A Comparison of Financial Performance of Listed Great Place to Work Organizations against Industry Average

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ABSTRACT

Is HR merely a bundle of abstract thoughts that makes sense in theory but in practice there are few takers for it? The bottom line of any business is profit and a positive impact on the financial performance of the organization. Thus, for HR to be relevant in present times it has to show concrete evidence in terms of positive impact on financial performance of organizations. The present study has explored the impact of industry best HR practices (in terms of top 100 Great Place to Work organizations) on their financial performance. It was found that great place to work for companies average outperform the industry average by 29% in case of PBITDM, 119% in case of ATPM & 73% in case of RONW. The statistical significance of difference was measured through independent sample t-test & it was found that except in the case of PBITDM, all other differences were statistically significant at 5% level of significance. It is expected that the present study will shed new light on the relevance of strategic HRM & HR analytics in organizations.

Keywords: HR practices, Financial Performance, HR Analytics, Strategic HRM.

INTRODUCTION:

In a report by HBR Analytic Services (2014), in collaboration with Oracle, it was said that for HR to be relevant in modern times, it is essential that HR should speak the language of business and the language of business is financial. As in games, the ultimate aim is winning, so in business the ultimate aim is profit, and for HR to be relevant it has to show how it affects the ultimate bottom line of business i.e. profits. In a survey consisting of 498 business executives, it was found that for HR to be relevant, it needs to develop an ability to communicate its data findings in terms of its positive impact on financial performance, to senior executives & others (Harvard Business Review Analytic Services, 2014). Similarly in another report by HBR Analytical Services (2015) in collaboration with Ernst & Young, it was found that most executives felt that it is a time to “blow up HR” and the only way HR can prevent that is by showcasing how HR affects the bottom line of the business. Thus it is a time for HR to “grow up” rather than “blow up”. One aspect of “growing up” in HR is learning to talk in finance language by translating how HR impacts the organizational results. HR analytics can help in this translation. Thus, the growth of HR analytics will significantly contribute in making HR more relevant for business organizations. In another report by Ernst & Young titled partnering for performance: The CFO & HR, it was found that there is more need to bridge the gap between HR & Finance, as deciding on human capital decisions should be no different from deciding on capital investment decisions (Harvard Business Review
Analytic Services, 2015). As said by Anthony Hesketh, a senior lecturer in management at Lancaster University that HR today is on the same platform as Marketing was in 1980s, when it was struggling to put numbers in brand value, HR is trying to do same with talent (Harvard Business Review Analytic Services, 2015). Recognizing this as a need, the present study aims to study the impact of people oriented work culture on corporate financial results. For the ranking of the organizations, globally validated survey instrument known as Trust Index© & Culture Audit© has been used.

LITERATURE REVIEW:

The impact of HR practices on corporate financial performance:

Over the last decade, the interest in the effect of HR practices on organizational performance has increased substantially. For example it was found that during the last decade, there are more than 30 studies on the relationship between HR practices & organizational financial performance (Choi & Lee, 2013). The studies have included both developed (Faems, Sels, Winne, & M, 2005; Guest, 2001; Huselid, 1995; Ichniowski & Shaw, 1999; Wright, Gardner, & Moynihan, 2003) & developing economies (Choi & Lee, 2013; Odumeru & Ilesanmi, 2013; Sun, Aryee, & Law, 2007; Wei & Lau, 2010). The studies have also been conducted across various industries, for example Odumeru & Ilesanmi (2013) have found significant effect of human resource development on financial performance of banks. Also Delery & Doty (1996) have found significant relationship between HR practices and profitability of banks in US. Similarly Chahal, Jyoti, & Rani (2016) have found that there is a significant impact of perceived high performance HR practices on business performance in case of telecom industry. Also it was found that there is significant impact of HR practices on corporate financial performance in case of health care industry (Roghani & Chenari, 2017; Vermeeren, Steijn, Tummers, Lankhaar, Poerstamper, & Van Beck, 2014). However, it was found that none of the study is comprehensive in its scope by taking organizations from multiple industries in Indian context. The present study bridges that gap, as it will be based on top 100 companies, representing 20 industrial sectors in India, based on Great Place to Work survey. In terms of various financial measures used to determine the business performance, it was found that some studies have used profitability as an index & have found positive impact of HR practices on profitability (Chahal, Jyoti, & Rani, 2016; Delery & Doty, 1996; Faems, Sels, Winne, & M, 2005; Khasawneh & Alzawahreh, 2012; Lopez-Cabrales, Pérez-Luño, & Cabrera, 2009)). Similarly, some studies have measured organizational performance through operational outcomes like employee productivity, turnover, etc. (Cully, Woodland, O’Reilly, & Dix, 1999; Huselid, 1995) (as cited in (Guest, 2001)) etc. There are also studies, which have measured the business performance in terms of market outcomes. For example Huselid (1995) has found significant impact of high performance work system on business performance through Tobin’s Q (the ratio of market value of a firm to its book value). Similarly in report titled Decoding trust in organizations, India’s best companies to work for, 2017 by Great place to work institute (2017), it was mentioned that in an empirical study conducted by RSM India, it was found that publicly listed great workplaces outperform major stock indices such as BSE Sensex 30, NIFTY 50 & CNX NIFTY by the factor of 4.

This is to be noted that indicators for market performance should not be the only metrics to be taken into consideration to determine the financial performance of organizations as they could be misleading. For example, in an article in HBR titled True measures of Success by Michael J. Mauboussin (2012), the author has criticized the use of EPS (Earnings per Share) as a measure to judge the increase in shareholder value. It was found that in a survey of 400 financial executives by finance professors John Graham, Campbell Harvey, and Shiva Rajgopal from Stanford Graduate School of Business (as cited in (Mauboussin, 2012)), majority of firms are ready to sacrifice long-term economic value in order to gain short –term growth in EPS. Thus, market related indicators might not be true reflector of business performance. To bridge this gap, in the present study, financial performance of organizations is measured through profitability ratios represented by PBIDTM (Profit Before Interest, Depreciation & Tax Margin), APATM (After Tax Profit Margin) & RONW (Return on Net Worth). The formulas used to calculate these ratios is provided in annexure. As it has already been found that publicly listed Great place to work organizations outperform benchmark stock indexes like Sensex & Nifty, it would be interesting to find out if Great place to work organizations outperform industry average in terms of profitability ratios or not?

The reason for taking only PBIDTM, APATM & RONW as indicators for financial performance is that these measures are acceptable as general measures for profitability of firms across industries and as mentioned by Knies, Boselie, Gould-williams, & Vandenabelle (2018) that when the study is across various industries then general measures applicable across industries are preferred as compared to industry specific measures. Also profitability as a measure is used in similar studies by Kim & Ployhart (2014); Razouk (2011); Huselid (1995); Wright, Gardner, & Moynihan (2003); Collins & Clark (2003) etc.
As stated by Wright P. M., Gardner, Moynihan, & Allen (2005) (cited in (Saridakis, Lai, Cooper, & L., 2016)) that after reviewing 68 studies, it could be said that there are four research designs in such studies; Predictive, Post-predictive, Contemporaneous, & Retrospective. The predictive research design is causal in nature, where, the HRM practices measured at one point of time can influence performance at another point of time, Post-predictive is where HRM practices are measured after performance, Contemporaneous is using contemporary HR practices & Retrospective research design is where respondents recall HR practices that existed before the performance measurement. Thus present study is based on post-predictive research design.

Another categorization in various studies on the relationship between HR practices & business performance is in the form of individual HR practices vs. ‘bundled’ HR practices. Some studies have tried to find out the effect of individual HR practices on corporate financial performance like (Boudreau, 1991; Cascio W., 1991; Flamholtz, 1985) (as cited in (Huselid, 1995)). For example Gerhart & Milkovich (1992) have examined the effect of compensation system on business performance; Terpstra & Rozell (1993) have examined the effect of staffing practices on business performance. However these studies have been criticized on the grounds of potential simultaneity with other HR practices that might exist & thus can affect the statistical validity of the results as noted by Faems, Sels, Winne, & M (2005) and Wright & Boswell (2002). Other studies that have used ‘bundled’ HR practices include studies by Chahal, Jyoti, & Rani (2016), Huselid (1995) and Wright, Gardner, & Moynihan (2003) etc. The use of ‘bundled’ HR practices is considered better than the use of individual HR practices as mentioned by Subramony (2009). Using multiple HR practices create a synergistic effect that cannot be captured by single HR practices (MacDuffie, 1995). Thus, to truly examine the effect of HR practices on business performance, entire HR system should be used (Delery, 1998).

**Understanding the mechanism behind the impact of HR practices on corporate financial performance:** Although the studies mentioned above do present a strong case for the positive & significant impact of HR practices on corporate financial health. However, these studies fail to provide a mechanism of how HR practices impact the financial results of organizations (Wright, Gardner, & Moynihan, 2003). In fact this lack of understanding the process behind the impact of HR practices on financial results of the organization is so severe, that some authors have called this as ‘black box’ problem, as there is no empirical testing on the mechanism of how HR practices impact the financial performance of the organization (Purcell, Hutchinson, Kinnie, Rayton, & Swart, 2003) (as cited in (Wright, Gardner, & Moynihan, 2003)). The present section will review the literature on understanding the mechanism behind the impact of HR practices on corporate financial performance. According to Faems, Sels, Winne, & M (2005), investing in people oriented workplace culture is akin to investing on any firm resource, this leads to creation of human capital that consists of skilled, motivated & empowered employees, which influence the operational outcomes of the organization like reduced turnover rate, increased productivity, increased quality etc. (Delaney & Huselid, 1996; Delery & Shaw, 2001). Improved operational outcomes in turn lead to better corporate financial performance. Similarly Dyer & Reeves (1995) has mentioned that investing in people oriented practices will impact their attitude like job satisfaction & their behavior like absenteeism, turnover etc. which will affect the operational outcomes of the organization like increased productivity, quality & shrinkage, which will act as precursor to financial performance of the organization like profitability which will further influence the market value of firm in terms of increase in share price. According to Wright, Gardner, & Moynihan (2003) to understand the mechanism behind the impact of HR practices on financial performance, one could look at in following way, first how HR practices affect proximal outcomes like (HR outcomes in the form employee behavior & attitude), then how these proximal outcomes affect the distal outcomes like (organizational outcomes in the form of increase in profitability & other measures). This further affects the most distal outcomes in the form of market valuation of the firm. Similarly Becker & Huselid (1998) (as cited in (Wright, Gardner, & Moynihan, 2003)) have explained the process of how HR practices impact financial performance by suggesting that HR practices have direct impact on employee skills, motivation, job design & work structures which elicit discretionary effort from employees that subsequently affect operational & financial outcomes. Also Guest (2001) has attributed expectancy theory as the mechanism behind the impact of HR practices on corporate financial performance. More clear understanding of the mechanism of how HR affects the financial performance is also a necessity for the development of the field of HR Analytics as stated by Boudreau & Cascio (2017).

**Theoretical Model for the present study:** The present study is based on the strategic HRM view, according which HR practices are the competencies of organizations that generate sustainable competitive advantage to firms. This view is in contrast to resource based view of the firms, according to which the competitive advantage is generated by resources of firm which are valuable & cannot be copied by others as against HR practices, which can be copied by others. The
employees of organization represent such resources, as employees possess specific knowledge, intelligence, and judgment polished through training, experience & insights. This view is also called as human capital view. However, both the views complements each other, as the potential of human capital resources could not be fully exploited without the presence of appropriate HR practices (Saridakis, Lai, Cooper, & L., 2016). The literature on the effect of high performance work practices & firms financial performance as a part of strategic HRM is divided into two categories: Macro & Strategic fit (Saridakis, Lai, Cooper, & L., 2016). According to macro perspective, firms financial performance is affected by the overall HR practices, considering HRM as a system model, whereas strategic fit perspective considers the specific HR practice that fits the firms overall strategy, also called as ‘best practice perspective’. The present study is based on the macro perspective, as it has been found that rather than single HR practices, ‘bundled’ HR practices better predicts the firms financial performance (Subramony, 2009); (MacDuffie, 1995); (Delery, 1998).

The theoretical model for the present study can be described in Figure[1] as shown below:

**RESEARCH METHODOLOGY:**

For the purpose of identification of people oriented workplace culture in organizations in India, a list of top 100 companies as published by Great place to work Institute in 2017 was used (India's Best Companies to Work For, 2017). As mentioned by Great place to work (2017), more than 600 organizations in India have applied for this survey & top 100 organizations are part of 20 industry sectors with employee strength of more than 500. The methodology for assessing the workplace culture of organizations is objective survey instrument, adopted by thousands of organizations globally. The assessment consists of two parts, the first part consists of measurement of quality of employee experience through Institute’s globally validated survey instrument called Trust Index©. This part has 2/3rd weightage and is based on anonymous feedback from employees. The second part consists of objective assessment of people practices of organization through the Institute’s proprietary tool called as Culture Audit© & has a weightage of 1/3rd (Great place to work, 2017).

The second part of analysis is to find out the financial performance of these organizations that are part of top 100 list prepared by Great place to work Institute. For this Capital line database was used & thus only listed companies is used in the present study. Once the company was found in the database, its corresponding industry in the database was identified & then the companies’ key financial ratios were compared against the industry’s aggregate financial ratios. The key financial ratios taken for the present study were as follows: PBI(DTM (Profit before Interest Depreciation and Tax Margin); ATPM (After Tax Profit Margin) is a financial ratio that is obtained by dividing the net profit after tax with company’s total revenue. It is important indicator for both investors & financial analysts as it tells about the company’s earning ability per rupee revenue (Investopedia). RONW (Return on Net Worth) is also called as Return on equity; it measures the company’s ability to generate revenue from its total equity base. It is calculate by dividing the total earnings of the company by its total equity (Value Research).

**RESEARCH OBJECTIVE:**

The research objective for the present study is to determine the difference in profitability between Great place to work organizations & their corresponding industry average & to find out if that difference is statistically significant or not.

**HYPOTHESES:**

The null hypothesis for the present study is as follows:

H0: There is no difference in profitability ratios of Great place to work organizations & Industry average.
H0a: There is no difference in PBI(DTM of Great place to work organizations & Industry average.
H0b: There is no difference in APATM of Great place to work organizations & Industry average.
H0e: There is no difference in RONW of Great place to work organizations & Industry average.
RESULTS & DISCUSSIONS:

For the purpose of analysis, industry according to capital line database was taken. The industrial description according to Great place to work institute & that available in capital line database was found to be different, for example Google India Pvt. Ltd. & Intuit India are both part of Information technology industry, however in capital line database, Google India Pvt. Ltd. is part of InfoTech/database & Intuit India is part of computer-software-medium/small. The analysis has been presented in the Table [1] to Table [3]. It was found that except two companies (Claris Lifesciences Ltd. & RPG Life Sciences Ltd.) every other company has higher financial performance than industry average.

Also, to check the statistical significance of the difference, independent sample t-test was used, as industries & companies represent independent samples & only two groups are there, so t-test is applicable as compared to F-test.

Table 1: Comparison of Industry average & Companies average

| S. No. | Type of Industry                      | PBITDM Across Industry Average | PBITDM Across Companies Average | ATPM Across Industry Average | ATPM Across Companies Average | RONW Across Industry Average | RONW Across Companies Average |
|--------|--------------------------------------|---------------------------------|---------------------------------|------------------------------|------------------------------|-----------------------------|------------------------------|
| 1      | Courier                              | 3.83                            | 8.55                            | -1.33                        | 4.37                         | 0.00                        | 25.24                        |
| 2      | Transport-Road                       | 12.56                           | 5.44                            | 0.77                         | 2.66                         | 0.18                        | 17.74                        |
| 3      | Trading - Medium / Small             | 0.41                            | 6.27                            | -2.82                        | 2.46                         | 0.00                        | 14.90                        |
| 4      | Trading - Large                      | 4.83                            | -4.14                           | 0.35                         | -6.75                        | 4.37                        | 0.00                         |
| 5      | Food And Dairy Products - Multinational | 9.99                           | 10.39                           | 3.75                         | 3.04                         | 11.30                       | 9.39                         |
| 6      | Construction - Factories / Offices / Commercial | 23.56                           | 48.09                           | 4.11                         | 7.05                         | 2.71                        | 7.80                         |
| 7      | IT Enabled Services / Business Process Outsourcing | 18.22                           | 20.21                           | 10.95                        | 11.65                        | 19.67                       | 14.14                        |
| 8      | Finance – Medium                     | 67.19                           | 67.39                           | 11.12                        | 18.36                        | 0.37                        | 21.57                        |
| 9      | Finance – Large                      | 67.19                           | 90.63                           | 12.89                        | 20.23                        | 10.16                       | 3.11                         |
| 10     | Finance - Investment / Others        | 9.35                            | 56.65                           | 3.18                         | 29.63                        | 8.46                        | 11.27                        |
| 11     | Telecommunications - Service Provider | 25.39                           | 33.57                           | -6.28                        | 23.08                        | 0.00                        | 12.10                        |
| 12     | Telecommunications - Equipment - Large | 14.95                           | 6.96                            | 3.28                         | 4.25                         | 0.00                        | 22.09                        |
| 13     | Personal Care - Indian - Large       | 16.47                           | 23.58                           | 11.26                        | 16.66                        | 29.35                       | 20.73                        |
| 14     | Automobiles                          | 9.89                            | 12.45                           | 3.70                         | 7.11                         | 10.89                       | 13.92                        |
| 15     | Auto Ancillaries - Others            | 10.17                           | 11.96                           | 2.69                         | 6.50                         | 7.34                        | 26.01                        |
| 16     | Refineries                           | 9.58                            | 8.09                            | 5.03                         | 4.29                         | 15.35                       | 20.34                        |
| 17     | Power Generation And Supply          | 20.96                           | 20.82                           | -1.54                        | 7.94                         | 0.00                        | 9.98                         |
| 18     | Personal Care - Indian - Large       | 16.47                           | 25.02                           | 11.28                        | 17.31                        | 29.35                       | 30.85                        |
| 19     | Pesticides / Agrochemicals - Indian - Medium/Small | 13.08                           | 16.85                           | 6.32                         | 9.30                         | 14.68                       | 24.90                        |
| 20     | Auto Ancillaries - Shock Absorbers   | 8.42                            | 8.78                            | 4.37                         | 4.85                         | 18.43                       | 19.66                        |
| 21     | Tyres - Large                        | 12.10                           | 14.77                           | 4.89                         | 8.09                         | 21.77                       | 16.08                        |
| 22     | Domestic Appliances - White Goods    | 7.10                            | 10.82                           | 3.70                         | 5.98                         | 10.10                       | 23.44                        |
| 23     | Cement - Major - North India         | 15.52                           | 30.27                           | 5.33                         | 14.10                        | 9.39                        | 18.42                        |
| 24     | Telecommunications - Equipment - Medium / Small | 4.46                             | 9.32                            | -2.36                        | 4.29                         | 9.32                        | 14.88                        |
| 25     | Engineering - Light - Tools / Moulds | 12.91                           | 14.66                           | 5.43                         | 6.27                         | 14.25                       | 14.24                        |
| 26     | Hotels - Medium                      | 17.12                           | 21.89                           | -3.62                        | 4.41                         | -3.56                       | 9.61                         |
| 27     | Infotech / Database                  | 8.74                            | 10.19                           | 2.44                         | 9.95                         | 8.53                        | 19.90                        |
| 28     | Computers - Software - Medium / Small | 16.81                           | 21.46                           | 7.83                         | 10.10                        | 10.70                       | 19.70                        |
| 29     | Miscellaneous - Medium / Small       | 13.53                           | 9.45                            | 0.69                         | 6.23                         | 0.68                        | 25.85                        |
| 30     | Miscellaneous – Medium / Small       | 16.21                           | 9.36                            | 10.73                        | 4.84                         | 12.66                       | 10.69                        |
| 31     | IT Enabled Services / Business Process Outsourcing | 18.22                           | 20.43                           | 10.95                        | 11.52                        | 19.67                       | 14.22                        |

Average 16.30 20.97 4.12 9.02 9.55 16.54

%age Increase 29% 119% 73%
Table 2: Descriptive statistics

| Type      | N  | Mean  | Std. Deviation | Std. Error Mean |
|-----------|----|-------|----------------|-----------------|
| PBITDM    |    |       |                |                 |
| Industry  | 31 | 16.2977 | 14.72432       | 2.64457         |
| Company   | 31 | 20.9735 | 20.01877       | 3.59548         |
| APATM     |    |       |                |                 |
| Industry  | 31 | 4.1190  | 5.01882        | .90141          |
| Company   | 31 | 9.0248  | 7.20463        | 1.29399         |
| RONW      |    |       |                |                 |
| Industry  | 31 | 9.5523  | 8.70844        | 1.56408         |
| Company   | 31 | 16.5410 | 7.02750        | 1.26218         |

Table 3: Independent Sample t-test

|                     | Levene's Test for Equality of Variances | t-test for Equality of Means |
|---------------------|----------------------------------------|-----------------------------|
|                     | F       | Sig. | t  | df | Sig. (2-tailed) | Mean Difference | Std. Error Difference |
| PBITDM              |         |      |    |    |                |                |
| Equal variances assumed | 2.327  | .132 | -1.048 | 60 | .299 | -4.67581 | 4.46332 |
| Equal variances not assumed |        |      | -1.048 | 55.11 | .299 | -4.67581 | 4.46332 |
| APATM               |         |      |    |    |                |                |
| Equal variances assumed | 2.166  | .146 | -3.111 | 60 | .003 | -4.90581 | 1.57701 |
| Equal variances not assumed |        |      | -3.111 | 53.56 | .003 | -4.90581 | 1.57701 |
| RONW                |         |      |    |    |                |                |
| Equal variances assumed | .816   | .370 | -3.477 | 60 | .001 | -6.98871 | 2.00984 |
| Equal variances not assumed |        |      | -3.477 | 57.43 | .001 | -6.98871 | 2.00984 |

As could be seen from Table [3], t statistic is not significant in case of PBITDM, & hence null hypothesis (H0a) is accepted in this case. Thus, there is no significant difference in terms of PBITDM in Great Place to Work organizations & industry average. However, as could be seen in Table [3] in case of APATM & RONW, t statistic is significant, & hence null hypothesis is not accepted in this case. Thus, H0b & H0c is rejected & it could be said that there is a significant difference in case of ATPM & RONW between Great Place to Work organizations & industry average.

CONCLUSION:

From the data analysis conducted in the previous section & from discussions made in earlier sections, it could be concluded that there is a positive & significant impact of people-oriented HR practices on the financial health of organizations in India. Also, it could be seen that this holds true for almost all the industries represented by the top 100 companies in the list provided by Great place to work for Institute. Further organizations in the list are of various sizes & hence the result holds true for both small & big organizations. It has to be mentioned that we could assess only publicly listed organizations, so it would be desirable to confirm the results for privately held organizations. As stated earlier, this study & studies similar to this should be wakeup call for those responsible for creating & maintaining workplace culture to make it more human & people oriented as it has significant positive impact on the financial health of the organizations. This is a time; we put up HR in higher pedestal & recognize its contribution in organizational success. As stated by Hamel & Prahalad (1994) (in (Becker & Garhart, 1996)), it is a time to put HR in “numerator management” as source of value creation at par with other financial decisions. With HR analytics gaining significant ground in management decisions, this belief would be further reinforced by getting an empirical support from HR analytics & technology. In fact, HR analytics would open the hitherto “black box” in understanding the mechanism behind the impact of HR practices on financial performance of the organizations. Finally, much before the availability of these studies confirming the positive impact of HR practices on financial health of organizations, great organizations world-wide always believes in putting their people first rather than profits, as
we have an example of TATA group initiating people reforms in their steel factory even before the introduction of labor laws by Indian government.

LIMITATIONS OF THE STUDY:
Following are the limitations of the study:
1. As in case of most non-experimental studies, the effect of other factors contributing to financial well-being of organizations could not be ruled out in the present study.
2. Only listed companies are included in the study.
3. The study is based upon list of top 100 companies prepared by Great place to work for Institute, although the objective assessment & criteria used by the institute is globally recognized & validated, however, as mentioned in the report prepared by the institute about 600 organizations have participated in this survey. Thus, sample size & selection criteria might not be as rigorous as expected in empirical research studies.

MANAGERIAL IMPLICATIONS:
The study provides strong case for the organizations to invest in creating & maintaining people-oriented workplace culture consisting of HR practices that empowers & care for employees. Organizations should recognize the changing role of HR from merely administrative function to strategic partner. The role of employees in organizations is also changing from implementing the strategy of organization to becoming organizational strategy, as it would be the only resource in organization that provides sustainable competitive advantage (Pfeffer, 1994). With management becoming more data driven, HR analytics should be a tool in the hands of HR manager to further reinforce the idea that investing in people oriented HR practices has a significant positive impact on corporate financial performance.

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