turnover rate and enhance the services (Lee et al., 2013). A committed employee is the one who stands by its organization through thick and thin, protect its assets and work hard to achieve organizational goals (Nayak et al., 2018). Employee commitment is the most important factor in any organization as it affects the intentions of individual to leave the organization, level of absenteeism and organization citizenship behavior (Krajcsak, 2018). ‘Highly committed’ employees possess more positive attitude towards their work (Brum, 2007). Organization performance is directly related to the commitment of employees. Committed employees perform their jobs better than the expectations of management. Therefore, employee commitment is essential for obtaining high output and sustainable competitive advantage (Gul, 2015).

### **3. Methodology**

The primary data is collected for this study. The data was gathered with the help of a structured questionnaire designed in a Likert scale format. The questionnaire comprises of 36 closed-ended questions based on each variable to be tested in this study.

To measure the impact of training researchers adopted the questionnaire from scale of researcher (Krishnendu et al., 2017). It includes 10 questions anchored on 5-point Likert scale. To measure job rotation researcher adopted questionnaire from scale of researcher (Zehra, 2015). It includes 10 questions on a 5-point Likert type scale. To measure the impact of managerial coaching researcher adopted questionnaire from scale of researcher (Ellinger et al., 2003). It includes 8 questions anchored on a seven-point Likert-type scale. To measure employee commitment researcher adopted questionnaire from scale of researcher (Mowday, 1979). It includes 8 questions presented in a 5-point Likert scale format.

Population of the study consists of employees working in banking sectors of Faisalabad, Pakistan. The employees of each Habib bank Limited, Bank Alfalah, Meezan bank and their branches respectively in Faisalabad city are taken as population of the study.

Respondents were selected with the help of convenience sampling technique. The reason for choosing this technique was that responses were collected according to the availability of the respondents. This also helps to gather maximum responses, which help in the final analysis. The sample size is taken as 273.

#### 4. Theoretical Framework



#### Hypotheses

- H1: There is a significant relationship between training and employee commitment  
 H2: There is a significant relationship between job rotation and employee commitment  
 H3: There is a significant relationship between managerial coaching and employee commitment

#### 5. Results

##### Frequencies of demographic data

A total of 273 participants responded to the survey. Majority of the respondents were male i.e. 66.3% and 33.7% were females participated in the survey.

##### Gender

Gender	Frequency	Percent	Valid percent	Cumulative percent
Male	181	66.3	66.3	66.3
Female	92	33.7	33.7	100.0
Total	273	100.0		

The age groups of the participants were as follows: 30-39 years of age (42.1%), 40-49 years of age (24.5%), 20-29 years of age (23.8%), 50 and above (9.5%).

##### Age

Age	Frequency	Percent	Valid percent	Cumulative percent
20-29	65	23.8	23.8	23.8
30-39	115	42.1	42.1	65.9
40-49	67	24.5	24.5	90.5
50 and above	26	9.5	9.5	100.0
Total	273	100.0	100.0	



Majority of respondents were master's degree holders i.e. 61.9% whereas, 38.1% respondents have completed their graduation respectively.

#### Education

Education	Frequency	Percent	Valid Percent	Cumulative percent
Bachelors	104	38.1	38.1	38.1
Masters	169	61.9	61.9	100.0
Total	273	100.0	100.0	

Majority of respondents were employees of Habib Bank Limited i.e. 45.8%, Bank Alfalah 31.9%. Whereas, 22.3% of respondents were employees of Meezan Bank.

#### Respondents as per bank

Bank	Frequency	Percent	Valid percent	Cumulative percent
HBL	125	45.8	45.8	45.8
Bank Alfalah	87	31.9	31.9	77.7
Meezan Bank	61	22.3	22.3	100.0
Total	273	100.0	100.0	

32.2% of the respondents have worked for the banking industry for 6-10 years, 30.8% respondents for over 10 years. 24.5% for 2-5 years and remaining 12.5% have worked for less than 2 years.

#### Experience

Experience	Frequency	Percent	Valid percent	Cumulative percent
Less than 2 years	34	12.5	12.5	12.5
2-5 years	67	24.5	24.5	37.0
6-10 years	88	32.2	32.2	69.2
Above 10 years	84	30.8	30.8	100.0
Total	273	100.0	100.0	

33.7% respondents have income level of 36000-45000. 31.1% have income level of above 45000. Whereas, 18.3% respondents of whole sample have income level in range of 26000-35000 and remaining 16.8 have income level less than or equal to 25000.

### Income

Income	Frequency	Percent	Valid percent	Cumulative percent
Less than or equal to 25000	46	16.8	16.8	16.8
26000-35000	50	18.3	18.3	35.2
36000-45000	92	33.7	33.7	68.9
Above 45000	85	31.1	31.1	100.0
Total	273	100.0	100.0	

### Reliability Analysis

Variables	Cronbach's Alpha Coefficient( $\alpha$ )
Training	0.722
Job rotation	0.701
Managerial coaching	0.818
Employee commitment	0.707

The result of reliability analysis of first variable training is 0.722, second variable job rotation is 0.701, third variable managerial coaching is 0.818 and fourth variable employee commitment is 0.707, which are greater than the acceptable value 0.7 and indicates that all the variables are reliable.

### Correlation Analysis

Variables		Training	Job rotation	Managerial coaching	Employee commitment
Training	Pearson correlation Sig.(2-tailed) N	1			
Job rotation	Pearson correlation Sig.(2-tailed) N	.494**	1		
Managerial coaching	Pearson correlation Sig.(2-tailed) N	.424**	.411**	1	
Employee commitment	Pearson correlation Sig.(2-tailed) N	.596**	.666**	.381**	1

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

The relationship between training is tested against the employee commitment. The result indicates a strong positive correlation between independent and dependent variable ( $r = .596^{**}$ ,  $p\text{-value} \leq .05$ ). Similarly, the relationship between job rotation is tested against the employee commitment. The result indicates a strong positive correlation between these variables ( $r = .666^{**}$ ,  $p\text{-value} \leq .05$ ). Pearson coefficient ( $r$ ) value for relationship between managerial coaching and employee commitment indicates that there exists a moderate correlation between two variables ( $r = .381^{**}$ ,  $p\text{-value} \leq .05$ ).

### Regression Analysis

Dependent variable	Employee commitment		
	R square	Beta ( $\beta$ )	Significance
Training	0.355	0.727	0.000
Job rotation	0.444	0.993	0.000
Managerial coaching	0.145	0.290	0.000

The value of R-square 0.355 shows impact of training on employee commitment is almost 36%. where, beta coefficient shows 1-unit change in explanatory variable cause 0.727 change in response variable. R-square value 0.444 shows the impact of job rotation on employee commitment i.e. 44% and beta coefficient shows 1-unit change in explanatory variable cause 0.993 change in response variable. Similarly, 0.145 value of R-square shows the impact of managerial coaching on employee commitment is almost 15% where, beta coefficient shows 0.290-degree change in response variable due to 1-unit change in explanatory variable. Significance value is 0.000 which is less than acceptable value ( $< .05$ ) shows that regression analysis is significant.

### 6. Conclusion

After the analysis of data, statistical results reflect that employee attitude towards training, job rotation and managerial coaching has been positive and they view training, job rotation and managerial coaching as a source of increased commitment in banking sectors. Regression and correlation analysis showed a significant relationship between independent variables and dependent variable. The results of our analysis proved the hypothesis H1 that there is a significant relationship between training and employee commitment as the research of (Ajibade, 2014) who states that training does increase employees' commitment to the organization. Second hypothesis H2, there is a significant relationship between job rotation and employee commitment hence proved according to the study of (Mohsan et al., 2012) who states that job rotation has a

significant relationship with employee commitment and other outcomes. Third hypothesis H3, there is a significant relationship between managerial coaching and employee commitment is proved as the research of (Kalkavan et al., 2014) who states that managerial coaching behavior has a positive effect on employee commitment. Thus, in order to remain competitive in today's environment, organizations need to provide excellent training programs i.e. job rotation and managerial coaching to employees. This study will help higher management of banking sector how to retain its employees and which factors are helpful for the commitment of employees.

## 7. Limitations and Future Research Directions

The population of the study consisted of three banking sectors in the Faisalabad, Pakistan. Therefore, the results may not be generalizable to other banks in Faisalabad, Pakistan. Besides, another major limitation is the focus on specific industry, Future research can be done on other public or private sectors. One more significant limitation was the small sample size compared to the large number of employees working in banking sectors in Faisalabad, Pakistan. Future research can be done by considering a vast geographical area and covering other cities of the country in order to increase the population size so that more precise and accurate results can be achieved. Since this study investigated only two dimensions of training on employee commitment i.e. job rotation and managerial coaching. Future studies can focus on other dimensions such as orientation, mentoring, safety training, internship training, and analyze the impact of these factors on employees' commitment, with the aim to improve the overall quality of the results.

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## Impact of Workaholics on Creativity: the mediating role of Negative Mood and moderating role of Supervisor Support

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### Abstract:

Employees are an asset to their organization. The organizations need to provide the best management and supervisory support to their employees to ensure quality work. The current study is based on the workaholic nature of employees and their creative skills. It focuses on the employees of Advertising Agencies. Such organizations need personnel with creative skills and they should develop an environment for their employees to work in a better way and come up with extraordinary results. This study focuses on the impact of workaholics on the creativity of employees the mediating role of negative mood between workaholics and creativity and the moderating role of supervisor support between the workaholics and negative mood. The data has been collected from different advertising agencies of Islamabad and Rawalpindi, through questionnaires with N=350. Results show that workaholics are creative and it has a positive significant relationship with each other. Negative mood plays a mediating role between these two but supervisor support doesn't moderate between workaholics and negative mood. This study helps organizations to increase employee creativity by elevating a negative mood by incorporating several techniques in the context of Pakistani advertising agencies.

**Keywords:** Employee creativity, employee negative mood, supervisor support, workaholics.

**JEL Classification:** M31

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## 1. Introduction

In a highly competitive era where every organization is striving for maximum profits and market growth organizational creativity plays a crucial role. Most organizations promote employee creativity to un-tap new dimensions. Organizations need to think out of the box to grab new opportunities. Organizations that leave behind traditional methods and adopt creative solutions can achieve big (Hornsby et al., 2018, Katper, et al., 2020) These days organizations put much emphasis on employee creativity and invest in employee's intellectual development.

The importance of this research is that it helps managers to motivate their employees. Managers may understand how important is it to give a positive environment to the employees in order to bring the best out of them. A theoretical perspective is that it urges researchers to research in several cultural contexts to understand how the psychology of employees work and how managers should play their positive roles in order to help employees to increase their creativity.

A creative employee can easily generate new ideas and can easily manage organizational resources efficiently. A creative employee is a key to organizational development. Numerous commentators argued that employee creativity is "the ability to perceive differently and to generate and execute new ideas to open new dimensions". Creativity is meant to be novel or original and it should be potentially relevant to the organization (Tarakci et al., 2018, Gilal, et al., 2019). Creativity is a property of thought process that can be acquired and improved through instruction and practice. An individual is trained in any way that makes him beneficial (Dewett and Gruys, 2007; Katper, et al., 2020). The creativity of an employee could be of personal characteristics or due to some organizational push. This study aims to check the impact of a personal characteristic of an employee on creativity that is "Work holism" (Hong et al., 2018; Gilal, et al., 2019) "Workaholics have the compulsion and uncontrollable need to work" described by (Oates, 1968). Workaholics are obsessed with some specific work or in general, they need to do work and remain busy every time.

If someone desires to do something, workaholics are contacted. Workaholics considered good feeling about it along with they also help others to do their work and they also find a path to excel as well as to stand out they do extra work. Workaholics with enthusiastic nature tend to create wonders in their specific industries. In tech industries software development, advertising agencies, or in the theatre industry always work enthusiastically succeeded (Garnham, 2005; Gong et al. 2020). There is a category of workaholics who are unable to manage their work or easily become agitated and stressed. Their negative behavior leads to serious issues in their personal and professional lives. On the other hand, few workaholics know how to manage their work and they set up defined goals to achieve so that they don't get overwhelmed by their nature (Abdolshah et al., 2018, Gilal, et al., 2019; Gilal, et al., 2020). Creativity and Innovation are the prerequisites for the survival of individuals in the world of ever-changing dynamics and technology. Innovation needs to be practiced professionally and inspiration is the foundation of novelty. The creativity of a person depends upon several

factors. One factor that effects are negative mood. When a person is psychologically upset or disturbed he/she might have a lower performance level. A person with a negative mood always performs less than average. Creativity level also decreases due to the low mood as creativity demands the full attention and focus of a person. In advertising agencies to enhance employee mood agencies have deployed great setup and ambiances that may help to make the employee feel better (Burroughs and Glen Mick, 2004; Gilal, et al., 2019).

Negative mood is linked with irritability and problems with concentration. When an employee is exposed to something that makes him/her feel bad or give rise to negative emotions then he/she becomes incapable of concentrating on work. Lack of concentration leads to frustration and wastage of time as individuals take longer to get done with the work than required in the state of bad mood. It also lessens the employee's response time (Kamdar et al., 2004). Creativity is about exploring new dimensions and pushing the limits. These pushing limits are risk-taking so an employee with a low mood cannot take the risk to create out of the box happenings. Creativity is about moving from known to unknown. This shift from known to the unknown can easily be accomplished if an employee has supervisor support. A positive relationship between an employee and a supervisor is necessary to have positive work-related outcomes (Oldham, 2003). Creativity is increased when organizational resources are fully utilized and there is no hindrance in using them to put creative ideas into a physical form. The supervisor's support defines the degree of the employee's performance. If the supervisor is supportive and provides employees with proper equipment and resources and facilitates his best then employees will turn up with the best results (Kane, 1993). In advertising agencies, there is an employee-friendly environment that helps employees to relax when there is a burden of work. Most employees are never willing to take the risk. They always look for supervisor's approval or support (Verburg et al., 2018). These days creativity is greatly comprehended and investigated. Today, it becomes an important part of the success of any organization to remain a competitor in the market. Here some limitations that are faced by the individuals to bring creativity. Like negative emotions or moods that individuals especially workaholics complete their daily routine. But, supervisor support plays a positive role while moderating the influence of negative mood, emotion and thus, helps the workaholics to maintain their creativity. In the present research concentration on the Pakistan advertising sector to identifying the gap of creativity of workaholics can be increased by giving them supervisor support and overcoming the effects of negative moods. Today, advertising companies are considered greater profit getting organization. There is a need for companies to remain their employees active, healthy, and stress-free. The current research contributes to facilitating the Pakistan advertisement sector to deal with situations that could have an emotional impact on the good fortune of its impede and employees their creativity skills.

## 2. Literature Review and Hypotheses Development

### 2.1 Workaholics and Creativity

Workaholics are more inventive along with productivity. Persons have to work for longer hours to show better creative outcomes. To show high creative results and achievement, individuals have to be converted into hardworking and persistent. Participation in any campaign is a condition of fruitful results. Creative can never give up. They want to work. This type of person cannot prevent themselves from experiments. (Zhang et al., 2018; Mehmood et al., 2020). Skilled young people who were able to concentrate on their work generate incredible results as compared to those who lack creative and amazing abilities. Creativeness is a thing that can be polished with time and only be can through determination and hard work. Individuals who do endless work which can never be forgotten, they also motivated and feel enjoyment while working they can never lose their interest (Mehmood et al., 2020). Workaholics also put the remaining amount of time in an exertion to go below the confines to full the financial needs of the organization. They can work continuously for any advantage of the company and those people are associated with the organization. All the time they think regarding their work. Still, when they do not present physically at the workplace somehow will bring back mentally and they involve with their work. It's a positive sign for organization this type of people can increase the level of creativity due to the involve in work all the time and think regarding it so as they develop new ideas which cannot be developed by others. (Batey et al., 2010).

Workaholics are those individuals who work hard as required from their job other than they can do a lot of effort to completing their goals that are expected by those people who are more associated with the organization and their work. By doing this, they can only want to increase the benefits of the organization. They feel relaxed when they are in the workplace when they are not physically performing work their mind always involve in work this type of person prefers to work physically instead of thinking regarding it (Shimazu et al., 2012). People who show off their creativity create as much information as possible based on their events. This type of person can do the utmost effort and experiments to get satisfactory outcomes from their works. Individuals need to consistently work hard to bring something creative at work. If people a smaller amount of work can never think something from out of the box other than obsessively this can be done by the habit to work or hard working. (Gong et al., 2019a; 2019b). Persons who want to do something different creative can never follow the conventional work style. They can work day and night to ensure their creative procedure and style work. Individuals put greater effort to ensure more novelty (Chen et al., 2019). Innovative people have targets in their minds and they also follow a track which is set by themselves. They take new paths and have a greater wish for achievement. (Thompson, 2018). Not only are they successful, but they are always working hard to get their goals. Less successful people do not consistently work like this type of person. Thus, conservation resources theory tenders a comprehensive framework for the development

of the knowledge about the emotions and performance of the individuals and maintain their performance across different conditions and situations (Halbesleben, et al., 2014). They keep involve themselves in work all the time so that they can polish their ability and skills they have complete command on work whatever they performing any activity. Their interest and effort in work become because they think regarding their work all the time and begin developing the workaholic's qualities. Workaholics always find themselves working. At this stage, work will become a passion for their, and their interest in their work ensures creative outcomes. No doubt, innovation only possible with hard work. First, there is a need for a creative mindset but also brings in action creativity by taking exercise commitment and risks. (Hu et al., 2018). If the employees are not associated with their work cannot think out of the box (Tunio, 2020). The employee can never think innovatively if they are not putting their full efforts and feel enjoyment from their work. No doubt, high power is an important part to ensure innovation. Innovation in work is not possible if employees are not enjoying their works or dull. Therefore, for new experiments employee always needs interest, energy, and enthusiasm. The organization tries to take action which brings employees towards involvement so that they think creatively (Rosing et al., 2018). The above discussion develops the following hypothesis.

***H1: There is a significant positive relationship between workaholic and creativity.***

## **2.2 The moderating role of Supervisor Support**

Supervisors are said to be supportive when they do not try controlling their employees rather welcome their choices and feelings (Hardré and Reeve, 2009). The supervisor's support is very crucial for employee motivation. Motivation due to the supervisor's support results in positive outcomes (Deci et al., 2001). It is very natural for any person to be more productive when appreciated. Those employees who are less appreciated lose their interest quickly as compared to the ones who are more frequently appreciated. Workaholics tend to work hard and then getting stressed quickly due to workload (Gagné et al., 2000). When supervisor support is there then one might be able to get rid of his negative emotions in less time or one might never come across negative mood as he is being motivated by the supervisor constantly. The supportive environment helps employees to get rid of negative feelings. Motivation helps the individual to get rid of their anxiety, stress, and assist them to recover early from such feelings (Gong et al., 2020; Zhang et al., 2019). Individuals are found to have a positive attitude when supported by both supervisor and people outside the organization.

They love to stand out and when appreciated they work harder next time to come up with something more exciting (Frese et al., 1999). When supervisors supported their employees, they started feeling extraordinarily enthusiastic and happy. Any person when experimenting hesitates for the first time but when he/she is supported and appreciated for what he/she did, it helps them to get rid of his fear and negativity and he is no longer afraid of experimentation (Dursun, 2015). When a supervisor is

supportive then employees feel satisfied with their job and nothing can make an employee happier than job satisfaction. Any organization which provides its employees with autonomous support and motivation is likely to have more loyal and happy employees.

If employees happen to develop a positive attitude due to support from their supervisors, it can easily be seen in their work. Positive attitude due to supervisor support helps individuals to broaden the relationship between thoughts and actions. Meaning is that individuals will develop an urge to put their ideas into a physical form due to the support from their supervisors (Seo et al., 2004). When the individuals are happy, they feel positive about interacting with others too and this leads to a strong connection building between employees of an organization. Only supervisor support can ensure the development of good relations within an organization. And these relations help employees to be more motivated in what they want to do. It will assist them to think clearly and then to put their thoughts into actions as well (Fredrickson, 2003). Positive affect and charismatic leadership influence motivation and effort. It is very natural that when the supervisor is supportive and listens to employees then they feel comfortable talking to him about every problem that they may cater along the way. They feel free talking to him and sharing their ideas and in response get help from a supervisor. If the supervisor has a compelling personality then they will listen to him that what he has to say about their ideas and they will feel free to take his advice which in turn to be very helpful for employees. The supervisor can help employees with a much better way to reach the goal. And in the end when results also turn out to be positive then this will also strengthen the employee-supervisor relationship (Ilies and Judge, 2005). If an employee tends to develop a negative emotion due to any reason it can immediately be changed into a positive feeling only with a slight motivation from the supervisor side. Supervisor's support helps employees to develop a positive insight about themselves that they can do better and that their effort can lead to a good performance. They start believing in themselves and this helps them endure positive outcomes that are highly creative and innovative (Kanfer and Ackerman, 1989). Positive mood development due to supervisor support also helps employees to be supportive of their coworkers too further developing a strong relationship between employees of the entire organization. And this increases the circle of supportive supervisors and coworkers helping other employees to share their ideas and then collectively putting in the effort to achieve the desired results (Zhang et al., 2019; Gong et al., 2019b). The above literature makes the following hypothesis.

***H2: Supervisor support moderates the relationship between Workaholic and negative mood.***

### **2.3 Mediating Role of Negative Mood**

This study represents if an employee cannot recover from the work stress this will affect surely their mood (Sonnetag and Bayer, 2005). If the employees cannot recover from

their stress and frustration then it will negatively affect their mood and which shows from the next day outcomes (G Miner et al., 2005). Negative mood results in a lack of recovery and these mood swings are because of the extra workload that an individual carry. Few individuals for changing the mood in positive terms engaged in leisure events at home, for example, watching TV, talking, online playing games, etc. But some individuals keep their heads in work even at home to get rid of any negative thoughts coming to them which results in less recovery as compared to the former group (Yen et al., 2018). The employees who can't stop thinking regarding their work when coming back home they include in the workaholic's category. They think they must work all the time and stop thinking about work is not possible for them. This type of employee want to work all the time to shows creative and productive results but it can badly be affecting their emotion and moods, weak the strength to recover from this (Siegel et al., 2017). If they suffer long term stress and frustration this will affect their mental state and their focus in work due to this they cannot introduce new creative ideas just because of the pressure of the previous working days' stress (Grob and Bayen, 2017; Tunio, 2020). Moods are insidious affective conditions that have immense control over employee's behavior and outcomes. Mood describes efficiency. If employees like their work and feel enjoyment while performing shows creative results on the other hand negative mood can affect an employee's creativity. For any person to adopt an environment and for their proper functioning the behaviors must be tuned with their positive feelings and moods (Katz et al., 2018) If an employee does not feel happy or satisfied it is unlikely that he will produce good results. To think creatively they must have a positive mind so they think highly innovative. An employee who is suffering from mental stress cannot think creatively. His thoughts do not let him think creatively and the results are disastrous. Mood provides you with signals that help you to focus on work (De Vos et al., 2017). Negative mood impairs a person's thought process which in turn affects a person's creative skills.

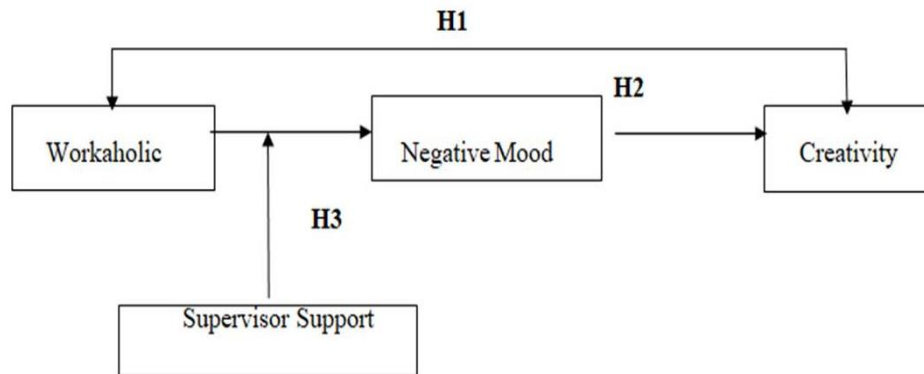
A clean mind can produce artistic miracles but a negative mood can only be ruinous. When an employee is going through a tough time and he feels down then it is more likely that he will not be able to recover soon which also affects his next day routine. He will have cloudy thoughts and would not be able to think straight resulting in less productive work as compared to the previous day. And sometimes it continues to an extent that the individual gives up and is completely out of the competition (Perlman et al., 2017). Peoples have to vary mood at various times so they face varying amendment effects as a concern to the state of mood. If the develop a happy mood then it shows more creative results. Cloudy thoughts only result in dire outcomes.

With the pressure of workload if an employee feels stress cannot work effectively when recovering from this stress properly (Walsh et al., 2018).The employee remains fresh and happy for creative outcomes.

Positive mood endeavors creative results but negative mood only impairs employee creativity. Negative mood lessens workplace creativity. Workaholics tend to work constantly which at times leads to negative emotions and mood swings resulting in less or no recovery for the next day making them unable to produce productive and creative

results (Watson and Stanton, 2017). Along with the great importance given to emotions and mood by psychologists in recent years, there has been a great deal of interest in the experience and impact of mood on work (Matovic and Forgas, 2018). Employees facing negative consequences in work or the environment they are working in lead to negative mood development that ultimately hinders their creativity and affects the ways they are working (Hsiung and Tsai, 2017). Creativity is measured to be an efficiently indicted event. To produce good results employees' mood satisfaction and happiness plays an important role in creativity. They feel a lot of issues at work if they are not satisfied with their work. The simple example is painter their emotions seen from their painting. It is the same for the employees and workers of any organization. People feel the same way. They surely provide positive and expected results, if the organization gives all supportive environment but if they start experiencing negative emotions then the outcome will be negative too (Ye et al., 2018). The above literature makes the following hypothesis.

**H3: Negative mood mediates the relationship between workaholic and creativity**



**Figure 1:** Theoretical framework

**3. Research Methodology**

The residents of Rawalpindi and Islamabad employees of advertising companies are selected for this study. Through the use of questionnaires, data is obtained from various employees of advertising companies located in Rawalpindi and Islamabad. The sample size of this study consists of 350 advertising agency employees. A simple random sampling technique was used for primary data collection. In this sampling technique, respondents have an equal chance of selection from the population. The list of targeted advertising agencies is below.

**Table 1: Advertising Agencies**

S. No.	Names	No. of respondents
1.	A.J Advertise Islamabad	34
2.	Adsale Advertising	19
3.	Time & Space Media	34
4.	Channel 7 Communications	
5.	Black Box Sounds	37
6.	Orange Advertising Pvt Ltd.	59
7.	MCOM Advertising	45
8.	Enhencerz	4
9.	Red Communication Arts	21
10.	80M Advertising	15
11.	Admagix Advertising & Marketing	8
12.	Creative Sign	21
13.	S S Advertising	9

### Instrument

Data was collected from the respondents through the questionnaire. The questionnaire was used for exact and precise data the questionnaire was adapted according to variables and keeping in mind about literature for research purposes. The questionnaire comprised of the demographic section including 27 items of Workaholic, Negative mood, creativity, and supervisor support.

### Measurement

Based on prior researches (Pathan et al., 2017; Xixiang et al., 2016), we borrowed different scales from existing literature. Robbins and Spence develop a questionnaire in 1992 to study the workaholic this questionnaire was used in this study (Spence and Robbins, 1992). The total items were 8. Answers were given on a 5-point Likert scale ranging from 1(“strongly disagree”) to 5(“strongly agree”). A questionnaire for negative mood is developed by (Wilson et al., 2005). The total items were 5. Answers were given on a 5-point Likert scale ranging from 1(“strongly disagree”) to 5(“strongly agree”). The questionnaire for creativity is developed by (Mehmood et al., 2019; 2020). The total items were 8. Answers were given on a 5-point Likert scale ranging from 1(“strongly disagree”) to 5(“strongly agree”). A questionnaire for supervisor support is developed by (Jiang and Klein, 1999). The total items were 6. Answers were given on a 5-point Likert scale ranging from 1(“strongly disagree”) to 5(“strongly agree”). Likert-type scale was used as (1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree).



## Procedure

This research selected 13 advertising universities from Islamabad and Rawalpindi. Advertising agency employees were targeted to get responses. Researcher himself went to employees to brief them about the research topic at first and then after their consent collected primary data through questionnaires. Questionnaires were filled on the spot in the presence of the researcher. Targeted advertising agencies were chosen based on ease of the access of employees.

## 4. Results and Discussions

Primary data was entered into SPSS for analyzing results. All data of workaholic, negative mood, creativity, and supervisor support were analyzed through SPSS. For analyzing data multiple tests were applied such as Reliability or Cronbach Alpha test, Pearson Correlation, Regression analysis mediation, and moderation effect tested by using SPSS and Andrew F. Hayes process macros.

Table 2 illustrates the values of Cronbach's Alpha according to (Gial et al., 2018; Hair et al., 1998), if the value of Cronbach's alpha is greater than 0.7 then the instrument will be reliable. The table depicts the values of Cronbach's alpha of workaholic, creativity, negative mood, and supervisor support as 0.816 0.776 0.823 0.828 respectively. Hence the instrument is reliable (Morgan et al., 2004).

**Table 2:** Reliability statistics

Variables	Cronbach's Alpha	No. of Items
Workaholics	.816	8
Creativity	.776	8
Negative Mood	.823	5
Supervisor Support	.828	6

**Table 3:** Correlation matrix

		Workaholic	N.Mood	S.S	Creativity	
Workaholic	Pearson Correlation	1				
N.Mood	Pearson Correlation	.379**	1			
S.S	Pearson Correlation	.321**	.258**	1		
Creativity	Pearson Correlation	.432**	.397**	.412**	1	

\*\* Correlation is significant at the 0.01 level (2-tailed), N.Mood = Negative Mood, S.S = Supervisor Support.

Table 3 shows values of correlation between the independent variables (Workaholic, Negative Mood, and Supervisor Support) and dependent variable (Creativity) which are .432, .197, and .412 respectively. Considering values of Pearson correlation Workaholic, Negative Mood, and Supervisor Support have moderate relationships with Creativity.

**Table 4: Model summary regression**

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate	Durbin-Watson
1	.536 <sup>a</sup>	.287	.275	.48439	1.884

a. Predictors: (constant) Workaholic, Negative Mood, Supervisor Support.

b. Dependent Variable: Creativity.

The model summary demonstrates the model fit. In the table model summary, the estimation of R is given which shows the relationship of the variables. The estimation of R is .536 so it demonstrates the moderate relationship between the creativity and the independent variables. The value of R square shows how much variance occurs in the dependent variable creativity. 28% change occurs in the dependent variable creativity due to independent variables and when applied on population the result is 27% for adjusted R square. The standard error is 48% which is due to the other variables.

**Table 5: Multiple regression analysis - Model summary (H1)**

Model	Unstandardized		Standardized t Beta	sig.	Collinearity Tolerance	Statistics VIF
	B	Std.Error				
Constant	1.467	.281		5.226 .000		
Workaholic	.212	.074	.224	2.842 .005	.616	1.624
N.Mood	.098	.068	.108	2.446 .040	.690	1.450
S.Support	.317	.074	.315	4.303 .000	.714	1.400

In the table of coefficient, considering the value of beta from the unstandardized coefficient shows the change in the independent variable will bring change in the dependent variable. If one unit of workaholic increases, there will be a .212 unit increase in creativity, and if the one unit increases in negative mood, there will be .098 units change in creativity. If one unit increases in supervisor support then there will be .317 units change in creativity. In the table of coefficient, the “t” value shows the strength of

the relationship between the independent and dependent variables. If the value of “t” is more than +2 or -2. It explains the relationship. Here in this table, t value of workaholic is 2.842 which shows the strong relationship between the workaholic and creativity. Also, the P-value is .005 which is significant as it is less than .05 hence H1 is accepted. The outcomes show there is a positive association between creativity and workaholics so this hypothesis is accepted. Outcomes show workaholics want to work. Outcomes are supported by the existing literature review. This will show workaholics want to more work with creative skills and productive (Zhou and George, 2003). To produce creative outcomes, it is essential for employees to long hours. Engagement in any activity requires for productive results. Creatives can never give up. They want to work. They can different experiments to get creative outcomes cannot stop themselves from involving in work. It becomes part of their nature to involve in work all the time they feel satisfaction only when their work is appreciated and this will inspire them to more work, they feel happy what they do (Shalley et al., 2000).

The “t” values of negative mood and supervisor support are 2.446 and 4.303 which shows the strong relationship with the creativity and p values are .040 and .000 respectively which are less than .05 hence step 1 for mediation and moderation is significant.

**Table 6:** Moderation test

	Coeff	Se	T	P	LLCI	ULCI
<b>Constant</b>	2.8553	.0567	50.3564	.0000	2.7419	2.9686
Workaholic	.2161	.1168	1.8510	.0689	-.0173	.4495
Supervisor support	-.1711	.0586	-2.9217	.0049	-.2882	-.0540
Int_1	.1274	.0999	1.2758	.2068	-.0722	.3271

Y = Negative Mood

X = Workaholic

W = Supervisor Support

To check the impact of the moderating variable that is supervisor support in this research Andrew F. Hayes test is used in the above table. Results showed that for Int\_1 the value of P is .2068 which is greater than .05 so it enlightened that supervisor support does not moderate the relationship between workaholic and negative mood. Hence H2 is rejected. This means that in this research supervisor’s support doesn’t have any effect on employees' negative mood even though that employee is workaholic. The mood might have some other factors that can positively impact. The hypothesis that supervisor support moderates the relation between workaholics and negative mood is rejected. Supervisors can help individuals change their behavior but they cannot help them change their mood. The mood can only be changed by reducing the effect of the factor that caused the mood swing. It is an internal feeling that cannot be shaped by supervisor support and completely depends on the factor giving rise to the mood swings (George

and Zhou, 2007)

**Table 7: Mediation test**

	Coeff	Se	T	P	LLCI	ULCI
<b>Constant</b>	.0000	.0000	-.6393	.5249	.0000	.0000
Workaholic	.000	.0000	-.0228	.9819	.0000	.0000
Negative mood	1.0000	.0000	2.811	.0000	1.0000	2.0000

Y= Creativity

X= Workaholic

M= Negative Mood

To check the impact of the mediating variable that is a negative mood in this research Andrew F. Hayes test is used in the above table. Results showed for the mediating variable the P-value is .0000 which is significant as it is less than .05 so it enlightened that negative mood mediates the relationship between workaholic and creativity. And the negative mood affects the creativity of an employee. Hence H3 is accepted. This means if an employee has a negative mood then the creativity level of the employee will be disturbed. Even though the employee has a workaholic nature. The following table shows the moderated mediation results of the variables: supervisor support and negative mood. The hypothesis that negative mood mediates the relationship between workaholics and creativity is accepted. This result is also supported by the literature. That when an employee has a negative mood the negative emotions interrupt brain parts differently. These interruptions make one lose focus and the creativity of a person decreases while having a bad mood (George and Zhou, 2002).

To check the impact of moderated mediation Andrew F. Hayes test used and the results showed in the table that LLCI the lower limit confidence interval is -.0896 and the upper limit confidence interval is .3323 which shows that the range is crossing zero limits as the values are in negative for LLCI and ULCI are in positive this means that there is no moderated mediation occurring in this case. This means that for workaholics if they have a negative mood the supervisor support doesn't change their mood and having a negative mood lowers the creativity of workaholics even having supervisor support in the context of Pakistan's advertising agencies. So, for advertising agencies in Pakistan must cater to the employee to get more creative outcomes.

**Table 8: Index of moderated mediation**

	Index	BootSe	BootLLCI	BootULCI
Supervisor Support	.1274	.1063	-.0896	.3323

## **5. Implications for Theory and Practices**

This study provides implications for the organizations to develop and improve the support system, mostly in the advertising sector. Keeping consideration, the change in mood and emotions at the workplace for the work, or stressed caused by the work can be productive and creative for the growth of the organization.

## **6. Limitations and Future Directions Recommendations, and implications**

In current research data was only collected from those employees who work in Pakistani advertising agencies so these outcomes did not generalize the working condition of the other section organization employees' condition and skills. Cross-sectional data is obtained in the current study. Today's trend is longitudinal studies. However, data was collected through different intervals but due to a shortage of time, longitudinal studies of the variable are not possible. This study has been conducted in the Pakistani context so considering cultural aspects this study is limited in its findings.

Future directions for researchers can be that the present study explored the role moderator between the mediator and the independent variable. It is recommended that the role of a moderator should be studied between the independent and dependent variable. The current study has investigated the role of mediator between workaholics and creativity which shows mediation under the given circumstances. More factors should also be made part of the study to get a clearer picture. The current study model developed only for the investigation of Pakistani advertising agencies. To expand the horizon information, it is recommended to other researchers to study for other industries and organizations. This research is based on a collection of cross-section data. For getting better outcomes and knowledge of this model it can be tested longitudinally.

## **7. Conclusion**

It is clear by analyzing primary data results that are collected by questionnaires, workaholic is positively related to creativity and negative mood mediates their relationship. This study highly important for Pakistan advertising agencies employees. Creative people are workaholics or vice versa hence they need a way to deal with the extra workload, work stress, or the negative emotions they come across their routine work. The research defines different ways of coping up with such issues by providing supervisor support and also shows how negative mood mediates the relation between workaholics and creativity and how to get rid of it. More creative employees need in the advertising sector as compared with other industries. Because in this sector, all activities are done creatively, this will only possible through the creative skills of employees without it they can never succeed or remain the competition in the industry. The work or activities going on in the advertising sector are all skill-based and no one can succeed in this field until unless they possess some great creative skills. One might say that the advertising sector consists of workaholics because they constitute employees who are committed to working and they love working. Being a positive thing

itself, creativity and work holism also constitutes some negative outcomes like the development of negative emotions or mood swings due to extra workload or stress of work for coming up with productive and creative ideas. Hence, if one wants some positive insight and innovative outcomes then they need to make sure that they provide them with the right kind of support that may feel them happy and positive besides a supervisor's support. If proper support is not provided to employees then at one point they might lose their creative skills or their expertise and will not be able to come up with positive and productive outcomes as before and in the end, the organizations will also get affected along with the person himself/herself.

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## Preceding Dividend as a signal of Future Dividends: Evidence from Chinese Commercial Banks

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### Abstract:

Dividend policy is a prime concern of all stakeholders for it represents major cash outflow. Understanding the causes that affect dividend policy is of a prime concern for investors and academia. Firm specific and market specific factors are chosen from extant literature for empirical analysis. Secondary data is used for statistical analysis the empirical results indicate significant relationship of provisioning against non-performing loans (LNPNPL), total assets (LNTA) and return on assets (ROA) on dividend payout ratio. LNPNPL significantly and negatively causes dividend policy, this indicates that banks with higher level of risk pay less dividends. Similarly, ROA significantly and positively explains variations in dividend payout ratio. The positive relationship tells that banks with higher returns (profitable banks) pay higher dividends. The negative and significant relation (causal) between LNTA and dividend payout indicates that Chinese banks pay less dividends as they grow bigger in size. Other variables of model indicate insignificant relationships. Findings support existing literature but the size of bank has significant but inverse relationship with dividend policy. The findings open space for further work since size of the bank shows negative relationship with dividend payout ratio.

**Keywords:** Banking Industry, Emerging Markets, Dividend policy, India, China, Pakistan.

**JEL Classification:** G14, G3, G23, G21

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### 1. Introduction

Dividend policy is characterized by making a right decision of distributing earned money in a way that all shareholders of firm are satisfied. The prime objective does not

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limit at satisfying the stakeholders needs, managers need to consider the growth factor for future prospects. In addition, it is important to consider the possible implication of dividend policy on various firm specific and market specific elements. It is noteworthy for managers to consider the possible effect of their dividend decision on share prices (Bishop et al. 2000). Dividend policy is a critical decision since it influences other real or financial investment decisions (Abor & Bokpin, 2010).

Researchers have employed different factors to understand dividend policy such as operating and demographic characteristics of firm and CEOs to explain dividend policy (see for example Huang, JJ., Shen, Y & Sun, Q., (2011); Grullon et al., 202); structure of shareholding (see for example Abdelsalam (2008); Ramli (2010); Hafeez (2009); earnings Watts (1973), Nissim (2001) and also work on irrelevance of dividend policy by M&M (1961).

Numerous studies tried to explain dividend policy using various factors but the issue remains unresolved. Dividend policy is among top ten unsolved issues in field of economics and finance as various studies could not provide a (consistent) explanation for dividend behavior of firms (Black, 1976). Hence the study of dividend policy has relevance and significance for further understanding. A close look at existing literature reveals an interesting fact that a big chunk of pie on dividend policy studies is based on non-financial sector. There are a few and country-limited studies that discussed the dividend policy in financial sector. Furthermore, most of studies are done using data of developed nations. There is great need to carry study for better understanding of subject in financial market of emerging economies. Keeping in view this need, the present study tried to explore the dividend determinants of commercial banks in emerging markets. The present model includes firm-specific, market-specific and country-specific factors. The present model is based on three key studies, Fama and French (2001), Lintner (1956) and Casey, K. Michael, and Ross N. Dickens, (2000). We have carefully designed present model after removing key reservation on referred models. The provisioning against non-performing loans, growth in GDP and ownership status are new variables, similarly, ownership status (private / government dummy) is a dummy variable that differentiates government and private banks in sample set. The ownership status dummy variable helps to understand if government and private banks consider different factor(s) while making dividend decisions. The inclusion of regulatory variable (PETTAR, equity to total assets ratio) and market capitalization to GDP ratio for equity market developments as a new variable would enhance the understanding of dividend policy as this makes model more novel, comprehensive and significant.

### **Hypothesis setting based on literature review**

Assets show the important section of financial health of bank. This study uses total assets as proxy for size as suggested by Fama and French (2001). Size of firm has significant and positive relationship with dividend payout Mark (1998). Two additional factors may motivate firms to pay higher dividends. First, transaction cost for raising funds, which is relatively lower for bigger firms compared to smaller and second investors perceive large firms less risky. Hence, big firms (in terms of size) tend to pay

higher dividends because they can easily raise funds if required (see for example, Alli, 1993; Adedeji, 1998; Eriotis, 2005; Ramli, 2010; and Al-Malkawi, 2007) tried to study relationship between dividend payout ratio and size of firm and found a positive and significant relationship. The study suggested that large firms have excessive cash flow (internally generated) so they tend to pay regular and higher dividends. Afza & Mirza (2010) found consistent findings for non-financial sector. They concluded that large size firms possess quality assets, hence; it is easy for them to collect funds from external sources to fund potential projects. However, there are studies that disclosed negative relationship between size of firm and dividends (see for example, Hafeez & Attiya, 2009; and Ahmed, HJA & Shaikh, JM., (2008).). They suggested that large size firms tend to rely on internally generated funds; hence, they hold funds under their control for further growth. Zulfiqar & Hui (2010) Compared dividend policy of listed Chinese and Pakistanis firms and concluded that in Pakistan large size firms tend to pay dividends whereas in china, small size firms tend to pay higher dividends.

The extant literature provided mixed findings on relationship between dividends and size of firm. Some of them came up with positive and significant relationship, whereas, others concluded negative or insignificant relation. Hence, we reiterate the model and set first hypothesis as under:

***H1a: Size of bank has positive and significant impact on dividend payout ratio.***

Firms pay dividends from profits. We have used return on assets (ROA) as a proxy for profitability. Amidu & Abor (2006) took six years data of listed firms in Ghana and found a positive and significant relationship between profitability and dividend payout ratio. Pruitt & Gitman (1991) used survey approach to assess relation between profit and dividend payout ratio in U.S and concluded that both current and past profits significantly cause current dividend payout ratio. Numerous studies suggest a positive and significant relationship between profitability (both ROA and EPS were used as proxy for profitability) and dividend payout ratio (see for example: Naeem & Nasr, 2007; Truong & Heaney, 2007; Rodríguez-Pose & Gill, 2005; Al-Malkawi, 2007; and Matthias & Akpomi, 2008). However, a few studies found an inverse correlation between profitability and dividend payout ratio. Okpara & Chigozie (2010) concluded firms tend to reduce dividends despite of earnings to plough back earning for growth. Similarly, Barclay (1995) found negative correlations between profitability and dividend payout ratio. Adedeji (1998) concluded that profitability is irrelevant in explaining dividend payout ratio.

Various studies have explored relationship between profitability and dividend payout ratio but findings are quite mixed. Therefore, present study used (ROA) as proxy for profitability to test its relation with dividend payout ratio of commercial banks in emerging market.

***H2a: Profitability significantly and positively influences dividend payout ratio.***

In continuation of argument related to Fama and French model present study used changes in total assets as proxy for growth. Firms at growth stage faced with investment opportunities tend to retain more to fund potential projects, hence, they pay either little or no dividends (Al-Malkawi, 2007; and Gaver & Gaver, 1993). Authors have suggested a negative and significant correlation between growth and dividend payout ratio and lend support to pecking order hypothesis. Grullon et al., (2002) found that young and startup firms tend to hold reserves to finance potential growth and pay either low or no dividends. On the contrary, mature firms tend to pay since they do not have enough growth opportunities. D'Souza (1999) concluded that there is trade-off between investment opportunities and dividend payments. Hence, at time of rise of investment opportunities dividend payments tend to fall and in absence of growth opportunities firms pay higher dividends to minimize agency cost. Shin et al., (2010), found significant and opposite correlation between dividends and growth. The study concluded that mature firms have surplus cash flow and usually do not find potential growth prospects, so, they tend to increase dividend payments. Mitton (2004) suggested a strong negative correlation between growth opportunities and dividend payouts with specific reference to countries where shareholders' rights are protected. There are numerous studies in both emerging and developed economies that support the argument that firms at growing stage tend to lower dividends because they rely on internally generated profits to fund the potential investment opportunities (see for example: (Patra et al., 2012; Kangarlouei et al., 2012; Abor & Bokpin, 2010; Amidu & Abor, 2006). Although, growth plays significant role in explaining dividend policy, but, there are few studies that concluded not significant and positive relation between them. Arnott & Asness (2003) used data of America stock market and concluded that firms at growing stage tend to pay higher dividends. With respect to Pakistan context, Hafeez & Attiya (2009) used data of listed firms of Karachi stock exchange and found no significant correlation between growth and dividend payout. The review of existing literature provides mixed evidence on relation between growth of firm and dividend payout. Therefore, we have used this hypothesis in our study to test how it works for commercial banks in emerging markets

***H3a: Growth oriented firms tend to lower dividend payout. Therefore, we expect a negative relation between growth and dividends.***

Non-performing loan (NPL) is a loan (part or whole) that default at payback payments (interest / principal) or close to default. As a general practice, banks create provisioning of certain amount on loans that are past due by 90 days. NPL is an income statement item and it is deducted from mark-up /interest earned/ return account. This has direct impact on net income of bank. Higher NPL means bank is less profitable. Although, there are means to recover non-performing loans but that costs extra effort and cost. Higher NPL makes earnings volatile and makes lending riskier. Risk may have different

forms based on perspective that you want to analyze. Investors may treat a firm as risky based on unstable earnings or divided policy. Management may find risk in pursuing new project or risk in shape of costly source of financing. For financial industry, the risk of non-performing loans is of key interest. Interest income on lending is key source of earning of banks; but not all lending decisions perform well. Banks deduct a certain amount as a provision for non-performing loans. Higher amount of provisioning lowers the earnings. Hence provisioning on advances is taken as a proxy for risk. Based on this rationale, the study postulates a negative relationship between dividends and amount of provisioning for non-performing loans.

***H4a: NPL hampers the earnings of firms hence firms with higher NPL tend to pay less dividends.***

Firms tend to stabilize dividend payments around a set target thus; they choose to distribute a certain amount of profit each year. So dividend paid in preceding year serves as a signal of future dividend payment(s). In other way, cut or omission of dividends indicates the chances of volatility of earnings. Lintner (1956) survey based analysis of link between dividends and value of firm conclude that managers are unwilling to reduce or omit dividends since they think it reduces price of share in market. Therefore, cut or omission of dividends would have negative impact on value of firm. This is one of the early studies to provide basis for signaling hypothesis. The study invited attention of researchers. Many academicians tried to study the implication and relevance of signaling hypothesis in different markets and industries but results are mixed. Rehman (2012) found a positive and significant relationship between last year dividend and current period dividends. The study suggested that firms avoid cutting or omitting dividend payments but tend to increase it gradually. Pandey & Bhat (2007) reached findings consistent with Lintner (1965) and stated that firms in India tend to set a target-dividend payout ratio. However, they face high level of difficulty to adjust it around already set payout ratio in case of volatile earnings. Okpara & Chigozie (2010) tested relationship between dividend paid preceding year with current dividend payout, using data of Nigerian firms, and found positive and significant relationship. However, Sheikh (2011) used Greek bank industry and concluded that firms neither set target dividend payout ratio nor follow long-term dividend payout pattern. Hence, there is no significance relation between preceding to current dividend payments. Firms pay dividends from profits generated after setting off certain cushion for potential projects; hence, last dividends do not significantly cause current dividends. The findings have shown mixed results, so, this study tends to test the relationship as under:

***H5a: Banks follow stable dividend policy hence last dividends have positive impact on current dividends.***

The structure of shareholding may be viewed in different ways, such as, concentration of majority shareholders, percentage of foreign shareholders, percentage of insiders (i.e. directors, Executives, or their spouses) and individual investors. Abdelsalam (2008)



Concluded that firms with high percentage of institutional ownership combined with high rate of return on equity tend to pay regular and higher dividends. The plausible explanation is that institutions do not tend to invest in a specific firm for long term. Therefore, the presence of higher institutional ownership is signal that firm will pay higher dividends. Ramli (2010) concluded a positive association between concentration of majority shareholders and dividend payout. The study on non-financial firms listed in Karachi stock exchange Pakistan shows direct association between dividends and insider ownership Hafeez (2009). One possible reason is that the distribution of higher dividends shall benefit the directors and other insiders of firm for they better know the financial health of firm. Most of fund management firms tend to rely on regular dividends, such as, pension funds, but other financial institutions rely more on capital gain since they do not tend to speculate in stock market and they face double taxation. Therefore, they prefer capital gains to dividends. The findings present evidence for both kinds of relationships. So, we postulate following hypothesis:

***H6a: The concentration of institutional ownership positively influences dividend payments.***

The overall market growth brings many possibilities for all firms. The overall market position may have effect on firms in many ways including on their dividend policy. Market movement is taken as a ratio of market capitalization to GDP, used as proxy to measure growth of financial asset (equity) market. Market capitalization is total market value of shares (outstanding) of listed firms. High value of market capitalization to GDP shows higher degree of development of financial asset market and higher degree of (investment) confidence of investors. It is obvious that the confidence of investors depend on the rate of return from their investments in financial asset market. Therefore, the present study sets proposition as under to check the impact of market growth on dividend policy.

***H7a: Banks tend to pay higher dividends as market capitalization to GDP ratio of listed firms increase.***

GDP is a key economic indicator that is used as yardstick to measure economic performance of specific country. The growth in GDP indicates the overall economic developments of specific economy. The general growth in GDP indicates the overall positive performance of an economy. Therefore, this is indication that all economic units are performing in upward direction. Similarly, the equity market prospers at times of growing GDP. This will reflect in performance of all industries including commercial banks. Based on this argument, we hypothesize following statement:

***H8a: Banks tend to pay higher dividends with positive change in GDP.***

Firms do not operate in isolation for they work under strict regulation. The regulatory authorities set certain mandatory requirements for all listed firms. The requirements

may vary in scope however, it has impact on firms in many ways. Therefore, firms in tight regulatory setting behave in different way. It is common that regulatory bodies (mostly central/state banks) impose certain conditions on banks related to maintenance of equity level. Equity to total assets ratio (PETTAR) is taken as a proxy to measure to calculate regulatory pressure. As stated higher ratio of PETTAR indicates low possibility of distribution of earnings for shareholders. Therefore, we expected a negative causal relationship between PETTAR and dividend payout ratio. We hypothesize the statement as under:

***H9a: Banks at times of higher regulatory pressure to maintain certain equity level tends to distribute less dividends.***

Public and private banks work in same industry however, their working environments differ a lot. The change in work environments have different impact on banks and their changes sometimes impact their financial and non-financial decisions. The study uses dummy variable (PGDUMMY) to measure ownership of bank and it takes value of “1” if banks is state-owned entity and “0” if bank is private owned entity. PGDUMMY would control for variations in dependent variable if the state-owned and non-state owned (private) banks behave differently. The state-owned banks enjoy many advantages over private banks. Hence, we postulate a positive causal relationship between state-owned banks and dividend payout ratio.

***H10a: State-owned banks tend to pay higher dividends.***

The present study uses a model that is an extension of three different models; that firms set target dividend payout ratio and adjust current dividends by considering the target payout ratio Lintner (1956); that size, growth and profitability are key factors that influence dividend policy size Fama and French (2001) and Dickens et al. (2002) bank level regulatory pressure to see its impact on dividend policy. Following is the mathematical representation of hypothesis based on extant literature.

$$DIV_{it} = \alpha + \beta_{1t}LNTA_{it} + \beta_{2t}ROA_{it} + \beta_{3t}GRA_{it} + \beta_{4t}LNPPL_{it} + \beta_{5t}LNDPLY_{it} + \beta_{6t}SHBII_{it} + \beta_{7t}MCGDP_{it} + \beta_{8t}PETTAR_{it} + \epsilon_{it}$$

Where,

$DIV_{it}$ : represents dividend payout ratio of  $i$ th bank in year  $t$ . The variable is in percent form and used as a dependent variable in model.

$LNTA_{it}$  : represents total asset of  $i$ th bank in year  $t$ . This variable represents size of bank (used as a proxy). Total assets are presented in model in natural log.

$ROA_{it}$  : represents return on assets of  $i$ th bank in year  $t$ . The variable in in percent form and used as a proxy for profitability of firm.

$GRA_{it}$  : represents change in assets of  $i$ th bank in year  $t$ . The variable in in percent form and used as a proxy for growth of firm.

$LNPPL_{it}$  : represents provisioning for non-performing loans of  $i$ th bank in year  $t$ .

This variable represents risk level of bank and transformed into natural log.  
 LNDPLY<sub>it</sub> : represents dividend paid by *i*th bank in year *t*. The variable is transformed into natural log.  
 SHBII<sub>it</sub> : represents percent of shares held by institutional investors of *i*th bank in year *t*. The variables represent the negotiation power of institutional investors.  
 MCGDP<sub>it</sub> : represents market capitalization to GDP ratio of listed firm of *i*th stock market (stock exchange) in year *t*. The variable in in percent form and used as a proxy to measure the development of equity market in specific country.  
 GGDPI<sub>it</sub> : represents growth in gross domestic product of *i*th country in year *t*. The variable measures the overall growth in given country.  
 PETTAR<sub>it</sub> : represents equity to total assets ratio. This variable is in percent form and taken as proxy for regulatory pressure in given market.

## 2. Descriptive Statistics (China)

There are 15 banks operating in China that make up the final sample. Annual data for 10 years on each bank is collected. Hence, there are 150 number of observations.

**Table 1:** Descriptive Statistics for study variables

Variable	Mean	Maximum	Minimum	Std. Dev.
LNTA	18.417	20.470	15.460	1.115
ROA	1.022	1.734	0.129	0.294
GRA	26.258	81.220	3.520	12.785
LNPPL	13.877	18.340	10.110	1.448
PDPR	25.403	45.780	6.000	7.633
LNDPLY	12.961	16.530	9.310	1.903
SHBII	38.385	97.480	1.190	26.498
PETTAR	5.516	13.714	1.057	2.165
MCGDP	0.728	1.782	0.346	0.410

Descriptive statistics table 1 shows central tendency and dispersion along with minimum and maximum values in data set of variables of model. The average total assets is 18.417 with standard deviation of 1.115. The maximum and minimum total assets during the study period were 20.470 and 15.460 respectively. The study uses return on assets as a substitute for profitability. Chinese banks, during study period, earned on average return of 1.022 percent compared to total assets. The average growth in total assets was 26.25 percent with standard deviation of 12.785. The provisioning against non-performing loans (PNPL) is substitute to measure the volatility in earnings. Higher value of PNPL represents shrinks the profit that may cause instability in earnings. The average PNPL for sample banks during study period was 13.877 with standard deviation of 1.448 units. At least one observation on PNPL had minimum and maximum value as 10.11 and 18.340 respectively. The description for all other variables

is similar as discussed for few variables.

**Table 2:** Correlation matrix (China)

		LNT A	RO A	GR A	LNP NPL	PDPR	LND PLY	SHBII	PET TAR	MCG DP
LNTA	Pearson Correlation	1								
	Sig. (2-tailed)									
ROA	Pearson Correlation	.115	1							
	Sig. (2-tailed)	.159								
GRA	Pearson Correlation	-.109	-.200*	1						
	Sig. (2-tailed)	.183	.014							
LNP PL	Pearson Correlation	.165*	.180*	-.476**	1					
	Sig. (2-tailed)	.044	.027	.000						
PDPR	Pearson Correlation	-.032	.569**	.066	.034	1				
	Sig. (2-tailed)	.696	.000	.424	.680					
LNDP LY	Pearson Correlation	.260*	.494**	-.485**	.716**	.301**	1			
	Sig. (2-tailed)	.001	.000	.000	.000	.000				
SHBII	Pearson Correlation	.316*	.444**	-.242**	.293**	.142	.454**	1		
	Sig. (2-tailed)	.000	.000	.003	.000	.082	.000			
PETT AR	Pearson Correlation	-.162*	.553**	.036	-.118	.250**	.173	.214**	1	.054
	Sig. (2-tailed)	.047	.000	.662	.151	.002	.034	.008		.515
MCG DP	Pearson Correlation	-.243*	-.273**	.341**	-.101	-.090	-.265**	-.306**	.054	1
	Sig. (2-tailed)	.003	.001	.000	.217	.273	.001	.000	.515	

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

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

### 3. Correlation Analysis (China)

Total assets (proxy for size of bank) has significant correlation with all study variables except return on assets (ROA), growth in assets (GRA) and dividend payout ratio (PDPR). Among statistically significant relationships, it has positive and weak relationship with dividend paid last year (DPLY), provisioning against non-performing loans (PNPL) and shareholding by institutional investors (SHBII) and has weak and negative relationship with rest of variables. Percent change in total assets (GRA, proxy for growth in assets) has significant correlation with LNP/NPL, LNDPLY SHBII and MCGDP. Among significant relationships, it has negative association with all variables except MCTGDP. The rest of relationships has similar interpretation.

### 4. Results of Regression Analysis (China)

The study uses panel data. Hausman test (p value < 0.05) hence, we have used fixed effect (LSDV) model to run regression.

Coefficient values indicate each variable's effect on dependent variable if all other factors are kept constant. P-value represents the significance of causal relationship. R-squared value represents the overall explanatory power of model. F-statistics indicates the overall fitness of model to given data. Durbin-Watson statistics measures the presence of serial autocorrelation.

Refer Table 1-3; the model explains approximately 45.3 percent (R-squared = 0.453) variations in dividend payout ratio. F-statistics tests the condition that in a certain given model all of the parameters (coefficients values) are jointly zero. The P-value for F-statistics is significant p value < 0.005 (0.000000). This means that all coefficient values of all significant variables are different from zero. Furthermore, size of firm (LNTA), profitability (ROA) and provisioning against non-performing loans (LNP/NPL) are significant determinants of dividend policy. LNTA and ROA are significant at 1 percent and LNPLPL is significant at 10 % of significance level.

**Table 3: Regression Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	51.40979	11.97014	4.294837	0.00000
LNDPLY	0.678555	0.474104	1.431237	0.15460
LNP/NPL	-0.871512	0.513867	-1.695987	0.09210*
LNTA	-2.349054	0.693411	-3.387677	0.00090***
MCGDP	0.762976	1.13185	0.674096	0.50140
GRA	0.044181	0.038129	1.158729	0.24850
PETTAR	-0.333777	0.271705	-1.228453	0.22130
ROA	20.60977	2.259407	9.121759	0.00000***
SHBII	-0.009815	0.022574	-0.434813	0.66440

Note: R-squared = 0.45355; Adjusted R-Squared = 0.422; F-statistics = 14.629 and prob (F-statistics = 0.000000); Durbin-Watson Stat = 1.52

The starred coefficient estimates are significant at 1 % (\*\*\*), 5 % (\*\*) and 10 % (\*) level.

The significant Regressors of model explain approximately 45 percent of variation in dividend payout ratio. To test the Multicollinearity and autocorrelation issues in given model, the study uses correlation matrix results / variation inflation factor (VIF) and Durbin-Watson statistic respectively. Correlation matrix is already given above and explanation stands same as stated. However, the correlation coefficient value above 0.9 (90 percent) indicates the presence of Multicollinearity issue. The dividend determinant model for Chinese commercial banks shows highest correlation coefficient (0.716 or 71.6 percent) between LNPPL and LNDPLY. This indicates that the given model is free of Multicollinearity issue. In order to provide another evidence, the study uses value of VIF for presence of Multicollinearity.

**Table 4: Multicollinearity Test using VIF**

Variables in Model	Collinearity Statistics	
	Tolerance	VIF
total assets	.797	1.255
Return on Assets	.470	2.127
Growth in Assets	.665	1.504
Provisioning against non-performing loans	.386	2.591
Dividend paid last year	.310	3.229
Percent share of institutional investors	.662	1.510
Equity to total assets ratio	.555	1.800
Market capitalization of listed companies (% of GDP)	.733	1.365

Hair (2014) suggested that the given model may suffer from Multicollinearity issues if two conditions are met, first VIF value above five (5) and tolerance level below 0.2. For safe side, in this study we consider the VIF value above five (VIF > 5) as an indication of Multicollinearity. The figure above shows that all VIF values for model variables are below 3.22. Therefore, the given model is free of Multicollinearity issue.

## 5. Conclusion

The present model addresses the criticisms in models presented by Lintner (1956); Fama and French (2001) and Dickens et al., (2002) and provides a better model empirical analysis. In addition, includes new variables that are quite significant for banking sector. The selected number of banks in final sample cover more than 90 percent of banking industry in terms of operations, network, assets and profitability. The model for Chinese commercial banks indicates that provisioning against non-performing loans (LNPPL), total assets (LNTA) and return on assets (ROA) play significant role in defining variations in dividend payout ratio. LNPL, LNTA and ROA represent (are used as proxies) risk level, size and profitability of bank. LNPPL significantly and negatively causes dividend policy, this indicates that banks with higher level of risk pay less dividends. Similarly, ROA significantly and positively explains variations in dividend payout ratio. The positive relationship tells that banks

with higher returns (profitable banks) pay higher dividends. The negative and significant relation (causal) between LNTA and dividend payout indicates that Chinese banks pay less dividends as they grow bigger in size. The findings are in line with (Fama and French, 2001; Baker et al., 2006; Mistry, Kohli, H., A. Sharma, et al., (2011); Rodríguez-Pose & Gill, 2005; Jensen, 1986; and Pruitt & Gitman, 1991). The findings point out significant but negative impact of size of bank on dividend payout ratio. This means banks start to avoid dividends as they grow older. Furthermore, findings suggest that Chinese banks do not set target dividends hence last year dividend may not be used as a signal of future income.

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