



Does firm size matter in innovation in small accommodation businesses in developing economies?

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Abstract

The tourism industry and in particular the accommodation sector is fast growing and competitive. To survive, accommodation businesses need to engage in sustainable innovation. However, literature is fragmented on the drivers of innovation in the accommodation sector specifically on small accommodation businesses (SABs). Such limited empirical information exposes small businesses to intense competition from their large business counterparts. The study sought to establish whether firm size influences innovation in SABs in South Africa and Zimbabwe. The study examined and compared the influence of different sizes of SABs (micro, small and medium (SMMEs) on different dimensions of innovation (Product/service, process, marketing and organisational (PPMO) in Zimbabwe and South Africa where owner/managers of small accommodation businesses were participants. A cross sectional comparative research design was used. Using stratified random sampling, two samples each of 139 were drawn from target populations of 257 and 331 SABs from Manicaland and Free State provinces in Zimbabwe and South Africa respectively. Data was collected using questionnaires and analysed using ANOVA F tests. The results of the study showed that regardless of nationality, there is strong evidence of no association between firm size (SMMEs) and innovation. Specifically, SMMEs have no influence on the different dimensions (PPMO) of innovation. Hence firm size does not matter on innovation among SABs in Zimbabwe and South Africa. It is recommended that owner/managers of SABs in Zimbabwe and South Africa should not use firm size as a driver of innovation but instead explore, embrace and invest in those drivers that stimulate sustainable innovation. Furthermore, future studies should consider including qualitative information from owner/managers of small accommodation businesses in order to retrieve and add more depth to the study.

Keywords: Innovation, firm size, micro, small, medium, accommodation businesses, developing economies.

Introduction

The accommodation sector has been identified as one of the fastest growing and most competitive sectors under the tourism industry (Pivcevic & Petric, 2011; Meneses, & Teixeira, 2011; Henama, 2013). The growth is to a large extent attributed to unrestricted travels in most parts of the world as well as the growing number of tourist attraction destinations. Accordingly, the increased tourism destinations and diversified tourists with varying tastes, expectations and preferences have resulted in intense competition across businesses of all sizes. In Zimbabwe and South Africa, large hotel brands such as Holiday Inn and Rainbow are perceived to dominate guesthouses, timeshares and bed and breakfast, collectively referred to as small accommodation businesses (SABs) in the context of the study.

In view of their liabilities of newness and smallness, small businesses compete from a disadvantage (Ramadani & Gerguri, 2011; Bryan, 2014; Kremel, 2017) while large businesses outcompete them by taking advantage of their abundant resources and large economies of scale and scope. These challenges often militate against small businesses survival in the unpredictable business operating environment. Irrespective of these drawbacks, small businesses still form the majority of firms and contribute more to the economic growth and development of all nations than established businesses (Ming & Mazrayahaney, 2011; Salome, Damilola and Sunday, 2013). There is evidence that small businesses play a pivotal role in a country's economic growth and development hence this sector is now referred to as the engine of national economic prosperity (Moore, Petty, Palich &



Longernecker, 2008; Lai and Arifin, 2011). In Zimbabwe and South Africa, small businesses contribute 60%, 90% and 55%, 61% to GDP and employment respectively (Zimstats, 2017; SMMEs quarterly Update, 2018). Small businesses are also known to be the birthplace and seedbeds of future industrial giants. Literature denotes that the extent to which small businesses survive is a function of their innovative capability (Laforet, 2009). Consistent with these imperatives of innovation, Elsaady (2011) concludes that innovation is an inevitable strategy for the survival of small businesses. Accordingly, it is assumed that the survival of small accommodation businesses is linked to some level of their innovativeness which is influenced by several factors such as firm size. However, research on innovation in tourism and in particular the influence of firm size on innovation in small accommodation businesses is still scarce (Hjalager 2010; Pivcevic & Petric, (2011).

Previous studies that have attempted to close this research gap are criticised for concentrating more on manufacturing and to a lesser extent on telecommunication industries in developed (De Jong & Marsili, 2006; Augusto & Coelho, 2007; Hall & Sena 2017). Considerably, less is known about firms outside of manufacturing when it comes to the relationships between innovation and firm size. These studies in the manufacturing industry focused on comparing small and large businesses without further analyzing the extent to which each category of small businesses (micro, small and medium) influence innovation. It is therefore considered important to indicate that most of the studies on the link between firm size and innovation treated small businesses as homogenous entities despite their distinct categories (micro, small and medium) (Laforet, 2009; Shagqin; McCann & Oxley, 2009; Herera & Sanchez-Gonzalez, 2012). It therefore becomes important to single out and investigate the influence of each category of small businesses on each dimension of innovation (product/service, process, marketing, organisational).

Furthermore, few comparative studies on the influence of each category of small business on innovation have been done in developed economies. This shows the absences of a series of studies in other sectors such as the fast growing small tourism businesses and in particular small accommodation businesses (Orfila-Sintes & Mattsson, 2009; Hjalager, 2010; Pivcevic & Petric, 2011). This study therefore attempts to examine and compare the influence of micro, small and medium size categories on different dimensions (products/service, process, marketing, organisational) of firm innovation in small accommodation businesses in Zimbabwe and South Africa. The two countries were selected for comparison because though different in many respects, they are geographic neighbours and developing economies with other similarities in areas such as the fast growing and competitive tourism industry and in particular the accommodation sector, strong drive for entrepreneurship and they both emphasise the use of employee numbers to measure the sizes of small businesses. It is envisaged that the distinction of the degree of influence by each category of small business size on innovation enables owner/managers of small accommodation businesses to focus and pay particular attention to specific size/s necessary for sustaining innovation.

Theoretical framework

This research is founded on Schumpeter's Mark 1 (1934) and Mark 11 (1942) theories which are rooted on the Economic Theory of Evolution. Mark 1 theory supports the view that small businesses are the main sources of innovation given that they are operated by wild spirited entrepreneurs while Mark 11 views large businesses as the major source of innovation due to their size and hence more and better resources. These theories gained followers. Mark 1 (Modernists) state that there is a negative association between firm size and innovation, thus the smaller the firm the more innovative it becomes. Their arguments are that small firms have the will power, energy and zeal to explore and discover new ground, have non-bureaucratic tendencies, are more flexible and are generally more agile compared to their larger counterparts. Mark 11 followers (Classic camp), concluded that firm size positively influences innovation and the larger the firm the more innovative it becomes. The reasoning behind is that larger firms enjoy economies of scale and scope, brand recognition,



market power, exposure and experience. Large businesses are able to embark on several projects at once and can absorb costs of innovation failure without significant detrimental impact to the business. In the middle of the two theories is the indecisive (Nihilist) camp that states that there is completely no relationship between firm size and innovation.

The present study uses Mark 1 and 11 theories to explain how firm size is able to address threats of competition on small accommodation businesses by their large accommodation counterparts through innovation. One perspective of the two theories is that different firm sizes influence innovation differently and such variability informs owner/managers to pay particular attention to specific category/ies of small accommodation businesses. This study attempts to test these theories and results obtained from this study may be useful to small business leaders when deciding whether to expand or scale down their business operations. Such decisions may be necessary for developing countries like Zimbabwe and South Africa whose economies are to a large extent driven by small businesses.

Problem Statement

In view of the unparalleled threats from large businesses, innovative capabilities of small accommodation businesses remain their main source of competitive advantage and ultimately survival. However, the sustainability of such innovative activities depends on knowing which factors drive innovation the most in small accommodation business. Despite numerous studies that have been conducted on the drivers of innovation in small businesses, there appears to be limited empirical research that investigated the influence of different firm size categories (micro, small and medium) of small businesses on innovation in developing economies such as Zimbabwe and South Africa. The absence of such studies and their results thereof leaves owner/managers of small accommodation businesses expending more effort on drivers that do not promote innovation. Such mismatch of effort not only reduces their competitive advantage but also threatens their survival especially in developing economies where small accommodation business suffer lack of corporate history and unrecognised brands. The purpose of this study is to examine and compare the influence of different firm size categories (micro, small and medium) of small accommodation businesses on different dimensions of innovation in Zimbabwe and South Africa.

Literature review

Firm size and innovation

There is evidence to suggest that firm size is influenced by innovation (Czarnitzki & Huttenrott, 2011; Audretsch, Kritikos, Hafenstein & Schiersch (2018). However, the issue about whether small or large firms are more innovative than the other continues to give mixed results and is heavily debated. This unending debate has its roots on Schumpeter's 1934/42 seminal work. According to Schumpeter (1942), large firms have advantages over their small counterparts when undertaking innovation. This assertion was supported by, Cohen and Klepper (1996) who argued that brand name recognition, market power, experience and economies of scale promote large firms to be more innovative than small businesses. Accordingly, Acs and Audretsch, (1987) and Ettl and Rubenstein, (1987) also concurred arguing that unlike small firms, large firms are more innovative because they have more access and control of financial and technical resources and also enjoy both economies of scale and scope. A study by Eurostat (2009), revealed that compared to small firms, larger firms are more likely to control the resources necessary for innovation, including human and financial capital while small businesses proclivity to innovation is constrained by their small size and limited resources. A comparative study of continents (North America, South America and Africa) on the influence of firm size and finance on innovation revealed that large businesses are more innovative than their small business counterparts (Dibyendu & Prakash, 2011). Indeed, in South Africa, large hotel such as Rudson and The Sun are likely to take advantage of their



financial might to explore and effect new innovation ahead of small accommodation businesses. In view of their ability to keep accounting records, having collateral, financial expertise as well as propensity to comply with government statutory such as tax, large firms have better chances to access external financing from financial institutions such as banks (Maseko & Manyani, 2011).

As a result of such funding and other resources, large firms are capable of handling a number of innovative projects at the same time. Thus, embarking on a number of projects concurrently helps the business to spread the risk in case of project/s failure. Furthermore, large firms are better able to incur and absorb the huge (sunk) costs associated with innovation. Such high expenditures may be recouped only with large sales volumes where the unit cost becomes smaller as the total cost is spread over a large number of sales items. In many instances, larger firms have more sources of innovation than small firms. This is attributed to their large number of employees and stakeholders of varied knowledge, skills and experience. Arguably, these factors are believed to incentivise large firms to engage in innovative behaviour more than small firms.

Eversince the notion that large firms are more innovative than their small counterparts was put forward, several empirical studies reviewed gave few definitive concurrence conclusions (Gray & Mabey, 2005; Ahuja Lampert and Tandon, 2008). In many respects, small businesses now seem to be more innovative than large businesses due to their flexibility and non-bureaucratic tendencies (Laforet, 2009). Thus, contrary to the assertion by early researchers that large firms are more innovative than small firms, studies by Cohen and Klepper (1996) disagree and argued that although large firms have sufficient resources for investing in innovation, their entrenched bureaucracy creates an unfavourable environment that discourage flexibility and innovation compared to small firms. A study by Ateljevic and Doorne (2000) revealed that small tourism businesses are highly innovative compared to large businesses.

Supporting this assertion, Sundbo, Orfila-Sintes, Sørensen, (2007); Pikkemaat (2008) concluded that hotels are the most innovative segment of the tourism offer. Accordingly, the competitiveness of tourism enterprises to a great extent depends upon their innovation activity (Pivcevic & Petric, 2011). Arguably, innovation in the hotel industry is believed to provide positive effect on hotel image, profitability and customer satisfaction (Boston Consulting Group, 2010 and Mckinsey, 2010). Findings from a study by Fishers, Polt and Vonortas (2009) on European Framework Programme for Research and Development revealed that small businesses were more innovative on product and process innovation than large firms. Booyens (2011) support this assertion and argued that small businesses are usually at the forefront in developing new ideas, and innovation.

Accordingly, small businesses in South Africa have been found to lead in terms of innovation. Results of the National Innovation Survey 2002-2004 conducted in South Africa concurred and revealed innovation rates of 51.1 % and 48.9 % for small and large firms respectively (Booyens, 2011). Specifically, small enterprises had the highest innovation rate of 39.3%, followed by micro-sized enterprises (9.6%) and medium-sized enterprises (2.2%). SMMEs were more innovative with regard to product innovations (40.9%) than process innovations (34.8%). However, results of a study on the effects of firm size and market structures on technological innovation in Zimbabwe were not conclusive as to which of the two small or large firms is more innovative than the other. Such varying sets of results especially from South Africa and Zimbabwe, two geographical neighbours and developing countries all experiencing competition between small and large accommodation businesses warrant further investigation and comparison on the influence of firm size on innovation. In America, small businesses are credited for 67% of inventions and 95% of radical innovation since World War Two. Notably, the mobile phone industry resembles other industries where small businesses were instrumental in developing it. Arguably, such innovations outputs are attributed to the absence of a formalized structure and increased flexibility which tend to promote small business innovation (Salavou, Baltas, & Lioukas, 2004; Wagner & Hansen, 2005). Furthermore, small businesses tend to have evolving organisational ethos and vibrant organisational culture all which increases their proclivity to innovation ((Booyens, 2011).



A study by Berschek and Entorf (1996) concluded that smallest firms were found to have the benefit of individualism while larger firms had the benefit of more resources and systems. The intermediate firm lacked the best of either of the two sides. Unlike small businesses, large firms are criticised for entrenched bureaucracy that is usually underpinned by communication inefficiency, inflexibility as well as departmental conflicts. Salavou, Baltas, and Lioukas, (2004) and Wagner & Hansen, (2005) study on organizational innovation in SMEs asserts that firm size does impact on innovation and small firms tend to be more innovative than medium sized firms.

The absence of these innovation inhibiting factors in small businesses suggest that small businesses are more likely to be more innovative than large businesses. A study by Baumann and Kritikos (2016), concluded that small businesses are more efficient at innovation than large firms. The argument is that small businesses produce more innovation per given innovation expenditure compared to large businesses. Irrespective of which firm size is more innovative than the other, Forsman (2011) found that the relationship between firm size and innovation differs per industry. For example, the computer industry dominates innovation by small firms. Meanwhile, most innovations in the manufacturing industry were championed by large businesses. In support of this assertion, a study on European companies by Gallego, Rubalcaba and Hipp (2012) concluded that different firm sizes of different industries follow different innovation strategies. In addition to the size of the firm and the type of industry, studies have also shown that different countries exhibit different degrees of innovation (Sundbo, Orfila-Sintes, & Sørensen, 2007). For example, in the tourism and hospitality industry, Croatia is known to be moderately innovative in the large hotels category (Pivcevic & Petric, 2011).

Despite these explanatory variables of innovation, this study compares and tests the link between firm size and innovation in the accommodation sector in Zimbabwe and South Africa. While several studies have attempted to establish the link between firm size and innovation, few have related firm size to specific innovation dimensions such as product, process, marketing and organisational. Studies by Laforet, (2009) in the non-high –tech manufacturing SMEs, revealed that firm size has effect only on process innovation. Studies that relate to firm size and innovation in the tourism and in particular the accommodation sector where competition is rife are scarce. Furthermore, Vaona and Pianta (2008); Gallego, Rubalcaba and Hipp (2012) found positive links between firm size and specifically product and process innovations. Arguably, the majority of studies were biased towards relating firm size to product and process innovation only leaving out other dimensions of innovation such as marketing and organisational. This study closed this gap by testing the influence of different categories of firm size on product, process, marketing and organisational innovations.

Methodology

Study design/Approach

The study adopted the positivist research paradigm and employed a quantitative research approach meant to quantify data and statistically analyse significant differences and relationships between the categories of firm size (micro, small and medium) and four dimensions of innovation (product, process, marketing, organisational). The study was descriptive in nature as it explored the relationships between firm size and innovations. In addition, the study adopted a comparative research design aimed at identifying similarities and differences on the extent to which firm size drive different dimensions of innovation in small accommodation businesses in Zimbabwe and South Africa.

Population and Sample

The study was conducted in Manicaland and Free State provinces of Zimbabwe and South Africa respectively. The population comprised of small accommodation businesses registered with Zimbabwe Tourism Authority and Free State Tourism Board in Zimbabwe and South Africa respectively. The population of the study was N=588 small accommodation owner/managers



comprising 257 and 331 from Zimbabwe and South Africa respectively. Based on the number of employees for each small accommodation business, the population for each country was divided into mutually exclusive and exhaustive homogenous three categories of small business sizes (micro, small and medium) and each element was chosen independently from each subset. Stratified random sampling was followed by random sampling within each of the three categories of small accommodation businesses in order to arrive at the final sample size $n=378$, (139) apiece for Zimbabwe and South Africa.

Data Collection

Data was collected for a period of two months from Manicaland and Free State provinces in Zimbabwe and South Africa respectively using self-administered questionnaires with Likert scaled items developed by the researcher. Questionnaires were distributed in June to participants who formed the two samples and were willing to take part in the study. The researcher and the research assistants explained the purpose of the study as well as highlighted ethical issues before leaving the questionnaires. Questionnaires not collected during the distribution process were followed up and collected in July.

Data Analysis

The Statistical Package for Social Sciences (SPSS) version 21 was used to clean and analyse data. Descriptive statistics such as averages and percentages were used to analyse the response rate of the samples. Inferential statistics used to test the hypotheses was ANOVA F tests. The ANOVA F test was chosen because the data was non-dichotomous categorical variable meaning the variables had more than two categories. The statistical tests were performed at the 5% level of significance. The results of the analysis are presented below.

Results and discussion

Response rate

South Africa had a higher response rate of (72%) than Zimbabwe (53%). The individual country response rates as well as the average (62.5%) are regarded as high considering that studies in small businesses have reported similar response rates (Chipunza 2014:123). Out of 278 questionnaires, 173 were correctly completed and subsequently used in the final analysis of the study. The specific response rates for each country are shown in Table1.

Table 1. Response rate per country

Country	Target Sample size	Correctly completed Questionnaires	Response Rate (%)
Zimbabwe	139	73	53
South Africa	139	100	72
Average			62.5%

Firm size distribution

Table 2 shows that micro enterprises (less than 5 employees) constituted the greatest proportion (60%) of small business categories in South Africa while Small (5 or more but less than 50 employees) businesses dominated the Zimbabwean market (52%). The South African results confirm DTI (2008:xxvi) survey which showed that 82% of small businesses were micro and very small enterprises.

Table 2. Distribution of firm size

	Zimbabwe (n=73)	South Africa (n=100)
Firm Size	Percentage (%)	Percentage (%)
Micro (Less than 5)	42	60
Small (5 or more but less than 50)	52	34
Medium (50 or more but less than 100)	6	6
Total	100	100

In Zimbabwe micro enterprises are fewer (42%) than small enterprises (52%). Given the liquidity challenges being experienced in Zimbabwe and the low start-up costs associated with micro enterprises, small enterprises should be ordinarily fewer than micro enterprises. This finding could be peculiar to the accommodation sector in Zimbabwe. Barriers to entry in the accommodation sector could be high, implying that few medium sized businesses are being started. Summarily, the major categories of small businesses in the two samples were Micro and Small businesses with each country having a total for the two categories of 94% apiece. As such, Medium sized businesses are scarce in both countries. These results could be explained by endless challenges (DTI, 2008; Maholtra and Temponi, 2010; Czarnitki and Hottenrott, 2011) that small businesses in developing economies face that hinder the sector's transition (Van Scheers, 2011:5048; Urban and Naidoo, 2012:146) into medium and large businesses.

Firm size (number of employees) and Innovation

The results in table 3 show that firm size (micro, small and medium enterprises) has no effect on the total innovation measures for Zimbabwe, South Africa and the two countries combined (ANOVA tests p -values are $F= 0.650$, $df1=2$, $df2=67$, $p=0.525$; $F= 0.196$, $df1=1$, $df2=96$, $p=0.659$ and $F= 0.058$, $df1=2$, $df2=165$, $p= 0.944$ respectively). Similarly, the ANOVA tests for firm size and all dimensions of innovation (product/service; process; marketing and organisational) (PPMO) for the three country categories showed p -values above 0.05. It can therefore be concluded that regardless of nationality, there is no statistically significant differences in both overall and specific dimensions of innovation among small business firm sizes (Micro, Small and Medium (SMMEs) as measured by the total number of employees.

The results therefore provide strong evidence of no association between firm size (SMMEs) and innovation. Specifically, SMMEs have no influence on the different dimensions (PPMO) of innovation in developing economies such as Zimbabwe and South Africa. These results contradict findings by Laforet, (2009) which revealed that there is a relationship between firm size and innovation in small businesses and that the smaller the business the more innovative it is due to its flexibility and non-bureaucratic tendencies. In addition, the results differ with literature which suggests that the bigger the firm size the more innovative it becomes (Cohen and Klepper, 1996:232; Eurostat, 2009:40; Maseko and Manyani, 2011:171).

This unending debate puts into motion Momo and Redolí's (2009) notion that it is not only the size of the firm that matters with regard to innovation, but a combination of factors such as firm size, type of the industry, experience of owner/managers, cost of innovation and country. It therefore comes as no surprise that the debate on whether firm size influences innovation is still inconclusive (Eurostat, 2009; Booyens, 2011). Such unending debate suggests that firm size as measured by the number of employees may influence innovation when in combination with other factors such as those suggested in the literature above.



Table 3. Innovation and firm size (number of employees)

No. of bus employees		No. of respondents			Mean score (out of 100)			Standard Deviation			Significance		
		All	Zim	SA	All	Zim	SA	All	Zim	SA	All	Zim	SA
Prod Innov	Less than 5	90	31	59	67.1	62.6	69.4	19.1	13.6	21.1	F=0.712 df=2.169 p=0.492	F=0.570 df=2.70 p=0.568	F=0.370 df=1.97 p=0.544
	5 or more but less than 50	78	38	40	69.0	65.7	72.2	21.4	19.9	22.6			
	50 or more but less than 100	4	4	0	57.6	57.6	-	8.6	8.6	-			
Proc Innov	Less than 5	90	31	59	71.9	66.0	75.1	18.6	15.6	19.4	F=0.116 df=2.168 p=0.890	F=0.151 df=2.69 p=0.861	F=0.112 Df= 1.97 p=0.738
	5 or more but less than 50	77	37	40	71.0	68.1	73.8	18.0	16.7	19.0			
	50 or more but less than 100	4	4	0	68.2	68.2	-	11.3	11.3	-			
Mkt Innov	Less than 5	89	31	58	66.3	59.2	70.2	20.5	14.8	22.2	F=0.158 df=2.167 p= 0.854	F=1.889 df=2.69 p=0.159	F=0.168 df=1.96 p=0.683
	5 or more but less than 50	77	37	40	66.7	64.9	68.3	20.0	16.5	22.8			
	50 or more but less than 100	4	4	0	72.1	72.1	-	11.6	11.6	-			
Org Innov	Less than 5	89	30	59	69.7	64.6	72.2	18.8	16.7	19.4	F=0.367 df=2.166 p=0.693	F=0.331 df=2.67 p=0.719	F=0.920 df=1.97 p=0.340
	5 or more but less than 50	76	36	40	68.0	67.4	68.4	17.4	15.2	19.4			
	50 or more but less than 100	4	4	0	63.3	63.3	0	12.6	12.6	-			
Total Innov	Less than 5	88	30	58	69.1	62.7	72.4	16.7	13.0	17.6	F=0.058 df=2.165 p=0.944	F=0.650 df=2.67 p=0.525	F=0.19 df=1.96 p=0.659
	5 or more but less than 50	76	36	40	68.7	66.6	70.7	17.4	14.9	19.3			
	50 or more but less than 100	4	4	0	66.2	66.2	-	8.6	8.6	-			

Recommendations

The study highlighted that there is no significant difference in the way different firm size categories of small accommodation businesses influence different dimensions of innovation and hence firm size does not influence innovation in Zimbabwe and South Africa. It is therefore recommended that irrespective of nationality small accommodation businesses in Zimbabwe and South Africa should not pay particular attention and focus on firm size as a driver of innovation but instead explore, identify, embrace and invest in those drivers that stimulate sustainable innovation.

Owner/managers of SABs should use the non-linear relationship between firm size and innovation as a basis for deciding whether to expand or scale down the size of their business in line with threats for survival from large accommodation businesses.

Future studies should focus on conducting similar studies at other provinces within the same countries and or other provinces in different countries. Furthermore, the inclusion of qualitative information from owner/managers of small accommodation businesses should be considered in order to retrieve and add more depth to the study.

Conclusion

The findings of the study indicate that regardless of nationality, there is no differential advantage to one category of small accommodation businesses (micro, small, medium) in terms of their proclivity to innovation (product/service, process, marketing, organisational) and that there is no relationship between firm size and innovation among small accommodation businesses in both Zimbabwe and South Africa. The study therefore confirms and agrees with the indecisive



(Nihilist) camp theory that states that there is completely no relationship between firm size and innovation. It is therefore concluded that firm size does not matter on innovation in small accommodation businesses in Zimbabwe and South Africa.

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