

## LEADERSHIP STYLES AND ORGANIZATIONAL PERFORMANCE ON TELECOMMUNICATION COMPANIES IN MOGADISHU SOMALIA

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### ABSTRACT

*The purpose of this study was to examine the relationship between leadership styles and Organizational performance case of some selected telecommunication companies in Mogadishu-Somalia. A list of 100 staff and management working in two telecommunication companies in Mogadishu was obtained to be participating in this study. The objective of the study was to analyze the relationship between transformational leadership style and organizational performance at some selected telecommunication companies. And To determine how transactional leadership styles has affected labor management relations and productivity in the selected area of study...The study was conducted through survey; data is collecting using questionnaire. A significant strong relationship was found between Organizational performance and transformational ( $r=0.802$ ,  $p=0.000$ ). The result further indicated week positive significant relationship between organizational performance and transactional leadership style ( $r=0.272$ ,  $p=0.007$ ).*

**Keywords:** Leadership, transformational leadership style, transactional leadership style, organizational performance, productivity, profitability, management, employee

### INTRODUCTION

Kraines (2001) stressed that the word leadership has been used by most disciplines: political science, business executives, and social workers. However, there is large disagreement as regard the accurate Meaning. This view was also supported by Taffinder (2006, pg. 6), who gave different definitions to leadership: “a simple meaning: leadership is acquiring people to do things they have never thinking of doing, do not trust are potential or that they do not want to do”. With reference to an organization, he defines leadership as “the action of taking employees to contribute their best to the purpose of the organization”. Taffinder (2006) While on a complex and more accurate view, he explains that you only know leadership by its consequences from the fact that individuals or a group of people start to behave in a particular way as a result of the actions of someone else”.

It is important to distinguish between leadership as an organization function and as a personal quality. According to Bowery (2004), the later entails special combination of personal characteristics which brings to light qualities and abilities of individuals. The former refers to the distribution of power throughout an organization and it brings to focus the pattern of power and authority in the organization.

Defining leadership in it various reflections is very important. However, it is necessary to make strong what focus of its definition is referred under what condition. A previous view about leadership shows that seen as a personal ability.

However, Mesick and Kramer (2004) were of the opinion that the degree to which individual' exhibit leadership depends not only on his characteristics and personal abilities, but also on the characteristics of the situation and environment in which he finds himself. In Somalia, the

environment is risky and challenging weak management policies and ineffective leadership styles. Considering the selected telecommunication companies for this study, the effectiveness or ineffectiveness lies in the leadership and organizational performance some common problems was mentioned to affect organizational performance in Somali telecommunication. However, suggestions were made that the right type of leadership and performance were not applied in managing Somali workers.

Organizational performance: this was explained by Stankard (2002) not to mean the performance of the single parts or units of the organization but the product of all interactions taking place in the organization.

The relationship between leadership and organizational performance it is important to distinguish between leadership as an organization function and as a personal quality. According to Bowery (2004) the later entails special combination of personal characteristics, which brings to light qualities and abilities of individuals. The former refers to the distribution of power throughout an organization and it brings to focus the pattern of power and authority in the organization. Chikwendu (2006) further stressed those different work situations need different styles if they are not perform optimally. Often, manager's skills could be said to be diagnostic.

The manager assesses all relevant factors affecting work. However, diagnosis may not always be followed by proper behavior because managers could find it difficult to change their styles (Boswell, 1973).

This study was guide "the situational theory" which is developed by Paul Hersey, a number of leadership theories were developed over time, most of them were in the late 1950's and 1960's. These theories emphasized the need for traits and behaviors of leaders to vary with situations if they are to be effective at work (Patchian, 1962).

Leadership is getting people to do things they have never thought of doing, do not believe are possible or that they do not want to do" (Taffinder, 2006)

Leadership is a dynamic, interactive influence process among individuals for which the objective is to lead one another to the achievement of group organizational goals (follett, 1951). Leadership is an art of motivating a group of people to act towards achieving a common goal.

This study focused on how the role of leadership effects on organizational performance at some selected telecommunication companies in Mogadishu Somalia.

In Somalia the extent (degree) to which all members of an organization use their abilities and influences in the effective utilization of resources depends upon how well the managers (leaders) of the organization understand and perform their jobs (Maddock and Fulton 1998).

(Maddock and Fulton 1998) explained that leadership and other processes of the organization must be such that can ensure maximum probability within all interactions and relationships with the organizations, each member will in the light of his background, values and expectations, view the expenses as supportive and one which can build and maintain his sense of personal worth and importance. In a divided and institutionally weak environment, Somali telecommunication companies have neither the resources nor the technical capacity to develop an effective evaluation system of leadership for telecommunication workers and to implement them (Austen Davis, 2008).

This study focused on how the role of leadership effects on the organizational performance at selected telecommunication companies in Mogadishu Somalia.

In view to this, there is the need to identify the role of leadership styles and organizational performance at some selected telecommunication companies in Mogadishu-Somalia, this study has two objectives which are:

1. To analyze the relationship between transformational leadership style and organizational performance at some selected telecommunication companies in Mogadishu Somalia.
2. To determine how transactional leadership styles affected on labor management relations and productivity in the selected area of study.

## **TRANSFORMATIONAL LEADERSHIP AND ORGANIZATIONAL PERFORMANCE**

According to (Bass, 1985 & Burns 1978) the difference between transformational and transactional leadership lies in the way of motivating others. Transformational leader's behavior originates in the personal values and beliefs of the leader and motivates subordinates to do more than expect identified transformational leadership as a process where, "one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality".

Transformational leadership is the ability to motivate and to encourage intellectual stimulation through inspiration (Avolio, 2004; Dvir, 2002). McColl-Kennedy & Anderson (2005) further defined transformational leadership style as guidance through individualized consideration, intellectual stimulation, inspirational motivation, and idealized influence. Transformational leaders fundamentally change the values, goals, and aspirations of followers who adopt the leader's values and, in the end, perform their work because it is consistent with their values and not because they expect to be rewarded (Kuhnert & Lewis, 1987; MacKenzie et al., 2001).

Transformational leadership which encourages autonomy and challenging work became increasingly important to followers' job satisfaction. The concept of job security and loyalty to the firm for one's entire career was disappearing. Steady pay, secure benefits, and lifetime employment were no longer guaranteed for meritorious performance. At the same time, transactional leadership alone could not provide job satisfaction (Bass, 1999).

Fenwick and Gayle (2008), in their study of the missing links in understanding the relationship between leadership and organizational performance conclude that despite a hypothesized leadership-performance relationship suggested by some researchers, current findings are inconclusive and difficult to interpret. From this review of related literature, it is evident that although some scholars believe that leadership enhances organizational performance while others contradict this, different concepts of leadership have been employed in different studies, making direct comparisons virtually impossible. Gaps and unanswered questions remain. Consequently, the current study is intended to re-examine the proposed leadership-performance relationship and, thus, contribute meaningfully to the body of growing literature and knowledge in this area of study.

A positive relationship between transformational leadership and performance has been proposed and linked in a number of studies by researchers such as Bass (1997), Avolio, Bass & Jung (1999), Howell & Hall-Merenda (1999), and Elenkov (2002). As described by Kouzes & Posner (2002) there is a positive relationship between each leadership practice and organizational performance." Research by House, Sprangler & Wolycje (1991), Howell & Avolio (1994), Waldmann & Yammarino (1999) and Elenkov (2002) suggest some specific attributes and behaviors are particularly effective in achieving superior performance.

## METHODOLOGY

### Research Design and Sample

This study employed correlation design to investigate the relationship between leadership style and organizational performance also we used descriptive statistics to identify the characteristics of our respondents, the sample comprises, (100) respondents.

### Sample Procedure

The study was none probability the sampling technique that we used was purposive sample (PS). This technique selects a sample without bias from the target accessible population. Its main purpose is to select a purposive (representative) sample. We chose it because it ensures that each member of the target population has an equal and independent chance of being included in the sample. It also produces a purposive sample.

### Measurements of Variables

We adapted questionnaire that are slightly modifying from by (Owolabi Yusau Lawal & Chukwuma Kingsley Chukwuebuka in 2007) the questionnaire contains two variables, the independent variable are 6 items and dependent variable 4 items with likert scale.

### Data Analysis

The researchers was used descriptive statistics especially frequencies, mean and standard deviation to analyze the data. Correlation analysis was also be employed by using Pearson's product correlation coefficient to analyze the role of leadership and organizational performance.

### Reliability Test

The reliability test conducted to determine the internal consistency of the measures used, the table 1 shows that overall variable have Cronbach Alpha values of more than 0.7. which makes all variable accepted, internally consistent and the scale deemed reliable for further analysis.

## FINDINGS AND DISCUSSION

### Demographic Profile

#### *Gender*

Based on the table (2), 91 of the respondents were male 92.9% and 7 respondents were female almost 7.1%, there was a difference of both the male and female since the margin between the two sexes were large.

#### *Age*

Ages of the respondents, majority of them were in between the ages of 30-40 years (39.8%) and (22.4%) was at the age of 41-50 years, 18-29 years were (20.4), while the minority of them 3.9% were above 30 years. Thus, this result indicates that the majority of the respondents are aged among 30-40 years, and also shows that women NGOs in Mogadishu are in-between twenty and thirty years old.

#### *Education Background*

The respondents participated in this study 14.3% of them were post graduate diploma, 49.0% hold bachelor, and 36.7% of the respondents were master degree. The result indicates that the majority of the respondents hold bachelor that almost (49.0%).

**Table 2. Demographic Characteristics**

		<i>Frequency</i>	<i>Percent</i>
<i>Gender</i>	Male	92	92.9%
	Female	7	7.1%
	Total	99	100%
<i>Age</i>	18- 29 years	30	54.2
	30- 40 years	39	26.5
	41-50	18	14.5
	51above	12	4.8
	Total	99	100%
<i>Education</i>	Post graduate Diploma	14	14.3
	Bachelor	48	49.0
	Master	36	36.7
	Total	98	100%

**Descriptive Analysis on Organizational Performance on Leadership Styles**

According to the Table 3 presented that the first objective of the study was find out the organization performance was scored normal mean of 3.24 overall and standard deviation of 0.627. The result indicates that organizational performance has good effect to the leadership style. The first objective of this study was to analyze the relationship between transformational leadership style and organizational performance. To achieve the objective respondents were subjected to a number of questions to provide answers to research question mentioned above.

Organization performance have supported for leadership participation in decision making was scored high mean of 3.24 and standard deviation of 0.627 which indicates that the policies of organizational performance in Mogadishu have supported their management participation in decision making.

The data have been collected through questionnaire distributed randomly on management and staff of telecommunication companies in selected two telecommunication companies in Mogadishu. A sample 100 questionnaire were distributed only 98 of them were responded. This gives the researchers a response rate of 98 percent (Table 2).

**Table 2. Response Rate**

<i>Response Rate</i>	<i>Total</i>	<i>%</i>
Questionnaires distributed	100	100
Collected questionnaires	98	98

**Table 3. Descriptive Statistics Means and Standard Deviation of Transformational Leadership Style**

	<i>Mean</i>	<i>St. Deviation</i>	<i>Interpretation</i>
Transformational leader s behavior Originates in the personal values and Middle influence beliefs of the leader and motivates to do more than expect.	3.24	0.627	
Subordina Transformational leadership as a process Where, one or more persons engage high influence With Others	3.35	0.539	
Transformational leadership is the ability to motivate and to encourage Middle influence intellectual stimulation through incentive.	3.03	0.392	
<i>Total Mean Index</i>	<i>3.21</i>	<i>0.519</i>	<i>Agree</i>

The mean and standard deviation in table 3 indicate that on average respondents rated their responses as Transformational leadership style (Mean 3.21) and Standard deviation (0.519) that absolutely equal respondents are agree questions of transformational leadership. respondents response question one (Mean 3.24) and standard deviation(0.627) that are absolutely equal ranking middle influence question two ( Mean3.35) and standard deviation (0.539) that are absolutely equal to the respondents response to the rank high influence while question three (Mean 3.03) and standard deviation(0.392) that are absolutely equal middle influence.

**Table 4. Means and Standard Deviation of Transactional Leadership Style**

	<i>Mean</i>	<i>St. Deviation</i>	<i>Interpretation</i>
Transactional leadership is an exchange-Based relationship where self-interest Middle influence is dominant.	3.01	0.618	
Transactional leaders work within their Organization's culture and follow Middle low Existing rules, procedures, and operative influence Norms.	2.23	0.835	
Transactional leaders display both Middle low Constructive and corrective behaviors. Influence	2.08	0.808	
<i>Total Mean Index</i>	<i>2.44</i>	<i>0.75 4</i>	<i>Agree</i>

The mean and standard deviation in table 4 indicate that on average respondents rated their responses as Transactional leadership style (Mean 2.44) and Standard deviation (0.754) that absolutely equal respondents are disagree questions of transactional leadership. Respondents response question one (Mean3.01) and standard deviation (0.618) that are absolutely equal ranking middle influence question two (Mean 2.23) and standard deviation (0.835) that are absolutely equal to the respondents response to the rank middle law influence while question three (Mean2.08) and standard deviation(0.808) that are absolutely equal middle low influence.

**Table 5. Means and Standard Deviation of Organizational performance**

	<i>Mean</i>	<i>St. Deviation</i>	<i>Interpretation</i>
Organizational performance refers to ability of an activity to achieve such Middle influence Objectives as high profit, quality product.	3.16	0.587	
Organizational performance can also be used to view how an activity is doing in Middle influence terms of level of profit, market share and product quality.	3.24	0.627	
Organizational performance is a mirror image of productivity of members of a Middle influence enterprise measured in terms of revenue, profit, growth, and development.	3.03	0.392	
My performance is regularly assessed Middle influence	3.03	0.392	
<i>Total Mean Index</i>	<i>3.12</i>	<i>0.499</i>	<i>Agree</i>

The mean and standard deviation in table 5 indicate that on average respondents rated their responses as Organizational performance (Mean 3.12) and Standard deviation (0.499) that absolutely equal respondents are agree questions of Organizational performance. Respondents response question one (Mean 3.16) and standard deviation (0.587) that are absolutely equal ranking middle influence. Question two (Mean 3.24) and standard deviation (0.627) that are absolutely equal to the respondents response to the rank middle influence while question three (Mean 3.03) and standard deviation (0.392) that are absolutely equal middle influence. Question four (Mean 3.03) and standard deviation (0.392) that is absolutely equal to the respondent's response to the rank middle influence.

**Table 6. Correlation**

		<i>Organizational Performance</i>	<i>Transformational Leadership</i>	<i>Transactional Leadership</i>
Organizational. Performance	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	98		
Transformational. Leadership	Pearson Correlation	.802**	1	
	Sig. (2-tailed)	.000		
	N	98	98	
Transactional. Leadership	Pearson Correlation	.272**	.302**	1
	Sig. (2-tailed)	.007	.003	
	N	98	98	98

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

As shown in the above table, there is significant strong relationship between Organizational Performance and transformational leadership styles ( $r=0.802$ ,  $p=0.000$ ). While significant week relationship between Organizational performance and transactional leadership style ( $r=0.272$ ,  $p= 0.007$ ).

### Major Findings

As shown in above table 4.3, the relationship among transformational leadership, transactional leadership and Organizational performance are investigated using Pearson correlation. The result indicated that there is positive correlation.

As shown in the table, there is significant strong relationship between Organizational Performance and transformational leadership styles ( $r=0.802$ ,  $p=0.000$ ). This means that transformational leadership style used by telecommunication companies of the Mogadishu enhance their Organizational Performance. There is strong relationship between transformational leadership styles and organizational performance of selected telecommunication companies in Mogadishu Somalia. In other words, staffs and Management of telecommunication companies are satisfied transformational leadership style. The result further indicated a significant relationship between Organizational performance and transactional leadership style ( $r=0.272$ ,  $p= 0.007$ ). This means that Management and staffs are weekly satisfied with transactional leadership styles that currently exhibited by their administrators. However, there is small relationship between transactional leadership styles of the telecommunication companies and organizational performance.

### DISCUSSION

The purpose of this study was to examine the role of leadership styles and organizational performance of telecommunication companies in Mogadishu-Somalia. This study also attempted to investigate what leadership styles contribute to the high level of performance.

Two objectives had this study, the first objective of this study to analyze the relationship between transformational leadership style and organizational performance at some selected telecommunication companies in Mogadishu. The second objectives of this study to determine how a transactional leadership style has affected labor management relations and productivity in the selected area of study.

The finding of the study supported both the first and second objective of the study. A significant strong relationship was found between transformational and transactional leadership style and Organizational performance. The transformational leadership style positively influence organizational performance of telecommunication companies in Mogadishu. In other words, the findings supported management and Staffs working in telecommunication companies in Mogadishu significantly preferred the type of leadership styles. However, there is strong relationship between transformational leadership style and organizational performance. The findings supported that, the management and staff preferred transformational leadership style over transactional leadership styles. The findings of this study also supported by Muniandi, (2010) which has indicated there is a significant relationship between organizational performance and transformational leadership ( $r=0.574$ ,  $p=0.000$ ) and transactional leadership and organizational performance ( $r=0.178$ ,  $p=0.000$ ).

### CONCLUSIONS

This study was examining the leadership styles and organizational performance of telecommunication companies in Mogadishu-Somalia. The target population of this study was 2 telecommunication companies their staffs and management working in the select

telecommunication companies HORMUUD, NATIONLINK and the instrument used in this study was questionnaire. The objectives of this study were To analyze the relationship between transformational leadership style and organizational performance at some selected telecommunication companies in Mogadishu Somalia and To determine how transactional leadership styles has affected labor management relations and productivity in the selected area of study.

The result of the study indicated that there are positive significance relationships among transformational, transactional and organizational performance. In other words, there is strong relationship between transformational leadership style and organizational performance while there is weak relationship between transactional leadership and organizational performance. That means the management and staff of telecommunication companies prefer transformational leadership than transactional leadership.

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## FISCAL POLICY FOR GROWTH AND EMPLOYMENT GENERATION IN PAKISTAN

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### ABSTRACT

*This study examines the long run relationship between fiscal policy and unemployment for the country like Pakistan. The Johansen co-integration approach has been used to inspect the relationship between the fiscal variables and unemployment. The yearly data has been used from the period 1980 to 2010. The results of co-integration have indicated the long-run association between the fiscal variables and unemployment. Government expenditures and inflation both has shown positive relationship with unemployment. Whereas foreign direct investment, growth rate and tax revenue have shown negative relationship with unemployment. The Vector Error Correction Model (VECM) shows the disequilibrium factor and these disequilibrium variables will come towards equilibrium after the time period of six years. Foreign Direct Investment (FDI) has shown negative relationship with unemployment. This indicates that FDI is an effective tool against unemployment. There is need to create sound and fearless environment for the foreign investors, so that they invest in different business and projects. Due to their investment employment opportunities should be created in the country and unemployment will decrease.*

**Keywords:** Fiscal policy, unemployment, co-integration, VECM

### INTRODUCTION

Fiscal policy is the policy made by government to regulate its level of spending and manipulate the economy of the country. The Fiscal policy may be expansionary or contractionary; it depends on a country's economic situation. According to Gale and Harris (2010) an important role for fiscal policy is the migration of unemployment and stabilization of the economy. This statement shows that the important function of fiscal policy is to alleviate unemployment from the economy and economic stability. Government expenditure is the main instrument of the fiscal policy because when government expenditure increases, employment opportunities are created and at the end unemployment decreases. Leigh and Neill (2008) had also recommended government expenditure as important instrument in lowering the unemployment rate. Adams and Gangnes (2010) had also found that increased government spending has a large and instant impact on output and employment. So in the light of all these studies it is proved that solution of unemployment reduction is the use of expansionary fiscal policy. Many theories such as Phillips curve and Okun's law had shown the relationship between unemployment, inflation rate and growth respectively. But it is not applicable in every country's economy because different countries have different economic situation and the policies.

Unemployment means people who are able and willing to do work, don't get appropriate jobs. It a phenomenon present in every country or economy. Unemployment remains in every economy due to its different types such as Structural, Frictional and cyclical unemployment. These types of unemployment are present in the economy due to several reasons.

Unemployment is a central problem in a country like Pakistan because whenever unemployment rate becomes high, resources become wasted and the incomes of the people get negative shocks. People who are 10 years old or above are included in labor force in Pakistan. Increase in population gives rise to labor force but on the other hand if people don't get jobs then unemployment rate increases. In the year 1999 it was estimated that there are 2.4 million unemployed persons. The unemployment rate was estimated as 6.1% and 5.4% in the labor survey 1996-97 & 1994-95 respectively. The difference in the unemployment rates between these two surveys was approximately 0.7%. This showed that unemployment rate was increased between these two years. At that time government tried to overcome and control this increased unemployment rate. Small Business and Finance Corporation (SBFC) had played its vital role in reducing unemployment. SBFC generated employment for 28,149 persons under this program. To increase growth and self-employment, Govt started overseas employment schemes under which 104,000 persons were sent abroad for employment purpose. In addition, great attention was paid towards the improvement of infrastructure of the country. (GOP, 2000)

The aim of this study is to check the fiscal policy of Pakistan that how it is working to achieve stability towards economic growth and full employment level. As the economic situation prevailing in Pakistan is not so good due to unemployment, hyperinflation, energy crisis and war against terrorism. So, there is needed to take effective steps against these problems. Government can solve these problems by using effective fiscal policy. In this study the effectiveness of fiscal policy against unemployment has been checked. For this purpose the variables which are affected by fiscal policy are used to check the relationship between fiscal policy and unemployment.

## LITERATURE REVIEW

Many economic scholars have explored the importance and impact of fiscal policy on unemployment in the past years. Their researches have given different results about the relationship between fiscal policy and unemployment. The relationship between Fiscal policy and unemployment was checked by Battaglini and Coate (2011). They suggested that to control rising unemployment government should have to start the plans in which tax cuts and public production increases were involved. Government expenditure is the main instrument of the Fiscal policy which is used by the government to increase or decrease the development in the country. Expansion in the government expenditures is beneficial for the economic growth.

Leigh and Neill (2008) together studied the impact of government spending on unemployment. They found that the government spending shows positive impact on the employment level. This was due to the reason that whenever government increases its development expenditures automatically employment opportunities are generated. People get jobs and unemployment decreases.

The effectiveness of the Fiscal policy cannot be judged before its implication. The out coming result of the Fiscal policy shows that how much effective it was. For this purpose Farmer (2009) checked the effectiveness of the Fiscal policy. His analysis suggested that if private expenditures are replaced with government expenditures then this would be very much effective and can restore full employment. Fiscal policy has microeconomic effects as well as macroeconomic effects. Its macroeconomic effects could be different from its microeconomic effects. Macroeconomic effects of Fiscal policy were investigated by Afonso and Sousa (2009). Their empirical results suggested that expansion in the government

spending shows a small and positive impact on Gross Domestic Product (GDP) and a negative impact on private investment.

The expansionary Fiscal policy also showed a negative impact on unemployment. When the long-term impacts of Fiscal policy were checked they found that interest rates, private investment and GDP become more responsive. Another study conducted by Fatas et.al (1998) also presented the macroeconomic impacts of Fiscal policy. They found that impact of investment was not affected significantly with the increase in government expenditure. Consumption also decreases due to increase in the government spending because of the negative wealth effects. On the other hand there was a positive and significant impact of government spending on employment.

Unemployment is a problem which can be seen in every developed and underdeveloped country. This is a great challenge for every government to create jobs in its country. The problem of job creation and the policies which create jobs were explored by Adams and Gangnes (2010). They particularly looked at the impact of American Recovery and Reinvestment Act Program (ARRA) which was adopted in 2009. They found that increased government spending on government consumption and investment has large and instant impact on output and employment. The program ARRA also contributed a lot in the way of employment and job creation. So the government investment on programs like ARRA is very effective for employment generation.

Fiscal regulation and economic performance has a positive long-run association. Gale and Orszag (2003) had examined the long-run relationship between them. According to them there is a negative effect on economic growth due to deficit in the budget. It causes the national saving to reduce and increases the long-run cost on economic growth. When the government faces budget deficit its expenditures automatically decreases. This decrease in expenditures leads to increase unemployment in the country.

Plotnikov and Farmer (2011) had checked that how expansion in the government expenditures leads to decrease private consumption and reduce unemployment. They found that expansionary Fiscal policy increases economic growth and reduces unemployment in the short-run but due to this consumption is reduced in the short-run. According to Keynes if the economy is not self-confident then expansion in the Fiscal expenditures would not be the effective way to increase employment.

The different policy initiatives taken by government to reduce unemployment from the country were inspected by Amjad (2005). He found that the government policies showed that it is taking unemployment as a serious problem and main concern of the government is to eliminate poverty from the country. According to him government is giving his special attention towards the education and the skill improvement of the people in the country. Due to this they would be able to take part in the global economy. He suggested that government should have to pay a lot of attention Public Sector Development Plan to start more employment creation projects according to need. Government should also have to find the other different ways to increase employment.

To check out the working of the Phillips curve in Pakistan Gul et.al (2012) conducted a study. They found that the Phillips curve is still working in Pakistan. Due to increase in inflation, unemployment in the country is decreasing. They also found a positive relationship between unemployment and tax rate. They concluded that there are many problems which are causing unemployment in the country. Different developments are made but no attention is paid on the regulation of these plans. At the end no results are obtained.

All the literature discussed above shows that there is a strong association between Fiscal policy, unemployment and growth. Government can use its Fiscal instruments such as government expenditures and tax revenue to control unemployment in the country. Through Fiscal policy government can made different plans to attract foreign direct investment (FDI). By controlling inflation government can control unemployment in the country. So there is need to check the relationship of all these variables which are affected by Fiscal policy with unemployment.

## HYPOTHESIS

After analyzing the past study, following hypotheses are set in order to achieve the objectives:

- H<sub>1a</sub>**: Government expenditure has negative relationship with Un-Employment.
- H<sub>2b</sub>**: Growth rate has negative relationship with Un-Employment.
- H<sub>3c</sub>**: Foreign Direct Investment has negative relationship with Un-Employment.
- H<sub>4d</sub>**: Tax revenue has positive relationship with Un-Employment.

## METHODOLOGY AND DATA COLLECTION

### Data Collection

The data used for estimation has collected on yearly basis for the period from 1980 to 2010. Reliable sources were selected for the data collection like International Financial Statistics (IFS). Central Bank of Pakistan (SBP) and World Development Indicator (WDI).

### Methodology

There are numerous methods and techniques to inspect the long run association between variables. In this study we have used Co-integration test presented by Johansen Juselius (1990) to measure the long-run relationship between the understudied variables

### Johansen Co-integration Test

J-J approach of co-integration test is based on maximum likelihood approach and was introduced in 1988. If there are more than two variables in the model then there is possibility of at least two co-integrating vector in the model.

$$Y_t = B_1 Y_{t-1} + B_2 Y_{t-2} + \dots + B_k Y_{t-k} + u_t \text{-----} (1)$$

This can be express in VECM form as follows:

$$\Delta Y_t = \Omega_1 \Delta Y_{t-1} + \Omega_2 \Delta Y_{t-2} + \dots + \Omega_{k-1} \Delta Y_{t-k-1} + \pi Y_{t-1} + u_t \text{-----} (2)$$

Where  $\Omega_i = (I - B_1 - B_2 - \dots - B_k)$  ( $i = 1, 2 \dots k-1$ ) and  $\pi = -(I - B_1 - B_2 - \dots - B_k)$

The above matrix is  $\pi$  is  $3 \times 3$  because we assume that there are three variables in the model.  $\pi = \alpha\beta'$  where  $B$  is the speed of adjustment to the equilibrium coefficients and  $\beta'$  is the long-run matrix of coefficients.

### Model Specification

This study explores the long term relationship between the understudied variables. Using co-integration approach the model can be written in a following way:

$$\text{Log UM}_t = \beta_1 \text{LogGE}_{t-1} + \beta_2 \text{LogFDI}_{t-1} + \beta_3 \text{LogINF}_{t-1} + \beta_4 \text{LogGR}_{t-1} + \beta_5 \text{LogTR}_{t-1} + \epsilon \text{---} (3)$$