

Impact of High Performance Work Practices on Employees' Performance in Pakistan: Examining the Mediating Role of Employee Engagement

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Abstract

The financial sector of Pakistan has been witnessing high growth since the last two decades. Due to increase of branch network, competition among banks has increased. In this intense competition, employees play pivotal role in the competitiveness of financial sector. To line with this, this study aims to find the impact of high performance work practices on employees' performance through mediating role of employee engagement in banking sector of Pakistan. For this purpose, data were collected from employees working in the banking sector of district Multan, Pakistan. Questionnaire was used as a tool for data collection from a sample of two hundred employees. Statistical Package for Social Sciences version 17 was used for data analysis. Factor analysis and Cronbach's alpha was used to test the validity and reliability of the measured constructs. Similarly, correlation and regression analysis indicated that all the study variables were positively related to each other. More specifically, high performance work practices had positive and significant impact on the employee engagement and employee performance. Furthermore, it was also confirmed that employee engagement mediated the relationship between high performance work practices and employee performance.

Keywords: High performance work practices, Employee Engagement, Employee Performance, Financial Sector, and Pakistan.

1. Introduction

Services sector of Pakistan has reached to 58.80% of GDP in 2014-15, which is highest level for the share of services in the history of the economy of Pakistan. The Services sector witnessed a growth rate of 4.95% in 2014-15 as compared to 4.37% in 2013-14, and more specifically Finance and Insurance sector has grown at a rate of 6.1 percent (Ministry of Finance, 2015). Financial sector is one of the very important part of services sector of Pakistan. Country's economic growth is determined by the rapid pace of activities nested in the financial sector. The financial sector of Pakistan has been witnessing high growth since the last two decades, reflected by increased advances, deposits, and securities investment (State bank of Pakistan, 2016). Additionally, as on June 30, 2015, branch network of 35 banks, public sector, local private, and foreign banks have more than 11,700 branches in Pakistan, which is continuously increasing in number (State bank of Pakistan, 2015). Due to increase of branch network, competition among banks has increased. In this intense competition, banks can only survive by providing superior services through innovation and continuous improvements.

Employee's knowledge and proficiencies help to develop the firm's intangible assets. According to Matzler & Renzl, (2007), employee performance is indispensable for improving the services sector of any country. The high performance work practices (HPWPs) give positive signals to the employees that organization is concerned about them in order to improve the quality and productivity of the work of employees (Tang and Tang, 2012). These positive signals result into the high employee output, and resultantly organizational performance is also improved (Tregaskis, Daniels, Glover, Butler & Meyer, 2013). Social exchange theory puts forward that employees feel pleased to perform more than their duties by showing engaged behavior, when they feel that their organization takes care of them (Saks, 2006).

In addition to Social Exchange Theory, other theories also support the connection of high performance work practices with the employee outcomes i.e. job characteristics model, and Equity Theory. According to the equity theory, employees are motivated when they are treated fairly in the organization (Adams, 1963). Similarly, job characteristics model proposed that empowerment, as a tool of high performance practices, helps to improve the employee outcomes (Hackman & Oldham, 1975).

In recent studies, scholars have provided theoretical framework of linkage between high performance practices and employee performance, and different firms used several high performance work practices to enhance employees' performance (Afiouni, Karam, & El-Hajj, 2013). Additionally, majority of strategic HRM research has focused manufacturing sector, neglecting the significant presence of other sectors (Katou, Budhwar & Patel, 2014) and particularly the services sector. The main problem of this issue is the fact that studies related to manufacturing sector cannot be generalized to the services sector due to its diverse characteristics, such as: the concurrent production and consumption of products, the intangibility of service practices and outcomes, and client's involvement in services delivery (Liao, Hu, & Chung, 2009). These facts required collection of further research evidences from services sector.

The literature about HR practices and employee performance in the services sector focused on healthcare industries (Mihail & Kloutsiniotis, 2016; Karetape *et al.*, 2015), flight attendants (Karatepe *et al.*, 2015), and in western countries context only (Mihail & Kloutsiniotis, 2016). Most of the earlier studies ignored the South Asian context, which

required further empirical evidences in other cultural context (Mihail & Kloutsiniotis, 2016), specifically such research evidences might be collected from the Pakistan's services sector, which is growing at a faster pace. Therefore, there was a need to study the relationship between high performance work practices and employee performance in the Pakistani context.

Therefore, that scenario led to the development of following research questions:

- What is the impact of high performance work practices on employee engagement?
- What is the impact of high performance work practices on employee performance?
- What is the impact of employee engagement on employee performance?
- Does work engagement mediate the relationship between high performance work practices and employee performance?

2. Literature Review

2.1 High performance work practice

HR practices are set of distinctive but interconnected functions, activities, and a process that leads to attract, develop, and helps to maintain a firm's human capital (Lado and Wilson, 1994). Successful employee recruitment allows organizations to respond to market threats and opportunities in a proactive way (Dessler, 2010).

High performance work practices such as empowerment, training, and rewards increase employees' skills, knowledge, abilities, and encourage them to achieve higher level of productivity. When those practices are used in an effective manner, they support and strengthen each other (Combs et al., 2006). Such an affirmation is backed by internal fit. Internal fit can be witnessed when collective results are much greater than to the sum of individual results (Wall and Wood, 2005). Collective pressure of training, rewards, and empowerment leads to synergy in the professional firms (Wall and Wood, 2005), generates employee engagement (Christensen and Rog, 2008).

Therefore, in this study high performance work practices are investigated in terms of employee empowerment, training, and rewards.

2.1.1 Employee Empowerment

According to Forrester (2000), empowerment concerns with ability and freedom to show commitments and make decisions. In other words, employee empowerment refers to the job involvement i.e. greater the job involvement greater is the empowerment (Honold, 1997). Employees are empowered due to the idle source of competencies, initiative, and creativity (Bratnicki et al., 2007). Empowered employees can accomplish their responsibilities, use their artistic individual judgment, and deliver fair and quick replies to the customer complaints (Yavas et al., 2010).

2.1.2 Training

Furthermore, previous studies also discovered that empowerment does not give desired results without training (Karatepe, 2013). Training can be used to enhance the skills, knowledge, and abilities of the employees. Employees can only perform their jobs in an efficient and effective way when they are having good interpersonal skills, technical skills, and those skills can be developed by training programs (Eldridge & Nisar, 2006). Similarly, ongoing training programs can improve the employees' performance.

In general, well trained workforce requires lessor amount of management involvement (Gutteridge *et al.*, 1993), incline to have high drive, and low level of attrition. Moreover, Training is supposed to abolish the effect of causes, which lead to displeasure among workers at workplace (Xiao, 1996).

2.1.3 Rewards

In addition to empowerment and training, suitable rewards and compensation must be provided to employees, so that required level of performance can be achieved (Chand, 2010). Prendergast (1999) explained that way of rewarding employees efforts varies from one firm to another firm. Some organizations rely on explicit agreements that bond with wages to evident measures of (aggregate or individual) performance (e.g. stock options, piece rates, profit sharing, and bonuses etc.), others favoring rewards systems that are founded on more subjective / discretionary measures of output and some avoiding the use of pay for output, altogether favoring dynamic strategies (e.g. efficiency, promotions, wages, career concerns, deferred compensation, and layoff, etc.).

Organizations should use non-monetary rewards along with monetary rewards, non-monetary rewards help to motivate workers in manners in which monetary compensation cannot do (Long & Shields, 2010). Financial rewards assist to fulfill the basic necessities (e.g. Clothing, shelter, and food), and similarly higher level necessities i.e. receiving respect from others, belonging to a group, and attaining command supremacy (Long & Shields, 2010).

2.2 Employee Engagement

Employee engagement, as a motivational idea, is referred to as fulfilling and showing positive attitude towards work (Schaufeli *et al.*, 2002). It is subdivided in three operational constructs: dedication, vigor, and absorption. Vigor is referred to putting high energy in the job and remaining persistence in case of challenges, whereas, dedication refers to passion, significance, challenges, inspiration, and pride, whereas absorption is referred to concentration in one's job where time is passed swiftly and faces challenges with separation form job (Schaufeli *et al.*, 2002). Engagement is defined as experience of dedication to role, vigor, and absorption over the longer time of weeks, months or years (Hallberg *et al.*, 2006).

A worker who is engaged may be described as energetic, motivated, enthusiastic, and passionate towards work, while disengaged employee is the one who is robotic, depersonalized, apathetic and estranged, and drawn back from work (Salanova, Agut, & Peiró, 2005).

2.3 Employee performance

Employee performance is the key to improve organizational performance. Research has highlighted various indicators of employee performance including job performance, extra role customer service, and organizational citizenship behavior. In this study, employee performance is investigated through these perspectives.

2.3.1 Job Performance

Job performance is referred to the outcomes level of a worker, comparative to his or her peers, on outcomes and work related activities (Babin and Boles, 1998). Job performance of workforce plays a vital part in determining firm's outcomes. Earlier studies revealed that workers who are not rightly matched have low level of output. Person organization job fit

can be a realistic forecaster of work outcomes because worker with high person-job fit found to have high level of job outcomes (Edwards, 1991).

2.3.2 Extra-role customer service

An extra-role customer service is referred as optional behavior of workers while serving customer that goes beyond their assigned jobs (Bettencourt and Brown, 1997). It's critical because employees must show proactive behavior and must be able to adjust as situation demands (Jong and De Ruyter, 2004). That's why employee engagement is a key determinant of front line employee willingness to advance their assigned task for customer satisfaction, because when employees are engaged they willingly go extra mile to meet customer needs (Claver-Cortés et al., 2008).

2.3.3 Organizational citizenship behavior

Organizational citizenship behavior (OCB) can be referred to individual worker behavior that is optional, not explicitly or directly acknowledged by compensation system, and that collectively increases the effectiveness of firm outcomes (Organ, 1988). Organizational citizenship behavior can be referred to such behavior that goes beyond the stated requirements of work, and leads towards team building in the firm in order to achieve firm's objectives (Somech & Drach-Zahavy, 2000).

Authors define OCB on the basis of the direction or target of the behavior. Behavior that benefits firm in general and that directly helps employees and indirectly firm (Williams & Anderson, 1991).

2.4 Impact of HPWPs on Employee Engagement

A number of high performance work practices have been highlighted by different studies in the literature but rewards, empowerment and training are the most common. In this study, these three common practices are considered as HPWPs indicators.

A plethora of studies provide a strong connection between HPWPs and engagement of the employees. Karatepe (2013) proposed and empirically tested that human resource practices determine the employee engagement. Karatepe considered three practices i.e. empowerment, rewards, and training as indicators of high performance work practices. In the same way, Nawaz, Hassan, Hassan, Shaukat and Ullah (2014), put forward that empowerment and training programs positively and significantly regress the employee engagement, hence following hypothesis is proposed:

- **H₁:** High performance work practices are positively associated with employee engagement.

2.5 Impact of HPWPs on Employee Performance

HR practices provide firm with a competitive edge in local, international and global environment. They may help employee job satisfaction, increase the firm success and decrease the intention to quit of workers (Bond, 2004).

When employees are empowered without proper training programs, they cannot produce desired outcomes (Yavas et al., 2010). Autonomy increases employee's motivation level to put extra effort into jobs and to show OCB (Chen & Chiu, 2009). When employees are compensated properly, that may contribute towards the growth and survival of an organization (Dessler, 2010).

Financials rewards should be closely linked with outcomes (Trevor, Reilly, & Gerhart, 2012). Levels of rewards must be considerably different based on outcomes, because workers are more likely to alter the level of motivation when there is high difference of rewards between low output and high output (Aguinis, 2013). For maintaining justice in an organization rewards must be increased in the variable pay of employees instead of base pay (Aguinis, 2013), hence following hypothesis is proposed:

- **H₂**: High performance work practices are positively associated with employee performance.

2.6 Impact of Employee Engagement & Employee performance

Literature provides the strong connection between employee engagement and performance of the employees. Karatepe (2013) stated that engagement enhances the employee performance and engaged employees are motivated to provide extra services than their formal job requirements to their customers. When front line workers are extra attentive and focused to their roles, they can deal with buyer complaints or requests effectively and may have high level of quality output. This creates logic because engaged workers dedicate their physical and emotional resources and cognition to job task. Engaged employees show positive attitude and behaviors in the work place (Babin and Boles, 1998). According to Bettencourt et al. (2005), front line engaged workers provide services to their customers in courteous way and as a result, quality of services is improved.

Engagement is not an attitude; it's a level to which a person is absorbed and attentive to performance of his job (Saks, 2006). Literature has presented that employee engagement leads to in-role behavior and positive behavior of employees (Sonnentag, 2003) such as organizational citizenship behavior. This suggests that employees' engagement has strong effect on their performance such as how they handle their works, including extra role customer services, hence following hypothesis is proposed:

- **H₃**: Employee engagement is positively associated with employee performance.

2.7 Employee engagement as a mediator

Social exchange theory (Blau, 1964) provides the strong basis for observing the relationship of work engagement as a mediator between HR practices and employee performance. Employees perform superior by showing engaged behavior when certain benefits are provided by the organization (Saks, 2006). Furthermore, along with theoretical background, plenty of empirical evidence is also available on the mediation of employee engagement in HR practices and employee performance relationship. For instance, Karatepe (2013) stated that employee engagement acted as intervening factor in the relationship between HPWPs and employee performance. Similarly, Garg & Sharma (2015) observed full mediation effect of employee engagement in the relationship between HPWPs and job performance. In other words, employees performance is improved with engaged behavior and employees show engaged behavior when employees receive support from the organization (Yavas et al., 2010).

When benefits are provided by organization to employees, then employees will feel pleased to repay the organization thorough extra role customer services and performance (Karatepe, 2013). Furthermore, Strategic HR management highlights that firm performance and outcomes are strongly influenced by HPWPs. Specifically, Karatepe and

Olugbade (2016) discussed the mediation role of engagement in the relationship between HPWPs and employee outcomes.

Training and empowerment, in the Pakistani context, are the most important human resource practices, which lead to employee engagement and creative performance of the employees (Nawaz et al., 2014). In this study three indicators of employee's performance (Job Performance, Extra-Role Customer service, and Organizational citizenship behavior) are used simultaneously. Furthermore, despite that many authors highlighted the significance of intervening or mediation variable in high performance work practices and outcome relationship, the evidence on mediation is still asymmetrical (Karatepe, 2013). Finally, there is strong need to assess the validity of mediation of the employee engagement in HPWPs and employee performance relationship in the Pakistani context. Therefore, following hypothesis is proposed:

- **H4:** Employee engagement mediates the relationship between high performance work practices and employee performance.

3. Research Design

3.1 Methodology

The population of this study was employees of banking sector of district Multan. The sample of the study included two hundred employees of five major banks (National Bank of Pakistan, Habib Bank Limited, United Bank Limited, MCB Bank and Allied Bank Limited) from district Multan. Stratified random sampling technique was used to select the sample. Firstly, sample was divided into five strata (five banks). Then sample was equally distributed among those banks. Self-administered questionnaire was used to get the responses. Statistical Package for the Social Sciences (SPSS) version 17 was used for data analysis.

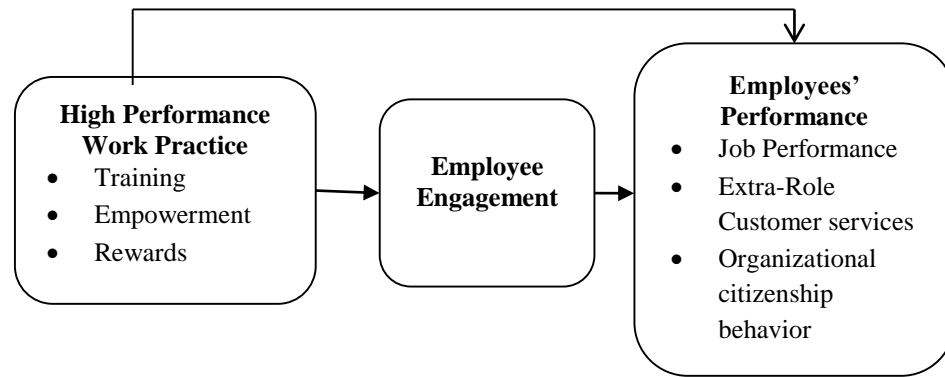


Fig. 1: Research Model

3.2 Measurement

Variables of this study were measured with the help of multiple items adopted from prior studies. More specifically, five items adapted from Hayes (1994) were used to measure empowerment and the eleven items of Boshoff and Allen (2000) were used to measure the reward (5 items) and training (6 items).

Schaufeli et al., (2006) were followed to measure the employee engagement through three items for each Vigor, Dedication, and Absorption. Job performance was measured with five items of Babin and Boles (1998). In the same way, five items were adopted from Bettencourt and Brown (1997) were used to operationalize the construct of extra-role customer service. Organizational citizenship behavior was measured by using eight items from Lee and Allen (2002). Responses to items were rated on five point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

4. Empirical Results

4.1 Factor Analysis

4.1.1 Validity of independent variables measure

Table 1 provides three factor solution in shape of Rewards (5 Items), Empowerment (5 items), and training (6 items) having acceptable loading (greater than 0.5). Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy of three independent variables is acceptable and significant (0.780).

Table 1: Factor Analysis Of Independent Variables

KMO= 0.780	Component		
	Training	Empowerment	Rewards
T 2	0.877		
T 1	0.870		
T 6	0.866		
T 5	0.812		
T 4	0.811		
T 3	0.801		
E 4		0.936	
E 2		0.934	
E 3		0.912	
E 1		0.896	
E 5		0.694	
R 2			0.920
R 4			0.896
R 1			0.893
R 3			0.864
R 5			0.624

4.1.2 Factor Analysis of dependent variables

Table 2 provide three factor solution: Job Performance (5 Items), Extra Role Customer Services (5 items) and organizational citizenship behavior (8 items) having acceptable

loading (greater than 0.5). Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy of three dependent variables is acceptable and significant (0.837).

Table 2: Factor Analysis of Dependent Variables

KMO = 0.837	Component		
	Job Performance	Organizational Citizenship Behavior	Extra Role Customer Service
JP 1	0.931		
JP 2	0.890		
JP 4	0.837		
JP 3	0.813		
JP 5	0.560		
OCBO 2		0.777	
OCBO 4		0.759	
OCBO 3		0.670	
OCBI 4		0.607	
OCBI 3		0.568	
OCBI 2		0.547	
OCBO1		0.528	
OCBI 1		0.504	
ER 4			0.801
ER 2			0.773
ER 1			0.770
ER 3			0.732
ER 5			0.615

4.2.3 Validity of mediating variable measure

Table 3 provide one factor solution employee engagement (9 items) having acceptable loading (greater than 0.5). Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is acceptable and significant (0.866).

Table 3: Factor Analysis of Mediating Variables

KMO= 0.866	Component
	Employee Engagement
EENG 2	0.861
EENG 5	0.838
EENG 7	0.800
EENG 3	0.782
EENG 8	0.781
EENG 6	0.769
EENG 9	0.756
EENG 1	0.739
EENG 4	0.737

4.3 Reliability Assessment

The internal consistency or reliability of the each variable is assessed by finding the Cronbach's Alpha. Table 4 shows the value of Cronbach's Alpha, which is greater than 0.70 (acceptable), therefore the measures are reliable.

Table 4: Reliability

Variable	Value of Cronbach's Alpha
Training (TR), 6 items	0.928
Reward system (REW), 5 items	0.922.
Employee empowerment (EMP), 5 items	0.934
Employee engagement (ENG) 9 items	0.922
Job performance (JP), 5 items	0.899
Extra role customer service (ER), 5 items	0.824
Organization citizenship behavior (OCB), 8 items	0.836

4.4 Correlation Analysis

As the purpose of study was to find the relationship between High performance work practices and employee performance with a mediating role of employee engagement. Table 5 shows that independent, dependent and mediating variables are positively and significantly correlated each other. More specifically, employee engagement, organizational citizenship behavior, training, rewards, empowerment, job performance and extra role customer service are positively and significantly correlated with each other.

4.5 Regression Analysis

Table 5: Correlation Analysis

	ENG	OCB	TR	REW	EMP	JP	ER
ENG	1	0.339**	0.412**	0.485**	0.405**	0.481**	0.306**
OCB	0.339**	1	0.281**	0.349**	0.279**	0.518**	0.436**
TR	0.412**	0.281**	1	0.409**	0.175*	0.343**	0.574**
REW	0.485**	0.349**	0.409**	1	0.300**	0.611**	0.308**
EMP	0.405**	0.279**	0.175*	0.300**	1	0.326**	0.217**
JP	0.481**	0.518**	0.343**	0.611**	0.326**	1	0.295**
ER	0.306**	0.436**	0.574**	0.308**	0.217**	0.295**	1

** . at level 0.01 there is significant correlation

*. at level 0.05 there is significant correlation

Regression analysis has been carried out to determine the impact of HR practices on the performance of the employees. In table 6 numerical values of β , t. stat, and R^2 show that each dimension of HPWPs is positively and significantly related with each dimension of employee performance and employee engagement.

Table 6: Regression Analysis

Model	I.V	D.V	B	t. stat	P	R ²
1	HPWPs	E.P	0.620	10.417	0.000	0.381
2	Training	ERCS	0.574	9.249	0.000	0.326
3	Training	JP	0.343	4.819	0.000	0.113
4	Training	OCB	0.281	3.856	0.000	0.073
5	Rewards	ERCS	0.308	4.277	0.000	0.090
6	Rewards	JP	0.611	10.168	0.000	0.369
7	Rewards	OCB	0.349	4.914	0.000	0.117
8	Empowerment	ERCS	0.217	2.928	0.000	0.041
9	Empowerment	JP	0.326	4.549	0.000	0.101
10	Empowerment	OCB	0.279	3.836	0.000	0.073
11	HPWPs	EE	0.596	9.795	0.000	0.352
12	EE	EP	0.468	6.990	0.000	0.215

4.6 Mediation

Mediation analysis is used to see the impact of HPWPs on employee performance in presence of the mediating role of employee engagement.

To test the mediation effect, study has also followed the three steps method specified by Baron & Kenny, 1986. As seen in Table 7, *in first step*, regression was performed between independent variables (HPWPs) and mediator variable (employee engagement). Results showed significant impact of HPWPs on employee engagement; similarly, *in second step*, regression was performed between independent variables (HPWPs) and dependent variable (employee performance). Results showed the significant impact of HPWPs on employee performance. Moreover, *in third step*, regression was performed between independent variable (HPWPs) and dependent variable (employee performance) in the presence of mediator variable (employee engagement). Results still showed the significant impact of HPWPs on the employee performance but the intensity of impact has been decreased. Hence, it confirmed the partial mediation of employee engagement in the relationship of HPWPs and employee performance.

Table 7: Mediation Analysis

Model	I.V.	D.V.	B	t. stat.	P
1	HPWPs	E.P	0.62	10.417	0.000
2	HPWPs	EE	0.596	9.795	0.000
3	HPWPs	EP	0.528	7.199	0.000
	EE		0.153	2.087	0.038

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5. Conclusion

First of all, this study examined the impact of three high performance work practices (i.e. reward system, empowerment and training) on employee performance. The results show that high performance work practices positively and significantly determine the employee performance. More specifically, results of study provide that all the three dimensions of high performance work practices (i.e. empowerment, training and rewards) are positively associated with each dimension of employee performance i.e. job performance, extra-role customer service and organizational citizenship behavior. Secondly, this study has assessed the impact of HPWPs on the employee engagement and found that HR practices positively and significantly determine the employee engagement. Thirdly, this study examined that employee engagement is positively associated with employee performance and found that employee engagement positively and significantly determines the employee performance. Finally, study examined that employee engagement mediates the relationship between high performance work practices and employee performance and found that mediating role of employee engagement in the relationship between HPWPs and employee performance is significant.

The social exchange theory states that employees are more committed to their duties by showing engaged behavior when they feel organization takes care of them (Yu and Egri, 2005). The current study also contributes in the existing literature that managers should improve the performance of employees by providing job training, as it helps to improve knowledge and skills of employees. When employees have necessary skills to perform duties then they can perform better in short time. Results of this study are also consistent with strategic HR perspective, that combination of HR practices used by organization has a major role in encouraging the employees to perform more than their duties (Cooke and Saini, 2010). Therefore, in order to stay competitive, employees must be engaged.

Moreover, employees should be given empowerment, which may help employees to make timely decisions while serving customers, therefore, managers should authorize the employees to make timely decisions. In other words decentralization of decisions making should be encouraged. By giving autonomy to employees, they can respond to customer queries and serve them better. Moreover, managers should focus on the distribution of rewards on fair basis to the employees so that employees can perform better. Ultimately, performance of employees may be improved and organization can achieve competitive advantages in the competitive environment. Trainings, rewards, and empowerment provide sense of ownership to the employees, and that sense of ownership motivates the employees to put consistent efforts to get the work done, hence the findings of this research are helpful for the improvement in the performance of employees of different firms, which may help to improve the performance of those firms and may also contribute positively towards the economy of Pakistan.

6. Limitations and Future Directions

There were some limitations during the conduct of this research. Only three high performance work practices (empowerment, rewards, and training) were used in this study. Other dimensions of HPWPs like: internal career / promotion opportunities, teamwork, employment security, staffing selectivity, and work-family balance can be used in future studies (Tang and Tang, 2012). Other dimensions of employees' performance may also be used e.g. Intention to Quit, Organization commitment etc. Financial sector of Pakistan was

focused in the current study, whereas in future other sectors may be studied or financial sector of other countries may also be studied. Moreover, this study only focused the banks of district Multan, Pakistan and did not represent the whole province / country. In future studies, whole province / country can be focused.

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