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The Effect of Psychological Ownership on Relationship of Psychological Empowerment and Job Satisfaction

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Abstract

Psychological Empowerment is an emerging concept for modern organizational settings. By empowering their employees organizations can create the feelings of psychological ownership in employees and that feeling enhances the job satisfaction of employees. The purpose of this study is to test empirically the mediating role of psychological ownership in the relationship of psychological empowerment and job satisfaction. The cross-sectional study and the respective data were collected with a questionnaire-based survey. Data was collected from 151 employees of public sector organizations through self-administered questionnaire with a response rate of 60%. Correlation is used to ascertain the relationship among variables. The results show that psychological ownership partially mediates the relationship of psychological empowerment and job satisfaction. Psychological empowerment creates feeling of possession in employees which is the core of psychological ownership, which intern creates job satisfaction and other positive outcomes for the organization and employees as well.

Keywords: Psychological Empowerment, Psychological Ownership, Job Satisfaction

Introduction

Contemporary organizations tend to operate in effervescent circumstances that craft new challenges for them. One of the biggest challenges is to confront the covenant with workforce diversity effectively. The present situation has raised the need for employees who possess the capability to take risks, be innovative and deal with market dynamics (Spreitzer, 1995). The issue of empowering employees has gained much attention in recent times. Unlike closely related management practices have been studied formerly that include participative management, job enrichment, motivation which helps in the development of clear understanding of different perspective of empowerment (Pelit, Ozturk & Arslanturk, 2011). Empowered employees can become the source of novel thoughts, they can accomplish work in better fashion and actively contribute in decision making, and this sensation makes them productive and motivated (Kemp & Dwyer, 2001). Empowerment is a process whereby an organization, through its management, provides power to employees (Sagie & Koslowsky 2000). Psychological empowerment have been studied and implemented by different organizations for the achievement of better employee performance, productivity and job satisfaction (Sashkin, 1984). Psychological empowerment is thought to enlighten the emotional state of people in their work settings, employees who remain empowered can perform better jobs and stand highly motivated and committed to their organization (Ayob & Zainal, 2011). Mainstream of the research has focused on the individual job and individual experience of empowerment and associating this with different individual outcomes like job satisfaction (Carless, 2004). This research manuscript will highlight

the significance of psychological ownership in the construct of psychological empowerment and job satisfaction and guide the managers in the creation of empowered environment. Whereas psychological ownership is the name of feeling which shows the condition of thoughts of employees to have an ownership of any object and enhances the feelings of people to possess the work (Furby, 1978). The basic purpose of this research is to test the model of psychological empowerment where psychological ownership plays the role of mediation between psychological empowerment and job satisfaction of employees.

Literature Review

Psychological Empowerment

Psychological empowerment is defined as a set of motivational perspectives formed by a job setting and showing an employee's spirited direction to his or her work position (Spreitzer, 1995). Spreitzer (1995) defines psychological empowerment in terms of four dimensions: meaning, competence, self-determination and impact. Meaning cognition refers to a sense of purpose. According to Thomas & Velthouse (1990) it is the uniformity between employee and its organization values and beliefs. Impact cognition refers to the extent to which an employee can affect the work result and through these outcomes create the difference in organization. Competence cognition refers to self-efficacy or employees capacity to perform differently by using different skills (Spreitzer, 1995). Self-determination cognition refers to autonomy or freedom in commencement and persistence of work behaviors and processes (Spreitzer, 1995). According to Spreitzer et al., (1997) an employee

need to experience all these dimensions otherwise the psychological empowerment is not completed.

Psychological ownership

Psychological ownership is the name of feeling which shows the condition of thoughts of employees to have an ownership of any object and enhances the feelings of people to own the work (Furby, 1978). Psychological ownership is that thought of employees that shows that he has some belongingness to that thing (Furby, 1978; Pierce et al., 1991).) ownership is the feeling of belongingness that shows some connection towards some targets (Dittmar, 1992). Target' refers to the thing of connection to the person or group. This entity of connection can be small as like the equipment of technicians and like an organization that are large enough in which the person experiences close association or thought the sense of possession. Psychological ownership in the organization signifies possession towards the company and feels that it's their mutual obligation towards the achievement of the company (Liu, Wang, Hui & Lee 2012). A sense of control is the fundamental of psychological ownership, research literature connect the feeling of possession with feeling of ownership, the literature shows three dimensions of feeling of possession (Van Dyne & Pierce, 2004). Attitudes refer to the feeling of employees that they have something in their possession and this feeling of psychological ownership leads to positive attitudes. Self-concept refers to feeling of employees when they thought about something in their possession this feeling of psychological ownership enhances their self-concept. Sense of responsibility refers to feeling of psychological ownership that brings a change in employees and makes the employee more responsible (Van Dyne & Pierce, 2004).

Job satisfaction

Job satisfaction is “a pleasurable or positive emotional state” that is “a function of the perceived relationship between what one wants from a job and what one perceives it is offering” (Locke, 1976). Job satisfaction is a pleasurable or optimistic expressive condition that comes when one’s job is appraised (Locke, 1976). Job satisfaction is the regular attitude of employees and conditions when employees feel satisfactory with their current employment (Robbins & Coulter, 1996).

Psychological Empowerment and Job Satisfaction

There are two areas of empowerment one that employee empower its subordinate is structural empowerment and second that employees thoughts after the supervisor empower him (Lee & Koh 2001). Psychological Empowerment is the motivational and intrinsic state of individual. (Conger & Kanungo, 1988). It is the key assumption that empowered employees can work in a more productive way and by using their knowledge they are able to design their work itself can bring more satisfaction (Thomas & Velthouse, 1990). Empowerment closely established the relationship between employees and supervisors that helps in mutual goal setting (Inderadevi, 2012). Empowerment helps employees to show their full potential and capabilities for the achievement of goals and also take responsibility and accountability this will results more job satisfaction (Inderadevi, 2012). Empowerment not only used to enhances effective decision making but also to develop the sense of responsibility among workers and the desired outcome of taking this responsibility is the job satisfaction of employees (Patah, Radzi, Abdullah, Adzmy, Zain &

Derani, 2009). When structural empowerment changes it shows significant effect on changes in psychological empowerment and the level of satisfaction among employees from their jobs (Laschinger, 2004). Liden, Wayne & Sparrowe (2000) finds a strong relationship between empowerment and job satisfaction. Many studies explain empowerment in the context of intrinsic task motivation (Thomas & Velthouse, 1990, Conger & Kanungo, 1998) as of personal environment fit. From service organization concept higher the empowering of employees, higher will be the profits (Brymer, 1991 Sternberg, 1992). Seibert (2004) made a survey with the conclusion that positive relationship is observed between psychological empowerment and job satisfaction. Tulli, & Rowlinson (2009) analyzed relationship between psychological empowerment and job satisfaction. Study was conducted to find out that if empowerment and job satisfaction has any relation or not. Results conducted direct and positive relation among them. So, it is indicated that by increasing Psychological empowerment Job satisfaction also increases and Vice versa. The literature shows that the dimensions of psychological Empowerment are also linked with job satisfaction. Data collected from employees of many organizations, the authors studied three-way interactions among the dimensions (Wang & Lee 2009). From the survey of American Restaurant Results indicated positive and Significance relationship between Psychological empowerment Job satisfaction (Gazzoli, 2011) and the same results from American Hospitality workers (Lee, 2011). Psychological empowerment has found positively related with job satisfaction (Carless, 2004; Seibert, Silver, & Randolph, 2004; Liden, Lucasd & Sparrowe, 2004; Spreitzer, 1997).

H1: The psychological empowerment will be positively related to job satisfaction

Psychological Empowerment and Psychological Ownership:

Empowerment not only used to enhances effective decision making and control over job but also develop the sense of responsibility and this responsibility is the resultant factor that employee starts owning the job (Ford & Fottler, 1995). The development of the approach of empowerment improves the human resource practices and increases the participation of employees in their task performance and decision making (Dvir et al., 2002). This encouragement positively influences the work related behaviors, attitudes and feelings of employees (Piccolo & Calqitt, 2006) that they are very important for their organizations and their organizations are important for them (Ghafoor et al., 2011). The feeling of ownership will form as a result of empowerment that boosts the employees to perform the tasks not only by using its own style but also take decisions for the furtherance of its organization. This will also intensifies the sense of responsibility of employees as employees starts owning the decisions it take for its organization (Ghafoor et al., 2011). In today's rapid environment employees need to make quick decisions in different situations and due to lack of psychological empowerment and lack of belongingness with their work role, tasks they become unable to make good decisions and in turn the feeling of psychological ownership will not create (Ghafoor et al., 2011). The concept of psychological empowerment enhances the feeling of psychological ownership, which is the name of feeling of possession of some object (Van Dyne & Pierce, 2004). When employees develop the feeling of

possession then they will be more motivated and starts caring more of that thing that is in its possession (Avey et al., 2009).

H2: The psychological empowerment will be positively related to psychological ownership

Psychological Ownership and Job Satisfaction

The Job characteristics model that is presented by (Hackman & Oldham, 1980) states that different psychological state of employees effects the job satisfaction. Ownership is the Psychological state or is the feeling of possession towards a variety of objects, material and immaterial in nature (Belk, 1988; Dittmar, 1992). Psychological ownership for an employee plays a significant role for the organizational development. In the literature various relationships have been discussed by the scholars with the Psychological ownership. The effect of Psychological ownership on the intention to turnover, OCB, Job Satisfaction, Organizational Commitment has mostly studied in the previous researches. Employees' psychological ownership toward organizations has a positive effect on expected rights and in response to it employees shows different types of behaviors associated with such rights and responsibilities". (Pierce, Kostova & Dirks, 2001). The sense of possession can enhance the feeling in employees that this thing belongs to me and it motivates and enhances positive behaviors (Avey, Luthans, Norman & Avolio 2009). When the employees have high sense of ownership in them they will be highly motivated (Pierce, Rubenfeld & Morgan, 1991) and highly motivated employees will be satisfied one (Huselid, 1995). Psychological ownership can create psychological contract between organization and employees and this motivates them to invest more in the organization in the form of their efforts and

become more committed and satisfied (Tsui, Pearce & Porter, 1997). According to the study of Van Dyne & Pierce (2004) there exists a positive relationship between psychological ownership and job satisfaction in the organizations.

H3: The psychological ownership will be positively related to job satisfaction

Mediating role of Psychological Ownership in Relationship of Psychological Empowerment and Job Satisfaction

When employee psychologically experience empowerment having access to information, authority to make decisions, access to resources, authority to adopt their own working style, bring change and innovation will strongly enhances the feeling that this organization belong to me which in turn bring job satisfaction of employee (Wallach & Meuller, 2006). Psychological empowerment gives the ownership right which includes the right of information, decision making, evaluation, financial value, and control and that creates significant influence on employee job satisfaction (Pierce et al., 1991). The psychological empowerment brings feelings of ownership and this creates a psychological contract between employees and organizations that management empower the workers and in turn employees shows more interest towards organizational activities and participate in the day to day activities of organization by considering the firm as its own that could result in satisfaction of employees.(Avey et al., 2009). Psychological empowerment is considered as a source of good performance; empowered employees when feel ownership in their work are more satisfied with their work and therefore exhibit more interest in organization (Luthans, Norman, Avolio & Avey, 2008).

H4: The psychological ownership mediate the relationship between psychological empowerment and job satisfaction

Methodology

Procedure and Sample

Data was collected by using convenience sampling technique from public sector organizations of two cities that is Rawalpindi and Islamabad. The total numbers of organizations were ten, Which includes Higher Education Commission, International Islamic University Islamabad, Arid agriculture university Rawalpindi, Ministry of education, Ministry of foreign affairs, Quaid-e-Azam paper projects, Benazir income support program, AJPR, Federal Land Commission, Fatima Jinnah university. The respondents include both faculty and administrative staff members. A questionnaire about their awareness of psychological empowerment, psychological ownership and job satisfaction were being filled by the respondents. For the confidentiality it was clearly mentioned that their responses were kept confidential and the resulting data will be evaluated on general basis. A total of 250 set were dropped in different organizations. Among the set 99 were dropped out due to unfilled and improper questionnaires and finally 151 cases were selected. Data was analyzed through correlation and linear regression.

Demographics of the study:

The respondents of this study include 56.3% male and 43.7% female. 25.3% have completed their bachelor's, 71.5% have master's, and 3.3% have M. Phil degree. 61.6 respondents are from 25-30 age range, 11.35 from 31-35, 10.6% from 36-40, 2.0% from 41-45, 13.9% from 46-50, .7% from 51-55. 7.9% respondents are having experience of 1-2 years 32.5%, from 3-4 years 6.6%, from 5-6 years

23.8%, from 7-8 years 5.3%, from 9-10years 23.8 %, 10% respondents have more than 10years of experience.

Measures

Psychological empowerment:

Psychological empowerment (DV) was measured by 7item scale with 5 dimensions (1=strongly agree and 5= strongly disagree) developed by Spreitzer (2005).

Job satisfaction:

Job satisfaction (IV) was measured with 4 item scale (1=strongly agree and 5= strongly disagree) developed by Cammann, Fichman, Jenkins, & Klesh, 1979).

Psychological ownership:

Psychological ownership (Mediator) was measured by 6 item scale with the 5 dimensions (1=strongly agree and 5= strongly disagree) developed by Van Dyne & Pierce (2004).

Results

Table 1: Correlations

	Mean	S.D	1	2	3
1.Psychological Empowerment	3.93	0.43	(.84) 0.36		
2.Job Satisfaction	3.88	0.68	.58(**)	0.55	
3.Psychological Ownership	3.51	0.81	.36(**)	.59(**)	0.81

** Correlation is significant at the 0.01 level (1-tailed).N=151. Item 1 of the scale of psychological empowerment has been excluded. Cronbach's Alfa is mentioned in parenthesis.

The table 1 shows the mean, standard deviation and correlations of psychological empowerment, psychological ownership and job satisfaction. At the significance level of 0.01, $r = .578$ shows that psychological empowerment is highly associated with job satisfaction

of employees, $r = .362$ shows that psychological empowerment is highly associated with psychological ownership, $r = .597$ show that psychological ownership is highly associated with Job satisfaction of employees.

Table 2: Job satisfaction

	B	R²	Δ R²
Step 1:			
Control variables			
Age	.186	0.230	0.230
Experience	-.175		
Education	-.103		
Step 2:			
Psychological Empowerment	0.825**	0.483	0.253**

** Correlation is significant at the 0.01 level, dependent variable=job satisfaction

Table 2 shows that there exist a direct and strong relationship between psychological empowerment and job satisfaction. After evaluating the result, it has been interpreted that demographic variables age, work experience and Education has impact on job satisfaction but these variables have been controlled. After controlling these variables the results shows that psychological empowerment has a significantly positive relationship ($p < 0.001$, $\beta = .825$) with job satisfaction. Moreover, psychological empowerment explains 25.3% variations in job satisfaction. On the basis of the result we will accept the H1.

Table 3: Psychological Ownership

	B	R²	Δ R²
Step 1:			
Control variables			
Age	-.071**		0.006
Step 2:			
Psychological Empowerment	0.723**	0.148	0.142**

** Correlation is significant at the 0.01 level, dependent variable=psychological ownership

Table 3 shows that there exist a direct and strong relationship between psychological empowerment and psychological ownership. After evaluating the result, it has been interpreted that demographic variables age has impact on psychological ownership but these variables have been controlled. After controlling these variables the results shows that psychological empowerment has a significantly positive relationship ($p < 0.001$, $\beta = .723$) with psychological ownership. Moreover, psychological empowerment explains 14.2% variations in psychological ownership. On the basis of the result we will accept the H2.

Table 4: Job satisfaction

	B	R2	Δ R2
Step 1:			
Control variables			
Age	.222		0.230
Experience	-.165		
Education	-.186		
Step 2:			
Psychological Ownership	0.501**	0.567	0.337**

** Correlation is significant at the 0.01 level, dependent variable=job satisfaction

Table 4 shows that there exist a direct and strong relationship between psychological ownership and job satisfaction. After evaluating the result, it has been interpreted that demographic variables age, experience and education has an impact on job satisfaction but these variables have been controlled. After controlling these variables the results shows that psychological ownership has a significantly positive relationship ($p < 0.001$, $\beta = .501$) with job satisfaction. Moreover, psychological ownership explains 33.7% variations in job satisfaction. On the basis of the result we will accept the H3.

Table 5: Job Satisfaction

	B	R²	Δ R²
Step 1:			
Control variables			
Age	0.177		0.230
Experience	-0.145		
Education	-0.210		
Step 2:			
Psychological Ownership	0.396**	0.567	0.337**
Step 3:			
Psychological Empowerment	0.557**	0.667	0.101**

** Correlation is significant at the 0.01 level, dependent variable=job satisfaction

Table 5 presents the relationship of psychological empowerment and job satisfaction with the mediating role of psychological ownership. After analyzing the data it has been interpreted that demographic variables age, experience and education has an impact on job satisfaction but these variables have been controlled. After controlling these variables the results shows that psychological ownership has partially mediate the relationship at the significant level ($p < 0.001$, $\beta = 0.396$) as value of psychological empowerment is $\beta = 0.557$ reduces from the value of direct relationship that is $\beta = 0.825$. Moreover, psychological ownership explains 33.7% variations in job satisfaction. On the basis of the result we will accept the H4.

Demographics of study

After evaluating the result, it has been interpreted that demographic variables age has impact on psychological ownership but these variables have been controlled. After controlling these variables the results shows that psychological empowerment has a significantly positive relationship with psychological ownership.

Discussions

Results obtained from the collected data shows that psychological ownership partially mediates the relationship between psychological empowerment & job satisfaction. Employees of public sector organizations when empowered by their higher authorities develop the sense of ownership and perform their job with high affiliation. In this way they are able to do their routine work by going out of the way. Empowered employees are expected to perform beyond their formally prescribed roles (Cole, 1995; Randolph, 1995) Results also demonstrate, as predicted, that psychological empowerment was related to psychological ownership (Hypothesis 1). Results show that psychological ownership partially mediates the relation between psychological empowerment and job satisfaction (Hypothesis 2). As in public sector organizations people shows low motivation and lack of interest towards work but through empowerment management can create motivation and interest of employees. Employees of Psychological Climate including leadership styles, opportunities for professional development and interpersonal relationships effect the employee perception of empowerment which in turn effect job satisfaction (Carless, 2004). Employee's trust has been found to be a significant psychological condition that relates positively to the to the employees ownership (Chan, Taylor & Markham, 2008). When the individuals having a sense of empowerment their expectations of personal self-efficacy increase which in turn develop a sense of perception or attitude despite of having desired performance results from the organization (Conger & Kanungo, 1998). From the literature it has been found that psychological empowerment creates intrinsic motivation within the employees to perform well (Fook et.al., 2011)

and the employee who has high intrinsic motivation is more satisfied from his/her job (Karatepe & Tekinkus, 2006). Psychological empowerment creates feeling of possession in employees which is the core of psychological ownership, which intern creates job satisfaction and other positive outcomes for the organization and employees as well. In public sector organization it is helpful to motivate employees through employee empowerment. In Pakistan employees are mostly less motivated and they are not prone to perform their jobs in an effective way in order to fulfill their duties, so it's necessary for them that organizations must create the environment of participation and team working through empowering and motivating them.

The results of extant study indicate that relationship between dependent, independent as well mediating variable has positive and significant impact on employee performance outcome. This research confirms that employee empowerment and job satisfaction are indirectly leads to each other. Findings of this study can be for both private as well as public sector employees.

This study prevail an important role to overcome the problems of employee empowerment in Public and Private Sector and provide a fair idea that employee satisfaction is directly related to the psychological ownership as well as empowerment.

Limitations of the study

The construct of psychological ownership, empowerment and job satisfaction, is difficult to measure as compare to other variables. The reason of intricacy is that it deals with tacit and internal feelings of any employee which sometimes become difficult to identify even for the respondents. The extant research tried its level best to craft the

framework of psychological ownership and to draw the relationship with other two variables. Nevertheless, some subjectivity could be the probable phenomenon that is difficult to minimize. Like other studies, this study also has various limitations:

Firstly, the generalizability of the findings is restricted because a convenience sample was used for the study. Secondly, the findings cannot be generalized in all organizations as it was conducted in public sector organizations only so other sectors can also be studied. Also, the study was conducted in a Pakistan; it cannot be generalized to its international counterparts. Thirdly, all information generated for the study was on the basis of participants' self-reports. Therefore, an element of bias may affect the results. Also, some respondents might have completed the instrument to get it done, whereas others might have shown more interest.

Recommendations for future research

We have drawn a theoretical recommendation to increase psychological ownership in organizations. There is no rule for the possibility of building onto the same context for the study to check the validity of these variables faith a same situation. That can be varied according to the environment context. The current literature will help to improve the process of empowering employees in Pakistani organizations. Since employee empowerment as an important factor that enhances employee job satisfaction, it is recommended that further studies should be carried out at the different level with a different sample size than this study, more demographics factors must be added in the study and should be expanded purely private or public sector throughout the country. On the behalf of current results research suggestions are put forth for

future research. Future research should use a larger sample with equal representation of race and gender. Current research can again implement in a future to check the similarities and differences among results. Duplication of the current research could be performed to identify similarities and differences with the present findings. Future research could incorporate a qualitative approach in addition to a quantitative focus. A qualitative approach (for example, interviews) might and longitudinal study

Theoretical and Managerial Implications

Psychological empowerment creates feeling of possession in employees which is the core of psychological ownership, which intern creates job satisfaction and other positive outcomes for the organization and employees as well. In public sector organization it is helpful to motivate employees through employee empowerment. Managers can increase the loyalty and commitment of employees through proper communication as there would be considered a most important and valued persons for the organization. (Concentrate on psychologically empowered tools as motivation, appraise them, reward when necessary, as well as moral support, on regular and irregular basis communication is an important part for employees as well as their peers. Interviews can be used to assess what employees' views are on management's capability to tackle these Problems (Iqbal, 2010). Leadership (top management and senior managers) can provide the safety and security that of and commit themselves to modeling the required behavior together with the values needs to be institutionalized (Iqbal, 2010). Lastly, it is also vital to promote good communication with employees and create a secure rapport, encourage employees or increase empowerment to enhance

psychological ownership and listen carefully what they say (Fox & Dale, 2008). Study shows psychological ownership and empowerment has a great impact on satisfaction as manager should take serious notice to enhance the commitment as well as for required result to meet the goals of organization. As most of the people say, that person is a good manager who understands the psyche of the employees.

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Do Islamic Banks Financially Perform Better Than Conventional Banks? A Comparative Study of Pakistani Banks

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Abstract

Pakistan has a majority of Muslims population, but the general public is not well aware of the culture of Islamic banking. Not only the non Muslims but among Muslims, separate groups have different attitudes, opinions, views and understanding toward Islamic banking activities e.g. risk management in Islamic banks, profitability, liquidity, and solvency. In this study, financial ratios are used to compare the performance of Islamic and Conventional banks. This study finds that Pakistani Islamic banks are significantly less profitable and less efficient while Islamic bank are more solvent (less risky) as compared to the Conventional banks. But there is no significant difference in the liquidity position of Islamic and Conventional banks.

Keywords: Islamic banks, Conventional banks, Financial ratios, Performance

Introduction

In Islamic history, limited banking activity, such as acceptance of cash or assets, could be found when Prophet Muhammad (P.B.U.H) was still alive. At that time, people used to deposit assets and money with the Prophet (P.B.U.H) or with Abu Bakr Sedique, the First Khalifa of Islam. From the early days of Islamic history, Muslims were able to mobilize economic resources and allocate them to productive opportunities on an interest free basis. This worked well

in the early days of Muslims' empire. However, after the industrial revolution and the development of conventional banking in Europe and western economies, a need for a modern Islamic banking was seriously felt. The first modern Islamic bank, established in Egypt in 1971, was called Nasser Social Bank. For a detail history and development of Islamic Banking, see Iqbal & Molyneux (2005). Islamic accounting, an essential tool for the success of Islamic banks, is said to have been developed contemporaneously at the University of Cairo (Samad & Hassan, 2000). Now, in modern age, the Islamic banking industry is on its boom stage. A number of institutions and universities are providing specialized education in Islamic banking and finance. These institutions are not only limited to Muslim world rather a few of the Non-Muslim countries are also engaged in providing such education (Ariff, 2007).

The basic framework of Islamic financial system is based on the Islamic Shari'ah laws and principles. According to Shari'ah principles Riba, which is interpreted as "any unjustifiable increase of capital whether in loans or sales", is prohibited. The core principle of the Islamic financial system and such prohibition is applicable to all forms of interest applicable in Conventional banking system. The current efforts for interest free financial intermediation including Islamic banking started in 1960s. Several Islamic banks were established across different Islamic countries in the 1970s, and their number has been growing since then. In the last twenty years Islamic banking witnessed rapid developments in the areas of financial innovation, risk management, regulation, and supervision of resources available to them.

Globally, the Islamic banking is growing rapidly. While it makes sense for the Pakistani Islamic financial institutions to be compared against other Islamic banking institutions internationally, it is also important to keep an eye on developments in the Conventional banking sector of Pakistan. We will examine the Islamic banking system comparatively to Conventional banks in Pakistani scenario. Pakistani Islamic banking history started in the late 1970s, under the overall Islamization process of the economy initiatives. As a step towards interest free banking in 1981, all the five nationalized commercial banks at that time were asked to open separate counters to accept interest free, Profit & Loss Sharing (PLS), deposits for all accounts in Pakistani rupees along with interest-bearing deposits. This parallel arrangement was allowed till July 1985, after which no banking institution was allowed to accept interest bearing deposits. The sudden conversion (and lack of preparedness) posed difficulties for the implementation of this practice. Therefore, complete conversion to Islamic banking is still not achieved. For a more detailed history of Islamic banking in Pakistan, see Iqbal & Molyneux (2005).

However, from 2001 an evolutionary process was started in order to nurture the acceptability and development of Islamic banking in a more structural approach. In this regard Meezan Bank was awarded the first Islamic bank license in 2002. Conventional banks were allowed to operate Islamic bank subsidiaries or even "standalone Islamic banking branches" along-side full-fledged Islamic bank. For a more detailed of executive initiatives taken for the Islamization of banking operations, see Mehmood (2002). Just like conventional banks, Islamic banking system has its own risks and challenges

which affect the performance of Islamic banks and pose challenges for their management and controlling authorities. Therefore, the Islamic banking supervisory authorities in Pakistan should play a proactive role in the development of Islamic banking system in the country.

On the question of current performance of Islamic banking and Conventional banking in Pakistan with respect to risk management/solvency, profitability, liquidity, and efficiency, we note there are many areas where Islamic banks look similar to Conventional banks on surface but are quite different in reality. Islamic banks are indeed much different from their Conventional counterparts in profitability, liquidity, solvency and efficiency. The standards issued by the Basel Committee on Banking Supervision regarding credit risk, liquidity risk, operational risk, capital adequacy and consolidation are more suitable for Conventional banking across the countries. Many of these standards are considered equally applicable to Islamic banking but because of the unique nature of the Islamic banking, separate supervisory bodies are required to regulate Islamic banking or modification is made to current banking regulations to cater for the unique challenges of Islamic banking. It is expected that Islamic banking system has a bright future in Pakistan. But currently it is only representing a small fraction of the overall banking sector of Pakistan. Development of standards for Islamic banking globally or domestically still needs a lot of efforts to make Islamic banking an acceptable way of banking in Pakistan and globally.

Literature Review

The performance of banking industry is studied extensively across the world and a very rich literature is available on every aspect of banking industry from different regions of the world (Kraft & Tirtiroglu, 1998, Crystal, Dages & Goldberg, 2001, Fethi, Jackson & Weyman 2001, Juan, Randall & Williams, 2001, Casu & Girardone, 2002, Akhigbe & McNulty, 2003, Berger & Mester, 2003, Kwan, 2003, Mukherjee, Nath & Pal, 2003, Green, Murinde & Nikolov, 2004). Along with country specific studies, there is a handsome literature available on cross-country comparison of banking performance (Molyneux, Michael & John, 1994, Allen & Rai, 1996, Caprio & Klingebie, 1999, Hutchison & McDill, 1999, Bikker & Johannes, 2000, Altunbas et al. 2001, Claessens, Asli & Harry, 2001, Hutchison, 2002, Claessens & Laeven, 2004, Figueira, Nellis & Parker, 2006). For a comprehensive literature on cross-country comparison of banking performance see Berger & Humphrey (1997). Islamic banking has received a lot of attention from researchers in the last twenty years and a number of studies are been conducted (Karsten, 1982, Arif, 1989, Zaidi, 1991, Skully & Brown, 2006). Islamic economic and financial system is a center of focus for academics research for so many decades. But because of lack of institutional setup of Islamic banks, empirical research in the field of Islamic banking performance was almost inexistent till the early 1990s. In the last two decades a number of research studies, including empirical studies, have been conducted in the field of Islamic banking. The introduction of Islamic banking on a large scale, across many Islamic countries, and their growing scope and importance in the overall financial system of the world created new avenues for research. Just like Conventional banking research, different studies

have been conducted to evaluate the performance of Islamic banks domestically and globally (Samad & Hassan, 2000, Sarker, 1999, Yudistira 2004, and Hamim & Naziruddin, 2008). One of the newly introduced research area is to conduct comparative studies of Islamic banks vis-à-vis Conventional banks. Such studies are few in numbers and or only limited to a few countries where Islamic banking services are offered at a large scale (Samad, 1999, Brown, 2003, Kader, Asarpota & Al-Maghaireh, 2007, Bader *et.al.* 2008, Kamaruddin, Safa & Mohd, 2008, Mohamad, Hassan & Bader, 2008 and Johnes, Izzeldin & Pappas, 2009). The performance comparisons of Islamic banks with Conventional banks have always been featured as one of the important consideration of Muslim world. According to a 2007 report cited in Ariff (2007), at that time there were more than 400 Islamic banks with total assets of US\$ 7 trillion in more than 44 countries, including the major financial centers in the U.K., Singapore and Switzerland. But keeping the growth prospects and popularity of Islamic banking these numbers will be quite large today.

Despite the widespread academic research and discussion on Islamic financial system and Islamic banking the awareness about Islamic banking products and services is still not clear to the masses of the Muslim world (Gait & Worthington, 2008). Islamic Banks in Pakistan are facing many challenges that are likely to affect their ability to grow and operate within a more competitive environment. Islamic banks, in Pakistan, are in development age and are competing with more stable and established Conventional banking competitors. The lack of awareness in the general public about the products and services offered by Islamic banks, these banks are facing the

challenge of securing a share from the existing consumers using banking services. A large majority of the population is still not having a current account. This makes the job of Islamic banks even more difficult to make a mark in the small target market. Islamic banks are required to improve their service quality which is an important selection and ranking criteria banking customers (Dusuki & Abdullah, 2007). However, a recent study, conducted by Ahmad, Rehman & Saif (2010), shows that in Pakistan Islamic banking customers are more satisfied than Conventional banks customers for the service quality provided by banks. This opens a window of opportunity for Islamic banks to stabilize their footings in Pakistan. Dusuki & Abdullah (2007) also stress on the need for educating and creating awareness among the general public about the distinctive characteristics of Islamic banks. The general public should understand and appreciate how Islamic banking can better and profitably suit their interests. This awareness about the distinctive characteristics of Islamic banks is generally lacking in Pakistan. Islamic banking services are availed by those who don't want to put their savings in conventional banks because of their religious beliefs. They don't actively seek a return for their deposits while the return seeking investors put their savings in conventional banks. But the 2007-08 financial crisis, which largely hit the global banking industry, compelled such investors to rethink about their investment decisions. This crisis came out as a blessing-in-disguise for Islamic banks. Now there is growing awareness about Islamic banking and its distinctive characteristics in Pakistan. The small market share of Islamic banks in relation to overall banking industry represents a unique future opportunity for these banks.

Now-a-days, the target market for Islamic banks is not limited to those who are concerned with the legitimacy of banking from Islamic point of view only. Islamic banking currently have the potential of being marketed to various segments of customers who seek for better service quality, convenience, efficient transactions, and seeking higher return with relatively less risk (see Dusuki & Abdullah, 2007). The 2007-08 crises raise a number of questions about the safety and efficiency of conventional banks while the Islamic banks were largely insulated from such crises. Similarly, Ahmad (2003) notes that Islamic banks are better in providing micro finance to small scale businesses, mostly run by poor people of the society. Islamic banks can avoid the problems of default and safety of investment which are very high for such loans in conventional banking industry. Islamic banking system provides solutions for the risk management in banking from the “Islamic Law of Contract” which is efficient as well more effective (Obaidullah, 1999).

According to Limam (2001) larger bank size, higher share of equity capital in assets and greater profitability are associated with better efficiency. Limam also points out some other factors e.g. continuous development of human resources through training, cost-saving, financial instruments and technological developments in banking etc. as the necessary factors for Islamic bank efficiency. In a study Mukhtar, Abdullah & Alhabshi, (2008) find that in Malaysia Islamic banking was less efficient than the conventional banks. They found that in Malaysia Islamic and Islamic windows of Conventional banks earn half of the profits that the best-practice bank could make under the same conditions. These inefficiencies were both on the cost and profit side. On the other hand, foreign banks were found to be more

efficient than the Malaysian domestic banks, including Islamic banks. These studies are indicating towards the difficulty face by Islamic banks. These are neither large enough in size like many conventional banks nor they have the liberty to develop new products and services, which are not Shari'ah compliant, to attract consumers. However in an earlier study, Samad & Hassan (2000) find that there is no difference in the economic performance of Islamic and Conventional banks in Malaysia.

Islamic banking is now in tough competition with Conventional banks, as noted by Kaleem & Isa (2003), on every aspect of banking services ranging from securing deposits to making good quality investments still keeping their distinctive characteristics. Islamic banking in accordance with the Shari'ah precepts, as discussed by Choudhury & Hussain, (2005), is a landmark in new paradigmatic thinking interrelating finance, economy, community and society. Islamic banks are therefore facing this situation of tough competition from Conventional banks still remain Shari'ah compliant and play its role in the socio-economic development of poor societies.

This study attempts to provide insights into Islamic Banking liquidity, profitability, solvency and efficiency as compare to conventional banks performance level in Pakistan. This is done by eliciting, both Islamic and Conventional, banks financial reports of five years, 2007-2011, and financial analysis has been done. The study aims to investigate the following main hypotheses:

HA1: There is a significant difference in the Liquidity position of Islamic and Conventional Banks in Pakistan.

HA2: There is a significant difference in the Profitability position of Islamic and Conventional Banks in Pakistan.

HA3: There is a significant difference in the Solvency position of Islamic and Conventional Banks in Pakistan.

HA4: There is a significant difference in the level of Efficiency of Islamic and Conventional Banks in Pakistan.

Methodology

This study adopts the methodology used by Kader, Asarpota & Al-Maghaireh (2007). The data used in this study are collected from balance sheets and profit and loss accounts published in annual reports of banks. The data are compiled for 5 Islamic and 5 Conventional Banks each year from 2007-to-2011 period. Financial ratios are used in data analysis for measuring and comparing banks overall performance. The ratios used in this study are grouped under four broad categories; (a) profitability; (b) liquidity; (c) risk and solvency; and (d) efficiency ratios. These four categories comprise of a set of ratios which cover the overall performance of a bank. This study uses a total of 11 financial ratios, falling into the above four categories, to measure a bank's overall performance. The classification of the ratios, their formulae and a brief are given below:

1. Profitability Ratios

The profitability ratios of banks focus on how bank is performing in terms of profit. They are used to assess a bank's ability to generate earnings as compared to its Total Assets, Equity and Mark-up/Interest Income. Having higher value on these ratios represents better performance of banks.

The following three ratios are used in this study to measure the profitability of a bank:

1. Return on Assets (ROA) Ratio = Net Profit before Taxes / Total Assets.

2. *Return on Equity (ROE) Ratio* = Net Profit after Taxes / Shareholders' Equity.

3. *Profit to Total Interest Revenue Ratio* = Net Profit after Taxes / Total Interest Revenues.

2. Liquidity Ratios

For bank, liquidity ratios are the financial ratios which measure a bank's ability to meet its short-term obligations on time. The higher value of the first ratio provides a larger safety that the bank possesses to cover its short-term obligations on time. The lower value of the second ratio, on the other hand, represents a higher level of liquidity.

1. *Cash and Portfolio Investment to Deposits Ratio* = (Cash + Balances with Other Banks) / Deposits.

2. *Advances to Deposits Ratio* = Advances / Deposits.

3. Risk and Solvency Ratios

Risk and Solvency ratios provide a measurement of a bank's solvency risk. A bank is considered when it has a considerable amount of total assets and shareholders' equity to meet its total liability (debt).

The following are the commonly used measures for a risk and insolvency.

1. *Shareholders' Equity to Total Liability Ratio* = Shareholders' Equity / Total Liability.

2. *Total Liabilities to Total Assets Ratio* = Total Liabilities / Total Asset

3. *Equity Multiplier* = Total Asset / Shareholders' Equity.

4. Efficiency Ratios

Efficiency ratios measure the quality of a bank that how efficiently it utilizes its assets to generate total revenue (interest income), net

profit and the level of administrative expense as a ratio of interest income. Following are the three ratios used to measure the efficiency of the banks.

1. *Net Operating Margin on Total Assets Ratio* = Operating Profit / Total Assets.

2. *Total Interest Revenue to Total Assets Ratio* = Total Interest Revenue / Total Asset.

3. *Operating Efficiency* = Administrative Expense / Total Interest Revenue.

For further detail and description of these ratios also see Kader, Asarpota & Al-Maghaireh (2007). Descriptive statistics, like mean standard deviation, maximum, and minimum values are calculated for each ratio. The check whether the financial performance of both sets of banks is different from each other or not F-test is applied to the mean values of the ratios calculated.

Empirical Results and Discussion

This section presents the results and findings of our study. Table 1 and Table 2 show the descriptive statistics for Conventional and Islamic banks, respectively. These two tables provide the minimum, maximum, mean and standard deviation value for all the ratios used in this study. The results show that the Conventional banks, on average, are profitable as both minimum and maximum values for the profitability ratios are positive. These banks are relatively stable as all the ratios show a low value of standard deviation. Conventional banks are having good utilization of assets as well as better operating efficiency. But these banks are relatively less liquid as shown by lower mean value of cash & portfolio investment to deposit ratio. Similarly, conventional banks are less solvent and, therefore,

relatively more risky. Conventional banks, on average, have low value equity to total debt, high value of debt to total assets and high value of equity multiplier.

Table 1: *Descriptive Statistics of Conventional Banks*

Ratios	Min	Max	Mean	SD
ROA%	1.50	2.03	1.788	.230
ROE%	13.11	15.86	14.092	1.130
Profit-to-Revenue%	12.54	21.45	14.984	3.705
Cash & Portfolio Investment-to-Deposits%	14.38	18.87	16.498	1.804
Advances-to-Deposits%	54.47	71.66	64.064	6.394
Equity -to-Total Debt%	7.92	9.13	8.488	.503
Debt-to-Total Assets%	91.80	92.43	92.028	.250
Equity Multiplier (Times)	13.79	15.13	14.374	.511
Operating Profit Margin%	2.32	2.88	2.462	.235
Asset Utilization (Times)	7.29	9.20	8.562	.780
Operating Efficiency%	29.03	31.81	30.230	1.274

Table 2 provides the descriptive statistics for Islamic banks. It shows the minimum, maximum, mean and standard deviation value for all the ratios used in this study. Islamic banks, on average, have mixed values of profitability. Islamic banks, on average, are less profitable in the period 2007-2011. The values of these banks are showing high standard deviation as compared to Conventional banks. The higher value of standard deviation shows the fluctuation in among different bank and across the time. Similarly, Islamic banks are less efficient as their assets utilization is, on average, low while the operating expense to total revenue value is high. But these banks are, on average, more liquid and less risky as compare to Conventional

banks. Mean value of cash & portfolio investment as a percentage of deposits is relative high, while debt to total assets and equity multiplier value is relatively low as compare to Conventional banks.

Table 2: *Descriptive Statistics of Islamic Banks*

Ratios	Min	Max	Mean	SD
ROA%	-1.29	.65	-.542	.770
ROE%	-3.51	7.56	.550	4.376
Profit-to-Revenue%	-14.98	4.87	-5.880	7.947
Cash & Portfolio Investment-to-Deposits%	13.94	25.87	18.630	4.400
Advances-to-Deposits%	46.34	76.20	60.546	13.016
Equity -to-Total Debt%	13.61	50.87	28.004	15.169
Debt-to-Total Assets%	69.64	88.29	80.452	7.629
Equity Multiplier (Times)	5.09	10.02	7.408	2.039
Operating Profit Margin%	-1.25	.72	-.488	.772
Asset Utilization (Times)	3.28	5.66	4.706	.982
Operating Efficiency%	50.06	187.16	96.872	52.952

Table 3 shows the main findings of this study. Based on the results it is concluded that during the five years period Conventional banks were on average more profitable as compared to Islamic banks. All the three ratios related to profitability are in favor of conventional banks. All these three ratios are significant at 99% confidence interval. The liquidity ratios are not significantly different for Conventional and Islamic banks. Both Conventional and Islamic banks are nearly equally liquid in the period under this study.

The solvency ratios show that Islamic banks are significantly better than Conventional banks. It means that Islamic banks are significantly less risky as compare to Conventional banks. The equity

to debt ratio, where a high value means lower risk, for Islamic banks is significantly higher than Conventional banks over the five years period with a 95% confidence interval. The other two ratios, debt to total assets and equity multiplier, related to solvency are significantly lower for Islamic banks as compare to Conventional banks. These two ratios are also statistically significant at 95% and 99% confidence interval.

Table 3: *Paired Samples Test*

		Paired Differences		t- values	Sig. (2- tailed)
		SD	Mean	Std. Error	
Ratios					
Difference between Conventional bank and Islamic bank ratios					
Pair 1	ROA.CB – ROA.IB	.659	.295	7.91	.001
Pair 2	ROE.CB – ROE.IB	3.910	1.749	7.74	.001
Pair 3	Profit-to-Rev.CB – Profit-to-Rev.IB	7.407	3.312	6.30	.003
Pair 4	CashPortfolio-to- Deposits.CB – CashPortfolio-to- Deposits.IB	2.886	1.291	-1.65	.174
Pair 5	Advances-to- Deposits.CB – Advances-to- Deposits.IB	8.052	3.601	.98	.384
Pair 6	Equity-to-Total Debt.CB – Equity-to- Total Debt.IB	14.782	6.610	-2.95	.042

Pair 7	Debt-to-Total Assets.CB - Debt-to- Total Assets.IB	7.618	3.407	3.40	.027
Pair 8	Equity Multiplier.CB - Equity Multiplier.IB	2.349	1.050	6.63	.003
Pair 9	Operating Profit Margin.CB - Operating Profit .Margin.IB	.762	.341	8.66	.001
Pair10	Asset Utilization.CB – Asset Utilization.IB	.509	.228	16.93	.000
Pair11	Operating Efficiency.CB – Operating Efficiency.IB	51.915	23.217	-2.87	.045

The last set of ratios, comprises of three ratios, is related to the operating efficiency of both types of banks. The results show that over the five years period the operating efficiency of Conventional banks are significantly better than Islamic banks. Operating profit margin and assets utilization for conventional banks are significantly better than Islamic banks at 99% confidence interval. The last ratio of operating efficiency, measured as administrative expense-to-interest revenue, is high for Islamic bank as compare to conventional banks and the results are statistically significant at 95% confidence interval. The results of our study are not consistent with some of the studies conducted in this field. A number of studies concluded that Islamic banks are more profitable, liquid, efficient and less risky as compare

to Conventional banks (Obaidullah, 1999, Sarker, 1999, Ahmad, 2003, Yudistira, 2004, Dusuki & Abdullah, 2007). But most of these studies were carried out at times when world economies were steadily growing. Since most of the Islamic banks are relatively small size firms therefore a little increase in their revenues resulted in above the average performance for Islamic banks.

On the other hand there are some studies which find no significant difference in the performance of Islamic and Conventional banks (Samad & Hassan, 2000, Bader *et al.*, 2008, Charap, 2011). But there also some studies which concluded that the performance of Islamic banks is poor as compare is Conventional bank (Kamaruddin *et al.*, 2008, Alhabshi, 2008, Johnes *et al.*, 2009). The results of this study can be justified in the scenario of world economic crisis, especially banking crisis of 2007-2008. Islamic banks are relatively small in size therefore these banks were unable to sustain the crisis situation. As a result their performance was significantly lower than their Conventional counterparts in the post crisis environment. The liquidity position of both types of banks was not significantly different from each other. This may be associated to the statutory requirement of the State Bank of Pakistan. Similarly, Islamic banks are significantly less risky as compare to Conventional banks. This may be associated to the relatively less reliance on the debt based contracts in Islamic banks. Therefore, the solvency ratios for Islamic banks are significantly better than Conventional banks.

Conclusion and Future Research Direction

Based on the results of this study it is concluded that in the post banking crisis environment, the profitability, solvency and efficiency of conventional banks is significantly different from Islamic banks

while their liquidity is not significantly different over the study period. Based on the five years data it is evident that Conventional banks are significantly more efficient and profitable but Islamic banks are significantly less risky. But the liquidity of both types of banks is not significantly different. These findings are consistent with some of the studies already conducted in this area. The findings of this study are very important as these are based on the data of period immediately following the global banking crisis. The current study is based on a small sample size and a short time period which can be improved in the future studies in this field. Similarly, the ratios are calculated based on arithmetic mean which may not be an appropriate measure. In the future studies researchers can use better measure like value weighted mean which assigns more weight to large size firms. As future research, both Islamic and Conventional bank comparison can be further study in term of economic value, risk and return on the basis market price of the shares. Such adjustments can make the findings more meaningful and researchers can draw better inferences. As Islamic banks are at the development stage so real research work is needed in term of development of true Islamic financial products to provide a complete alternative banking system to all walks of the society. Such developments can truly improve the financial performance of Islamic banks in Pakistan. However, Islamic banks are growing well but these banks are facing a challenging task in Pakistan.

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Public Health Expenditure and Economic Growth: Evidence from Pakistan (1972-2012)

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Abstract

The issue health spending has remained a matter of concern for both individuals and governments. This study examines the impact of real public health expenditures on real GDP in Pakistan. Annual time series data over the period 1972-2012 have been used to estimate the health-growth relationship through Johansen co-integration technique. The results confirm the presence of long run positive association between health sector and economic growth validating the role of human capital formation. The study suggests that public intervention in health sector is necessary by enhancing the share of health expenditure in government budget to stimulate the economic growth in Pakistan.

Keywords: Health Expenditures, Economic Growth, Johansen co-integration

JEL Code: H51 O40

1. Introduction

Public health expenditure raises a great matter of concern towards public sector resource allocation and exhibit an enormous variation across the globe. This variation not only depends on the country's income level, but also on social, political, cultural and geographical status of the country. State intervention through public sector resource allocation and health policies indicate the portion of national income that a country devotes to its health sector. Health spending is in fact an investment in human beings that determine the health status of the masses. Investment on health stimulates human and physical capital formation (Bloom and Canning, 2001). Healthy individuals contribute more in the production process by enhancing the productive efficiency of the country.

Health expenditures play an essential role in economic development of a country (Mushkin, 1962). Health expenditures enhance the life expectancy of individuals and overcome disease burden by strengthening food and medicine availabilities in a country. So, the health expenditures upgrade health outcomes in a country by ensuring health facilities at all levels. Healthier labor force is stronger with respect to their mental and physical situation and is capable to produce more output and income. On the other hand, poor health and illness restrict the potential of workers and thus make them absent from work especially in developing world (Strauss and Thomas, 1998). Health is a vital determinant of human capital formation. Human capital formation mostly depends on educational level and health status of societies. In this respect, education has narrowly been viewed as a sole factor of human capital formation and economic growth in empirical studies¹. The variable of health sector has been

ignored in empirical literature. Health, education and growth related studies showed that health and education are significantly affecting growth (Barrow, 1996).

In rich countries, average per capita health expenditures are above than USD 3000, whereas for poor countries it amounts to USD 30 only. Similarly, some countries allocate more than 12% of GDP to health sector, while other countries only allocate less than 3% of their GDP to health sector (UNDP, 2013). Pakistan stands far behind on way to grow its human resources when compared with its neighbor countries like India and Sri Lanka. Pakistan secures 146th position out of 187 countries in Human Development ranking, compared with India at 136th, Sri Lanka at 92th and Iran at 76th (UNDP, 2013). In Pakistan, number of hospital, hospital beds, registered nurses, physicians and other health sector indicators are lacking behind (Khan, 2003). Pakistan devotes a small percentage of its GDP to health sector. Only 0.7% of GDP on average has been allocated for health sector during the last four decades [Handbook of Statistics on Pakistan Economy, 2010]. High fertility rates in Pakistan always remained a challenging issue for every government during the last four decades. Total fertility rate in Pakistan is 3.3 per women comparing with India having 2.6, Bangladesh having 2.2 and Sri Lanka having 2.3 (ADB, 2013). Pakistan has the highest infant mortality rates of 59 per thousand live births comparing with its other regional states such as India, Bangladesh and Sri Lanka having 47, 37 and 11 respectively. However, the situation is not too much depressed in case of life expectancy in Pakistan having 65.4 years of average life expectancy comparing with India and Bangladesh having 68.9 and 65.5 years (ADB, 2013).

This study contributes in the health economics literature in following ways: Mostly studies on way to establish the relationship between health expenditures and economic growth used the panel data from developed countries. Single-country time series analysis on the issue of health expenditures and economic growth is neglected in empirical literature. This study incorporates this issue in case of Pakistan. None of the previous studies has explained the health system and health structure of Pakistan but this study gives a complete picture of health sector in Pakistan. This study also provides trends in health expenditures and suggests some policy measures.

The study is structured as follows: In section 2, the structure of health in Pakistan along with several trends in health expenditures have been explained. The review of assorted studies on health expenditures and economic growth has been discussed in section 3. Section 4 contains the model specification, data and methodology. Section 5 provides empirical results and discussions. Finally, section 6 offers the conclusion of the study.

2. Health Structure and Trends of Health Expenditures in Pakistan

2.1 Health Structure in Pakistan

The health system of a country is based on the organization, institutions and allocation of resources that generates health outcomes. Health upturn in a society is based on the availability of public health services, individual health caring access and other institutions that can contribute in the provision of health facilities directly or indirectly. Since 1947, health system in Pakistan has passed through different attempts and impediments for the achievement of good health status. The health system of Pakistan is divided into two segments: vertical and horizontal (Nishtar, 2006). In

lieu of vertical segment, different organizations play their role for the provision of health related services. These organizations and department are providing health related facilities. Each of them has its own structure and policy plans for service deliveries and health betterment. These organizations include Federal Ministry of Health, provincial level health departments, armed forces, private health providers, non government organizations (NGOs) and employee's social security institutions. However, in horizontal existence, Ministry of Health and provisional health departments coordinate with the private health providers for the delivery of health related services. Figure 1 exhibits the health structure of Pakistan.

Figure 1 about here

The government of Pakistan provides health services with the help of a three-tier health services delivery system and public health interventions. Figure 2 depicts the health service provider in Pakistan.

Figure 2 about here

The first tier includes Basic Health Units (BHUs) and Rural Health Centers (RHCs). This tier is responsible for primary healthcare services. The second tier includes Tehsil Headquarter Hospitals (THQs) and District Headquarter Hospitals (DHQs). This tier provides the secondary healthcare services. The third tier offers the services to the sub specialists and other medical staff.

2.2 Trends in Public Health Expenditures

This section shows the trends of public health expenditures in Pakistan. Figure 3 shows the trends in real expenditures during the period 1972-2012. Real health expenditures show a significant variation over time from 79.9 million rupees in 1972 to 823 million rupees in 2007.

Figure 3 about here

During 1980s average health expenditures substantially increased from 178 million to 405 million rupees in 1970s. Average growth rates of health expenditure during 1980s show a sharp increase up to 127% comparing with 1970s. This was due to higher GDP share of health expenditures in this period that remained above 1% in some years. Similarly, average health expenditure varies from 522 million rupees in 1990s to 644 million rupees in 2000s with a 28% growth in 1990s and 23% in 2010s. But in recent years health expenditures are showing a declining trend due to less preference given to health sector.

Figure 4 about here

Figure 4 displays percentage share of health expenditures in GDP over the period 1972-2012. The graph shows a wide variation and declining trend after 1987. In early 1970s the share of health expenditures increases reasonably due to the nationalization policies adopted by the government. After 1977, health expenditures suddenly fall and show a declining trend. In Pakistan only a small part of GDP is allocated to health sector throughout the time. Almost, less than one percent of GDP is given to health sector. The highest share of health expenditures in GDP is observed during 1980s and it remained above 1% in some of the years. This happened only one time in the history of Pakistan. In the last decade, only 0.48% of GDP on average is given to health sector comparing with 0.98% during 1980s.

3. Review of Assorted Studies

Since the pristine work of Newhouse (1977) on health growth relationship, the area of health economics is encouraging the researchers' interest and attention to explore the health-growth mechanism. We have segregated reviewed studies at national and international level:

3.1 Health Expenditures and Economic Growth: International Studies

In this section, we have reviewed the international studies on the health expenditures and economic growth. Newhouse (1977) pointed out that more than 90 percent changes in health expenditures are due to changes in income. The author considered income as the major predictor for health expenditures decisions.

Hitiris and Posnett (1992) evaluated the relationship between GDP and health expenditures along with some other variables like age structure, mortality rates and the government share on health spending. The data set covered 20 OECD countries for the years spanning from 1960-87. The results confirmed the strong positive correlation between health expenditures and GDP with an income elasticity of health expenditures around unity.

Chang and Ying (2006) viewed the link between health expenditures and economic growth in OECD countries. The authors collected annual time series data of 15 OECD states over the period of 1980-1998. The study revealed the chances of convergence between under-developed and developed countries by promoting health and human capital formation in under-developed countries. Health expenditures showed a significant positive impact on economic growth. However, some of the countries which experienced overspending on health showed a little impact on economic growth due to the maintenance of steady state situation.

Sülkü and Caner (2009) defined the impact of population growth and per capita health expenditures on GDP growth in Turkey. The study employed annual time series data for the period of 1984-2006. The authors applied Johnson cointegration approach for the determination of long run relationship among population growth, health

expenditures growth and GDP growth. The findings argued that income elasticity of public health expenditures is less than one in case of Turkey. The study determined private health expenditures a luxury good having income elasticity greater than one.

Baltagi and Moscone (2010) elucidated the long run association between healthcare expenditures and GDP in 20 OECD countries using a set of panel data spanning from 1971-2004. The study applied cointegration estimation for the determination of long run relationship between healthcare expenditures and income per capita. The results declared healthcare expenditures as a necessity good in OECD countries with income elasticity less than one. These results were contrary with other studies which found health expenditures as a luxury good in case of OECD countries.

Mehrara and Musai (2011) evaluated the casual relationship between GDP, health expenditures and oil revenues using a panel data of 11 selected oil exporting countries. The data set covered annual time series observations from 1971-2007. The findings argued strong causality from GDP and oil revenues to health expenditures but no reverse impact from health expenditures to GDP was observed. The study concluded no significant involvement of health expenditures in economic development of oil exporting countries.

Wang (2011) studied the causality between healthcare expenditures and economic growth in a perspective of developed and developing countries. The study used panel data of 31 countries spanning from 1986-2007. The empirical methodology was divided into two parts; the panel estimation and the quintile estimation. The panel regression findings determined positive role of health expenditures on way to economic growth. However, quintile regression results were

comparatively different in developing and developed countries due to short run variations in growth. According to the findings, health expenditures were inversely related with GDP growth in both types of countries but their impact was observed less in countries falling under low income category.

Wisniewski and Roe (2011) developed the way through which health expenditures stimulate economic growth in Sri Lanka. For this purpose the researchers utilized annual time series data during the period 1990-2006. The research interest was to build a channel for economic growth through health expenditures. The study formalized that labor would allocate some of their income for health improvements by making decisions under inter temporal budget constraint. By forgoing consumption and spending on health would augment labor efficiency that would cause capital deepening and thus stimulating economic growth in Sri Lanka. The empirical results revealed that expenditures on health augment labor productivity in Sri Lanka. Labor productivity further accelerates capital accumulation and results economic growth in Sri Lanka.

Maitra and Mukhopadhyay (2012) investigated the role of public health and educational expenditures in economic growth of Asia and Pacific region over the period of 1981-2001 by employing cointegration and panel error correction methods. The findings revealed that the impact of health and educational expenditures on GDP was not uniform across the nations.

Hosseini and Yazdan (2012) captured the impact of health expenditures on economic growth in Iran. The researchers analyzed the time series data for the period 1970-2011 by applying Johnson cointegration and vector autoregressive estimation. The results

confirmed the presence of co-integration and long run relationship between health expenditures and economic growth.

Elmi and Sadeghi (2012) determined the short run and long run association between health expenditures and economic growth in developing countries from 1990-2009. For the sake of analysis, panel data of 20 developing countries on annual basis were used. The research methodology was Granger causality test. The results showed positive impact of economic growth to health expenditures but no feedback effect from health spending to economic growth in short run context. However, the findings favored the existence of long run association between health expenditures and economic growth in developing countries.

Ogunbenle et al. (2013) determined the connection between life expectancy, public health spending and economic growth in Nigeria by using Vector Autoregressive method over the period of 1977-2008. The findings determined the absence of bi-directional causal link between government health expenditures and life expectancy in case of Nigeria. The research results favored the link between economic growth and government health spending.

Mahumud et al. (2013) examined the relationship between life expectancy, health expenditures and economic growth in Bangladesh. The study used multiple regression analysis for annual time series data varying from 1995-2011. The findings supported life expectancy as the source of economic growth which was influenced by both health expenditures and GDP.

3.2 Health Expenditures and Economic Growth: International Studies

In this section, we have reviewed the national studies on the health expenditures and economic growth. A few studies have been found for Pakistan. Hussain et al. (2009) investigated the long run relationship between GDP and health expenditures in Pakistan. The study observed annual time series data during the period of 1980-2004. The study argued the absence of long run association between health expenditures and GDP.

Akram et al. (2008) stated long run relationship between health status and economic growth in Pakistan. The study considered life expectancy and infant mortality rate as health index. The study used time series data varying from 1972-2006. The study applied co-integration estimation, Granger Causality test and error correction technique. Co-integration findings confirmed the significant role of health status in economic development of Pakistan. The study concluded that per capita income is strongly associated with health and human capital outcomes in Pakistan.

Aurangzeb (2003) viewed the relationship between economic growth and health expenditures in Pakistan. The authors obtained annual time series observations during the period of 1973-2001. The authors used augmented Solow growth model for analyzing the impact of health expenditures on GDP. The results showed positive and significant impact of health expenditures on GDP in short run and long run.

The review of literature concludes that health is an important factor of human life and is pre-requisite for economic growth. Therefore, health expenditures play an imperative role to improve health status

and human capital. Improvements in life expectancy, child mortality, infant mortality and death rates upgrade the health of population. Healthy individuals of a country engage themselves in productive efforts and thus directly increase the productivity.

4. Model Specification, Data and Methodology

4.1 Model

This study attempts to establish the link between public health expenditure and economic growth in Pakistan by pursuing Solow (1956) growth model that assumes a continuous production function linking output to inputs of capital and labor. The general Solow model is presented below:

$$RGDP = f(L, K) \quad (1)$$

We have augmented the Solow growth model to test Newhouse (1977) hypothesis for Pakistan. Extended Solow growth model is presented as under:

$$RGDP = f(L, K, X) \quad (2)$$

Here, RGDP is real gross domestic product (the dependent variable), L is the employed labor force, K is the real gross fixed capital formation and X is the vector of other variables i.e. real health expenditures and real workers' remittances. In economics, Cobb-Douglas production function is extensively used to characterize the input-output relationship. We also have selected Cobb-Douglas form which is engraved as:

$$RGDP = \alpha_0 ELF^{\alpha_1} RGFCF^{\alpha_2} RHE^{\alpha_3} RREM^{\alpha_4} \quad (3)$$

The econometric model is given as:

$$RGDP = \alpha_0 + \alpha_1 ELF + \alpha_2 RGFCF + \alpha_3 RHE + \alpha_4 RREM + \mu_t \quad (4)$$

To estimate the above model appropriately, we have to take its natural log. Finally, we have drawn the following specification to be estimated:

$$LRGDP = L\alpha_0 + \alpha_1 LELF + \alpha_2 LRGFCF + \alpha_3 LRHE + \alpha_4 LRREM + \mu_t \quad (5)$$

Where $\alpha_1, \alpha_2, \alpha_3$ and $\alpha_4 > 0$

The parameters of the model measure the elasticities of output with respect to respective independent variables and α_0 is the efficiency parameter.

4.2 The Data and Methodology

Variable	Description of Variables	Source	Definition
LRGDP	Log of Real Gross Domestic Product (in million rupees)	World Development Indicators	The market value of final good and services produced within boundaries of the country in one year adjusted for inflation.
LELF	Log of Employed Labor Force (in million persons)	Pakistan Economic Survey (Various Issues)	Number of persons who are on job out of labor force.
LRGFCF	Log of Real Gross Fixed Capital Formation (in million rupees)	Handbook of Statistics on Pakistan Economy	(i) Private sector investment measured by commodity flow, expenditures and financial approaches (ii) Public sector investment made by public sector enterprises, autonomous and semi autonomous

			and general government
LRHE	Log of Real Public Health Expenditures (in million rupees)	Handbook of Statistics on Pakistan Economy	Total public sector expenditures on health out of total public expenditure
LRREM	Log of Real Workers' Remittances (in million rupees)	Handbook of Statistics on Pakistan Economy	Flow of income earned by domestic persons across the border.

5. Empirical results and Discussions

5.1 ADF Results

Time series analysis faces the problem of non-stationary. There are several testing procedures to identify the unit root in time series data. One of the most reliable tests is ADF test that is developed by Dickey and Fuller (1986). We have employed ADF test to check the stationary and Table 1 displays the results of ADF test.

Table 1 about here

Table 1 shows the results of ADF test applied at level and first difference form. The null hypothesis in both cases considers the presence of unit root in the data. In level form, null hypothesis is not rejected at a 1 % level of significance and all the variables confirm the problem of unit root by considering intercept, trend and no intercept and no trend. Thus ADF test confirms the existence of unit root in level form and describes that all the variables are integrated of order I (1). As all the variables are on stationary at first difference, so we are employing Johansen-Juselius co-integration technique.

5.2 Co-integration Results

After checking stationary in data, the next step is to estimate the relationship. Johansen methodology is applied to find the long run

relationships. The results of Johansen co-integration are shown in Table 2.

Table 2 about here

Table 2 shows the results of calculated trace statistics and critical values at a 5% level of significance. The trace test confirms the presence of more than one co-integrating vectors. The null hypothesis in trace statistics states no co-integration between the variables. Trace statistics sturdily rejects the hypothesis of no co-integrating relationship at a 5% level of significance. This confirms the existence of co-integrating vectors and long run relationship between the variables. Likewise, trace statistics strongly reject the hypothesis of one co-integrating vector at a 5% level of significance. So, there is the possibility of more than one co-integrating vectors. However, trace test does not reject the null hypothesis of two co-integrating vectors at a 5% level of significance. So, trace test suggests no more than two co-integrating vectors and long run relationships.

Table 3 about here

Table 3 shows the results of maximum Eigen values at a 5% level of significance. The calculated maximum Eigen value at zero rank is greater than the critical value and the null hypothesis of no co-integration is rejected at 5 % level of significance. So, there is a possibility of one co-integrating vector based on maximum Eigen test.

5.3 Long Run Results

Johansen co-integration measures long run relationship between the variables. The dependent variable real GDP is used as a proxy of economic growth. The independent variables are employed labor force (ELF), real gross fixed capital formation (RGFCF), real public

health expenditures (RHE) and real worker's remittances (RREM). All the variables are in log form so the parameters of the Johansen co-integration provide percentage changes in dependent variable with respect to percentage changes in independent variables. Table 4 gives the results of long run relationship based on Johansen co-integration.

Table 4 about here

Labor is an important factor of production and is commonly employed in almost all types of production process. A large labor force means a large number of workers and a greater productivity. More labor employment generates more output in a country (see for example Chang and Ying, 2006). Efficient and healthy population remains busy in more working hours and positively affects output. However, in labor surplus countries it is noticeable whether this surplus of labor is potentially increasing output of the country or not. This depends on effective managerial and administrative skills of the people and on the available productive system of a country. This study incorporates the contribution of employment in economic growth of Pakistan. The variable employed labor force (ELF) captures the impact of employed people on real GDP in Pakistan. The results display that the employed labor force is positively affecting real GDP in the long run. The positive sign of employed labor force suggests that a one percent increase in employed labor force generates 4.42 percent increase in the real GDP. The results are statistically highly significant and are consistent with growth theories. The growth theories support the positive association between employed labor force and output. There are many views on that show the positive correlation between labor and economic growth. Firstly, most of the growth models also explain positive link

between labor and economic growth. For example, traditional neoclassical growth theories support labor and capital accumulation for economic growth (see for example; Solow, 1956). According to the Solow model, increase in labor quantity and quality through growth in population and human capability along with physical capital accumulation through saving and investment results growth. Secondly, the structural transformation theory of Lewis postulates the process of economic development through shifting labor from traditional rural sector to more sophisticated urban industrial sector. This process of generating employment opportunities for rural workers causes to increase the output of manufacturing sector and results economic growth in developing countries (Lewis, 1954). These theoretical justifications support the positive correlation between employed labor force and GDP and consistent with the following studies (See Bakare and Sanmi, 2011; Abbas and Peck, 2007; Wisniewski and Roe, 2011; Cole and Neumayer, 2006).

Capital accumulation in a country occurs when a nation saves a portion of its income and invests this amount for further production. New equipments, machines, materials and new factories augment the capital stock of a country and expand output levels. The direct injection of productive investment further accelerates growth in social and economic infrastructure like electricity, health, education and communication along with some less direct ways of investment such as improvement in irrigation system and use of improved fertilizer in agriculture productivity. This study attempts to find the possible link between capital stock and real GDP in Pakistan. Real gross fixed capital formation (RGFCF) is used as a proxy of investment. The finding shows a negative relationship between

RGFCF and RGDP in Pakistan. The coefficient of RGFCF measures the elasticity of RGDP with respect to variations in investment. The inverse sign indicates that a 1% increase in RGFCF leads 0.089% decline in RGDP. The findings are statistically insignificant. These results are also not in line with macroeconomic theories as theories suggest a positive association between investment and output². Contrary to this theoretical base of positive association between capital stock and economic growth, there may be several reasons behind the negative sign of RGFCF. Firstly, the reason may be the less productive physical capital in Pakistan. This idea is developed in endogenous growth theories developed by Lucas (1988) and Romer (1990). These theories highlighted the importance of complementary investment on social sector along with physical capital accumulation. These theories argued, lack of infrastructure, education, health and other necessary research and development achievements as the reason behind less productive capital in developing countries and as a result developing countries experience lower levels of output³. Secondly, another stream of thought is the “coordination failure” behind lower productivity. This thought is explained by the theory of “big push” pioneered by Rosenstein-Rodan, (1943) and the theory of O-Ring pioneered by Kremer, (1993). According to these theories, circular causation among different economic agents results coordination failure that in turns leaves all the agents worse off in equilibrium. This possibility may occur even if all the persons are well informed about the equilibrium. As a result, agents are unable to coordinate their behaviors and firms do not train workers due to the fear of workers transfer to other firms at a slightly higher wage. No one is trained and unskilled labor remains unable to employ the existing

capital efficiently. This lack of efficiency also restricts the worker to apply modern technology in production process and output is affected. Beyond these theoretical justifications, the result matches with literature as some empirical studies found negative correlation between capital stock and GDP (see for example; Ahmad et al; 2013, Nowbutsing, 2012; Khathlan, 2012; Kakar et al, 2011).

Health is a capital good and investment on health improvement increase individual's efforts to earn more income. Public health expenditures determine the availability of medical facilities in a country that in turn improves health level of its people. Healthy individuals in a country directly impact the productivity with their efficiency. This study mainly investigates the role of real health expenditures (RHE) to stimulate RGDP in a long run context. The result confirms positive long run association between real public health expenditures and real GDP in Pakistan. The coefficient of health expenditures (RHE) measures the elasticity of RGDP with respect to real health expenditures. The results are highly significant and demonstrate that a 1% increase in real health spending leads to a 0.77% increase in RGDP. Real health expenditures determine health status of population that in turn causes human capital formation and thus economic growth. Health and growth relationship is a reciprocal one. There are several possible ways through which health expenditures can result economic growth. Firstly, health expenditures upgrade the structure of health system and improve the quality of health services. Health services augment the quality of human resources for now and in future (Mushkin, 1962). Improved human resource works more efficiently and more output is produced. Secondly, health expenditures also raise the quantity of human

resources in the future by enlarging working life of individuals and individuals spend more time in economic activities (Karyadi and Scrimshaw, 1979). Thirdly, health expenditures can also improve the productivity of human resources by providing better food nutrition. (Aziz, 1995 and Croppenstedt and Muller, 2000). Fourthly, growth theories⁴ favor the role of human capital formation for persistent economic growth in developed countries. These theories permit increasing return to scale in production process by assuming that investment in human capital generates external economies and stimulates productivity and performance of individuals that offset diminishing returns to other factors of production (See, Galor and Zeira, 1993). Our result are consistent with the above mentioned justifications and empirical literature also support this positive link between health expenditures and economic growth (See Abbas and Peck, 2007; Elmi and Sadeghi, 2012; Hossein and Yazdan, 2012; Sülkü and Caner, 2009; Wisniewski and Roe, 2011 and Akram et al., 2008).

Over the last three decades, workers' remittances have remarkably increased and became an important source of foreign inflows in developing counties especially Pakistan⁵. An important empirical question is whether remittances also participate in long term economic growth. This study attempts to answer this question in case of Pakistan. Pakistan falls among the top 15 remittances recipient countries in the world with inflows 9.7 billions of dollars (Khathlan, 2012). This study investigates the relationship between real workers' remittances (RREM) and RGDP in Pakistan during the last four decades. The coefficient of workers' remittances measures the long run elasticity of GDP with respect to workers' remittances. The

negative sign suggests that a 1% increase in RREM leads to a 0.38% decline in RGDP. The results are highly statistically significant. The major reason behind this inverse relationship may be the typical attitude of recipients that results more conspicuous consumption rather than investment. Most of the foreign remittances are used to purchase luxuries product in Pakistan that fuels inflation in the country. There may be other reasons behind of this negative relationship. Firstly, given the compensatory nature of workers' remittances it is reasonably possible that household receives these payments with high marginal consumption. Secondly, if these payments are permanent in nature then recipients increase consumption only. This attitude can positively affect individual's welfare but it may not effectively influence the overall economy. Thirdly, less developed financial system also effect individual investment behavior and prevent the recipient person to invest. The more developed financial system of a country and the more incorporated a country is with other world financial markets; the lesser are the chances that workers' remittances will not stimulate investment and GDP. Fourthly, remittances may inversely impact labor force participation rate because these payments are perceived as transferred payments. If recipient households consider these payments as labor income then a moral hazard problem can arise. This problem diverts the financial resources towards more consumption and leisure and households decrease their labor efforts. Due to these all reasons workers' remittances can inversely impact GDP in a country. This inverse relationship also confirms the findings of other empirical studies (See for example Ullah et al., 2013; Jawaid and Raza, 2012; Barajas et al., 2009).

Table 5 about here

5.4 Error Correction and Stability Condition Results

Table 5 shows co-integrating vector and error correction results to show the stability condition⁶ for error correction analysis. If this sum is less than zero then stability condition is justified. There are two stages of stability condition. First stage is regarded as the necessary stage that requires the sum of the product of coefficient must be negative. Second stage requires that the sign of the product of individual parameters negative. Error correction verifies the significance of variables. The significant variable can be regarded as the source of correction for any data discrepancy in the long run. The variables RGDP, ELF, RGFCF and RREM are found insignificant but real health expenditure is found to be a significant variable suggesting that any data discrepancy problem will be corrected by the variable RHE. The variable RHE is justified by the stability condition that corrects any disturbance in the data in the long run.

6. Conclusion

This study mainly aimed to examine the role of health expenditures for economic growth in Pakistan. The study has used controlled variables such as employed labor force, capital formation and workers' remittances along with health expenditures. A long run relationship has found by utilizing co-integration analysis using time series data over the period 1972-2012. The variables real public health expenditures and employed labor force are found positively related with real GDP in Pakistan while the variables real workers' remittances and real gross fixed capital formation are found negatively related with real GDP. The study suggests that in order to achieve high growth rates in Pakistan investment in human beings is

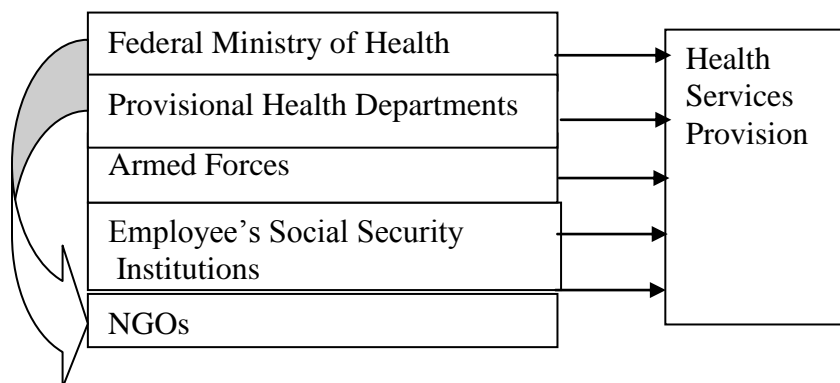
too much important. More government fund allocation to health sector improves the basic health deliveries and upgrades the health standards. Better health in turn, directly affects labor productivity, builds human capital in economy, and ultimately results with high economic growth.

Footnotes

1. See for example Whalley and Zhao, 2010; Khan, 2005 and Abbas and Mujahid-Mukhtar, 2000.
2. See Smith, 1776, Ricardo 1821, Harrod, 1948 and Domar, 1947.
3. See for example: Romer, (1986); Lucas, (1988) and Barro, (1996).
4. See Harrod, (1947); Domar, (1947); Romer, (1986) and Lucas (1988).
5. See Pakistan Economic Survey (2012-13;2013-14).
6. Stability condition is defined as the sum of the product of co-integration vector and error correction coefficients.

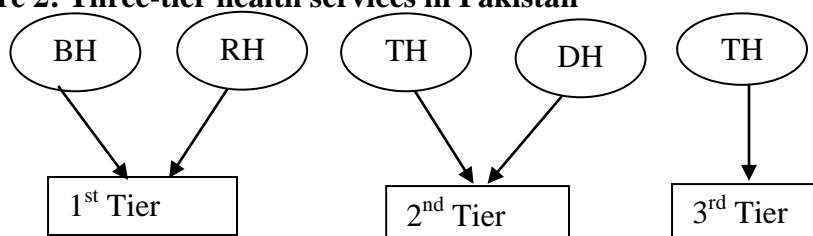
Figures

Figure 1: Health Structure in Pakistan

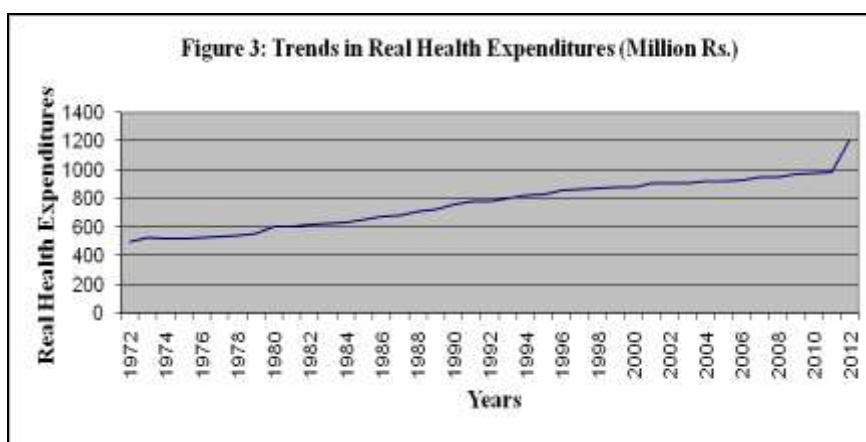


Source: Authors' own conception from different sources

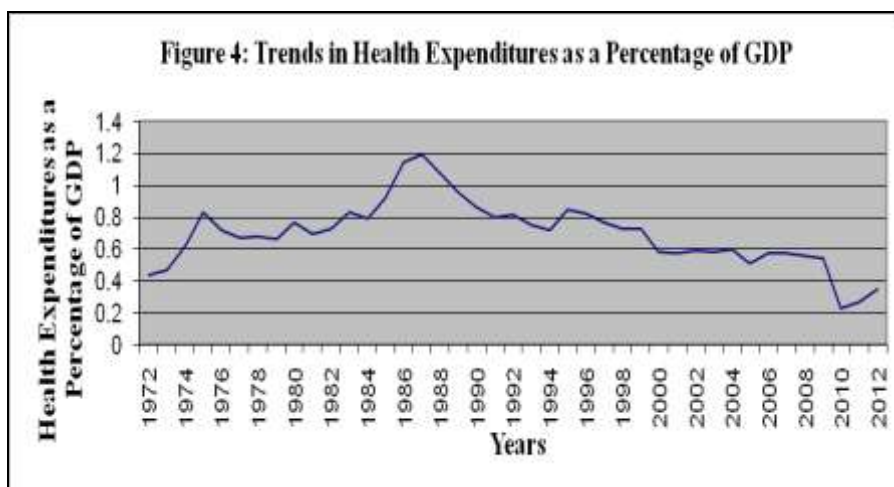
Figure 2: Three-tier health services in Pakistan



Source: Authors' own conception from different sources



Source: World Development Indicators



Source: Economic Survey of Pakistan (2012-13)

Tables

Table 1: *ADF Test Results on Level and First Difference*

Variables	Level						Remarks
	Intercept	Lags	Trend	Lags	None	Lags	
LRGDP	-0.89	0	-1.67	0	-1.94	0	I(1)
LELF	0.95	1	-1.84	1	2.61	1	I(1)
LRGFCF	-3.06	0	-1.99	0	2.45	0	I(1)
LRHE	-2.61	0	-2.87	0	1.25	0	I(1)
LRREM	-1.43	1	-1.93	0	1.89	1	I(1)
Critical values: 1% = -3.1050, 5% = -2.8991, 10% = -1.6117							
First Difference							
	Intercept	Lags	Trend	Lags	None	Lags	
LRGDP	-6.95	0	-6.77	0	-2.63	3	I(0)
LELF	-8.65	0	-8.75	0	-2.63	3	I(0)
LRGFCF	-5.76	0	-6.28	0	-5.25	3	I(0)
LRHE	-6.33	0	-6.50	0	-6.21	3	I(0)
LRREM	-4.82	0	-4.73	0	-4.62	3	I(0)
Critical values: 1% = -2.6256, 5% = -1.9496, 10% = -1.6115							

Source: Authors' calculations

Table 2: *Unrestricted Co-integration Rank Test (Trace)*

Rank	Eigen value	Trace statistic	Critical value	P-value
0	0.824268	136.7521	88.80380	0.0000
1	0.505626	68.93909	63.87610	0.0176
2	0.443041	41.46506	42.91525	0.0693
3	0.228867	18.63978	25.87211	0.3025
4	0.195913	8.503873	12.51798	0.2132

Source: Authors' calculations

Table 3: *Unrestricted Co-integration Rank Test (Maximum Eigenvalue)*

Rank	Eigen value	Maximum Eigen value	Critical value	P-value
0	0.824268	67.81298	38.33101	0.0000
1	0.505626	27.47402	32.11832	0.1663
2	0.443041	22.82529	25.82321	0.1185
3	0.228867	10.13590	19.38704	0.6043
4	0.195913	8.503873	12.51798	0.2132

Source: Authors' calculations

Table 4: *Long Run Estimates of RGDP Equation*

Dependent Variable: LRGDP

Variables	Coefficients	Standard errors	t-statistics
C	1.882937	-----	-----
LELF	4.421999	0.44699	9.89294
LRGFCF	-0.089184	0.32423	-0.27507
LRHE	0.777440	0.22212	3.50002
LRREM	-0.387875	0.05258	-7.37658

Source: Authors' calculations

Table 5: Stability Condition of Long run Results

Variables	C.I vector	E.C Coefficient	C.I coefficient*E.C Coefficient	Remarks
LRGDP	1	0.045603	0.045603	Insignificant
LELF	-4.422	-0.00038	0.00132	Insignificant
LRGFCF	0.089184	0.128365	0.01143	Insignificant
LRHE	-0.77744	0.683603	-0.53145	Significant
LRREM	0.387875	-0.025942	-0.10062	Insignificant
Overall Stability -0.57372				

Source: Authors' calculations

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Employee Retention Through Kaizen Culture - A Case Study of an Automobile Workshop Company

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Abstract

This paper discussed a case study, Employees retention through kaizen culture in automobile service provider organization of Pakistan. The purpose of this paper is to identify different causes of high turnover rate of employees of the organization and suggest appropriate measures to reduce it up to 30% by 2013, through development of Kaizen culture in the organization. Kaizen is small continuous improvement technique involving employees of the organization, resulting development of human resource, increase in satisfaction level of internal customers and improvement of internal process of the organization. Survey and brain storming techniques were adopted to identify different causes of high turnover rate of employees of the organization. A random sample of 60 employees from a population of 130 was selected for the survey. Toyota production system technique, asking why 5 times was used to carry out further deep analysis of root causes of high turnover rate. Pareto analysis was performed to prioritize the causes and then brain storming technique was applied to suggest solution of the vital causes. Low salary, lack of training and less chances of human resource development were identified as main causes of employee's high turnover rate. Employees suggested solutions were discussed with higher and middle management of the organization. Different

weigh tags were given to employees recommended solution. Company viability in % age to act upon the suggested solution, was solicited from the management. Ease for implementation of recommended solution for the company was calculated through multiplication of the weight age and percentage viability of the company. Option with maximum value to all was incorporated in company policy and reduction of 26% in overall turnover rate of the employees was observed. This case study was limited to automobile workshop only. Study of Kaizen techniques to solve other small nature of issues in other organizations is recommended for future research.

Key Words: Kaizen, Employee Retention, employee training, employee development

1. Introduction

Employees are the most valuable asset for any organization and their retention/availability is a guarantee for success of the organization ("Employee Involvement, Workplace Organization, Kaizen," 2006). There is a dire need for maintaining and developing corporate Kaizen culture in an organization for continuous improvement of its quality of service, development of human resource and reduction of waste in processes so as to bind the employees together as a team to move along with the company goals and objectives. Corporate culture is a collective programming of the mindset of its employees (Hofstede, 2003). It is a belief and ideas of employees about their goals, objectives and the ways adopted to achieve them within the organization. Each organization has its own norms and values. From these values organizational guidelines are developed, which further describe appropriate kind of behavior

expected from the employees in particular situations (Harles et al, 2001). Researcher asserts the need to maintain control over behavior of employees towards one another. Success of Kaizen culture in manufacturing organizations is well known and established around the world (Imai, 1997). On the other hand, the use of Kaizen culture in service provider's organization aiming at reduction in turnover is a new domain. Corporate Kaizen culture is one of the most strategic elements essential for continuous improvement of performance and success of the organizations (Mishra & Gupta, 2010). Employees have a tendency to maintain the status quo and resist change in general and corporate culture in particular (Recht & Wilderom, 1998). Employee's daily pattern of behavior and attitudes are interwoven with organization policies, practices and top management attitude (Harles, et al. (2001).

Organizations introduce Kaizen culture in their processes as per their business requirements. The organizations which do not change their culture with the passage of time cannot cope up with change in external environment. Internal customers of the organizations being dissatisfied with organization do not utilize their optimum capabilities for the continuous improvement of the organizations and remain in search of better opportunities and environment. Hence the organization turnover rate increases. Therefore there is a dire need to study the Kaizen culture of the organization, identify different reasons of high turnover rate and suggest measures to improve Kaizen culture of continuous improvement in the organization.

In this paper the focus will remain on how to reduce organization's employee's turnover rate through evolving a corporate

Kaizen culture. Involving employees of the organization in decision making policy as part of Kaizen implementation in an automobile service provider organization would certainly help in reducing the turnover rate. The aspects of Kaizen culture under specific attention were noticed in bringing improvement in the organization. For this particular case study, a service provider organization named XYZ in Pakistan, currently lacking a corporate Kaizen culture through involvement of its employees at all level, was selected. An informal survey of selected organization revealed that the employer has gained the reputation of a learning institute rather than an employee's developing organization. Mostly employees come, learn and leave the organization. An analysis of employees views on corporation reveal that the employees feel deficiency of homeliness, their involvement in policy decision making regarding human resource development of the organization. The organization has expressed a serious concern on high turnover rate of employees. XYZ Company is trying to improve its corporate kaizen culture by involving employees in decision making policies and continuous improvement activities of the organization. Fusion of Kaizen with organizational culture is of sole importance here. Organizations can make Kaizen part of their culture to develop a corporate Kaizen culture for the solution of small problems helping in continuous improvement of their organizations.

2. Purpose

The purpose of this research study was to identify the causes of high turnover rate of the employees of the selected service providing organization and recommend best viable measures to reduce its turnover rate up to 30 % a through Kaizen culture. The implementation of employee's devised solution in the case study

organization would increase the corporate kaizen cultural and reduce high turnover rate of the employees through satisfaction of its internal customers. Employees suggestions are owned and were given weight age in decision making policy regarding employees development, by the organization which can further improve the confidence level of the employees on their own organization. This case study will help management of the organization to develop kaizen culture in the organization to find out solution of small issues related to employees of the organization.

Limitations

This case study is limited to automobile workshop, a service providing organization working in Pakistani environment only. Other manufacturing as well as service sectors organization having different type of small issues can also be selected for development of kaizen culture in these organization for the continuous improvement and development of their employees.

3. Literature Review

Corporate culture is a complex construct. Various researchers have tried to encompass the construct by identifying factors that constitute it. Major characteristics of a corporate culture as highlighted by Harles, et al. (2001) are given as under:-

- Employees' contributions to enhance the company's performance are regarded properly and all employees are treated equally.
- All employees are given equal opportunities to exercise their full potential within the organization to enhance the performance.
- Full respect and reward is given in the organization to the

employees for their contribution in development of Kaizen culture in the organization.

- Company policies and procedures must be communicated to all and there should be no communication barrier among the employees and top management within organization
- Company leaders and top management must be strong enough with excellent sense of direction, purpose and moral character.
- Company must have competitive advantage among other organization regarding price, quality and service provided to their customers.
- Company must like and appreciate diversity in job. Employees from different sections should be made part of kaizen team members.
- Healthy culture within organization always lowers the employee's turnover rate.
- Company must ensure learning & training of its employees for their carrier and future enhancement.

Kaizen is a technique of continuous improvement of organization through the involvement of workforces at all levels (Imai, 1986b). Continuous improvement means an ongoing effort to improve the product, processes, work area, human resource development and improvement in culture of the organization. Kaizen is implemented in the form of small continual incremental changes, known as kaizen events through involvement of its employee (Singh & Singh, 2009). A cross functional team of 3 to 5 members from company employees work together on a pre selected improvement

activity or issue suggested by the employees in a targeted work area/ department for a limited time frame (Farris et al, 2009).

The concept of Kaizen originated in Japan in 1950, when existing confrontational management was acknowledged as a problem both at government as well as management level. Japan has a severe shortage of manpower after World War II. Japanese have decided to manage this problem with existing workforce through the implementation of Kaizen. New labor contracts sponsored by the government, governing life time job security of employees and guideline for distribution of benefits achieved through company development were made by the organizations (Imai, 1986b). These contracts became the background for all Kaizen activities in Japan and provided security and confidence to the workforce (Brunet, 2003).

Through implementation of Kaizen culture in the organization, loyalty and oneness of the workers has been increased toward their organization (Stone, 2010). Kaizen culture was initially introduced in Toyota Motor Company to improve quality, productivity, corporate kaizen culture human resource development and competitiveness of its product in the wake of increasing competition and globalization (Smalley & Katō, 2010). Since then, Kaizen has contributed enormously to the success of Japan manufacturing organizations (Ashmore, 2001). Now concept of Kaizen is gaining popularity in service organization as well. Kaizen is implemented through Kaizen events dealing with small issues related to corporate functioning. Success of each event increases employees morale (Imai, 2007). After successful implementation of Kaizen in Japan now this philosophy is widely acknowledged throughout the world and being implemented in service organizations

as well. Employees use different tools and techniques, e.g brainstorming, PDCA Cycle, 7 Basic QC Tools etc to solve the small issues related to corporate functioning. Kaizen umbrella presented by Imai (1986) showing varieties of problem solving tools and techniques is reproduced below:-

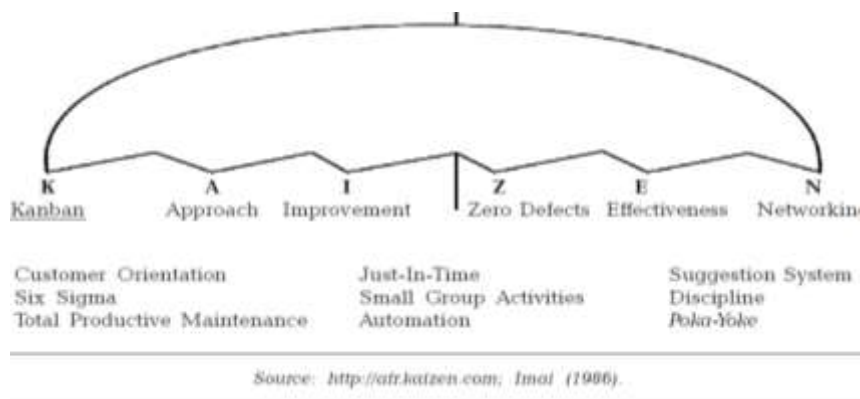


Fig1: Tools & techniques under the umbrella of Kaizen

4. Brief history of selected company

The selected company was established in 1991 and having 3-S dealership of an automobile manufacturing organization in Pakistan. It has vision to be most respected and successful organization, delighting internal as well as external customers with a solution in automobile industries with best people and best technology. The selected company has mission to provide means for safe and sound journey to its internal as well as external customers. The selected company has 112 sq yards of company area and total of 130 employees including 16 certified technicians 3 service advisors. Selected company is well organized and best located service providing organization among many other private sectors organizations which are providing automobile repair services in Pakistan. The selected company had problems of high turnover rate of employees from 2006 to 2012. It has lost its 15-20 valuable internal

customers each year. Causes of high turnover rate of internal customers identified through brain storming of kaizen team were, the lack of salary, lack of training, lack of documented process, work diversity and non involvement of employee in decision making policies regarding employees development of the organization. The management has decided to satisfy internal customers through development of Kaizen culture in the company. The selected company has targeted to decrease turnover rate of its employees up to 30% in one year through involvement of its internal customers in decision making policies of the company. For this purpose, a cross functional kaizen team was formulated from different sections of the workshop. Company management has set objectives for kaizen team to suggest measures in order to decrease turnover rate of internal customers up to 30% by 2013.

5. Research Methodology

5.1 Sample Selection

The selected organization was having a total of 130 employees in different categories and sections. Out of these 130 employees a sample of 60 employees from different sections and categories were randomly selected for survey/ interviews. The questionnaire was served by the researcher in person along with pre selected kaizen team of the company. The employees were briefed about the idea behind the survey and filling the questionnaire. To ascertain the response, selected employees were interviewed after the survey through questionnaire. The data was quantified and analyzed accordingly.

5.2 Data Collection and Analysis

Mostly, tools and techniques used in Kaizen concept are quantitative in nature; hence the results are also quantitative. But when it comes to dealing with the intangibility of services industries and particularly constructs like moral value of an employee, the problems and answers become more often of descriptive nature (Lee, Dugger, & Chen, 1999). So in this research survey technique was applied to get the data for analysis and for the solution of problem. In service providing company, Problems are usually in texts forms and the probable remedies are also intangible. This makes the fusion a bit more difficult than in manufacturing process. The data for this purpose has been collected through survey of employees of the selected company on single point questioner. Employee Survey regarding different causes of employee's low morale / high turnover rate was carried out. Different solutions to highly recommended causes were finalized through brain storming and discussions with higher and middle management of the company. Different weigh tags were given to employees recommended solution. Company viability (in percentage) to act upon the given solution was also asked from the management. Ease of implementation of recommended solutions for the company was calculated through multiplication of the weight age and percentage viability of the company. Option with maximum value to all was incorporated in organizational culture.

6. Results & Discussions

It was noted that change in corporate culture is a very difficult process as it involves changing of the very mindsets of people. To identify the different causes of high turnover rate of employees in XYZ Company, tool "Ask 5 times why this happen" under Kaizen umbrella was used. (Imai, 1986a; Lander & Liker,

2007; Lee, Dugger, & Chen, 1999) and a brain storming were conducted from selected 2-3 representative from each department and middle management of the company. The results of the survey question “In your opinion what are the causes of high turnover rate of employees in your organization” are shown below:-

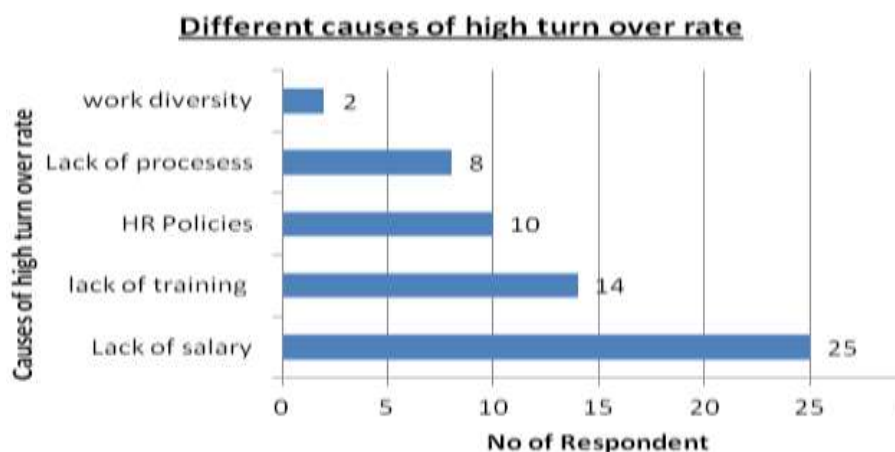


Figure 2: Different causes of high turnover rate of employees in XYZ Company

The main causes were lack of salary, less chance of enhancing their skill level due to lack of employees training in the organization, non involvement of employees in decision making policies regarding HR development, lack of standard working procedures and diversity of job in the order of priority of question asked. Again these causes of high turnover rate of employees were reconfirmed through survey carried out from 60 employees of the company. Pareto analysis was carried out to accord priority to problems highlighted by the employees in the survey. Pareto analysis indicate those 20% causes which are influencing 80% on employee's turnover rate are low salary and lack of training in company. The Pareto analysis of the survey results are shown in figure:-3

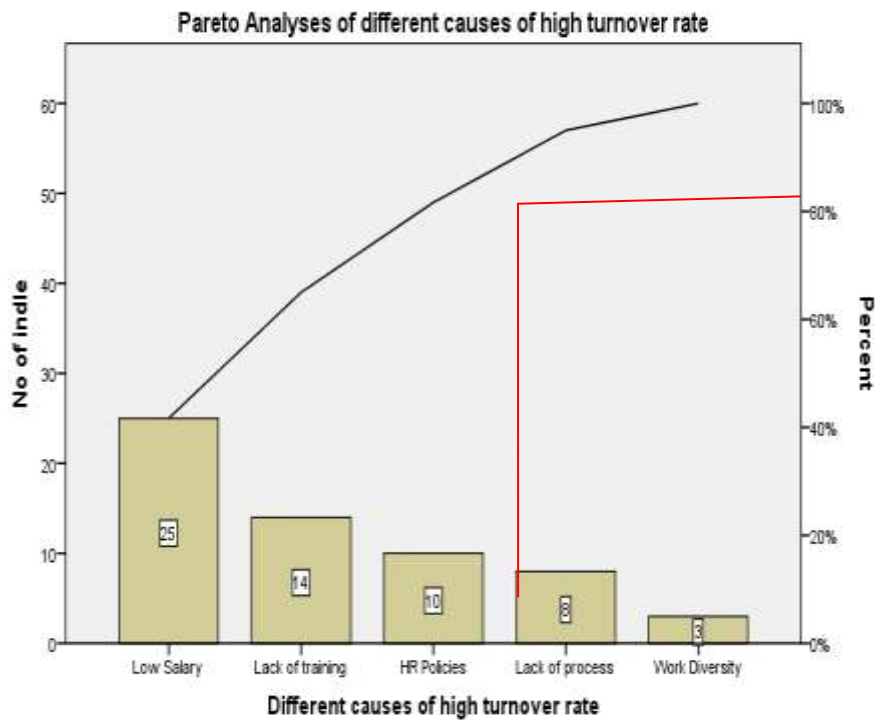


Fig 3: Pareto analyses of different causes of high turnover rate

The Pie chart shows almost 42% employees are of the opinion that the salary structure is the main cause of high turnover rate of employee in XYZ Company. Focusing mainly on this can remove half of the complaints of the employees and has the potential to reduce this high turnover rate.



Fig 4: Percentage Breakdown of Survey Result

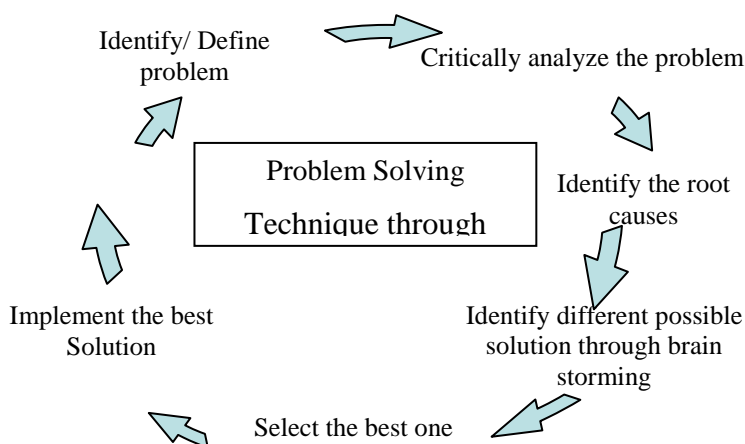


Fig 5: Problem solving procedure at XYZ Company

Possible solutions were discussed with higher authority of the company. Increase in salary was identified as a prime issue for management. A small company having almost 130 (one hundred and thirty) employees cannot afford to raise the salaries of all employees. The problems related with salary structure was a tedious and controversial one as reconsidering the structure for even one person's salary may instigate a chain reaction in all other employees. For an alternate solution another survey from 60 selected employees was

carried out, asking for alternate solution of problem and to give weight age in percentage to each alternate solution. They were also given an option to grade recommended option for ease of implementation for company administration. Involvement of the company employees in decision making policy is always appreciated by lower and middle level workers of the company which is basic philosophy of Kaizen(Cho, 1995). Survey for alternate solutions that can have remedial effect on the employee's turnover rate was carried out. The result of the survey along with the implementation viability for the organization is given below.

5 Why	Alternates	Employee Weight-age	Implementation Ease	Viability
Why-1	High level Training of workers	70%	90%	63%
Why-2	Designation Promotion	40%	60%	24%
Why-3	Interest Free Loans	50%	30%	15%
Why-4	Clubs Memberships on Subsidized Rates	30%	20%	6%
Why-5	Fuel Allowance	80%	5%	4%

Table 1: Survey Result for alternate solution to salary structure issue

It can be concluded from the above table that high level workers training through involvement of employees in continuous improvement activities and foreign training tour is the best temporary remedial solution to cater for the salary issue with employees. The viability is high as selected organization purchases a lot of equipment / spare parts from its OEM operating abroad and in different cities of

the country, has been happy to offer trainings free of cost. There is a need to develop sustained mechanism for proper training of employees inside the country as well as from abroad. With the implementation of employees suggested solution in the workshop company turnover rate of employees was decreased up to 26 %.

7. Recommendations for Future Research

The solution proposed is of temporary nature. Though there is a need for proper salary structure revision which is a long term and tedious process and needs to be address in near future. Employees should be involved in all policy making decisions regarding human resource development of the company. Open communication among the management and shop floor workers must be ensured. All decisions about the routine functioning of the organization must be communicated to all workers at all levels as early as possible. Involvement of employees in small incremental projects related to employee's development must be ensured so that Kaizen culture can be introduced in the organization. Research regarding implementation of Kaizen culture to solve the small issues related to corporate functioning and development of employees from service sectors as well as from manufacturing sector organizations of Pakistan can be undertaken in future.

8. Conclusion

Kaizen is a one of the Japanese management technique which can be implemented for the solution of small issues related to human resource development and continuous improvement of the organization. This improvement through kaizen can be in overall performance, HR development, work area improvement and efficiency enhancement of the organization. This case study will

provide guide line for the organizations to solve their small issues related to human resource development and daily routine functioning of the organizations through employee's suggestions. The solution derived through employees involvement, have yielded desired result i-e reduce the turnover rate by 26%. The sustainability of human resource development through Kaizen may remain an issue. The results however, confirms that the employee's involvement in any management or service process improvement related issues can produce desired results and turnover rate of the organization reduced up to desired level.

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Empowerment on performance and motivation: A case study in FMCG

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Abstract

Objective of the study is to analyze the consequence of empowerment on employee performance while the mediation effect is motivation. Even though empowerment can be measured thorough several methods but the current study has used autonomy, responsibility, access to information and span of control as the different dimensions of employee empowerment. The researcher has conducted this survey due to the fact that approximately all companies functioning in FMCG diligence are multinational; mostly have practice to follow the same practices which they have in their parental company minor changes. For this purpose quantitative technique of research has been adopted and got 96% response. Findings of the study show a positive relationship between employee empowerment and performance of the employee. Furthermore, mediating effect of motivation has significant effect. Organizations are continuously in pursuit of obtaining the distinctive ways for enhancement of the employee performance of the employees; this study would assistance to investigate how an ample effect of empowerment would support to upturn the employees performance.

Key words: Empowerment, Employee performance, motivation, FMCG sector

INTRODUCTION

The Empowerment is defined as redistribution of power and information within an organization that enables employees to perform their jobs more efficiently and effectively (Bowen & Lawler 1992). It helps to make employees more responsible for their actions. Job satisfaction is satisfying emotional state when employee prefers to stay with organization. Brief (1998) relates motivation to aptitude and explain in way that if one's job is attractive, compensation package is adequate and has chance of further growth such type of symptoms are shows explicitly that the individual is motivated toward his job. This study is designed describe the impact of Employee empowerment on Employees performance in FMCG sector while mediating role is motivation. This study is very important in context of Pakistani Culture. Today in different organizations where empowerment related issues are seen, unethical practices are observed commonly. Top level executives and corporate practitioners want to hold all power. In Pakistan all types of setup including governance, management, service, banking and stock exchange are facing empowerment related issues. The objectives of the study are to find out the relationship between employee empowerment and performance and to analyze the mediating role of motivation on employee performance.

This Study would help Organizations to measure work related problems where very inadequate knowledge is available which represents motivation as mediating role between empowerment and employee performance especially in FMCG sector of Pakistan. It is found that very limited studies has been conducted on FMCG's sector , so the present study is going to address this gap and in this regard

manager will find out managers of FMCG in Pakistan could not find out the ways to enhance the performance of employees. Composition of FMCG's in GDP of Pakistan is 24.6% (Indexmundi, 2013). Empowerment is one of the core components of job design, among one of for employee performance. Employers and company's managers are always looking for opportunities and alternatives which can increase employee satisfaction because performance of workers is dependent (along with other things) on the level of satisfaction on job in the organization. Meanwhile company's objectives and mission are also dependent on employee's performance. Designing jobs and roles appropriately is very imperative in enriching the performance of employees, which is addressed through empowerment. So this motivates the researcher to test how empowerment can enhance the performance of the employees. It also provides organizations to increase their worker's motivation through adopting empowerment and also complete Insight that how organizations can get maximum performance to make their members empowered to create a Positive Work Environment. Organizations which are working in Pakistan are facing major empowerment Issues , nobody here wants to hand over power , everyone wants to keep decision making power in his hand and the result is delaying in decision making which may lead to lose an opportunity or a severe loss. In this regard the present study addresses this sensitive issue to cater to the needs of employees for increasing their satisfaction level which in turn would enhance their performance at job.

LITERATURE REVIEW

Empowerment:

Most of the organizations were facing criticism regarding domineering style of management and instead of it greater emphasis upon participation and autonomy over work design. So scholars focus on loyal and flexible workforce to meet the changing and chaotic global trends. For this organizations need to change the command and control hierarchal patterns with in organizational structure.

Empowerment has been an important notion for researchers and managers since the concept emerged in 1980 and after rigorous researches done in this field, it has been accepted that empowerment is a persuasive way to enhance job satisfaction and performance (Michael et.al, 2004). It is a way to job satisfaction (Moye & Henkin, 2006). Empowerment is a source of gaining advantage over critical issues through workforce (Rappaport, 1987). Empowerment can be measured through willingness to accept the responsibility or task and willingness to employ power designated through the job role in a flexible manner with ultimate objective to meet the needs of customers (Michael et.al, 2004). Willingness to accept responsibility is termed as the degree to which employee recognize his job role and task to complete his designated assignment and willingness to employee designated power is termed as the ability to use the designated power which is allotted to employee by default due to nature of his assignment.

Literature broadly discusses two main approaches of empowerment regarding theoretical perspective including psychological and rational perspective. Psychosomatic prospect study employee empowerment regarding his subjective evaluation or perception of being empowered. According to Spreitzer (1999) employee is empowered when he has meaningful job task, have

flexibility to do designated work and willingness to accept responsibility.

Rationale perspective focuses on how empowerment is affected by organizational structure. It focuses on information sharing with employees so that they can base their decision on the basis of given information and hence could participate in decision making process. Empowerment requires job related knowledge on employee part that ultimately increase job satisfaction and performance. Briefly rationale perspective deals about the autonomy to perform work in most effective manner so that his satisfaction could be increased at one end and on the other end organizational productivity get enhanced.

One of the real example of empowerment implication was studied by Balasco and Stayer (1994). According to them the owner at the first place gave autonomy to workers to do their job in best possible way with the expectation that overall satisfaction would rose up and ultimately company would be profitable, but the results showed contradictory findings as employees felt that they were burdenized with management role also. Positive implication of empowerment was established when employees were given specific information and having job related knowledge. Many researches validated the positive relationship between empowerment and access to information. Employees when given job related information and autonomy over work actually experience empowerment that leads to high job satisfaction.

According to Pierce et.al (1989) employee empowerment flourishes the job satisfaction of employee positively which enhance the tendency of employee to perform his job task willingly.

Empowered behavior is flourished among employees when it's based and tied with performance and in accordance with the specific needs of the employee so that it becomes valuable for him. Empowerment is positively related to behavioral outcomes of employees specifically job satisfaction (Yim, et. al., 2008).

On the other hand empowerment was discussed as integrative approach by Sanjay Menon (2001) on Canadian and Quebec firms' employees and concluded that a major contributor in these employees satisfaction with their work was empowerment in the form of flexibility on job task and hence designated power due to job role. Bogler and Somech (2004) concluded the same results with reference to empowerment and employee job satisfaction and stated that empowerment is essential in contemporary new paradigm of work.

Tony Carter et al (2010) analyzed that when management empowered employees they become more productive and their performance increased. It was found that those having strong communication skills were more successful and with more responsibilities employees were more committed and had high morale. Kruja and Oelfke (2009) analyzed that empowerment had positive impact on job satisfaction in the hospitality industry. In start they analyzed the impact of self directed work teams, communication and autonomy on the empowerment of front-line employees and found it very positive than they examined the effect of employee empowerment on job satisfaction and found it a very effective strategy for achieving competitive advantage over competitors that ultimately increased those employees' job satisfaction and also gave assurance of high performance and success. Fatima, Hussain and Imran (2011) analyzed the impact of organizational intrinsic rewards in form of

empowerment on job satisfaction and found it positive.. Ford and Fetter (1995) analyzed the empowerment and found it a very effective organizational strategy. Empowerment is sharing with employees the information and knowledge that enables them to understand and contribute to organizational performance and giving them the decision making authority that affect organizational results. It can be concluded that empowerment strategies positively related to increase employees job satisfaction towards the company, the use of this empowerment strategy with all its essence will enable them to enhance their job knowledge and intellect and find ways to continuously improve what they do in their jobs.

Motivation:

Butkus & Green (1999), Motivation is from the word motivate which make a sense to push. Move forward for fulfils needs. Baron (1982) says motivation is a process involves force which gives energy to our behaviour which leads to achieve specific goals. Many researchers argue that motivation is goal oriented behaviour. Kreitner & Kinicki (2001).discusses motivation as such psychological process. which grounds. stimulus, determination actions which are goal oriented. Motivated person is aware of specific goals and their achievement in a specific way and must reach on goals in a particular way. He uses his energy to achieve those goals. (Nel et al., 2001).motivated person if he knows the accomplishment of the goals he will be fits to achieve goals that he wants to achieve. If manager role is to guide employees about organizational agenda for achieving goal he must educate those psychological processes which are the root causes of direction of goals fortitude, resolution of actions. Roberts & Ottens, (2005). Mo1 (1992), discuss motivation and

movement. Movement refers to carry out task for compensation which activate human mind to work. Motivation mean full involvement on personal² task with commitment and happiness .motivation makes a person induce for work and motivation leads to make a person pleasure to work. Researchers suggest that motivation is means for success individual involved into it feels happy completing the task. And willingly excited do not for compensation. Motivation encourages an individual to achieve project. LaMotta & Schiffer (1999).many facet of motivation in an organization .A person motivated by these facet may not be able to motivate another person the reason is that there are many other factors are affecting different employees. Motivation levels. Organization give their employees the environment through which they can improve and enhance their motivation. (Baron, 1983).An organization is good environment and work setting source. Only need to know that people are having motivational behaviour. Lawler (2003) discuss there are various theories on why people prefer to adapt certain careers why they focus on reward .feel satisfied or dissatisfied with their work and rewards. There are many vibrating questions makes suppositions and hypothesis to be investigated a lot of literature about motivation clear some issues. An individual and organizational goals are connected with employees work motivation .individual use motivation to carry on their personal goals and put their effort to achieve with organizational objectives which meets their own personal goals it proves that organizational and individuals personal goals have direct relationship . Robert. (2005) it is only possible that a manager job to ensure that he can take work from employees if they are self-motivated towards work not any bound for them. Manager is not

suppose to motivates employees the employees must motivate themselves to work hard the major services organization wants motivated employees it does not matter they are skilled. Unskilled many companies wants motivated employees and it is challenge for management in this competitive environment to have motivated employees organizations wants from their worker be motivated and positive behaviour towards work which is important for organization success. Cheng & Hamid (1995) Petcharak (2002) Human resource manager work is to make employees work pace motivation. Function of HR manager is to support general manager to keep employees satisfied with their jobs another goal of services manager in organization to develop motivated employees. Promote spirits for their related work. Employee work spirits, such as peers organizational, work environment is defined as employees are aware of all aspects of job. Performance will be poor if workers are not satisfied. Happy work place dissatisfaction makes company and employees performance towards low direction and increase turnover. Mosley, Megginson, and Pietri (2001) argues three levels of employees motivation. Effort means how tough an individual eager to work on behaviour persistence; means .An individual ready to behave without take care of barriers.

Daschler & Ninemeier (1989) investigate what employees seek out from work environment. Their discussion tells some of employees related concerns which were found in place of strategies to employees' motivation. Individual employees are coming from different background with different education experiences different families classes are all the character tics in which their need is

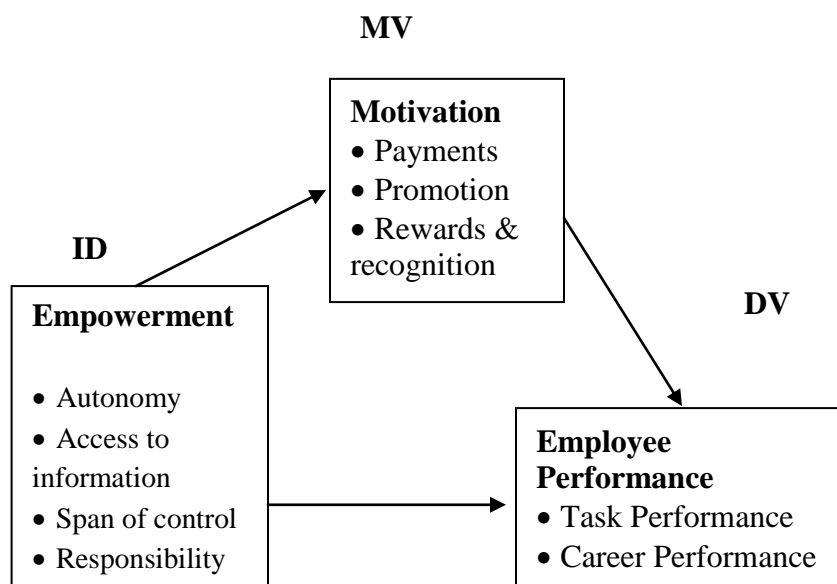
placed.....the important attention of employees to gratify their personal needs ambitious and goals. And employ wants to satisfy their basic needs associated to survival and security, a desire to belongs to make positive feeling from within and from others. Employ desire wants fair and regular company policies which are affecting them. Rehman (2007) in Pakistan measures effect of human resource strategies. Pay, promotion, train on job satisfaction. They concentrate on work force of service based Pakistani companies. They suggest from their research that pay, promotion, training had significant impact on job satisfaction. They argue that in Pakistan it is very important to give more worth to pay and promotion instead of training. In Pakistani based organizations the considerable differences are founded between male and female employees in motivation and job satisfaction. They report that in Pakistan service industry make remarkable changes for the last few years. Because of these changes their transactions are increased and there services are also increases. Pakistani bank educational institute, telecommunications form are facing rapid turnover (Ahmad, Rehman, and Saif, 2010). People can be motivated if there are provided the requirements which satisfy their needs. Many factors are involved and change by the individual requirements and basic need to be perfect for recognition, self-esteem. Researchers indicated that individual faces factors in many level, manager, must built their basic theories related to motivation (Cheng, 1995).

Human resource policies which increase the employee involvement aim in providing worker the opportunities in a role in input of decisions making, incentives and bonuses are given to increase the

efficiency and effort to utilize the required skills (Berg, 1999). Employees efficiency and productivity are in a straight forward relation with their motivation Which is given to them by their managers in the form of bonuses and benefits. Employees encouragement leads to increase in the performance (Malik, Ghafoor & Naseer, 2011).

Incentive programs and rewards foster employee work create sense in theory there is impel inseparable appeal. Most of the people concur that the tasks work in different degrees if the requirement or test, the workers can impact the elements on which the bonuses are based, the assessment is purpose beyond upbraid, and there is specification that the rewards will present as promised. Although these projects are common factors of reward in private organization for project, they must be made and part of the total human resources management plan, their progress is even more complicated (Kurtz & Moser, 1994). Workers pleasure and efficiency and aims that should force in order to complete the goals of organization, whether those decisions are taken through a traditional or non-traditional approach. However, manager should favor the difference of employee's attitudes, emotions and reasons and professionalism while working with each employee to embody his/her needs. Moreover, as commercial interests expanded, Lawrence (1975) accepted individual concerns should be modified to high level of motivation, spirit, and performance.

THEORETICAL FRAMEWORK Methodology



Hypothesis

On the basis of literature review following hypotheses are developed.

H1: There is a significant and positive relationship between empowerment and employee performance.

H2: Employee performance would be significantly enhanced if there is mediating role of motivation.

Sample and data collection method

All population for this knowledge consists of the employees of FMCG sector organizations in Pakistan. The major purpose of this research is to explore the influence of empowerment on workers performance and the mediating result is encouragement. This survey is conducted due to this reason that about the companies working in FMCG industry are multinational; these are following the different processes and policies. For this aim, quantitative method of research

was applied and got 96% responses out of 150 sample size. In addition to it, the questionnaire has two parts, in 1 part the respondents were questioned about the demographic features like questions on gender, age, department and duration. 5 point Likert scale was used to gather the opinion of employees. The employees were acknowledged shortly about the significance of this research before they were given the questionnaires to get them filled.

Measures

All variables in the research area were measured on a five-point Likert Scale ranging from Strongly Disagree (1) to Strongly Agree (5). The data were collected through Questionnaires. Empowerment was measured using Hartline & Ferrell, (1996) 5-point Likert scale. Motivation was measured using Drain and Greill (2007), and Employee Performance was measured by using Wiedower (2001).

Reliability and validity

Reliability was measured through Cronbach's alpha that is 0.826 for the whole questionnaire (29 items)

Statistical Tools

After collecting the data through survey questionnaire, the responses were analyzed through Statistical Package for Social Sciences (SPSS). Pearson Correlation & Regression is used for data analysis.

Factor Analysis

Table 1: Communalities

	Initial	Extraction
ATI1	1.000	.700
ATI2	1.000	.631
ATI3	1.000	.562
ATMY1	1.000	.639
ATMY2	1.000	.741
ATMY3	1.000	.651
RSP1	1.000	.841
RSP2	1.000	.764
SOC1	1.000	.740
SOC2	1.000	.812
SOC3	1.000	.858
PAY1	1.000	.805
PAY2	1.000	.667
PAY3	1.000	.763
PAY4	1.000	.668
PRMTN1	1.000	.840
PRMTN2	1.000	.855
PRMTN3	1.000	.847
RndR1	1.000	.835
RndR2	1.000	.860
JP1	1.000	.757
JP2	1.000	.798
JP3	1.000	.775
JP4	1.000	.619
JP5	1.000	.715
JP6	1.000	.795
JP7	1.000	.828
JP8	1.000	.660
JP9	1.000	.765

Extraction Method: Principal Component Analysis.

Table 2: Demographics

	Description	Percentage
Gender	Male	93.1
	Female	6.9
Education	Bachelors	32.6
	Master	65.3
	M.S	2.1
Department	Marketing	54.2
	HRM	10.4
	Finance	35.4
Tenure	1-5	64.6
	5-10	32.6
	10-Above	2.8

Table 3. Correlation Analysis

	Job performance	Motivation	Empowerment
Employee	144	.	
Performance			
Motivation	144	564***	.413***
Empowerment	144		.361***

Ns = not significant ($p > .05$), * $p < .05$, ** $p < .01$, *** $p < .001$

Regression Analysis

Table 5 Regression

R ²	.31
F	64.16

Table 6 Mediation

Predictor	B	R ²	Sig	T	F
Emp → E.P	.35	.17	.000	5.40	29.22
Emp → Mtn	.31	.13	.000	4.61	21.26
Mtn → E.P	.55	.31	.000	8.14	66.34
Emp → Mtn → E.P	-.33	.51	.001	-3.04	64.16

DATA ANALYSIS

The Cronbach's Alpha 0.82 it means our questionnaire is accurate and data can be further analyzed to achieve the research objectives. According to the demographic table 3 it is mentioned that many of the employees lies in between 21-30 which is 38.9% while the respondents at the age of 21-25 are 26.4 percent. In this table 1 we analysis the demographics through frequencies of their occurrence. Which also shows that the major work force in FMCG's sector lies between 26 to 30 .Table 5 as the correlation table shows the influence of empowerment on Job progress is 0.36*** which is important at level of .001. On the other side empowerment is also very existing impact on job performance according to our analysis which is 0.413*** that also be significant at level of .001. While empowerment has correlated with 0.564*** which is also significant at .001 level. Table 5 represent R² which shows about the model fitness which is 0.31 that is to point out that our variable empowerment measure 31% of employee performance, it means there are some also other variables which has impact on significant impact on employee performance. F value is 64.41 which is also important impact.

The consequences of the 1 hypothesis based on the parallelism were positive (0.413***). Thus empowerment has positively and significantly connected with worker efficiency. Based on the second hypothesis (H2), further more to study the influence of mediating variable motivation Baron and Kenny (1986) suggested 3 step procedure which was taken for the analysis. Zboja and Voorhees (2006) have also used the similar process to prove the role of mediating impact in their research studies.

Thus according to the process it has 3 steps , the 1 one is the important test between the relationship and independent variable (empowerment) and mediating (motivation) , in the 1 step the relation was found positive and significant ($p > 0.001$) . The next step desired a test of relationship between the independent variable (empowerment) and the dependent variable (Job performance). So a final point, in the very next step (3rd) the dependent variable demanded to be returned on the mediator. To legalize mediation the independent variable and the 3rd step should determine the mediator to be particularly concerned to the dependent variable and it is very important that the impact of the independent variable on the dependent variable should be less than the influence it had in the 2nd step. So in our case it proves full (-1.04) mediation.

FINDINGS AND DISCUSSION

It is commonly understood that employees and employers both do not think empowerment as a necessary factor to be considered worthwhile. The concept of empowerment is not being implemented in Pakistani society, in a country like Pakistan where the unemployment rate is increasing day by day and increasing rate is 7.6% (trading economics, 2013) .The most important encouraging

accepts is rewards place of progress in career and to a limit it is factual. On the other hand the work environment is changing very rapidly, and it has affected the tendencies in Pakistani organizational cultures. It is analysed that people are interested to learn and grow, they are demanding for independence in work related decisions, and also struggling to refine their skills with trainings and progressed courses and disclosure, though the ratio is very low but it is increasing as the time passes.

Our research results display that empowerment has enough role in worker encouragement and performance in FMCG industry of Pakistani. Practically organizations have to make suitable to cultural designs of the host country, the multinationals working in Pakistan have changed their organizational traditions and processes as well. In a gathered society like Pakistan people do choice jobs with significance and freedom, highest no of reactions highlighted that employees favor to have freedom in their work which is the self-determination in completing works. Job autonomy submit to the degree any worker has freedom to map his or her tasks , take decisions according to the time and situation and find out all those means to get their work aims.

LIMITATION AND FUTURE DIRECTION

The conducting research has tried to analyze the effect of empowerment on employee progress and the mediating role of the motivation. In order to complete it, data was gathered from FMCG sectors employees within two cities Rawalpindi and Islamabad of Pakistan. But future research can be progressed in other cities of Pakistan. Furthermore, the design can be tested with other mediating variables like employee satisfaction etc. the respondents was middle

level employees but the future research can moved forward with respondents of 1st line and executives level managers.

CONCLUSION

Since the start of management literature, the topic of empowerment has been under discussion. However there have always been questions asked about the adequate way of job design. An attempt to know empowerment effect in Pakistan was carried out and the paper suggests that management of any departments must consider employee's view in designing job detail of each vacancy and further more stresses should be on empowerment factors of the job concerned ideas in the given community. In future may other studies can be conducted with other mediating and moderating variables, and the model may be tested on other industries.

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