



# The Mediating Effect of Employee's Loyalty in the Relationship Between Empowerment and Employees' Performance: A Case from Jordanian SMEs

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## Abstract

This paper aims at investigating the relationship between empowerment and performance. In addition, the paper examines the mediating effect of employees' loyalty in this relationship. The current study based on developing a model based on the previous literature. The model, then, was being tested empirically by using data that have been collected through surveying 252 employees and 66 direct supervisors within SMEs in IT sector. By using structural equation modelling (SEM) the results revealed that empowerment linked to performance. Additionally, employees' loyalty positively and significantly affects performance. Furthermore, the results have shown that employees' loyalty partially mediates the relationship between empowerment and performance.

## Key words

Employees' loyalty, empowerment, performance

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## 1. Introduction

Human capital is one of the most important elements in business' success. Therefore, the way of dealing with employees considers as a crucial practice that could affect their performance within firms. From the one hand, the way of running the daily activities will affect the way of performance among employees (Bontis *et al.*, 2000; Pena, 2002; Unger *et al.*, 2011). On the other hand, scholars of organisational behaviour have emphasised the employees' traits as a vital element toward organisational success (Vroom, 1964; Schwab and Cummings, 1970; Griffin and Moorhead, 2011). Literature has plenty of studies that have been accomplished regarding investigates employees' attributes, besides, examining the effect of those attributes on job performance through the employees (Becker and Gerhart, 1996; Chen *et al.*, 2007). However, management behaviours and insights towards the employees play a vital role in determining such attributes. That is, the way managers deal with their employees affect the employees' effectiveness, which in turn, affects the employees' performance in general (Hackman and Hackman, 2002).

From the one hand, empowerment is a policy and attitude that allows and helps employees to participate in decision-making regarding their duties, which in turn, allows them to own their work and take responsibility of the results as well as serve customers at the level of the organisation where the customer interface exists (Honold, 1997). The concept of employee participation has been a topic of research and an interest of employers for many years. Empowerment indicates the employees being supplied with a higher

level of freedom and resiliency in order to participate in decision-making process regarding the job (Wilkinson, 1998). On the other hand, employee loyalty refers to employee's feeling of commitment toward the employer. This can be built psychologically by using procedures that are capable to apprehend an employee's feelings towards the employing company. This comprises four indicators for employee loyalty: intent to continue, readiness to do additional effort, feeling of belonging and readiness of additional responsibility (McCarthy, 1997). When Employees hold high level of loyalty, this makes the employees act as best as they can, this in turn, holds a direct and noteworthy effect on the organisations' performance (Tomic *et al.*, 2018). Is that, employees' loyalty generates kind of commitment to the organisation and thus performing with an advanced level, which in turn, will have a subsidiary effect and a positive impact on performance on the organisational level (Ali *et al.*, 2010).

However, only few studies have deliberated these kinds of relations and the effect of such variables on the performance (Kirkman *et al.*, 2004; Chen, *et al.*, 2007). While, Wong and Laschinger (2013) attempted to examine the mediating role of empowerment in the relationship between job satisfaction and performance. Yee *et al.* (2010) provided an empirical study of employee loyalty, service quality and firm performance in the service industry. Whereas, the current study deliberating three issues: first, the relationship between empowerment and performance. Second, the relationship between empowerment and employees loyalty. Third, the mediating role of employees' loyalty in the relationship between empowerment and performance. In doing so, a model has been developed based on the previous literature. Yet, structural equation modelling is applied on the model to empirically test those relationships based on the data that have been collected by using 233 questionnaires from SMEs within IT firms in Jordan.

## 2. Literature review and hypotheses development

### *Empowerment and performance*

Recently, an increased number of organisations have extensively adopted empowerment policy as a technique toward enhancing performance. That is, empowerment policy will increase creative solutions for any mistake that could occur during daily activities as a result performance will also be enhanced. Besides, empowerment gives the employees the ability to rethink about the ways of doing these activities, consequently, try to enhance these ways (Chiang and Hsieh, 2012; Wong and Laschinger, 2013; Jiang *et al.*, 2016; Abualoush *et al.*, 2018). Moreover, Patterson *et al.* (2004), argued that empowerment acts a provider to employees with a gate to work related knowledge as well as abilities and allowing space of freedom to think about more option to accomplish the required job, which in turn, increases encouragement to enhance the performance. According to the reformers, empowering first line employees was recognised as a procedure toward enhances the performance in order to implement their evaluation as well as train and grant them the required resources to accomplish the work, this in turn, makes them generate a sense of responsibility regarding their decisions and outcomes (Gore, 1993). Consequently, performance will be reinforced through empowerment supports performance based on that employees are provided with more accountability regarding the way of doing their work, therefore, the efficiency will be increased and superior level of utilising each employee's efforts will take a place in the organisations (Dutta and Manzoni, 1999). Based on the aforementioned arguments and discussions, the authors hypothesised that:

*H1: Empowerment positively and directly enhances the employees' performance.*

### *Empowerment and employees' loyalty*

According to Ignore (2009), empowerment offers noteworthy advantages for both levels the organizational and the personal. For example, adherence and establishment of belonging sense will be built through empowerment. Additionally, empowerment able to satisfy fundamental human needs such as acceptance and proprietorship. Empowering individuals creates sense of joining to making their personal fate; also, jobs turn into spectacular, inspiring, pleasant, and significative. Empowerment develops trust as well as indorses active communication. Employees' loyalty has been found to be positively affected by empowerment, since empowerment considered as a trust-based activity, this in turn, affects employees' loyalty in an emotional and social way (Bennis and Nanus, 198; Blau, 1986; DuBrin, 2012). Moreover, organizational efficiency and employee well-being will be increased by empowering individuals.

Empowerment has found to enhance competence (Mathieu *et al.*, 2006) and decreases costs (Suzik, 1998). Furthermore, empowerment indicates higher level of job satisfaction, loyalty, performance (Fulford and Enz, 1995). In addition, Ripley and Ripley (1992) and Spatz (2000) have argued that empowerment increase level of motivation, which in turn, decreases faults and makes people be more responsible regarding their activities; increases loyalty, at the same time decreasing turnover; improves efficiency through augmenting employee pride, self-respect, and self-worth. Based on the aforementioned arguments and discussions, the authors hypothesised that:

*H2: Empowerment positively and directly enhances the employees' loyalty.*

#### *Employees' loyalty and performance*

Niehoff *et al.* (2001) have defined loyalty as “active behaviours that demonstrate pride in and support for the organization. Defending the organization against criticism, emphasizing the positive aspects of the organization, and refraining from complaining about the organization would be examples of such behaviors”. Loyal employees give numerous advantages to organisations. They set forth additional endeavours in their duty, act as helpful representatives delegates outside the organisations, and perform well and beyond the standard in doing the seemingly insignificant details that assist the organisation work efficiently (O'Reilly and Chatman, 1986). Moreover, Reichheld (1996) claims that enhancing employee' loyalty decreases functioning costs, in addition to enhance customer service, therefore leads to improve profits (Reichheld, 2001). Also, employees' satisfaction and loyalty have been found to be an initiation to a chain of performance connections among quality, efficiency, value of service, customer satisfaction and loyalty, consequently, leading to profit and growth (Heskett *et al.*, 1997).

Furthermore, it has been advocated that, creating good workplace is very important for management in organisations which in turn enables advanced level of employee satisfaction. As employee satisfaction holds a positive impact on loyalty and confidence of employees enhances the outcomes quality and likewise improves productivity and performance (Surujlal *et al.*, 2003; Yee *et al.*, 2008). Further, organisations could gain various advantages through loyal employees. Is that, those employees pay more endeavours, consider as optimistic representatives for their organisations, as well as go beyond doing the regular work as they are doing modest actions that may assist effectively the function of the organisation (Yee *et al.*, 2010). Based on the aforementioned arguments and discussions, the authors hypothesised that:

*H3: Employees' loyalty positively and directly enhances the employees' performance*

#### *The mediating effect of employees' loyalty in the relationship between employees' empowerment and employees' performance*

The argument of this part of the research is based on social exchange theory, that is, as a person gains a favour, the gainer is anticipated to maintain a responsibility to give a favour in return to the granter in indefinite time (Blau, 1968). In the same line, organisations, primarily, are seeking to sustain a good workplace and circumstances such as leader-follower relationship, effective relationships among employees, offer suitable and reasonable promotion chances and delegating suitable duties. Thus, employees should payback through exhibiting beneficial performance (Judge *et al.*, 2001). As a result, employees' loyalty will produce increasing in market share and profitability of the organisation (Chi & Gursoy, 2009), So, and, when employees are loyal to organisation and performing at a superior level, in turn, this will give an indirect influence and an optimistic impact on organisational performance (Ali *et al.*, 2010). Figure 1 represents the hypothesized model of the study

Based on the aforementioned arguments and discussions, the authors hypothesised that:

*H4: Employees' loyalty mediates the relationship between employees' empowerment and employees' performance*



*Figure 1.*

### **3. Methodology of research**

#### **3.1. Population and procedure**

This investigation uses quantitative approach to examine both directions in this relationship. First, the direct effect of empowerment on performance. Second, the indirect effect through employees' loyalty as a mediator. Additionally, the direct effect of employees' loyalty on performance will also be examined as a part of this investigation. Moreover, this investigation takes a place within IT industry in Jordan, specifically, in small and medium enterprises (SMEs). This choice has been made after deep consideration, whereas, this sector characterises as active as well as growing at an accelerating pace (Wang and Chang, 2005). However, the size of the companies that have included in this investigation were also from the same size in order to take into account the principle of standardization of the sample (Cavana *et al.*, 2001). Also, as mentioned before, this industry has no attention by the scholars in the same field, especially, in developing country (Nzuve and Bakari, 2012; Ibrahim and Al Falasi, 2014) such as Jordan.

The present investigation has been conducted by surveying 350 employees as well as 66 direct supervisors for those employees through 31 companies (SMEs) within IT industry in Jordan have been included for the purpose of conducting this investigation. Convenience sampling technique was used to select the respondents. Regarding the employees, only 252 valid questionnaires were returned to the researchers with response rate of 72 per cent, from 350 questionnaires have been distributed to the employees. On the other side, employees' performances have been assessed by number of the immediate supervisors ( $n=66$ ). In addition, since this investigation was conducted in Jordan where the formal language is Arabic so, the original paragraphs of both questionnaires were translated to Arabic language by experts. However, the translated version has also been reviewed by scholars and researchers in the same field who have experience in this field in order to avoid any mistakes that might result from translation process as recommended by Saunders *et al.* (2012). Regarding the 252 employees, the average of the age was approximately 39 years ( $S.D. = 9.70$ ). Wherein, .75 per cent was male.

#### **3.2. Instrument**

To prevent the issues of same-source bias (i.e., assessing both variables by the same subjects), the current study employed a behavioural measure of loyalty and job performance assessed by the supervisors of the employees. Consequently, the current study employed two instruments; the first one was directed to the employees to measure the variable empowerment. The second was directed to the supervisors as mentioned above to measure two variables namely, employees' loyalty and job performance. Therefore, the current investigation was dealt with employees' loyalty as a distinct behaviour rather than an attitude. This distinct behaviour proposes that the employee is a loyal promoter for the organization. This deduction was derived from the assumption that, the loyal employees will react by performing as its loyal promoter.

Based on abovementioned assumptions, the variable empowerment was measured using 15 items with high level of reliability with  $\alpha = .91$ . The original version of empowerment scale consists of 65 items; however, this original version was developed based on sample of 300 participants and after applying factor loading these items were reduced to 15 (Niehoff *et al.*, 2001). Wherein, loyalty was measured by using five items derived from the organizational citizenship behaviour scale developed by Moorman and Blakely (1995) and used by Niehoff *et al.* (2001) the items show high level of reliability with  $\alpha=.87$ . Furthermore, job performance was measured using five-items developed by Podsakoff and MacKenzie (1989) cited and used by Janssen and Van Yperen (2004), with  $\alpha=.89$ . Regarding job performance variable, the supervisors of the employees indicated the extent of agree or disagree regarding the quantitative as well as qualitative of employees' performance. All the items within the instruments have been measured using 7-point scale ranging from "1 = strongly disagree" to "7 = strongly agree". Table 1 shows the items of the questionnaire. In addition, two control variables have been used in the current study namely, age and gender.

Table 1 the items of the questionnaire

The variable	The item
Empowerment	1. Encourages me to believe in myself
	2. Gives me the freedom and flexibility to experiment
	3. Wants me to get involved when I see a need and not wait to be told or given permission
	4. Helps remove roadblocks
	5. Inspires me to do more than I thought I could
	6. Establishes trust and credibility when relating to me
	7. Encourages me to openly express my feelings and concerns
	8. Helps me set meaningful goals
	9. Encourages me to focus on what can be done rather than what has always been done
	10. Recognizes that the betterment of the team is as valuable as the results achieved
	11. Conveys ownership by talking in terms of our customer, our budget, our business
	12. Encourages a long-run, patient, disciplined approach versus a “flash in the pan” approach
	13. Is willing to give his or her time when I need it
	14. Develops a trusting relationship by sharing information
	15. Encourages improvement through analysis of every process and action within my control
Performance	16. This worker always completes the duties specified in his/her job description.
	17. This worker meets all the formal performance requirements of the job.
	18. This worker fulfils all responsibilities required by his/her job.
	19. This worker never neglects aspects of the job that he/she is obligated to perform.
	20. This worker often fails to perform essential duties
Loyalty	21. Defends the organization when other employees criticize it
	22. Encourages friends and family to utilize organization products
	23. Defends the organization when outsiders criticize it
	24. Shows pride when representing the organization in public
	25. Actively promotes the organization's products and services to potential users

#### 4. Results

Prior to the hypotheses testing and in order to ensure the discriminant validity, two exploratory factor analyses have been conducted. First, the items regarding, performance and loyalty were submitted to a principal components analysis. As shown in table 2 the factors appeared with eigenvalues greater than 1, with 9.74 and 12.32 percent of the variance respectively. Each item for each variable was “loaded” on its proper factor, with main loadings above .45 with cross-loadings less than .30. Second, regarding the empowerment variable the items were submitted to a principal components analysis as well. As shown in Table 2, the factor that appeared applicably embodied the empowerment items, the main loadings surpassed .67 whereas cross-loadings were less than .32. The factors had eigenvalues greater than 1 with 82.32 percent of the variance (Hair *et al.*, 2010). Although, previous studies have shown high level of reliability however, the researchers have retested reliability for all factors and it represents in table 3.

Table 2. Results of Principal Components Analysis of empowerment, loyalty and performance

Items	Factors		
	1	2	3
Empowerment			
Encourages me to believe in myself	<b>.77</b>	.03	.05
Gives me the freedom and flexibility to experiment	<b>.83</b>	.12	.09
Wants me to get involved when I see a need and not wait to be told or given permission	<b>.69</b>	.15	-.01
Helps remove roadblocks	<b>.80</b>	-.07	.03
Inspires me to do more than I thought I could	<b>.71</b>	-.08	.11
Establishes trust and credibility when relating to me	<b>.81</b>	-.16	-.12
Encourages me to openly express my feelings and concerns	<b>.79</b>	.21	.19
Helps me set meaningful goals	<b>.76</b>	-.13	-.09
Encourages me to focus on what can be done rather than what has always been done	<b>.86</b>	-.05	-.06
Recognizes that the betterment of the team is as valuable as the results achieved	<b>.70</b>	.04	.14

Items	Factors		
	1	2	3
Conveys ownership by talking in terms of our customer, our budget, our business	.68	.08	-.01
Encourages a long-run, patient, disciplined approach versus a “flash in the pan” approach	.82	-.08	.17
Is willing to give his or her time when I need it	.73	.17	.08
Develops a trusting relationship by sharing information	.76	.04	.10
Encourages improvement through analysis of every process and action within my control	.88	-.04	.12
<b>Performance</b>			
This worker always completes the duties specified in his/her job description.	.04	.59	.16
This worker meets all the formal performance requirements of the job.	-.12	.67	-.11
This worker fulfils all responsibilities required by his/her job.	-.08	.83	.14
This worker never neglects aspects of the job that he/she is obligated to perform.	.12	.81	-.09
This worker often fails to perform essential duties	.20	.79	-.03
<b>Loyalty</b>			
Defends the organization when other employees criticize it	.21	.11	.77
Encourages friends and family to utilize organization products	.16	-.09	.81
Defends the organization when outsiders criticize it	-.08	-.03	.66
Shows pride when representing the organization in public	-.01	.12	.84
Actively promotes the organization's products and services to potential users	.11	-.05	.75
Eigenvalue	12.03	3.54	3.97
Percentage of variance explained	64.33	9.74	12.32

#### 4.1. Descriptive data

Table 3 represents means, standard deviations, reliabilities and correlations for all variables of the current study. As appeared in the table, the result shown that the independent variable (empowerment) is positively correlated to the mediating variable (loyalty). Additionally, empowerment is positively correlated to the dependent (performance).

Table 3. Descriptive statistics and correlation

The Variable	Mean	SD	1	2	3	4	
1. Age	1.25	0.38					
2. Gender	39	9.70	-.45				
3. Empowerment	4.56	0.86	0.13	-0.14	(.91)		
4. Loyalty	4.80	0.84	0.21	-0.21	0.32	(.88)	
5. Performance	4.67	0.93	0.19	-0.16	0.28	0.18	(.85)

Note: Correlation above 0.12 is significant at the level 0.05. Reliabilities are reported on the diagonal

#### 4.2. Structural equation modelling

Prior to structural equation modelling (SEM) process, the normal distribution of the data was verified by utilizing skewness and kurtosis tests, that is, when the values are ranging between (2 and -2), as a result, the researchers proceed structural equation modelling (Byrne, 2013). Later, Amos23 was used as well in this analysis. The suggested relationships between the variables of the study were verified by employing SEM. Normally, SEM includes of two stages: First, measuring convergent validity of the constructs through “measurement model”. Second, assessing and testing casual relationships between constructs “structural model” (Hair *et al.*, 2010). After that, confirmatory factor analysis (CFA) was conducted to evaluate the measurement model. While, before employing SEM, refining and screening process of the data took place through performing exploratory factor analysis (EFA) (Hair, et al., 2010). Table 4 shows the fit indices of the measurement model.

### 4.3. Fit indices

Table 4. Fit of indices of the measurement model

Indices	Factors		
	Empowerment	Loyalty	Performance
Chi-square $X^2$	167.312	143.287	64.461
df	89	74	42
$X^2/df$	1.880	1.936	1.535
RMSEA	0.039	0.040	0.036
CFI	0.963	0.978	.0983
NFI	0.943	0.966	0.962
TLI	0.977	0.974	0.976
GFI	0.958	0.961	0.959
AGFI	0.982	0.985	0.981

### 4.4. Hypotheses testing

Hypothesis one proposes that, empowerment positively and directly enhances the employees' performance. The paths analysis was used in this stage, from one hand, to scrutinise the direct effect of empowerment on employees' performance. Therefore, the results of the direct impact show that empowerment directly and positively impacts the employees' performance in the studied sample, with total impact of = 0.321, CR = 13.933, and standard error (S.E) = 0.023. Likewise, hypothesis two proposes that, empowerment positively and directly enhances the employees' loyalty. Employing similar procedure in Amos23. The results showed that empowerment have a direct and positive impact on employees' loyalty whereas, the impact of empowerment was 0.317, CR = 12.677, and S.E = 0.025. Additionally, hypothesis three proposes that, employees' loyalty positively and directly enhances the employees' performance the results revealed that employees' loyalty directly and positively impact employees' performance, while the total impact of employees' loyalty was 0.653, CR = 14.821, and SE = 0.044. On the other hand, regarding the mediating role of employees' loyalty in the relationship between empowerment and employees' performance. To scrutinise the indirect effect of empowerment on performance through the mediating role of loyalty, the significance or non-significance of different paths will be the method to test the mediation effect (Zhao *et al.*, 2010). Moreover, the indirect impact of the independent variable on the dependent variable through a mediator variable is likely to be measured by the product of, firstly, the path between the independent variable and the mediator variable, secondly, the path between the mediator variable and the dependent variable (Preacher and Hayes, 2004).

The mediation impact clearly appears as the direct impact of the independent variable on the dependent variable is significant; yet, it is more significant with the occurrence of the mediator variable (Hair *et al.*, 2010). Accordingly, in addition to reveal if there is any mediating effect of employees' loyalty in the relationship between empowerment and employees' performance, the current study purposes to illuminate the nature of the mediation impact. To do that, number of tests is designed to detect the mediating impact. The most utilised procedures in structural equation modelling is path analysis (MacKinnon, 2008). Essentially, this procedure relies on the path coefficient denoted by the value of ( $\beta$ ) and the vicissitudes of this value among the casual relationships regarding the dependent variable after and before the intervention of mediator (Preacher and Hayes, 2004). This means, calculates the effect of the interfering variable. The justification of utilising indirect effect technique is that, it fits the SEM (Baron and Kenny, 1986; Hayes, 2009). Table 5 showed the obtained results via AMOS's matrices (standardised regression weights, p-value, the regression weights, and the direct and indirect effects). A comparison between the direct effect and indirect effect via the different values of ( $\beta$ ) in both cases (existence and absence of the mediator) took place to inspect the mediating effect of employees' loyalty on the relationship between empowerment and employees' performance. Therefore, based on the results, direct and indirect effects were significant; but, the indirect effect through the mediator was higher than the direct effect of independent on the dependent. As a result, these indications supported hypothesis four that proposes: Employees' loyalty mediates the relationship between employees' empowerment and employees' performance. However, this mediation was partial.

Table 5. The direct and indirect effects

Hypothesised relationship	Direct effect	p-value	Result	Indirect effect	p-value	Result
Empowerment---Employees' performance	0.27	0.01	Significant	0.668	0.01	Significant

## 5. Discussions

The researchers in the current study were developed and examined a model that reflects the idea that empowerment helps the organizations to perform much better through enhances the employees' performance. In addition, the hypothesised model reflects the idea that empowerment helps in increasing employees' loyalty, this in turns, helps in increasing employees' performance as well in an indirect way through employees' loyalty. The examination of the casual relationships was conducted through structural equation modelling after the collection data that took a place using questionnaire survey. Wherein, SMEs in IT sector within Jordanian context were the sample of the current study. Based on the results of the path analysis that obtained through SEM using AMOS software, the four hypotheses that have been developed to reflect these relationships indicated that all hypotheses are supported.

Since little is known regarding the relationship between empowerment and employees loyalty so, the results of the current study offer an additional evidence of the positive relationship between, from one hand, empowerment and employees' loyalty (Niehoff *et al.*, 2001; Kahaleh and Gaither, 2005). It has been claimed that employees with high level of empowerment within their organizations are experienced superior results for work behaviours, such as loyalty (Fulford and Enz, 1995). However, our findings are contrary to other studies that shown that employees recognizing themselves as empowered were not essentially connected by their inclusive connection to the organization and the levels of the loyalty were not essentially affected by it (Patah *et al.*, 2009). On the other hand, the relationship between empowerment and employees' performance (Meyerson and Dewettinck, 2012; Mohapatra and Sundaray, 2018; Nzuve nd Bakari, 2012).

Moreover, there is lack of studies that search the relationship between employees' loyalty and employees' performance; however, our findings consistent with the rare previous studies are supporting the idea that employees' loyalty enhances employees' performance (Whiting *et al.*, 2008). Surprisingly, our framework hypothesised a new directions of studying such relationships, is that, we proposed that employees' loyalty mediates the relationship between empowerment and employees' performance, wherein, the results of the current study indicates that our hypothesis is supported regarding this relationship.

## Implication

The current study has theoretical and practical implications. First, consistent with previous studies empowerment has been found to be positively linked to employees' loyalty and performance (Niehoff *et al.*, 2001; Kahaleh and Gaither, 2005; Fulford and Enz, 1995; Meyerson and Dewettinck, 2012; Mohapatra and Sundaray, 2018; Nzuve and Bakari, 2012). However, our study is the first to examine the mediating role of employees' loyalty in the relationship between empowerment and employees' performance. On the practical level, our findings provide managers the importance of supporting and disseminating good organizational citizenship behaviours among employees such as empowerment, that is, such employing those strategies would be beneficial in terms of enhancing the employees attitudes towards their organizations such as loyalty and commitment, this in turns, will increase the performance of the employees (Bogler and Somech, 2004; Chen and Chen, 2008; Srivastava and Dhar, 2016).

## Limitations and future research

Drawn from the findings of the current study, several directions of future researches have emerged, First, the hypothesised that was used in the current study could be used in examining other industry and context with larger sample. Second, other variables may include in study that might affect the relationships between empowerment and employee's performance. Third, there is sub-types of empowerment such as psychological empowerment might be taken in account for further researches. Fourth, more attention to longitudinal research works might be considered as well.



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