

PROCEEDINGS OF THE  
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ECONOMICS, MANAGEMENT AND ACCOUNTING 2010  
*“Regional Development in an Era of Global Innovation Economy”*

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## HISTORY OF MIICEMA

This year, the Faculty of Economics and Management, Universiti Kebangsaan Malaysia is entrusted for the fourth time to host the Malaysia-Indonesia International Conference on Economics, Management and Accounting 2010 (MIICEMA 2010). With a theme “Regional Development in an Era of Global Innovation Economy”, this conference is the 11th of a series of successful conferences as a result of more than a decade of collaborative efforts between Universiti Kebangsaan Malaysia, Universitas Syiah Kuala Banda Aceh, Universitas Bengkulu and Universitas Muhammadiyah Surakarta, Indonesia. For this conference, the collaborative efforts will also welcome the support of a new member university, Universitas Pertanian Bogor, Indonesia.

Following is a brief history of the past conferences;

- 1993 The first conference was co-organized by the Faculty of Economics and Faculty of Business Management (UKM) and Universitas Syiah Kuala Banda Aceh. With a theme “Economics and Business Issues (Isu-isu Ekonomi dan Perniagaan)”, the conference was held on 5 – 6 June 1993 at Universitas Syiah Kuala Banda Aceh.
- 1994 The second conference was co-organized by the Faculty of Economics and Faculty of Business Management (UKM) and Universitas Syiah Kuala Banda Aceh. The conference theme was “Economics Prospects and Challenges in Industrial Development (Prospek dan Cabaran Ekonomi dalam Pembangunan Industri)”. The conference was held on 19 – 20 July 1994 at Universiti Kebangsaan Malaysia.
- 1995 The third conference was co-organized by the Faculty of Economics and Faculty of Business Management (UKM) and Universitas Syiah Kuala Banda Aceh. The conference theme was “Strengthening Malaysia and Indonesia Cooperation: To Succeed the 2020 IMT-GT (Memperkuat Kerjasama Malaysia dan Indonesia: Mensukseskan IMT-GT Tahun 2020)”. The conference was held in August 1995 at Universitas Syiah Kuala Banda Aceh.
- 1996 The fourth conference, which was upgraded to an international level, was again co-organized by the Faculty of Economics and Faculty of Business Management (UKM) and Universitas Syiah Kuala Banda Aceh. The conference theme was “Globalization Issues in Economics and Business (Isu-isu Globalisasi dalam Ekonomi dan Perniagaan)”. The conference was held on 12 – 13 November 1996 at Puri Pujangga, Universiti Kebangsaan Malaysia.
- 1997 The fifth conference was co-organized by the Faculty of Economics and Faculty of Business Management (UKM), Universitas Syiah Kuala Banda Aceh and a new member university, Universitas Bengkulu. The conference theme was “Managing Growth and Changes”. The conference was held on 23-25 June 1997 at Universitas Bengkulu.
- 2002 The sixth conference was co-organized by the Faculty of Economics and Faculty of Business Management (UKM), Universitas Syiah Kuala Banda Aceh and Universitas Bengkulu. The conference theme was “The Role and Harmonization of Economics and Business Disciplines in Global Competitiveness”. The

- conference was held on 14-15 October 2002 at Universitas Syiah Kuala Banda Aceh.
- 2003 The seventh conference was co-organized by the Faculty of Economics and Faculty of Business Management (UKM), Universitas Syiah Kuala Banda Aceh and Universitas Bengkulu. The conference theme was “Sustainable Economics and Business Development in an Era of Globalization”. The conference which was hosted by the Faculty of Economics and Faculty of Business Management (UKM) was held on 13-14 October 2003 at Equatorial Hotel, Bangi.
- 2004 The eighth conference witnessed the collaborative effort of the trio universities was further strengthened by the involvement of Brunei Darussalam. The conference theme was “Asian Competitiveness in Economics and Business Sector Towards an Era of Globalization”. The conference was held on 2-6 October 2004 at Universitas Bengkulu.
- 2005 The ninth conference welcomed another new member university, Universitas Muhammadiyah Surakarta, as the co-organizer of the conference. The conference theme was “Empowering Economic and Business in the Free Trade Era”. The conference was held on 13-14 December 2005 at Universitas Muhammadiyah Surakarta.
- 2008 The tenth conference was co-organized by the Faculty of Economics and Business Management (UKM), Universitas Syiah Kuala Banda Aceh, Universitas Bengkulu and Universitas Muhammadiyah Surakarta. The conference theme was “Developing Regional Economy through Networking: Role of Small Medium Enterprises (SMEs)”. The conference was held on 27-28 October 2008 at Universitas Syiah Kuala Banda Aceh.



## *Message from the Vice-Chancellor*

Assalamualaikum wbt. and *Salam Sejahtera*.

First and foremost, I wish to express my utmost gratitude to Allah S.W.T. for bestowing upon us His blessing to successfully organize the eleventh Malaysia-Indonesia International Conference on Economics, Management and Accounting 2010. I would also like to congratulate the Faculty of Economics and Management, UKM for jointly organizing this conference with Universitas Syiah Kuala Banda Aceh, Universitas Bengkulu, Universitas Muhammadiyah Surakarta, and Universitas Pertanian Bogor. The conference is actually an outcome of the MOU which UKM signed with these leading universities in Indonesia.

Innovation and education have been regarded as vital ingredients to increasing productivity and competitiveness of the economy. It is through innovation and creation of new ideas that additional value can be drawn from the capital and human resources. Hence, it is pertinent that universities in Malaysia and Indonesia collaborate in research and assist in regional development to ensure success for both countries.

I am certain that the conference will address the need for innovation and continuing education in economics, accounting and management. I wish you all a productive and fruitful conference and to our international guests, I hope you have a pleasant stay in Malaysia.

Sincerely,

**Prof. Tan Sri Dato' Dr. Sharifah Hapsah Syed Hasan Shahabudin**  
Vice-Chancellor  
Universiti Kebangsaan Malaysia



## *Message from the Dean*

Welcome and *Selamat Datang* to the Malaysia-Indonesia International Conference on Economics, Management and Accounting 2010 (MIICEMA 2010). I would like to express my gratitude to the Universitas Syiah Kuala Banda Aceh, Universitas Bengkulu, Universitas Muhammadiyah Surakarta, and Universitas Pertanian Bogor for graciously co-organising this conference.

The theme of this conference is “Regional Development in An Era of Global Innovation Economy”. This is considered highly appropriate at a time when the global economy is still facing the challenges of economic recession. In order to sustain or improve economic growth of a nation, the focus of innovation nowadays has to be on intangible asset such knowledge, communication, intellectual property, networks, and human relationship. This is different than focusing on tangible asset and manual labour such as heavy engineering and mass production in the older days. It is hoped that the discussion in this conference is consolidated towards finding ways to develop innovation in the economic and business environment. The thoughts shared in this event would benefit policies for the future.

Last but certainly not least, my greatest appreciation goes to all who have contributed to the success of this event, in particular the presenters, participants, sponsors, the organiser and its committee members. Have a fruitful discussion and mind challenging time during this conference. To our special guests from Indonesia, enjoy your stay in Malaysia.

Warmest regards,

**Prof. Dr. Mohd Fauzi Mohd Jani**

Dean

Faculty of Economics and Management

Universiti Kebangsaan Malaysia



## *Message from the Conference Chair*

This year, the Faculty of Economics and Management takes its pride to host for the fourth time the Malaysia-Indonesia International Conference on Economics, Management and Accounting 2010 (MIICEMA 2010). This eleventh edition of the MIICEMA 2010 continues the tradition of past conferences which have discussed on the issues affecting Malaysian, Indonesian as well as Asian economies. I believe the theme “Regional Development in An Era of Global Innovation Economy” would be an appropriate focus of discussions for academicians, researchers and practitioners alike.

I envisage that, with a total of 215 papers contributed by academicians and researchers from 57 universities and institutions involving 11 countries, this conference is proven to be the right platform where ideas, solutions and recommendations can be generated to help us maneuver through rough economic episode. Insights and resolutions derived from this conference should be translated into action plans and policies that could assist policy makers to formulate appropriate strategies in developing a sustainable economic growth in this region.

Finally, I wish to record my utmost appreciation and sincere thanks to **Prof. Tan Sri Dato’ Dr. Sharifah Hapsah Syed Hasan Shahabudin**, the Vice-Chancellor of Universiti Kebangsaan Malaysia for her relentless support and interest in the development of MIICEMA 2010 and the faculty. My deepest appreciation and gratitude to our sponsors and co-organizers who have provided tremendous support in organizing this auspicious event. My heartiest gratitude goes to the committee members for their dedication and commitment to ensure the success of this conference. To all participants and university representatives, thank you for making this important event a success and I hope this gathering will leave you with fond memories of your stay in Bangi.

Thank you very much.

Yours sincerely,

**Prof. Dr. Abu Hassan Shaari Md Nor**  
Conference Chair  
MIICEMA 2010



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## **SERVICE RECOVERY IN THE PUBLIC HOSPITAL: EVIDENCE FROM THE INDONESIAN HEALTH SERVICE INDUSTRY**

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### **ABSTRACT**

*The main objective of the study is to examine if there is any relationship of service failure dimensions, complaint behavior, and complaint handling in the public hospital industry. The primary study was conducted in the capital city of Bengkulu province, Indonesia. The number of questionnaires distributed in the survey was 400 and 293 questionnaires were returned and analyzed.*

*Friedman Test was employed to the dataset. The result of the analysis indicates that service failure constructs are related to patient complaint behavior patterns. Patients tend to complaint directly to the hospital or family than to channel their complaints through public actions. The result of the study also indicates that every service failure dimension requires a specific recovery strategy. Patients demand an apology from hospital for a service failure related to medical treatment errors. Patients would demand immediate response from hospital for any service failure related to dimension of physical evidences. However, patients would only demand an explanation when service failures are due to dimensions of poor information, costly service, complaint handling failure, and medical reliability failure. Indeed, the result of the study can be used by a hospital to design a recovery strategy.*

**Field of Research: Service Marketing**

## 1. INTRODUCTION

The quality of services provided by a hospital could be considered as a primary reason for patients when they choose service providers in the hospital industry. Customers or patients are reluctant to take a risky decision. Some are willing to pay premium prices to get a quality service of hospitals. It was perhaps for this reason that Prita Mulyasari went to OMNI hospital for her symptom of dengue fever. Unfortunately, what she got was not a better service from the international hospital based in Tangerang. Prita felt that she was misdiagnosed by the doctor and unfairly treated by the hospital management. When she channeled her complaint to her friends on the internet, the hospital took a legal action and filed a lawsuit against her. When the mother of two young boys were charged and jailed, the case became nationwide news in May 2009. Within a day, more than 20,000 face bookers rallied on the net to voluntarily support the release of Prita. Some well known politicians even support her publicly, albeit the real reason may not be for humanity but for political publicity.

Marketers would wonder what was in the mind of OMNI management when they decided to take a legal action against Prita instead of taking out of court settlement which is less painful and would be more productive. Now the management has to deal with the battered image of the hospital, which would be more expensive than the one billion rupiah the hospital is asking for from Prita.

The idea of zero-defect approach is relatively difficult to implement in a health industry. Because of the intangibility of services, a service failure cannot be corrected as easily as a product failure, which can, for instance, be recovered simply by replacing the good (de Ruyter and Wetzels 2000). It is impossible to ensure 100% error-free service due to the unique nature of services, specifically, co-production and the inseparability of production and consumption (Fisk, Brown, and Bitner 1993). For patients, services failures need quick responses from a health provider to provide adequate recovery strategy. When a hospital recovery strategy is perceived inadequate, a patient would file a complaint. Customer complaint could then jeopardize company image (Ganesan, 1994; Morgan and Hunt, 1994).

Alfansi dan Atmaja (2009) found six dimensions of service failures in a hospital industry namely *medical reliability failure, physical evidence failure, poor information, medical treatment errors, costly services, and complaint handling failure*. Alfansi and Atmaja (2008) identified a positive relationship between service failures and complaint behavior and a positive relationship between complaint behavior and switching intention. However, the writers did not explore the relationship between service failure dimensions and types of complaint behavior. The authors did not elaborate what recovery strategies that might be relevant to handle service failures.

Gronroos (1988) described service recovery as dimensions of service quality. Whilst, Mitchell (1993) stated that service recovery is not merely an effort to response to service failure but it is a crucially competitive weapon to survive in the market.

## 2. LITERATURE REVIEW

### 2.1 Service Failure

All service organisations, however quality driven, will have some kind of service failures with respect to one or more dimensions of service quality. The idea of zero defects widely implemented in manufacturing industry is extremely difficult to apply in service industry. A company cannot avoid service failures due to human errors in service delivery (Fisk, Brown, and Bitner, 1993). Some researchers believed that service failures that are not immediately handled by a service provider could be costly and could lead to customer defection (Roos, 1999; Liu, Sudharshan, and Hamer, 2000; Maxham, 2001).

Maxham (2001) defined service failures as any service related mishaps (real or perceived) that transpire during a customer's experience with a firm. Others would explain service failure as commonplace and is frequently considered as an inevitable consequence of service provision (Lewis and Clacher, 2001).

Service failure could be due to unique characteristics of services and psychographic factor of individuals getting involved in service delivery (Lewis and Spyropoulos, 2001). Bitner, Booms, and Tetreault (1990) concluded that employee responses toward service failure directly relate to customer satisfaction and dissatisfaction. Other researchers revealed that service failures could also due to customer behaviour in the delivery process of the services (Armistead, Clarke, and Stanley, 1995; Denham, 1998).

Service failures could be grouped into four categories: service delivery system failures, gap between needs and requests, unprompted/unsolicited employee actions, and problematic customers (Bitner, Booms, and Tetreault, 1990). Lewis and Spyropoulos (2001) classified service failures into five categories, namely organization procedures, mistakes, employee behaviour, functional/technical failures, and actions/omissions of the organization that are against the sense of fair trade.

### 2.2 Complaint Behaviour

Sing (1988, p.94) defined customer complaints '*. . . . a set of all behavioural and non-behavioural responses which involve communicating something negative regarding a purchase episode and is triggered by perceived dissatisfaction with that episode*'. Tax, Brown, and Chandrashekar (1998) emphasised that a complaint is a conflict between a customer and a company in which injustice occurs in resolution procedures, the interpersonal communications and behaviours, and the outcome based on customer primary evaluation criteria.

The negative impact of customer complaints is the effect of bad word of mouth that can jeopardise company reputation and brand (Ganesan, 1994; Morgan and Hunt, 1994). Ball, Coelho, and Macha (2004) found that there was a correlation between image and complaint to brand trust and customer loyalty. For this reason, some companies educate their customers by proactively informing customers on how to voice their complaints. Thus, customers who voiced their complaints would reduce their unhappiness (Kowalski, 1996; Kolodinsky and Aleong, 1990). In addition,

providing customers a medium to voice their grievance would reduce the possibility of customer switching intentions (Fornell and Wernefelt, 1987).

According to Singh (1988), there were four possibilities of customer responses with regard to service failures. First, customers did not voice their grievance to anyone but they simply switched to other providers. They were classified as “passives”. Second, customers stopped using company services and switched to other providers and voiced bad word of mouth to families and friends. These customers were labelled “irates”. Third, customers voiced their complaints directly to companies and/or demanded compensation from companies. They were named “voices”. Fourth, customers would express their bad experiences in mass media, reported to NGOs, or even sued the company. They were classified as “activists”. Hunt (1991) revealed retaliation as a fifth possibility in consumer complaint behaviour. Dissatisfied customers would intentionally destroy company services or facilities.

According to Day (1977) factors affecting customer complaints were the importance of the consumption, consumer knowledge and experience of the products or services, the possibility rate of getting compensation, and the success rate in voicing complaints. Sheth, Mittal, and Newman (1999) classified factors determining complaint behaviour into three categories, namely (1) *dissatisfaction salience* which was influenced by a gap between expectation and performance of services and its degree of importance, (2) *attribution to the marketer*, which related to problems that could be handled by marketers, repeated mistakes, and the possibility of corrective actions by marketers, and (3) *customer's personality traits*, which related to customer confidence and aggressiveness to voice their rights.

### 2.3 Service Recovery

A recovery strategy is expected to reduce customer dissatisfactions. Zeithaml dan Bitner (2000) and Armistead, Clarke, and Stanley (1995) define service recovery as special treatments needed to convince customers so they would accept, to some degree, the service failure that occur.

Tax and Brown (1998) explain that a service recovery process covers four steps, namely (1) identification of service failures, (2) solving customer problems, (3) communicating and classifying service failures, and (4) Integrating data and improving overall services. To be effective, a service recovery strategy requires supports from all layers of management.

Tax dan Brown (1998) also revealed that a service recovery is perceived by customers in three ways: outcome fairness, procedural fairness, and interactional fairness. Johnston (1994) identified that attention, helpfulness, care, responsiveness, communication, and flexibility were contents of a service recovery. Whilst Lewis dan Spyrapopoulos (2001) classified seven types of recovery strategy, namely (1) do corrections, (2) *exceptional treatment*, (3) provide explanations, (4) offer apologies, (5) compensate for the failure, (6) *re-direction* to other employees or managers, and (7) did nothing.

### 3. DATA AND METHODOLOGY

The researchers employed service failure constructs based on the work of Alfansi and Atmaja (2009). The dimensions of service failures are medical reliability failure, physical evidence failure, poor information, medical treatment errors, costly services, and complaint handling failure. Respondents were asked to rank-order their complaint patterns regarding their responses toward service failure dimensions. The researchers also employed constructs of service recovery developed by Sing (1990). The research then developed service recovery constructs by adopting the work of Lewis dan Spyrapopoulos (2001).

The primary study was conducted in the city of Bengkulu, Indonesia. The city has a population of 300,000 people. Four hundred self-administrated questionnaires were distributed to hospital patients and 293 questionnaires were returned and analyzed for the study.

Friedman test was employed to the dataset to examine the relationship between service failures and complaint behavior patterns and the relationship between service failures and service recovery strategy.

### 4. FINDINGS AND DISCUSSION

The patient complaint patterns of service failure dimensions are displayed in Table 1. The result of the study identifies that patient complaint patterns are classified into five categories based on their rank-order preference: direct complaint, family complaint, did-nothing, friend complaint, and public complaint. The result of the study clearly indicates that in every dimension of service failures, patients tend to voice their grievances directly to hospitals. Consumers or patients perceive that by doing direct complaint, hospitals would be able to understand the nature of service failures and therefore could improve their services in the future. The second pattern of customer complaints is family complaint where patients shared service failures they experienced with their families. By sharing their grievances with families, they would expect that their families could avoid the same problem when dealing with hospitals.

The result of the study also indicates that public complaint would be the last option among patients. The finding is consistent with the work of Alfansi and Atmaja (2009) and Heung and Lam (2003) who concluded that public complaint would be the last option among patients in Asia. Alfansi and Atmaja (2009) explained Indonesians tend to score highly on the dimensions power distance and collectivism of Hofstede's national culture and therefore they would avoid conflicts and would not voice their complaints publicly. Heung and Lam (2003) reported the same finding when they revealed that in China most unsatisfied customers would talk to their friends or be salient to maintain social harmony and avoid confrontation.

**Table 1. Patient Complaint Patterns of Service Failure Dimensions**

Service failure dimensions	Complaint patterns	Mean rank	Significance
Medical treatment errors	<i>Nothing</i>	3,13	$\rho < 0,05$
	<i>Family complaint</i>	2,25	
	<i>Direct complaint</i>	1,86	
	<i>Friends complaint</i>	3,39	
	<i>Public complaint</i>	4,37	
Physical evidence failure	<i>Nothing</i>	3,37	$\rho < 0,05$
	<i>Family complaint</i>	2,13	
	<i>Direct complaint</i>	1,87	
	<i>Friends complaint</i>	3,27	
	<i>Public complaint</i>	4,37	
Poor information	<i>Nothing</i>	3,19	$\rho < 0,05$
	<i>Family complaint</i>	2,22	
	<i>Direct complaint</i>	1,90	
	<i>Friends complaint</i>	3,32	
	<i>Public complaint</i>	4,37	
Medical reliability failure	<i>Nothing</i>	3,14	$\rho < 0,05$
	<i>Family complaint</i>	2,31	
	<i>Direct complaint</i>	1,99	
	<i>Friends complaint</i>	3,22	
	<i>Public complaint</i>	4,35	
Costly services	<i>Nothing</i>	3,24	$\rho < 0,05$
	<i>Family complaint</i>	2,03	
	<i>Direct complaint</i>	1,95	
	<i>Friends complaint</i>	3,40	
	<i>Public complaint</i>	4,38	
Complaint handling failure	<i>Nothing</i>	3,55	$\rho < 0,05$
	<i>Family complaint</i>	2,17	
	<i>Direct complaint</i>	2,01	
	<i>Friends complaint</i>	3,20	
	<i>Public complaint</i>	4,06	

Every service failure requires a quick and proper recovery strategy. A quick recovery strategy implies that a company improves its services before a patient even complaint about the service failure. It is also important for a health service provider to provide a proper solution to the problem complained by patients. The forms of recovery strategies related to service failures in the hospital industry are depicted in Table 2.

**Table 2. Recovery Strategies of Service Failures in the Hospitals Industry**

Service failure dimensions	Service recovery	Mean Rank	Significance
Medical treatment errors	<i>Apologize</i>	1,98	$\rho < 0,05$
	<i>Correction</i>	2,46	
	<i>Explanation</i>	2,25	
	<i>Compensation</i>	3,31	
Physical evidence failure	<i>Apologize</i>	2,36	$\rho < 0,05$
	<i>Correction</i>	1,96	
	<i>Explanation</i>	1,99	
	<i>Compensation</i>	3,69	
Poor information	<i>Apologize</i>	2,42	$\rho < 0,05$
	<i>Correction</i>	2,02	
	<i>Explanation</i>	1,86	
	<i>Compensation</i>	3,70	
Medical reliability failure	<i>Apologize</i>	2,21	$\rho < 0,05$
	<i>Correction</i>	2,13	
	<i>Explanation</i>	1,91	
	<i>Compensation</i>	3,75	
Costly services	<i>Apologize</i>	2,46	$\rho < 0,05$
	<i>Correction</i>	2,25	
	<i>Explanation</i>	1,75	
	<i>Compensation</i>	3,53	
Complaint handling failure	<i>Apologize</i>	2,25	$\rho < 0,05$
	<i>Correction</i>	2,11	
	<i>Explanation</i>	1,88	
	<i>Compensation</i>	3,76	

Of the six dimensions of service failures, there are four types of recovery strategies demanded by customers. Each service failure requires a different form of service recoveries. The results clearly indicate that compensation would be the last option for patients. Most customers would perceive a recovery is adequate when a hospital explains what is wrong with the health services the hospital provided. The Friedman test reveals that an explanation is required in four dimensions of service failures (See Table 2). When the case of service failure is related to physical evidence such as inadequacy in medical equipment, customers would demand corrections from the health service providers.

It is interesting to note that in the case of medical treatment errors, health customers rank apology as the first recovery strategy they demand. Most health customers would not take a public action, such as demanding compensation, against hospital. In a collectivistic culture like Indonesia, people tend to maintain harmony. In addition, most Indonesians believe that some of the service failure, especially medical treatment errors, cannot be avoided at all no matter how hard the doctors have tried. It is considered a destiny when a disease cannot be cured, although some of the medical treatment errors are due to human errors.

## 5. CONCLUSIONS AND IMPLICATIONS

The result of the study identified that customers tend to voice their complaints directly to hospitals. The study also shows that public actions would be the last option taken by patients. Interestingly, in the four of the six cases of service failure categories, customers rank explanation from hospitals as their first recovery they expect from hospitals. This is a clear opportunity for hospitals to improve their service quality by carefully studying customer complaint patterns. Hospitals should find a way to communicate effectively with patients. Both informal and formal channels of communication should be established so that hospitals can examine customer complaints and design proper recovery strategies based on the patterns of customer complaints. As service failures may not be avoidable due to the nature of health service characteristics, it is a genuine response from the hospital that customers would notice. It is therefore important for hospitals to equip their doctors and staff with better communication skills.

In addition, hospitals need to improve their physical facilities since customers demand corrections for the tangible aspect of a health service process. Investment in medical equipment and technology would be required if hospitals want to improve their services and thus would eventually improve their images.

It is also important for hospitals to improve their service designs and deliveries continuously. Continuous improvement would certainly help reduce service failures and customer complaints.

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