

The Mediating Role of Psychological Capital in the Relationship between Ethical Leadership and Organizational Citizenship Behavior

Riffut Jabeen¹
Saba Munir²

Abstract

The basic aim of this paper is to explore the link between Organizational Citizenship Behavior (OCB) and Ethical Leadership with Psychological Capital (PsyCap) as a mediator between them in a developing country. Questionnaire was used as a tool to collect data from 210 white collar employees of different organizations working both in manufacturing and services sectors of the economy of Punjab, Pakistan. The results suggest that Ethical Leadership positively impacts OCB and the PsyCap of employees fully mediates the relationship between OCB and Ethical Leadership. This research shows that organizations can enhance the citizenship of employees' behavior by setting the ethical behavior of the leaders leading an organization or a group as an example.

Keywords: ethical leadership style (ELS), organizational citizenship behavior (OCB), psychological capital (PsyCap).

1. Introduction

Leadership today is quite different from the leadership of the past, when a leader only had to make the follower do whatever was best for the profitability of an organization, no matter what that follower thought or urged. Today, a leader is not only a person having a prominent position in an organization but s/he is also a mentor, an initiator, a motivator, a change agent and most importantly a role model, who can transform his organization by transforming the behaviors of his followers. Therefore, a leader has to play ethically if he wants his organization to be ethical, as

¹ Department of Business Administration, Ghazi University, D.G.Khan, Pakistan. E-Mail: riffutjabeen@gmail.com

² Department of Management Sciences, Virtual University of Pakistan, Pakistan. E-mail: sabamunir@vu.edu.pk

Correspondence concerning this article should be addressed to Saba Munir, Department of Management Sciences, Virtual University of Pakistan, Pakistan. E-mail: sabamunir@vu.edu.pk

institutions these days do not measure the performance of corporation in financial terms only. In the wake of the Enron scandal and the banking sector crisis, there has been an increased interest in leadership ethics in the corporate world. Various organizations like Volkswagen, Turing Pharmaceuticals and Tesco faced great controversies and suffered huge losses due to the unethical practices of their leaders. Organizations all over the world have to face ethical violations by leaders or employers and Pakistan is no exception in this regard.

The organizations here along with ethical issues are facing many other challenges like high turnover, low productivity, unemployment, unstable economy and terrorism and all of that makes ethical issues the least of their concern in their priority list. It would not be wrong to state that organizations can overcome most of the challenges mentioned above if they manage to adopt an ethical approach and enhance the positive behavior of employees as they feel esteemed to be a part of an organization with ethical practices (Leal, Rego, & Coelho, 2012). In any organization, the person who can influence the employees most is the leader and s/he can play the most important role in augmenting their ethical behavior. This is why a leader is expected to be attractive, trustworthy and legitimate in the eyes of employees/followers.

According to Brown, Treviño, and Harrison (2005), through leadership employees can learn what actions are expected, rewarded and punished in an organization. Leadership by nature is an influencing process with consequential outcomes. Brown and Treviño (2006) developed the construct of Ethical Leadership by using social learning theory of Bandura (1986) as a base. It has been studied widely in relation with organizational environment like job characteristics model by Piccolo, Greenbaum, Hartog, and Folger (2010), team creativity (Mo, Ling, & Xie, 2019) and HR practices (Neves, Almeida, & Velez, 2018).

On the other hand, the current study will integrate leaders' ethics with PsyCap and OCB of employees. The main objective of the study is to examine the relationship between Ethical Leadership, PsyCap and OCB. The most important objective of the study is to explore the mediating effect of PsyCap on the relationship between Ethical Leadership and OCB. From a practical perspective, the findings will highlight the importance of an ethical leadership in stimulating employees toward positive behaviors and

ultimately enhancing employees' volunteer behavior towards their organization.

The succeeding part of the article consists of literature review, theoretical framework, methodology, results and discussion. Comprehensive literature review has been conducted to devise the theoretical framework and statistical analysis has been done to test the hypothesis.

2. Literature Review

2.1 Ethics Core to Leadership

Ethics are vital to leadership because the association between followers and leaders is of crucial importance. Crews (2011) has described the following dimensions of Ethical Leadership.

- 1. Courage:** Principles of standing for right, uncompromised activities, encouraging reproach, strong personal discipline and accountability.
- 2. Integrity:** Trustworthiness, honesty, honor, and having strong principles.
- 3. Accountability:** Lawful acts, encouraging public inspection, serving stakeholder interests, transparent decision making, being a responsible citizen of the organization.
- 4. Discernment:** Informed decision making, examining issues neutrally with a system, reasonable and unbiased processes, making decisions with a strong morality, conducting appropriate check and balance.
- 5. Fairness:** Respectful, empathetic, inclusive, supportive and loyal, an active listener.
- 6. Altruism:** Sacrifices personal interests and works for shared interests, demonstrates self-effacement.

Ethics in business has tremendous importance and an ethical leadership helps to improve employee performance and job outcomes. In reality, ethics and leadership should go hand in hand. In any organization, leaders must be a role model for ethical guidance of employees. Brown and Trevino (2006) stated that since the beginning of human civilization, ethical and unethical leaders and unethical behavior of leaders has existed. Brown, Treviño, and Harrison (2005) stated that Ethical Leadership relates to “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships and the promotion of such conduct to the followers through two way communication, reinforcement and decision

making”. As compared to the past, questions on leadership and managerial ethics are being raised (Veiga, Golden, & Dechant, 2004).

Ethical Leadership implies inextricable virtuousness with character virtues such as faithfulness, temperament, justice, love, empathy, honesty and caring for others (Ciulla, 2004). Brown et al. (2005) leaders are more concerned about the best interest of employees also suggested that in encouraging superior employee attitudes and behaviors, Ethical Leadership plays a significant role. According to Brown et al. (2005), ethical, help them perform well to reach their full prospective and such conduct is likely to fashion a safe environment for employees in psychological terms. Ruiz et al. (2011) also discussed the significant impact of Ethical Leadership on employee job response. According to the findings of research conducted by Neubert, Carlson, Kacmar, Roberts, and Chonko (2009), Ethical Leadership unswervingly creates an ethical climate in the organization and greatly influences job satisfaction and organizational commitment of employees.

According to the findings rendering ethical ideologies, the impact of Ethical Leadership on organizational justice and work engagement is significant (Demiratas, 2013). Shin in (2011) also investigated the link between Ethical Leadership and ethical climate, collective OCB and climate strength. It is not only the responsibility of leaders to show ethical conduct in their formal documents but also to exhibit ethical leadership in their daily behaviors, actions and decisions in practical life (Toor & Ofori, 2009). Ethical Leadership improves job performance of employees through goal congruence and PsyCap (Bouckenooghe, Zafar, & Raja, 2014). It also produces greater satisfaction among their followers (Gill, Haider, & Noreen, 2016) and provides them a relaxed and free of stress work environment (Sharif & Scandura, 2013). Moreover, authentic leadership enhances work engagement through organizational communication (Jiang & Men, 2017).

2.2 Psychological Capital

Fitz-enz (2000) intellectualized human capital in four different subsets including Psychological capital, Intellectual capital, Emotional capital, and Social capital, commonly known as “PIES”. Psychological Capital or PsyCap is from the field of Positive Organizational Behavior (POB) such as *hope*, “the perceived capability to derive pathways to desired goals, and motivate oneself via agency thinking to use those pathways” (Snyder, 2002), *resilience* defined as “a person’s ability to bounce back from hard times, insecurity, disagreement, failure and still bring constructive change,

improve responsibility and progress” (Masten, 2001; Luthans, 2002), *efficacy* defined as the “firm confidence of an individual in organizing the resources to accomplish a job in a particular situation” (Bandura, 1997; Stajkovic & Luthans, 1998) *and optimism* defined as an “explanatory style that attributes positive events to internal, permanent and pervasive causes and negative events to external, temporary and situation specific one’s” (Luthans & Youssef, 2004).

In psychology, there has been a great discussion related to state like psychological capacities and trait like personality constructs. State like capacities are situation based and trait like personality constructs are relatively fixed. PsyCap is more akin to state like characteristic (Luthans, Avolio, Avey, & Norman, 2007). It is open to Human Resource Development (HRD) and performance management. Its elements are conceptualized as a more constant resource than states such as moods or emotions. Personality qualities are not fixed such as conscientiousness or core self-evaluations. It seems that the higher order core factor of PsyCap can be developed in a short training intervention and for employees it has positive results regarding their on-the-job performance.

Previous research findings show that in this hypercompetitive environment organizations have to face competitive challenges. For organizational effectiveness and to take advantage from the opportunities created in the environment, Ethical Leadership and PsyCap both are crucial resources. The results of the previous studies indicated that there are predictable constructive associations between PsyCap and desirable employee attitudes such as job satisfaction, organizational commitment, psychological well-being and creativity (Rego, Sousa, & Marques, 2012). The studies also indicated significant negative relationships between PsyCap and undesirable employee attitudes, cynicism, turnover intentions, job stress, anxiety and undesirable employee behavior. The results provide a strong evidence based proposal for the use of PsyCap in HRD and performance programs (Avey, Reichard, Luthans, & Mhatre, 2011).

2.3 Organizational Citizenship Behavior (OCB)

In recent years because of the intensity of competition and a hyper turbulent environment, the interest of scholars, researchers and managers have increased in employee’s discretionary behaviors. Due to its unrestricted and advantageous nature, OCB have been referred to as a “*currency*” that

employees can easily give or withhold in response to the leader's and the organization's treatment of them (Lambert, 2000).

Organ (1988) defined OCB as an "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and in the aggregate promotes the efficient and effective functioning of the organization". Organ has developed a five dimensional model for OCB. It comprises the following dimensions.

1. **Altruism:** an unrestricted behavior of an employee that shows concern for others' benefits, even in the situations when his/her personal benefits are at risk or contrary to the benefits of others and helps others in organizationally pertinent problem.
2. **Conscientiousness:** an unrestricted behavior of an employee beyond the minimum role requirements of an organization such as obeying regulations and convention, taking breaks, and so on.
3. **Sportsmanship:** the readiness of an employee to accept not as much of an ideal condition without complaints.
4. **Courtesy:** unrestricted actions of human resources in terms of politeness and civility aimed to prevent work related issues.
5. **Civic Virtue:** employee behavior that shows that he or she dutifully takes part in, is concerned with, or is anxious about the organization (Podsakoff & MacKenzie 1997).

There are many studies in the domain of leadership styles that highlight the importance of ethical behavior of leaders and its impact on employee behavior in emerging markets; however, little consideration has been given to the ethical conduct of people at leading position in organizations. Organization's ethical practices/ ethical leadership improves employees OCB (Leal et al., 2012); foster ethical climate and OCB (Shin, 2011; Ruiz et al., 2011); improve work engagement and OCB (Walumbwa, Wang, Wang, Schaubroeck, & Avolio, 2010); and create a strong fit between ethical culture and OCB (Palomino & Canas, 2013). They suggest that the empowerment of employees is an important factor for their motivation through which authentic leaders can impact employee's behaviors related to work such as OCB and work engagement.

According to Zoghbi and Viera (2019), leaders who exhibit moral behavior can motivate their followers more to adopt interpersonal OCB. Shareef and Atan (2019) conducted a study on academic staff and found a positive relationship between Ethical Leadership and OCB. Yang and Wei

(2018) conducted a study on the middle level managers and their subordinates and found a positive relationship between Ethical Leadership and OCB.

Based on above literature review, the first hypothesis of the study is as follows:

H1: Ethical Leadership has a positive association with Organizational Citizenship Behavior.

Schuckert, Kim, Paek, and Lee (2018) found the positive relationship of moral leadership (authentic) with PsyCap. Rego, Sousa, Marques, and Cunha (2011) found that authentic leadership enhances PsyCap and creativity and both are crucial resources for organizations to face competitive challenges, for effective working in an organization and to take advantage of business opportunities.

This research also validates the training model called Psychological Capital Intervention or PCI that is designed to improve employees' overall level of PsyCap and consequently their performance. Altahat & Atan (2018) studied the mediating role of PsyCap in the relationship between Ethical Leadership and intentions to sabotage and found a positive relationship between PsyCap and Ethical Leadership.

The second hypothesis of the study is as follows,

H2: Ethical Leadership has a positive association with employees' Psychological Capital.

Aderibigbe and Mjoli (2018) evaluated the components of PsyCap and OCB and found a positive relationship between both variables and their impact on organizational performance. PsyCap has a significant relationship with and effect on OCB and organizational commitment in public and private organizations (Shahnawaz & Jafri, 2009) and it has a positive impact on employee performance, organizational commitment and OCB (Lifeng, 2007). By investing in the development of PsyCap, organizations can tie together benefits of its own and employees. Gupta, Shaheen, & Reddy (2017) studied PsyCap and two facets (organizational & individual) of OCB and found them to be positively related. These studies established that employees with high PsyCap exhibit an extra-role work behavior than the employees with low PsyCap.

Hence it is proposed that

H3: Psychological Capital has a positive relationship with OCB.

In multiple studies, PsyCap has been used as a mediator. Bouckenoghe et al. (2014) in their study explained the mediating role of PsyCap between EL and job performance. The study provides a great insight in generalizing the concepts of Ethical Leadership, PsyCap and goal congruence in the Pakistani perspective. Moreover, Walumbwa, Luthans, Avey, and Oke (2011) found that PsyCap mediates the effects of a supportive work climate with employee outcome. Gupta and Singh (2014) studied PsyCap as a mediator of the relationship between leadership and creative performance. Adil & Kamal (2019) found a strong indirect effect of PsyCap on the relationship between authentic leadership, work engagement, well-being, and in-role performance. PsyCap mediates the relationship between perceived organizational support and OCB (Azim & Dora, 2016). On the basis of cited literature, this study has also used PsyCap as a mediator in the relationship between Ethical Leadership and OCB.

H4: Psychological Capital mediates the relationship between Ethical Leadership and OCB.

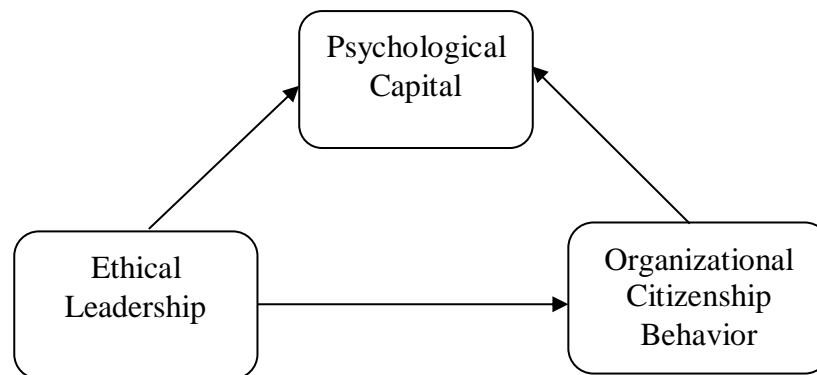


Figure 1. Theoretical framework

3 Methodology

3.1 Sampling Technique

The population of this study comprised employees in manufacturing and services (public and private) organizations of South Punjab. Since the sampling frame was not available, so non-probability sampling technique was used. Initially, subjects were approached using convenience sampling; however, purposive sampling technique was employed afterwards. Only

those respondents were included for data collection who had a minimum of 2 years of working experience.

3.2 Sample Size

Data were collected from 210 employees using questionnaire as a tool. Various previous studies conducted on Ethical Leadership have used a sample size of around 200 respondents. Bouckenoghe et al. (2014) used a sample of 170 respondents, whereas Saeed, Shakeel, and Lodhi (2013) used a sample of 150 respondents in their study on Ethical Leadership.

3.3 Data Collection Tools

Ethical Leadership Scale (ELS) developed by Brown, Treviño, and Harrison (2005) comprising 10 items was used in the study. OCB scale with 24 items was adopted from Podsakoff, Mackenzie, Moorman, and Fetter (1990), originally based on a five dimensional taxonomy given by Organ (1988). PsyCap was measured using the Psychological Capital Questionnaire (PCQ) developed by Luthans et al. (2007) comprising 24 items.

4. Data Analysis and Results

Among 210 respondents, 44.3% were from the manufacturing sector and 55.5% were from service sector organizations. 87% of respondents were male and 13 % were females.

To define the direction and strength of the linear relationship among ELS, PsyCap and OCB, Pearson correlation was used. A bivariate correlation between variables of interest is shown in table 1. The results show that significant correlation exists between Ethical Leadership and PsyCap ($r=0.38, p<.01$) (model 1). Between PsyCap and OCB correlation is ($r=0.46, p<.01$) (model 2). Correlation between Ethical Leadership and OCB is ($r=0.28, p<.01$) (model 3). There is a significant correlation among all three variables under study. When ethical behavior of leaders increases in an organization, it correspondingly enhances PsyCap and OCB of employees (both positive behaviors). At the same time, if PsyCap of employees grows, it also promotes OCB in employees.

Table 1
Mean, Standard Deviation and Correlation

	M	SD	1	2	3
1. Ethical Leadership	4.24	(.32)	1		
2. Psychological Capital	4.27	(.25)	.38**	1	
3. Organizational Citizenship Behavior	4.28	(.21)	.28**	.46**	1

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

To check the strength of all proposed relationships linear regression analysis was also conducted. The results indicate a positive influence of Ethical Leadership on OCB ($B=.18$, $p<.01$). Hence, ethical leaders have an impact on the OCB (discretionary behaviors) of employees in an organization. Although, the relationship between Ethical Leadership and OCB is significant, however, the variance in OCB by Ethical leadership is low ($R^2=.08$; $p<.001$). The results show that only 8% variation in OCB is caused by ELS.

The second relationship is also significant as Ethical Leadership affects PsyCap of employees positively. The results provide support to the hypothesis ($R^2=.14$; $p<.001$) and show a positive and significant effect of Ethical Leadership on PsyCap. Ethical Leadership also has a positive effect on the four facets of PsyCap ($B=.29$, $p<.01$).

PsyCap also shows positive influence on OCB of employees. ($R^2=.21$; $p<.001$) shows that 21% variation in OCB is because of PsyCap. On similar grounds, PsyCap has a positive effect on OCB ($B=.38$, $P<.01$).

Mediation analysis was done based on Baron and Kenny (1986). In the current study, ELS (IV) has a significant effect on OCB (DV) and PsyCap (mediator). The mediation effect of PsyCap was found to be significant with $R^2=.22$; $p<.001$. F value for ANOVA test is significant ($p<.001$). Independent variable is insignificant. For the purpose of seeking additional support for mediation model Sobel test (1982) was also conducted. Test statistics revealed the mediating role of PsyCap on the relationship between Ethical Leadership and OCB. Sobel test also confirmed the indirect effect having a value of 4.4($p=0.000$). Hence results support Hypothesis 4.

Table 2
Regression and Mediation for the Relationship between Variables ELS, PsyCap and OCB

Variables	Adj. R^2	Constant	B_0	F	Sig
Model 1					
ELS & PsyCap	0.139	3.035	0.291	32.52	.000
Model 2					
PsyCap & OCB	0.205	2.639	0.384	52.29	.000
Model 3					
ELS & OCB	0.075	3.511	0.181	16.77	.000
Model 4					
PsyCap&ELS& OCB	0.218	2.467	0.413 0.126	28.145	0.00 0.068

Correlation is significant at $p < .05$, $p < .01$, $p < .001$

5. Discussion

The aim of the current study is to test the hypothesized relationship of EL and OCB with PsyCap as mediator. Correlation analysis highlights that the ethical behavior of leaders energizes positive psychological resources in employees. These findings have a contributing effect, as Luthans et al. (2007) calls for studies to find out the ways that promote positive PsyCap of employees, since this cognitive ability helps in increasing the competitiveness of the workforce to address the challenges of the modern world. A significant correlation exists among these three variables. Data supports all hypothesized relationships.

The first hypothesis of study is accepted. The results prove that the leaders' ethics are vital in fostering the discretionary behaviors (altruism, conscientiousness, courtesy, civic virtue, sportsmanship) in employees. Previous researches provide the evidence that the ethical behavior of leaders promotes OCB (Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009). According to Moorman and Byrne (2005), when followers perceive ethical and fair practices of their leaders, they develop a sense of responsibility and behave in the way that their leaders value. Citizenship behavior shows the psychological states of employees' relationship with their organizations. Committed employees work harder and pay more attention to the organization (Cooper & Chockalingam, 2005). Moreover, Social Exchange

Theory (SET) of Blau (1964) suggested that persons tend to express themselves in terms of the norms of reciprocity, who is interacting with them and how s/he is interacting. On the basis of SET (Social Exchange Theory), the researcher argued that when leaders provide constructive feedback to followers, openly communicate with them and serve as role model, then followers develop a sense of obligation and reciprocation and go beyond their formal job duties to show discretionary behaviors. The second hypothesis of the study is also accepted. On the basis of this social exchange principle, the results show a robust relationship between PsyCap and Ethical Leadership.

The ethical behavior of leadership promotes hope, resilience, efficacy and optimism in employees (Luthans et al., 2007). Ethical Leadership exercises its impact on the follower's behaviors through role modeling (Brown et al., 2005). Since leaders inspire their subordinates through role modeling to work with their maximum potential (Bandura, 1986), they become the legitimate role models of their followers. Brown and Trevino (2006) as well as Walumbwa et al. (2010) claimed that the ethical behavior of leaders promote the development of psychological capacities and positive behaviors in employees. These PsyCap resources are state like characteristics and can be developed through role modeling (Luthans et al., 2007).

Ethical behavior of leaders motivates the followers to analyze their decision making and evaluate the consequences of their actions. They learn to think strategically. De Hoogh and Den Hartog (2008) suggested that leaders with ethical behavior help their followers to achieve the desired goals by consistently clarifying their actions and tasks and thus promoting their self-efficacy. Synder (2000) and Masten (2001) suggested that ethical leaders develop coping skills in their followers and they become more resilient to face adverse situations because they find their leaders standing behind them.

The third hypothesis of the study is also accepted that is about the positive influence of PsyCap on OCB. Avey et al. (2010) stated that PsyCap has become an important part of positive organizational behavior research. Luthans et al. (2007) stated that PsyCap represents motivational tendency through positive psychological constructs of resilience, hope, efficacy and optimism. This motivational tendency affects different behavioral outcomes of employees (Rego et al., 2012), while OCB is a discretionary behavior

that is not recognized by the formal reward system and job duties (Organ, 1988).

Fredrickson (2003) represents the theory of positivity which suggests that employees with PsyCap (high level of positivity) demonstrate more OCB than employees with negative behaviors. Positive psychological resources in employees promote OCB in them (Shahnawaz & Jafri, 2009). PsyCap has a positive impact on employee performance, OCB and OC (Organizational Commitment) (Zhang Lifeing, 2007). In a meta-analysis, Avey et al. (2011) concluded that a positive relationship exists between PsyCap and the desired employee behaviors (like OCB).

The fourth hypothesis related to mediation is accepted. H4 results prove the existence of mediating effects on the relationship. It means that the relationship of ELS and OCB is strengthened by PsyCap. The four facets of PsyCap fully mediate the relationship between ELS and OCB. The result is according to the expectations of researchers because ethical qualities in any leader in the presence of top official authority mostly reflects on the moral quality of followers (Trevino, Hartman, Brown, 2000). So, PsyCap elements become an internal drive for employees to demonstrate OCB. Ethical behavior of leadership fosters the internal PsyCap which in turn enhances OCB in employees.

Both PsyCap and OCB as positive organizational behaviors have a great impact on the employees' and organizations' life and productivity. To understand the relationship between OCB and Ethical Leadership, we have used the perspectives of SLT (Social Learning Theory) and PsyCap. The current study has tested the generalized ability of SLT in Pakistan. Different studies have been conducted on Ethical Leadership and OCB and their causal relationship with other variables. Little work has been done to introduce a specific mechanism through which positive behaviors can be enhanced or promoted in employees. This study has provided a mechanism through which leaders can promote positive behaviors in employees.

Leaders may hearten PsyCap if they build up their behavior on an ethical basis. The development of these psychological states are necessary for the promotion of employees' compassion related to the past, escalating the present, search for future opportunities and to maintain flexible and realistic outlooks (Luthans & Youssef, 2004; Luthans et al., 2006; Youssef & Avolio, 2007). This study also found PsyCap dimensions as state like.

Seligman (1998) stated that managers and organizations must pay considerable attention to selection practices.

The study has theoretical as well as practical implications. To promote PsyCap of employees organizations must value ethics. Organizations must set ethics as criteria for their recruitment, selection and promotion strategies. In turn, organizations can reap the benefit of ethics in the shape of positive behaviors of employees and better performance.

6. Limitations

There are three limitations of the current study.

1. The scope of the study was limited as respondents were selected from the Punjab province only. So, the study was geographically focused mainly due to the constraints of time and resources.
2. Larger sample size should be used to enhance its generalizability. This study used a sample size of 210 respondents mainly due to time and resource constraints.
3. As data was collected in natural settings (cross sectional) at a single point of time, the study cannot define the changes that take place with the passage of time in different affective states and the effects of these states on behaviors (positive behaviors, that is, PsyCap) in this context.

7. Direction for Future Research

This study has tried to find out the effects of the ethical behavior of leaders through data collected from Punjab province (Pakistan). Similar studies can be conducted in other provinces of Pakistan to get a better understanding of the generalizability of these concepts in Pakistan. This is a cross-sectional study due to resources and time constraints. Similar studies can be conducted with a longitudinal and temporal research design and a larger sample. Data was collected related to the PsyCap of employees and OCB with self-raters and the same data can be collected from others, such as supervisors. This study included PsyCap as a mediator. In future, researchers can develop better and more refined models with the inclusion of other mediating variables and dependent variables.

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