

# The Moderating Effect of Leadership on the Relationship of Employee Satisfaction, Customer Orientation, and Organization Performance

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## ABSTRACT

The purpose of the current study is to investigate the moderating impact of leadership on the association of customer intention, employee satisfaction and organizational performance in the pharmaceutical industry of Thailand. For this purpose, data was collected from managers of pharmaceutical industry by using a self-administered questionnaire. The SEM analysis of the study has shown that there is a positive and significant relationship between the customer orientation and organizational performance. The employee satisfaction has an insignificant relationship with the organization. The indirect effect of the study has shown that the leadership has positive and significant moderating effect among all the exogenous and endogenous variables in the pharmaceutical industry of Thailand. These findings have shown that these variable does not only have a direct effect on organizational performance but

also indirectly effect to the organizational performance. These findings, therefore, could provide help to business owners to know the importance of good leadership to increase the performance of the organization. The research limitations and future direction are also discussed at the end of the study.

**Keywords:** Customer Orientation, Employee Satisfaction, Organizational Performance, Leadership, Pharmaceutical Industry.

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## INTRODUCTION

Customer orientation can be regarded as a reflection of organizational strategies which are focused on market. It can be described as organizational orientation to promote and provide support to collect, disseminate and be responsive towards the market intelligence in order to meet the needs of customers (Chen, Tang, Jin, Xie, & Li, 2014). Previously available studies reveal that customer orientation and performance are significantly associated (Feng, Wang, Lawton, & Luo, 2019; Schwepker & Ingram, 2016). Aforementioned studies' findings signify the customer orientation as an important factor which can be beneficial to get the improved performance. Further, it can also assist to better meet the customers' needs and growth in sales (Valenzuela, Torres, Hidalgo, & Farias, 2014). Additionally, it can also serve as a tool to gain the competitive edge and superior business performance (Neneh, 2018).

Besides, it is regarded as a significant factor still there are inconclusive findings regarding its relationship with the performance such that some studies it has positive association (Mohiuddin Babu, 2018). Interestingly (Kassim & Sulaiman, 2011) reported an insignificant association between independent and dependent variable. Besides, (Hernandez-Diaz, Calderon-Abreu, Amador-Dumois, & Cordova-Claudio, 2017) has also revealed a negative association between factors and performance. The inconclusive findings hint that there may be some other factor as well. Previously studies also postulated that association between customer orientation and performance is internally and externally dependent (Liu, Wong, Shi, Chu, & Brock, 2014; Papaioannou, Kriemadis, Mitsios, & Kartakoullis, 2018; Smirnova, Rebiazina, & Frösén, 2018). On the other hand, literature has also provided a various variable which are of contextual nature can also influence the association between customer orientation and performance. Following are the factors institutional networking (Chung,

2012), industry type (Van Zyl & Mathur-Helm, 2007), and environmental factors (Li, Feng, & Jiang, 2018).

It is also worthy to mention that environmental factors have been extensively focused by the studies as a factor which can influence the association between customer orientation and performance; thereby ignoring the role of internal factors which can also moderate the relationship. Talking from the interactional perspective it can be stated that the considering the role of multiple factors as a moderator is appropriate to elaborate the organizational behaviours (Feng et al., 2019).

This happens due to the fact the internal and external factors may exist simultaneously at an organization ((Poza, do Amaral Moretti, & Tachizawa, 2016) which can potentially influence the organizational behaviours and productivity at same time (Dong, Bartol, Zhang, & Li, 2017). Considering the aforementioned literature, the present study has considered the both factors (internal and external) while studying the association between customer orientation and performance. Furthermore, ethical leadership has been considered as internal factor which do influence the behaviours of employees whereas, competitive intensity has been considered as external factor (Feng et al., 2019).

Customer orientation is vital for organizations but at same time the customers also ask the organizations fulfil their needs ethically (Valenzuela et al., 2010). Therefore, based on the SLT (Knight, Kim, & Crutsinger, 2007; Liden, Wayne, Liao, & Meuser, 2014), it is stated that leaders behaving ethically are perceived as a role model by employees and they serve as a tool to establish the ethical climate (K. Jiang, Chuang, & Chiao, 2015). Hence, possibly the ethical leadership may prove to be a significant factor which can play a vital role while fulfilling the customers' needs, which further also do influence the customer focused orientation and performance association. Customer orientation will enhance the firm performance under the leadership of ethical leader.

It is worthy to mention that CI is an important factor which is representative of the competitiveness of external market. It

can potentially influence the customer orientations' effectiveness (Ziggers & Henseler, 2016). In the presence of the lower level of CI, an organization can accomplish the goals and objectives without changing anything (Zhou, Xia, Feng, Jiang, & He, 2019). While on the other hand, organizations are asked to be focused on the customers' needs and do affirm the long run relationship with customers which will facilitate to be different from competitors while facing extensive competition in market.

However, there is scarce conceptual and empirical evidence available which has focused on the aforementioned internal and external aspects simultaneously while examining the customer orientation with regard to its influence over the performance. Thus, the current study has addressed the research gap by considering the moderation of ethical leadership and CI and their combined influence on the customer orientation and performance relationship.

The present study is valuable contribution in existing literature. First of all, the study has considered the ethical leadership as an internal factor which will moderate the association between customer orientation and performance. It is valuable extension of previously available knowledge by postulating the ethical leadership as a novel and decisive factor. Secondly, the study is also valuable addition in previous literature as it has considered the multi-dimensional conceptualization of ethical leadership. Further, it will also explain and elaborate regarding how these dimensions influence the association between customer orientation and performance. Lastly, the study also contributes in literature by pointing out the CI as a factor which restricts the moderation of ethical leadership between the association of customer orientation and performance. It puts forward that while studying the customer orientations, the environmental conditions should be taken into consideration as they are intertwined with organizational leadership characteristics.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The study is based on the social learning theory (SLT) (Ahearne, Mathieu, & Rapp, 2005) and interactional perspective (Feng et al., 2019). Considering the SLT it is stated that ethical leaders are role models and they can shape the employees' behaviours (Pelled, Cummings, & Kizilos, 2000) because they tend to follow the leaders' behavioural pattern as they observe, emulate and replicate it their doings in order to ensure the conformity with the ethos based values and criterions (Garba, Babalola, & Guo, 2018). For example, ethical leaders are considered as role models and they nourish the ethical climate within an organization; consequently results in lower misconducts (Frambach, Fiss, & Ingenbleek, 2016). Therefore, it is anticipated that employees will be motivated to behave ethically when they experience the ethical leadership at workplace. They will put extra efforts to comply with the ethics while also striving to gain the objective of customer orientation. Hence, customer orientations' influence on performance will be moderated by ethical leadership.

Interactional approach is followed to study the customer orientation influence on performance as it is also known that both the internal and external factors do determine the

customer orientations' effectiveness (Béal & Sabadie, 2018). It is balanced approach because it is neither extensively focused on external nor internal factors (Otto, Szymanski, & Varadarajan, 2019). Therefore, it is postulated that the acknowledgement of benefits of customer orientation rely on both the CEO leadership and market competitiveness. Thus, in presence of ethical leadership and high competitiveness it will be more productive.

Ethical leadership influences the internal environment of an organization therefore; it is a vital aspect to be considered while examining the customer orientations' influence on performance. In addition, it also serves as a guide which shapes the employees' values, beliefs and their behaviours as well, while they are dealing with the customers and doing their routine tasks (Hsiao, Lee, & Chen, 2015). Ethical leadership is also regarded as a vague concept however it is generally defined as displaying the normatively suitable behaviour while personal actions and doing interaction with others, and also promoting such kind of behaviours among the followers by communicating them, reinforcing and taking decision (Liao & Subramony, 2008). Notably, the aforementioned conceptualization does not consider the dimensions of ethical leadership.

The present study followed the ethical leadership definition proposed by (Wang, Feng, & Lawton, 2017) according to which it is multi-dimensional construct and also covers both the Eastern and Western school of thoughts. Therefore, it is appropriate to use this definition in Thailand culture. There are other conceptualizations are also available regarding the ethical leadership (Grizzle, Zablah, Brown, Mowen, & Lee, 2009) but they are not applicable in Eastern context as they are Western context. According to (Engelen, Gupta, Strenger, & Brettel, 2015) there are four dimensions of ethical leadership namely; humane, justice, moderation and responsible. It is worthy to mention that the multi-dimensional framework provides a more balanced view regarding the ethical leadership as it is inclusive of both the Western and Eastern school of thoughts regarding the morality and also adopted by recent studies as well (Cai, Feng, Jiang, & Li, 2017).

The present study is specifically focused on the humane, justice and moderation orientations of ethical leadership because they are more directly influence the employees' behaviours to create internal resources for better performance. The study has not considered the responsible and sustainable orientations as they are closely linked with the external stakeholder's perspective instead of employees' management. In addition they are more related to the social performance of organization (Eisenbeiss, Van Knippenberg, & Fahrbach, 2015). Humane aspect of ethical leadership holds that everyone should be given respect and dignity. Further they are seen as ends instead of means (Wang et al., 2017). It focuses on the personal needs of employees and acknowledges their rights and show sympathy when they are confronted with a problem (Eisenbeiss et al., 2015). Furthermore, justice aspect of ethical leadership holds that there should not be any kind of discrimination, decisions should be fair and consistent (Wang et al., 2017). Leaders consider everyone as equal, does not allocate unfair work to employees and never blame them if anything gets wrong and

they are not faulty at that (Wang et al., 2017). Finally, the moderation aspect of ethical leadership holds the aspects such as embracement of diversity regarding gender, nationality and religion etc. They also acknowledge the ideas with positive attitude (Eisenbeiss et al., 2015). It psychologically empowers the employees so they can deliver their best and also promotes the culture of learning and innovation.

The influence of customer orientation on the performance of an organization is dependent on the humane leadership. Following the SLT it is stated that when the managers are exhibiting such leadership style they give respect, dignity and provide support the employees. Consequently, the employees' motivation is increased and they get themselves engaged in work by putting full efforts in collective and individual work (Adetunji & Owolabi, 2016). Notably, customer orientation asks for the internal harmony in an organization to demonstrate and meet the needs of the customers. At this point it is also worthy to mention that the employee engagement under such leadership will assist exchange of information and ease the communication among the departments such as designing, manufacturing and services to innovate the products and customize them backed by the customer feedback (Parida, Westerberg, Ylinenpää, & Roininen, 2010). When the employees are intellectually and cognitively engaged they tend to be more creative as it assists the diversification to meet the needs of the customers belonging to different groups (W. Jiang, Chai, Shao, & Feng, 2018).

Regarding the relationship between employees' satisfaction and performance it is stated that earlier one lies in cognition and is a reaction to different work aspects (Alegre, Mas-Machuca, & Berbegal-Mirabent, 2016; Ellinger, Ellinger, & Keller, 2003; Rast & Tourani, 2012; Sangperm & Jernsittiparsert, 2019; Muawanah, Yasin, Huda, Tsani, Syazali, Umam, & Jernsittiparsert, 2020). Therefore, satisfaction with job is not a single dimension construct. Possibly, a person is satisfied with one aspect will be dissatisfied with other one. It is argued that employee's performance is significantly influenced by job satisfaction. Previously a study Kawiana, Dewi, Martini, and Suardana (2018) has also providing empirical indication concerning the relationship between satisfaction and performance of employees. Similarly, another study has also reported that performance increases if employees are satisfied (Funmilola, Sola, & Olusola, 2013; Indrawati, 2013).

It is also worthy to note the employees experiencing such leadership willingly spend their psychological resources while their interactions with customers. Consequently, enhances the customer linking capability via favourable psychological exchange between customers and employees. Further, when the employees are backed by their leaders they will show more resilience while dealing the customers' negative behaviours happened due to the problems in products and services. When the customers are dealt with positive mood, care and attention than their negative attitude will turn around. Thus, such kind of customers' emotion dealing abilities ensures an in-depth link between customers and organization ultimately leading towards the loyalty and satisfaction of customer (Luo, Wieseke, & Homburg, 2012).

Justice aspect of ethical leadership also do determine the strength of association of between the customer orientation and performance as it makes sure that employees' contributions are accordingly acknowledged and judged on the basis of transparent and consistent criterion and avoid biasness (De Luque, Washburn, Waldman, & House, 2008; Wang et al., 2017). In the marketing literature it is agreed that customer value management positively influences the organizational performance (Coltman, Devinney, & Midgley, 2011; Liang & Zhang, 2012).

When the contributions of employees are fairly judged than they will be more inclined to give positive response and put extra efforts in work (Gibson, Porath, Benson, & Lawler III, 2007; Kark & Van Dijk, 2019; Sin, Alan, Yau, Lee, & Chow, 2002). Individuals experiencing such leadership are likely to be very hopeful regarding their career development and also incorporate both the personal and organizational goals. Customer orientation asks for the effectiveness in managing the customer value by prioritizing attention and treatment towards valuable customers, individuals' objectives oriented behaviours boost the organizational ability to pin point the valuable customers and strategically allocating the time and attention which is based on the real or anticipated profits from customers (Ernst, Hoyer, Krafft, & Krieger, 2011; Tsai, Tsai, & Chang, 2010). Additionally, it also proves to be helpful in gaining new valuable customers that is backed by the employee's self-motivated and results focused approach to get involved with the customers. Employees under such leadership facilitate an organization to earn maximum profit from its customer oriented approach (Johnson, Clark, & Barczak, 2012).

The third aspect of ethical leadership is moderation. It holds an approach to figure out a balance between different stakeholders' concerns. Further, employees experiencing such kind of leadership tend to be more willing to allow a greater say by customers while deciding about the terms for mutual interactions; it ultimately ends up in providing the new areas for customers to provide with the information, improvement and ideas with organization which helps to boost the performance by following the customer orientation. When the customer are owned while making decisions regarding the product/services quality (Liang & Zhang, 2012), it increases the quality, loyalty, commitment and customers tend to pay more which up lifts the organizational financial performance (Homburg, Stierl, & Bornemann, 2013). Based on aforementioned literature it is argued that in presence of moderation leadership the firm performance goes up with the focus on customers. Based on the previous discussion it is hypothesized that:

H<sub>1</sub>: There is a significant relationship between customer orientation and organizational performance of the Thailand pharmaceutical industry.

H<sub>2</sub>: There is a significant relationship between employee satisfaction and organizational performance of the Thailand pharmaceutical industry.

H<sub>3</sub>: leadership is significantly moderating on the relationship of customer orientation and organizational performance of the Thailand pharmaceutical industry.

H<sub>4</sub>: leadership is significantly moderating on the relationship of employee satisfaction and organizational performance of the Thailand pharmaceutical industry.

Based on the previous literature review section, the research framework of the current study is formulated. In the current framework, customer orientation and employee satisfaction are independent variables, leadership is moderating variable while, organization performance is a dependent variable. All of the following variables are depicted in Figure 1.

## RESEARCH FRAMEWORK

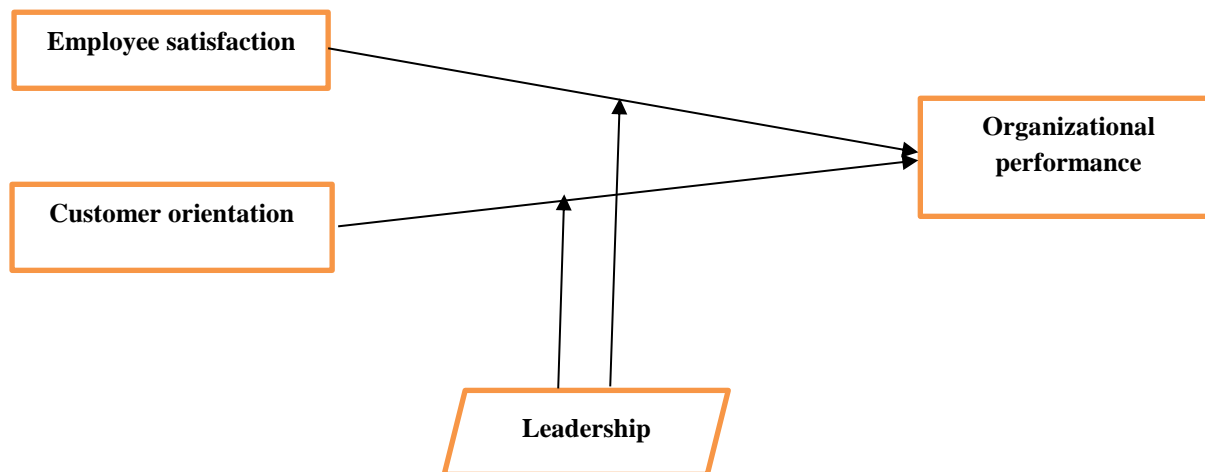


Figure 1: Research Framework of the study

## METHODOLOGY

The current study is correlational and consists of cross-sectional research design because data has been collection one time. A quantitative approach was employed by using the self-administered questionnaire to examine the association between the study variables. The primary data has been gathered from the students of the pharmaceutical industry of Thailand and study followed the convenience sampling technique. The 450 questionnaires were distributed to the mangers of the pharmaceutical industry who were the respondents. Out of total, 249 questionnaires were returned from the respondents, with the 56% response rate. The primary data was collected by using the five-point Likert Scale which was ranged from strongly disagree=1 to strongly agree =5.

## RESEARCH INSTRUMENT

The questionnaire of the current was adopted from the previous studies. The customer orientation was measured by six which were adopted from the study of (Doyle & Armenakyan, 2014; Pelham, 2000). Moreover, the CEO's human leadership was measured by four items which were adopted from the study of (Wang et al., 2017). In addition, the justice leadership was measured by five items which were adopted from the study of (Wang et al., 2017). Moreover, employee satisfaction was measured by five items. On the other hand, the leadership which is a moderating variable was measured by four items which were adopted from the study of (Wang et al., 2017). Organizational performance is a dependent variable which is measured by 10 items which were adopted from the study of (Inkinen, 2015).

Data Analysis

Several prior studies adopted partial least square - structural equation modelling (PLS-SEM) approach in testing the direct and indirect relationship of variables (Buil, Martínez, & Matute, 2018; Lim & Loosemore, 2017; Singjai, Winata, & Kummer, 2018). Therefore, the research hypotheses of present research were assessed through PLS-SEM. The measurement and structural model of the study were assessed by using Smart PLS 3 software. PLS-SEM approach is appropriate in case of non-normal data or small sample size (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). This study is in line with the study of (Ahmad, Bin Mohammad, & Nordin, 2019) who also used the Smart PLS for analysing their results. The following measurement and structural model have been explained in the following discussion below.

## RESEARCH RESULTS

### Measurement Model

To analyse Structural Equation Modelling (SEM), we used Smart PLS 3. It is discussed in the extant literature that before assessing the model, the construct reliability and validity must be established (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). "In this regard, firstly, the researcher assessed the measurement model by the convergent and discriminant validity of the construct. The Table 1 has presented the measurement model of the study. All the factor loadings were higher than 0.5 that established the indicators reliability. All the constructs have Cronbach's alpha > 0.70, average variance extracted (AVE) > 0.5 and composite reliability (CR) > 0.70 that established the convergent validity of the model (Hair, Hult, Ringle, & Sarstedt, 2014). For discriminant validity, in the "Fornell and Larcker criterion", the diagonal values shows the square root of AVE that must be greater than the constructs' correlation with other variables and in the HTMT analysis all the values should be

less than 0.85 (Hair, Hult, Ringle, & Sarstedt, 2017). Likewise, the findings of the Fornell and Larcker criterion in Table 2

and HTMT analysis in Table 3 have recognized the discriminant validity of the construct.

Table 1: Measurement model of the study

Constructs	Items	Loadings	Alpha	CR	AVE
Justices leadership	JL1	0.737	0.851	0.9	0.693
	JL2	0.885			
	JL3	0.909			
	JL4	0.725			
	JL5	0.778			
CEO human leadership	CHL1	0.658	0.758	0.839	0.512
	CHL2	0.802			
	CHL3	0.893			
	CHL4	0.904			
Customer orientation	CO1	0.603	0.774	0.847	0.526
	CO2	0.901			
	CO3	0.905			
	CO4	0.714			
	CO5	0.818			
	CO6	0.628			
Moderation Leadership	MLEA1	0.532	0.898	0.917	0.704
	MLEA2	0.752			
	MLEA3	0.789			
	MLEA4	0.853			
Employee satisfaction	ES1	0.850	0.813	0.88	0.691
	ES3	0.735			
	ES4	0.938			
	ES5	0.858			
	OP1	0.908			
Organizational performance	OP2	0.920	0.811	0.87	0.600
	OP3	0.701			
	OP4	0.510			
	OP5	0.720			
	OP6	0.852			
	OP7	0.860			
	OP8	0.789			
	OP9	0.901			

Note: JL- justice's leadership, CHL- CEO human leadership, CO- Customer orientation, MLEA- Moderation Leadership, ES- Employee satisfaction, OP-organizational performance.

Table 2: Fornell and Larcker Criterion for Discriminant Validity

	JL	JL	JL	JL	JL	JL
JL	0.860					
CHL	0.416	0.715				
CO	0.123	0.537	0.726			
LEO	0.280	0.673	0.403	0.839		
ED	0.380	0.234	0.460	0.368	0.840	
OP	0.230	0.204	0.245	0.560	0.210	0.784

Note: JL- justice's leadership, CHL- CEO human leadership, CO- Customer orientation, MLEA- Moderation Leadership, ES- Employee satisfaction, OP-organizational performance.

Table 3: HTMT Analysis for Discriminant Validity

	JL	JL	JL	JL	JL	JL
JL						
CHL	0.436					
CO	0.533	0.417				
LEO	0.61	0.483	0.453			
ED	0.660	0.34	0.45	0.388		
OP	0.501	0.601	0.532	0.231	0.480	

Note: JL- justice’s leadership, CHL- CEO human leadership, CO- Customer orientation, MLEA- Moderation Leadership, ES- Employee satisfaction, OP-organizational performance.

#### Structural Model

The structural model is consisted of two type of analysis, one is direct effect and other one is indirect effect.

#### Direct effect

The next steps in assessing the structural model to examine the hypothesized association among the constructs in structural model. The model explanatory power was resolute through inspecting how well the observed data fit the hypothesized relationship among the constructs. Following, (Yoon & Im, 2008), bootstrap the re-sampling approach has been used to test each coefficient significant. As

recommended by (Filser, Eggers, Kraus, & Málovics, 2014), five thousand duplications by using the randomly selected subsamples which were performed to test all the hypothesized relationships. Table 4 depicts the beta coefficients and t-values for the first four direct hypotheses of the study.

The key findings of the study have shown that customers satisfaction has a **positive and significant** ( $\beta=0.342$ ;  $t=4.805$ ) association with the organizational performance that supported the hypothesis (one). In addition, the results also shown that employee satisfaction has a **negative and insignificant association** ( $\beta=-0.167$ ;  $t=1.80$ ) with the organizational performance. These findings have shown that all of these predictors are considered to be important factors for the organizational performance in the pharmaceutical industry of Thailand. All of the results are depicted in the following Table 4.

Table 4: Direct effect of the study

	Beta	SD	T Statistics	P Values	Results
CO->OP	0.343	0.071	4.805	0.000	Supported
ES->OP	0.166	0.092	1.80	0.072	Not supported

Note: CO- Customer orientation, ES- Employee satisfaction, OP-organizational performance.

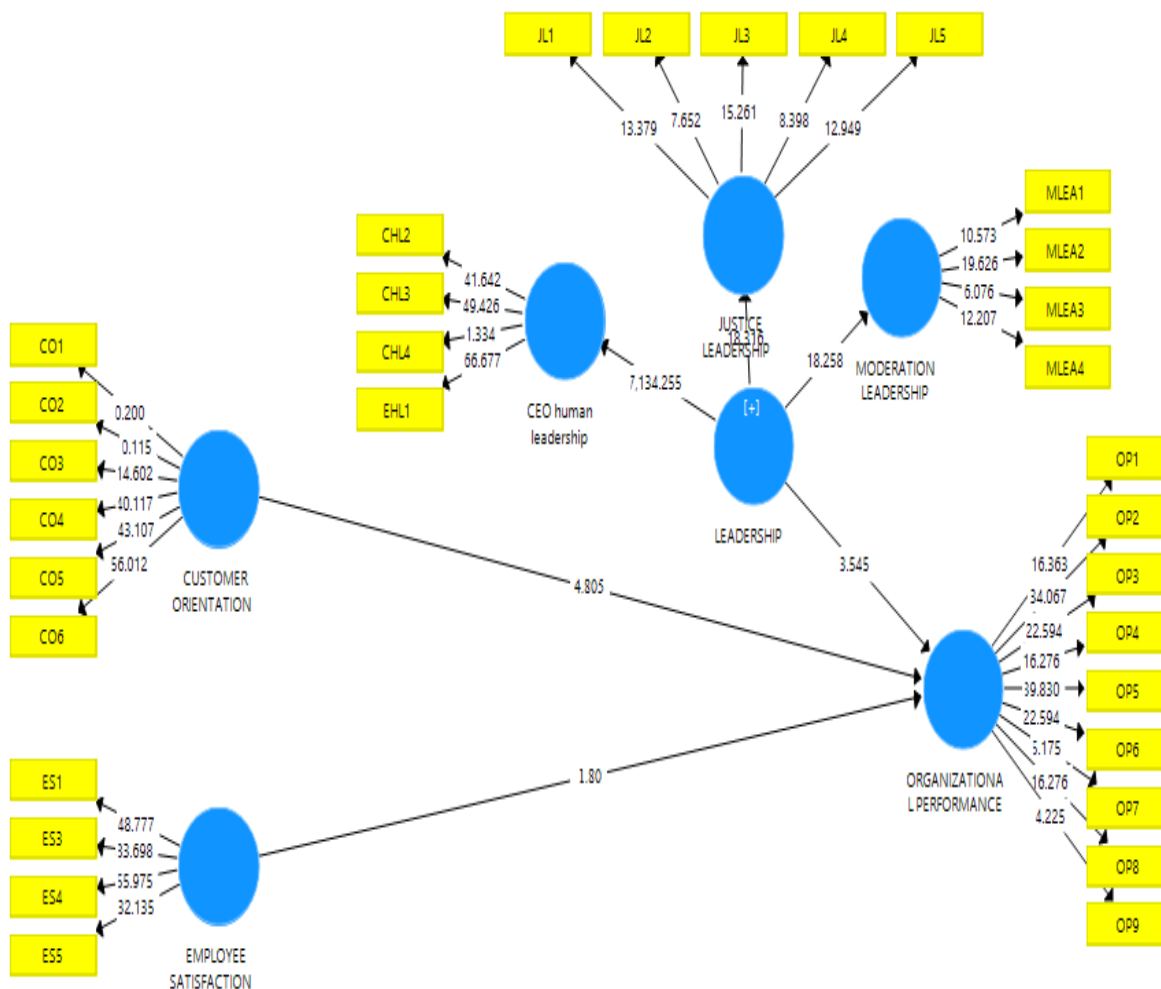


Figure 2: Direct effect of the model

Indirect effect

The research model hypothesized that leadership moderate on the relationship of two independent variables namely, customer orientation (CO) and employee satisfaction (ES) and one endogenous variable which organization performance (OP). The moderation test has applied through using the two-stage calculation approach. This approach was employed as per the suggestion of the Hair, Hult, Ringle, and Sarstedt (2017), who recommended that when the objective of study is whether is that moderating variable significantly moderates in the relationship of exogenous and endogenous variable. For this purpose, to test the moderation hypotheses,

this study has used (Baron & Kenny, 1986) criteria to determine whether the moderation condition is exist. The findings of the current study have shown that leadership is significantly moderates on the relationship of two independent variables and organizational performance (OP) in the pharmaceutical industry of Thailand and supported to the hypothesis three and four. Therefore, it is shown that pharmaceutical industry of Thailand has a greater attention on the leadership to pay a significant importance on employee satisfaction, customer intention to increase the organizational performance. All of the following results are depicted in Table 5.

Table 5: Indirect effect results

Hypothesis	Beta	SD	T statistics	P Values	Results
CO*LEA->OP	0.224	0.074	3.02	0.003	supported
ES*LEA->OP	0.345	0.076	4.552	0.000	supported

Note: CO- Customer orientation, ES- Employee satisfaction, OP-organizational performance, LEA-Leadership.

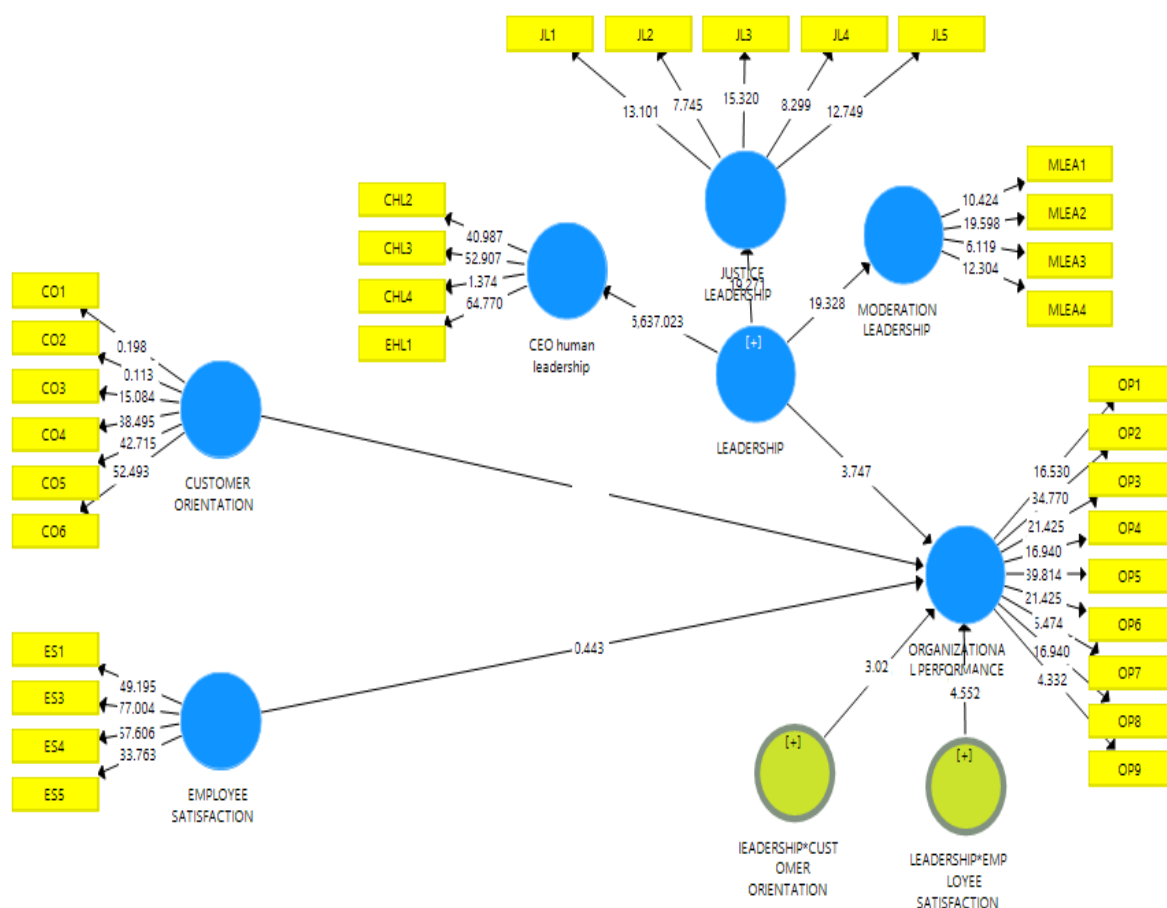


Figure 3: Indirect effect of the model

## CONCLUSION

The aim of the current study is to investigate the moderating effect of leadership on the relationship of customer orientation, employee satisfaction in the pharmaceutical industry of Thailand. For this objective, following four hypotheses of the study was formulated. Among them three hypotheses of the study are supported. The direct effect research findings have indicated that there is a significant and positive association between the customer orientation and organizational performance. This shows that when the organization have a greater attention on the orientation of the customer, then the performance of the organization is increased. On the other hand, it is found that there is no significant relationship within the employee satisfaction and organization. This shows that pharmaceutical companies of Thailand have little attention on the employee satisfaction to increase their organizational performance. The indirect effect of the study has shown that leadership is significantly and positively moderates among both of exogenous variables and endogenous variable. These findings indicate that in the pharmaceutical companies, the leader has a greater attention on the customer orientation, employee satisfaction to increase the organization performance. Therefore, these findings show that leadership is considered to important factor in their relationship. Based on these findings, there are some implications of the study. Firstly, this study could be help to owners of the business to know about the importance of good leadership to increase their organizational

performance. Secondly, the current study could also contribute a body of knowledge in the empirical findings which could become a new area of research in future. The current study also has some limitations which could become a new area of research in future. Firstly, the current study is limited on one industry, in this regard, the generalizability of the study is limited. To increase the generalizability of the study, a future research could be conducted on more sectors. Secondly, the study was limited on moderating effect, there are several other variables which could also affect to their relationship, therefore, a future research could be develop along with the mediating variable. Thirdly, the current study is cross sectional in which the collection of the data is one time, therefore, a future research could be establishing on longitudinal data.

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