

ANALYSIS OF THE EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON PRODUCT EXTENSION AMONG LISTED COMPANIES IN KENYA

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ABSTRACT

Corporate social responsibility (CSR) is one of the marketing strategies that are widely used in the industrial arena for the purposes of creating customer awareness, enhancing product penetration into the market and boosting firm’s profitability. The study mainly examined the extent to which CSR affect product extensions in organizations. The study was in CSR because it is so rich, current, on going and challenging. In one way or another, organizations are involved in the CSR as they continue to do business. Many at times, marketers and CSR practitioners in general of various companies have been looking at CSR as just a mere tool for ‘social concern’ that is, doing it to be seen as “a good neighbour”. This perception needs to be erased off from the marketers’ minds and a different approach on in handling the CSR must enter the stage with the resolve of strengthening their firms’ brand equity.

Key Words: CSR, Product Extensions/Penetration, Customer Awareness, Brand Equity.

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INTRODUCTION

Undoubtedly, CSR is a technique which has and continues to be used in many organizations to communicate with the public indirectly about the existence of a certain firm and its products and/or services being offered. In most cases CSR is carried out as way to show gratitude to the community by giving back. CSR, therefore, is a marketing concept often used in Kenya and indeed globally by many organizations to engage in philanthropic work by giving back to the community aiming at being seen as a good neighbour by the immediate community next to the organization in question. Quite often than not, CSR has been implemented in many organizations majorly to help the society and not the companies necessarily benefiting from the exercise; but only to enhance favourable view of the public (clients or customers) towards that particular firm (Kotler and Armstrong, 2008).

Globally, with businesses focusing on generating profits, sustainability was not a popular concern among companies up until recently. Now, in an era of globalization, multinational corporations and local businesses are no longer able to conduct destructive and unethical practices, such as polluting the environment, without attracting negative feedback from the

general public (Jatana and Crowther, 2007). With increased media attention, pressure from non-governmental organizations and rapid global information sharing, there is a surging demand from civil society, consumers, governments, and others for corporations to conduct sustainable business practices (Barkin, 2002). In addition, in order to attract and retain employees and customers, companies are beginning to realize the importance of being ethical while running their daily operations. The corporate response has often meant an adoption of 'a new consciousness', and this has been known as CSR since the 1970s (Hoeffler and Keller, 2002).

On the other hand, Sorsa, (2008) argues that in any case, companies are now expected to perform well in non-financial areas such as human rights, business ethics, environmental policies, corporate contributions, community development, corporate governance, and workplace issues. Some examples of CSR are safe working conditions for employees, environmental stewardship, and contributions to community groups and charities. Moser and Miller, (2001) further reveal that the problem is that many companies that claim to be socially responsible often do not live up to such a standard. Because CSR is becoming more commonplace among corporations, there are concerns that some companies promote an image of CSR whether or not they have a true strategy in place and the results to show for. Accountability and transparency are key to conducting business in a responsible manner (Kapoor and Sandhu, 2010).

In Africa, for example, the Nigerian government has come up with a legislation which, if passed, will make it mandatory for companies to pay 3.5% of their gross profit to corporate social responsibility initiatives (Idemudia, 2011). In Kenya today CSR is well practiced but not as regulated as in Nigeria. There are a variety of organizations doing businesses, ranging from product-oriented marketing and service-oriented marketing. The notable companies that have come out strongly in this initiative of "giving back to the society" are Kenya Airways, Safaricom, Airtel, Kenya Power (KP), East African Breweries Limited (EABL), Kenya Television Networks (KTN), Nation Television (NTV), Co-operative Bank, Equity Bank, Coca Cola, Brookside Dairy, New Kenya Cooperative Creameries (KCC), to mention but a few. All these companies and many others operating in the country in one way or another, do practice CSR. Hence, the area of CSR has been chosen because it is so rich, current, on going and challenging. In one way or another, organizations are involved in the CSR as they continue to do the business. If so, what are their goals and objectives of doing so? Are they doing it for sake of doing it or for the purposes of profiting the organization as well? If it is for the purposes of the later, then how best and ethically can it be carried out, to the sense that both parties (a company and customers) can benefit from the concept.

LITERATURE REVIEW

When doing business, branding or product awareness among customers and potential customers is very imperative and as Armstrong and Kotler, (2009) remark, a powerful brand has high brand equity. Brand equity is the positive differential effect that knowing the brand name has on customer's response to the product or service (Burton, 2006). It is a measure of brand's ability to capture consumer preference and loyalty. As Prieto-Carron et al, (2006) assert brands vary in the amount of power and value they hold in the marketplace.

According to Kotler and Armstrong, (2008) brands identify the source or maker of a product and allow consumers either individuals or organizations to assign responsibility to a particular manufacturer or distributor. Consumers may evaluate the identical product differently depending on how it is branded. Consumers learn about brands through past

experiences with the product and its marketing programme. They find out which brands satisfy their needs and which ones do not. As consumers lives become more complicated, rushed and time-starved, the ability of a brand to simplify decision making and reduce risk is invaluable (Baker and Hart, 2008).

Industrial marketers now increasingly recognize the value of branding; yet, how to achieve industrial brand equity is still unclear. Some researchers have investigated the components of brand equity in industrial markets (Michell et al 2001). It is widely recognized that industrial companies benefit from investing in branding to reap the benefits of brand equity (Van Riel et al 2005).

There are varied arguments, for and against CSR programmes. Foster et al, (2009) note that the economists viewed it as a manager's responsibility to generate profits for their shareholders, thus to act in any other way would be a betrayal of this special responsibility. They saw addressing social problems as being the province of government rather than company managers. Economists did not believe that managers should spend other people's money on some perceived social benefit, and thought that to do so was misguided (Michell et al, 2001). Eisingerich et al, (2011) further argue that a corporation's core responsibility is to increase shareholders' value and not to be responsible for societal issues. On the other hand, Bryer, (2010) aver that a corporation can maximize its company value only by voluntarily taking actions on external issues, specifically pollution.

The other criticism is that CSR is too costly. Spending of company's money brings with it the lost opportunity to spend the money on other priorities, such as research and development (Moser and Miller, 2001). CSR also encourages consumer cynicism, that is, many consumers regard CSR initiatives as little more than public relations exercises (Jobber, 2007). Furthermore, CSR is a form of risk management in that there are real penalties for companies that are not environmentally or socially responsible. For instance, media criticisms of companies such as Nike, that they involve child labour in the developing countries could be harmful since they could be perceived as being irresponsible (Moore, 2001; and Sorsa, 2008).

Foster et al, (2009) further observe that apart from the said criticisms, CSR leads to enhanced brand or corporate image and reputation. A strong reputation in environmental and social responsibility can help a company build trust and enhance the image of its brands. Also if a company is moving to a new area or new market, or enhancing a new site such as distribution centre, store or factory, it helps to be seen as trustworthy and a 'good neighbour' (Kotler and Keller, 2006).

Finally, CSR improves access to capital i.e. organizations that are committed to CSR have access to socially responsible investment (SRI), where investors take into account considerations such as a company's environmental and socially responsible activities. Currently the strength of the arguments for CSR programmes are driving companies increasingly towards the adoption of socially and environmentally responsible strategies (Moser and Miller, 2001).

The practice of CSR is subject to much debate and criticism. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits (Akpan, 2006).

Critics, however, argue that CSR distracts from the fundamental economic role of businesses (Amalric et al, 2004 and, Anderson and Bieniaszewska, 2005).

Others such as Blowfield and Frynas (2005) and Barrientos (2008) argue that it is nothing more than superficial window-dressing while to some, it is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations. CSR has been redefined throughout the years. However, it is essentially supposed to aid an organization's mission, acting as a guide to what the company stands for and will uphold to its consumers (Arora and Puranik 2004; and Barkin, 2002).

Many firms have introduced customer relationship marketing programs to optimize customer interactions. Some marketing observers encourage firms to formally define and manage the value of their customers (Leone et al, 2006). The concept of customer equity can be useful in that regard. Although customer equity can be calculated in different ways, one definition of customer equity is in terms of "the sum of lifetime values of all customers". Customer lifetime value (CLV) is affected by revenue and cost considerations related to customer acquisition, retention, and cross-selling (Barrientos, 2008). Several different concepts and approaches relevant to the topic of customer equity have been put forth.

Lee and Park, (2010); Bond, (2008) and Biggs and Ward, (2004) argue that social responsibility of corporations should be monitored by the state, not corporations whose fundamental principals are the interests of their owners, employees and customers, rather than society as a whole. In this view, a CSR practice by a corporation is a waste of resources, that is, practicing CSR is not a way to maximize resources because the issue lies outside corporate responsibility but within government purview. Finally, the third group of researchers has not found any particular relationship between CSR and a firm's financial performance. They found no particular impact of CSR on risk-adjusted stock return (Amalric et al, 2004).

Kluge and Schomann (2008) remark that management initiatives concerning CSR clearly show that companies understand that it is in their own interest to consider public opinion, particularly when it comes to the social and environmental dimensions. Multinational companies (MNCs) are especially vulnerable in this regard, due to the nervous reactions of the stock exchange, public and consumer opinion. In an electronically connected world, the ability to react to developments immediately and wherever one might be represents an ever present danger to companies that come to be associated with, for example, violating basic rights or some other form of misbehavior. Consequently, there is a strong motivation to take sensitive investor relations seriously and not only in traditional business terms. This is the view held by Arora and Puranik, (2004).

From these studies, three general schools of thought exist; there are those that see a positive, negative, or no relationship between CSR and a firm's financial performance. Therefore, there is no consensus on what constitutes virtuous corporate behavior and as an area of inquiry; CSR is still emerging and very challenging. However, previous researches on CSR have found out that it leads to enhanced corporate image and reputation Foster et al, (2009); Krishnan and Chaudhry, (2007), while Antoni and Portale, (2010) found out that the adoption of good practices of CSR in social cooperatives has a very important role in determining the impact on workers' social capital.

A growing body of evidence further asserts that corporations can do well by doing good corporate job (Pohle and Hittner, 2011). Well-known companies have already proven that

they can differentiate their brands and reputations as well as their products and services if they take responsibility for the well-being of the societies and environments in which they operate. These companies are practicing CSR in a manner that generates significant returns to their businesses (Smith, 2010; Porter and Kramer, 2002). Banerjee, (2001) notes that empirical results show that both the adoption of CSR formal instruments and the implementation of a multi-stakeholder ownership are positively related to the creation of social capital intended as cooperative social network, trust, and relational skills.

The profitability argument asserts that doing good (CSR) leads to doing well (improved financial returns). However, the empirical support for this claim is inconclusive (Paul et al, 2010). Kapoor and Sandhu, (2010) maintain that firms already pursuing strategies based on these intangible assets are more likely to use CSRs to enhance these assets than other firms; and firms with already strong reputations or high levels of brand equity are most likely to benefit from the impression of being socially responsible. Lai et al, (2010) on other hand hold that CSR and corporate reputation have positive effects on industrial brand equity and brand performance. However, Godfrey et al, (2010) observe that doing good CSR leads to doing well (improved financial returns).

Furthermore, several studies outlining the theoretical mechanisms that could drive such a relationship have been done, including improved reputation (Moore, 2001), brand equity (Mohr and Webb, 2005; McWilliams and Siegel, 2000), better employee relations (Soch and Sandhu, 2008), or the overall quality of management (Sorsa, 2008; Biggs and Ward, 2004). Firms already pursuing strategies based on these intangible assets are more likely to use CSRs to enhance these assets than other firms, and firms with already strong reputations or high levels of brand equity are most likely to benefit from the impression of being socially responsible (Paul et al, 2010). On the other hand Lee and Park, (2010) argue that when CSR is tightly integrated to the management operations, both economical and social targets become easier resulting in improvement in the social and financial performance (in terms of profitability) of the company. These are same sentiments echoed by Porter and Kramer, (2002) and Blowfield, (2004).

Prieto-Carron et al, (2006); Lee and Park, (2010) and Perry and Singh, (2002) hold that CSR increases organizations ability to attract and retain employees, that is, many employees are attracted to employers who are active in social issues. Kapoor and Sandhu, (2010) argue that there is no detrimental impact or penalty from allocation of some resources towards corporate social actions, rather such investments might be beneficial in terms of more profits. Firms should therefore give adequate consideration to their social responsibility (Idemudia, 2011). The managers should not think CSR as an optional activity rather it should be integrated with business strategy like other business issues (McWilliams and Siegel, 2000).

This seems to suggest that policy strategy aimed at fostering the adoption of CSR practices by social cooperatives would also positively affect the creation of workers' social capital. To this end, Smith, (2003) and Mandl, (2005) affirm that possible strategies could be the inclusion and adoption of CSR practices among the criteria for obtaining public works contracts that are relevant in social cooperative business and fiscal incentives. Nevertheless, to avoid the risk of perverse incentives, fiscal concessions should be limited to the specific costs strictly connected with the adoption of CSR instruments, such as consultancy or verification costs associated with the implementation of a CSR management system. This view is shared with Barrientos and Smith, (2007), Paul (2001) and United Nations Research Institute for Social Development (UNRISD), (2003).

Furthermore, Young and Thyl, (2009) and Jatana, (2007) argue that CSR is a significant new dimension in organization's rhetoric. But it is clear that organizations vary in their approach to corporate governance and the extent to which a broad view of social responsibility incorporating labour is integrated into values, statements and organizational policies. The importance of recognizing labour as a stakeholder in improving organizational performance has been highlighted by a number of researchers and supported by a range of arguments based on strategy, morals, ethics and relationships. For example, Ite (2004), Idemudia (2011) and Lund-Thomsen (2005) hold this view.

On the other hand, Smith, (2010) remarks that CSR influences job satisfaction and employee retention in an organization. It is no secret that many employees consider it a benefit, working for a socially responsible employer (Jenkins, 2005). Aware of this, CSR-engaged employers say employee satisfaction is a major reason behind their CSR efforts. A PricewaterhouseCoopers survey found that 56% of employees say attractiveness to employees has a 'considerable impact' on their approach to CSR (Butler, 2006). In addition, attraction of talent, loyalty to a particular firm and employee motivation have all been reasons explaining why CSR can be a source of competitive advantage for a firm (Eisingerich, 2011).

From the studies, we can conclude that CSR is a well researched area but what is lacking in these arguments is the effects of its dimensions on product extensions enhancement in the organizations more precisely in the Kenyan perspective. This is basically what this research was intended to achieve as knowledge-gap measure.

STUDY OBJECTIVES

Specifically the study is set to achieve the following objectives;

- i. To establish the understanding of CSR among company practitioners on product extensions among listed companies.
- ii. To determine the effect of CSR on product extensions in the market among listed companies.

HYPOTHESES

H₀: CSR does not significantly affect product extension in the market.

H_A: CSR does significantly affect product extension in the market.

MATERIALS AND METHODS

The study adopted a cross-sectional survey research design. A cross-sectional survey research design was appropriate for this study because it involves a close analysis of a situation at one particular point in time to give a 'snap-shot' result and it allows for generalization of information related to the target population (Mugenda, 2008; Collis and Hussey, 2003). The target population of the study consisted 52 quoted or listed companies in Nairobi Securities Exchange (NSE) (NSE Website, 2012). The 52 respondents of the study were company personnel who were in charge of CSR practices in their organizations. The study adopted a census technique, whereby all companies listed in the NSE were involved in the study. This is because the respondents' number was too small to be sampled and manageable within the constraints of the study (Nassiuma, and Mwangi, 2004; Gupta and Gupta, 2009). The study used primary data collected using questionnaires, which had both unstructured and structured questions. Descriptive and inferential statistics were used to present the findings.

In testing the hypotheses, the study employed Multiple Linear Regression Analysis (MLRA) to examine the effect of CSR on product extensions. The formula for this was;

$$y_i (\text{PE}) = \beta_0 + \beta_1 \text{CI \& RD} + \beta_2 \text{HR} + \beta_3 \text{EC} + \beta_4 \text{PCCR} + \beta_5 \text{SR} + \varepsilon$$

Where:

- y_i Product extensions (dependent variable)
- β_0 Constant variable
- β_1 Community Involvement and Rural Development
- β_2 Human Resources e.g. retirement fund benefit plans
- β_3 Environmental Contribution
- β_4 Product Contribution and Customer Relations
- β_5 Shareholders' Relations e.g. payment of dividend to shareholders
- ε An error term

ANALYSIS AND REPORTING

Response Rate

Out of 52 questionnaires that were issued to respondents, only 46 were successfully completed and returned for analysis hence giving the study 88.5% response rate. Those who failed to participate were 6 respondents comprising of 11.5%. Table 1 below demonstrates the response rate.

Table 1: Response Rate

Respondents	Number of respondents	Percentage (%)
Expected responses	52	100
Received responses	46	88.5
Un-received responses	6	11.5

Nature of Practicing CSR in the Companies

The results revealed that 100% of the respondents were fully practicing CSR as they do their businesses. No respondent reported that they don't practice CSR. This therefore shows that CSR is a very crucial marketing strategy for any serious organization, which intends to do some good business for a longer period and enhance a long lasting relationship with both the target and potential target audience.

Companies' Views on CSR

With regard to the companies' collective view on CSR undertakings in their organizations, the research revealed that 100% of the respondents held that practicing CSR is very important. This is a clear indication that CSR practice will continue being relevant in modern day business. This reveals a positive understanding of CSR among practitioners. The salient concern however, is how significantly it can be done to effectively bring the desired proceeds into the firms.

Levels of CSR Perception by Companies

The study was interested in evaluating the perception held by firms on the effects of CSR on specific aspects. Those aspects are discussed individually in order to clearly see the managers' actual perception against each of the aspect as shown below:

Companies' Perception of CSR as a Social Concern

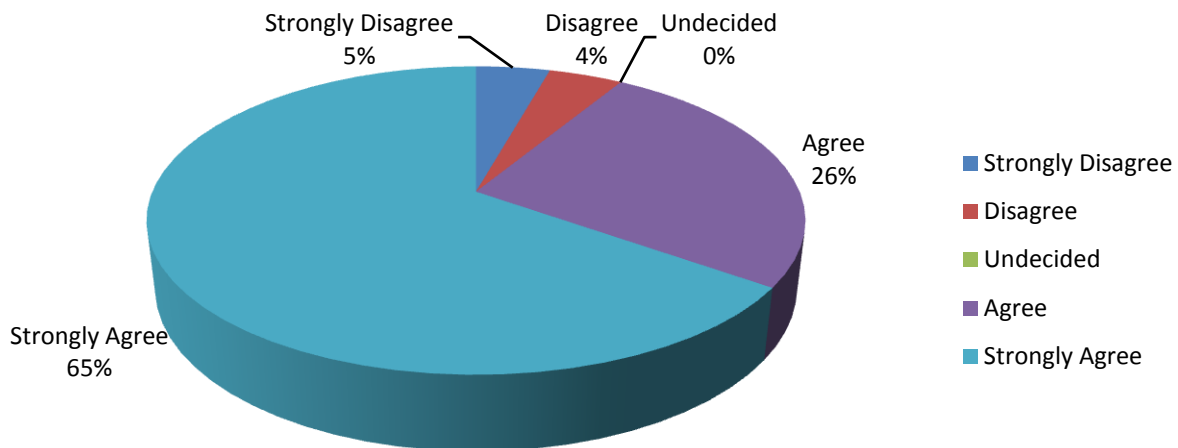


Figure 1: Companies' Perception of CSR as a Social Concern

Majority of the respondents, about 65%, strongly agreed that CSR is only done as social concern, whilst 26% agreed that CSR is mainly executed in firms as a social concern. Those who strongly disagreed with that notion comprised of 5%, whereas 4% just disagreed with the view. This implies that in many companies CSR strategy is only done for the sake of doing it, just to create a good perception among the publics (customers) but not for the purposes of boosting profits in the long run.

Effects of CSR on Enhancing Firm's Image

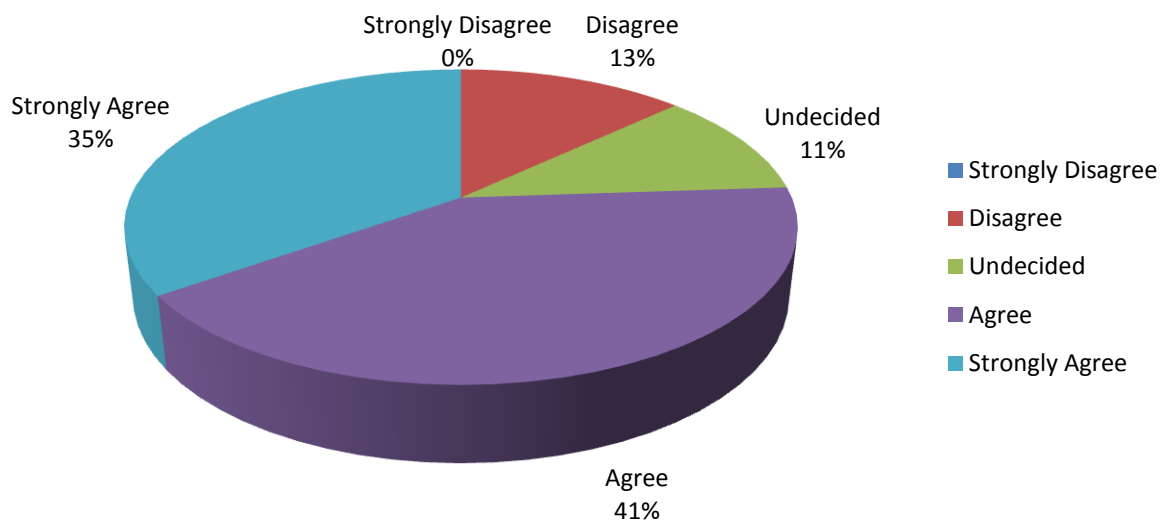


Figure 2: Effects of CSR on Enhancing Firm's Image

It was the interest of the study to further determine if carrying out CSR enhances company's image among the public. The findings were very interesting, showing that 35% and 41% of the firms' managers held that they strongly agree and agree respectively that indeed CSR enhances company image before the public once it has been conducted. Whereas only 13% of them disagreed to the idea, 11% were not sure. This implies that although there is majority consent on the effects CSR has on company's image; it is still disturbing to find that up to

now there are those practitioners who do not know the importance of CSR to an organization. Unless there is serious sensitization and education towards its use, chances are that it may be neglected by many organizations in future.

Perception of CSR as a Waste of Resources

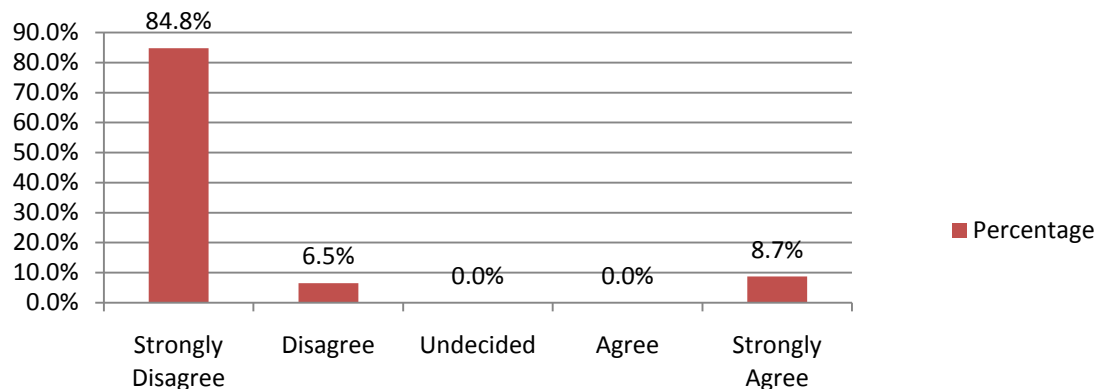


Figure 3: CSR Perceived as a Waste of Resources

The study intended further to establish the industry practitioners' perception on CSR against resources. The findings positively showed that CSR does not waste organizations' resources. This is so because an overwhelming majority of 84.8% strongly disagreed with that view, while 6.5% also disagreed and only a paltry 8.7% strongly agreed that indeed implementation of CSR is a waste of company's resources. Though not consistent with the previous findings, this is a good picture. This means quite a good number of company management do not really know how to deal with CSR as a strategy to take care of consumers' satisfaction, firm's profits and society's well being. Hence, serious awareness needs to be initiated for full adoption of CSR practices in companies.

Effects of CSR on Product Extension

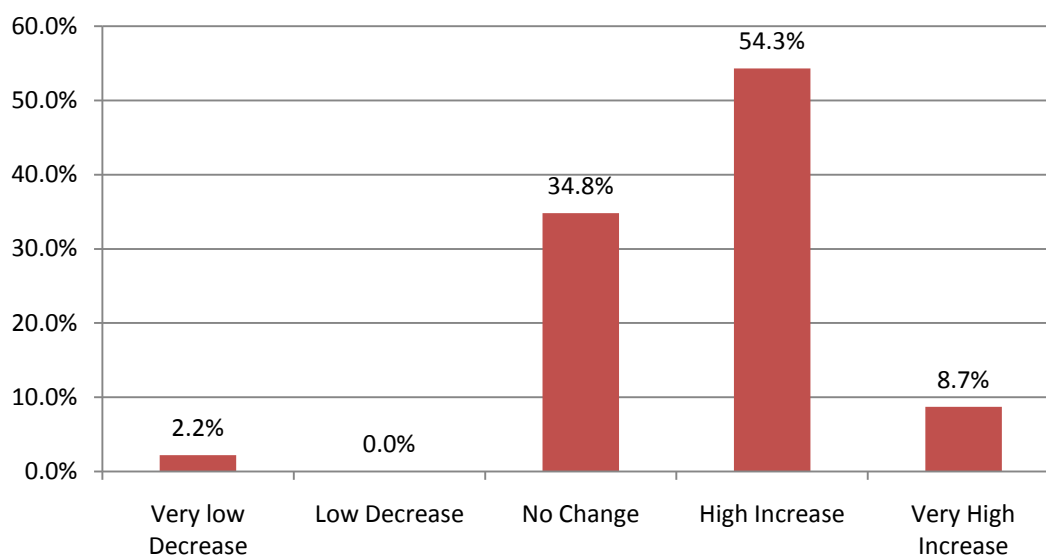


Figure 4: Effects of CSR on Product Extensions

As far as the product extension into the market when CSR has been implemented is concerned, the findings showed that 2.2% of the respondents believed that product is extended to the market, that is, it is embraced though at a very low rate. None (0%) held the view that there is a decrease in product penetration, while 34.8% maintained there was no change in the product penetration into the market. However, a considerable number of the managers, 54.3% held that there is a high increase of product penetration the moment CSR has been carried out somewhere and 8.7% maintained that there is a very high increase of product extension into the market. This implies that a substantial percentage (54.3% +8.7%=63%) believe CSR has an effect on product penetration into the market if well implemented. Therefore, it is upon organizations to do it (CSR) correctly with the purpose of spearheading the penetration of the product deep into the market. By so doing, it will generate the desired results of profits realization in the long-term.

HYPOTHESIS TESTING

4.2.2 Effects of CSR on Product Extension

The hypothesis was to establish if CSR affect product extension in listed companies. The findings revealed that the entire model had $F_{5, 46}=1.484$, $P>.216$ and $R^2=.051$. This showed that there is a weak positive linear relationship between the predictor variables and product extension into the market. The tables 2 and 3 below show significance score (p-value) of the ANOVA and various significances each predictor variable had against product extension in organizations respectively.

Table 2: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.028	5	.406	1.484	.216 ^a
Residual	10.929	40	.273		
Total	12.957	45			

Table 3: Effects of CSR on Product Extensions

CSR Dimensions	Beta	t	Sig.	VIF
Constant Variable	2.462	3.308	.002	
Community Involvement & Rural Dev't.	.299	1.866	.069	1.214
Human Resources	.151	.964	.341	1.164
Environment Contribution	.061	.388	.700	1.157
Product Contribution & Customer Relations	.037	.248	.805	1.038
Shareholder Relations	-.020	-.128	.899	1.170

After a correlation matrix was carried out (table 4 below) to see if predictor variables under study had any or no correlations amongst themselves, it was found that each outcome variable was significantly correlated with each other. This therefore, implies that CSR has a significant effect on product extension into the market in listed companies. The study findings suggest that CSR has statistically significant effect on product extensions; these

findings are in agreement with the findings that it leads to enhanced corporate image and reputation, (Foster et al, 2009; Krishnan and Chaudhry, 2007). This means therefore, that CSR if properly implemented can boost product penetration among both consumers and potential customers. The study thus rejected the null hypothesis.

Table 4: Correlations between Predictor Variables with Product

	CI & RD	HR	EC	PC & CR	SR
CI & RD	1	.365*	0.2	0.019	0.213
HR	.365*	1	0.086	0.068	0.147
EC	0.2	0.09	1	0.145	.328*
PC & CR	0.019	0.07	0.145	1	0.151
SR	0.213	0.15	.328*	0.151	1

*P ≤ 0.05

CONCLUSION

From the observations made in the course of this study it revealed that in all the companies studied, CSR is being carried out; it was also established that all the managers and/or practitioners consider CSR to be an important marketing strategy to be practiced in organizations. The study further discovered that CSR has a weak positive linear effect on product penetration or extension into the markets. However, practicing of CSR in a firm is a therefore a tactful balancing act between company profits, consumer needs and societies' interests without compromising any.

CSR is a reliable strategy to be adopted in firms for brand or product enhancement. But since CSR involves a variety of tactics (dimensions or activities), none among them can be used alone to bring desirable proceeds unless they are integrated with the others. It is therefore, imperative to note that apart from combining CSR activities other strategies such as sales promotion, personal selling, advertisement, direct marketing and public relations and publicity should be brought on board. Thus 'coordinated marketing' should be emphasized for successful outcomes in business operations.

RECOMMENDATIONS

Based on the findings the following are recommended;

To the company top management: CSR should be implemented with a different approach of "brand equity building" for the company, as well as taking interests of the society without compromising customer's needs and wants. Managers should drop the mentality that CSR is only done so as to be seen as 'a good neighbour'.

Furthermore, it is imperative upon each company managers to adopt a different approach to CSR implementation through establishing CSR department, instead of combining it with other departments like human resources, public relations and marketing as in the case of many organizations. Doing this will give CSR department autonomy in carrying out the various CSR activities in a more planned, focused and organized way.

To company marketers and public relations managers: For CSR to work effectively and efficiently to produce the desired results in an organization, various CSR dimensions should be integrated. Coordinated marketing should be highly emphasized, whereby the various marketing functions such as sales promotion, brand and product management, personal selling, advertising, direct marketing and public relations and publicity should be integrated. The CSR practitioners should not be too dogmatic emphasizing one CSR dimension or a few over the others.

Finally, managers should also in the first place have passion for CSR for it to work and get embraced fully in the organizations where they work. The support for this should not be wavering or else nothing concrete would be achieved from it (CSR implementation). Thereafter, they should create awareness among their employees on CSR and its role in the concerned company.

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