TRANSFORMING INTO A LEARNING ORGANIZATION THROUGH HR INITIATIVES AND MANAGERIAL FACTORS: A CASE OF AVARI HOTEL, LAHORE

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Abstract

This study explores the HR initiatives and managerial factors that contributed towards making Avari Hotel a learning organization and ensuring its continuous success and rapid expansion in the International world. In-depth interviews and analysis of existing organizational documents and secondary resources were referred in this case study. The main findings of the study attributed its success to the consistent hard work of the owners and senior management in meeting and maintaining the international standards of five star hotel properties while sustaining and developing its own unique selling elements distinguishing Avari chain from its competitors. HR initiatives for employee retention and the functional role of HR in areas as ensuring safe, healthy and happy workplace, employee care, communication, recognition, work environment and culture, recruitment training and development has played a major role in transforming it into a learning organization. Although the strategic management at Avari Hotel, Lahore is in action to address the environment and competitive pressures, there is a strong need that management practices at Avari remain aligned with their business objectives in order to remain a force in hospitality industry and retain their market position for strong, unique and favorable brand associations.

Key Words: Hospitality Industry, Avari Hotel, Learning Organization, Success, Rapid Expansion

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1. Introduction

Hospitality Industry is present in Pakistan since its independence in 1947 and is contributing to a larger proportion of country’s economy. At first there were not many hotels to start with but as the time passed, a gradual establishment of local and international hotels showed a huge potential for hospitality industry in Pakistan. Avari Hotel, Lahore is one of those early local hotels that rose as a prominent hotel chain, took their business to the International world, and set new trends and standards of growth for the hospitality industry of Pakistan. In short, the top management teams of Avari Hotel created their own future by sustaining their creative approach to business through a continuous learning process. In the present study, those HR initiatives and managerial factors are explored that contributed towards making Avari Hotel a learning organization and ensuring its continuous success and rapid expansion in the International world.

Startups are not easy in any business, the establishment of a brand new hotel is in specific requires more because they struggle with the risk, fear of failure and success altogether. The most fundamental attribute require in the hotel industry is the discipline as a hotel works like a military at the management end and has to look fascinating and sensational on the front end. The startup of Avari Hotels, International chain from Avari Hotel, Lahore is a master piece of a great struggle, resiliency and a big vision. This great start up and continuous expansion gives rise to certain questions. First what are those factors that contributed in the development process and what are the initiatives that played important role in the maintenance of such a progressive timeline. Secondly how Avari Hotel, Lahore has become a learning organization and created its own future. The present study explores those HR initiatives and managerial factors that contributed towards making it a learning organization ensuring its continuous success and rapid expansion in the International world.
From a very humble beginnings growing up in an orphanage, the Late Mr. Dinshaw B. Avari carved himself a bright career in insurance sales, fast becoming the General Manager with Sun Life Insurance Company of Canada for Sindh/Punjab/Baluchistan/NWFP and Afghanistan. His determination and commitment also saw him become the first Chartered life Underwriter in Asia. Truly a self-made man and always ready for the biggest challenges, he decide to open a hotel, even though he had no experience of Hotel operations. Always the perfectionist, he threw himself and his wife Miss Khorshed D. Avari into six months intensive training and then acquired his first hotel, the Bristol Hotel, 1944. Later they signed management agreements with Beach Luxury Hotel and Pine’s Hotel in 1948 and 1961 respectively.

In 1961, the late Mr. Dinshaw B. Avari bought the Nedous Hotel and resumed that property with a new name of Park Luxury Hotel. This step taken by Mr. Dinshaw B. Avari was of great importance because it has lead Avari family to build their own hotel chain as Avari Hotels. In this way, the founding stone of Avari Hotel, Lahore was laid in 1973. Later in 1978, after a management agreement with Hilton International, Avari Lahore was officially inaugurated. A franchise agreement of Avari limited was formed with Ramada Renaissance Hotels International in 1988. After the ending of this agreement in 1994, Avari Hotel, Lahore is operating under the current name since then. Very few Lahories are aware of the fact that Avari Hotel Lahore is located at the place of a previous grand hotel, the Nedous Hotel, constructed by Harry Nedous, who was an Austro-Swiss Hotelier. In 1908, at the turn of the last century the Nedous Family came to Lahore when Lahore was still an integral part of India and invested their entire money from savings on building this hotel. Later they opened other fine hotels in Sirinager and Poona.

In 1985, Avari towers, Karachi was inaugurated which was one of the biggest and highest constructions in Karachi and took Avari hotels to another business hotel category. Avari Towers introduced 120 renovated rooms and suites
adopting the recent trends in a uniquely designed 17-storey building that was proved to be an admirable destination to accommodate all possible needs a business traveler may have. In 1988, following the death of Mr. Dinshaw B. Avari, his son Mr. Byram D. Avari became the Chairman of the Avari Hotels. Mr. Dinshaw B. Avari and Xerxes B. Avari, the sons of Mr. Byram D. Avari are working as the Executive Directors of Avari Hotels.

Mr. Byram D. Avari introduced the Avari Hotels chain to the international world. The Avari Hotels is the first Pakistani company that has acquired management contracts to operate at local as well as international properties. In 1995, Avari Dubai was built that raised the business hotel category of Avari Hotels and proved to be a unique and comfortable destination for the travelers beyond comparison. In 2008, second property Avari Suites as Avari Al-Barsha in Mall of the Emirates was built that proved to be a lifestyle destination to accommodate the needs of business as well as leisure traveler. In 2010, Avari hotel chain introduced Avari Xpress Hotels & Residences in Islamabad, Pakistan's capital city that was a prestigious brand of limited service, and guest residences. Avari Xpress Residences, Islamabad provides comfort of access, because of the built-in security features, and they are not offered in other residences and guest houses. The future projects of Avari group include Avari Xpress Ferozepur Road, Lahore; Avari Xpress, Gujranwala; Avari Xpress Shimla Pahari, Lahore; Avari Xpress, Sialkot; Avari Xpress, Multan.

The history of development of Avari hotels suggests that the top management has put certain efforts required in the foundations of the property that has confirmed a continuous boom in the development timeline of the chain and introduced it into the international world. Senge (1990) labeled such organizations as learning organizations that seek and create their own future and believe that learning is a continuous and creative process for its management teams. The theory of learning organizations (Senge, 1990) suggested five
disciplines that are necessary for an organization to master while introducing learning into the organization as

1.1  **Systems Thinking**

An organization’s thinking should be focused on recognizing the patterns instead of conceptualizing change as separate events in an effort to figure out the big picture. In this way an organization’s paradigm change from being isolated to interconnected to the whole and focus on an organization’s own actions and operations increases to solve problems.

1.2  **Personal Mastery**

It focuses on a dedication to the lifelong learning emphasizing on being more realistic, thriving for becoming a best person and achieving a sense of excitement in a person’s career to support understanding of personal potential.

1.3  **Mental Models**

Mental models should be well managed because they ensure effective implementation of new and powerful insights as well as organizational practices. Real change requires focus on employee’s openness in reflecting their beliefs and generalizations and understanding about their impact on operations.

1.4  **Building Shared Visions**

A shared vision that obtains commitment from employees in good and bad times has the potential to connect an organization together. Building shared vision by considering employee’s personal visions can earn long term commitment of employees.

1.5  **Team Learning**

It is important for a learning organization to maintain a team who is willing to learn and work together because organizations flourish on the basis of
teamwork nowadays. Keeping in mind the goals of organization, teams have to be aligned together to work for gaining the desired outcomes.

In short, learning organizations emphasize on the role of senior management in designing as well as ensuring implementation of projects or practices in the entire corporation. These organizations foster their employees to develop their potential and resources so that they can work as a team believing on the principles of humanity, liberty and collective effort to lean and endorse organizational changes positively (Garvin, 1993). Avari Hotel, Lahore has also developed the capabilities of their employees in a continuous manner to achieve organizational goals with such consistency. Especially when learning organizations continuously go through rapid change to expand and create their future, they strive to maintain commitment and same mind shift in their teams of employees to provide support and efficiency in achieving organizational goals. Senge (1990) argued that in learning organization, the role of a leader is different from traditional leadership styles. He suggested that in a learning organization employees are not powerless entities with no personal visions and the leaders role should not be of a person giving instructions with non systemic worldview. Instead he suggested that leaders will play role of designers, stewards and teachers in a learning organization.

The hospitality industry utilizes elements from traditional management theory as well as the best practices but current trends emphasize more on practices because they are beneficial in multiple aspects of business such as improving employee productivity, quality and branding as well. Most of the best practices in hospitality reflect extensive social and economical trends. Poster (2008) described some of the theories and practices for the hospitality and tourism organization including the theory of unique selling elements that emphasize on making a hotel stand out from the crowd. If a hotel points put three unique selling elements and utilize them as a foundation of all marketing exertions, those elements should serve as the distinguishing features such as the famous personalities as guests or
the special food items. Management theorists are focusing on the usage of new media to address the quality control issues of hospitality industry. As an organizational culture develops certain preconditions favorable for the success of hospitality management, to create a productive corporate culture five C’s including, collegiality, cooperation, compromise, communication and coaching help encouraging the employees to be creative, focused and committed.

2. Objectives Of The Study

The main objectives of the research are

- To explore the historical background, distinguishing features and culture of Avari Hotel, Lahore.
- To explore the HR initiatives, managerial practices and critical success factors that contributed towards making Avari Hotel a learning organization and ensuring its continuous success and rapid expansion in the International world.

3. Literature Review

The following literature is highlighting the importance of HR practices and role of HR management in hospitality industry. Thelin and Boluk (2012) investigated the role of human resource practices in sustaining the competitive advantage in hotel industry. While examining the human resource practices of hotels, they considered three main sections of human resource management as hiring including recruitment and selection, performance evaluations and training programs. The findings suggested that although the hotels found their human resources practices important for maintaining sustainable competitive advantage but less attention was given to the development of human resources systems and processes.

The characteristics which the hospitality industry considers crucial in a hotel employee include commitment, interpersonal skills, problem solving, team
work, well organized and flexibility (Gittins, 2014). To develop and maintain these characteristics human resource practices including recruitment and selection, personnel planning, benefits and compensations, training and development, health and safety, and performance appraisal are crucial to practice in hospitality industry. Enz and Siguaw (2000) categorized the best human resources practices of hospitality industry in five areas including employee recognition, leader development, knowledge building, employee empowerment and cost management. Additionally they emphasized on designing integrated human resource systems and mentioned them as the most powerful tactics to make sure the value creation for customers as well as the profitability for owners. They also suggested that innovative hotel chains are focusing on their human resource practices to foster a prolonged organizational effectiveness.

Montasser and Manhawy (2013) examined certain critical success factors that are crucial for the success of a hotel industry. First, the critical success factor which a hotel industry traditionally focuses on is the location of the property. Although things changed overtime but the importance of location stayed the same. It is understood that a hotel located on an old and used highway will not work well, whether it provides the best services. Second, it is important for a hotel to have a global outlook because even a small or locally owned hotel need to be able to compete on an international level to be successful. There is a need to stay aware about the trends of hotel industry all over the world because tourists research for the quality of local hotels from all over the world while making their selection.

Third, quality management is the crucial factor and goes beyond the concept of customer services as it involves employee satisfaction as well as involvement. Because one random interaction with the hotel employee can make difference between an impressed customer and satisfied customer or the one who goes online and writes a bad review about his hotel experience. Focusing on employee satisfaction can enhance the chances that all employees will provide
excellent customer services. Fourth, the flexibility or the autonomy given to the
managers to make decisions to accommodate customers because customers with
different expectations visit hotels and a manager bound by an inflexible set of
policies would be unable to fix a customer problem and gain customer's loyalty
and good word of mouth in the future (Montasser & Manhawy, 2013).

Dhar (2015) studied the service innovative behavior of hotel employees
which can be regarded as the core demand of hotel employees because it is their
major work responsibility and they strive for serving their customers in the best
possible way. The researcher examined the effect of high performance human
resource practices on the commitment level of the hotel employees. The findings
revealed that organizational commitment mediated the relationship between the
high performance human resource practices and service innovative behavior of
the employees.

Radojevic, Stanisic and Stanic (2015) provided an insight regarding what
hotel characteristics have a significant relationship with the satisfaction of
customers. The findings of the study suggested that customer experience of a
hospitality industry can be enhanced only by one of the most important factors
which are the hotel star rating. In addition the services provided including air-
conditioning devices in rooms, membership card in a branded hotel chain and
price, a bar located within the hotel area and Wi-Fi Internet free of charge have a
significant positive influence on the customer satisfaction. There are also certain
factors those appeared in a negative relationship with the customer satisfaction as
the distance from the city centre which suggests the importance of location, the
size of the hotel suggesting star ranking of the property and general hotel price
level in the city where the hotel is located as the travelers compare prices while
deciding their destinations to stay.
4. **Research Methodology**

Case study research method was applied that involves in depth investigation of a problem in one or more real life situation over time. As the study is exploratory in nature, interviews as well as secondary sources were referred in this case study. Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1984, p. 23).

4.1 **Sample**

Mr. Q. J, General Manager Avari, Hotel Lahore, Mr. A.K, Corporate Human Resource Manager, Avari Hotels and Mr. I. A, HR manager Avari Hotel, Lahore were approached with their consent. Representatives from senior management of Avari Hotel, Lahore with more than 5 year experience working with Avari were interviewed because they have better understanding about the factors helping them cope with the ups and downs faced by the organization over time.

4.2 **Case History Form**

To assess the historical background, distinguishing features, culture, current business portfolio, business achievements and developments overtime, a self developed case history form was administered. Secondary resources including progress reports, Avari magazine, property development timelines and official websites of Avari Hotels were consulted.

4.3 **Interview Guide**

A self developed, semi structured interview guide was developed to assess the core strengths of HR department, HR initiatives for employee retention, functional role of HR in areas as ensuring safe, healthy and happy workplace,
employee care, communication, recognition, work environment and culture, recruitment training and development. In addition, improvement areas as well as managerial factors contributing towards the success and expansion being a learning organization were also discussed.

4.4 Procedure

Consent was taken from the participants and the nature of the study was explained before administration of the interview guide and analyzing the secondary data. Concerned authorities were insured that the information required from them will be held confidential and will only be published with their permission after getting the content reviewed by them. The participants were given the right to withdraw from participation and terminate at any time they wish. After taking the consent from the concerned authorities and participant, the study was conducted in an office setting.

5. Results

The purpose of the study was to assess the distinguishing features, HR initiatives and other managerial factors that have contributed towards the success of Avari hotel chain and played an important role in making it a learning organization to shape its successful future are discussed. Property development sheets as well as the websites of Avari Hotels were consulted to identify the distinguishing features of business, unique Avari culture, current business portfolio, property development timeline and achievements in form of awards and certifications.

6. Distinguishing Features of Avari Hotels

It was explored that all branches of Avari Hotels provide certain facilities to their guests that distinguish them from their competitors as business center, Avari gold card, lady Avari and family rooms, health club providing gymnasium and massage spa, swimming pool, banquet facilities and special diet menus,
business conferences and meeting rooms, 24-hour front desk and express check-in/-out, luggage storage and 24 hour room service, currency exchange and tour desk, wireless internet, designated smoking area, laundry/dry cleaning and babysitting service, car rental, airport shuttle and parking, fax/photocopying, facilities for the disabled and concierge service.

7. **Avari Hotels Culture**

Avari Hotels hold an excellent culture by setting certain values and behaviors in their employees who then help in maintaining the same culture in services to clients. The practices those are not allowed for any of the employees to maintain a healthy work environment are discussed as in the lobby or any public areas smoking, eating, drinking, chewing gum, whistling, humming, singing or spitting in any area is not allowed. Casual conversation or standing in groups with co-workers, allowing personal friends to visit employees at the hotel, saying anything negative about the hotel, entering in other departments or guest floors, shouting or talking in the public areas are all strictly not allowed in any employees conduct at workplace. Avari Hotels insure certain characteristics in their employees those differentiate them from other service providers in the market. These include excellent communication skills, interpersonal skills, competency, loyalty, integrity and commitment of employees, knowledgeable of safety hygiene issues, team work, enthusiasm and leadership.

8. **Current Business Portfolio**

The current business portfolio of Avari Hotels include two five star properties as Avari Hotel, Lahore (188 bedrooms) and Avari Towers, Karachi (236 bedrooms); four star hotels as Avari Dubai (190 bedrooms), Avari Al-Barsha, Dubai (74 one bedroom, 4 two bedrooms apartments), Avari Xpress, Islamabad (42 bedrooms) and Avari Xpress, 7th Avenue Islamabad (44 bedrooms) and one three star hotel as Beach Luxury, Karachi (100 bedrooms).
9. Property Development Timeline

In the light of historical background discussed in detail in the introduction portion, the following timeline is showing a pattern of the property development which is continuously progressing high.

![Property Development Timeline Diagram](source)

10. Awards And Certificates

The World Travel Award that was established in 1993 to recognize, reward and celebrate the excellence among all the sectors of tourism industry and is distinguished worldwide as the ultimate symbol of quality, where the winners set the benchmark to which all other competitor aspire. Avari Hotels is the only hotel chain in Pakistan who has achieved eight consecutive World Travel Awards as Pakistan's Leading Hotel for the years (2005, 2006, 2007, 2008, 2010, 2011, 2012 & 2013).

Avari Hotels won the Certificate of Excellence –Trip Advisor Winner (2014). The Trip Advisor Certificate of Excellence is awarded to properties that
consistently achieve outstanding traveler reviews on Trip Advisor. Certificate of Excellence celebrates the accommodations, attractions and eateries that make these perfect trips possible.

Gender Equality for Decent Employment Award by International Labor Organization whose main aim is to encourage equality of rights at workplace, support decent employment opportunities, foster social protection and built a strong dialogue on the work-related issues. Avari Lahore Garden awarded as the first prize in Spring Festival 2010 and won the Annual Chrysanthemum Award 2008. The restaurants of Avari Hotels won brands of the year awards for Fujiyama (Avari, Lahore-2008), Dynasty (Avari, Lahore-2008, Dynasty (Avari Lahore-2007), Fujiyama (Avari Towers, Karachi-2008) and Dynasty (Avari Towers, Karachi-2008).

11. HR Initiatives At Avari Hotels

Interviews were conducted to assess the HR initiatives for employee retention, functional role of HR in areas as ensuring safe, healthy and happy workplace, employee care, communication, recognition, work environment and culture, recruitment training and development. In addition, improvement areas as well as managerial factors contributing towards the success and expansion being a learning organization were also identified.

12. Thematic Analysis of Interview Responses

Themes derived from interview suggested that Avari Hotels have been adopting the following human resource management functions to maintain a highly effective workforce: recruitment and selection, personnel planning, benefits and compensations training and development, health and safety, and performance appraisal.

Avari hotels have developed a standardized list of job positions and those positions are filled in agreement with international standards. However, keeping
in view the changing needs of the workforce, new jobs are added to the list. In Avari hotel, a new vacancy may arise because of the dismissed staff, the need to replace the employees who are retiring, and the promotion of employees or the replacement of employees on job rotation. To fill in a vacancy, a requisite form is sent by the head of that particular department when the vacancy is created to the human resource manager. The form explains all the specifics required for the potential candidate. Then the requisition form is approved by General Manager for the final decision. Inside candidates as well outside candidates including interns serve as the sources of recruitment.

Selection criteria changes in accordance to the job position. For example the selection criteria in food and beverages department include work sample testing technique whereas the basic criteria for testing and selection of other department employees include communication skills in English, grooming and appearance, academic and professional qualifications with experience and knowledge of the job position they are required to fit in, balance poise and maturity, reasoning and judgment with good computer skills and individual’s potential for growth.

Performance appraisal is an import aspect for increasing the productivity of employees and to induce quality improvements in the overall performance of the organization. Department heads are the main decision makers involved in appraisal of employees. The Behaviorally Anchored Rating Scale is used for appraisal as annual appraisals are conducted. The factors considered important for appraising an employee include the appearance of the employee, professional work experience and overall conduct, communication and training skills, business attitude and operational performance, planning and organization, leadership and teamwork, achievements of objectives and creativity.

In order to facilitate the employees, Avari hotel provides certain benefits and services to their employees. For example, facility of flexible work schedule is
available for shift employees. During working hours, Avari provides free meals and tea to employees, free uniforms and free laundry services for employees’ uniforms, free transportation for female workers, free medical facility to all employees and their children, yearly pay rise regardless of employees’ performance and life insurance facility. Employees’ get their provident fund at the time of retirement as well as resignation. Employees are provided with the counseling services as the family counseling and the retirement counseling. Health and safety measures include fire preventions, energy conservations, health and safety laws, facility of in-house doctor and dispensary, security measures, social security fund and hygiene of employees.

It can be concluded as Avari hotel’s functional strategies play an integral role in its competitive strategies, Avari must require highly committed employees to play a proactive role in executing strategies as well as to maintain Avari culture. Therefore, Avari exercise its HR processes in order to create a work force that is committed, competent and customer-oriented. Being a part of the service industry, the role human resource is fundamental and cannot be ignored.

13. **Critical Success Factors of Avari Hotel, Lahore**

Themes derived from interviews suggested that first, Avari Hotel, Lahore’s location provides an edge over the competitors as it is located in the heart of a historical city Lahore and is surrounded by many historical places. Secondly, its traditional Mughal architecture makes it unique and attractive to the tourists. Like Avari Hotel, Lahore, all other properties of Avari group are also located at the most supreme locations setting the best tourist destination for the travelers worldwide. Avari Hotel’s global outlook is also contributing towards making progress in meeting up the international standards and following the trends emerging in hospitality industry worldwide. It is also making it the most favorable for the international customers or tourists because of the international quality standards.
Avari Hotel’s unique selling elements including business center, Avari gold card and lady Avari that offers separate rooms on separate floor for the women travelling alone where housekeeping services are provided by female staff, to make them feel comfortable. Avari Hotel’ Lahore and other properties are mostly five star hotel properties and in hospitality industry property stars define the ranking based on the quality of services provided. Therefore this ranking of five stars is also contributing towards the success.

Avari exercise its HR processes in order to create a workforce that is committed, competent and customer-oriented. The HR practices including recruitment and selection, personnel planning, benefits and compensations training and development, health and safety, and performance appraisal help keeping the employee enthusiastic and motivated to provide all guests with an excellent eminence and luxury with a sincere and professional wellbeing as promised in the mission statement of the organization.

Avari Hotels classify its client’s segmentation into six segments as walk in, corporate and business clients, Government officials, diplomats, tourist groups and airlines. GM Avari Hotel Lahore mentioned that the segmented pricing policy helped Avari hotel to enhance the profits and room occupancy, to meet the goal of sustaining highest occupancy rates whereas keeping the average room rate superior as compare to the other competitor chains.

The standards Avari Hotels are maintaining to stay aligned with their mission statement are the factors continuously contributing to the success of Avari group. These include being fair with the guests and with colleagues, personal responsibility for oneself and property, unconditional team work and communication, protecting assets and identifying defects for knowing the product, salesmanship being everyone’s responsibility, making guest complaints their own and recording them properly to prevent their repeat occurrence, always talk positive about hotel, sell services of hotel and being profitable.
14. Discussion And Conclusion

We have conducted an exploratory case study on Avari Hotel, Lahore in order to understand its distinguishing features, HR initiatives and other managerial factors that have contributed towards the success of Avari hotel chain and played an important role in making it a learning organization to shape its successful future. Based on in-depth interviews, observations and documentation; distinguishing features of Avari Hotel, Lahore is perceived as its certain facilities to their guests that distinguish them from their competitors as business center, Avari gold card, lady Avari and family rooms, health club providing gymnasium and massage spa, banquet facilities and special diet menus, business conferences and meeting rooms, currency exchange and tour desk, wireless internet, designated smoking area, laundry/dry cleaning and babysitting service, car rental, airport shuttle and parking, fax/photocopying, facilities for the disabled and concierge service. Findings are analyzed according to Senge’s fifth discipline model (1990). The findings further showed that Avari Hotel, Lahore tackle many characteristics of the learning organization. However, there are some contradictions as well.

HR initiatives for employee retention, functional role of HR in areas as ensuring safe, healthy and happy workplace, employee care, communication, recognition, work environment and culture, recruitment training and development were analyzed. Themes derived from interviews further suggested that Avari Hotels have been adopting the following human resource management functions to maintain a highly effective workforce: recruitment and selection, personnel planning, benefits and compensations training and development, health and safety, and performance appraisal. Huang and Shih (2011) narrated that many organizations show interest for employing traditional knowledge management procedures to become a learning organization and human resource initiatives play a vital role in alternating practices and eventually strategic planning teams become crucial in this regard. Avari hotel’s functional strategies play an integral
role in its competitive strategies; Avari must require highly committed employees to play a proactive role in executing strategies as well as to maintain Avari culture. Therefore, Avari exercise its HR processes in order to create a work force that is committed, competent and customer-oriented.

Smith et al. (2014) argued that the employees of a learning organization should be able to question the existing rules norms to create novel thought processes and enhance their efficiency and service quality by taking decision through learning by doing approach. Although major decisions are made by the top management but department executives practice democratic leadership to ensure opinions of all team members and come up with creative ideas and decisions to implement strategies effectively as supported by Weldy and Gillis (2010) that variations exits while depicting characteristics of learning organization at different organizational level as the perceptions of managers, supervisors and employees are varying in nature from one another regarding the features of learning organization. Further, in order to facilitate the employees, Avari hotel provides certain benefits and services to their employees. For example, facility of flexible work schedule for shift employees, free meals, free uniforms, laundry services, transportation for female workers, medical facility, yearly pay rise, life insurance facility, counseling services, health and safety measures of employees.

In conjunction with few inconsistencies, Avari Hotel, Lahore is a flourishing and unique case of a learning organization. It has a comparatively traditional structural frame but with accommodating and innovative implementation plans. Prior implementation, all the decisions go through a detailed review to ensure the best decision. Avari Hotel is like a big business with lower rates of turnover because of their effective efforts on the employee end to maximum retention. They consider employees as a unique asset and they give more importance to the knowledge and experiential involvement of employees rather than their job positions. Main departments put an extra effort in fixing the problems and ensuring proper solution that are beneficial over time as supported
by Bui and Baruch (2011) who further explored the Senge’s work considering the positive impact of systems thinking and shared vision in knowledge management.

Avari Hotels, international is now one of the biggest hotel chains in Pakistan as well as in the International world. It is the story of one small local hotel that first survived and learned through management and franchise agreements and then introduced their own brand Avari Hotel that entered in the International world and succeeded. Its success is attributed to the consistent hard work of the owners in meeting and maintaining the international standards of five star hotels. It rose as a prominent hotel chain and set a benchmark for upcoming hotel chains. The greatest growth was seen in 80s and then 90s, the Avari Hotels, International survived the economic recession of 2008 when hotel occupancy rates fell and an alarming sign was given to the hotel industry of Pakistan.

Avari Hotels, International is the only hotel chain that has won eight consecutive World Travel Awards as Pakistan's Leading Hotel. High degree of customization and personalization are the basic requirements for success and growth in a learning organization and Avari Hotels is able to maintain its freshness as a brand by meeting and exceeding the customers’ customization and personalization requirements. It is also true that competitive forces and environmental changes are rapid and there is a need to quickly adapt to the changes of the environment. The strategic management at Avari Hotels is in action to address the environment and competitive pressures. There is a strong need that management practices at Avari remain aligned with their business objectives in order to remain a force in hospitality industry and retain their market position for strong, unique and favorable brand associations.
15. **Recommendation**

Gephart et al. (1996) suggested a timeline to adopt certain types of changes required to achieve the principles of a learning organization. Avari Hotels existing as well as upcoming properties can apply these changes to fill the gap between vision and reality with the creative tension that will enable the senior management see the truth in changing circumstances. This timelines is consisted of ten phases.

- **Phase One** is to introduce a communications system that can facilitate the regulation and transfer of information that on what basis that learning organization is built. Such system will provide a universal access to business and strategic information.

- **Phase Two** is to develop an instrument or tool to examine the difference between organizational current and future timeline of progress and to create an assessment profile to design the learning organization initiative in future.

- **Phase Three** is to commit to developing, maintaining, and facilitating an atmosphere that garners learning.

- **Phase Four** is to create a vision of the organization and write a mission statement with the help of all employees.

- **Phase Five** is to use training and awareness programs to develop skills and understanding attitudes that are needed to reach the goals of the mission statement, including the ability to work well with others, become more verbal, and network with people across all departments within the organization.

- **Phase Six** is to communicate a change in the company's culture by integrating human and technical systems.
• **Phase Seven** is to initiate the new practices by emphasizing team learning and contributions. Employees will become more interested in self-regulation and management, and be more prepared to meet the challenges of an ever-changing workplace.

• **Phase Eight** is to allow employees to question key business practices and assumptions.

• **Phase Nine** is to develop workable expectations for future actions.

• **Phase Ten** is to remember that becoming a learning organization is a long process and that small setbacks should be expected. It is the journey that is the most important thing because it brings everyone together to work as one large team. In addition, it has inherent financial benefits by turning the workplace into a well-run and interesting place to work; a place which truly values its employees.
References


AN EMPIRICAL EXAMINATION OF BRAND LOYALTY VIA CUSTOMER DELIGHT IN PAKISTAN

Hera Anam

Dr. Rafia Faiz

Abstract

The purpose of this study is to examine brand loyalty in Pakistan. This is in relation to investigating the relationship between brand attachment, surprise, customer brand engagement and customer satisfaction with customer delight. This innovative study addresses a clear research gap in the brand loyalty literature. A model is developed by the author. Empirical data for the study is collected from 350 self-administered questionnaires in Lahore City of Pakistan. Data analysis in SPSS shows that surprise or customer satisfaction do not have significant relationship with customer delight, but brand attachment has a significant positive relationship with customer delight. The findings also show that brand loyalty has significant positive relationship with customer delight. In the context of current global economic downturn and inflation, brand loyalty is of rising concern. The policy makers can build up on the findings of this study to emphasize on customer delight and exceed customer’s expectations, rather than the traditional limited concept of customer satisfaction.

Key Words: Customer delight, Attachment, Brand engagement, Brand loyalty
1. Introduction

Today managers are facing the challenge of establishing and continuing relationships with their customers. It is even tough because customers have a wide range of choices and more access to information. The different activities of the firms including price discount and strong marketing strategies make this task even more difficult. Thus, many have increased interest in customer satisfaction and observe it continuously. Others have suggested that customer satisfaction is not sufficient and organizations must target to delight their customers (Torres & Kline, 2006). Customer delight was considered the key factor of relationship management (Dhevika, Latasri, Karmugil, & Kavitha, 2014). Customer delight defines as “it involves going beyond satisfaction to delivering what can be best described as a pleasurable experience for the customers” (Patterson, 1997). Delight is a stronger emotion and consists of joy and surprise. Though a study purpose that customers can be delighted without any surprise while joy is an essential component of delight [CITATION Kum01 \l 1033].

Previously in the field of customer delight several studies have conducted in diverse sectors. Customer satisfaction has been deemed as an essential predecessor of loyalty but now customer delight constructed greater loyalty than satisfaction. Customer delight enhanced the customer loyalty (Kim, Vogt, & Knutson, 2015), it also generated trust, positive word mouth and repurchase intention among customers. Service quality also facilitated to produce customer delight (Haryono, & Suyadi, 2015). Joy and captivation also directed to customer delight which eventually created loyalty (Dey, Ghosh, Datta, & Barai, 2015). The former discussion reveals that it is not much clear about the main factors that instigate customer delight particularly in Pakistan. This study endeavors to ascertain and empirically test the factors that can create customer delight which lead to brand loyalty. In this study I added two variables customer brand engagement and brand attachment.

The concept of delight have two different approaches, first is based on psychology literature which states that delight is an emotion which consists of
high pleasure and high arousal (Plutchik, 1980). Pleasure means to the extent to which an individual feels happy, elated or delighted in a condition, while arousal refers to the degree to which a person feels encouraged and vigorous (Bigne et al., 2003). Second view of delight is based on its definition which means higher satisfaction (Berman, 2005). Currently customer delight is the main element of success for firms because a delight customer has great worth for the firm as it helps the companies to compete with competitor in the best manner [ CITATION Has11 \l 1033 ]. Oliver (1980) expectancy disconfirmation model illustrates the concept of delight that customers compare their perceived performance with former expectation. Delight arises when performance exceeds expectation and it’s also called positive disconfirmation (Oliver & Winer, 1987).

Furthermore it is explained that assessment of product and services according to the customer requirements present the idea of delightful or distinguishing product features. Recent Unique selling point (USP) of all firms is “Delight your customers”. Experts are giving instructions to business houses that to flourish in business they have to set customer delight as their prime objective (Kano, 1995; Macmillan & McGrath, 1996).

It has been observed that with increased awareness of customers due to the role of information technology there is decline in customer brand relationship. The purpose of this study is to explore the factors that influence on customer delight which can strengthen customer brand relationship. These factors are brand attachment, customer band engagement, surprise and customer satisfaction.

2. Research Objectives

Following are the specific research objectives of this study:

1. To investigate the relationship between brand attachment and customer delight.
2. To find out the relationship between surprise and customer delight.
3. To investigate the relationship between customer brand engagement and customer delight.
4. To examine the relationship between customer satisfaction and customer delight.
5. To examine the relationship between customer delight and brand loyalty.

3. Literature Review

3.1 Customer Delight

Currently, customer delight has attained attention among scholars as well as practitioners. Customer satisfaction has well explained in the literature but there was limited study about the concept of delight (Schummer, 2007). The idea of Customer delight first emerged in 1990s, it based on the discussion of affective and experimental dimensions of consumption. Customer delight theorized as an emotional state of surprise and positive levels of performance (Westbrook, 1987). Plutchik (1980) offered eight basic emotions which originated from a “psycho-evolutionary framework”. Researcher organized these emotions of “surprise, joy, fear, sadness, hatred and anger “in a circular pattern known as Circumplex model; hence certain mixtures of proximal emotions were likely. Particularly, emotions those were adjacent to each other end in “primary dyads”, blends of once removed emotions on the circle were known as “secondary dyads”, and blends of emotions those were twice removed referred as “tertiary dyads”. For instance primary dyad includes love (joy + acceptance); secondary dyad is delight (joy + surprise) and tertiary dyad consists of guilt (joy + fear). In this pattern delight was a combination of joy and surprise which was theoretically related to the Westbrook and Oliver (1991) dimensions of consumption included pleasure and surprise.

In 2007, Kumar and Olshavasky explained that customer satisfaction referred to meet the expectations; however customer delight has been stated as overwhelming expectations related to the feelings of happiness, elation, triumph and extreme satisfaction. Patterson (1997) said that customer delight involved going beyond the satisfaction and conveying the customers that they considered it as a pleasant experience. Customer delight identified as a best
instrument to accelerate the customer retention ratio. Torres and Kline (2006) explored that customer delight considered a stronger measure of customer relationship management rather than satisfaction. Delight expected to create progressive business outcomes comprising loyalty, word of mouth and better profitability. It was also examined that website virtual atmosphere like information, layout and design influenced on emotions and word of mouth. Women were more eager to verbalize positive word of mouth than men and more inclined by delight and pleasure than men (Loureiro, & Ribeiro, 2014).

From customer’s perspective it was essential to gather a better perceptive of the aspects of customer delight. Empirical research analyzed three factors for the service firms including assessing behaviors of employees in a service counter that created delight, evaluating customers’ expectations and determining the variations between customer delight and satisfaction. Results showed that employee affect and employee effort were the essential factors for generating delight as compared to employee skills which ranked lower with regard to customer delight (Barnes, Ponder, & Dugar, 2011). The empirical study tested a model based on cognitive appraisal theory (CAT) to gain greater knowledge of customer delight. This approach postulated that emotions and delight specifically were caused by different factors comprising the customer’s knowledge, agency, goal congruency, novelty and goal relevance. It was indicated that condition of delight might be caused when tourists appraise their theme park experience that either as unpredicted, or as essential to their own welfare or specific needs, or as highly goal congruent[ CITATION MaJ13 \l 1033 ].

Current literature explained that concept of delight have two features: delight generated by memorable and positive event, delight was strongly related to purchase intent and loyalty. As compared to satisfaction, delight remains for longer time and delighted customers were more loyal and tend to be more retained (Torres, Fu, & Lehto, 2014). In 2011, Hasan, Raheem, and Subhani described that it become necessary for firms to delight its customers. In this study they constructed a model of customer delight for banking sector
of Pakistan and identify factors that can create customer delight. After 300 personal interviews they found eight important factors included “unusual attractive ambiance (unique outlook of bank), undue favor, positive gestures, By pass the lengthy document procedure, prompt feedback, VIP treatment, helpful and willing to guide and caring behavior” (p. 7). Findings explained that all elements are significantly related to customer delight and imperative to create delight in the mind of customer for banking services.

3.2 Surprise

Human emotions were studied in the field of psychology but there was less consent on which emotions would be considered as primary, basic or central (Ortony & Turner, 1990). Research on surprise was limited in the field of marketing. Expectation considered a main concept of surprise (Whittlesea & Williams, 2001). Surprise caused either by unanticipated products or services or by vague expectation of products or services (Vanhamme & Snelders, 2001). There was a discussion about the status of surprise as an emotion. Many researchers considered surprise as a basic emotion. While some scholars did not consider surprise as an emotion because it was neither positive nor negative (e.g., Ortony, Clore, and Collins, 1988), recent researches on surprise in the field of psychology have viewed surprise as a short-lived neutral emotion (Reisenzein & Studtmann, 2007; Schutzwohl, 1998; Vanhamme & Snelders, 2001). However, surprise was a neutral emotion because it might be a positive or negative emotion, if surprise followed by another emotional responses like joy or anger (Ekman & Friesen, 1975; Meyer et al., 1994; Vanhamme & Snelders, 2003).

Positive surprise was considered as an essential requirement for customer delight. The association between surprise and delight was embedded in Plutchik’s (1980) work, which explained that delight was a combination of two emotions surprise and joy. Westbrook and Oliver (1991) illustrated indirect support for the relationship of surprise and satisfaction. Customer with positive surprise tends to be more satisfied and a customer with negative surprise would be less satisfied.
3.3 Brand Attachment

Brand attachment regarded as a rising construct; specifically it was essential to demonstrate the affective element of customer brand relationship. The concept of attachment had been investigated mainly in the field of psychology. Former research had been conducted by Bowlby (1969, 1979) in the perspective of parent-child connection. Bowlby described that attachment considered as an emotion laden object-specific link among a person and a particular thing (Thomson, MacInnis, & Park, 2005). Customer brand attachment concept had derived from the psychology attachment theory originated by Bowlby (1982). Attachment theory had examined that individual form, retain and dissolve the emotional relationship with other persons (Bartholomew & Horowitz, 1991; Hazan & Shaver, 1994). Yet research in the fields of psychology and marketing proposed that attachments could expand outside the person to person association perspectives (Thomson & Johnson, 2006). Brand attachment defined as “the strength of the cognitive and affective bond connecting the brand with the self” (Park, Macinnis, & Priester, 2006, p. 4). Consumers had a tendency of emotional attachment to a less number of brands, feeling association, enthusiasm or affection towards brands or company. The extent of association could vary from one brand to another (Thomson, MacInnis, & Park, 2005).

There were different characteristics of customer brand attachment. Customer self-brand connection was a key component in the development of brand attachment (Park et al., 2006, 2010; Lacoeuilhe 2000; Thomson et al., 2005; Cristau, 2003). Consumer brand relationships were strong as brand improved self-identity and as it shared the similar cultural values (Belaid & Behi, 2011; Heilbrunn, 2001). Users with high brand attachment were not only the receiver of the brand resources however they were also more motivated to enlarge personal resources in order to continue the brand association (Park, MacInnis, Priester, & Iacobucci, 2010). Personal resources included social resources, financial resources and time resources. Attachment was mainly dependent on time. Strong attachments extended with the passage of time, it
resulted from an ongoing interaction between the customer and the attachment object. This interface was not essentially a buying behavior; it might be of a cognitive nature such as information regarding the brand and advertising (Park et al., 2010; Thomson et al., 2005). Brand attachment enhanced the trust of consumers towards their brand.

In addition attachment also had relationship with brand commitment and indirectly influenced loyalty (Mitra et al., 2011). In the perspective of marketing, customers who had strong brand attachment were keen to make an investment in their connection with brand and paid premium prices in order to achieve it and be loyal and committed (Thomson et al., 2005). Furthermore, consumers that had a strong emotional link with their brands had higher likelihood to exonerate the brand in case of any misfortune and support brand with positive word of mouth (Miller, 1997; Finkel, Rusbult, Kumashiro, & Hannon, 2002; Pimentel & Reynolds, 2004).

3.4 Customer Brand Engagement

Engagement concept had been examined in the field of organizational psychology for several times. In the current years the concept of engagement had been scrutinized in the field of consumer behavior. Customer brand engagement (CBE) had defined variously by different authors as “the level of an individual customer's motivational, brand-related and context-dependent state of mind characterized by specific levels of cognitive, emotional and behavioral activity indirect brand interactions”. (Hollebeek, 2011).

Customer engagement had appeared in the literature of marketing as an essential idea that described the concept as “customers’ behavioral manifestation toward a brand or firm beyond purchase, which results from motivational drivers including: word-of mouth activity, recommendations, customer-to-customer interactions, blogging, writing reviews, and other similar activities” (MSI, 2010, p.4). Numerous multidimensional conceptualizations of customer brand engagement (CBE) have been
suggested. This study implemented the conceptualization of Customer engagement proposed by So, King and Spark (2012). CBE defined as a customer’s individual relationship to a brand as apparent in cognitive, affective and behavioral reactions outside of the purchase and customer engagement conceptualized as a “higher-order construct comprising five first-order factors, including enthusiasm (or vigor), attention, absorption, interaction, and identification”. There were five dimensions of customer brand engagement included enthusiasm, attention, absorption, interaction and identification (So, King, & Sparks, 2012).

Enthusiasm characterized as a strong level of exhilaration and interest of individual about the focus of engagement such as brand or company (Vivek, 2009). The energy and enthusiasm distinguished the concept of engagement from other related constructs like satisfaction (Macey & Schneider, 2008). Customer satisfaction referred to consumer’s overall assessment of the performance of a brand and based on precedent experience while enthusiasm was illustrated by a strong emotion of thrill which was an active condition. Marketing theory supported the addition of attention as a feature of Customer engagement. Particularly, regulatory engagement theory described engagement as continual attention, where engagement level decreased as the behavioral attention turned away from something or brand (Scholer & Higgins, 2009).

Engagement was equal to focused concentration and the concept of attention was reliable with the construct of regular involvement (Lin, Gregor, & Ewing, 2008), which confined a customer’s attention level toward a brand. A consumer who was engaged with a product was engrossed to information associated to the brand (Vivek, 2009). Researchers had suggested that strong engagement expanded outside of focusing on something to being absorbed or engaged with it (Scholer & Higgins, 2009). Absorption was a pleasurable condition in which customer was completely rigorous, glad and extremely absorbed while playing his role and an engrossed customer interrelating with the product perceived time as passing quickly (Patterson & De Ruyter, 2006).
In addition a characteristic of customer engagement identified in the literature was interaction, which defined as online and offline participation of customers with the brand or other customers beyond purchase. Interaction was exchanging thoughts, ideas and emotions regarding brand experiences and considered an essential component of the conceptualization of customer engagement (Vivek, 2009). Another dimension of customer engagement was identification which considered a main feature of customer brand engagement. The identification concept derived from social identity theory, which was continued that the self concept included individual identity and a social identity. Persons had developed a social identity by categorizing themselves and others into diverse societal groupings, like in the organizational membership case (Mael & Ashforth, 1992). Identification also described the relationships of customers with their brands or companies. Strong relationships were based on identification of consumers with the companies that assisted them to satisfy one or more essential self-definitional wants (Bhattacharya & Sen, 2003).

Customer brand engagement had an effect on customer outcomes like brand awareness and brand attitudes and consequently influenced customer loyalty (Sprott, Czellar, & Spangenberg, 2009). Moreover, an engaged person was expected to generate more positive attitudes toward a brand or company and enhanced brand loyalty (So, King, & Sparks, 2012). The strongest predictor of brand loyalty was customer engagement because loyalty increased with more engagement towards brand. Customer engagement constituted a strong customer brand association beyond purchase and creating it a stronger contributor to generate loyalty among customers (Brodie, Hollebeek, Juric, & Ilic, 2011).

3.5 Customer Satisfaction
The idea of customer satisfaction has received a large amount of attention in the research field during the previous years. It considered a big challenge in competitive marketplace to satisfy customers. Companies have realized the importance of customer satisfaction to achieve loyalty and repurchase intention. Customer satisfaction has been described as “It is a judgment that a product or service feature, or the product or the service itself, provided a pleasurable level of consumption-related fulfillment, including levels of under or over fulfillment” (Oliver, 1997, p. 313). Consumer satisfaction was essential for success of firms. It was recognized that satisfied consumers were willing to pay more and fewer influenced by strategies of competitors than less satisfied consumers (Dimitriades, 2006). Price was an essential factor for customers while purchasing a product and had a huge impact on customer satisfaction. Acceptance of price was directly affected by satisfaction and brand loyalty. It was also investigated that customer satisfaction had influenced on price directly and indirectly. Furthermore price fairness was considered as a precursor of satisfaction and loyalty. Perceived price fairness had influence on customer satisfaction and band loyalty (Consuegra, Molina, & Esteban, 2007).

Hanif, Hafeez, and Riaz (2010) investigated the factors of customer satisfaction in the telecom sector of Pakistan. These factors have much importance in order to find out which create greater satisfaction among consumers for a certain brand. Findings indicated that factors price fairness and customer services have significant influence on customer satisfaction. As customers have realized price fairness of the brand they become more satisfied and retained in future. In 2011 Mohsan et al. explained that in the banking sector of Pakistan customer satisfaction played a very important role in generating loyalty and customer retention. Furthermore aftermath of study showed that customer satisfaction has positive relationship with customer loyalty and negatively associated with customer intentions to switch to other banks. Service quality and customer satisfaction has significant positive relationship so marketers need to focus on improving quality of service to
boost up customer satisfaction in case of service sector like university education (Amran Rasli, Danjuma, Yew, & Igbal, 2011).

3.6 Brand Loyalty

Brand loyalty was positioned at the center of modern brand management, particularly in marketplace where limited product discrimination and competition was tough. Brand loyalty defined as “a deeply held commitment to re-buy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts have the potential to cause switching behavior” (Oliver, 1999, p.34). Constructing brand loyalty had become more essential and difficult to accomplish in the era of massive competition. Currently companies were decided to extend, continue and build loyalty in order to retain loyal customers for achieving their long term profitability however it considered complex in such a fierce competitive market. Brand loyalty is the conscious decision of any customer to continuously purchase a same product in future. It is a positive approach of customers towards specific brand with the intent to repurchase that brand. Loyalty of customers is not only the repurchase of particular brand but it also denotes the psychological commitment of customers towards that brand (Rehman, Zia-ur-Rehman, & Akhtar, 2012). The service quality, brand image and switching obstacles have influenced on loyalty (Achour, Md Said, & Boerhannoeddin, 2011). Customer satisfaction had deemed as an essential predecessor of loyalty but now customer delight constructed greater loyalty than satisfaction (Kim, Vogt, & Knutson, 2015).

Marketers had emphasized to create trust in the mind of their customers because it ultimately generated brand loyalty. Trust could be achieved by offering service quality, advance values and definitive satisfaction (Lau, Geok Theng, & Sook Han Lee, 1999). Moreover loyal customers were not much price sensitive as selecting the brand however when the points come of quantity selection then customers become conscious about price. Price elasticity had influence on brand loyalty (Krishnamurthi, Lakshman, &
It was investigated that in the context of Pakistan customer satisfaction and brand image had positive influence on brand loyalty. Companies might create brand loyalty to customers by providing quality services however satisfaction had less impact on loyalty as compared to brand image (Ghafoor, Iqbal, Tariq, & Murtaza, 2012). Customer loyalty always remained a major concern for every organization. There were some factors that influenced loyalty in Pakistan such as satisfaction, product image, customer relationship and trustworthiness. These factors had a positive impact on customer loyalty and important for long term success of a company. Study suggested that ‘customer is always right’ considered a golden rule to achieve customer loyalty. Particularly in Pakistan it was necessary for firms to earn good profit need to enhance customer loyalty through customer relationship, satisfaction, trust and better image in the market. It reduced the customer loss and improve the retention rate [CITATION Akh11 \l 1033 ].

4. Theoretical Framework

Customer delight is the long-term respond to accomplishment. Delight customers are more valuable for the organization because it provide a competitive advantage to compete with its competitors. Customer delight has a positive influence on customer retention (Hasan, Raheem, & Subhani, 2011). Attachment theory has supported this study and examined that individuals form, retain and dissolve the emotional relationship with other persons (Bartholomew & Horowitz, 1991; Bowlby, 1979; Hazan & Shaver, 1994). Yet research in the fields of psychology and marketing proposed that attachments could expand outside the human person to person association perspectives (Thomson & Johnson, 2006). Attachment theory states that customers make strong affectional bond to particular brands (Bowlby, 1979). In this study dependent variable ‘customer delight is influenced by four factors namely surprise, brand attachment, customer brand engagement and customer satisfaction which eventually leads to brand loyalty.
Previous studies have found that surprising consumption has a relationship with customer delight (Finn, 2005) and surprise is considered an important element for delight (Rust, 1996). Brand attachment is an essential factor for customer brand relationship. It is found that customers who have strong attachment to their brands feel more satisfied with that brand. The results of Rajah, Marshall and Nam (2008) showed that customer brand engagement enhances the customer satisfaction and trust which creates the stronger customer brand relationship. The customer satisfaction has a positive relationship with customer delight. From the above discussion following hypothesis are proposed:

H1: Higher the attachment to one brand, greater the customer delight for that brand.
H2: Higher the surprise to one brand, greater the customer delight for that brand.
H3: Higher the customer brand engagement greater the customer delight for that brand.
H4: Higher the customer satisfaction to one brand, greater the customer delight for that brand.
H5: Higher the customer delight greater the brand loyalty.

Proposed model of relationships is expressed in the figure.
5. Research Methodology

5.1 Sample

The sample of this study was drawn from the Lahore city Pakistan. Respondents were conveniently approached by personally visiting Educational Institutions and banks in the Lahore. The strength of using the convenience sampling technique for data collection lies in its ability to produce a huge group of respondents in a relatively short time period (Hair, Bush, & Ortinau, 2006).

5.2 Measuring Instrument and Measures

The main research instrument used in data collection for this study is the questionnaire. A sample of 350 was collected through personally administered questionnaire. All the items on the scale measured on five point likert scale from strongly disagree (1) to strongly agree (5). Research questionnaire was divided into two parts. First part included the demographics of participants such as gender, age and academic qualification. Second part included the dependent and independent variables. All scales of measurement were adopted from previous researches. The scale of customer
delight and surprise was adopted by Finn (2005); brand attachment adopted from Lacoeuilhe (2000); customer satisfaction from Churchill and Surprenant (1982); Oliver (1980); brand loyalty from Bloemer, De Ruyter, and Wetzels (1999); customer brand engagement had five dimensions which were identification, enthusiasm, interaction, attention and absorption was measured on scale adopted from King and Sparks (2012).

6. Findings

6.1 Reliability

Reliability measures the internal consistency of scale items by using Cronbach’s alpha.

\[
\begin{array}{|c|c|}
\hline
\text{Cronbach’s Alpha} & \text{No. of Items} \\
\hline
.860 & 41 \\
\hline
\end{array}
\]

Table shows the 0.860 reliability of total scale which is good enough and above the minimum required score of 0.50 by Nunally (1978).

6.2 Demographics of Respondents

From total 350 respondent 167 are male and 183 are females. In the total 350 customers, 83 customers have undergraduate qualification, 115 have gradation degree, and 111 customers have master qualification however 30 and 11 customers have post graduate and doctorate degree respectively. Most respondent lies between the age range of 18-21, 22-25 and 26-29. This study also got 30 different brand names like Samsung and Outfitters which give delight to customers.

6.3 Descriptive Statistics
Table 2

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer delight</td>
<td>350</td>
<td>2</td>
<td>5</td>
<td>4.02</td>
<td>.553</td>
</tr>
<tr>
<td>Brand attachment</td>
<td>350</td>
<td>1</td>
<td>5</td>
<td>4.01</td>
<td>.540</td>
</tr>
<tr>
<td>Surprise</td>
<td>350</td>
<td>2</td>
<td>5</td>
<td>3.90</td>
<td>.680</td>
</tr>
<tr>
<td>Customer brand engagement</td>
<td>350</td>
<td>2</td>
<td>5</td>
<td>3.80</td>
<td>.567</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>350</td>
<td>1</td>
<td>5</td>
<td>4.22</td>
<td>.490</td>
</tr>
<tr>
<td>Brand loyalty</td>
<td>350</td>
<td>1</td>
<td>5</td>
<td>3.83</td>
<td>.737</td>
</tr>
<tr>
<td>Valid N</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table illustrates the mean and standard deviation of all variables selected for this study. The respondents were asked to give appropriate answers on five point likert scale ranging from strongly disagree (1) to strongly agree (5). Mean scores shows the positive high values which lies in the range from 1.17 to 5.00. Standard deviation describes the spread of a set of observations.

6.4 Regression Analysis

Regression analysis is used to investigate the dependence of outcome variable on one or more predictor variables. In this study I have used two regression models to test the hypothesis. Firstly multiple regression analysis is applied to investigate the effect of predictor variables on customer delight. Secondly simple regression analysis is applied to explore the influence of customer delight on brand loyalty. Regression analysis is a statistical technique for fitting an equation to data in order to analyze the influence of predictors on outcome variable.

Table 3

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent variables</th>
<th>R square</th>
<th>Adjusted R square</th>
<th>F statistics</th>
<th>Significance value</th>
</tr>
</thead>
</table>

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In the table 3 coefficient of determination (Adjusted R-square) shows that 13.4% variation in customer delight is explained by the variation in the independent variables that are surprise, brand attachment, customer brand engagement and customer satisfaction while remaining 86.6% is unexplained variation. The results show that F value is 14.483 and statistically significant. The model is good fit and significant as p value is less than 0.05 which means that independent variables predict the customer delight.

Table 4

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent variables</th>
<th>Beta value</th>
<th>Standard errors</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer delight</td>
<td>Brand attachment</td>
<td>0.243</td>
<td>0.062</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Surprise</td>
<td>0.001</td>
<td>0.048</td>
<td>0.984</td>
</tr>
<tr>
<td></td>
<td>Customer brand</td>
<td>0.187</td>
<td>0.063</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>engagement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer satisfaction</td>
<td>0.026</td>
<td>0.062</td>
<td>0.675</td>
</tr>
</tbody>
</table>

**H1: Higher the attachment to one brand greater the customer delight for that brand**

The findings show that there is significant positive relationship between brand attachment and customer delight. P value is 0.000 which is less than 0.05 and H1 is accepted. Attachment to one brand creates customer delight for that brand.

**H2: Higher the surprise to one brand, greater the customer delight for that brand.**

The results indicate that surprise with beta value 0.001 has positive insignificant relationship with customer delight as the p value is 0.984. So it is concluded that coefficient of surprise is not significantly related to customer delight.
**H3: Higher the customer brand engagement greater the customer delight for that brand.**

The findings show that H3 is accepted and there is significant positive relationship between customer brand engagement and customer delight as p value is 0.003.

**H4: Higher the customer satisfaction to one brand, greater the customer delight for that brand.**

The results describe that customer satisfaction has not significantly related to customer delight because p value is 0.675 greater than 0.05 with beta coefficient 0.026. Customer satisfaction does not create customer delight.

So the multiple regression equation is

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \]

Y = Customer delight (CD)

X1 = Brand attachment (BT)

X2 = Surprise (S)

X3 = Customer brand engagement (CBE)

X4 = Customer satisfaction (CS)

Equation of this study is

\[ CD = 2.222 + 0.243BT + 0.001S + 0.187CBE + 0.026CS \]

The findings show that all the beta coefficients are significant except surprise and customer satisfaction. It is analyzed that as brand attachment increases by 1 unit then customer delight is expected to increase by 0.243 units, holding all other variables constant. Customer delight is expected to increase by 0.187 units if customer brand engagement increases by one unit, remaining other variables constant. The standard errors associated with the coefficients are quite small and indicate that coefficients are estimated quite precisely.

### 6.5 Simple Regression Analysis
Simple regression analysis is applied to investigate the influence of customer delight on its outcome variable brand loyalty.

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent variable</th>
<th>R square</th>
<th>Constant</th>
<th>Beta value</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand loyalty (BL)</td>
<td>Customer delight (CD)</td>
<td>0.123</td>
<td>1.949</td>
<td>0.468</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**H5: Higher the customer delight greater the brand loyalty.**

Brand loyalty has significant positive relationship with customer delight. F value of model is 49.021 which indicates that model is good fit. P value is 0.000 less than 0.05 so H5 is accepted. R square explains that 12.3% variation in brand loyalty is explained by customer delight and remaining variation is not explained in this model.

Equation is \( BL = 1.949 + 0.468 \cdot CD \)

Regression equation describes that as the customer delight increases by one unit then brand loyalty increases by 0.468 units. Therefore customer delight creates the brand loyalty among customers.

7. **Discussion and Conclusion**

This study concludes that if organization wants to earn good profit globally and particularly in Pakistan, then it should work hard to increase customer delight. Delighted customers can be more profitable for a company. This study reveals that customer delight can become a fundamental basis of competitive advantage and profitability. There are several things that can be easily replicated by competitors. All the differentiation strategies are easy to imitate like improved by modifying facilities and dropping prices to enhance the demand of products and brand loyalty. Delightful services cannot be easily imitated. Executives have mostly focused on customer satisfaction to enhance loyalty.
The findings of this study explain that managers need to realize the importance of customer delight in driving brand loyalty which is supported by Kim, Vogt and Knutson (2015) investigated that customer delight generated greater loyalty than satisfaction. The results of this study show that organizations can increase customer delight through brand attachment and customer brand engagement which are Valuable addition in the existing literature. Customer delight is positively influenced by brand attachment and customer brand engagement. Customer satisfaction is not significantly related to customer delight which contradict the results of Haryono and Suyadi (2015) who ascertained that customer satisfaction had significant relationship with customer delight. Surprise also has positive insignificant relationship contradict the findings by Finn (2005) found that customer delight caused by surprise, arousal and positive affect. These contradictions in findings with previous studies occur due to different context of study. It can be possible in Pakistan customers have different values and culture that influence on their behavior toward particular brand so customer satisfaction and surprise cannot create customer delight. The factors brand attachment and customer brand engagement is useful to create customer delight which ultimately leads to brand loyalty.

This study has some limitations. Data is collected only from one city of Pakistan so this study has an issue of generalization. Another limitation of this study is sampling technique as convenience technique is used which obstruct the ability to generalize the results. Future research can be conducted in multiple cultural contexts by using probability sampling technique. Further study can also include other important mediating or moderating variables that can change the relationship.

8. Implications

This study has important theoretical relevance for customer behavior research. It may provide empirical support on aspects of customer delight to
the existing literature. Findings of the study may extend the knowledge about the factors that can create customer delight and ultimately leads to brand loyalty, positive word of mouth and repurchase intention.

Managers are facing a competitive global market as customers are becoming more complicated and role of information technology enhanced their awareness. Customers cannot acquire and retain through price reduction anymore as this aspect loses its worth as soon as competitor firms equate in the same conditions. Therefore research predicts that managers need to focus on customer delight in order to acquire and retain their customers. In this study proposed model of customer delight can give valuable information to managers on how to achieve customer delight and loyalty. It can also provide greater understanding of the process of customer relationship management.

9. Research Limitations

Only one major city of Pakistan is included in this study, and future research can focus on other geographical locations. Future research should examine other factors that affect brand loyalty, especially generational differences.

10. Originality/Value

This novel study improves our understanding of brand loyalty in Pakistan by undermining the emphasis on customer satisfaction and highlighting the significance of customer delight. This was missing in the current literature.

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EXPLORING THE EFFECTS OF CELEBRITY ENDORSEMENT IN ELECTRONIC MEDIA ADVERTISEMENTS ON PURCHASING BEHAVIOR OF CITIZENS OF SARGODHA CITY

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Mehwish Fiaz**

Abstract

The socio-economic development of Sargodha city of Pakistan has positive effects on the purchase behavior of citizen of the city. The induction of different brands in this city creates an opportunity to test the purchase behavior influenced by electronic media. The study examines the effects of celebrity endorsement in electronic media advertisements on purchase behavior of citizens of Sargodha city. Television is selected from a broad range of electronic media due to its popularity and access to the majority of population. 320 individuals are selected through multi stage sampling techniques in which participants are categorized demographically by gender, age, education, and as per income level with the ratio of 160 each gender category. Survey research method is used to acquire proper response from selected sample. Statistical analysis using SPSS describes the celebrity endorsed advertisements in TV which has significant positive impact on purchase behavior of the consumers of the study. The study reveals that customers pay more attention towards celebrity endorsed rather than non-celebrity advertisement. It is also learnt that female showbiz celebrities are more adored by customers as compared to male showbiz celebrities. In addition, customers recall level about advertisement with celebrities is higher than the advertisements with absence of celebrities. Findings further show that celebrity endorsed advertisements is more influential on purchase behavior of citizen of Sargodha.

Key Words:  Celebrities Endorsement, Advertisements, Purchasing Behavior, Celebrity

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1. Introduction

Around the clock, people are experiencing hundreds of voices and pictures in radio, television, magazines, newspapers, billboards, social media, and other media. Each brand makes effort to fascinate the masses with different engineered effective communication. Inspite of all these, it is always a big challenge for producers not only to get the attention of viewers but also to urge them to purchase the specific product. In this connection market is grabbed through different tactics and specialized communication by the producer. Marketers have conquered every feature of life in daily relations, conversations, approaches and to a convinced degree of regulate our activities as consumers of tangible and non tangible products. Advertisements affect individuals from every place through radio, television, newspaper, magazine, hoarding, arcade or shop or outlet to walls of each public building. Even the email box and social media are filled with advertisements. This planet has speedily developed as advertisement cognisant to such an extent that at nighttime the town lights up with millions of neon glow signs announcing, seizing our consideration.

1.1 Advertisement

Advertisement can be defined as a paid sort of communication which is planned for informing the targeted market about the tangible and intangible products (Haroon et.al., 2011). Shah et al., (2009) affirm that persuasive advertising is intended to encourage people to buy. This becomes more important as the product faces growing competition. The advertiser now needs to give more motives or incentives to pull consumers. The goal of the most of the advertising messages is to persuade the viewers to believe an idea or buy a product. The language of persuasion in advertising therefore is taken as an art. Arens et al., (2008) consider advertising as the controlled and self-possessed non-personal communication of information, paid for and usually influential in kind about products by open sources through numerous media. The core objective of advertising is to enhance the sale volumes of products through
different advertising mediums Advertising touches people in many ways. Thus it has potential to effect from large corporations to small rural residents.

1.2 Celebrity

A person who is acknowledged by the public for his or her deeds in having different portfolios like performer, sportsman, entertainer, legislator, etc. is known as celebrity (Choi et al., 2005). Celebrity is a person who adores public appreciation by an outsized group of people. Whereas, features like charming, amazing lifestyle or distinct skills are particular same characteristics that are perceived and celebrity normally differs from the social norm and experience a great mark of public attentiveness (Schlecht, 2003). In this context Atif Aslam, Mahnoor Baloch, Sanam Saeed, Waseem Akram, Fahad Mustafa, Katrina Kaif, and Sania Mirza, are some examples of celebrities having different portfolio and public recognition. And people give weightage to these personalities in their routine work as aspirations from them and feel relaxed. In this regard not only Pakistani but also celebrities from other countries can be seen in all media. According to Fleck et al., (2012) when a celebrity gets the status of fame and popularity that instantly appears in an advertisement.

1.3 Celebrity Endorsed Advertisement

Such advertisement in which a celebrity is used on behalf of a consumer’s good by performing with it (McCracken, 1989, p.310). In market’s point of view, Gupta (2009) elaborates celebrity as a person whose name has attention-getting, interest gaining and profit making value that shoots from the high level of public interest. Such entities are used to endorse customer services, products, ideas or organization (Canning et.al., 2006). Keller (2003) mentions the traits of celebrity in terms of expertise, trustworthiness, likability, attractiveness and specific relations that carry possible product significance.
1.4 The Impacts of Advertising

Schiffman and Kanuk (2007) termed advertising appeal as suppliers’ claim of an emotionally inspiring control to stimulate consumers’ aspiration and behavior for purchasing while displaying electronic advertisements to modify audiences’ perceptions about the brand. To fulfill the fluctuating demands of their marked public, advertisers frequently exploit rational and emotional appeal in strategies to effect customer’s behavior [CITATION Chu96 p 1033]. Similarly Kotler (1997) took rational appeal as reason based buying motivated by openly giving descriptions of a product’s benefits. According to him, second appeal is as the motivation for consumers’ purchase goals by affecting their positive or negative sentiments.

Lin (2008) described advertising attitude as an endlessly responsive positioning observed from a firm object. This positioning signifies a person’s personal values such as agree and disagree, and right and wrong. This apprehended by consumers instigated by advertising can be categorized into two phases: cognition and affection. Cognition and affection represent rational and sensitivity, respectively (Vakratsas, 1999). According to Schiffman and Kanuk (2007) advertising appeal may modify consumers’ approach.

1.5 The Influence of Advertising Attitude on Purchase Intention

Consumer behavior is the action public commence when gaining, consuming, and disposing of tangible and non tangible products (Blackwell et. al., 2001). Learning this action is vital because it can assist to develop effective strategies to stimulate the consumer to buy the advertised brand. Purchasers have the command to accept or reject the brands according to their needs and lifestyles. Blackwell et. al., (2001, p. 6) suggested to read out consumers’ heads comprehensively. It would definitely provide the grounds to consumer to act as per line of the marketing mix a well-known 4Ps (Product, Price, Place and Promotion).
2. **Objectives of Study**

The objectives of the study are as follows:

- To investigate how much celebrity endorsers affect customers’ purchasing behavior.
- To assess the interest level of customers in celebrity endorsement advertisements.
- To dig out costumers’ level of satisfaction regarding celebrities in advertisements.

3. **Literature Review**

An empirical study entitled, “Impact of Celebrity endorsement on consumer’s buying behaviour” was conducted in India to examine the influence by celebrity endorsed advertisements on buying behaviour of consumers belonging to different age groups. After applying convenience sampling the data was acquired through structured questionnaire. The findings revealed that Celebrity endorsement develops product awareness among respondents. According to the result it was also come to know that these advertisements also assist the respondents to recall endorsed products. It was also established by the study that these advertisements persuade customers to buy brands rather than non-celebrity advertisements. A vast majority of consumers think that celebrities are not consuming those brands endorsed by them. A good number of the consumers feel that repeated changes in celebrity for the brand lessen their buying decision. It was also observed that the purchase attitude is affected by the quality of the products rather than endorsement features, cost, price cut and incentive packages. The findings also established that renowned figures are playing key role in generating more impact than Sports persons and showbiz personalities (Randhawa & Khan, 2014).

Malik & Guptha (2014) tailored a research on influence of endorsements by celebrity and brand mascots on buyers’ purchasing behaviour. Celebrity and brand amulet endorsements are very widespread skills by marketers. A well-arranged questionnaire was the instrument of data
collection from 150 individuals from the Northern India. The test was applied according to requirement of study for analysis. The findings determined that a celebrity endorser motivate the consumers in the personal care and food brands. The researchers take Celebrity endorsers as initiator and influencer in the consumer’s purchasing behaviour to inform about brand and build link between brand and public. Majority of the sample believe that sportsman/sportswoman to be more influencers since individuals take them genuine captivate figures. The results also established that Celebrity-endorsed brands are taken by the consumers more important than non-celebrity products. It was also affirmed that customers believe that a celebrity endorsed product celebrity is of worthy quality. After acknowledgement of the importance of celebrities companies are hiring these figures massively to persuade the people.

A study entitled “Influence of Celebrity Endorsement on the Consumer’s Purchase Decision” was conducted in Coimbatore, India. As Indian markets are flooded with stars and brands so it was point to evaluate the trends and opinions regarding celebrity endorsed advertisements. Convenience sampling is been adopted in this study and a sample of 200 is been selected. And data was gathered through questionnaire and analysed by using statistical tests. The findings concluded that 51% of the consumers give leverage to quality of the brand while buying. Whereas 53% believe that advertisements with celebrity support them to recognize a product. It was also revealed that 51% of the consumers are persuaded by these advertisements to acquire the goods. Another finding exposed that 69% television the medium of advertisement convincing to buy a brand. 39.5% individuals strongly agreed that a sportsman (Sachin Tendulkar) is the greatest among all other celebrity endorsers (Radha & Jija, 2013).

Nyakado (2013) investigated a representative sample size of 300 selected by random sampling technique, in Kenya about celebrity endorsement regarding their purchasing behaviour. Celebrity endorsement is an important factor in changing thinking and also the consumption pattern of the
individuals. The study was concentrated to recognising the effect of celebrity and its attractiveness on consumer. The results of study confirmed that physical attractiveness of celebrity effects buyer’s towards the brand. Therefore it has been recommended that company should not only employ a celebrity who is only well-liked but who also attains credibility. The findings indicated that a celebrity endorsed brands have a tendency to attract more consumers. The research findings also exposed that Wahu was the finest to do the Rexona elevation as per 83% respondents. According to the big portion of respondents, she is well known to each corner of East Africa.

Companies spend massive amounts on advertising for signing the accurate celebrity. Buyers remark the product as high quality since it has been recommended by a trustworthy source. A study was conducted in the city of Belguam, regarding to analyse the influence of Brand Ambassadors on buying behaviour of soft drinks. To explore the importance of celebrity endorsement in the recalling brand, its awareness, promotion of product and assess the impact in the purchase behaviour of soft drinks, this research was carried out. 100 individuals ranging from age 17 to 35 years, were selected as representative sample. To inquire, the researcher used questionnaire then treatment with data was made through software. According to the findings, 68% individuals were exposed to television celebrity endorsed advertisements of a specific soft drink. Another result showed that these advertisements are facilitative for brand awareness and recall among respondents. It was also concluded in study that celebrity endorsement be subject to the firm that how efficiently use it (Goutam, 2013).

Another study was conducted to analyze the effect of celebrity endorsed advertisements on consumers’ purchasing. The overall results showed that celebrity endorsers are used by the corporations for product fairness. It has also revealed that consumer perceives that these advertisements are reliable and convenient to recall about product. And consumers think connected and it has also assisted in effecting the demand of the brands. The study also concludes that corporations attaching in the
celebrities to boost the image of the brand, awareness, recall, and for credibility. Further, the study revealed that those brands have more market portion which are endorsed by celebrities. And consumers have also influenced on the demand of the brands. In short, celebrity endorsement has positive relation with corporations as well as product and customers according to the study (Anjum et. al., 2012).

Another study was conducted to examine consumer attitudes regarding celebrity endorsement in different types of media in Egypt and effect on purchasing behavior. This research applied convenience sampling and surveyed 355 respondents, having different age groups, educational level, income division and residential regions. According to the results, the individuals were overall interested in celebrity endorsed advertisements, as the majority acknowledged its attractiveness; however, they did not find it sufficiently considerable for purchasing behavior. The study suggested re-examining the use and selection of celebrities in advertising within the background of the Egyptian culture (Azab, 2011).

A study done by Asiamah and Ampadu (2011) on “Celebrity endorsement of brands and its effect on consumers in the Accra metropolis”, inquired 200 respondents whether they identify a particular celebrity. 98.5% responded that they recognize a celebrity. The findings revealed that 87% respondents strongly agreed that there is rise in celebrity endorsement in Ghana. Furthermore, approximately 98.5% were using celebrity endorsed product. 42% consumers used celebrities to evaluate themselves and 58% of the respondents don’t do this. It was established that only 50% respondents thought that celebrities have the power to affect consumers. In the view of 89.5% respondents, celebrities used for certain products have helped in the recollection of those brands. However, only 11.5% purchase celebrity endorsed brand. The results showed that majority of the respondents thought familiarity with the celebrity could affect consumers to purchase a specific product.
4. **Theoretical Framework**

The present study assesses the effects of celebrity endorsed advertisements on consumers’ purchasing behavior in line of Elaboration Likelihood Model (ELM). In this study it is observed that whether the behavior that is being shown in advertisements on electronic media will influence to adopt behavior or not? In order to explore the aforesaid problem, the researcher tries to access the association between viewers’ purchasing intention to modeled behaviors presented in the advertisements on electronic media and their effects on individuals.

5. **Hypotheses**

H1: It is more likely that customers pay more attention towards celebrity endorsed advertisements than others advertisements.

H2: It is more likely that female showbiz celebrities are more liked by customers as compared to male showbiz celebrities.

H3: It is more likely that customers recall level about advertisement with celebrities is higher than the advertisements with absence of celebrities.

H4: It is more likely that celebrity endorsed advertisement are more influential on purchasing behavior of customers than non-celebrity advertisements.

6. **Methodology**

Survey research method was adopted for this research. Population of the research was citizen of Sargodha city of Pakistan. Here in this study every individual of population of study is unit of analysis. The researcher has taken the representative sample of 320 for the Sargodha city. Sampling techniques used for this research were stratified and purposive. The sample of 320 comprised of 160 men and women each. Questionnaire was used as tool to gather responses from respondents. SPSS was used to analyze the data in detail.

7. **Findings**
Celebrity endorsement has become a universal occurrence and it undertakes utmost position in many countries. The advertisers have started endeavouring to measure its magnitude to persuade the buyers and make the communication effective for awareness, appeal, and relevance to a product or cause and its influence on the purchasing behaviour.

7.1 **Extent of Attention to Celebrity Endorsed Ads**

<table>
<thead>
<tr>
<th>Category</th>
<th>Viewers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very much</td>
<td>14.1</td>
</tr>
<tr>
<td>Much</td>
<td>39.7</td>
</tr>
<tr>
<td>Somewhat</td>
<td>36.3</td>
</tr>
<tr>
<td>Rarely</td>
<td>8.1</td>
</tr>
<tr>
<td>Not at all</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Table 1 above highlights the attention paying level of viewers to watch celebrity endorsed TV advertisements. As per table, 40% viewers pay much attention to TV advertisements with celebrity which is the biggest value of the table while 36% pay less attention to ads. Similarly only 14% of overall viewers consider these ads very much whereas 8% take interest rarely and 2% do not pay attention at all.

<table>
<thead>
<tr>
<th>Test Value = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>Watched Television Advertisements</td>
</tr>
</tbody>
</table>

This table describes after applying t-test to observe the frequencies, it is learnt here that significant value which is less than p value of 0.05 shows that customers pay more attention to TV advertisements with celebrity than the other advertisements. It supports the hypothesis (H1), "It is more likely that
customers pay more attention to TV advertisements with celebrity than the other advertisements”. Hence it is accepted.

7.2 Comparison of Liking Celebrities

Table 3: Genderwise Liking Celebrities Table

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actors</td>
<td>Singers</td>
</tr>
<tr>
<td>Very Much</td>
<td>216</td>
<td>154</td>
</tr>
<tr>
<td>Somewhat</td>
<td>97</td>
<td>147</td>
</tr>
<tr>
<td>Rarely</td>
<td>7</td>
<td>19</td>
</tr>
</tbody>
</table>

This shows that female celebrities are more liked than male celebrities in advertisements. This mathematically significant difference also supports the hypothesis (H2) “It is more likely that female showbiz celebrities are more liked by customers as compared to male showbiz celebrities” and declares the null hypothesis as false.

7.3 Help to Recognize the Brand by Advertisements with Celebrity

![Figure 1](Image)

As shown in pi-chart, the brand is recognized with the help of the presence of celebrity in TV advertisements by overall viewers. The big share of viewers which is 38% believes that celebrity in TV advertisements helps much to recognize the brand similarly 27% considers it to some extent. The 3rd biggest value of 17% of viewers strongly thinks the celebrity as facilitative to recognize the brand whereas 14% agree with it rarely. 4% least value represents those who don’t this so at all.

Table 4
The chi-square shows the significant difference between advertisements with presence of celebrities and advertisements with absence of celebrities regarding recall level can be seen. The recall level for advertisements with presence of celebrity is prominent which also accepts the hypothesis (H3) “It is more likely that customers recall level about advertisement with celebrities is higher than the advertisements with absence of celebrities” and rejects the null hypothesis.

7.4 Purchasing Decision under Influence of Celebrities

This chart exposes the thinking level of viewers about influence of TV advertisement with celebrity on purchasing decision. According to the picture, 42% viewers think advertisements with celebrity much effect on purchasing decision. Similarly 35% viewers consider it in some extent while 9% agree with it rarely. Only 3 % viewers deny it.

<table>
<thead>
<tr>
<th>Chi-Square Extent of Recalling the Advertisement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recall the advertisements with presence of celebrities</td>
</tr>
<tr>
<td>Chi-Square</td>
</tr>
<tr>
<td>DF</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 64.0.
Table 6

<table>
<thead>
<tr>
<th>Test Statistics&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Respondent Gender - Celebrity endorsement ads are influential on purchasing decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z</td>
<td>-12.518&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.023</td>
</tr>
<tr>
<td>a. Based on positive ranks.</td>
<td></td>
</tr>
<tr>
<td>b. Wilcoxon Signed Ranks Test</td>
<td></td>
</tr>
</tbody>
</table>

These statistical results show that TV advertisements with celebrity are significantly influential on the purchasing behavior of respondents. It also support the hypothesis (H4) “It is more likely that celebrity endorsed advertisements are more influential on purchasing behavior of customers than non-celebrity advertisements” and rejects null hypothesis.

8. Discussion

This study was intended to explore the effects of celebrity endorsement in electronic media advertisements on the purchasing behaviours of citizens of Sargodha city. For the purpose the advertisements on TV were taken. Findings of the study reveal that significant number of respondents is exposed to TV advertisements very frequently. Similarly, remarkable majority of respondents take very much interest in watching celebrity endorsed TV advertisement. Respondents think celebrity is used very frequently in TV advertisement. Like this, the types of celebrity with major division on the basis of gender and minor division according to their portfolio, like from showbiz, actor, singer and model have taken. Whereas, sportsman and experts are also categorizes of celebrity on the basis of gender in the table, also validates the Hypothesis (2)
“It is more likely that female showbiz celebrities are more liked by customers as compared to male showbiz celebrities”.

Significant numbers of respondents pay attention very much to watch advertisement using celebrity, also validates the Hypothesis (1) “It is more likely that customers pay more attention towards celebrity endorsed advertisement than other advertisements”. Presence of celebrity in advertisements is very much helpful for respondents to recognize the brand, also validate the hypothesis (3) “It is more likely that customers recall level about advertisements with celebrities is higher than the advertisement with absence of celebrities”. Advertisements with presence of celebrity are very much recalled as compared to absence of celebrity in advertisements.

The responses of respondents are significant for attraction trait of the celebrity in advertisement as compare to trustworthiness, credibility, and loyalty. Similarly another result based on major question of study demonstrates that respondents are influenced very much by celebrity endorsement advertisement in their purchasing decision, as it also supports the hypothesis (4) “It is more likely that celebrity endorsed advertisements are more influential on purchasing behaviour of customers than non-celebrity advertisements”.

9. Recommendations

Following recommendations may be proposed as the result of findings:

- Advertising is a flourishing sector in Pakistan and due to emergence of latest equipment and mode of communication it is very challenging task for advertisers to grab the market and sustain it on long-term basis. So it requires deep-rooted observation to analyze the market as an audience to get sound results. In this connection well-analyzed, well-designed communication can attain the objectives of business, so to get this strategy advertiser may be followed the standards of research to diagnose the publics, trends and requirements of market for better result-oriented scheme of mind.
• Corporate sector may be constituted such policies to address real need of customers instead of seizing the minds of audience for unconsciousness. False marketing and other sort of malpractices can damage the repute of advertiser too. So, to remove such kind of stuff, scientific observation may be taken on priority basis.

• It is learnt that the bottom-line of current corporate sector is just to get profit. In this motive some unethical dissemination is used in advertisement which may be eliminated just for the sake of social responsibility. It would be helpful to facilitate the consumer to select the real right option in the market.

10. Implications For Future Research

Forthcoming researchers may draw their attention on this area in different following dimensions by adopting different techniques. A comparative study between international and national celebrities may be conducted to assess their influence on the purchasing decisions of customers. A study may also be conducted to assess the perception of consumers about brand which is endorsed by celebrity.

References


INVESTIGATING THE LEVERAGE COMPOSITION OF PAKISTANI FIRMS THROUGH THEIR DETERMINANTS

FARAH YASSER*

Abstract

To have an ideal mix of debt and equity in a balance sheet of an entity is till to date a very complicated issue for managers as there is no such rule to predict an optimal capital structure. An in-depth understanding is required for the corporate culture, the degree of the development of the capital market and the economy in which the firms operate. This study seeks to investigate the leverage composition of Pakistani corporations through their determinants. Fixed effect regression is used to show the relationship of determinants of capital structure on leverage corporations listed on Karachi Stock Exchange (KSE) for the period of 2006 to 2013. The results suggest that agency cost, growth, age, and size are significantly and negatively associated with the capital structure of Pakistan firms, however, collateral value of asset is significantly but positively associated with the capital structure of the firm. On the other hand, free cash flows, non debt tax shield, profitability, business risk and bankruptcy cost are not significantly associated with leverage composition of the firms and are against the signaling theory and peaking order theory. The key importance of this study is that no prior research was done for determinants like agency cost, free cash flows, bankruptcy cost and age as determinants of capital structure for Pakistani firms among other determinants. Further, this study does not confine to a particular sector rather it covers all companies listed by Karachi Stock Exchange.

Key Words: Leverage, Determinants of Capital Structure, Agency cost, Collateral value of assets, Bankruptcy cost.

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1. Introduction

Capital structure irrelevance theory was introduced by Modigliani and Miller (1958) and since then arguments have progressed for the leverage decision of the firm. MM theory suggests that the value of the firm is independent of its capital structure under certain assumptions. Even though this theory is based on unrealistic assumptions, there are a number of variables that narrate the value to the firm and often identify as determinants of the capital structure e.g. agency cost, collateral value of asset, growth, free cash flows, and age of the firm, business risk, bankruptcy risk, profitability and non debt tax shield. Hence, the main purpose of the firm is to maximize the wealth of the stockholders by evaluating a suitable finance mix. Combination of debt and equity capital becomes the most controversial corporate issue over the past four decades. The capital structure decisions directly influence the market value of the firms and the cost of the firm.

How to have an ideal mix of debt and equity in a balance sheet of an entity is till to date a very complicated issue as there is no such rule to predict an optimal capital structure. An in-depth understanding is required for the corporate culture, the degree of the development of the capital market and the economy in which the firms operate. Firms can only achieve their objectives through skillful intellectual managers and the management can perform better without thinking about finance shortage or finance mix. So soon after the arrival of (Modigliani & Miller, 1958), the western world started financing their corporations without bothering the mode of finance i.e. debt or equity and forgot about the equity debt mix and just focused on growth and achievement of commercial business objectives. Companies achieved local and international remarkable growth. Due to rapid growth historic numbers soon became meaningless. Corporations started focusing more about their market values and future fund flows rather than the book value of assets. Financial ratios are also designed on the market values of the company. Human capital also becomes an important part of the company.

Pakistan is one of the developing countries with lot of issues involving unstable micro and macroeconomic situations, political crisis, social behavior, geographical
structure, complicated tax mechanism and non robust legal system. It is equally important to find out those factors that influence a firm’s capital structure choice. However, in case of developing economies, inadequate literature is available regarding capital structure of corporations in Pakistan. Eldomiaty (2008) mentioned that because of the insufficient information problems, the capital markets of the developing economies are not efficient enough to compare with developed market. Therefore, the outcomes of the developed countries cannot be generalized with the developing countries like Pakistan where political risk is very high, foreign currency fluctuations are very frequent, business risk is lofty, and the capital market is in developing phase. Most of the debate in the country on low investment ratios has been centered around factors such as infrastructure, law and order, skill shortages and bureaucratic hassles (Hussain, 2006).

The key importance of this study is that no prior research was done for determinants like agency cost, collateral value of assets, free cash flows, bankruptcy cost and age as determinants of capital structure for Pakistani firms. Further, this study does not confine to a particular sector rather it covers all companies listed by Karachi Stock Exchange. Therefore, this study shows an in depth analysis of determinants of capital structure of Pakistani firms. Moreover, this study is very functional for the managers of the corporations and provides guidelines for efficient use of the determinants of capital structure in order to maximize firm performance. Government authorities, taxation bodies and policy makers can also be benefited from the findings of the study. Hence, this study also served the purpose of a rich contribution in the existing literature regarding the determinants of capital structure of firms in Pakistan.

2. Literature Review

Theories of corporate structure draw a closer attention in the world of finance when Modigliani and Miller (1958) presented capital structure irrelevance principle. This principle states that in a perfect market, whatever the mode of finance the firm uses, it is irrelevance to the firm’s value. And since then, many other theories were presented with the help of basic idea provided by Modigliani and Miller (1958) like trade off theory, pecking order theory, OLI theory, signaling theory, etc. These theories highlight different
determinants of capital structure and draw attention to their importance in the perspective of capital structure.

Pecking order theory is based on asymmetric information of the firm. In this theory, Myers (1984) explained that how a company prioritized its financing decisions. The main theme of the theory is that the firm takes finances from easier sources first i.e. internal finance. Pecking order theory also suggests that there is an inverse relationship between profitability and leverage. Modigliani and Miller (1958) theorem was a very simple utopian kind of model where it was assumed that there are no tax benefits, no agency costs and bankruptcy cost. And it tried to convince its reader about being inert to whether a capital is used or debt is employed for a firm’s operations. However, M&M proposition II did take into account these costs and explained that although the firm’s WACC decreases with debt inclusion, yet it becomes more risky. The signaling theory talks about firm’s management decisions taken as being signals by the other stakeholders to it. This allows good firms managers to signal to stakeholders about their firm’s value and thus enable them to take decisions accordingly. Such popular signals involve dividend policy, issue of bonus shares, stock splits.

2.1 Determinants of Capital Structure - Around the World

Al Amri and Al Ani (2015) examined determinants of capital structure for three sectors (food, construction and chemical) of Omani industrial companies for the period of 2008 -2012. They found that there is a significant and positive relationship between risk and tangibility and leverage and there is a significant but negative relationship between growth rate and profitability and leverage, while there is no association with size. Baltacı and Ayaydın (2014) explored Turkish banking sector and found that capital structure is positively and significantly related with size, industry leverage and GDP growth. They further find that capital structure is significantly but inversely related with financial risk, profitability, tangibility and inflation.

Forte, Barros, and Nakamura (2013) investigated capital structure of Brazilian firms and found that profitability is significantly and negatively related to capital
structure. Also, growth is positively and significantly related to leverage. Further, size is positively related and age is negatively related to the leverage.

Mac an Bhaird and Lucey (2010) explored 299 Irish enterprises and found that age, intangibility, collaterals and size are the significant determinants of capital structure. They further found that ownership structure, size, age and collateral are similar across industry. Kouki and Said (2011) conducted research on 244 French listed companies and found that trade off theory, pecking order theory and market timings are not significant. Huang (2006) revealed an inverse relationship between leverage and profitability, non debt tax shield, growth opportunities and managerial shareholdings.

2.2 Determinants of Capital Structure – Pakistan

Khan, Jan, and Khan (2015) explored cement sector of Pakistan. By using pooled regression model, they found that there is an inverse relationship of firm size and leverage of the firm which is against static trade off theory. Qadri (2015) investigated Pakistani non financial firms listed on Karachi stock exchange for the period of 2004 to 2012. This study showed a significant and negative association between profitability and leverage, supporting peaking order theory. Moreover, this study showed a significant and positive association of tangibility and size with leverage supporting trade off theory.

Masnoon and Saeed (2014) examined automobile sector of Pakistan for the period of 2008 to 2012. This study found that leverage has an inverse and significant relationship with profitability and liquidity, whereas, leverage has a positive insignificantly relationship with earning variability. Ahmed Sheikh and Wang (2011) examined firms listed on Karachi stock exchange for the period of 2003 to 2007 and found that profitability, liquidity, earnings volatility, and tangibility are negatively associated to leverage, while firm size is positively associated to leverage. Non-debt tax shields and growth opportunities do not appear to be significantly related to leverage. Ahmad and Zaman (2013) analyzed textile sector listed on Karachi stock exchange of Pakistan and revealed that profitability and size is significantly and negatively related to leverage while tangibility and growth were positively related to leverage.
Afza and Hussain (2011) investigated three sectors (automobile, engineering and cable and electric goods) listed on Karachi stock exchange by using pooled data regression model. The results of this study supported static trade off theory and pecking order theory. Hijazi and Tariq (2006) investigated listed firms of cement industry of Pakistan and found that firm size, tangibility, growth and profitability is associated to leverage. Shah and Khan (2007) examined non financial firms listed on Karachi stock exchange for the period of 1994 to 2002 and found that tangibility, volatility and non debt tax shield are significantly related with leverage, hence confirming trade off theory and profitability is significantly associated with leverage confirming pecking order theory, whereas, size is insignificant to leverage.

From the above literature review, it can be wrap up that no prior research was done for determinants like agency cost, collateral value of assets, free cash flows, bankruptcy cost and age as determinants of capital structure for Pakistani firms. However, these variables show a significant relationship with leverage in developed countries Baltacı and Ayaydın (2014), Forte et al., (2013), Mac an Bhaird and Lucey (2010) etc. Therefore this study includes all those variables that have already tested in all developed economies studies but first time include in developing economy scenario like Pakistan.

3. Theoretical Framework And Hypothesis Development

- **Agency Cost**

Agency cost is one of the most important determinants of capital structure. It begins with the conflicts of interest between debt holders and equity holders (Myers, 1977). Firm having high agency cost have high cost of debt and thus leads to have lower debt ratio (Fama, 1980; Jensen, 1986; Titman, 1984).

Ho1: There is no significant relationship between agency cost and leverage of Pakistani firms.
• **Bankruptcy Cost**

Bankruptcy cost depends on costs like legal fees, loss of sales, employees and suppliers and the probability of its happenings. If financing through debt increase, the probability of bankruptcy also increases and as a result bankruptcy cost increase. Firms with higher bankruptcy cost have lower debt.

*H02*: There is no significant relationship between bankruptcy cost and leverage of Pakistani firms.

• **Non Debt Tax Shield**

It is usually argued that company with more non debt tax shields should have less debt since the tax advantage of debt are comparatively less important (Akhtar & Oliver, 2009).

*H03*: There is no significant relationship between non debt tax shield and leverage of Pakistani firms.

• **Profitability**

Myers (1984) argued that if a firm is more profitable then it will have more internal financing than external sources according to pecking order theory of capital structure. Therefore it can be proposed that the firms with higher profit have higher internal finance and hold less debt. Internal finance is less costly and easier whereas external finance is more costly. Hence it can hypothesize that there is an inverse relationship between profitability and leverage.

*H04*: There is no significant relationship between profitability and leverage of Pakistani firms.

• **Size**

Bigger firms usually have larger exposure to the public than smaller firms and consequently need to provide more information to consumers, creditors, suppliers,
forecasters and government personals (Cooke, 1991). Larger firms have more resources to provide relevant information to stakeholders and as a result, larger firms have more debt with more attractive terms as compare to smaller firms. Hence, a direct association is expected between firm size and leverage. Empirical studies suggested size as a determinant of capital structure (Ferri & Jones, 1979; Scott Jr & Martin, 1975) and (Aggarwal, 1990).

Ho5: There is no significant relationship between size and leverage of Pakistani firms.

- **Collateral Value Of Assets**

  Rajan and Zingales (1995) found that tangibility of assets or collateral value of assets is a determinant of capital structure. Corporations with more tangible assets are expected to have more debt because having more tangible assets gets debt easily on more favorable terms. On other side, Graham Jr. (1988) suggested that the corporations having high intangible assets have lower cost of borrowings cause better security for debt holders.

  Ho6: There is no significant relationship between collateral value to assets and leverage of Pakistani firms.

- **Business Risk**

  Business risk can be defined as the risk related with the future operations of the company. Firms with less business risk, (the risk that is connected with the upcoming business operations) are assumed more financial risks.

  Ho7: There is no significant relationship between business risk and leverage of Pakistani firms.

- **Growth**

  Theoretically it is suggested that the firm with higher growth rate will have lower debt in their capital structure. A company that grows fast invests huge amount in research and development.

  Ho8: There is no significant relationship between growth and leverage of Pakistani firms.
• **Age**

As the firm grows, more information is available for the firm’s probable viability in the future. More information cause less leverage in the capital structure of the firm.

**Ho9:** There is no significant relationship between age and leverage of Pakistani firms.

• **Free Cash Flows**

Jensen (1986) define free cash flows as the cash flow that is left after all positive NPV projects are funded. Harris and Raviv (1991) argued that firm with greater free cash flows will have lesser debt and vice versa.

**Ho10:** There is no significant relationship between free cash flows and leverage of Pakistani firms.

Table 1: Proxies for Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Proxies</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage</td>
<td>(Long term debt) / (long term debt + Market value of Equity)</td>
<td>(Burgman, 1996), (Chkir &amp; Cosset, 2001)</td>
</tr>
<tr>
<td>Agency Cost</td>
<td>(Cash and Marketable Securities) / 3 years of average total Assets</td>
<td>(Titman &amp; Wessels, 1988)</td>
</tr>
<tr>
<td>Growth</td>
<td>(Change in Total Assets) / (Total Assets)</td>
<td>(Jensen, Solberg, &amp; Zorn, 1992), (Mehran, 1992), (Shah &amp; Hijazi, 2004)</td>
</tr>
<tr>
<td>Age</td>
<td>Natural log (age of firm in years from date of incorporation)</td>
<td>(Bradley, Jarrell, &amp; Kim, 1984), (Chaplinsky, 1984), (Lee &amp; Kwok, 1988)</td>
</tr>
<tr>
<td>Non Debt Tax Shield</td>
<td>(Total Annual Depreciation Expense) / Total Assets</td>
<td>(Bradley, Jarrell, &amp; Kim, 1984), (Titman &amp; Wessels, 1988)</td>
</tr>
<tr>
<td>Size</td>
<td>Natural log of Total Sales</td>
<td>(Ferri &amp; Jones, 1979), (Scott Jr &amp; Martin, 1975), (Aggarwal, 1990), (Rajan &amp; Zingales, 1995)</td>
</tr>
<tr>
<td>Collateral Value of Assets</td>
<td>(Fixed Assets) / Total Assets</td>
<td>(Rajan &amp; Zingales, 1995), (Friend &amp; Lang, 1988), (Chittenden, Hall, &amp; Hutchinson, 1996)</td>
</tr>
<tr>
<td>Profitability</td>
<td>(Net Income) / Total Sales</td>
<td>(Doukas &amp; Pantzalis, 2003), (Rajan &amp; Zingales, 1995), (Shah &amp; Hijazi, 2004)</td>
</tr>
<tr>
<td>Business Risk</td>
<td>Volatility of Net Operating Income</td>
<td>(Burgman, 1996), (David M Reeb et al., 1998), (Lee &amp; Kwok, 1988)</td>
</tr>
<tr>
<td>Bankruptcy Cost</td>
<td>SD of first Difference in EBIT / Total Assets</td>
<td>(Bradley, Jarrell, &amp; Kim, 1984), (Lee &amp; Kwok, 1988), (Chaplinsky, 1984)</td>
</tr>
</tbody>
</table>
Table 1 shows the proxies for dependent variable leverage and independent variables agency cost, free cash flows, growth, age, non debt tax shield, size, collateral value of asset, profitability, business risk, bankruptcy cost and foreign exchange risk.

4. Research Methodology

4.1 Population

The initial data is collected from the publication of State Bank of Pakistan titled as “Financial Statement Analysis of the Companies (Non-Financial) listed at Karachi Stock Exchange”. The publication includes only non financial firms. Some data is also collected from companies’ websites and annual reports.

4.2 Sample

In this study, random stratified sampling technique is used and data is collected for the period of 2006 to 2013. SBP Publication contains 399 firms of different sectors. Slovin’s sampling technique is used to determine the sample size for this study as used in different previous studies. (Meyer, Mudambi, & Narula, 2011; Onimisi, 2010; Sharif, Naeem, & Khan, 2012; Yasa et al., 2013). It is usually impossible to survey every member in the population because of time or money constraint therefore, Slovin formula is useful to determine the sample size at a given error tolerance.

Slovin’s formula is:

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

Where;
\[ n = \text{Number of samples in the data} \]
\[ N = \text{Total population} \]
\[ e = \text{Error tolerance} \]

I considered error tolerance 5%

Therefore:
\[ n = \frac{399}{1 + 399(0.05)^2} \]
\[ n = 199.77 \]
\[ = \text{Approximately 200 firms} \]
From the table 2 it can be analyzed that Pakistan’s non financial sector is a diversified sector with different nature of firms however, textile industry is the biggest industry in Pakistan with highest number of companies and it ranges from spinning and weaving to make up textile items. Sugar and other food is the second largest industry of Pakistan and chemicals and pharmaceutical are the third largest industry. As Pakistan is a developing country, high tech industries are smaller in number like motor vehicles, auto parts, refined petroleum products, paper and board products, etc.

Table 2: Industry-wise Sample Size by Using Slovin's Formula

<table>
<thead>
<tr>
<th>Industries</th>
<th>TOTAL</th>
<th>SLOVIN’S FORMULA</th>
<th>SAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>155</td>
<td>(155*200)/400 = 77.5</td>
<td>78</td>
</tr>
<tr>
<td>Sugar and Other Food Products</td>
<td>54</td>
<td>(54*200)/400 = 27</td>
<td>27</td>
</tr>
<tr>
<td>Chemicals, chemical products and Pharmaceuticals</td>
<td>43</td>
<td>(43*200)/400 = 21.5</td>
<td>22</td>
</tr>
<tr>
<td>Electrical Machinery and Other manufacturing</td>
<td>39</td>
<td>(39*200)/400 = 19.5</td>
<td>20</td>
</tr>
<tr>
<td>Cement and other Mineral Products</td>
<td>28</td>
<td>(28*200)/400 = 14</td>
<td>14</td>
</tr>
<tr>
<td>Motor vehicles, trailers and auto parts</td>
<td>22</td>
<td>(22*200)/400 = 11</td>
<td>11</td>
</tr>
<tr>
<td>Fuel &amp; Energy</td>
<td>18</td>
<td>(18*200)/400 = 9</td>
<td>9</td>
</tr>
<tr>
<td>Information, Communication, transport and other services</td>
<td>22</td>
<td>(22*200)/400 = 1</td>
<td>11</td>
</tr>
<tr>
<td>Refined petroleum products</td>
<td>9</td>
<td>(9*200)/400 = 4.5</td>
<td>5</td>
</tr>
<tr>
<td>Paper, paperboard and products</td>
<td>9</td>
<td>(9*200)/400 = 4.5</td>
<td>5</td>
</tr>
<tr>
<td>Total:</td>
<td>399</td>
<td>(400*200)/400 = 200</td>
<td>202</td>
</tr>
</tbody>
</table>

Table 3: Firms’ Years* Distribution of companies by Economic Groups

<table>
<thead>
<tr>
<th>Economic Groups</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>624</td>
<td>38.0</td>
</tr>
<tr>
<td>Sugar and Other Food Products</td>
<td>216</td>
<td>13.4</td>
</tr>
<tr>
<td>Chemicals, chemical products and Pharmaceuticals</td>
<td>176</td>
<td>10.9</td>
</tr>
<tr>
<td>Electrical Machinery and Other manufacturing</td>
<td>160</td>
<td>10.4</td>
</tr>
<tr>
<td>Cement and other Mineral Products</td>
<td>112</td>
<td>6.9</td>
</tr>
<tr>
<td>Motor vehicles, trailers and auto parts</td>
<td>88</td>
<td>5.4</td>
</tr>
<tr>
<td>Fuel &amp; Energy</td>
<td>72</td>
<td>4.5</td>
</tr>
<tr>
<td>Information, Communication, transport and other services</td>
<td>88</td>
<td>5.5</td>
</tr>
<tr>
<td>Refined petroleum products</td>
<td>40</td>
<td>2.5</td>
</tr>
<tr>
<td>Paper, paperboard and products</td>
<td>40</td>
<td>2.5</td>
</tr>
<tr>
<td>Total:</td>
<td>1616</td>
<td>100</td>
</tr>
</tbody>
</table>

*Firms’ Years can be defined as the number of firms multiplied by the number of years in the sample, i.e. 202 firms multiplied by 8 years = 1616 firms’ years.

Table 3 represents the distribution of firm’s years with respect to economic groups. Hence textile is the biggest economic group of Pakistan with total 624 firms’ years with 38% in total. The second largest economic group is sugar and other food.
products which have 216 firms’ years in total. Chemicals and pharmaceuticals and electric machinery and other manufacturing are also big economic groups with 176 and 160 firm’s years respectively. In contrast refined petroleum products and paper, and paper board products are the smallest economic groups with 40 firms’ years each.

Table 4: Descriptive Statistics of Leverage and Determinants of Capital Structure

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEV</td>
<td>1612</td>
<td>0.172</td>
<td>0.246</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>AC</td>
<td>1613</td>
<td>0.050</td>
<td>0.150</td>
<td>0.000</td>
<td>4.915</td>
</tr>
<tr>
<td>FCF</td>
<td>1615</td>
<td>0.026</td>
<td>0.344</td>
<td>-0.277</td>
<td>12.042</td>
</tr>
<tr>
<td>GRO</td>
<td>1613</td>
<td>0.692</td>
<td>11.849</td>
<td>-1.000</td>
<td>440.803</td>
</tr>
<tr>
<td>BC</td>
<td>1613</td>
<td>9.321</td>
<td>31.628</td>
<td>0.020</td>
<td>823.977</td>
</tr>
<tr>
<td>AGE</td>
<td>1614</td>
<td>3.341</td>
<td>0.556</td>
<td>0.000</td>
<td>4.913</td>
</tr>
<tr>
<td>NDT S</td>
<td>1613</td>
<td>0.107</td>
<td>1.796</td>
<td>0.000</td>
<td>57.930</td>
</tr>
<tr>
<td>PROF</td>
<td>1595</td>
<td>-1.512</td>
<td>71.583</td>
<td>-2802.000</td>
<td>550.000</td>
</tr>
<tr>
<td>CVA</td>
<td>1613</td>
<td>0.473</td>
<td>0.241</td>
<td>0.000</td>
<td>1.973</td>
</tr>
<tr>
<td>BR</td>
<td>1612</td>
<td>-6.476</td>
<td>214.014</td>
<td>-6035.644</td>
<td>651.989</td>
</tr>
<tr>
<td>SIZE</td>
<td>1595</td>
<td>14.93</td>
<td>1.705</td>
<td>0.000</td>
<td>20.819</td>
</tr>
</tbody>
</table>

Table 4 shows the descriptive statistics of dependent variable (leverage) and independent variables (determinants of capital structure) of six years from 2006 to 2013. Leverage is 0.172 means on average generally Pakistani firms hold 17.2% debt in their capital structure. Agency cost is 0.050 while free cash flows are 0.026. There is a positive growth of corporations (69.2%) which is a good sign for Pakistan. Profitability is negative (-151%) ) which is a worrying sign on other hand. Financial crises, energy crises and other unfavorable factors may be the reasons for negative profitability. Further, average collateral value of asset is 0.473 and business risk of Pakistani firms is -6.476. Average bankruptcy cost is 9.3321.

4.3 Ethical Issues
As data is the secondary data, publically available on websites, no confidentiality or anonymity issues will arise.

4.4 Data Analysis

Initial data is collected and entered into Microsoft excel worksheet. The collected data has been entered accurately and systematically. The data for this research is the panel data means the data is the combination of time series data and cross sectional data therefore it has been organized accordingly and panel was created. In order to obtain the accurate empirical results, this study is using STATA 12 which is a very useful statistical tool for panel data. Different test have been applied in this research like descriptive statistics for the comparison of mean of variables and regression analysis for the relationship of variables.

5. RESULTS AND DISCUSSION

Empirical model

\[ LEV = \alpha + \beta_1 AC_{it} + \beta_2 BC_{it} + \beta_3 NDTS_{it} + \beta_4 PROF_{it} + \beta_5 SIZ_{it} + \beta_6 CVA_{it} + \beta_7 GRO_{it} + \beta_8 FCF_{it} + \beta_9 AGE_{it} + \beta_{10} BR_{it} + u_{it} \]

Where, LEV = Leverage
AC = Agency Cost
BC = Bankruptcy Cost
NDTS = Non Debt Tax Shield
PROF = Profitability
SIZ = Size
CVA = Collateral value of Assets
GRO = Growth
FCF = Free Cash Flows
AGE = Age
BR = Business Risk

6. Results And Finding
Sample for this study contains data across firms and over time so panel data analysis is appropriate. Panel data analysis has many advantages like it provide a hefty number of data points, increasing the degree of freedom, also decreasing the co-linearity among variables and helps in developing well-organized economic estimate (Hsiao, 1986). Further, panel data has advantage of make out and determine those effects that are simple not deductible in exclusive cross sectional or exclusive time series data (Baltagi, 1995). Moreover, Hsiao (1986) mentioned that panel data allows the application of variable intercepts models that initiate firm/industry type and/or time specific effects into the regression equation that minimize or evade the omitted variable bias. The most popular tools for analysis of panel data are fixed effect model and the random effect model. In this thesis the author is using the following decision making criteria for selection of the model presented by (Dougherty, 2011).

According to Figure 1, first of all, there is a need to perform both the fixed effect regression and the random effect regression if the data is selected randomly. Then

---

**Figure 5.1**

**Fixed Effects Model or Random Effects Model?**

Can the observations be described as being random sample from a given opportunity?

- **Yes**
  - Perform both fixed and random effects regressions
  - Does a DWH test indicate significant differences in the coefficients?
    - **Yes**
      - Provisionally choose random effects. Does a test indicate the presence of random effects?
        - **No**
          - Use random effects
        - **Yes**
          - Use fixed effects
    - **No**
      - Use pooled OLS
  - **No**
    - Used fixed effects regressions
Figure 1 Source: Adapted from (Dougherty, 2011). Decision making criteria for selection of model.

Source: Adapted from (Dougherty, 2011). Decision making criteria for selection of model.

Table 5.1: Fixed Effect Model

Journal of Management and Research Volume 3 Number 1 2016
LEV  |  Coef.  |  Std. Err.  |  t  |  P value
--- | --- | --- | --- | ---
AC  |  -0.146  |  0.078  |  -1.860  |  0.063***
FCF  |  0.007  |  0.018  |  0.360  |  0.718
GRO  |  -0.002  |  0.001  |  -3.960  |  0.000*
AGE  |  -0.241  |  0.039  |  -6.220  |  0.000*
NDTS  |  0.000  |  0.004  |  -0.020  |  0.986
SIZE  |  -0.022  |  0.009  |  -2.580  |  0.010*
CVA  |  0.230  |  0.039  |  5.910  |  0.000*
PROF  |  0.000  |  0.000  |  0.760  |  0.447
BR  |  0.000  |  0.000  |  -0.380  |  0.705
BC  |  0.000  |  0.001  |  0.920  |  0.356
_cons  |  1.203  |  0.164  |  7.360  |  0.000

R-square within 0.0878, between = 0.1398, and overall = 0.098
F Statistics = 13.27, and Prob > F = 0.000, Variable is significant at
* 1, ** 5, and ***10% level of significance (two-tailed)

Table 5.2 : Random Effect Model

LEV  |  Coef.  |  Std. Err.  |  z  |  P Value
--- | --- | --- | --- | ---
AC  |  -0.1458  |  0.0618  |  -2.3800  |  0.017*
FCF  |  0.0051  |  0.0186  |  0.2700  |  0.7850
GRO  |  -0.0019  |  0.0005  |  -3.8800  |  0.000*
AGE  |  -0.0666  |  0.0161  |  -4.1400  |  0.000*
NDTS  |  -0.0001  |  0.0036  |  -0.0200  |  0.986
SIZE  |  -0.0202  |  0.0056  |  -3.6100  |  0.000*
CVA  |  0.3210  |  0.0301  |  10.6700  |  0.000*
PROF  |  0.0000  |  0.0001  |  0.3300  |  0.7400
BR  |  0.0000  |  0.0000  |  -0.5200  |  0.6000
BC  |  0.0003  |  0.0004  |  0.7500  |  0.4550
_cons  |  0.5495  |  0.0990  |  5.5500  |  0.000

R-square within 0.0711, between = 0.3148, and overall = 0.1920
Wald Chi2 = 210.19, and Prob > Chi2 = 0.000, Variable is significant at
* 1, ** 5, and ***10% level of significance (two-tailed)

Table 5.3 : Hausman Test

<table>
<thead>
<tr>
<th></th>
<th>Fixed</th>
<th>Random</th>
<th>Difference</th>
</tr>
</thead>
</table>
AC  | -0.1458  | -0.1475  | 0.0016
FCF  | 0.0051  | 0.0051  | 0.0000
GRO  | -0.0019  | -0.0019  | 0.0000
AGE  | -0.0666  | -0.0666  | 0.0000
NDTS  | -0.0001  | -0.0001  | 0.0000
SIZE  | -0.0202  | -0.0202  | 0.0000
CVA  | 0.3210  | 0.3210  | 0.0000
PROF  | 0.0000  | 0.0000  | 0.0000
BR  | 0.0000  | 0.0000  | 0.0000
BC  | 0.0003  | 0.0003  | 0.0002

Chi2 = 50.16, Prob > Chi2 = 0.000

As mentioned earlier, data selected randomly for this study, there is a need to perform both the fixed effect regression and the random effect regression according to
Figure 1. Therefore, first of all these tests are applied to the sample of firms in Pakistan. Both models are overall statistically good fit model as F test is significant in fixed effect model and Chi^2 is significant in random effect model in table 5.1 and 5.2. However, R^2 (within) is higher in fixed effect model as compare to random effect model (0.0878 vs 0.0711) and R^2 between and overall is higher in random effect model as compare to fixed effect model (0.1398 and 0.098 vs 0.3148 and 0.1920). In table 5.3, DWH test reject the null hypothesis and shows significance at 1% level which means that this study entail the fixed effect model and there is no need to further BPLM test and OLS test.

According to table 5.1, agency cost is significantly but negatively related to the leverage (p-value = 0.063). Bankruptcy cost is not a significant determinant of capital structure for Pakistani firms (p-value = 0.356). Non debt tax shield is not a significant determinant of capital structure (p-value = 0.968). DCs (p-value = 0.453) or MNCs (p-value = 0.591). Profitability is not significant (p-value = 0.447) which is against Pecking Order Theory of Myers (1977). Size is a significant determinant of capital structure for all Pakistani firms (p-value = 0.010). Collateral value of assets is a significant determinant of capital structure (p-value = 0.000) and shows a positive relationship (coefficient = 0.023) with leverage indicating that if collateral value of asset increases, the leverage of the company also increases. Growth is a significant determinant of capital structure for the sample of Pakistani firms (p-value = 0.000) at the significance level of 1%. The results show a negative relationship with the leverage for firms (coefficient = -0.002). Age is significant determinant of capital structure for firms (p-value = 0.0000) and shows a negative relationship with the leverage. Business risk is not significant (p-value = 0.705). Free cash flows is a significant determinant of capital structure for all firms (p-value = 0.0000) and for DCs (p-value = 0.0010). Free cash flows shows no relationship with leverage for (p-value = 0.705).

<table>
<thead>
<tr>
<th>Table 6: Pearson Coefficient Correlation</th>
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<tr>
<td>LEV</td>
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<td>LEV</td>
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</table>
6.1 Pearson coefficient correlation

Correlations among variables can cause multicolinearity which may create problems in regression analysis. Table 6 shows correlations above 0.6 which explains that there is no multicolinearity among variables in however a modest correlation between free cash flows and non debt tax shield (0.702). Therefore, a multicolinearity test is further required to check any dependence among these variables in case of MNCs.

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>BC</td>
<td>2.88</td>
<td>0.34683</td>
</tr>
<tr>
<td>AC</td>
<td>2.12</td>
<td>0.47216</td>
</tr>
<tr>
<td>NDTs</td>
<td>2.00</td>
<td>0.50092</td>
</tr>
<tr>
<td>FCF</td>
<td>1.98</td>
<td>0.50571</td>
</tr>
<tr>
<td>SIZE</td>
<td>1.61</td>
<td>0.61978</td>
</tr>
<tr>
<td>GRO</td>
<td>1.28</td>
<td>0.78052</td>
</tr>
<tr>
<td>PROF</td>
<td>1.14</td>
<td>0.87522</td>
</tr>
<tr>
<td>CVA</td>
<td>1.10</td>
<td>0.91215</td>
</tr>
<tr>
<td>AGE</td>
<td>1.03</td>
<td>0.97221</td>
</tr>
<tr>
<td>BR</td>
<td>1.00</td>
<td>0.99622</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.61</td>
<td></td>
</tr>
</tbody>
</table>

6.2 Multicollinerity test

When correlation among variables is high i.e. more than 0.6, either positive or negative, then the problem of multicolinearity may arise. To check whether
multicolinearity exists among variables, a variance inflation factor (VIF) test is applied and hence the results show that (Table 7) that there is no multicolinearity exists among variables.

7. Conclusion

This study used 202 Pakistani companies and analyzed eight years data for the annual periods of 2006 to 2013 and investigated the leverage composition of firms and the determinants of capital structure namely agency cost, bankruptcy cost, profitability, age, growth, collateral value of assets, non debt tax shield, free cash flows, size, business risk and foreign exchange risk. Fixed effect model was used to regress the variables. This study found that agency cost, growth, age, and size are significantly and negatively associated with the capital structure of Pakistan firms, however, collateral value of asset is significantly but positively associated with the capital structure of the firm. On the other hand, free cash flows, non debt tax shield, profitability, business risk and bankruptcy cost are not significantly associated with capital structure of the firms and are against the signaling theory and peaking order theory.

From this study, one can conclude that firms in Pakistan are using collateral values for getting more leverage out of their assets. Further, as agency cost, growth, age and size of the firm increases, shareholders prefer to invest rather than taking external debt. Therefore, this study demonstrates imperative policy implications for managers and investors of the firms. This fact must be taken into account while making the finance mix decisions for securing the benefits of stakeholders.

Further research is required on several other factors that affect the capital structure of the companies like diversification, i.e. product diversification and geographical diversification. Both kinds of diversification not only affect capital structure of the companies but also have an impact on the profitability of the firms. Political risk is also a very important determinant of capital structure. Further, human capital is also a very vital determinant of capital structure in modern world. Very less work has been done on human capital. Firm’s specific factors may also affect the leverage of the firm therefore
one can explore those firms’ specific factors. Impact of inflation on leverage can also be assessed.

References


