

Determinants of small business Performance in Punjab Pakistan: A Pilot Study

Muzaffar Hussain Shah¹, Abdul Rahim bin Othman²,
and Mohd Najib bin Mansor³

Othman Yeap Abdullah Graduate School of Business,
University Utara Malaysia,
06010, Sintok, Kedah Malaysia

Abstract: *The main purpose of this study is to examine and explore quantitatively a small sample of data on the factors of small business performance in Punjab, Pakistan. The current research employed a self-administrative questionnaire approach to collect 29 usable questionnaires from small firms in Punjab, Pakistan, stratified random sampling method was used to collection data. In the current study the proposed model consists of five elements that are used as a determinants of small firm performance in Punjab, Pakistan. However, expert's opinion and comments were requested to ascertain the language and structure of the instrument to evaluate the measurement model and the assessment of the model quality, internal consistency reliability, convergent validity and discriminant validity of the instruments. Based on the feedback of experts, final changes were made and also data of small sample was analyzed using Smart-PLS. Results of the pilot test confirmed that there is no issue of reliability and validity of the instruments adapted in the pilot study.*

Keywords: *Small business, Firm performance, Pilot test, Pakistan*

1 Introduction

Small and Medium Enterprises (SMEs) are recognized as the backbone to economies of many countries (Kurnia et al., 2009). They play a significant role in improving economic growth and development, ranging from poverty reduction to employment creation. Specifically, they provide employment, improve income per head, increase raw material supply, enhance export earnings and boost capacity utilization within the key industries (SMEDAN, 2012). Moreover, Liedholm and Mead (1987); Schmitz (1995) and Habaradas (2008) highlighted that SMEs play critical role in the countryside to provide income stability, generate employment, serving as suppliers to provide support services for large enterprises and motivating entrepreneurial skills among the people and contribute to national economic growth. Consistent with the discussion above, Islam, Khan, Obaidullah and Alam (2011) evaluated that the role of the SME sector is directly related with the growth and development of a nation. On the other hand, Demirbag, Tatoglu, Tekinus and Zaim (2006) evaluated that SME's contribution has a significant effect on the economic growth in both the developed and developing countries. The vital role of SMEs (small and medium enterprises) cannot be denied in this competitive and challenging business world.

SMEs and entrepreneurs occupy a central position in policy issues and academic research as they constitute the largest number of enterprises. Nevertheless, the performance of small and medium manufacturing firms is weak in terms of limited alternative productions and quality and the result may relate to several problems that could

possibly be negatively associated with its outcome. These problems can be categorized as internal and external problems. Internal problems are of limited innovation, diversity production, absence of technical productions nature, low level of quality and ineffective technologies with limited resources. While external problems include market conditions, selling price, cooperation with external intuitions research, customers' reform, government and environment competition (Committee of Industries Sabha, 2006; Committee of Industries Ubari, 2007).

While, there are too many terms used by various researchers, authors, academicians to indicate the firm performance. Among the words that have always been used are firm performances, organizational performance, new venture performance, financial performance, non-financial performance as well as SMEs performance. This current study uses small business performance as a term to indicate the performance of small enterprises that are owned and managed by owner manager of firms. There is no specific universal definition of performance hence scholars defined it accordingly while relating performance to their own area of research. Numbers of researchers define performance in SMEs context. Most of researchers focus on the causes and influencing variables that create an impact of SMEs performance. The performance of SMEs measured in light of value it contributes to owners, customer's stakeholders & government stream. Performance indicates how efficiently the has been managed by the management (Mollin, 2007). Firm performance is about managing business actions in a quantifying manner that will help in attaining business objectives. (Neely et al). Firms success is

depended on succeeding & satisfying the customer needs efficiently compared to their market rivals. Economic and non-economic variables help in determining the firm performance (Leitao & Franco, 2008). In another words it can be quantitatively & qualitatively measured (Augustine, Bhasi, & Madhu, 2012).

Although there were many studies on SMEs and SME performance (Daud & Yusoff, 2010; Gaur, Mukherjee, Gaur, & Schmid, 2011; Subhan, Mehmood, & Sattar, 2013; Husain 2005; Khawaja 2006; Mustafa & Khan 2005; Afraz, Hussain, & Khan, 2013; Kreiser, Marino, Kuratko, & Weaver, 2013; Naudé, Zaefarian, Najafi Tavani, Neghabi, & Zaefarian, 2014; Ngamkroeckjoti, Speece, & Dimmitt, 2005; Peel, 2008; Pett & Wolff, 2011; Pratono & Mahmood, 2014; Rosenbusch, Brinckmann, & Bausch, 2011; Sok, O’Cass, & Sok, 2013; Stam, Arzlanian, & Elfring, 2014; Terziovski, 2010; Watson, 2007). To measure the performance of small and medium enterprises many resources has been used in different organizations. De Varnde et al. (2008) used innovation in their study and reported that innovations as the most important engine to increase the performance of firms and to strengthen the competitive position in the market. In addition, Rosenbusch et al., (2011); Tsai and Yang (2014); Jiménez-Jiménez, & Sanz-Valle, (2011) used innovation in their study and reported that innovation is significant and positive for firm performance. Ahmad, Abdullah and Roslan (2012) conducted study on SMEs performance by using long term debt, short term debt and total debt. Similarly, Pratono and Mahmood (2014) social capital and firm performance moderating effect of environmental turbulence. In the same way, Augustine et al. (2012) studied planning, forecasting, learning, controlling, training, experience age, IT usage and education are some main factors which are influencing firm performance.

However, numerous research considered social capital as variable that influence small and medium enterprises performance (Stam et al., 2014; Le & Nguyen 2009; Para-Requena, Ruiz-Ortega & Garcia Villaverde 2011; Rouziès & Hulland 2014; Slotte-Kock & Coviello 2010). Similarly, quite a lot of studies used innovation practice to examine firm performance (Rosenbusch et al., 2011; Mansury & Love, 2008; Tsai and Yang 2014 Jiménez-Jiménez, & Sanz-Valle, 2011; Naranjo-Valencia, Jiménez-Jiménez & Sanz-Valle 2011; Gallego, Rubalcaba, & Hipp, 2013). While, mentoring is directly related to the performance of small and medium enterprises (Garvey & Garrett-Harris 2008; LEED Unit 2006; Lo, Ramayah & Kui 2013; Baderman 2009; Kahle-Piasecki 2011; Muchau, 2013). Didonet et al. (2012) reported that the effort to respond market turbulence can be

associated with business expansion. (Pratono, & Mahmood, 2014; Mohammad, Idris, & Moh'd AL-Ferokh, 2014; Parnell, Lester, Long, & Köseoglu, 2012; Tsai, & Yang, 2014; Wang, Chen, & Chen, 2012; Wang & Fang, 2012) used environmental turbulence in their studies.

There was two basic purpose to conduct this study first to evaluate the reliability and validity of the instrument and second to review the situation which allow the researcher to expect conceivable issue or problems and fix when start the actual research. Among the primary concerns of the pilot test is, the reliability and validity of the research instrument and how the questions in the questionnaire are designed, the structure of the questionnaire and the rigor of the pilot testing to ensure goodness of the measures of the adapted items. Reliability measures the stability and consistency of the adapted measurement in measuring the concept (Cavana et al., 2001; Hair et al., 2010). While, Validity refers to the extent to which the instruments, methods or measures used in a study actually measure what it is supposed to describe or measure (Lancaster, 2005). To ensure the validity and reliability of measure, this paper presents the result of the pilot test about determinants of small business performance in Pakistan.

2 Literature Review

The vital role of SMEs (small and medium enterprises) cannot be denied in this competitive and challenging business world. Several researchers such as, Lan and Wu (2010) and Khalique, Isa, and Shaari, (2011); Iqbal, Zaman, Atif and Akhtar (2013) examined that SMEs have the capability to create employment opportunities and are initiator in innovation domain. Due to ever increasing globalization and growing market challenges over the last one decade, many top management of SMEs have been motivated to improve their effectiveness and re-evaluate their business strategies and management practices to satisfy their customers by providing them with better and high quality of products and services. The very existence of any firm or enterprise is to create value for its products and services amongst the customers. Thus, satisfying the customer’s needs and wants by providing them with quality goods and services can create competitive advantage for organizations (Eugenia, 2010).

There are several approaches of the term SME but there is no single, globally accepted definition of small and medium enterprises as there are varied definitions depending on the country in which the small and medium businesses operates. According to the World Bank (2013), SMEs are defined based on the size of the enterprise in terms of the total number of employees and/ or total assets value. In South Africa, SMEs are defined as distinct and separate business entities, including cooperative enterprises and non-governmental organizations

that are self-managed by a single owner or more which includes its branches or subsidiaries, if any. Definition of SME in Cambodia “Firms that employ between 11 and 50 employees and have fixed assets of \$50,000 to \$250,000 are categorized as small. Firms with 51- 200 employees and fixed assets of \$250,000 to \$500,000 are medium sized” (SME Development Framework of 2005). In Indonesia fewer than 100 employees. In China the definition of SME depends on the industry category and is defined based on the annual revenue, number of employees, and total assets comprising a company. An industrial SME is defined as “having up has up to 2,000 employees; while a medium-sized business has between 301 and 2,000 employees; and a small business has less than 300”. In India, “a small enterprise is one where the investment in plant and machinery is more than Rs. 2,500,000 but does not exceed Rs. 50,000,000. A medium enterprise is one where the investment in plant and machinery does not exceed Rs. 100,000,000”. In Malaysia, SMEs are those that have less than 50 employees in agriculture or services, and in case of manufacturing sector enterprises, they should employ less than 150 employees. On the basis of turnover, SMEs are those that have sales below RM 5m in the agriculture and services and below RM 25m in the manufacturing sector (Kotelnikov, 2016).

SMEs have been defined by various institutions in Pakistan in a different manner. According to Small and Medium Enterprise Development Authority (SMEDA) Pakistan, SME is identified as a business that employs a maximum of 250 employees or with a paid up capital of 25 million PK Rupees (247807 USD) or with an annual sale of up to 250 million PK Rupees (2478070 USD) (SMEDA, 2010). Small firms are defined as those having an employee size of less than 35 people while medium size firms are those with 36-250 employees (SMEDA, 2010). Firms with more than 250 employees are considered as large firms in Pakistan (Ndubisi & Iftikhar, 2012).

Pakistan has four provinces namely, Punjab, Sindh, Baluchistan and Khyber Pakhtunkhwa. Punjab is 65% of the total SMEs and is considered as a hub of economic activities (Afza, Osman & Rashid, 2010). Currently, performance of small and medium enterprises in Pakistan is below expectations. According to the Economic Survey of Pakistan (2013-14) there are 4.2 million SMEs are working in Pakistan which contribute 30% to the GDP. It is argued that the contribution of small and medium enterprises in Pakistan to the national GDP as compare to other developed/developing countries deprived for several reasons. These include insufficient infrastructural; limited application of innovation; unfavorable competition from foreign goods and services; entrepreneurial and marketing ability; financial support to businesses. The contribution of these firms toward GDP and GNP was gradually decreased in small

manufacturing firm and overall in small and medium firms GDP growth has decreased drastically to 2.5 over the last five years (Pakistan Economic Survey 2013-14; Punjab Bureau of Statistics (2011-12).

Coy, Shipley, Omer and Khan (2007) explored that there are several factors and elements responsible to achieve business success in SMEs in Pakistan. Therefore, firms need to build effective strategy to achieve and maintain a competitive advantage in their organizations. consequently, organizations require a combination of various strategies in order to survive in rapidly changed business environmental. In literature this study used various variables to represent a firm’s strategic activities that are referred to as strategic orientations (Weinzimmer, Robin, & Michel, 2012).

Innovation is the intentional introduction and application of ideas within a group or organization, products, processes or procedures that are new to the relevant unit of designed and adoption to benefit significantly the group, the organization, the individual, or the wider society (West & Farr 1990). In the nations and firm’s competitiveness, the innovation is considered a widely accepted (Galia & Legros, 2004; Terziovski, 2010; Gallego et al., 2013; Rosenbusch et al., 2011). The innovation in product refer to the enhancement or development of new product or services (OECD 2005). Moreover, the process innovation refers to the innovation in the process of production of a firm like introducing new input materials, information and work flow, task specification, and the tools utilized by organization in the process of producing a product or making available a service (Ettlie & Reza, 1992; Rehfeld et al., 2007; Damanpour, 2010). By adopting this concept innovative practice is linked with the business long term performance. Additionally, innovative practices are one of the important resources that influences firm performance (Doole & Lowe, 2012; Leonidou & Samiee, 2012; Hung & Chou, 2013; Anderson et al., 2012; Atalay, Anafarta, & Sarvan, 2013).

Social capital as “the ability that organizations have of creating, maintaining, and using relationships to achieve desirable organizational goals” Portes (1998, p. 322 cited in Kennan & Hazleton, 2006). Kanazawa and Savage (2009) evaluated that social capital enabled entrepreneurs to access knowledge and information that helped to grow their businesses and establish relationships and connections for resource obtainment, teaming opportunities, and marketing their services and products. Similarly, Kennan and Hazleton (2006) social capital formed friendships and gained valuable support from the participants of their networks. Social capital can be a major key for firm performance through innovation as well as supply management channel (Alguezaui & Filieri, 2010). Being part of a social capital keep

owner/managers connect to what is going on in the industry and informed them about issues that may impact their businesses. Furthermore, several studies have reported different results on the importance of social capital in influencing the organizational performance (Stam, Arzlanian and Elfring 2014; Para-Requena, Ruiz-Ortega & Garcia Villaverde 2011; Rouziès & Hulland 2014; Slotte-Kock & Coviello 2010; Stam et al., 2014; Le & Nguyen 2009).

A deliberate partnership between business professionals (whether trainer-to-trainee, mentor-to-mentee, or peer-to-peer) that is pursued to build the competencies that will grow a business or business idea (Hankin, 1996; Hill & Levenhagen, 1995). Small and medium enterprises in developing countries ignored the understanding of key capabilities for instance mentoring used to achieve higher firm performance and improve their competitive advantage. According to Garvey and Garrett-Harris (2008) and LEED Unit (2006) mentoring has been recognized as potentially beneficial, mentoring increased sales turnover, increased after-tax profits and increased employment. Researchers generally are supportive on positive outcome of mentoring on business performance. However, most of the earlier studies emphasized on implementation of mentoring on apprentices, personal development and in education field. Over the last few years, mentoring has become more widely recognized as an effective tool for increasing retention within the SME's context. According to Gray et al. (2011) the concept within entrepreneurial studies, i.e. mentoring have emerged in SMEs concept. Many researchers used mentoring in their studies and found mentoring is valuable resource for business organizations (Núñez-Cacho Utrilla & Grande Torralaja 2013; Baderman 2009; Kahle-Piasecki 2011; Muchau, 2013; Lee, 2012)

The situations, factors or events that have the potential to dictate and determine the failure and success of performance of a firm (Mohd, 2005). Oparanma, Hamilton and Jaja (2009) noted that "environmental conditions are complicated by dynamics of change and uncertainty, which can significantly affect business strategies". Continuous changes in business environment are presenting challenges and opportunities within the small and medium enterprises. Environmental factors with a lack of information related to competitor's actions and market trends case problems to small manufacturing firm's to implementation of the appropriate technology in order to meet their market needs (Pratono, & Mahmood, 2014). A proper relationship between strategy and environment is the key factor to develop sustainable competitive advantage (Black & Porter, 1996). Thus, the knowledge of the importance of the environment and market in which their firms operate could provide the crucial flexibility within their strategic organizational decision making

processes. Mohammad, Idris, and Moh'd AL-Ferokh, 2014; Pratono, and Mahmood, 2014; Parnell, Lester, Long, and Köseoglu, (2012: Tsai, and Yang, (2014); Wang, Chen, and Chen, (2012); Wang and Fang, (2012) are some of these authors who used environmental factors in their studies to increase the performance of organization.

3 Methodology

A pilot study was conducted to ascertain the reliability and validity of measures (Flynn, Sakakibara, Schroeder, Bates, & Flynn, 1990). As the questionnaires developed were subject to validity and reliability test, a pilot test was conducted on 50 small firms with 10-35 employees and productive assets restriction is 2 to 20 million PK Rupees (20000-2000000 USD). Survey research design was adapted in this study. According to Sekaran and Bougie (2010), self-administered questionnaire helps the researcher to create more understanding with the respondents while introducing the survey. It also serves as the way of making clarifications to the respondent instantly, and the response rate can be high since the collection of the questionnaires is immediate. In addition, a pilot study is important because it improves the questionnaires (Neuman 1997). It is used to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample (Cooper & Schindler, 2003). According to Emory and Cooper (1991), respondents of 25-100 are appropriate for a pilot study. A total of 50 sets of questionnaires were distributed through stratified random sampling to the owner/managers of small businesses in Punjab, Pakistan. A Smart PLS 2.0 M3 software was used to ascertain the internal consistency reliability and discriminant validity of the constructs in the pilot study (Wold, 1974, 1985; Ringle, Wende, & Will, 2005). The study assessed the opinion of small firm's owner-mangers about the enterprises (Fisher, 2010). As the number was small and the sample limited, no further attempt was done on the non-responded questionnaires or any follow-up action.

4 Result

In this pilot study, a total of 50 questionnaires were distributed to the owner/managers of small business in Punjab, Pakistan. Therefore, the outcomes of these attempts yielded 35 returned questionnaires. This gives a response rate of 70% based on Jobber's (1989) definition of response rate. Of these 35 questionnaires, 6 were unusable because a significant part of those questionnaires were not completed by the participants; and the remaining 29 useable questionnaires were used for further analysis. This accounted for 58% valid response rate. Therefore, a response rate of 58% is considered adequate for the analysis in this study because Sekaran (2003) suggested that a response rate of 30% is sufficient for surveys (see Table 4.1).

Table 4.1
Response Rate of the Questionnaires

Response	Frequency/Rate
No. of distributed questionnaires	50
Returned questionnaires	35
Returned and usable questionnaires	29
Returned and excluded questionnaires	6
Questionnaires not returned	15
Response rate	70%
Valid response rate	58%

Source: The Researcher

4.1 Validity Test

“The degree to which what is observed or measured is the same as what was purported to be observed or measured” Robson (2002). Validity, on the other hand, relates to whether the findings represent an actual picture of the situation. The scales used in this study had been previously tested by prior researchers. The innovation practice scale was based on the work of Terziovski’s (2010) where convergent validity was established. Social capital was measured using Para-Requena et al. (2011); Li et al. (2012); Rozies et al., (2010) scales in which convergent validity was established. Mentoring was measured using Noe’s (1988) measure. The environmental scale in this study is based on the work of Zhang & Duan (2010); Didonet et al. (2012). While, firm performance was measured using Avci, Madanoglu and Okumus (2011) scale. Most of the questions are taken from previous studies. However, for those that lack adequate measurement scales, some measures were refined specifically for this study. To this, several parties were contacted for an interview session in order to clarify the contents of the questionnaires; they were professors, associate professor’s, and senior lecturers from UUM and BZU Multan Punjab, Pakistan. Additionally, some Ph.D. students who are acquainted with Pakistan that constitute the context of the study were consulted to test the clarity of the survey instruments. Moreover, the questionnaire was also given to some small business owner/managers for their opinions and comments. These experts were asked to give suggestions and critiques in order to improve the questionnaires. During the meeting, they were asked to answer the questionnaires. During the session, any ambiguity in the questions and irrelevant questions were pointed out by the respondents. Then, they were asked about the

Table 4.2

Reliability and Validity of variables (n=29)

Variables	No. of items	AVE	Composite reliability	Cronbachs Alpha
Environmental Turbulence	13	0.67	0.94	0.92
Innovative Practices	13	0.59	0.91	0.89
Mentoring	15	0.55	0.92	0.90
Social Capital	17	0.68	0.93	0.91
Small Business performance	7	0.72	0.89	0.86

Source: The Researcher

relevancy of the questions. The majority responded that the questions were appropriate.

4.2 Reliability Test

“The extent to which a measuring device, or a whole research project, would produce the same results if used on different occasions with the same object of study” Robson (2002). This research used Cronbach-alpha and composite reliability to indicate the reliability of the instrument as it is a common method of estimating the internal consistencies of items (Onwuegbuzie & Daniel, 2003). This is in line with the criterion that a Cronbach alpha coefficient of 0.60 is considered an average reliability, while a coefficient of 0.70 or higher indicates that the instrument has a high reliability standard (Hair, et al., 2010; Nunnally, 1978; Sekaran & Bougie, 2010). While, Hair et al (2011), suggest that the composite reliability coefficient should be at least .70 or more. The closer the value is to 1 indicates that the instrument is more reliable and shares a high internal consistency. A Smart PLS 2.0 M3 software was used to ascertain the internal consistency reliability and discriminant validity of the constructs in the pilot study (Wold, 1974, 1985; Ringle, Wende, & Will, 2005). In particular, PLS Algorithm was calculated to obtain the average variance extracted Cronbach alpha and the composite reliability coefficients (Geladi & Kowalski, 1986). Meanwhile, Fornell and Larcker (1981) suggested that the Average Variance Extracted (AVE) score should be .5 or more. They further stated that to achieve adequate discriminant validity, the square root of the AVE should be greater than the correlations among latent constructs. Table 4.2 presents the average variance extracted and composite reliability coefficients of the four latent constructs.

The above table 4.2 showed that Cronbach's alpha of the variables used in this study ranged from 0.86 to 0.92 and the composite reliability coefficient of the variables ranged from .89 to .94, which showed that internal consistency reliability of the measures used in the pilot test is above the minimum acceptable level of .70, which also suggests adequate internal consistency reliability of the measures for further analysis (Peterson & Kim, 2013). Similarly, the above table 4.2 showed that the values of the AVE range between .55 and .72, suggesting acceptable values. Regarding the discriminant validity, table 4.3 compares the correlations among the variables used in this study with the square root of average variance extracted.

Table 4.3
Latent Variable Correlations

Variables	1	2	3	4	5
Environmental Turbulence	0.82				
Innovative Practices	0.41	0.77			
Mentoring	0.49	0.38	0.74		
Social Capital	0.32	0.39	0.40	0.83	
Small Business performance	0.43	0.47	0.34	0.30	0.85

Note: Diagonals (bold face) represent the square root of the average variance extracted while the other entries represent the correlations.

Source: The Researcher.

The above table 4.3, shows that the correlations between the variables and the values of the square root of the average variances extracted. Which clearly indicate that all the diagonal values are greater than the correlation among the variables, suggesting adequate discriminant validity (Fornell & Larcker, 1981).

Demographic Profile of the Respondents

Furthermore, the demographic profile of the respondents shows in table 4.4 reveals that 28 out of 29 participants were male and only one female was working in Punjab, Pakistan in pilot test. 10 single and 19 married respondents were participating in this survey which shows that there is 35% ratio of single and 65% ratio of the married respondent are in Punjab, Pakistan. Similarly, table shows that age of the respondent from 26-35 were maximum which represent 35% of the total sample and education is also 35% of the total sample. 83% businesses are sole proprietorships and 52% companies have 21-25 no of employees. While 48% firms are 6-10 years old and only 17% of the total sample were more than 15 years' old. The amount of capital from 100,000-150,000 US\$ was 59% of the total sample and source of capital were 76% of the total sample from personal saving.

Table 4.4
Summary of Respondents Demography

Gender	Frequency	Percent
Gender		
Male	28	97
Female	1	3
Marital Status		
Single	10	35
Married	19	65
Respondent Age Group		
Less than 25 years	8	28
26-35 years	10	35
36-45 years	5	17
46-55 years	3	10
Above 56 years	3	10
Respondent Education		
No formal education	5	17
Standard 10-12	6	21
Bachelors	10	35
Master Degree	5	17
MS/MPhil	2	7
PhD	1	3
Types of Ownership		
Sole proprietorship	24	83
Partnership	5	17
Number of employees		
10-15	3	10
16-20	4	14

Gender	Frequency	Percent
21-25	15	52
26-30	6	21
31-35	1	3
Age of Company		
1-5	6	21
6-10	14	48
11-15	4	14
More than 15 years	5	17
Amount of Capital		
20,000-50,000 US\$	1	3
51,000-100,000 US\$	7	24
100,000-150,000 US\$	17	59
150,000-200,000 US\$	4	14
Source of Capital Investment		
Family support	7	24
Personal Saving	22	76
Support from Friends	0	0
Total	29	100.0

5. Conclusion

As mention above in the introduction portion, the basic purpose of this current study is pilot test the reliability and validity of the items in formulation for the larger study. Therefore, the pilot test helped to identify the flaw in the questionnaire and improve the understanding and reliability of the questions posted. Furthermore, it allowed the researchers to determine the clarity of the

directions, the language validity and the reliability of the items. Therefore, the necessary change and amendment to the questionnaire has been completed before the data collection carried out. The result reveals that the Cronbach's alpha and composite reliability values of the instruments used in this study was all above 0.86. Thus, it can be concluding that all construct used in the polite test are reliable in Pakistani context.

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