

Influential Financial Factors of Employee Engagement Outcomes within SMEs Business in Malaysia: A Qualitative Study

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Abstract

There has been a great deal of interest in employee engagement over the years, however an examination of the existing literature on employee engagement outcomes not only reveals a gap in the area of the influential financial factors but also little research has been conducted in SMEs. Thus, this study is designed to qualitatively explore the influential financial factors of the employee engagement outcomes. Participants will include the top managers of small-and-medium enterprises (SMEs) in Malaysia. Eight financial factors were identified that is profitability, productivity, revenue, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA). The use of converging interviewing is suggested to gather data to confirm the proposed conceptual framework. This study will employ snowball sampling technique and data will be analysed using content analysis.

Keywords: employee engagement outcomes, qualitative, financial factors, SMEs, Malaysia

1. INTRODUCTION

Employee engagement is a key element of individual and organizational success. An engaged employee is one who is fully involved, enthusiastic about his or her work, perceptive of business context, meet the organization's needs and fulfil its interests (May, Gilson, & Harter, 2004; Macey & Schneider, 2008; Swarnalatha & Prasanna, 2013). As a result, employee engagement is defined as "an individual employee's cognitive, emotional, and behavioral state directed toward desired organizational outcomes" (Shuck & Wollard, 2010, p. 103). Employee engagement has become a matter of concerns for managers in organizations as they recognized it to contribute to organizational effectiveness and competitiveness (Welch, 2011). These positive implications of employee engagement are not only impacting large enterprises (Bakker & Schaufeli 2008) but also small-and-medium enterprises (SMEs) (Kishore, Majumdar, & Kiran, 2012).

1.1 SMEs in Malaysia

The importance of SMEs to the economy has been well established (Abd Aziz & Mahmood, 2011). SMEs are playing significant contributions to the overall economic performance including economic growth, exports, social uplifting, and political stability (Khaliq, Isa, Shaari, & Ageel, 2011; Chong & Almsafir, 2013; Zakaria, 2013) as well as stimulating entrepreneurial skills among the population, acting as incubators for developing domestic businesses into large enterprises (Habaradas, 2008) and redistribution of households' income in the country (Berry & Mazumdar, 1991). Contribution of SMEs is crucial to transform Malaysia into a high-income country by 2020. In Malaysia, SMEs formed 97.3 per cent of the entire business formations which is equivalent to 645,136 establishments out of total establishments of 662, 939. In addition, a huge proportion of total businesses are in services sectors with 591,883 establishments out of total establishments of 645,136 (Economic Census 2011).

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1.2 Research problem

Even though, the SMEs contribution to the Malaysian economy is crucial, however their performance is relatively small. The contribution of SMEs to GDP has revealed an increment of only 4.1 per cent from 2005 to 2013, and the employment share has shown a growth of only 0.6 per cent in the same period. The growth of export share is stagnant at 19.0 per cent from 2005 to 2011 (NSDC, 2010). In addition, contribution to GDP of SMEs in Malaysia is far lower than SMEs in other countries such as Indonesia, Singapore, and China. The contribution to GDP of SMEs in these countries is 57, 50, and 59 per cent respectively (OECD, 2013) as compared to SMEs in Malaysia that is only about 33 per cent. Small contribution to the economy is to a great extent related to low employee productivity. Numerous studies have also reported problems of low employee motivation to perform and inability to retain employees in SMEs (Wang, 2003; Beaver & Hutchings, 2005; Salleh & Ndubisi, 2006; Chan, 2009; Fauzi, Ahmad & Gelaidan, 2013; Tee, 2013). This phenomenon of low productivity in SMEs suggests that employee engagement might be an issue.

Inability to improve SMEs productivity can hinder the agenda to transform Malaysia into a high-income country by 2020 as well as jeopardize the existence of SMEs themselves. There is an increasing body of research available to confirm the impact of employee engagement on organizational performance (Masson, Royal, Agnew, & Fine, 2008) including financial outcomes. However, not much has been done looking at the influential financial factors of the employee engagement outcomes particularly in the Malaysian SMEs context despite there is evidence proving that understanding on these factors matters to organizations to enhance their productivity. Therefore, it will be useful to undertake this study by focusing on financial factors of employee engagement outcomes in SME business with the intention to suggest ways of improving their performance. Thus, the aim of this study is to explore the influential financial factors of employee engagement outcomes from the perspectives of top managers in the SMEs' business in Malaysia.

In this study, converging interviews will be employed for its data collection method and content analysis will then be used to determine the influential financial factors. By identifying the influential financial factors of employment engagement outcomes, will enable the top managers of SMEs to make strategic adjustments within organizations to achieve better performance through their employees and also for the decision-makers and policy makers alike to design governmental and non-governmental comprehensive support plans and strategies in relations to the performance of the SMEs. Hence, this research will be guided by the following research problem: "How and why to establish influential financial factors of the employee engagement outcomes within the SME business?"

1.3 Justification of the study

This study will be conducted to explore the influential financial factors from the perspectives of SMEs' top managers. This study will be carried out on the bases of the importance of SMEs performance to the economy, capitalization of human resources through employee engagement in SMEs, and gaps identified in the existing literature.

The importance of SMEs performance to the economy. SMEs in Malaysia has been identified as a key contributor to the economic growth of the nation (Hashim, 2005; Omar, Arokiasamy, & Ismail, 2009; Hee & Daisy, 2012). More importantly, they constitute a significant proportion of the total establishments (refer to Section 1.1) and their contribution to gross domestic product (GDP) are expected to expand substantially from 32.3 per cent in 2014 to 41.0 per cent in 2020 (NSDC, 2010). Thus, it is viewed vital to undertake this study to assist the understanding of SMEs' top managers, decision-makers, and policy-makers on the needs and requirements of SMEs related to employee engagement and their performance, success and survival.

Capitalization of human resources through employee engagement in SMEs. Employee engagement is believed by many organizations as a dominant source of competitive advantage and has been reported able to solve organizational problems such as workplace performance and productivity (Macey & Schneider, 2008; Macey, Schneider, Barbera, & Young, 2009). The reviews of literature have exhibited that there are reasonable strong evidences to show that leveraging the human resources promotes superior firm's performance (Crook, Todd, Combs, & Woehr, 2011; Marimuthu et al., 2009). In Malaysia, there is higher concentration of SMEs in service sector, which indicates higher percentage of employment in this sector. Employees are the most valuable asset that SMEs owned who can be capitalized to promote superior organizational performance, hence creates the need to carry out this study so that a framework and strategies that can boost firm's performance through employee engagement can be developed.

Gaps identified in the existing literature. An examination of the existing literature on employee engagement outcomes reveals a gap in the area of financial factors and none has explored on the influential financial factors of the employee engagement outcomes. As argued by Shuck & Wollard (2010), although existing literature on employee engagement is voluminous, but most is opinion rather than empirically evidence. Studies in SMEs in Malaysia have given great emphasize on the non-financial factors such as job performance (Idris, Dollard, & Winefield, 2011; Ng & Tay, 2011), organizational discretionary behavior (Islam et al., 2012; Krishnan, Ismail, Samuel, & Kanchamalay, 2013; Ologbo & Sofian, 2012), job satisfaction (Wang, 2011), and employee retention (Alias, Mohd Noor, & Hashim, 2014), employee retention (Sanda & Ntsiful, 2013), withdrawal behavior and withdrawal intentions (Shusha, 2013). Therefore, this study intends to explore the influential financial factors of the employee engagement outcomes within the SME business in Malaysia, which will enrich the empirical literature of employee engagement outcomes in SMEs.

2. LITERATURE REVIEW

In this section, the review of literature is presented to draw attention to issues within the existing literature and hence, provides the basis for the proposed conceptual framework. First, definition of SMEs in Malaysia is briefly discussed, followed by evolution of engagement research, and then the review of literature on employee engagement outcomes by focusing on financial factors. The final sections presented the proposed conceptual framework and research issues for this study.

2.1 Definition of SMEs in Malaysia

The definitions of SMEs in Malaysia are based on quantitative measure namely the amount of sales turnover and the number of full-time employees. These SMEs are further classified into micro enterprises, small-sized enterprises, and medium-sized enterprises. They are also grouped under two categories of sectors that is either manufacturing, or services and other sectors as shown in Table 1 below.

Table 1: SMEs Definition in Malaysia, 2014 – Present

Size	Category	
	Manufacturing	Services and Other Sectors
Micro enterprises	Sales turnover less than RM300,000 OR less than 5 full-time employees	Sales turnover less than RM300,000 OR less than 5 full-time employees
Small-sized enterprises	Sales turnover between RM300,000 to less than RM15 million OR full-time employees between 5 to 75	Sales turnover between RM300,000 to less than RM3 million OR full-time employees between 5 to 30
Medium-sized enterprises	Sales turnover between RM15 million to RM50 million OR full-time employees between 75 to 200	Sales turnover between RM3 million to RM20 million OR full-time employees between 30 to 70

2.2 The evolution of employee engagement research

Employee engagement is a multifaceted and dynamic process. It involves each individual's unique and personal relationship with work (Litten, Vaughan, & Wildermuth, 2011). The term employee engagement may appear a relatively recent concept but it travels back over 20 years when the term appeared in an academic journal in 1990 (Kular, Gatenby, Rees, Soane, & Truss, 2008; Welch, 2011). The evolution of employee engagement research can be separated into four phases as illustrated in Fig. 1.

The first phase of the evolution of employee engagement research is personal engagement introduced by Kahn (1990). The second phase of the evolution of employee engagement research is burnout. Engagement is conceptualized as the antithesis of psychological burnout by Maslach and Leiter (1997). The first and the second phase of the evolution of employee engagement research are purely academic research. The third phase of the evolution of employee engagement research however consists of empirical research by practitioners. These practitioner literature refers to publication by professional associations and societies (e.g. The American Society for Training and Development, ASTD), as well as consulting firm (e.g. Towers Perrin) that conduct and disseminate empirical evidence of engagement from practitioner perspective. The final phase of the evolution is the current state of employee engagement research. This phase is built on two dominant families of employee engagement literature that are academic and the practitioner literature. In this phase, employee engagement

literature were contributed not only from psychology discipline, but also from workplace behavior and human resources disciplines (Kular et al., 2008; Shuck & Wollard, 2010).

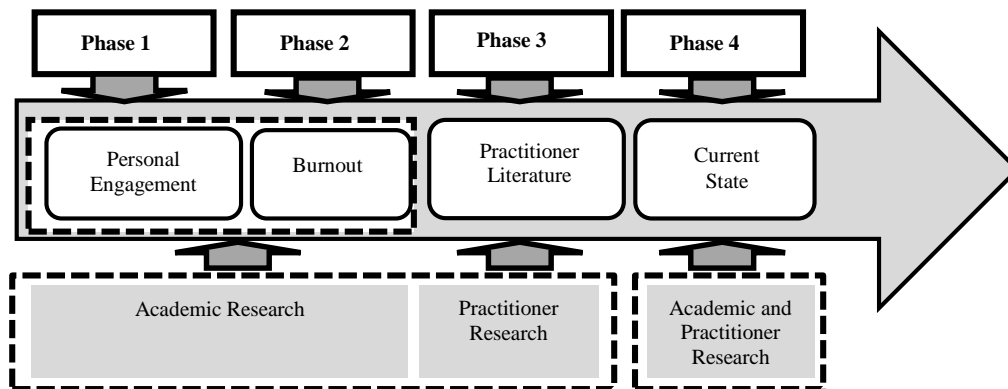


Figure 1: The evolution of employee engagement research

In conclusion, the evolution of employee engagement research has four phases. These phases comprise of two main categories of literature that are academic literature and practitioner literature. As a result, the review of literature in the subsequent section 2.3 examined articles from both the academic and practitioner literature categories.

2.3 The financial factors of employee engagement outcomes

The earlier sections have presented the definition of SMEs in Malaysia and the evolution of employee engagement research. In this section, related articles that examined financial factor(s) as the employee engagement outcomes were reviewed. Articles both under the categories of academic and practitioner literature were examined. 15 related articles were selected for the review in which these articles studied various financial factors as employee engagement outcomes. A review of the literature on these 15 related articles has identified eight elements of financial factors: profitability, productivity, revenue, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA). The result of the analysis on the various financial factors is shown in the following Table 2.

Table 2: Analysis of Financial Factors of the Employee Engagement Outcomes

		Financial Factors								Total
		1	2	3	4	5	6	7	8	
Source		Profitability	Productivity	Revenue	Business Growth	Account Receivable	Shrinkage	Operating Margin	Return-on-Asset (ROA)	
1	Buckingham & Coffman (1999)	√	√							2
2	Coffman & Gonzalez-Molina (2002)	√	√							2
3	Harter, Schmidt, & Hayes (2002)	√	√							2
4	Heger (2007)	√	√			√				3
5	Xanthopoulou, Bakker, Demerouti, & Schaufeli (2009)			√						1
6	Jauhari, Sehgal, & Sehgal (2013)	√								1
7	Kataria, Rastogi, & Garg (2013)		√							1
8	Harter, Schmidt, Agrawal, & Plowman (2013)	√	√				√			3
9	Wiley (2013)								√	1
10	Gorgievski, Moriano, & Bakker (2014)				√					1
11	Tower Perrin (2003)			√						1
12	Melcrum Publishing (2005)			√	√					2
13	Kenexa (2009)	√								1
14	Chartered Institute of Personnel and Development (2010)		√							1
15	Tower Watson (2010)							√		1
Total		7	7	3	2	1	1	1	1	
Selected for this study		√	√	√	√	√	√	√	√	

Out of 15 articles examined, four articles are literature under the category of academic research and the remaining 11 articles are the practitioner literature. Although only several articles under the practitioner literature category are published in a refereed journal, for instance Harter et al., (2002) and Heger (2007), but authors of the remaining articles are consultants, professors in renowned universities, and well-known academicians in the area of employee engagement research. Furthermore, the result of their studies were cited in numerous academic research articles.

In relation to frequency of each financial factor, the highest frequency is profitability and productivity in which 7 out of 15 articles studied each of these two elements. The popularity of these two elements among researchers is because they denotes the ultimate organization's bottom-line results that measure the organization performance (Niresh & Velnampy 2014; Vaijayanthimala & Vijakumar 2014) and affects the longevity and success of an organization (Yazdanfar 2013). The second highest frequency of the financial factor of the employee engagement factor is revenue in which 3 out of 15 articles researched this element. The third highest frequency of the financial factor of the employee engagement outcomes is business growth in which 2 out of 15 articles probed into this element. The lowest frequency of the financial factors of the employee engagement outcomes is account receivable, shrinkage, operating margin, and return-on-asset (ROA) in which 1 out of 15 articles examined each of these elements. These eight elements of financial factors identified from the literature are selected in this study for further investigation.

2.4 Proposed conceptual framework

Based on the evidence from the existing literature on the financial factors of the employee engagement outcomes, eight financial factors have been identified specifically profitability, productivity, revenue, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA). These eight outcomes are then grouped into influential financial factors and non-influential financial factors categories according to their frequencies (refer to section 2.3, Table 2). The proposed conceptual framework of this study is depicted in Fig. 2.

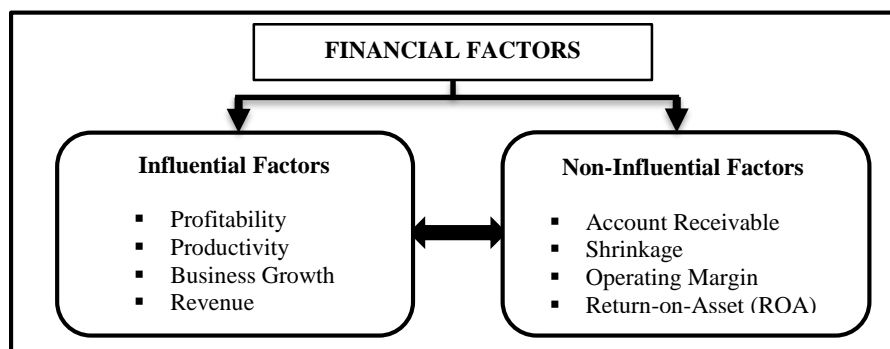


Figure 2: Proposed conceptual framework

The influential financial factors category comprises of four elements namely profitability, productivity, business growth and revenue. The remaining four elements: account receivable, shrinkage, operating margin, and return-on-asset (ROA) are placed under the non-influential financial factors category. The arrow that links the influential factors and non-influential factors indicates that each element under both categories is connected with each other.

2.3. Research issues

Two research issues are proposed based on the conceptual framework of this study (refer to Fig.2) which become the platform for the data collection and data analysis and consequently answer the research problem. The two research issues of this study are: RI 1: What are the influential financial factors of the employee engagement outcomes within SME business in Malaysia? RI 2: What are the non-influential financial factors of the employee engagement outcomes within SME business in Malaysia?

3. METHOD

The aim of this study is to provide a deeper insight into issues surrounding the influential financial factors of employee engagement outcomes in Malaysia's SMEs. A deeper understanding on the financial factors of employee engagement outcomes requires it to be conducted by using the qualitative approach which may help

provides in-depth understanding of what factors influenced most from the perspective of SMEs' top managers. The influential financial factors will be determined and then confirmed by using a qualitative study data collection method that is converging interview.

3.1 Justification for qualitative research

In this study, qualitative research methodology will be used for three reasons. The first reason is linked to the objectives of this study. It intends to explore the under-researched area of employee engagement outcomes in SMEs specifically the financial factors. The financial factors of employee engagement outcomes are a relatively new topic in employee engagement and human resource literature. According to Patton (2002), to facilitate the investigation of the under-research topic in depth and detail, a qualitative method was required because this choice of methodology is justified for its theory-building capability (Bonoma, 1985; Carson, Gilmore, Gronhaug, & Perry, 2001).

Next, like other fields of social science enquiry, employee engagement has been dominated by quantitative methodologies. There is dearth of qualitative data in the employee engagement literature (Hakeem & Gulzar, 2014) with few exceptions such as Kahn (1990). The financial factors of employee engagement outcomes represent setting in which little qualitative research is evident and the existing framework for influential financial factors have not been empirically explored. Therefore, there is appropriate for this research to utilize a qualitative approach to investigate the phenomenon.

The final reason for adopting qualitative research methodology is the type of information needed by this study. The depth and detail of qualitative data is required to understand the complex phenomenon investigated by this study (Carson et al. 2001). As a result, this study will use interview technique for its data collection using converging interview technique because this technique is useful in aiding the researcher to understand the investigated phenomenon. This approach provides a deeper understanding of the issues as it enables the research issues to be answered by providing a rich, real, and deep description on the actual conditions surrounding the influential financial factors of employee engagement outcomes within SME business in Malaysia.

3.2 Data collection method

For this study, the convergent interview will be used in the collection of data. This interview technique comprises of a series of interviews with persons who have specialized knowledge or relevant experience of the phenomenon under investigation (Dick, 1998; Nair & Riege, 1995; Rao & Perry, 2003). It is a suitable technique to collect data about a topic or related topics when the amount of known is limited (Dick, 1990; 1998). An interview protocol will be developed for this study to enforce the validity and reliability of the data collection process.

Convergent interviewing process has three stages (Dick, 1990), which will be closely followed by this study. The first stage of converging interviewing process is planning that involves three steps specifically the initial planning of the interview, preparing sample and getting permission to the final planning of the interview session in developing interview questions. The second stage of converging interviewing process is the analysis of the interview that consists of four steps. It begins with conducting the interview session and summarizes main themes that arise from the interview. The next step involves comparing notes and device probe questions to seek exceptions to agreements and to explain disagreement. The analysis of the interview cycle has to be repeated until it reaches saturation. Each of the interview will be note taking, audio taped, and transcribed. The transcript of the interview will be prepared immediately after each interview is completed and these transcribe data will be analyzed. Convergence is achieved when different experts responding in similar way to the themes identified. The third stage of converging interviewing process is the final stage in which results is generated from the analysis of the interview that answered the research questions and achieved the research objectives.

All participants will be fully informed of the research process and their role within it as suggested by Patton (1990). The participants were assured that their privacy, anonymity, safety and comfort will be respected throughout this research process (Miles & Huberman, 1994). A full disclosure about the purpose and context of the research and copies of the interview's guide will be provided to all participants at the time of the interview (Patton, 1990). Following the data analysis, a detailed summary of findings of their inputs were provided so that any points of concern about issues raised or confidentiality were discusses and resolved prior to the final write-up of this research.

3.3 Sample selection

The participants of this study consist of top managers of SME's business. They are selected because they are directly involved in implementing and monitoring organizational performance and has a clear conception of the whole decision process. In the selection of participants of this study, snowball sampling technique will be used. This sampling technique is the most effective method to seek participant from specialized people who are expert about the topic (Aaker & Day, 1990; Patton, 1990). This sampling technique is recommended when the study is on behaviors or perceptions (Dragan & Isaic-Maniu, 2013) and primarily explorative, qualitative and descriptive (Hendricks, Blanken & Adriaans, 1992) which is in line with the aim of this study.

In this study, the sample will be SMEs in Klang Valley because of high SMEs concentration in this region. The careful selection of the first interviewee will be performed as the first snowball so that he or she will be able to direct the researcher to others who are familiar with the research issues, as well as an expert (Nair & Riege, 1995). This sampling technique enables researchers to identify participants who meet the research criteria to be selected for the research. First, the researcher identified a few members of the population as the starting seed. Then each of these initial sample were asked to identify other member of the population.

3.4 Sample size

For this research the sample size was determined when stability or saturation is reached (Liamputtong, 2013; Lincoln & Guba, 1985; Padgett, 2008; Patton, 1990) that is until nothing new is mentioned and the story has been mentioned from different perspectives (Arksey & Knight, 1999; Carpenter & Suto, 2008) Thus, the optimal sample size is determined when stability is reached, which occurs when agreement among all interviewees is achieved and disagreement between them is explained on all the issues raised.

3.5 Data analysis procedure

For this research, data analysis process is divided into four parts that is data analysis preparation phase, organizing phase, research findings phase and finally the reporting phase. The first part of data analysis process is preparation phase. Prior to this phase, all interviews were tape recorded. Notes were taken by the researcher during each interview and after each interview the collected data were transcribed. The transcription was reviewed for accuracy and will be returned to respective participant for amendment and approval. In this phase, the unit of analysis will be decided (Cavanagh, 1997; Guthrie, Yongvanich, & Ricceri, 2004; McCain, 1988) that is a theme as well as attempt to make sense of the data and attain a sense of whole.

The second part of data analysis process is organizing phase. This phase involved coding process. This coding process comprises three types of coding namely open coding, axial coding and selective coding. Coding on data or information gathered will go through three phases as suggested by Strauss and Crobin (2008). The first stage of coding process is open coding. This coding will be performed to the transcribed data. The researcher will examine the data to condense them into preliminary analytic categories or codes. This process helps to brings theme to the surface from deep inside the data (Neuman, 2006). The transcript will be read through and as many headings as necessary will be written down in the margins to describe all aspects of the content (Hsieh & Shannon, 2005). The headings will be gathered from the margins on to coding sheets and categories will be generated at this stage. The second stage of coding process is axial coding. During open coding, the actual data and assign code labels for themes are the major focus of the researcher. In axial coding stage, the researcher will start with an organized set of initial codes or preliminary concepts (Neuman, 2006) more than on the data. During this phase additional codes or new ideas may merge, however the main task is to review and examine initial codes. Finally, the third stage of coding process is selective coding. In this final stage, it is important for the researcher to look selectively for cases that illustrate themes and make comparisons and contrasts after most or all data collection is complete (Neuman, 2006). During selective coding, major themes or concepts ultimately guide the search. Specific themes identified earlier will be reorganized and elaboration of more than one major theme is required.

The third part of data analysis process is the research findings phase. After research findings are coded, the data will be segregated into two categories of discussion that are (a) the influential financial factors of the employee engagement outcomes in Malaysia's SMEs, and (b) the non-influential financial factors of the employee engagement outcomes in Malaysia's SMEs. Next, the ranking process will be prepared using data matrices for easy arrangement and mapping process. Steps for ranking and analysis that consists of three steps will be performed.

Step 1 – To identify financial factors of employee engagement outcomes. The first step involved transferring all statements relating to financial factors of employee engagement outcomes stated in the copy of transcript and placed in the prepared matrices according to categories of respondent and codes. Next, related statement from the first respondent will be summarized. The researcher then will compare factors mentioned by the first respondent with the statement mentioned by second respondent as well as for other interview stages. Finally, results from all respondents will be arranged according to the most mentioned factor to the least mentioned factor to determine the importance of each factor.

Step 2 – To identify influential financial factors of employee engagement outcomes. In this second step, all related statements to influential financial factors of employee engagement outcomes will be summarized and a matrix for these factors will be formed and comparison will be made for inputs at all interview stages.

Step 3 – To identify non-influential financial factors of employee engagement outcomes. Similar to Step 2, at first the researcher will transfer all related statements of non-influential financial factors as stated in the copy of transcripts into the matrix according to respondent categories and associated codes. Next, all related statements will be summarized and a matrix for non-influential financial factors will be formed and comparison will be made for inputs at all interview stages.

The fourth part of data analysis process is the reporting phase that includes the reporting of the findings. The final output is the conceptual categories of influential financial factors and non-influential financial factors of employee engagement outcomes.

4. CONCLUSION

Employee engagement has become a matter of concerns for managers in organizations as they recognized it to contribute to organizational effectiveness and competitiveness. These positive implications of employee engagement are not only impacting large enterprises but also SMEs. Although existing literature on employee engagement is voluminous, there is a gap in the area of the influential financial factors and research conducted in SMEs is scarce. Hence, this study is to offer opportunity to increase the understanding of the influential financial factors of employee engagement outcomes within the SMEs business in Malaysia. This study will be carried out on the bases of the importance of SMEs performance to the economy, capitalization of human resources through employee engagement in SMEs, and gaps identified in the existing literature. Based on the evidence from the existing literature on the financial factors of the employee engagement outcomes, eight financial factors have been identified specifically profitability, productivity, revenue, business growth, account receivable, shrinkage, operating margin, and return-on-asset (ROA). A deeper understanding on these financial factors requires this study to be conducted by using the qualitative approach which may help provides in-depth understanding of what factors influenced most from the perspective of SMEs' top managers. The influential financial factors will be determined and then confirmed by using a qualitative study data collection method that is converging interview. The identification of the influential financial factors of employment engagement outcomes, will enable the top managers of SMEs to make strategic adjustments within organizations to achieve better performance through their employees and also for the decision-makers and policy makers alike to design governmental and non-governmental comprehensive support plans and strategies in relations to the performance of the SMEs.

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