JOURNAL OF BUSINESS MANAGEMENT AND ECONOMIC RESEARCH

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Journal of Business Management and Economic Research

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2019, Vol: 3, Issue: 10

Effect of Service Quality on Customer Loyalty in Selected African Airlines

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Abstract

The purpose of this paper was to determine effect of service quality and customer loyalty in selected African airlines. The study was informed by Expectation Disconfirmation theory, Theory of Reasoned Action and Discrepancy Theory. Explanatory survey research design was employed in the study. The study targeted 256,254 customers drawn from 9 Airlines in Africa which included Kenya Airways, Ethiopia Airlines, Egypt Air, Rwandair, South African Airways, Mozambique Airlines, Air Zimbabwe, Air Tanzania and Air Namibia. Stratified and simple random sampling techniques were used to select a sample of 750 customers. This study used questionnaires to collect data relevant to the study. Hypotheses were tested by using Multiple Regression Analysis Model. The study findings showed that tangibility (β=0.140 p<0.0%), reliability (β=0.204, p<0.0%), responsiveness (β=0.122, p<0.05), assurance, (β=0.093, p<0.05) and empathy had significant and positive effect on customer loyalty in airlines industry. This infers that in airline industry service quality is prerequisite for customer loyalty. It is therefore paramount for the airline to ensure there are tangible and reliable services. Moreover, managers need to enact polices which encouraged responsiveness, assurance and empathy in airlines.

Keywords: Tangibility, Reliability, Assurance, Responsiveness, Empathy

1. Introduction

Customer loyalty is a tendency or behaviour of preferring same firm in purchases (Rizka and Widji, 2015) which has attitudinal and behavioural dimension. This is specifically an exhibition of the attitude and behaviours associated with the customers. The principle of customer loyalty is aptly depicted in the fact that organizations should strive to give focus of their marketing practices and processes on existing customers and struggle to create and maintain positive relationships between them and their customers (Hutt, *et al.*, 2005). This means that the aspect of loyalty becomes a 2-way notion in which the customer's loyalty is in turn rewarded by the company being loyal to this customer through enhanced relationships that make the customer more endeared to the organization.

In today's competitive world, companies and organizations tend to place the customers at the centre of their attention, and have identified that their loyalty is the critical to earning a competitive advantage and edge (Molaee, 2013) over other organizations. To this end, consumer loyalty is correlated with factors like service quality, (Topçu & Uzundumlu, 2010). This clearly highlights the important fact that while the goal is having an enhanced competitive edge for the company, customer loyalty becomes a primary focus for the company which can only be driven through the company giving focus on the quality of the services offered to the customer. On the other hand, this means that customers may prefer firms which ensure similar satisfaction levels through provision of good service quality. Consequently, determination of the factors that influence the relationships between the firm and consumer is necessary in providing a means of gaining an understanding to these situations.

Service quality is critical aspect for the Airline industry. This important aspect has been established as one of the most essential means of establishing and maintaining a healthy, competitive position and improving organizational performance (Ghimire, 2010). Abedin (2015) also notes that service quality is required in the creation of customer satisfaction and it is a concept whose basics are intertwined with customer perceptions and customer expectations. Within the current business disposition, service quality is increasingly becoming not only the rhetoric of virtually every business enterprise, but also a crucial concept in service research and studies. It is fundamentally impossible for a business organization or company to survive without having a firm foundation in which customer satisfaction and brand loyalty are key aspects.

It is thus critical to highlight that research has shown repeatedly that service quality influences organizational outcomes such as performance, superiority, increased sales profit and market share (Kheng *et al.*, 2010), improvement in customer relations, enhancement of the corporate image and promotion of customer loyalty (Qadri& Khan, 2014; Ehigie, 2006) in addition to providing a means through which the organization or company has the capability and muscle or surviving an increasingly competitive environment. In recent times, the search for quality is debatably the most important consumer trend because consumers are now increasingly demanding higher and better quality in the products and services they are offered more than ever before. This gives a glimpse of a customer base that is increasingly being informed and in turn providing them with more power in terms of determining their level of demand for better services and products. Through this, researchers all over the globe claim that offering quality services to the customer tends to give a viable and ecological competitive advantage to any business hence a direct influence of the very survival of the business.

Most airlines in Africa such as Egypt Air, Rwandair, South African Airways, Mozambique Airlines, Air Zimbabwe, Air Tanzania and Air Namibia are exposed to a heavy and growing competition against giant airline alliances on the international scene, regional alliances in Africa and the Middle East, including the well-established privately owned airlines from Europe, Middle East and Africa. Most airlines have and continuously find it difficult to retain customers. This means that unless these airlines prepare and develop specific strategies to counter the upcoming competitive pressure, the consequences could be regrettable and a number of reasons are behind this growing trend of customer disloyalty.

Research has shown that poor service quality has negatively and significantly influenced customer loyalty in airline industry (Bielen & Demoulin, 2007). This means that with each decrease in the level of service quality, there is a boomerang negative effect on the level of customer loyalty. Thus, it is critical to ensure that customers are retained in order to ensure the goals of the company are achieved. However, no study has tested key service quality dimensions directly to see if they have a significant influence on customer loyalty in the airline industry in Africa. Thus, this study hypothesized that :

$H_{01:}$ There is no significant effect of reliability on customer loyalty in selected African Airlines

$H_{02:}$ There is no significant effect of empathy on customer loyalty in selected African Airlines

H$_{O3}$: There is no significant effect of tangibles on customer loyalty in selected African Airlines

H$_{O4}$: There is no significant effect of assurance on customer loyalty in selected African Airlines

H$_{O5}$: There is no significant effect of responsiveness on customer loyalty in selected African airlines

2. Empirical Reviews

Research has shown service quality to be a strong predictor of customer loyalty. Various studies have been conducted in the airline industry where the service quality dimension has been tested as predictors of customer satisfaction. Few studies have however investigated the association between each of the service quality dimensions and customer loyalty and have reported some mixed results.

In a studyin the hotel industry in Jordon, Al-Rousan and Mohamed (2010) found that empathy, reliability, responsiveness, tangibles and assurance significantly forecast customer loyalty. On the other hand, Liang (2008) conducted a study in the hotel industry in United Stated and found that service quality has a positive influence on consumer loyalty. In addition, Clottey *et al*. (2008) in their study of the United States retail industry found that there was strong statistical evidence that service quality had a significant influence on customer loyalty. However, these studies were more based on the retail industry which is product-based rather than service-based industry such as airline industry.

Similarly, Jamal and Anatassiadou (2007) conducted a study on airline customers in Greece relating to service quality and consumer loyalty. The findings showed that reliability, tangibility and empathy are positively related to consumer loyalty. Chen and Lee (2008 found that service quality has a positive influence on consumer loyalty. In their study on the Greece retailing industry, Gounaris *et al*. (2003) found out that service quality has significant influence on consumer loyalty. Nevertheless, despite studies associating service quality with consumer loyalty, they were conducted in online shoppers but not in the airline industry. Thus the need to have a specific study on the association between service quality and consumer loyalty in the airline industry in order to better understand whether the relationships found in online shopping are replicable and confirmed in the airline industry.

For instance, Arasli *et al*., (2005), reported that assurance, reliability, empathy and tangibles dimensions of service quality were predictors of consumer loyalty. Furthermore, they found that tangibles, empathy and responsiveness were significant predictors of customer loyalty. Zhou (2004)

reported that reliability and assurance were important predictors of consumer satisfaction. However, the findings were more specific on China and other Asian countries and the results could not be generalized into African based airlines due to differences in economic growth and development in the airlines as well as the dynamic and different economic environment which is also different within the different African countries.

Previous research has suggested that the quality of customer's service experience aids them develop positive value perceptions about the service provider. Carrillat *et al.*, (2009) argue that this means that the intellectual evaluation of the different service quality dimensions will lead to a favourable behavioural response from the consumer.

Empathy as a key dimension of service quality has been found to have a significant positive association with customer loyalty. In addition, Ndubisi (2006) points out that customer satisfaction can be accomplished by offering personalized, flexible and adjustable services that suit to the needs and expectations of the customers. This is in line with the findings of other researches that clearly indicate that empathy has a positive influence on customer satisfaction.

Ladhari *et al.*, (2011) concisely explain the idea of tangibles role in the airline sector or industry. Varying behaviours and attitudes of customers demand high service quality to attain their perception of service provided. Service quality has a linear relationship with success and profitability of the business. General Electric for instance has invested heavily in quality service and in return they earn huge profits every year which highlights high performance. General Electric considered both tangible and intangible aspects of service quality to be equally important in the success of organization (Tax & Brown, 2012) and eventual performance. Environment and culture of different areas serve as a guide for businesses on how to adapt their policies in the global perspective for a particular area so that they are able to shift their strategies and come up with tailor-made innovations that suit the area of operation. They have to make changes in the setup of their outlets and branches in order to fit in the environment. The airline industry mostly follows identical office ambience set-ups and installs similar service equipment all over the globe to maintain a standard and uniformity in the eye of the customer so that they can see a unique sense of identity. However, adapting of strategies according to cultural needs of particular areas up to some extent will make customers feel more comfortable and loyal (Ganguli and Roy, 2011).

In other critical research, a positive and significant relationship was found between empathy and customer satisfaction (Iglesias and Guillén, 2004). From the findings of another similar research, it was proposed that customers may remain unsatisfied with service quality if a gap is left in terms of the level empathy that they are accorded by the company. In addition, it was also established by Al-Marri *et al.* (2007) that customer satisfaction is significantly influenced by empathy and it makes the customers contended and in the long-run serves as an important predictor in improving the financial performance of the organization.

In their study, Wieseke *et al.* (2012) established that consumer that were treated emphatically were more loyal even when mistakes are made during service provision. In this regard, empathy creates an emotional relationship with the customer hence providing the customer with a touch of importance and a sense of belonging. This leads to higher customer retention and creation of a new consumer pool hence increasing the consumer base which in turn increases the eventual number of customers that are loyal to the firm. Juneja (2011) also studied the correlation between service quality dimensions and customer satisfaction and found that customer loyalty can be won through empathy. In addition, other research shows that empathy can play a critical role in improvement of service quality, customer loyalty and finally consumer satisfaction. For instance, Karatepe (2011) assessed the influence of the service environment in terms of empathy and reliability on consumer loyalty. The findings showed that empathy worked as a moderator between quality and customer satisfaction. In addition, the findings showed that empathy can change the behaviour of the customer ultimately and in the long-run, the level of their loyalty to a particular firm.

Three important parameters regarding service quality such as reliability, empathy and service quality were found to be positively correlated with customer loyalty (Siddiqui, 2011). In this case, a positive and significant association was found between all the attributes of service quality and customer loyalty with the mediating influence of customer satisfaction in a research in the retail banking sector in Bangladesh. Furthermore, tangibles, responsiveness and reliability were all found to be directly related with customer loyalty in the Telecommunication industry in Ghana in a research study carried out by Idrissu (2011) whose findings were highly consistent with those of Kheng *et al.* (2010)where empathy had highest positive association while assurance had least association with customer loyalty.

Agyei and Kilika, (2013) carried out a study in the Kenyan mobile telecommunication sector. From the findings, all the indicators of the SERVQUAL model were found to suggest a positive association between service quality and customer loyalty. Among the indicators of the SERVQUAL model, empathy had the highest influence on customer loyalty. The influence of all the parameters of the customer's perceived service quality had a positive influence on customer loyalty except tangibility in a study by Hassan *et al*. (2013). Furthermore, all the five constructs of the SERVQUAL model were found to be strongly associated with customer loyalty in a study carried out by Poku *et al*. (2014) in the Telecommunication industry of Ghana.

The weakness of these studies was in deciding the most important dimensions among the five service dimension dependent on the nature of the customer and there are circumstances in which both of them are important and thus service quality has a significant contribution to customer satisfaction. This study will use descriptive analysis to observe the contribution of service quality on customer satisfaction via the SERVQUAL Model

3. Material and Methods

Explanatory research design was used in this study. The study targeted 256,254 customers were drawn from 9 Airlines in Africa which includes Kenya Airways, Ethiopia Airlines, Egypt Air, Rwandair, South African Airways, Mozambique Airlines, Air Zimbabwe, Air Tanzania and Air Namibia. From the 9 airline databases, there is a total using these airlines per month which was taken as the study target population. From the target population of 256,254 customers from the nine (9) airlines in Kenya, a random sample of 750+ 5% (non-respondent error) = 788 customers was selected. This study used structured questionnaires to collect data relevant to the study.

3.1. Measurement of Variables

In this study, the measurement scales and indicators were adopted from previous studies. These measurements scales have been validated in prior researches, especially in the context of airlines service (Brady *et al*., 2002; Colgate and Lang, 2001; Cronin Jr., Brady, and Hult, 2000; Jones, Mothersbaugh, and Beatty, 2000). Modifications and translations was made to transform the measurement scale to be readable for the average reader. In general, the respondents were asked to state their agreement or disagreement with the statements stated. Respondents was give their opinion for each statement using a 5-point Likert scale with 1 to indicate "strongly disagree", 2 to indicate

"disagree", 3 to indicate "a neutral position", 4 to indicate " agree" and 5 to indicate "strongly agree".

3.1.1. Dependent variable (Customer loyalty)

The study adopted five items from Cronin *et al*. (2000) to measure the customer loyalty which include telling positive things about airline, recommending family, friends and relatives, recommending to someone who seeks airline services, intention to continue using the airline

3.1.2. Independent Variables (Service Quality Dimensions)

The study independent variables was based on SERVQUAL scale (Parasuraman, Zeithaml, and Berry,) contain five dimensions of service quality namely tangibles, reliability, responsiveness, assurance and empathy.

4. Data Analysis

Data analysis method and procedure covers, Kaiser-Meyer-Olkin (KMO) statistics, Test of Sphericity, Factor Analysis, Correlation Coefficient and Hierarchical Regression Model. Descriptive analysis were used to describe the demographic profile of target respondents in frequency and percentage of the sample characteristics in the form of tables and written explanations as well as central tendencies measurement of constructs that included mean and standard deviation. These demographic profiles consist of gender, age, and race, flight experience and frequency. The correlation analysis was used to give correlation coefficients between the four independent variables measured using seven-item likert scales. Moreover, if the p-value of multiple linear regressions is less than 0.05, then the relationship between the selected independent variables and dependent variable was significant. Thus, the alternative hypothesis should not be rejected. If not, vice versa.

5. Results and Discussions

The sample population consisted of customer of airlines. A total of 750 questionnaires were distributed, data was successfully collected from 634 respondents representing a response rate of 84.5%.

5.1. Sample Characteristics

The study sought to establish the personal characteristics of the respondents so as to assist the researcher understanding on the findings. Variables included here are age, gender, nationality and years as airline customer. As far as age of respondents is concerned, 14.8% of the respondents are in

the range of 36- 40 years, 16.4% of the respondents are below 25 years, 18.3% are above 40 years, 20.5% are in the range of 31-35 and 30% are in the range of 26-30 years. Male respondents represented 59.1%, on the other hand 40.8% were female. As evidenced in Table 1, 53.5% of them are Africans,23.2% are Asians,15% are Europeans and 8.4% are Australians. The results revealed that 73.2% of the respondents have been customers with the airline for 1 to 5 years,18.3% for 6 to 10 years,3.8% for 11 to 15 years, 3.8% for 16 to 20 years and the least being 0.9% of them that have been customers with the airline for over 21 years.

Table 1. Sample Characteristics

		Frequency	Percent
Age Below	Below 25 Yrs	104	16.4
	26 - 30 Yrs	190	30
	31-35 Yrs	130	20.5
	36-40 Yrs	94	14.8
	Above 40 Yrs	116	18.3
	Total	634	100
Gender	Male	375	59.1
	Female	259	40.8
	Total	634	100
Nationality	African	339	53.5
	Asian	147	23.2
	European	95	15
	Australian	53	8.4
	Total	634	100
Years As Airline Customer	1-5 Yrs	464	73.2
	6-10 Yrs	116	18.3
	11-15 Years	24	3.8
	16-20 Years	24	3.8
	21 Years And Above	6	0.9
	Total	634	100

5.2. Descriptive

Findings on tangibility summed up to a mean of 3.8459, standard deviation 0.63601, skewness -0.39 and kurtosis -0. 495.On the other hand the Cronbach value of 0.825 is higher than 0.70 indicating that the gathered data on tangibility are reliable as they have a relatively high internal consistency and can be generalized to reflect opinions of all respondents with regard to the study problem. The results on reliability summed up to a mean of 3.727, standard deviation of 0.75007, skewness -0.483 and

Kurtosis 1. 917. In general, results on responsiveness summed up to a mean of 3.9185, standard deviation 0.64339, skewness -0-.132 and kurtosis 2.007. The Cronbach alpha value (0.826) is above 0.7 indicating that the results on responsiveness are reliable as they have high internal consistency thus can be generalized to reflect opinions of all respondents about the study problem The findings on assurance summed up to a mean of 4.0831, standard deviation 0.84288, skewness 3.161 and kurtosis 20.407. The Cronbach's Alpha value (0.91) is more than 0.7 an indication of high internal consistency hence the results can be generalized to reflect opinions of all respondents about the study problem. The results on empathy summed up to a mean of 3.6494, standard deviation 0.78148, skewness 0.994 and kurtosis 4.296. The Cronbach's Alpha value (0.921) is more than 0.7 an indication of high internal consistency hence the results on empathy can be generalized to reflect opinions of all respondents about the study problem. Results on customer loyalty summed up to a mean of 3.9065, standard deviation 0.59503, skewness -0.352 and kurtosis -0. 632. The Cronbach alpha value of 0.882 is above 0.7 meaning that there is high internal consistency hence the results on customer loyalty can be generalized to

Table 2. Descriptive Statistics of Scales

	Mean	Std. Deviation	Skewness	Kurtosis	Cronbach's Alpha	N of Items
Customer Loyalty	3.9065	0.59503	-0.352	-0.632	0.881	10
Tangibility	3.8459	0.63601	-0.39	-0.495	0.825	10
Reliability	3.727	0.75007	-0.483	1.917	0.87	10
Responsiveness	3.9185	0.64339	-0.132	2.007	0.826	10
Assurance	4.0831	0.84288	3.161	0.407	0.91	10
Empathy	3.6494	0.78148	0.994	4.296	0.906	10

5.3. Factor analysis

Factors with factor loadings of above 0.5 are excellent and should be retained for further data analysis. Additionally, the first factor for 26.33% of the total variance, second factor accounted for 48.712% of the total variance and the third factor accounted for 65.584 of the total variance. Sampling adequacy was tested using the Kaiser- Meyer- Olkin Measure (KMO measure) of sampling adequacy. As evidenced in table 2, KMO was greater than 0.5, and Bartlett's Test was significant. To sum up, the

first factor accounted for 47.895% of the total variance and the second factor accounted for 61.818% of the total variance. The Kaiser-Meyer-Olkin Measure value (0.913) was above 0.5 hence acceptable. Also, the Bartlett's Test was significant.

Factors with factor loadings of above 0.5 are excellent and should be retained for further data analysis. the first factor accounted for 34.689% of the total variance and the second factor 64.758% of the total variance. Sampling adequacy was tested using the Kaiser- Meyer- Olkin Measure (KMO measure) of sampling adequacy. As evidenced in table 4.17, KMO was greater than 0.5, and Bartlett's Test was significant.

Factor analysis was conducted in order to make sure that the items belong to the same construct (Wibowo, 2008). first factor accounted for 32.505% of the total variance and the second factor 63.836% of the total variance. The KMO Measure is an index for comparing the magnitude of the observed correlation coefficients to the magnitude of the partial correlation coefficients. As shown in table 4.18, KMO was greater than 0.5, and Bartlett's Test was significant.

Factor analysis for customer loyalty was conducted to ensure that all of the constructs used are valid and reliable before proceeding for further analysis. The study requested that all loading less than 0.5 be suppressed in the output, hence providing blank spaces for many of the loadings. the first factor accounted for 41.608% of the total variance and the second factor 62.083% of the total variance. Sampling adequacy was tested using the Kaiser- Meyer- Olkin Measure (KMO measure) of sampling adequacy. As evidenced in table 4.21, KMO was greater than 0.5, and Bartlett's Test was significant.

Table 3. Factor analysis

	Loadings	**% of Variance**	**KMO**
Tangibility 1	0.689	26.333	0.78
Tangibility 2	0.658	22.379	
Tangibili9ty 3	0.838	16.872	
Reliability 1	0.652	47.895	0.913
Reliability 2	0.767	13.923	
Responsiveness 1	0.655	31.119	0.846
Responsiveness 2	0.823	26.59	
Assurance 1	0.555	34.689	0.908
assurance 2	0.773	30.069	
Empathy 1	0.777	32.505	0.886
empathy2	0.859	31.331	
Customer Loyalty 1	0.778	41.608	0.891

customer Loyalty 2	0.817	20.475	

5.4. Assumptions of Regressions

Further, to test the normality distribution the study examined the Skewness and kurtosis values. Skewness is used to measure the symmetry of a distribution while kurtosis is used to measure the peakness or flatness of a distribution (Tabachnick and Fidell, 2007). Based on the results, the values of Skewness and kurtosis revealed that the data was normally distributed where the values were well below the threshold of +/- 10.Kolmogorov-Smirnov was used (Shapiro and Wilk,1965) which were calculated for each variable. The results from these tests revealed \ that all the variables were not significant, which meets the assumptions of normality. Results shows that testing at the 0.05 level of significance; none of the Levenne statistics was significant. The assumption of homoscedasticity was not violated. The VIF values in table 3 were less than four meaning that there was no multicollinearity.

5.5. Hypothesis testing

Table 3 illustrates Pearson correlation results of the study dependent and independent variables to assess the association of the variables. Findings revealed that tangibility was positively and significantly correlated with customer loyalty ($r = 0.507$, $\varrho<0.01$). Further, reliability was positively and significantly correlated to customer loyalty ($r = 0.596$, $\varrho<0.01$). Likewise, responsiveness was positively correlated with customer loyalty ($r = 0.538$, $\varrho<0.01$). Also, assurance was indicated to positively relate with customer loyalty ($r = 0.481$, $\varrho<0.01$). This implies that tangibility, reliability, responsiveness, assurance, empathy, customer satisfaction and cultural orientation are expected to influence customer loyalty.

The first hypothesis of the study stated that there is no significant effect of tangibility on customer loyalty in selected African Airlines. However, findings in table 4.28 showed that tangibility had coefficients of estimate which was significant basing on $\beta_1 = 0.14$ (p-value = 0.000 which is less than $\alpha = 0.05$) thus we reject the null hypothesis and conclude that tangibility has a significant effect on customer loyalty in selected African Airlines. tangibles as a dimension of service quality exhibited a positive and significant effect on customer loyalty in selected African airlines. In tally with the results, Tax & Brown, (2012) established that both tangibles and intangible aspects of service quality were

key in enhancing customer loyalty and influencing the overall organization performance. The results also corroborate that of Zineldin (2005) which found out that by combining both tangible and intangible attributes of premium quality in products and services provided by airlines, they have a high propensity to create a strong and long-term relationship with their customers. Moreover, a study conducted in the Telecommunication industry in Ghana by Idrissu (2011) revealed that tangibles, responsiveness and reliability were directly related with customer loyalty. As well, Kheng *et al*. (2010) established that empathy had the highest positive association while assurance had least association with customer loyalty. However, Kheng et al., (2010) study on airline customers in Malaysia found that among the five dimensions used in the SERVQUAL model, tangibles had no significant influence on consumer loyalty.

The second hypothesis stated that reliability has no significant effect on customer loyalty in selected African Airlines. Nonetheless, the study findings showed that reliability has a positive and significant effect on customer loyalty in selected African Airlines basing on β_2= 0.204 (p-value = 0.000 which is less than α = 0.05) implying reliability has a significant effect on customer loyalty. In line with the results, Jamal and Anatassiadou (2007) study on airline customers in Greece showed that reliability, tangibility and empathy are positively related to consumer loyalty. In a similar vein, Arasli *et al*., (2005) reported that assurance, reliability, empathy and tangibles dimensions of service quality were predictors of consumer loyalty. The results are also in conformity with that of Siddiqui, (2011) that asserted that service quality such as reliability, empathy and service quality were found to be positively correlated with customer loyalty. Besides, the findings are in support of a study by Kheng *et al*., (2010) carried out a study on airline customers in Malaysia that found out that reliability has a positive association with customer loyalty.

The third hypothesis of the study stated that responsiveness has no significant effect on customer loyalty in selected African Airlines. However, the study findings showed that responsiveness had coefficients of estimate which was significant basing on β_3= 0.122 (p-value = 0.01 which is less than α = 0.05) implying that we reject the null hypothesis stating that responsiveness has no significant effect on customer loyalty in selected African Airlines. In corroboration with the above findings, a study conducted by Al-Rousan and Mohamed (2010) in the hotel industry in Jordon found out that empathy, reliability, responsiveness, tangibles and assurance significantly forecast customer loyalty. As well, Arasli *et al*., (2005) reported that tangibles, empathy and responsiveness were significant

predictors of customer loyalty. In addition, Liang (2008) study found out that service quality has a positive influence on consumer loyalty.

The fourth hypothesis of the study stated that assurance has no significant effect on customer loyalty in selected African Airlines. This was however refuted since assurance has a positive and significant effect on customer loyalty in selected African Airlines basing on $\beta_4 = 0.093$ (p-value = 0.027 which is less than $\alpha = 0.05$) thus we fail to accept the hypothesis and conclude that assurance has a significant effect on customer loyalty in selected African Airlines. In tally with the results, Poku *et al*. (2014) elucidate that assurance as one of the five constructs of the SERVQUAL model strongly associates with customer loyalty. In a similar vein, a study conducted by Kheng *et al*., (2010) among airline customers in Malaysia revealed that assurance has a positive and significant association with customer loyalty. In addition, the relationship between customer satisfaction and customer loyalty might be nonlinear. Heskett et al. (2008) suggested that customer loyalty should improve dramatically when custom- er satisfaction overcome a certain level. In sum, the dominant proposition is that satisfaction is an essential necessary parts to achieve customer loyalty. In addition, as it presented here in early part, service quality is assumed to be an antecedent of customer satisfaction. Therefore, it can be interesting to test the relationship between service quality and customer loyalty with customer satisfaction as the mediator of this relationship.

The fifth hypothesis stated that the empathy has no significant effect of reliability on customer loyalty in selected African Airlines. Nonetheless, the study findings showed that empathy has a positive and significant effect on customer loyalty in selected African Airlines basing on $\beta_5 = 0.284$ (p-value = 0.000 which is less than $\alpha = 0.05$) implying empathy has a significant effect on customer loyalty. Empathy as a key dimension of service quality has been found to have a significant positive association with customer loyalty. The results corroborate with that of Iglesias and Guillén, (2004) which found out that there is a positive and significant relationship between empathy and customer loyalty. Akin to the above findings, Ndubisi (2006) echoes that customer satisfaction and in turn loyalty can be achieved by offering personalized, flexible and adjustable services that are in line with the expectations of the customers. The results suggest that empathy impacts positively on customer loyalty. Furthermore, Wieseke et al. (2012) established that consumers that were treated

To sum up, findings from the table revealed that 47.2% variation of customer loyalty is predicted by tangibility, reliability, responsiveness, assurance and empathy ($R^2 = 0.472$). Their joint prediction was

significant as shown by F value of 112.133, $\varrho<0.05$. Furthermore, the VIF values were less than 4 indicating the absence of multi-collinearity and thus the variation contributed by each of the independent variables was significant.

Table4. Direct effect

	Unstandardized Coefficients		Standardized Coefficients			correlation	Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	zero order	Tolerance	VIF
(Constant)	1.129	0.13		8.665	0.00			
Tangibility	0.13	0.036	0.14	3.648	0.00	.507	0.574	1.742
Reliability	0.167	0.038	0.204	4.377	0.00	.596	0.388	2.578
Responsiveness	0.11	0.042	0.122	2.591	0.01	.538	0.377	2.656
Assurance	0.09	0.041	0.093	2.21	0.027	.481	0.474	2.109
Empathy	0.246	0.034	0.284	7.202	0.00	.595	0.543	1.842
R	*0.687a*							
R Square	*0.472*							
Adjusted R Square	*0.467*							
Durbin-Watson	*0.732*							
F	*112.133*							
Sig.	*0.000b*							

a Dependent Variable: Customer Loyalty

6. Conclusion and Recommendations

Based on the findings in chapter four, results on reliability revealed that the customers trust the services offered by the airline because the airline staff keep the transactions correctly. Also, the airline correctly performs a service from the very first time without failures or errors. Moreover, the airline staff are dependable in handling customers' issue and the passengers are informed about when services are performed. Besides, passengers are compensated sufficiently by the airline for any damages arising from service disruption in the shortest time possible. The implication is that the level of loyalty to a particular airline may remain low if a gap is left in terms of the level of empathy they are accorded with the airline. In this regard, empathy is effective in creating an emotional relationship with the airline passengers hence providing the passengers with a touch of importance and a sense of belonging. The end result is customer loyalty since the customers are treated emphatically.

The study has established that the tangible dimension of service quality is of essence in the airline industry because it sets up a clear transmission of knowledge through information materials such as brochures, provision of top notch service (high quality foods and drinks served inflight) and the physical layout of equipment which build customer relationship by delivering superior value over competitors to the target customers thus contributing to customer loyalty. In addition, assurance enables the airline staff to inspire trust and confidence from the passengers thus leading to customer loyalty. The implication is that the airline staffs deliver services to customers that is believable and can be trusted. Consequently, the passengers recommend their family and friends to the airline. Most importantly, the airline staff are well trained thus they have the skills and knowledge to effectively enhance customer loyalty within the selected African airlines.

Finally, it can be said that whenever customers' requests are quickly responded to and are assisted in the shortest time possible, the implication is that they will be satisfied with the service delivery and become loyal customers. As well, convenient operating hours together with commitment to on time services are key in enhancing customer loyalty.

It is therefore paramount for the airline to deliver its services at promised times and handling customer's complaints effectively. Particularly, there is need for the airline staff to have a "do-it-right-first" attitude". The airline staffs need to be dependable in handling customers' issue and keep them

in the know in regards to the services performed. As well, passengers need to be compensated for any damages resulting from service disruption.

it is important for airline staff to treat passengers with great respect, giving individual attention to passengers, serving passengers based on their specific needs and treating them in a friendly manner. Additionally, the complain process needs to be convenient to use and the feedback should be prompt. These factors need to be focused on in order to enhance customer loyalty.

Moreover, the airline staffs need to be neat since it affects the ways in which customers respond. Precisely, professional appearance among the employees is effective in attracting and maintaining customers. Further, it is crucial for the airline to adopt modern equipment and have information materials that are visually appealing.. Also, they need to be polite, courteous and provide information that is clear. Besides, they have to be well trained so that they can offer quality service that will enable the airline to have a competitive advantage. The sample was drawn from only drawn from 9 Airlines in Africa; thus, this study may be limited in its generalizability of the findings to the selected African airlines. So, future research should have to draw sample of respondents on more number of airlines for the sake of generalizing the results of the study.

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Socially Sustainable Supply Chain Practices on Firm Performance. Does Organisation Culture Matters? Evidence from Manufacturing Firms in Kenya

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Abstract

The main purpose of the study was to determine mediating effect of organization culture on the socially sustainable supply chain practices and performance of manufacturing firms. Using a survey of 281 Kenyan manufacturing firms the study tested hypotheses using PLS-bootstrapping Structural Equation Modeling (SEM). From the SEM model, the results revealed that organization culture partially mediates the relationship between socially sustainable supply chain practices on performance of manufacturing firms *(β=.728, p<.05).* The study also concluded that for socially sustainable practices there are other underlying factors affecting the performance of manufacturing firms apart from the organization culture. This study hence contributes to sustainable supply chain management literature by the inclusion of organizational culture and also extends resource based theory, natural resource based theory and stakeholder theories of a firm. The study recommended a further study on effect of organization culture and social sustainability practices

Keywords: Organization Culture, Socially Sustainable Supply Chain Practices, Performance, Manufacturing Firms

1. Introduction

Firm performance is the institution's capability to achieve its objectives by means of resources in a well-organized and effective way (Conferring to Fauzi et al. 2010). Measuring the performance of an organization as posited out by Huber (2004) ensures that strategic activities are aligned to the strategic plan further improving the bottom line by reducing process cost and improving productivity and mission effectiveness. In the competitive worldwide surrounding, the performance of a firm can no lengthier only be established by the choices and activities that take place inside a company; rather it will rely on the implementation of choices and activities

engaged in its whole supply chain (Naslund & Williamson, 2010). Performance of industrial companies in relative to sustainable supply chain practices has been thinly published.

Gold *et al.,* (2010) suggested that when endeavoring for sustainability, a company and its supply chain ought to both possess all the necessary interior resources to execute sustainable supply chain management (SSCM) methods. Ageron *et al.,* (2012) suggested a conceptual theory for SSCM elucidating the causes, characteristics, and obstacles for embracing SSCM via SSCM methods. Beske (2012) built a context of incorporating SSCM methods and dynamic abilities by a serious examination of collected works. Morali and Searcy (2013) concentrated on SSCM methods used in Canadian manufacturing and addressed the problems encountered throughout its execution for attaining sustainability. Glover *et al.,* (2014) inspected the degree of SSCM methods executed in the food industry centered on Institutional Model. Pressures that force the companies to embrace maintainable methods in their corporate strategies were also inspected.

Social factors in supply chains are described by Klassen and Vereecke (2012, p. 103) as ''merchandise or procedure connected aspects of functions that impact human protection, well-being and society growth'' and this description has remained backed up by Marshall *et al.,* (2015) and Sarkis (2012) as social methods concentrates on the health and welfare of persons in the supply chain and effects on community. The administration of social matters comprises choices that avoid a company from embracing unprincipled practices and pampering in communally improper practices. Nevertheless, what makes up a social matter significantly contrasts amongst dissimilar stakeholders since they continually alter and are reliant on circumstances under which a company is functioning (Hoejmose*et al*. 2013b, 2014; Clarkson 1995).

Organizational culture is recognized to be vital to institutions' achievement (Balthazard, Cooke, & Potter, 2006; Chan, Shaffer, & Snape, 2004; Denison, 1990; Denison & Mishra, 1995; Kotter & Heskett, 1992; Wilderom, Glunk, & Maslowski, 2000). A robust organizational culture enables great heights of staff drive and commitment (Sheridan, 1992; Virtanen, 2000), intention to stay with the firm (Lok & Crawford, 1999, 2004; Lund, 2003; MacIntosh & Doherty, 2005; Schwepker, 2001), and teamwork (Goffee & Jones, 1996). The writings have shown some administrative values, attitudes, behaviour and cultural magnitudes which scholars call to be significance for institutions to become maintainable. These, successfully comprise an institution's culture (Denison, 1990; Gordon & DiTomaso, 1992; Schein, 2004). Nevertheless, comparatively few

studies has stood assumed to comprehend the exact nature of such a culture, its existence in greatly maintainable institutions, or in institutions which are enthusiastically striving to become more maintainable, or, its influence on an institution's motivation towards sustainability. Thus the study hypothesized that.

Ha: Socially sustainable supply chain practices positively affect performance through organization culture

2. Review of Literature and Theories

The social measurement evaluates supply chain participants (e.g. societies, staffs and clients) inside four key pointers. These are client gratification, worker contentment, noise contamination, health and safety (Gunasekaran, et al., 2004; Adel El-Baz, 2011; Gopalakrishnan, et al., 2012; Grigoroudis, et al., 2012, Govindan, et al., 2013). Consumer gratification is a yield quantity. A client grievance is a metric used to quantify client gratification. Consumer reply time or request cycle time quantifies the amount of time amid a request and its corresponding supply. Furthermore, worker contentment is inside the field of human resource management that influences corporate undertakings. The responsibility of human resource is to measure human productivity by human abilities, labor productivity (Freeman, 2008). Yawaar and Seuring (2015) on the contrary having given a profound comprehension of the management of social matters in supply chains. The research provided a conceptual context for handling social matters in supply chains.

Social sustainability in the supply chain can be narrowed down to the product and process measures that determine the safety and welfare of the people in the chain. To understand better, we can still elaborate that how these human and social issues are managed in the supply chain that will affect the firm's sustainability. According to Wood (1991), one needs to understand that these social issues in the supply chain should be targeted to whom. And what stakeholder theory explains that people spread across three stages should be managed (Freeman, 1984, 2004; Walsh, 2005; Heath, 2006; Campbell, 2007). All three stages of supply chain consist of in-house operations, suppliers, customers, and the external stakeholders which includes society, and non-governmental organizations.

Many other studies were done on what enables social sustainability in the supply chain. Notable contributions from the research done by Clarkson (1995), Strong (1997a), McWilliams (2001), Ehrgott et al., (2011), in which they explored various forces, such as customer

requirements, stakeholder requirements, employee requirements, and skillful policy entrepreneurs, economic status of corporate and their influences on social sustainability adoption. Lu et al., (2012) described ethical supplier development and its impaction corporate social performance in China. Mani et al., (2014) identified various social dimensions in the supply chain and described how these social dimensions can be effectively used in supplier selection and evaluation in India. All the scholars' more or less explored issues related to suppliers and in house operations of the manufacturing plant. However, the issues related to the downstream supply chain were explored the least.

Harris and Crane (2002), Howard Grenville (2006), and Howard Grenville, Hoffman, and Wirtenberg (2003) found that, for social initiatives to succeed, they must be aligned with an organization's core culture. Pfeffer (2010) and Pullman et al., (2009) posits that basic and advanced social sustainability supply chain practices are positively related to the strength of firm sustainability culture. Companies with social sustainability culture and mindset are more likely to engage in social sustainability practices which in turn are good for the company and good for the people inside and outside of the supply chain. According to Miska et al., (2018) on social sustainability practices and future oriented culture posited that social supply chain sustainability practices "emphasize the long-term nature of the benefit that business is expected to provide to society" (Schwartz & Carroll, 2008, p.163). This is because sustainability aims at intergenerational equity (Bansal & Song, 2016), and in this sense, the needs of present generations should not compromise those of future generations (Bansal & Desjardin, 2014; Desjardins, 2016). This aligns with cultures characterized by greater future orientation practices, where long term success is valued and where organizations have a longer strategic orientation. Therefore, companies in these cultures are more likely to engage in social sustainability practices, which contribute to ensuring social justice, positive social impact, and trust among stakeholders and society in the long run. Therefore, companies in future orientation cultures are more likely to engage in social sustainability practices. Yaani Yu and Yanrok Choi (2016) posits that CSR oriented organization culture has a full mediation effect on the relationship between stakeholder pressure and adoption of CSR practices.

Organizational culture has a powerful effect on the performance and long term effectiveness of organizations. Empirical research has produced a remarkable array of findings demonstrating the importance of culture to enhance organizational performance (Cameron and Essington, 1988; Denison, 1990; Trice and Beyer, 1993). AbuJarad et al., (2010, p. 34) posits that

organizational culture affects various employees and organization related outcomes. Organizational culture affects employee behaviour, learning and development (Bollinger & Smith, 2001; Saeed & Hassan, 2000), creativity and innovation (Ahmed, 1998; Martins & Terblanche, 2003; Martins & Martins, 2002; Mclean, 2005; Vincent et al., 2004), and knowledge management (McDermott & Tseng, 2010). The studies related to the effect of organizational culture on performance outcomes are quite extensive (Han et al., 1998; Kim et al., 2004; Oparanma, 2010; Saeed & Hassan, 2000; Tseng, 2010; Zain et al., 2009), yet, the results seem inconclusive (Scott et al., 2002; Qbu Jarad et al., 2010) due to definitional, structural and design related differences and problems. In addition, most studies on organization culture focus on adoption or implementation of sustainable practices and not on performance. Organization culture is a very important component for the success of sustainability initiatives. This study, therefore, investigated the mediation effect of organization culture on the relationship between social sustainable supply chain practices on the performance of manufacturing firms Kenya.

The theories that anchored this study was resource based view, stakeholder and natural resource based view. The origin of the resource-based view can be traced back to earlier research of Selznick (1957), Penrose (1959) among other researchers. The emphasis on this school of thought was on the importance of resources and its implication for the firm performance. This theory simply emphasizes the idea that an organization must be seen as a bundle of resources and capabilities to create value and therefore gain a competitive advantage (Barney, 1991). Natural resource-based view of the firm (NRBV) that posits future competitive advantage being rooted in "capabilities that facilitate environmentally sustainable economic activity" (1995).According to (Freeman, 1984).Stakeholder theory suggests that companies produce externalities that affect many parties (stakeholders) which are both internal and external to the firm. Externalities often cause stakeholders to increase pressures on companies to reduce negative impacts and increase positive ones. Socially sustainable supply chain practices are bundles of resources that contributes to competitive advantage of an organisation and it affects various stakeholders of an industrial firm.

3. Methodology

This study employed the explanatory survey design in positivism approach. The target population of this research was supply chain executives in industrial companies. There are nine hundred and forty manufacturing firms in Kenya categorized into different regions. A supply

chain manager in each manufacturing firm was invited using purposive sampling to take part in the study. The study, therefore, targeted 281 respondents from the manufacturing firms. For this study, a structured questionnaire was used to collect data. For this study, the reliability of the questionnaire was tested and gave Cronbach's, of 0.987 from the pilot study conducted in the manufacturing firms in Nakuru region.

3.1. Measurement of variables

Socially sustainable supply chain management practices measures utilized were Fairtrade and transparency from (Bommel, 2010 ;). Females precise Issues (Ni et al., 2010,). Local purchase (Kushwaha, 2011 ;). Supply from the lesser advanced part of community (Ciliberti, 2008 ;). Society association, backing and local hiring (Pullman et al., 2010). Equity of worker and society (Markley & Davis, 2007).Similarly, organization culture was measured by the four-dimension including organization leadership, organization glue, dominant characteristics and criteria for success developed by (Cameron and Quin, 2006). Performance of firms was measured by economic, social, environmental and operational performance developed by Hamon and Cowan (2009). All the variables were operationalized and the information was obtained from questionnaires distributed to the respondents with independence and privacy on the part of the respondents maintained.

3.2. Analytic model

The best method of (SEM) framework for testing indirect effects is bias-corrected bootstrapping, Shrout & Bolger, (2002). As in all bootstrapping approaches, BC bootstrapping of the confidence intervals (CIs) for indirect effects involves taking multiple repeated samples with replacement from the data set in question. SEM process follows two steps: validating the measurement model through conducting confirmatory factor analysis and fitting the structural model through path analysis with latent variables using AMOS version 22. Kline (1998) proposed a two-step modeling process and urges SEM researchers to test the pure measurement model underlying a full structural equation model, and if the fit of the measurement model is found acceptable, then the structural model is tested. Significantly, the mediation test used for this research was based on the PLS approach, hence, the hypotheses for the study were tested using the partial least squares (PLS) structural equations modeling (SEM) technique (Wold, 1985). And mediation test is measured by means of bootstrapping 5000 re-sampling analysis in with formulated hypotheses (Hair, Ringle & Sarstedt, 2011; Zhao, Lynch & Chen, 2010). In addition,

mediation is measured by multiplying the average of paths "*a*" and "*b*" and then dividing the obtained value by the standard error of the paths (Kock, 2013).

4. Findings and Discussions

This section gives the analysis, presentation, interpretation, and discussion of results on the mediating effect of organization culture on sustainable supply chain practices and performance of industrial companies in Kenya. A total of 281 questionnaires were given out from which 228 were filled and returned which represents a response rate of 81.13%. The reply speed was regarded as acceptable since Nyamjom, (2013) argues that a response rate of 75% was considered excellent and a representative of the population. Before analyzing the data, it is essential to check the data and check for errors. On checking errors, the outliers were identified on each individual item and on each construct as the sum of its items. For variables with interval data, the study assigned the mean or average of the group to which the outlier belongs. Doing so, it helped almost Ten (10) cases to survive in the sample without threatening the reliability and precision of SPSS statistical procedures. Furthermore, since missing observations can be problematic, and to avoid this problem, most of the missing values were replaced with estimates computed using "mean distribution method" as recommended by Coakes and Steed (2007, p.44), therefore, generating a clean, error-free data set.

4.1. Confirmatory Factor Analysis

To assess the measures of the study in the proposed model, Confirmatory Factor Analysis (CFA) using Analysis of Moment Structures (AMOS) version 22.0 was performed to ensure unidimensionality, reliability, and validity of the measurement scale. The results provide an assessment of convergent and discriminant validity that determines the viability of the proposed model by assessing the factor structure. Unidimensionality is achieved when the measuring items have acceptable factor loadings for the respective latent construct. In order to ensure unidimensionality of a measurement model, any item with a low factor loading should be deleted (Zailani, 2012). The purpose of CFA is to confirm the relationship between the questions within each measure, and the proposed relationships of our model. The CFA will confirm if the measures used fit well with the data (Hair et al., 2010). Unlike Exploratory Factor Analysis (EFA), this is allowed to test our model for fit, but that does not mean that the model is the best possible for the relationships.

The path diagram in Figure 1 displays the standardized regression weights (factor loadings) for main variables (Socially Sustainable Supply Chain Practices, Organization Culture, and Performance) and their corresponding indicators namely, SOCI 1,2; CULT 1,2,3 and PERF 1,2. and the squared multiple correlation coefficients R^2, describing the amount of variance the common factor accounts for independent, dependent and mediator variables are also displayed. The results are summarized in displayed in Figure 1 below. The results from the CFA show that our model is a good fit (Figure 1). CFI should optimally be above 0.90, and RMSEA lower than 0.07. In our model, the CFI is 0.921, which we deem satisfactory, and the RMSEA 0.048. These results are adequate and deem the CFA satisfactory and continue the analysis. In the CFA relationships are constructed to expect rather high loadings between the constructs. Optimally loadings should be above 0.5. (Hair et al., 2006)
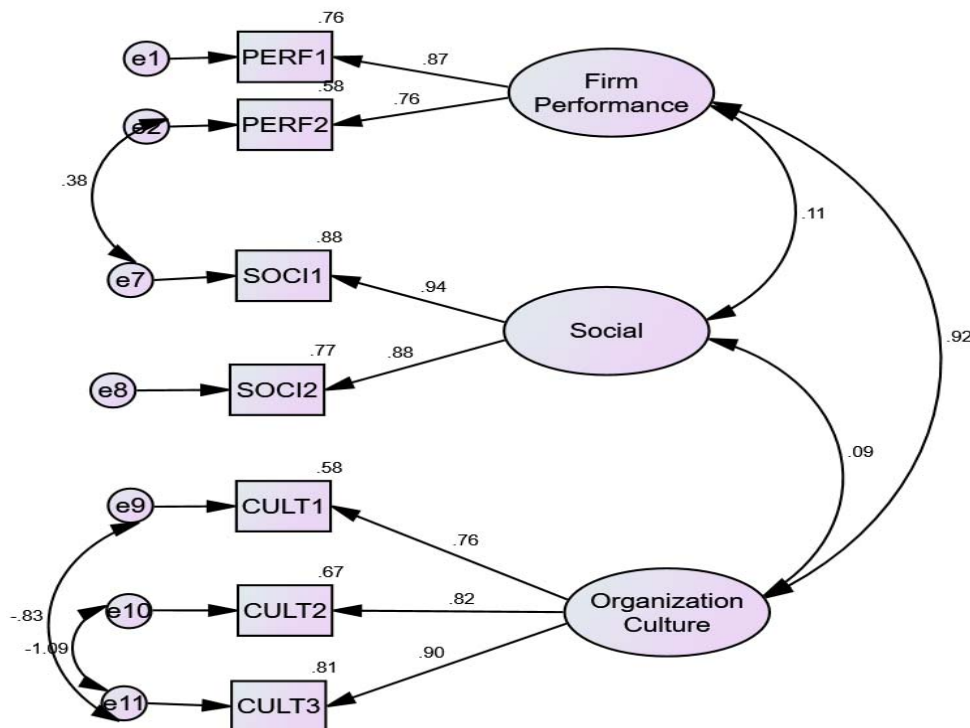
Figure 1: CFA Measurement Model
Chi square ($\chi 2$) = 71.667, (P<0.01), Normed Fit Index=.9, Comparative Fit index=.921, Tucker Lewis Index=.917, Root Mean Square Error of Approximation= .048

In this study, SEM was used to conduct mediation tests using AMOS version 22. By considering the effect of socially sustainable supply chain practices on performance of manufacturing firms, the direct effect is .434 (the path coefficient from social supply chain practices to performance) as shown in fig.2. The indirect effect, through organization culture, is computed as the product

of the path coefficient from social supply chain practices to the organization culture and the path coefficient from organization culture to performance (1.24*.587=.728) as shown in Table 1. The total effect is the sum of direct effect and indirect effect (0.434+0.728=1.162).

From the results in Table 1, the indirect effect is greater (1.24*.587=.728) than the direct effect of .434. Thus, this research concludes that the construct organization culture is a mediator in the relationship between socially sustainable supply chain practices and performance of manufacturing firms. The type of mediation is partial mediation since the direct effect is still significant after a mediator variable was introduced in the model. The study, therefore, rejects hypothesis *Ha* and concludes that the organization culture variable partially mediates the relationship between socially sustainable supply chain practices on the performance of manufacturing firms. Thus, the higher the organization culture is considered in manufacturing firms the mediation on socially sustainable supply chain practices increased with the performance of the firms.
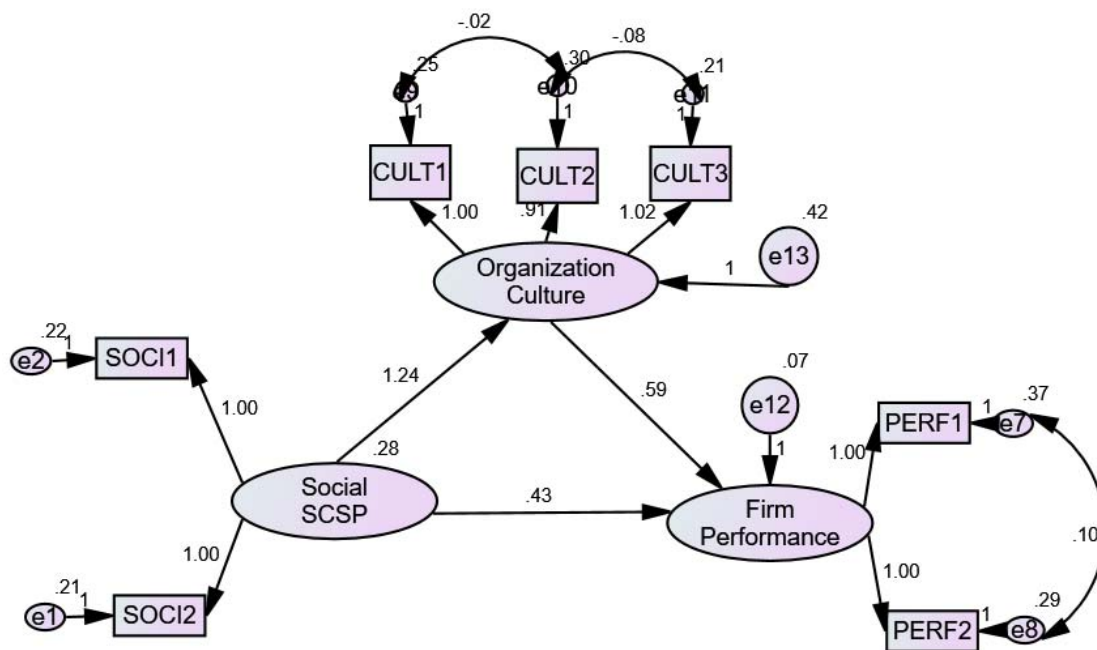
Figure 2: SEM model for Mediating Effect of Organisation Culture on Social SSCP and Firm Performance

Chi square (χ^2) = 19.721, (P<0.01), Normed Fit Index=.9, Comparative Fit index=.991, Tucker Lewis Index=.903, Root Mean Square Error of Appropriation= .059, Incremental Fit Index = .981

Table 1: Total Effect, Direct Effect and Indirect Effect of Organization   Culture on Socially SSCP and Firm Performance

		Social SCSP	Organization Culture	Firm Performance
Total effect	Organization Culture	1.240	.000	.000
	Firm Performance	1.162	.587	.000
Direct effect	Organization Culture	1.240	.000	.000
	Firm Performance	.434	.587	.000
Indirect effect	Organization Culture	.000	.000	.000
	Firm Performance	.728	.000	.000

The results indicate that organization culture partially mediates the relationship between socially SSCP and performance of manufacturing firms. This conjectures that apart from organization culture, there are other underlying factors that influence the performance of manufacturing firms. Organization culture as a mediator has a capability of carrying socially sustainable supply chain practices to influence the performance of firms but there are other factors also that researchers need to unearth that affects firm's performance in relation to socially sustainable supply chain practices. Organization culture importance in socially sustainable supply chain practices has been supported by Lee and Kim's (2017) research that claims that in order for goals to be achieved, corporate social responsibility and organizational culture need to fit each other well. According to Harris and Crane (2002), Howard-Grenville (2006), and Howard-Grenville, Hoffman, and Wirtenberg (2003) found that, for social initiatives to succeed, they must be aligned with an organization's core culture.

Conclusion

Organization culture mediates the relationship between socially sustainable supply chain practices and the performance of manufacturing firms in Kenya. In conclusion, therefore, the findings of this study show that manufacturing firms in Kenya are adopting socially sustainable supply chain practices if a strong organizational culture in that firm is in effect. Without organization culture, these practices may go unheeded. Epstein, Buhovac, and Yuthas (2010) advise that a sustainability-related culture enables organizations' decision makers to balance economic, environmental and social objectives.

In terms of socially sustainable supply chain practices, the study established socially sustainable supply chain practices has a positive significant effect on manufacturing firm's performance. To achieve improved performance in relation to socially sustainable supply chain practices, manufacturing firms should continuously improve their working condition for all employees. This rated the highest in terms of socially sustainable practices. Corresponding to Zhu et al., (2016) revealed that social practices with a specific focus on organizational governance, human rights, and conducive environment have a significant positive impact on social performance and do not have any impact on the financial performance of a firm. They further argued that few other social practices example labour practices, supply chain, and political responsibility have a significant positive impact on firm financial performance. In addition, the manufacturing firm should support the community and have had a robust community connection and support through corporate social responsibilities activities. Moreover, manufacturing firms in Kenya should also have in their procurement, policies that target the youth, women and disabled persons all geared towards assisting disadvantaged persons as Muthury (2008) maintained that participatory approach is important in corporate community involvement for developing the capability of the local community. Harter et al., (2002) indicated that employee engagement and employee involvement have a positive impact on employee loyalty, safety and business outcomes including productivity and profit. Health and safety of all employees should also be a priority for manufacturing firms that ensure the safety and wellbeing of people working in the manufacturing sector. Manufacturing firm should also follow all legal requirements in its employment policies such as employment of underage persons, discrimination and equal opportunity for all. In terms of social practices, the firm should have a functional code of conduct that guides internal operations and relations with key suppliers and finally, the manufacturing firm should practice fair trade and transparency in all its operations whether targeting internal or external stakeholders in line with Anitha (2014); Metford (2011). When manufacturing firms in Kenya implement these socially sustainable supply chain practices, there will be improved performance.

Theoretical Implication of the study

This study further provides empirical support that organization culture mediates the relationship between socially sustainable supply chain practices on the performance of manufacturing firms in Kenya. For organization culture, the researcher concludes that organization culture is crucial for the success of sustainability initiatives of manufacturing

firms. The organization culture variable fully mediates the relationship between social sustainable supply chain practices and performance of manufacturing firms. The more the organization culture developed in manufacturing firms the higher the environmental and economic supply chain practices influences the performance of the firms. The role of organizational culture in improving the performance of manufacturing firms through socially sustainable supply chain practices should not be neglected. The manufacturing firm should pay attention to fostering a strong organization culture geared towards sustainability if they seek to gain from sustainable supply chain practices implemented. The organization culture variable yet again partially mediates the relationship between socially sustainable supply chain practices on the performance of manufacturing firms. The more the organization culture is considered in manufacturing firms the higher the socially sustainable supply chain practices influence the performance of the firms but there are other underlying factors influencing the performance of manufacturing firms in relation to socially sustainable supply chain practices other than organization culture. Therefore, future research study should uncover what are these underlying factors influencing manufacturing firm's performance when socially sustainable supply chain practices are implemented.

Practical implication

In conclusion, manufacturing firms should pay attention to organization culture if they seek to gain from sustainable supply chain practices implementation to improve their performance. For managerial implication, the results indicate that sustainable supply chain practices have a positive effect on the performance of manufacturing firms. Thus, the manufacturing firms need to work together to share benefits and success stories of sustainable supply chain practices with other firms so as to spread and create interest in SSCM concepts across a large number of firms. In this way, supply chain managers can easily implement sustainable supply chain practices.

Recommendation for Further Studies

The study sought to determine the mediating effect of organization culture on social sustainable supply chain practices and performance of manufacturing firms, Kenya. Specifically, the study sought to establish; the effect of socially sustainable supply chain practices on performance of manufacturing companies and also test the mediation effects of organizational culture on the relationship between sustainable supply chain practices and performance of manufacturing firms. Future directions for this research should establish the mediating effect of organization culture on sustainable supply chain practices and performance of firms in the service sectors

and draw comparisons between manufacturing sectors and service sectors and explore effects of organisation culture on socially sustainable supply chain practices.

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The Impact of Corruption on Economic Growth:
A Case Study of South Asian Countries

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Abstract

Corruption threatens the integrity of markets, weakens fair competition, misleads resource allocation, damage public trust; undermine the rule of law and also its impact on the development of the economy as a whole**.** However, this is no common agreement regarding the impact of corruption on economic growth. A few scholars have identified that corruption and economic growth have positive relationship ((Leff, 1964; Huntington, 1968). Many studies have found that there is a negative relationship between these two variables (Mauro, 1995; Bardhan, 1997). The main objective of this study is to revisit the impact of corruption on economic growth. Using international, macro-level panel data from four South Asian countries with four independent variables, the study estimates the direct and indirect impact of corruption on economic growth for the period of 2002-2016. This study used the Phillips and Hansen (1990) Fully Modified Ordinary Least Square (FM-OLS) technique. The study employed the Levin, Lin & Chu panel unit root test to identify the time series properties for the variables. According to the test results, the data series was integrated of order (1) and the study applied the FM-OLS procedure by using a panel data of four South Asian countries spanning over 2002-2016. The results suggested that corruption has both direct and indirect influence on economic growth in four countries; India, Pakistan, Bangladesh and Sri Lanka. First, the findings claimed that a one-unit increase in corruption retards economic growth by roughly 0.0282 percent for the period under consideration. Second, the econometric results revealed the positive effect of physical and human capital on economic growth. Third, results claimed that the effect of corruption on economic growth is sensitive to the inclusion of the transmission channels including physical capital and human capital. According to the findings, it is evident that actions should be taking to curb corruption at every level among the sample countries. Laws to decrease corruption should be vigorously pursued and imposed. Institutions should be established to enforce corruption laws and proper implementation of the existing laws is vital for reduce corruption among these countries. In doing so political commitment and support is an essential. Also, introducing the subject of professional ethics in field of education may form an important solution to combat the corruption.

Key words: *Corruption, economic growth, human capital, physical capital, Transparency index*

1. Introduction

Recently the corruption is one of the biggest issues around the world. The corruption is closely linked with the governments' behavior and their activities and also with some of the government affairs in the economy. It is a hazard facing society and exits both in the developing and also the developed economies but more witness in the developing nations. Therefore, it is an indicator of a poorly functioning nation. The World Bank defines the corruption as 'the abuse of public power for private benefit". It does not mean that corruption is limited to only the public sector. It can be seen especially in large private enterprises also. Tanzi (1998) showed the corruption also occurs with private sector activities which are regulated by the government. Further, it highlighted that in many countries some proceeds of corruption go to funding the events of the political parties. Therefore, corruption has attracted a great deal of attention among researchers and international financial institutions during the last few decades, indicating its implications for economic growth. Johnston (1997) said that there was a high tendency to bring rapid political and economic change due to corruption but its consequence varies from one nation to another: It collapses some economies while gaining beneficial effect to some others. Further, researchers indicated that corruption was an increasingly important political and trade issue among countries and in international organizations.

Three are two thoughts of schools on corruption and economic growth relation. First thought of economics believed that corruption brings benefits to the economic development. Leff (1964) argued that politicians like to eliminate corruption since it can erode the power of the leading political party, mainly in a country with ethnic minorities or foreign business persons. Meanwhile, the repot highlighted that corrupt administrators can force the government to become involved in promoting economic activities and corruption provides safeguards against serious policy errors. Acemoglu and Verdier (1998) suggested that corruption enhanced efficiency in the economy and have a positive effect on economic growth.

The view of second school of thought shows that corruption has harmful effects on economic growth. Several authors have acknowledged in the literature that corruption reduce the productivity of the government expenditure, distorts the allocation of resources and therefore, reduce the economic growth. Monte and Papagni (2001) examined the long-run effect of corruption on the productivity of expenditure on public investment using a dynamic panel data approach. The result showed that the effect was significant and distinct from a direct negative effect of corruption on the growth rate. According to the World Bank's estimate in 2017, businesses and individuals paid $1.5 trillion in bribes each year. This was about 2 percent of global GDP—and 10 times the value of overseas development assistance. Mo (2001) examined the role of corruption in economic growth. Findings of the study

showed that a 1 percent increase in the corruption level reduces the growth rate by about 0.72 percent. The important finding of the study was that major source of corruption was from political instability which accounted about 53 percent of the total effect. Further, it revealed that corruption reduces the level of human capital and the share of private investment. Mauro (1995) investigated the relationship between corruption and economic growth by considering, the amount of red tape, the efficiency of the judicial system, and various categories of political stability for a cross section of countries. The study found that corruption reduces investment, thereby lowering economic growth. Corruption is on the rise in South Asia and failure to tackle it will threaten the region's economic progress, as well as efforts to share that progress equitably. The average score of South Asian countries Corruption Perception Index (CPI) in the 2013 was about 30 – lower than any other sub-region in the world. 80 percent of people in the region now feel that their government's actions in the fight against corruption are ineffective (Transparency International, 2014). Majority of the findings are consistent with the view that corruption is deleterious economic growth. As for South Asian countries particular, there has been little research in this field and thus the motivation of this study is the lack of evidence on this issue in this region.

The main objective of this study is to examine the impact of corruption on economic growth, in four South Asian Counties. Using international, macro-level data from four South Asian countries, the study estimates the multiple impact of corruption on economic growth for the period of 2002-2016.

The following section presents the earlier published theoretical foundation of the corruption and economic growth. Section 3 introduces the data and model of the empirical estimations. Section 4, discusses the empirical results of the study. The last section covers concluding remarks.

2. Literature review

There is a growing trend of research in recent years on the relationship between corruption and economic growth. The general conclusion is that corruption slows down the long-term economic growth of an economy through different channels. Mauro (1998) examined the relationship between corruption and government expenditure on education. The results revealed that there was a negative significant relationship between the variables. Mauro (1995) found strong empirical evidence to support the negative relationship between corruption and long-term growth. Mauro (1995) showed a 1 percent increase in the corruption level reduces the growth rate by about 0.72 percent after controlling for the level of per capita real GDP. Meanwhile this study found that political instability channel is the most important channel through which corruption affects economic performance.

Ratbek (2014) examined how the quality of governance, the size of public spending, and economic development affect the relationship between bureaucratic corruption and economic growth. The result indicated that the interaction between corruption and governance shapes the efficiency of public spending. As a result of the efficiency of public spending this determines the growth effects of corruption. At the same time, the study revealed that corruption improves economic efficiency if the actual government size is above the optimal level. Further, it found that the occurrence of corruption declines with economic development. The argument behind this view is that because of economic advancements wage rate increases and it leads to higher seeking cost of private rent, thereby, discouraging corruption.

Enrlich and Lui (1999) examined the relationship between corruption, government and growth. In this study, the researchers have employed endogenous growth model. The result showed that a "balanced growth" is derived as a balancing act between accumulating human capital, which stimulates the economic growth. It revealed that the relationship between corruption and the economy is explained as endogenous outcome of competition between growth-enhancing and socially unproductive investments. In addition, findings of the study showed that the relationship between government, corruption, and the economy's growth is nonlinear.

Blackburn and Downing (2015) indicated that the way of influencing decentralisation to reduce the level of corruption and, thereby foster economic development. The analysis was done by employing a dynamic general equilibrium model. This study was emphasis that corruption affects growth through entry regulation and the costs of doing business. The study revealed that the decentralised structure of the government is associated with lower bribes, higher capital and higher economic growth

Monte and Papagni (2001) examined sources of corruption arises from purchases made by government officials. This study used dynamic panel data approach to economic growth based on time series for the period 1963-1991 for 20 Italian regions. Basically the study focused on the determinants of the rate of growth, corruption, public infrastructures and public expenditures. The results indicated that negative effects of corruption on economic growth from private investment and public investments.

Pellegrini and Gerlagh (2004) studied empirically connection between corruption and economic growth directly and indirectly through several indicators like trade policy, human capital, investment, and political instability. The findings of the research confirmed a negative effect of corruption economic growth. The outcomes further suggested that the most influential policy variables of corruption as investment and trade openness.

Gyimah-Brempong (2002), examined the effects of corruption on the growth rate of per capita income and the distribution of income for 21 Africa countries from 1993 - 1999. The results showed that corruption decreases economic growth directly and indirectly through decreased investment in physical capital. According to empirical results, a one unit increase in corruption decreases growth rates of GDP by 0.75 and 0.9 percentage points and per capita income reduces between 0.39 and 0.41 percentage points per year in Africa. Further, it showed that corruption decreases growth directly through decreased productivity of resources and indirectly through reduced investment.

Méon and Sekkat (2005) investigated the relationship between the corruption and growth investment and the quality of governance in a sample of 63 to 71 countries for the period 1970 and 1998. The findings of the study showed that negative effect of corruption on growth and investment. Moreover, they explained that a weak rule of law, an inefficient government and political violence lead to negative impact of corruption on investment.

Méndez and Sepúlveda (2006) studied the effects of corruption on long-run growth incorporating measures of political freedom as a key determinant of the relationship. They found the evidence of a non-monotonic relationship between corruption and growth after controlling for several economic variables for free countries. Moreover, the results showed that the growth-maximizing level of corruption was significantly greater than zero.

Aidt et al. (2008) examined the role of political accountability as a determinant of corruption and economic growth. They defined two governance regimes as low quality and high quality institutions and observe that corruption has no impact on growth in countries with low quality institutions. Meanwhile the results indicated that corruption has an adverse impact on economic growth in countries with high quality institutions only.

Kholdy and Sohrabian (2008) examined whether foreign direct investment can stimulate financial development in countries with the leaders who engage in corruption. They found that foreign direct investment may jump-start financial development in developing countries. Moreover, most of the causal links were found in developing countries which experience a higher level of corruption in the form of excessive patronage, nepotism, job reservation, 'favor-for-favors, and secret party funding. Furthermore, the results revealed that there is a suspiciously close relation between politics and business. Swaleheen and Stansel (2007) investigated the relationship between corruption and economic growth by incorporating the impact of economic freedom. The results showed that in countries with low economic freedom, corruption appears to reduce economic growth while in countries with high economic freedom, corruption is found to increase economic growth.

Ehrlich (1996) examined the relationship between corruption, government, and growth. In contrast to the traditional perspective, the results showed that wealth and crime are positively related while corruption and per capita income levels are negatively related across a wide range of economic development.

Leff (1964) and Huntington (1968) revealed that the economic growth increases due to corruption in various ways including helping entrepreneurs to avoid bureaucratic delay by bribing officials. Lui (1996) also showed that increase corruption leads to increase progress of the economy by minimizing waiting costs thus reducing inefficiency in economic activity.

It is clear that there is no common conclusion about relationship between corruption and economic growth from the previous studies. There are claims on both sides of the impacts regarding corruption and economic growth. Studies, which claim that corruption has a negative effect on economic growth, tend to emphasis on the consequences of corruption for efficiency. The researchers who support this argument show that corruption influenced the growth of an economy through various channels; such as reductions in the quality of production of goods, investment in both physical and human capital. Corruption not only increases the cost of production but also reduces the quality of resources. On the other hand the studies which show the positive side of the corruption on economic growth advocate that corruption greases the wheels of business and trade and thus, contributes economic growth and investment.

3. Data and Models

This study used panel data in selected countries of South Asian Association for Regional Cooperation (SAARC) namely, India, Pakistan, Bangladesh and Sri Lanka. The country selection was done on the basis of availability of data on Corruption measures. Annual data spans from 2002-2016 and have extracted from World Development Indicators (World Bank) and World Economic Outlook (WEO) and Transparency International. The data used in this study consist of annual observations on corruption index (COR), economic growth (EG), physical capital (K) (proxied by investment as percentage of GDP), human capital (POP); the population growth is the proxy for human capital because the data on population is more reliable, and initial output (PC) (proxied by GDP per capita lagged by one period) for selected SAARC countries. The corruption index ranges from 0 to 100, with 100 indicating a highly clean country and 0 indicating a highly corrupt country.

The study employed the Phillips and Hansen (1990) Fully Modified Ordinary Least Square (FM-OLS) technique to find the long run estimates for the variables. The FM-OLS is particularly suitable for the

study because it enables us to simultaneously correct for the effect of serial correlation in the error term and the endogeneity of the independent variables.

The FM-OLS test for a panel case was based on estimating the following equations:

$$EG_t = \beta_0 + \beta_1 POP + \beta_2 COR + \beta_3 K + \beta_4 PC + \varepsilon_t \qquad (1)$$

$$EG_t = \beta_0 + \beta_1 POP + \beta_2 COR + \beta_4 PC + \varepsilon_t \qquad (2)$$

$$EG_t = \beta_0 + \beta_2 COR + \beta_3 K + \beta_4 PC + \varepsilon_t \qquad (3)$$

$$EG_t = \beta_0 + \beta_2 COR + \beta_4 PC + \varepsilon_t \qquad (4)$$

$$K_t = \beta_0 + \beta_1 POP + \beta_2 COR + \beta_5 EG + \varepsilon_t \qquad (5)$$

$$POP_t = \beta_0 + \beta_2 COR + \beta_3 K + \beta_5 EG + \varepsilon_t \qquad (6)$$

In equation (1), population growth (POP) and capital (K) was expected to have positively influence on economic growth (EG) (i.e. $\beta_1 > 0$ and $\beta_3 > 0$). However, corruption could either have positive or negative effect on the economic growth (i.e. $\beta_2 > < 0$). On the other hand, corruption could have an impact on economic growth either directly or indirectly or both. Corruption reduces economic growth directly by promoting misallocation of resources and discouraging productive utilization of resources. And also indirectly, there is an impact on economic growth by reducing investment in the country. Based on these views, we developed equation (1) to account for the direct effect of corruption on economic growth meanwhile, the indirect effect of corruption on economic growth through equations (5) and (6), respectively. We used equation (5) to estimate the effect of corruption on investment. In equation (5), population growth (PG) was expected to have negative effect on capital (K) ($\beta_1 < 0$). We developed equations (2) and (3) to assess the impact of transmission channels including physical capital and human capital, respectively on economic growth. The equation (4) shows the effect of corruption on economic growth without transmission channels.

4. Empirical results

Table 1 shows the descriptive statistics for economic growth (EG), human capital (POP),corruption index (COR), physical capital (K) and initial output (proxy by lagged value of GPD per capita) (PC) for the period of 2002 to 2016 . As can be seen from Table 1, the mean values of EG, POP, COR, K, and PC are 5.93 percent, 1.42 percent 29, 26.84 percent and US$1264, respectively. The maximum and minimum values indicate cross-country variability among the variables used in the study.

The average corruption index for the sample countries is approximately 29, which is at the high end of the corruption scale. Economic growth on the other hand, averaged about 6 percent among the sample countries for the period of 2002 - 2016.

Table 1. Descriptive Statistics

	EG	POP	COR	K	PC
Mean	5.932461	1.419643	29.03571	26.83929	1263.969
Median	6.013693	1.400000	28.50000	27.20000	1028.739
Maximum	10.25996	2.300000	40.00000	39.10000	3842.164
Minimum	1.606692	-2.100000	13.00000	14.12000	400.6136
Std. Dev.	1.964454	0.630561	6.483445	7.281203	864.1379

Source: Author Compiled

Table 2. Pearson Correlation Matrix

	EG	POP	COR	K	PC
EG	1				
POP	0.00687	1.00000			
COR	0.52715	-0.49784	1.00000		
K	0.57429	-0.62570	0.54941	1.00000	
PC	-0.01538	-0.54772	0.65101	0.30896	1.00000

Source: Author Compiled

Table 2 presents the Pearson's correlation coefficients corruption index, economic growth, physical capital, human capital, and GDP per capita. The results indicate that human capital, corruption and physical capital are positively correlated with economic growth. In contrast, GDP per capita and economic growth is negatively correlated.

Table 3. Levin, Lin & Chu Panel Unit Root Test Results

	First Difference	
Variable	Statistics	Probability
Economic Growth (EG)	-2.91821	0.0018
Human Capital (POP)	-5.28036	0.0000
Corruption (COR)	-3.16701	0.0008

Physical Capital (K)	-3.16158	0.0008
GDP Per Capita (PC)	-3.15093	0.0008

Source : Author Compiled

Table 3 presents Levin, Lin & Chu (LLC) panel unit root test results or the time series data from 2002 - 2016. Results suggest that the null of non-stationary cannot be rejected at levels for all the individual series, but at first difference, the null is rejected at 1 percent level of significance, thus suggesting that all the variables are first difference stationary. In all, the results from the LLC panel unit root suggest that the series have same order of integration [I (1)]. Hence, we estimate long-run relationships by using a FM-OLS model.

Table 4. Fully Modified OLS Results - Long-Run (Dependent Variable- Economic Growth)

Independent Variables	Equation			
	1	2	3	4
Human Capital (POP)	0.061349* (1.810574)	0.041444 (6.190753)***	-	-
Corruption (COR)	0.028166 (4.875192)***	0.052618 (1.190141)	0.026440 (4.589075)***	0.000174 (6.198883)***
Physical Capital (K)	0.277829 (4.359438)***	-	0.279970 (4.250093)***	-
GDP Per Capita (PC)	1.95E-05 (0.413484)	0.000193 (5.163261)***	1.22E-05 (0.248927)	0.041171 (4.478408)***

Source: Author Compiled

Notes: Value of t -statistics are in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.

After establishing the order of integration for the series, we next apply the FM- OLS to obtain the long run estimates for the variables. Before interpreting the findings, it is important to note that high corruption index implies low corruption; meanwhile low corruption index indicates high corruption. We first estimate the equation (1) and Table 4 presents the results for this model. The specification in columns 3 and 4 includes our transmission channel variables but not the corruption index.

The FM-OLS regressions reported in Table 4 show the sensitivity of the estimated effect of corruption on the growth rate. The results of the columns 3 and 4 in Table 4 show that the effect of corruption on economic growth is sensitive to the inclusion of the transmission channels including physical capital and human capital. In column (5), COR coefficient indicates that corruption has a significant negative effect on the growth rate when the plausible transmission channels are not included in the regression. From column 5 of Table 4, we note that the regression coefficient on corruption is 0.000174. This coefficient is smaller than that of in columns 3 and 4 where the transmission channels were included

separately. However, when both channels were included as in column 2, regression coefficient on corruption is 0.028166. Out of four in three cases, the regression coefficient on corruption is statistically significant at the 1 percent level. The results indicate that physical capital has positive and significant impact on economic growth. This is consistent with economic theory, which specifies that capital stock is a vital factor for economic growth. Turning to the effect of population growth on economic growth, we observe that increases in population have enhanced economic performance, as the regression coefficient on POP is positive and statistically significant. The results confirm that in addition to direct effect, there is an influence from corruption to economic growth through physical capital and human capital. The results in Table 4 reveal that low corruption is stimulated economic growth in South Asian Countries.

Table 5. Fully Modified OLS Results - Long-Run (Dependent Variables- Physical and Human Capital)

Independent Variables	Dependent Variable	
	Physical Capital	Human Capital
	Equation (5)	Equation (6)
Economic Growth (EG)	7.043694 (2.230744)**	0.043244 (0.148304)
Human Capital (POP)	-3.658493 (-3.187512)***	-
Corruption (COR)	-0.246142 (-1.128974)	-0.023815 (-1.297201)
Physical Capital (K)	-	-0.047580 (-3.166991)***

Source : Author Compiled

Notes: Value of t -statistics are in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.

Next we investigated the indirect effect of physical and human capital on economic growth. We report results of two regression models of the transmission variables on corruption in Table 5. As can be seen in Table 5, corruption is found to be related to these variables in both positive ways, and this relationship is not statistically significant. From the result in column 2, we infer that a 1 percent increase in corruption increases physical investment by about 0.246 percent. This indicates that low corruption is associated with low investment for South Asian countries. Additionally, the results reveal that both economic and population growth have significant effect on investment. These results indicate both economic and population growth rates are important determinants of investment in South Asian countries.

Column 3 of Table 5 presents the indirect effect of corruption on economic growth through human capital. The results reveal that corruption has positive (higher corruption level) influence on population growth, as the regression coefficient on COR is negative. This finding confirms the notion that corruption misuses talents of humans. It is clear that that in the presence of corruption, rent seeking tends to be more lucrative than productive work. Ehrlich and Lui (1999) showed that corruption encourages officials to engage in rent seeking and in the process accumulate political capital, which was socially unproductive. Economic growth has positive impact on population growth. From this result, there is an interesting point to note, which is human capital is positively correlated with growth suggests that corruption hence has shown growth-enhancing effect. Finally, results show that physical investment has negative significant influence on population growth at the 1 percent level of significance. This result implies that as investment decreases, population growth rises.

5. Conclusion

This paper has employed the FM-OLS procedure to examine the long-run relationship between economic growth and corruption for panel of four South Asian countries. Specifically, the study used the Levin, Lin & Chu panel unit root procedure to determine the time series properties for economic growth, corruption, physical investment and human capital. As the panel unit root test results revealed, the data series was integrated of order (1), the study applied the FM-OLS procedure by using a panel data of four South Asian countries spanning over 2002-2016. The results suggested that corruption has both direct and indirect influence on economic growth in four countries. The results revealed few significant implications for these countries. First, the findings claim that a one-unit increase in corruption retards economic growth by roughly 0.0282 percent for the period under consideration. This finding was consistent with the findings of Gyimah-Brempong (2002). Second, the econometric results reveal the positive effect of physical and human capital on economic growth. Third, results claim that the effect of corruption on economic growth is sensitive to the inclusion of the transmission channels including physical capital and human capital. A study done by Mauro, (1995) reported that corruption was strongly negatively related with the private investment and, hence, it lowers the rate of economic growth.

Fourth, results indicate that the indirect effect of physical and human capital on economic growth. As can be seen from the findings, corruption is found to be related to these variables in both positive ways, and this relationship is not statistically significant. This reveals that low corruption is associated with low investment and low level of human capital for South Asian countries. Additionally, the results reveal that economic growth has significant positive effect on investment. Finally, results reveal that

physical investment has negative significant influence on population growth at the 1 percent level of significance. This result implies that as investment decreases, population growth rises.

According to the findings, it is evident that actions should be taking to curb corruption at every level among the sample countries. Laws to decrease corruption should be vigorously pursued and imposed. Institutions should be established to enforce corruption laws and proper implementation of the existing laws is vital for reduce corruption among these countries. In doing so political commitment and support is essential. Fostering fundamental ethical and moral values among the society is also important. Encouraging accountability and transparency in public sector, active engage of the public and civil society is vital in order to curtail corruption in public sector of South Asian countries. Thus, it is more important than ever for governments to be doing the right thing, to retain public trust and gain a competitive advantage in an ever more accessible and transparent world.

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THE ROLE OF WORK MOTIVATION TO MEDIATE ASTA BRATA LEADERSHIP ON EMPLOYEE PERFORMANCE (STUDY ON LPD EMPLOYEES IN BADUNG REGENCY)

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Abstract

This research was conducted with the background of the demand to excel in the business world, including Village Credit Institutions (LPD). The performance of LPDs in Badung Regency which tends to decline is an interesting phenomenon to be studied further. Declining employee performance can be influenced by employee motivation that has not been maximized and the leadership style applied by the manager. Leadership styles can encourage and motivate LPD employees to improve LPD performance. Therefore LPD in Badung Regency strives to improve the performance of its employees by providing maximum work motivation and developing leadership of Asta Brata so that the aim of the study is to examine the role of work motivation in mediating Asta Brata Leadership with the performance of LPD employees. This research was conducted in Badung Regency by taking a sample of 110 LPD employees. The analytical method used is SEM analysis. The results showed that Asta Brata Leadership had a positive and significant effect on LPD Employee Performance in Badung Regency. Asta Brata leadership has a positive and significant effect on the motivation of LPD employees in Badung Regency. Motivation has a positive and significant effect on LPD Employee Performance in Badung Regency. Motivation is able to mediate significantly in Asta Brata Leadership on employee performance. That is, by increasing motivation, the influence of Asta Brata Leadership on the performance of LPD employees in Badung Regency is increasing.
Keywords: Work motivation, Asta Brata leadership, employee performance, and LPD.

1. Introduction

Increasingly tight competition today, is in desperate need of quality human resources to be able to face competition and change. If the performance achieved by the employee gets less attention, it can result in things that are not desirable, such as work that is not optimal. Therefore performance is very important to get attention and be known, both by the workers concerned and by their leaders. In connection with this, the leadership needs to be done so that motivation is maintained is to provide the right motivation to employees. By giving the right motivation, it is expected that each employee will be motivated to work better, so that employees arise in the belief that by working better according to the demands and desires of the organization, the goals of the organization will be more easily achieved and personal goals are fulfilled (Sriathi, 2003).

The current environmental changes are without exception also felt by microfinance institutions, including the Village Credit Institution (LPD). The development of the last LPD shows a somewhat declining performance due to the increasingly fierce competition faced by Rural Banks (BPR), Savings and Loans Cooperatives, and loan sharks. Quality human resources are needed in businesses that require a high level of work ethic such as the business of microfinance institutions, because the business of financial institutions is a business that relies heavily on trust. The community will entrust their financial affairs, both borrowing and saving money, to financial institutions that have good reputation, including the reputation of the managers. This good reputation certainly concerns the performance produced by a financial institution as an organization or company.

From the results of evaluations carried out on LPD employees in Badung Regency it is known that the majority of employees are not able to meet the targets set by the LPD, so this shows that the quality of employee work is low. In connection with not achieving the targets set by the LPD, so far employees have not been motivated to show maximum performance. One factor that influences performance is motivation. Motivation is a very important thing that every employee must have in order to be able to achieve the expected performance. Employee motivation can be seen from the attitude of his behavior that is full of enthusiasm in work and always strives to do the best job possible. Employees who have high motivation in an organization appear to be tireless in their work and always try to do their work as well as possible.

LPDs in Badung Regency must pay attention to factors that can increase employee motivation in order to overcome company problems and improve their performance. Good performance is optimal performance, namely performance that meets standards and supports the achievement of organizational goals. Various methods are taken to improve employee performance through education and training, compensation and motivation. Employee performance issues can be implemented and can be solved if several variables that affect employee performance can be managed properly in the operational implementation.

The low performance of employees can be influenced by other factors, one of which is the leadership style applied by his supervisor. Leadership is one of the important factors that can give good influence to employees to maximize their work so that they are motivated to achieve company goals. A leader is a factor that closely determines the smoothness or drag of an organization or the success or failure of an organization. The quality of a successful leader is able to manage, anticipate sudden changes, correct weaknesses or by taking very wise steps. Asta Brata's leadership style plays a very important role for an organization to be able to achieve the organization's targets.

2. Theoretical Review and Research Hypothesis

2.1. Work motivation

Simamora (2009: 456) states that motivation is a psychological drive that directs a person toward a goal. Uzonna (2013) states motivation is a combination of needs, drivers and incentives. Motivation is defined as a process that begins with a physiological or psychological definition or need that activates behaviors intended for purpose or incentives. Muogbo (2013) states motivation comes from the word "motivate", meaning steps, encouragement or influence to continue something in order to fulfill the desire. Usman (2013: 275) states that motivation is a tool used so that subordinates want to work hard and work smart as expected.

Encouragement or motivation to work is very important for company productivity. Without the motivation of employees or workers to work together for the interests of the company, the stated goals will not be achieved. As said by Gayle & Searle, 2000 (Marhaeni, 2011), understanding the

factors that can motivate a person will be very helpful in fostering successful relationship management and employees.

2.2. Asta Brata's Leadership

Leadership is the process of leading, managing, moving and running an organization, institution, bureaucracy, and so on. Leadership also means values or values that are difficult to measure because they relate to mental processes, this is related to leadership as authority. In leadership there is always an unequal division of power between leaders and those who are led. Therefore the leader must have something more than the leader, the leader is an example, a role model, which is worthy of his members.

Asta brata as the eight noble qualities of the gods in Hindu view is considered as an adequate component to provide service to the community. The eight components of leadership according to Asta brata as explained in the Kakawin Ramayana and the books of Manaiua Dharnia sastra are as follows: Indra Brata, Yama Brata, Surya Brata, Chandra Brata, BayuBrata, KuweraBrata (Dana Brata), Barurna (WarunaBrata) and Agni Brata

2.3. Employee Performance

Employee performance in this study is the achievement of employees' work on the duties and authorities that have been given by the company in accordance with the capabilities and competencies of the employees both in terms of quantity and quality to achieve the goals, vision and mission of the company and the quality of an employee to achieve organizational goals.
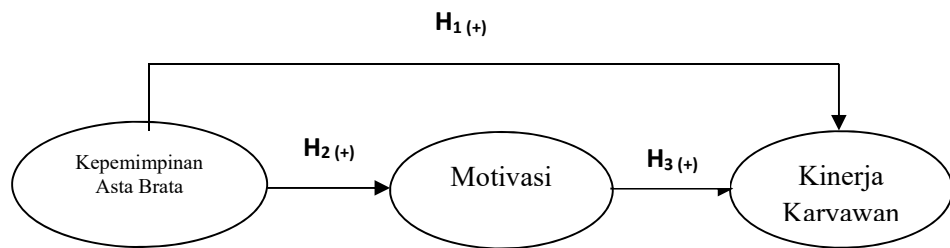
3. Research Concept Framework

The conceptual framework in research refers to several previous studies (journals) relating to employee performance. Previous research related to research variables, among others, by Setiawan (2013) found motivation has a positive influence on performance.

Leadership performance also proved to influence organizational performance improvement (Prabhu and Robson, 2000; Lee and Yu, 2004; Gunawan, 2009; Kamaliah, 2012; Hidayat, 2011; and Koesmono,

2011). Pande Juliana (2012) said that the influence of the leadership of Asta Brata had a positive influence on performance.

Based on the conceptual framework that explains the interrelations of each variable, a conceptual framework is arranged as shown in Figure 1

$H_{1 (+)}$

Kepemimpinan Asta Brata — $H_{2 (+)}$ → Motivasi — $H_{3 (+)}$ → Kinerja Karvawan

Figure 1. Conceptual Framework of the Research

3.1. Research Hypothesis: Based on the existing conceptual framework, the research hypothesis that can be prepared is as follows:

H_1: The leadership of Asta Brata has a positive and significant effect on employee performance

H_2: The leadership of Asta Brata has a positive and significant effect on motivation

H_3: Motivation has a positive and significant effect on employee performance.

H_4: Motivation is able to mediate the leadership of Asta Brata on employee performance.

3.2. Research Method

This research is a type of causality research, which aims to examine the causality relationship between Asta Brata leadership variables and work motivation, as well as employee performance. This research will be conducted at LPD in Badung Regency. This study took the subject of LPD in Badung Regency with the object of research about the leadership of Asta Brata, work motivation and employee performance. Based on the problem formulas and hypotheses developed, the variables in this study can be identified as follows:

1) Endogenous variables, namely latent variables whose values are determined by other variables in the model / subject to arrows or archery (Solihin and Ratmono, 2013). The endogenous variable in this study is employee performance (Y1).

2) Intervening variable, which is a variable that influences the relationship between dependent variables to an indirect relationship and lies between the dependent variable and the independent variable, so that the independent variables indirectly affect the dependent variable (Indriantoro and Supomo, 2012: 66). The mediation variable in this study is work motivation (Y2).

3) Exogenous variables, namely latent variables whose values are determined by other variables outside the model / model that are not subject to arrows (Solihin and Ratmono, 2013). The exogenous variable in this study is the Leadership of Asta Brata (X).

To define variables related to the object of research, several definitions of operational variables are explained as follows:

Employee Performance (Y2)

Employee performance in this study is the achievement of employee's work on the duties and authorities that have been given by the company in accordance with the capabilities and competencies of the employee both in terms of quantity and quality to achieve the goals, vision and mission of the company.

The indicator used to measure employee performance in this study uses the indicators used by Mathis and Jackson (2009) as follows:

1) Quantity of work (Y2.1)

Describe the fulfillment of the targets that have been set so that it shows the ability of the organization in managing the resources owned to achieve its goals. This indicator is measured from the perceptions of respondents that employees are able to do the work in accordance with the specified quantity, number / volume of work in accordance with organizational expectations.

2) Quality of work (Y2.2)

Describe the completion of the work in accordance with the demands of the organization. This indicator is measured by the perception of respondents that employees are able to do the work in accordance with the quality set by the organization.

3) Working time (Y2.3)

Describe the working time that is considered the most efficient and effective at all levels of management. Work time is the basis for employees to complete work that is their responsibility. This indicator is measured by the respondent's perception of being able to complete the work on time, able to use time effectively and efficiently.

4) Cooperation with co-workers (Y2.4)

It is a guide for the success of an organization in achieving its stated goals. Good cooperation will give confidence to various stakeholders, both directly and indirectly with the company. This indicator is measured by respondents' perceptions of being able to work with colleagues, always being positive in each group's work.

5) According to SOP (Y2.5)

Describe the completion of the work in accordance with the SOP that has been set by the organization. This indicator is measured by the perception of respondents that employees are able to do work according to SOPs that already exist in the LPD.

Work Motivation (Y1)

Motivation (Y_1) in this study is a process that evokes an inner motivation of employees towards achieving the goals set by the company (Robbins and Judge, 2012: 217). Motivational variables can be measured by the dimensions and indicators as follows:

(1). Need for achievement

Need for achievement (nAch) or achievement motivation is the need and effort of employees in developing creativity and directing all the capabilities and energy they have to achieve maximum work performance. The indicators of Need for achievement (nAch) are:

a) Job challenges: Job challenges are the level of difficulty for employees who will be faced at the beginning in carrying out their work. Job challenges according to the perspective of respondents are able to complete difficult work.

b) Responsibility: Responsibility is the demands and obligations given by the company to its employees in carrying out the type and work load that has been set. Responsibility according to the respondent's perspective is able to contribute all abilities in completing work.

c) Need for awards: The need for rewards is a very basic need for an employee, owned by employees on an ongoing basis such as salary, wages, incentives, and other benefits. The need for awards according to the respondent's perspective is satisfied with the award given by the company.

d) Need for achievement: The need for achievement is an encouragement for employees to be the best in the company. The need for achievement according to the respondent's perspective consists of showing work performance in completing each job.

(2). Need for Power

Need for Power (nPO) or motivation for power and strength is the need to have strength and as a benchmark to achieve a leadership position in the company. The indicators of Need for Power (nPO) are

a) The role of leadership: The role of leadership is the role that superiors and employees have in influencing their subordinates and colleagues in supporting company performance. The role of leadership according to the perspective of the respondent is able to become a role model for colleagues in the company.

b) Orientation on increasing position status: Orientation on increasing the status of the position is a motivation for employees to improve their status and prestige in the company to get a higher position than other employees. Orientation to increase position status according to respondent's perspective has good potential to develop a career in work.

(3). Need for Affiliation

Need for Affiliation or the need to be affiliated or related is an urge to interact with the work environment in this case, namely superiors and co-workers. The need to expand this association has the motivation to cooperate

Asta Brata Leadership (X)

Asta Brata is an ethical and moral teaching that contains various aspects of life, especially regarding the leadership principles that must be possessed by a leader. Asta Brata consists of the word "Asta" which means eight and "Brata" which means grip or guidelines. So Asta Brata is eight guidelines or guidelines that must be owned by a leader. The teachings of Asta Brata mention the nature of God which makes strength for his people and describes the abilities that must be possessed by a leader, as follows:

(1) Indra Brata (X1)

A leader must be able to provide pleasure, protect, and provide welfare to subordinates or people who are led. This indicator is measured by the perception of respondents that the leader must be able to protect subordinates

(2) Yama Brata (X2)

A leader must be able to act fairly and decisively, punish or impose sanctions on the wrong and reward those who excel. This indicator is measured by the perception of respondents that the leader must be able to act fairly

(3) Surya Brata (X3)

A leader must be able to provide lighting and strength to those who are led. This indicator is measured by the perception of respondents that the leader must be able to provide information to subordinates

(4) Chandra Brata (X4)

A leader must be able to provide coolness and comfort to his subordinates. This indicator is measured by the perception of respondents that the leader is able to provide coolness (5) Bayu Brata (X5)

A leader must understand the ikhwyal of people who are led. This indicator is measured by the perception of respondents that the leader must be able to understand the matters of the people he leads

(6) Kuwera Brata (X6)

A leader must look sympathetic and neat, both in appearance and in words. This indicator is measured by the perception of respondents that the leader is able to look sympathetic

(7) Baruna Brata (X7): leaders must have broad knowledge or insight so they are able to control "their subordinates with wisdom and wisdom. This indicator is measured by the perception of respondents that the leader has broad insight.

(8) Agni Brata (X8)

A leader should be able to motivate and inspire subordinates. This indicator is measured by the perception of respondents that the leader is able to arouse subordinate enthusiasm

4. Results and Discussions

4.1. The Effect of Motivation to Mediate Leadership of Asta Brata

Examination of equation 1 is done by looking at the influence of motivating to supervise the leadership of Asta Brata which is done using the SPSS program. Based on the data processing, the regression test results can be presented in Table 1.

Table 1. Asta Brata Leadership Regression Test Results Against Motivation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,102	0,207			
1 AstaBrata Leadership	0,985	0,054	0,872	18,093	0,000
R_1^2					0,288
F Statistic					39,553
Sig F					0,000

Source: Primary data, processed (2018)

Table 1 shows the results of the regression test the effect of value perception mediating the use of social media with the value of Sig. 0,000 <0,05 indicates that the leadership of Asta Brata has a positive and significant effect on motivation.

4.2. The Effect of Asta Brata's Motivation and Leadership on Performance

Table 2. Leadership and Motivation Regression Test Results Against Performance

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	*Std. Error*	**Beta**	**t**	**Sig.**
AstaBrata Leadership	0.220	0,124	0,201	1,768	
Motivation	0,627	0,110	0,647	5,695	0,013
R$_2$2					0,220
F Statistic					13,691
Sig F					0,000

Source: Primary data, processed (2018)

Table 2 shows the results of the regression test of the influence of motivation and leadership of Asta Brata on performance. Asta Brata leadership with Sig. 0.014 <0.05 indicates that the leadership of Asta Brata has a positive and significant effect on performance. Motivation with Sig. 0.013 <0.05 indicates that motivation has a positive and significant effect on performance.

4.3. Path Analysis Test Results

Based on the results of data processing, it can be made the relationships between research variables which are the path coefficients in this study. Path coefficients can be made in the form of path diagrams. The model can also be expressed in structural equations, namely.

1) Structural equation 1

   $Y1 = 0,872\ B_1X$

2) Structural equation 2 2

   $Y2 = 0,201\ B_2\ Y1 + 0,647\ B_3\ X$

4.4. Evaluation of Model Validity

Based on the results of the data shown in the summary of the path coefficients shown in Table 3 which explains that the Asta Brata Leadership variable (X) has a significant effect on Motivation (Y1), Motivation Variable (Y1) has a significant effect on Performance (Y2), and the Asta Brata Leadership Variable (X) has a significant effect on Performance (Y2).

Table 3. Summary of Path Coefficients

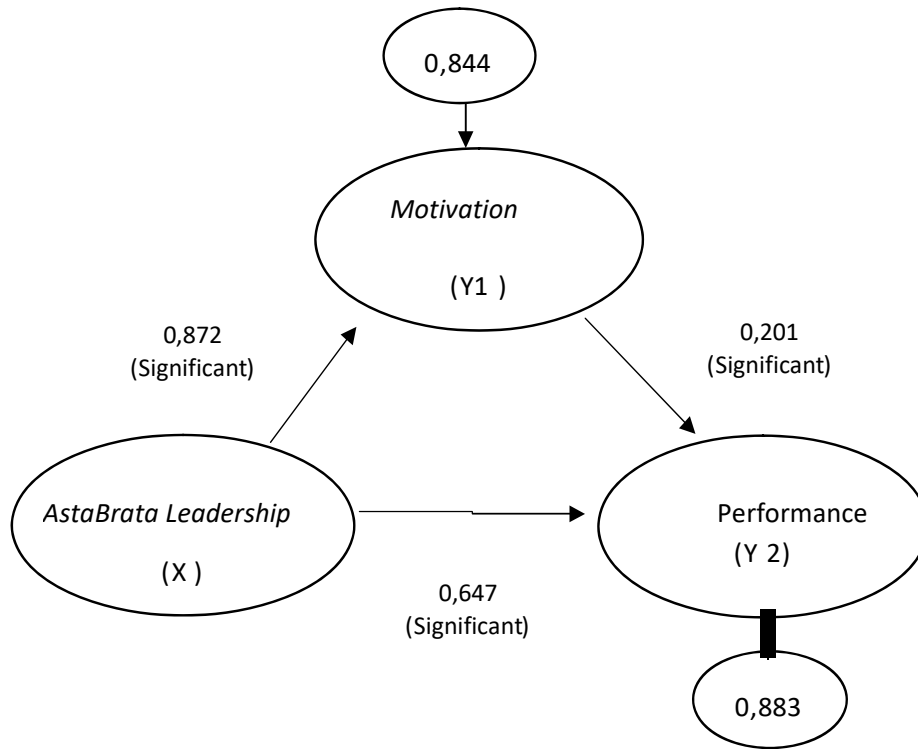| Regression	Koef. Regression Estandar		Standard Error	t test	p value
$X \rightarrow Y_1$	0,872	0,054	0,872	0,000	signifikan
$X \rightarrow Y_2$	0,201	0,110	0,647	0,014	signifikan
$Y_1 \rightarrow Y_2$	0,647	0,214	0,201	0,013	signifikan

Noted :

       X =Asta Brata Leadership
       Y1 = Motivation
       Y2 = Performance
       ed on data processing the summary of path cooeficient can be illustrated in Figure 2

Figure 2

Based on figure 2, direct effect, indirect effect and effect among variables can be calculated in Table 7

Table 4. Summary of Direct Effect, Indirect Effect and Total Effect Among Research Variables

Variable X	PL	PTL	TP
Y1	0,872		0,536
Y2	0,647	0,144	0,411

Noted:

PL	= Direct Effect /PengaruhLangsung
PTL	= Indirect Effect /PengaruhTidakLangsung
TP	= Total Effect
X	= Asta Brata Leadership
Y1	= Motivation

Y2   = Performance

In Table 4 the direct effect of X on Y1 is 0.872; there is no indirect effect so the total effect is 0.872. The direct effect of X on Y2 is 0.647. The indirect effect of X on Y2 through Y1 is obtained from 0.872 x 0.647 = 0.144. Therefore, the total effect of X on Y2 through Y1 is 0.647 + 0.144 = 0.411. This means that there is an indirect influence of the AstaBrata Leadership variable on performance through motivation

Based on the calculation of the total determination coefficient, it is obtained that the diversity of data that can be explained by the model is 44.5% or in other words the information contained in the data of 44.5% can be explained by the model while the remaining 55.5% is explained by variables others that are not in the model

Direct Influence Discussion

1) The direct influence of Asta Brata's leadership on motivation

i) Hypothesis Formulation

H0: The leadership of Asta Brata has no positive and significant effect on motivation.

H1: The leadership of Asta Brata has a positive and significant effect on motivation

ii) Significant level of 5% 95% confidence level ($\alpha = 0.05$)

iii) Testing Criteria

   If the probability value is greater than the value $\alpha = 0.05$ (p> 0.05)

then Ho is accepted and H1 is rejected. If the probability value is smaller or equal to the value of $\alpha = 0.05$ (p <0.05), then H0 is rejected

and H1 is accepted.

iv) Calculation Based on calculations using the SPSS program, the standardized coefficient beta value is 0.536 and the probability value is 0.000.

v) Conclusions

The probability value is 0,000 <0,05. This means that H0 is processed and H1 is accepted. Thus the leadership of Asta Brata has a positive and significant influence on motivation.

A positive and significant relationship between the Asta Brata Leadership variables on Motivation variables, thus the leadership of Asta Brata has a positive and significant effect on motivation. This is because if the leadership of Asta Brata is always carried out by the LPD leadership, the work motivation of the LPD employees over time will always increase. This is consistent with the results of a study by Stockdale et al. (2012); and McCann and Barlow (2015).

2) The direct influence of Asta Brata's leadership on performance

i) Hypothesis Formulation

H0: The leadership of Asta Brata does not have a positive and significant effect on performance

H1: The leadership of Asta Brata has a positive and significant influence on

Performance

ii) Significant level of 5% 95% confidence level ($\alpha = 0.05$)

iii) Testing Criteria

If the probability value is greater than the value of $\alpha = 0.05$ (p> 0.05) then H0 is accepted and H1 is rejected. If the probability value is smaller or equal to the value of $\alpha = 0.05$ (p <0.05), then H0 is rejected and H1 is accepted.

iv) Calculation

Based on calculations using the SPSS program, the standardized coefficient beta value is 0.267 and the probability value is 0.014.

v) Conclusions

The probability value is 0.014 <0.05. This means that H0 is rejected and H1 is accepted. Thus the leadership of Asta Brata has a positive and significant effect on performance.

A positive and significant relationship between the Asta Brata leadership variables and the performance variables states that the more LPDs implement leadership, the LPD performance will increase over time. The results of this study also strengthen the results of previous studies conducted by Fiscer and Reuber (2011); Montalvo (2011); and Divol et al. (2012).

3) Effect of Motivation on Performance

i) Hypothesis Formulation

H0: Motivation does not have a positive and significant effect on performance

H1: Motivation has a positive and significant effect on performance.

ii) Significant level of 5% 95% confidence level ($\alpha = 0.05$) iii) Testing Criteria

If the probability value is greater than the value of $\alpha = 0.05$ (p> 0.05) then H0 is accepted and H1 is rejected. If the probability value is smaller or equal to the value of $\alpha = 0.05$ (p <0.05), then H0 is rejected and H1 is accepted.

iv) Calculation

Based on calculations using the SPSS program, the standardized coefficient beta value is 0.269 and the probability value is 0.013

v) Conclusions

The probability value is 0.013 <0.05. This means that H0 is rejected and H1 is accepted. Thus

Motivation has a positive and significant effect on performance.

Positive and significant relationship between motivation variables on performance, this means that motivation can contribute to shaping the dominant performance. The higher the employee's work motivation, the contribution in improving performance will be easily achieved. It can be concluded that, motivation has a positive and significant influence on performance, this means, with the higher work motivation felt by LPD employees, it will further improve performance achievement.

Discussion of Indirect Influences

Mediation test of motivation variable (Y1) on the relationship of leadership of Asta Brata (X) to Performance (Y2)

i) Hypothesis Formulation

H0: Motivation is not a mediating variable of Asta Brata's leadership relationship to performance.

H1: Motivation as a mediating variable of Asta Brata's leadership relationship to business performance

ii) Testing Criteria

a) If Z counts 96 1.96 then H0 is accepted, meaning motivation is not

is a mediating variable.

b) If Z counts> 1.96 then H0 is rejected, meaning motivation is a mediating variable.

iii) Calculation

To test the mediator variable mediating the relationship between the dependent variable and the independent variable can be done as follows:

Conclusion

Therefore Z count is 2.96> 1.96 This means that motivation (Y1) as a mediating variable indirect effect of Asta Brata (X) Leadership on Performance (Y2)

Motivational variables as mediating variables have a significant indirect effect on performance through the leadership variable Asta Brata. Therefore, with the perceived work motivation, the leadership of Asta Brata has a stronger influence on performance achievement.

5. Practical Implications

This research can contribute ideas for LPD managers and management. The intended contribution of thought is that the LPD always develops the leadership of Asta Brata in order to provide benefits or value to the business so as to improve the performance of the LPD.

6. Research Limitations

Various limitations are also found in this study mainly due to the following.

1. This study only uses respondents in the credit section of the LPD so that the results of the study cannot be fully generalized.

2. The mediating variable studied is the value motivation variable which turns out that in this study significant influence on performance, so in the future it needs to be considered to choose other mediating variables.

7. Conclusion

Based on the discussion it can be concluded that 1) Asta Brata's leadership has a positive and significant effect on LPD Employee Performance in Badung Regency, 2) Asta Brata's leadership has a positive and significant effect on the motivation of LPD employees in Badung Regency, 3) Employee motivation has a positive and significant effect on performance LPD employees in Badung Regency and 4) Motivation is able to significantly mediate the leadership of Asta Brata on employee performance.

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