

## **Adequacy of Pay Structure and Its Impact on Personal Outcomes**

**Siti Salwa Salim<sup>1</sup>, Azman Ismail<sup>2</sup>**

**Abstract:** Pay structure consists of two salient elements: monetary and non-monetary rewards. The ability of administrators to adequately provide these rewards may have a significant impact on personal outcomes. Although this relationship is vital, the role of adequacy of pay structures as an important antecedent was given less emphasis in the organizational pay structure research literature. Thus, this study was undertaken to examine the association between the adequacy of pay structure and personal outcomes. A survey method was conducted to collect data from employees who worked in private institutions of higher learning in Malaysia. The SmartPLS path model analysis demonstrated that job satisfaction and organizational commitment were important outcomes of the adequacy of pay structure in the studied organizations. Furthermore, this study also provided the relevant discussions, implications and conclusion.

**Keywords:** reward; job satisfaction; organizational commitment

**JEL Classification:** E42

### **1. Introduction**

Compensation, also known as salary, wages or reward system can be defined as the combination of cash incentive and fringe benefit that are received by employees from a company (Chee, 2004; Ida & Ali, 2010). In a management perspective, compensation is often viewed as a core human resource management function where human resource managers play important roles in planning and managing the various types of reward systems as an important return for the readiness of employees to perform work or service in organizations (Henderson, 2009; Al-Shaibah & Habtoor, 2015). The ability of administrators to appropriately determine reasonable rewards according to employee contributions is important because it may upgrade employees' affection towards the workplace, reduce turnover intention and

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<sup>1</sup> PhD in progress, Universiti Kebangsaan Malaysia, Malaysia, Address: Jalan Reko, 43600 Bangi, Selangor, Malaysia, Tel.: +60 3-8921 5555, Corresponding author: s.salwasalim@gmail.com.

<sup>2</sup> Associate Professor, PhD, School of Management, Faculty of Economics and Business, National University of Malaysia (UKM), Malaysia, Address: Jalan Reko, 43600 Bangi, Selangor, Malaysia, Tel.: +60 3-8921 5555, E-mail: azman@utm.my.

absenteeism, as well as support organizational growth and development (Nguyen et al., 2014; Rozila, 2013).

The effectiveness of the reward system is important toward organizations and their employees. There are numerous studies that supported the advantages of reward to both the employees and organizations. For example, Rizal et al. (2014) had confirmed that the effectiveness of the reward system were able to boost employees' performance, hence resulted in an improved organizational productivity and development. This finding is consistent with the study done by Gohari et al. (2013) and Mehta (2014) which have found that job-related activities of an employee and how he/she performs them are very important in determining his/her organization's performance.

According to many scholars like Maimunah (2003), Farah Liyana et al. (2014) and Saqib et al. (2015), the main objectives of the reward system are to attract, retain and motivate competitive employees to achieve organizational strategies and goals. In order to achieve these objectives, many employers nowadays are given more attention to improve the design of pay structures for different job structures in their organizations. Many organizations today have designed pay structures based on external competitiveness and internal adjustment variables. External competitiveness is often related to the organization's size, policies, government, laws and regulation, external economic condition, labour market competition, the cultures and customs of environment. (Milkovich et al., 2014; Rozila, 2013). According to Kline & Yu-Chin (2007), organizations that practice external competitiveness tend to provide better rewards to their employees as compared to their competitors. Meanwhile, internal adjustment referred to productivity level, type of job, philosophy of management and corporate strategy. Employers are motivated by these variables to design and manage various types of reward systems (Milkovich & Newman, 2015; Azman et al., 2015).

A current review of the literature pertaining organizational compensation system highlights that effective pay structures have two important payment types: monetary and non-monetary rewards. According to many scholars like Harunnavamwe & Kanengoni (2013), Imran et al. (2014) and Milkovich et al. (2014), monetary reward is also viewed as financial payment, cash payment or direct payment that are normally provided to employees in the forms of salary, bonus and incentive. These financial rewards are important because they may satisfy and fulfill the needs of employees which are growing with today's higher cost of living that forces employees to seek jobs that can provide reasonable income for them to survive (Uddin et al., 2014). Non-financial payment is also called as a benefit program; non-cash payment or indirect payment where they are bestowed to employees based on their statuses as organizational memberships and complementary to monetary rewards (Milkovich et al., 2014; Mochama, 2013). For example, employers normally provide non-financial rewards in forms of recognition, praise and appreciation,

promotion, job enrichment and medical benefits (Mochama, 2013; Imran et al., 2014; Tausif, 2012). These non-financial rewards are important as a complement of financial reward to protect people's health as well as to increase their satisfaction and commitment towards their job (Lameck, 2011; Jayaratna, 2014).

Interestingly, extant studies about organizational pay structure highlighted that the capability of managers to adequately allocate monetary and non-monetary rewards according to employee contributions may have a significant impact on personal outcomes like job satisfaction (Oriarewo et al. 2013; Aktar et al. 2013; Chepkwony and Oloko 2014) and organizational commitment (Azman et al. 2009b; Nawab & Bhatti 2011). In an organizational behavior perspective, job satisfaction is often defined as individuals' feelings towards their job whether satisfied or unsatisfied, and this condition may influence their reactions towards the jobs given (Azman et al., 2013; Nawab & Bhatti 2011; Rafiq et al., 2012). A study by Oshagbemi (2000) confirmed that less satisfied works tend to resign while the more satisfied ones tend to remain in their job. Meanwhile, organizational commitment is defined as the strength of individuals' relationship and their participation in particular organizations (Mowdays et al., 1979; Ida Irdawaty & Ali, 2010). It involves an active relationship with the organization such as the willingness of an individual to contribute in order to increase organizational well-being. Many scholars such as Hemdi & Nasuridin (2006), Walsh and Taylor (2007) and Lee et al. (2012) have found that organizational commitment may reduce costly behaviour such as absenteeism and turnover intention.

Within an organizational reward system model, many scholars have stated that adequacy of pay structure, job satisfaction and organizational commitment are different but highly interrelated concepts. For example, the ability of managers to adequately contribute monetary and non-monetary rewards based on employee contributions may lead to enhanced job satisfaction (Oriarewo et al. 2013; Aktar et al. 2013; Chepkwony and Oloko 2014) and organizational commitment (Azman et al. 2009b; Nawab & Bhatti, 2011). Even though the nature of this relationship is interesting, the role of adequacy of pay structure as an important determinant variable has been given less attention in the organizational reward system's research literature (Oriarewo et al., 2013; Aktar et al., 2013; Chepkwony & Oloko, 2014; Azman et al., 2009b; Nawab & Bhatti, 2011). Many scholars have argued that this situation may be due to previous studies that have over-discussed on the internal features of pay structure, employed a simple correlation method to describe employees' reactions towards the type of pay structure but ignored to measure the effect of adequacy of pay structure on employee outcomes in the workplace of the pay structure model. As a result, these studies have not provided adequate findings to be used as guidelines by practitioners in understanding the complexity of the pay structure and designing suitable strategic plans to enhance the effectiveness of the

pay structure in the organizations. Thus it motivates the researchers to further explore the nature of this relationship.

## **2. Purpose of the Study**

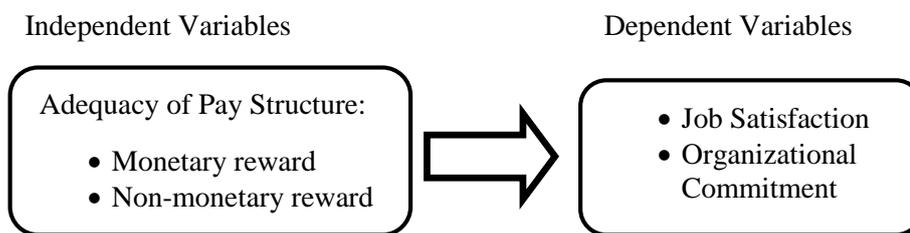
This study has four important objectives: firstly to examine the relationship between adequacy of monetary reward and job satisfaction. Secondly, to examine the relationship between adequacy of non-monetary reward and job satisfaction. Thirdly, to examine the relationship between adequacy of monetary reward and organizational commitment. Fourthly, to examine the relationship between adequacy of non-monetary reward and organizational commitment.

## **3. Literature Review**

Several recent studies were conducted using a direct effect model to examine adequacy of pay structure based on different samples, such as the perceptions of 583 employees of Malaysian public institutions of higher learning (Azman et al. 2009b), 224 employees of educational sector in Pakistan (Nawab and Bhatti 2011), 237 employees of bank in Nigeria (Oriarewo et al. 2013), 70 employees of insurance companies and 84 employees of pharmaceutical companies in Bangladesh (Aktar et al. 2013), and 237 employees of Teachers Service Commission in Kenya (Chepkwony & Oloko, 2014). The findings from these surveys showed that the ability of managers to adequately allocate the type, level and/or amount of monetary and non-monetary rewards according to employee contributions had motivated them to enhance their job satisfaction (Oriarewo et al. 2013; Aktar et al. 2013; Chepkwony and Oloko 2014) and organizational commitment (Azman et al., 2009b; Nawab&Bhatti, 2011) in their respective organizations.

The compensation research literature is consistent with the notion of organizational behavior theory. For example, Adam's (1963, 1965) equity theory which focuses on two important elements; input and outcomes. According to this theory, individual behavior may be affected by the perceptions of being treated fairly in exchanging and distributing resources. For example, when employees perceive the type, level, and/or amount of pay that they receive are equitable with their contributions, it may enhance their satisfaction (Azman et al., 2008). Conversely, when employees perceive the interaction between output and input ratio is not equitable, it may cause inequity which may create conflict situations such as dissatisfaction, the intention to quit, lower productivity and/or reduce the quality of their job (Hofmans, 2012). Besides that, Vroom's (1964) expectancy theory proposes that individuals will decide to behave or act in certain ways because they are motivated to select a specific behavior due to what they expect the result of that selected behavior. In the context

of compensation system, employees will fully commit to perform a given task because they expect that a high reward will be given if they increase their contribution towards the organization. The application of this theory in a compensation model shows that the level of adequacy of pay structure may act as a determinant to job satisfaction (Oriarewo et al. 2013; Aktar et al. 2013; Chepkwony and Oloko 2014) and organizational commitment (Azman et al., 2009; Nawab& Bhatti, 2011). The literature has been used as a foundation to develop a conceptual framework for this study as illustrated in Figure 1.



**Figure 1. Conceptual Framework**

Based on the framework, it can be hypothesized that:

H<sub>1</sub>: Monetary reward is positively related to job satisfaction

H<sub>2</sub>: Non-monetary reward is positively related to job satisfaction

H<sub>3</sub>: Monetary reward is positively related to organizational commitment

H<sub>4</sub>: Non-monetary reward is positively related to organizational commitment

#### **4. Research Design**

This study employed a cross-sectional research design which allowed the researchers to integrate the pay structure literature and the real survey as a main procedure to collect data. The use of these procedures may help the researchers to gather accurate data, decrease bias and increase the quality of the data being collected (Sekaran & Bougie, 2013; Azman et al., 2014; Aimi, 2014). This study was conducted in private institutions of higher learning in Malaysia. In order to avoid intrusiveness, the name of this organization was kept anonymous. At the initial stage of this study, the researchers had drafted the survey questionnaires based on the related past literature. After that, a pilot study was conducted by discussing the questionnaire with 20 administration and academic employees in the organizations. These employees were selected using the purposive sampling technique because the respondents had working experiences from 10 to 20 years and showed good knowledge and experience about the management of compensation programs in their organizations.

The information gathered from this pilot study helped the researchers to improve the content and format of the survey questionnaires for the actual study. A back translation technique was used to translate the survey questionnaires into English and Malay languages in order to increase the validity and reliability of the research findings (Cresswell, 1998; Sekaran & Bougie, 2013)

#### **4.1. Measures**

The survey questionnaires used in this study had three parts. Firstly, the adequacy of monetary reward had 4 items and the adequacy of non-monetary reward had 3 items that were adapted from the compensation management literature (Chepkwony & Oloko, 2014; Farah Liyana et al., 2014; Azman et al., 2009a). The dimensions used to measure the adequacy of monetary reward were the starting point; increment of yearly salary, bonus and the level of wage. Meanwhile, the dimensions used to measure the adequacy of non-monetary reward were health benefit, time to pay back loan and types of loans. Secondly, job satisfaction had 4 items that were adapted from the job satisfaction literature (Azman et al., 2014, 2008; Oriarewo et al., 2013; Warr et al., 1979). The dimensions used to measure job satisfaction were satisfaction with work condition, freedom to choose method of working, the responsibility that was given and attention towards suggestion that was given to the organization. Lastly, organizational commitment had 3 items that were modified from an organizational commitment scale developed by Mowday et al. (1979). The dimensions used to measure organizational commitment were willingness to contribute a greater effort beyond normally, suggestion to friends that the organization is great organization to work for, loyalty towards the organization and feeling inspired by the organization to perform jobs. All items used in the questionnaire were measured using a 7-item scale ranging from “very strongly disagree/dissatisfied” (1) to “very strongly agree/satisfied” (7). Demographic variables (i.e., gender, age, race, status, length of service, salary and position) were used as the controlling variables because this study only emphasized on employee attitudes.

#### **4.2. Sample**

A convenient sampling technique was used to distribute 2000 survey questionnaires to employees who worked in the studied organizations. This sampling technique was chosen because the list of registered employees was not given to the researchers for confidential reasons and this condition did not allow the researchers to randomly select participants in any organization. From the number of questionnaires, 100 usable questionnaires were returned to the researches, yielding 5% of the response rate. The figure exceeded the minimum sample of 30 participants as required by the probability sampling technique, showing that it may be analyzed using inferential statistics (Sekaran & Bougie, 2013). Participants answered the survey questionnaires voluntarily and with their consents.

### 4.3. Data Analysis

The SmartPLS version 3.0 was employed to assess the validity and reliability of the survey questionnaires data and further test the research hypotheses. The main advantages of using this method were it may deliver latent variable scores, avoid small sample size problems, estimate complex models with many latent and manifest variables and error terms, and handle both reflective and formative measurement models (Henseler et al. 2009). The path coefficients for measuring a structural model used the standardized beta ( $\beta$ ) and t statistics ( $t > 1.96$ ). The value of  $R^2$  was used as an indicator of the overall predictive strength of the model. The value of  $R^2$  was considered as follows: 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Chin, 1998; Henseler et al., 2009; Rozila, 2013).

## 5. Results

### 5.1. Respondent's Characteristics

In terms of the respondents' characteristics, the majority of respondents were females (43%), aged between 26 to 30 years old (39%), diploma holders (44%), lecturers (51%), working in academic divisions (75%), had working experiences 5 years and below (76%) and a monthly salary between RM1001 to RM2001 (46%).

**Table 1 Profile of Respondent**

Sample Profile	Sub Profile	Frequency	Percentage (%)
<b>Gender</b>	Male	43	43
	Female	57	57
<b>Age</b>	Less than 25 years	14	14
	26 - 30 years	39	39
	31 - 35 years	16	16
	36 - 40 years	16	16
	41-45 years	1	1
	More than 46 years	14	14
<b>Education</b>	LCE/SRP	1	1
	MCE/SPM	14	14
	HSC/STPM	3	3
	Diploma	44	44
	Bachelor	27	27
	Master	9	9
	Ph. D	2	2

	Professional & Management Group	34	34
<b>Position</b>	Supporting Group	15	15
	Lecturer	51	51
<b>Division/Department</b>	Academic Division	75	75
	Non-academic Division	25	25
<b>Length of Service</b>	Less than 2 years	38	38
	3-5 years	38	38
	6-8 years	16	16
	9-11 years	6	6
	12-14 years	1	1
	More than 15 years	1	1
	Less than RM 1,000		
<b>Salary</b>	RM 1,001–RM 2,000	32	32
	RM 2,001 - RM 3,000	46	46
	RM 3,001- RM 4,000	16	16
	RM 4,000 - RM 5,001	4	4
	RM 5,001- RM 6,000	1	1
	RM 6,000 - More than RM 6,001	1	1
	More than RM 6,001		

**Note**

**STPM/HSC:** Sijil Tinggi Pelajaran Malaysia/Higher School Certificate

**SPM/MCE:** Sijil Pelajaran Malaysia/Malaysia Certificate of Education

**SRP/LCE:** Sijil Rendah Pelajaran/Lower Certificate Education

Table 2 showed the results for validity and reliability of the construct. Items for each construct had reached the standards of validity and reliability analyses because they had values that exceeded 0.70 (Fornell & Larcker, 1981; Gefen & Straub, 2005). Besides that, each construct had composite values that exceeded 0.80, indicating that the measurement scales had a high internal consistency (Chua, 2006; Henseler et al., 2009).

**Table 2. The results of factor loadings and cross loadings for different constructs**

Constructs	No. of Items	Cross Loading	Composite Reliability
Monetary	4	0.722-0.781	0.834
Non-monetary	3	0.735-0.897	0.840
Job Satisfaction	4	0.722-0.854	0.875
Organizational Commitment	3	0.810-0.874	0.871

Table 3 showed the results for a discriminant validity analysis. The construct for this study had reached the standard of discriminant validity analysis since the values of Heterotrait-monotrait (HTMT) for each construct were less than 0.85 (Clark & Watson 1995; Kline, 2011; Henseler et al., 2009).

**Table 3. Result for Discriminant Validity**

Variables	Monetary	Non-monetary	Job Satisfaction
Non-monetary	0.526		
Job Satisfaction	0.546	0.484	
Organizational Commitment	0.590	0.455	0.639

Table 4 showed the results for a convergent validity analysis. The values of Heterotrait-monotrait (HTMT) for each construct were less than 0.85 (Clark and Wilson 1995; Kline 2011; Henseler et al. 2009), indicating that the constructs had met the standard of convergent validity standard (Hin, 2010; Fornell & Larcker, 1981; Barclay et al., 1995; Henseler et al., 2009).

**Table 4 Results for Convergent Validity**

Variables	Monetary	Non-monetary	Job Satisfaction
Non-monetary	0.776		
Job Satisfaction	0.744	0.671	
Organizational Commitment	0.773	0.648	0.850

Table 5 showed the results of a construct analysis. The means for all variables were from 4.0 and 4.6, showing that the levels of monetary, non-monetary, job satisfaction and organizational commitment were high. Meanwhile, the values of variance inflation factor (VIF) between the independent variables (monetary and non-

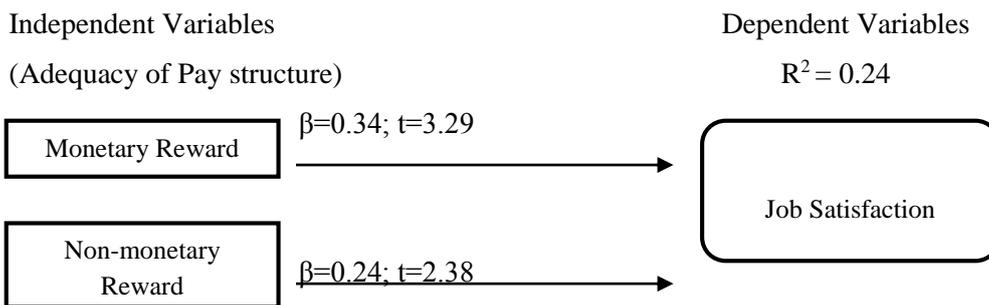
monetary) and the dependent variables (job satisfaction and organizational commitment) were less than 5.0, indicating that they were not affected by serious collinearity problems (Hair, 2014; Azman et al., 2014). Therefore, this statistical result confirmed that the constructs had met the acceptable standards of validity and reliability analysis.

**Table 5. Pearson correlation analysis and descriptive statistics**

Variable	Min	Standard Deviation	Variance Inflation factor (VIF)			
			1	2	3	4
1. Monetary	4.0	1.3			1.158	1.158
2. Non-monetary	4.1	1.2			1.158	1.158
3. Job Satisfaction	4.6	.95				
4. Organizational Commitment	4.3	.78				

**5.2. Outcomes of Testing Hypotheses 1 and 2**

Figure 2 showed the quality of model predictions in the analysis and was demonstrated by the score of R<sup>2</sup>. The inclusion of the independent variables (i.e., monetary and non-monetary reward) in the analysis explained 24 percent of the variance in job satisfaction. The results of SmartPLS path analysis revealed two important findings: first, monetary reward was positively and significantly correlated with job satisfaction ( $\beta=0.34$ ;  $t=3.29$ ), therefore H<sub>1</sub> was supported. Second, non-monetary reward was positively and significantly correlated with job satisfaction ( $\beta=0.24$ ;  $t=2.38$ ), therefore H<sub>2</sub> was supported. In sum, these results confirmed that the adequacy of pay structure is an important determinant for job satisfaction.



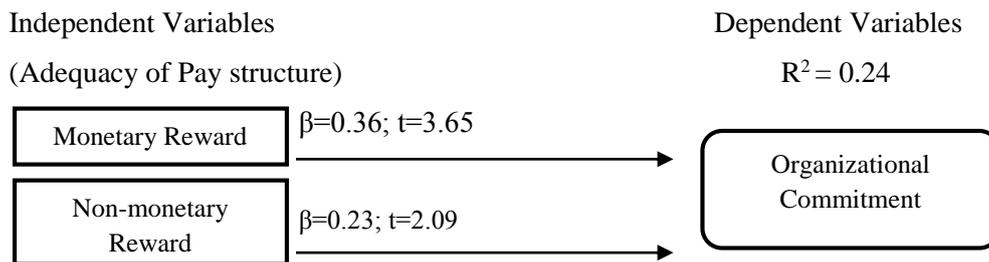
*Note: Significant at \*  $t > 1.96$*

**Figure 2. The outcomes of SmartPLS path model showing the relationship between adequacy of pay structure and job satisfaction**

From the results of the hypothesis testings, a test of predictive relevance as suggested by Stone-Geisser’s test was carried out based on the formula:  $q^2 = \frac{Q^2_{included} - Q^2_{excluded}}{1 - Q^2_{included}} = 0.130$ . The results showed that the value of  $Q^2$  was greater than zero for the reflective endogenous latent variables (i.e., job satisfaction), indicating that this model had met a predictive relevance (Hair et al. 2014).

### 5.3. Outcomes of Testing Hypotheses 3 and 4

Figure 3 presented the quality of model in the analysis and was demonstrated by the score of  $R^2$ . It can be seen that the independent variables (i.e., monetary reward and non-monetary reward) had explained 21 percent of the variance in organizational commitment. The results of the SmartPLS path analysis revealed two important findings. First, monetary reward was positively and significantly correlated with organizational commitment ( $\beta=0.36$ ;  $t=3.65$ ), therefore  $H_3$  was supported. Second, non-monetary was positively and significantly correlated with organizational commitment ( $\beta=0.23$ ;  $t=2.09$ ), therefore  $H_4$  was supported. In sum, this results confirmed that the adequacy of pay structure is an important determinant of organizational commitment.



Note: Significant at \*  $t > 1.96$

Figure 3. The outcomes of SmartPLS path model showing the relationship between adequacy of pay structure and organizational commitment

From the results of the hypothesis testing, a test of predictive relevance as suggested by Stone-Geisser’s test was carried out based on the formula:  $q^2 = \frac{Q^2_{included} - Q^2_{excluded}}{1 - Q^2_{included}} = 0.147$ . The results showed that the value of  $Q^2$  was greater than zero for the reflective endogenous latent variables (i.e., organizational commitment), indicating that this model had met a predictive relevance (Hair et al. 2014).

## **6. Discussions and Implications**

This study confirmed that the adequacy of pay structure didact as an important determinant of job satisfaction and organizational commitment in the studied organizations. In the context of this study, HR officers and/or managers often used broad compensation policies and rules to achieve their stakeholders' needs and expectations. The majority of the respondents perceived that the levels of monetary reward, nonmonetary reward, job satisfaction and organizational commitment were high. This situation described that the ability of managers to provide adequate monetary and non-monetary rewards may lead to greater job satisfaction and organizational commitment in the studied organizations.

This study had provided three implications; theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this study showed that the ability of managers to adequately allocate monetary and non-monetary rewards had been an important determinant of job satisfaction and organizational commitment. These results had also supported and extended the studies by Azman et al.(2009b), Nawab and Bhati (2011), Aktar et al. (2013), Oriarewo et al. (2013), Chepkwony and Oloko (2014).Although the research findings were significant, the effective sizes of the adequacy of pay structure on employee outcomes were low. A thorough review of the in-depth interview outcomes showed that the results may be affected by external factors which were the respondent's characteristic had different profiles or backgrounds and different management skills in order to structure pay for employees in the studied organizations. With respect to the robustness of the research methodology, the survey questionnaires used in this study had satisfactorily met the requirements of the validity and reliability analyses. This situation could lead to producing accurate and reliable research findings.

In terms of practical contributions, the findings of this study may be used as important recommendations by managements to improve the administration of pay structure systems in organizations. In order to achieve this objective, the improvements should cover some important aspects. Firstly, managers should review and distribute the type, level and/or amount of pay structure adequately, according to the current national standards of living. This is important because it might protect the employees' welfares, increase their purchasing power, and decrease their burden in fulfilling family and personal needs. Second, managers should be exposed with the latest knowledge about pay systems and procedures because it may lead to designing and upgrading the pay system and will fulfill the employees' needs. Third, additional pay should be rewarded to high performers because it can attract, retain and motivate employees in order to achieve their organizations' goals and strategies. If organizations seriously consider and positively adapt these suggestions, this may strongly motivate employees to support organizational goals and strategies.

## 7. Conclusions

This study had tested a conceptual framework that was developed based on the pay structure research literature. The instrument used in this study had met the acceptable requirements of validity and reliability analyses. The outcomes of the SmartPLS path model analysis confirmed that adequacy of pay structure (i.e., monetary reward and non-monetary reward) was significantly correlated with job satisfaction and organizational commitment, therefore H1, H2, H3 and H4 were fully accepted. The results had also supported and broadened the pay structure literature that were mostly published overseas. This study had further suggested that the ability of managers to provide adequate monetary and non-monetary rewards based on employee contributions will strongly induce positive subsequent attitudinal and behavioral outcomes (e.g., performance, commitment, and justice). As a result, these positive outcomes may lead to maintained and supported organizational strategies and goals in the era of global economic turbulent.

This study had acknowledged several limitations. First, a cross-sectional research design was used to gather data at one point of time within the period of the study. Secondly, this study only examined the direct relationship between the independent and dependent variables without testing the effects of the moderating or mediating variables. Thirdly, other pay structure outcomes (e.g., commitment, trust and performance) that were significant for organizations and employees were not discussed in this study. Finally, the sample for this study was non-randomly and on one organization sector only. For future research, the mediating or moderating variables can be used to test this model in order to strengthen the results. Besides that, other personal outcomes (e.g., performance, motivation and loyalty) can also be tested as dependent variables to examine the influence of adequacy of pay structure on personal behavior. Finally, for future research, other sectors such as the public sector can be chosen as an area of the study to be compared on whether the adequacy of pay structure may influence employees' outcomes in the public sector.

## 8. Acknowledgements

The author(s) would like to thank the Ministry of Education Malaysia and CRIM UKM for supporting this study. Reference Code: FRGS/1/2014/SS05/UKM/02/7.

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