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Diana Larisa Tampu*
Bucharest University of Economics Studies

HUMAN MOTIVATION AND CORPORATE GOVERNANCE

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J E L Classification: G34, O15.

Abstract: In one stream of research, this paper assesses the effect that human motivation has on Corporate Governance Indicators. By doing this, we will use the six dimensions of corporate governance at country level and four dimensions of human motivation provided by OECD. The human motivation dimensions had been chosen considering the expectations theory of Vroom. The paper is organized into three main parts presenting if the chosen governance indicators have different predictors and different possible consequence that depend on human motivation. The idea that corporate governance should be gain by human motivation will be illustrated from an empirical point of view with data from twenty developed countries from Europe.

Translated by Tampu Diana Larisa

Introduction

In the last two decades, there have been spectacular economic developments that can describes a true revolution of this field. The society permanently adapts to the ascending economic trend, and now, from seven years since the crisis has passed we experience a new period of growth.

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* Contact information: diana.tampu@yahoo.com, Bucharest University of Economics Studies, Management Faculty, Bucharest, Splaiul Unirii, No 9, Romania, phone: +40721.566.427.

The development of policy studies from current years has concentrated on the demand for good governance. Although the intrinsic significance of good governance as a development is presently totally admitted, its instrumental value as a way to better development performance is still not well appreciated, despite the evolution of a substantial and still expanding body of literature (Rodrik 2008; Acemoglu, Robinson 2012).

Zhuang, de Dios, and Lagman-Martin (2010) comprehensively examine the literature on associations between governance, economic development, and inequality; and they also address issues of causality. Acemoglu and Robinson (2012) analyse governance values by comparing cities adjacent to each other on the United States–Mexico border. Goncalves (2013) reviews particular governance tools and components of human development. Starting from his study, our research goes deeper in the human development field, presenting association between governance and human motivation.

1943 was a year of reference in motivation theory as A. Maslow proposed in A Theory of Human Motivation a scale of needs that will go down in history as the Maslow's pyramid. The 1960s are noted by the appearance of the works of authors like R. Likert, HJ Leavitr, C. Argyris, C. Rogers, V. Vroom, who scored in their own way, reference points for motivation theory. F. Herzberg, considered the most important representative and the new guidelines of the school of human relations is the first theoretician of motivation, which highlights the gap between the factors of satisfaction and dissatisfaction in work (Ionel Tampu D. 2015).

A summary of the motivation theories, actually a systematic and chronological background of motivation is shown in Table 1.

Table 1. Evolution of the concept of motivation

	Motivation of first generation (1900–1950)	**Motivation II generation (1950–1990)**	**Motivation of third generation (after 1990)**
Conceptions about the employee	Everyone is equally	Individuals can be classified by major categories	Every person is different in its own way
	Identical solutions for all	Models of solution where appropriate	Unique solution for each person, within a complex system.
Period of time	– Industrialization: F. Taylor	– Movement of human relations: A. Maslow F. Herzberg	– Systemic thinking and global vision; – Intuitive Management.

	Motivation of first generation (1900–1950)	Motivation II generation (1950–1990)	Motivation of third generation (after 1990)
The reason for motivation	– Fear / Hope – Material or financial advantages	– Listening to employees – Adaptation of jobs; – Recognition of the contribution.	– Possibility of expression and personal achievement; – Intrinsic motivation.

S o u r c e : authors' opinion after Ionel Tampu D. 2015.

Osterloh, Frey and Frost (2001), treat motivational content as an endogenous variable of governance, basing their strategies on the behavioral hypothesis of opportunism as a worst-case scenario. This scenario is the exclusive motivational data in the dominant organization economics (Milgrom, Roberts 1992; Williamson 1985). We relate to mediation theory of Baron and Kenny (1986) and Judd and Kenny (1981) in order to explain the dynamic relationship between motivation and governance effectiveness.

We make motivation an exogenous variable and integrate it as a crucial link between performance and governance effectiveness. Mediation occurs when an independent variable exerts its effect on the dependent variable through a mediator variable. One of the most used methods of mediation was offered by Baron and Kenny (1986) and Judd and Kenny (1981). They analyzed the effect that the independent variable has on the final process (Collins, Graham, Flaherty 1998).

Research methodology

The question that this research wants to answer is if there is any direct correlation between motivation and corporate governance. For doing this we have tested and formulated the following hypotheses:

H1. There is a correlation between the extents to which life satisfaction influences corporate governance.

H2. There is a correlation between the GDP/hour worked and corporate governance.

H3. There is a correlation between the level of engagement and corporate governance.

H4. There is a correlation between employees working very long hours and corporate governance.

H5. Corporate governance can be predicted using motivation indicators.

In order to response to the first four assumptions we have analyzed the strength of association between the two elements: corporate governance and motivation, using Pearson correlation coefficient. The last hypothesis was tested using a mediation model that will be described in the following sentences.

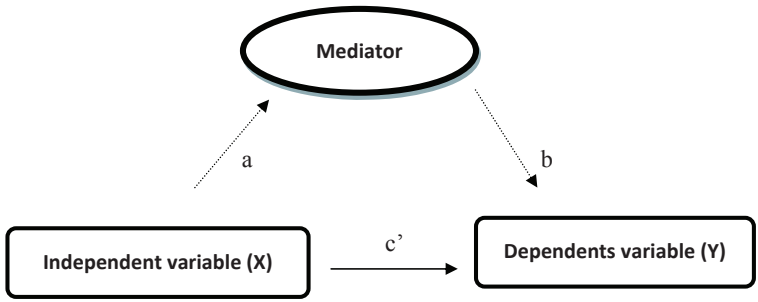
The effect that a independent variable X has on a dependent one: Y, through the mediation effect (M) can be computed using this two methods. In the first method are estimated 2 regressions:

$$Y = i_1 + cX + \varepsilon_1 \ (1) \tag{1}$$

Y – the dependent variable;
X – the independent variable;
c – the effect that the dependence variable has on the independent variable;
ε_1 – random variable: is the error model.

We demonstrate that the independent variable is correlated with the dependent variable. In other words, it is confirmed that the independent variable is a significant predictor of the dependent variable. The proposed mediator is regressed on the independent variable. In other words, it is confirmed that the independent variable is a significant predictor of mediator. If the mediator is not associated with the independent variable, then it could possibly mean nothing.

Figure 1. Mediation relationship between the independent variable and the dependent variable



Source: Baron, Kenny 1986.

$$Y = i_3 + c'X + bM + \varepsilon_2 \quad (2)$$

M – Mediator;

c' – The effect that the dependent variable has on the independent variable through the mediator;

ε_2 – Random variable: is the error model.

It is estimated that the coefficient "a", to be the effect of the independent variable on the mediator:

$$M = i_2 + aX + \varepsilon_3 \quad (3)$$

ε_3 – Random variable: is the error model.

The result is the indirect or the mediated effect. The rationale underlying of this method is as follows: the mediation depends on the extent to which the mediator changes and to the extent to which the mediator affects the result variable. Baron and Kenny (1986) recommend an algorithm consists of four successive steps: Demonstration of a relationship between the independent variable and the dependent variable (line "c"). It is demonstrated those that there is an effect that may be mediated. The existence of a such a relationship can be highlighted through a simple regression equation; Demonstration of a relationship between the independent variable and the mediator, considered as an effect (line "a"); Highlighting the relationship between mediator and outcome, similar establish the first relationship (line "b"); The mere existence of a relationship between the mediator and the effect is not sufficient, it must be proven that the link is determined at the same time by the mediator together.

In the current research the presence of this steps will be highlighted by calculating the 3 regression equations presented before. In this research we considered the motivation as a key mediator of the positive effects that its various changes have had on the governance performance among 20 countries (Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden, UK).

The challenge of choosing the appropriate indicators in order to demonstrate the mediation effect was big. The governance dimensions were analysed using data provided by the World Bank. The six dimensions of governance at country level are associated with six governance indicators (World Bank 2014): Voice and accountability; Political stability and absence of vio-

lence/ terrorism; Government effectiveness; Regulatory quality; Rule of law; Control of corruption.

Assuming that on the based theories underlying motivations are the people needs (Maslow 1943), their attitude to work (McGregor 1960), the factors that influence their satisfaction at work understood as emotional state (Herzberg 1959) or their expectations (Vroom 1964) we have chosen three particular indicators that we may assume to measure citizens motivation: life satisfaction, level of engagement, employees working very long hours. The performance of a particular country was measured using GDP/hour worked. All of them are social indicators measured by OECD. Measuring feelings can be very subjective, but is the only way in which we can quantify a personal evaluation of an individual motivation. Our assumption was based on the following: The GDP/hour worked measure the productivity of the population for the entire economy. In the expectations theory of Vroom, these are the results. The opinion that every individual has about himself and about the possibility to achieve a given objective from which he submits certain efforts will be measured by level of engagement. Individuals are not motivated to work if their results aren't as expected, in this way their engagement in work will be lower. The relationship between each individual and his work result will be measured using: life satisfaction. Each individual attaches a certain characterization to his results, a certain amount of reward. In terms of motivation theory, the way that a particular experience influences an individual in a positive or negative way can be quantified using life satisfaction indicator. These experiences have the ability to motivate people to pursue and reach their goals.

The dynamic relationship between motivation and corporate governance

In order to choose what indicators will be used in the mediation model and to test the 5 previously outlined assumptions we have done the Pearson Correlation between Corporate Governance Indicators and Motivation Indicators.

Taking into consideration the empirical rules for the interpretation of the correlation coefficient of Colton (1974), we will chose in our mediation model only the indicators that form a strong relationship: Life Satisfaction and Voice and Accountability, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption on the one hand and GDP/hour worked and Voice and Accountability, Control of Corruption on the other hand.

Table 2. Pearson correlations between Life satisfaction, Engagement, GDP_hour_worked and government indicators

		Voice and Accountability	Political Stability and Absence of Violence/ Terrorism	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Life satisfaction	Pearson Correlation	**,880****	,431	**,823****	,774**	,835**	,776**
	Sig. (2-tailed)	,000	,057	,000	,000	,000	,000
	N	20	20	20	20	20	20
Engagement	Pearson Correlation	,119	-,276	,091	,074	,122	,212
	Sig. (2-tailed)	,618	,238	,703	,757	,607	,368
	N	20	20	20	20	20	20
GDP/hour worked	Pearson Correlation	,738**	,185	,666**	,596**	,690**	,704**
	Sig. (2-tailed)	,000	,434	,001	,006	,001	,001
	N	20	20	20	20	20	20
Employees working very long hours	Pearson Correlation	-,348	-,325	-,239	-,315	-,185	-,312
	Sig. (2-tailed)	,133	,162	,311	,177	,435	,180
	N	20	20	20	20	20	20

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

S o u r c e : authors' calculations based on OCDE and WWB (2013) data.

For all the above terms we can accept the significance of this correlation only if we have significance threshold lower than 0.01 or 0.05. For all the above terms the value of Sig. (2-tailed) is zero, so we can admit that we have a significant statistics for Life Satisfaction, GDP/hour worked, Voice and Accountability, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption.

After we have chosen variables we have to test if there is a significant correlation between all of them. In order to do this we compute o bivariate correlation in SPSS, observing that all of them are significant correlated.

Table 3. Testing the significance of correlation between the chosen indicators

		Life satisfaction	GDP/hour worked	Government Effectiveness
Life satisfaction	Pearson Correlation	1	,735**	,823**
	Sig. (2-tailed)		,000	,000
	N	20	20	20
GDP/hour worked	Pearson Correlation	,735**	1	,666**
	Sig. (2-tailed)	,000		,001
	N	20	20	20
Government Effectiveness	Pearson Correlation	,823**	,666**	1
	Sig. (2-tailed)	,000	,001	
	N	20	20	20

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

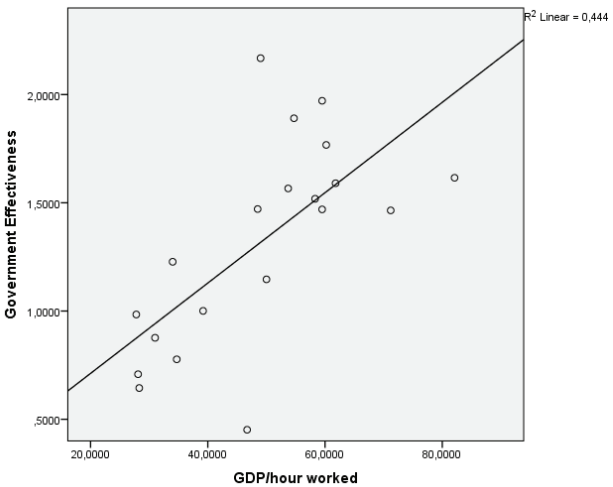
S o u r c e : authors' calculations based on OCDE and WWB (2013) data.

After the calculation, we can admit that we have a positive correlation between Life_satisfaction and GDP/hour worked (Coefficient of 0,735) and between GDP_hour_worked and Government Effectiveness (Coefficient of 0,666). There cannot be identified a correlation between Engagement and corporate governance, and between Employees working very long hours and corporate governance (Coefficient between 0 and 3). In this case, we admit that the hypothesis 1 and 2 are accepted and we reject the hypothesis 3 and 4.

In order to observe the mediation effect of motivation and to test the last hypothesis we have performed the following three steps.

Step 1. We demonstrate that the initial variable is correlated with the result. We have used Government effectiveness as criterion variable and GDP/hour worked as the predictor.

Figure 2. Checking the link between GDP/hour worked and Government Effectiveness



R	R Square	Std. Error of the Estimate	Change Statistics		Durbin-Watson
			F Change	Sig. F Change	
,666[a]	,444	,3654926	14,378	,001	2,019

Y=0.295+0.021X
a. Predictors: (Constant), GDP/hour worked
b. Dependent Variable: Government Effectiveness

S o u r c e : authors' calculations based on OCDE and WWB (2013) data.

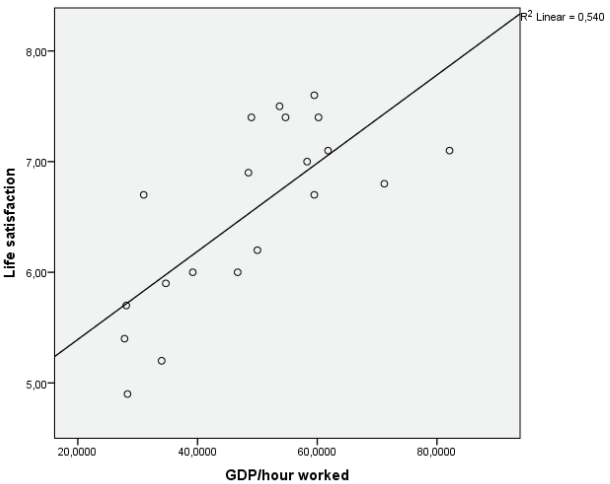
The value of R Square at 0.36 signifies that 36% of the Governance effectiveness variation depends on GDP/hour worked. The value of the Durbin Watson test at a significance threshold of 5%, make us to accept the lack of autocorrelation of 1-st order errors.

Step 2. Demonstration of the fact that the initial variable is correlated with the mediator. We have used Life satisfaction as criterion variable and GDP/hour worked as the predictor (estimation and path test „a"). This step involves essentially treating the mediator as a result variable. Following the investigations, it results that the mediator is correlated with the exogenous variable.

As one of our variables: Life satisfaction is from human behaviour, it is atypical fact that R-squared values to be lower than 50%, as humans are simply

harder to predict than, physical processes. The value of the Durbin Watson test at a significance threshold of 5%, make us to accept the lack of autocorrelation of 1-st order errors.

Figure 3. Checking the link between GDP/hour worked and Life satisfaction



R	R Square	Std. Error of the Estimate	Change Statistics		Durbin-Watson
			R Square Change	F Change	
,735[a]	,540	,57500	,540	21,167	2,004

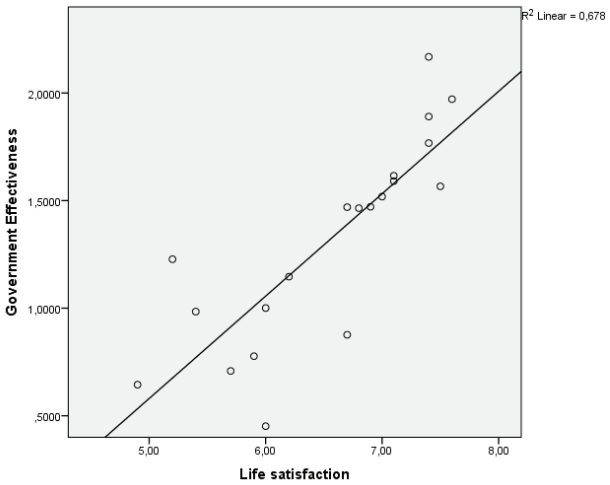
Y= 4.596+0,40X
a. Predictors: (Constant), GDP/hour worked
b. Dependent Variable: Life satisfaction

S o u r c e : authors' calculations based on OCDE and WWB (2013) data.

Step 3: Demonstration of the fact that the mediator affects the result variable. We have used Life satisfaction as a predictor variable and Government effectiveness as criterion variable. It is not enough simply to correlate the result with the mediator. Certainly they are related, since both are caused by the same exogenous variable. James and Brett (1984) argued that Step 3 should be amended, without the need for initial variable control. The reason is that if there is a complete mediation there is no need to control the original variable. But how the full mediation does not always occur, we considered neces-

sary to check the exogenous variable in step 3, in the case of the 20 countries examined.

Figure 4. Checking the link between GDP/hour worked and Government Effectiveness



R	R Square	Std. Error of the Estimate	Change Statistics		Durbin-Watson
			R Square Change	F Change	
,823[a]	,678	,2782074	,678	37,882	2,157

Y= -1.799+0,476X
a. Predictors: (Constant), Life satisfaction
b. Dependent Variable: Government Effectiveness

S o u r c e : authors' calculations based on OCDE and WWB (2013) data.

Table 4. Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,633	,575		-2,838	,011
	Life satisfaction	,419	,116	,726	3,619	,002
	GDP/hour worked	,004	,006	,133	,663	,516

a. Dependent Variable: Government Effectiveness

S o u r c e : authors' calculations based on OCDE and WWB (2013) data.

In order to test the statistical power of the model we used the F-test and Durbin-Watson test.

Table 5. ANOVA

Stage 1: Dependent Variable: Government Effectiveness Predictors: (Constant), GDP/hour worked	Sum of Squares	df	Mean Square	F	Sig.
Regression	1,921	1	1,921	14,378	,001[b]
Residual	2,405	18	,134		
Total	4,325	19			
Stage 2: Dependent Variable: Life satisfaction Predictors: (Constant), GDP/hour worked					
Regression	6,998	1	6,998	21,167	,000[b]
Residual	5,951	18	,331		
Total	12,949	19			
Stage 3: Dependent Variable: Government Effectiveness Predictors: (Constant), Life satisfaction					
Regression	2,932	1	2,932	37,882	,000[b]
Residual	1,393	18	,077		
Total	4,325	19			

S o u r c e : authors' calculations based on OCDE and WWB (2013) data.

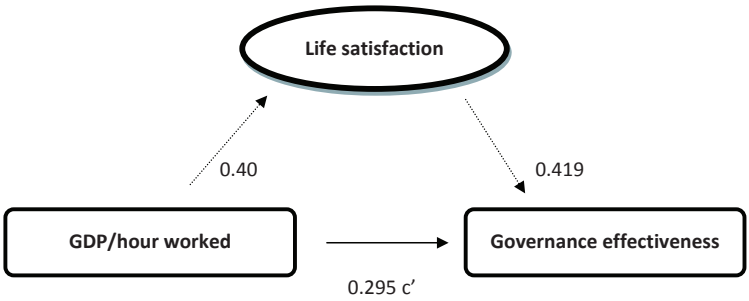
In the ANOVA table, the most important statistic is the significance F – which is used to test the significance of the independent variables. The computations indicates that our model's $R_{\text{ç}}$ is significantly different from zero in all three stages, as follows:

- F(1.18)= 14.378, p =0.001< 0.05, the regression model statistically significantly predicts the outcome variable;
- F(1.18)=21.167, p =0.000< 0.05, the regression model statistically significantly predicts the outcome variable;
- F(1.18)=37.882, p =0.000< 0.05, the regression model statistically significantly predicts the outcome variable.

There is independence of observations (verified through Durbin-Watson statistic). The value of Durbin-Watson test is between 1.539 and 2.257 (Figure 2,3,4). The general rule is that the residuals are uncorrelated if the Durbin-Watson statistic is approximately 2, so indicating in our case a no serial correlation (Watson 1950).

In the final mediation model, the three indicators presented above are connected in a structural framework described in the Figure 5. The value of the mediator effect c-c', is lower than the direct effect c.

Figure 5. Mediation relationship between the independent variable and the dependent variable



S o u r c e : authors calculations.

In order to test the mediation relationship we use Sobel Test. Sobel test, often called coefficients product test. It involves calculating the ratio between "a", "b" and standard error and mediation effect, comparing with the critical value of the standard normal distribution assumed for the initial α (Preacher, Hayes, 2008).

$$t = \frac{ab}{\sigma} \tag{5}$$

The standard error _of the mediation effect (Sobel 1986)

$$\sigma = \sqrt{b^2 * s_a^2 + a^2 * s_b^2} \tag{6}$$

Were s_a and s_b are the standard errors of the coefficients a and b.

This t statistic can then be compared to the normal distribution to determine its significance. The test statistic for the Sobel test is 1.40, with an associated p-value of 0.041 and a Standard Error of 0.021.

Table 5. Testing initial hypotheses and final model validation

Theoretical model	Case study model
$Y = i_1 + cX + \varepsilon_1$ (1)	Y=0.295+0.021X
$Y = i_3 + c'X + bM + \varepsilon_2$ (2)	Y= 0.04 X + 0.419 M + – 1.633
$M = i_2 + aX + \varepsilon_3$ (3)	M= 0,40X + 4.596
C	0.295
A	0.40
B	0.419
c'	0.04
c-c'	0.255
s_a	0.44
s_b	0.015
Sobel Test	1.40678531
Std. Error	0.021121707
p-value	0.04166681

S o u r c e : authors' calculations.

The fact that the observed p-value does fall below the established alpha level of .05 indicates that the association between the GDP/hour worked and Governance effectiveness is reduced significantly by the inclusion of the mediator (in this case, Life satisfaction) in the model; in other words, there is evidence of mediation in the model and hypothesis 5 is accepted.

The role of life satisfaction as mediator in such situations requires compromises between market agents. In order to fully understand the effect that motivation of citizens has on increasing corporate governance indicators, it should not be treated as a monolithic element. The mediator element, seen as a facilitator and communicator is considered to be a channel of communication between agents on the market. The role of mediator as a preparatory involves a substantial contribution to the work of proposing new solutions to the contesters or parties. A final role that can be picked up by the mediator facilitates the handling of actors and the expression of possible solutions. Our analyses deemed the motivation as a facilitator element.

Conclusions

In order to find if motivation can be analysed as a mediation element between performance of the citizens and governance effectiveness we have done an empirical research on 19 countries. The numerical stability of the algorithm used in this research was conducted according to the sensitivity of the rounding errors and other numerical uncertainties that may appear in the calculation.

In the end, in order to see how well these methods describe our supposition we have analysed the Sobel test. We are conscious that the value of Sobel test of 1.40 and its Std error just qualify the model and not classify it in trusted or untrusted.

The present study intention is to combine behavioural economic elements that influence economic decisions of individuals and have consequences on governance effectiveness. As can be observed from the above analysis there is a direct and strong correlation between cognitive and subjective indicators like Life satisfaction and Governance indicators, between GDP/hour worked and Governance indicators. The result of our research is that improving motivation will conduct to improving Life satisfaction – that might give rise to better governance. Because most scholars, as well as policymakers, recognize that good governance is an essential component of sustained economic development (Mukaram 2014), a strategic human resources management holds considerable promise for improving government performance (Tompkins 2002).

The motivational factors that may influence performance of the citizens (GDP/hour worked), belongs to life satisfaction and has effects on Governance effectiveness are work-related conditions, personal and cultural values, organizations. Work-related conditions are influenced and influence people motivation. Clark & Oswald (1994) assume that the consequence of being jobless, at any level, is statistically important and negatively connected with Life satisfaction. Work is central to individual identity, social roles, and social status, it influences people attitude to work and their motivation. In countries were Governance effectiveness reaches a low value can be easily correlated with countries with a high level of unemployment, poor work conditions. Jobs satisfaction – the way in which people like or dislike their jobs (Spector 1997) is another important element of Life satisfaction. A high income, but with a low level of satisfaction at work is similar to a low level of motivation and in the end with a low level of Governance effectiveness.

Personal and cultural values, macro-social and political conditions, economic inequality, social and political expenditures can be reduced to Maslow's hierarchy of needs. What have in common countries with a high Corporate governance are good' IDI, high life expectancy, low infant mortality, strong credibility in the government. All of these records low levels in countries where Corporate governance is low. The solution required to improve human motivation at the macroeconomic level – so that the whole matrix of indicators would rise, is to improve the perception that citizens have in legal system, educational system, social security system and healthcare services.

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