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GJMBR-A Classification: JEL Code: E24



Internal Service Quality and Employees' Retention: An Empirical Study at the Kuwait Finance House

Ahmad Abdullatif Alshuraiaan Almutairi

Abstract- With organizations racing towards achieving the largest market share and overcoming competitors, the human resource plays a pivotal role in enhancing the organization's ability to achieve this goal through the talents employed and retained in the organization. The aim of this study is to investigate the impact of internal service quality on employee retention. The study population was represented by the employees in Kuwait Finance House, which is one of the most significant Islamic banks in Kuwait. The study sample was (612) employees, who formed a response rate (71.16%). Structural equation modeling (SEM) was used as a statistical method for data analysis and hypothesis testing. The results supported all hypotheses that indicated a positive impact of internal service quality and its dimensions on employee retention. Consequently, the study suggests that managers and leaders pay more attention to the psychological aspects of employees and provide an appropriate work environment that motivates them to stay in the organization.

Keywords: *internal service quality, employees' retention, kuwait finance house.*

1. FINANCE HOUSE

The widespread recognition among management science theorists and organization managers that the human resource is the most valuable resource of the organization is a crucial motivation for understanding the various aspects surrounding this resource and appropriate strategies for managing it effectively and efficiently (Dessler, 2017). Employee retention is seen as a pivotal issue in the success of organizations, as studies have shown that the high rate of job turnover and the loss of the organization to its competent employees leads to incurring heavy costs in the process of selecting and recruiting new employees and training them to integrate into the work environment (Azeez, 2017; Kurdi et al., 2020; Wassem et al., 2019). According to Alhmoudand Rjoub(2019) who estimated the cost of a new employee approximately equal the compensation paid to the lost employee for a year. Therefore, organizations around the world strive to make great efforts to retain their employees, considering the loss of them is a major concern that may harm the reputation of the organization and reduce its competitiveness (Bibi et al., 2018).

In the context of organizations' competition for talent, it has become necessary for leaders of organizations to realize the significant of the factors that help attract and employ this talent within the organization (Fawad Latif et al., 2016). Internal marketing emerges here as one of the major issues that the candidates consider when evaluating the work environment for differentiation and choosing what suits their aspirations (Noor et al., 2014). (Pieter, 2020) indicated that the success of the internal marketing strategy dependence on a set of policies used by organizations' management to provide distinguished services to internal clients. These services aim to motivate the employees for integrating into work environment and commit to achieving the organization's goals, where it is referred to as the internal service quality. Several studies discussed the effect of internal service quality on enhancing employees' satisfaction (Abdullah et al., 2021; Al-Ababneh et al., 2018; Njilo et al., 2020), increasing their loyalty (Gandhi et al., 2018; Tomic et al., 2018), and improving their performance (F Latif et al., 2016; Li et al., 2019; Pieter, 2020; Singh, 2016).

Recently, the oil market has witnessed a significant decline due to trends towards adopting an approach based on sustainability and environmental responsibility. This decline prompted some countries that depend on oil production and exports to restructure their economies to accommodate these changes. Kuwait is one of the most important oil producer and exporter in the world, which has implemented serious strategies and policies to avoid budget deficits and maintain the pace of economic prosperity by focusing on the banking sector. The Kuwaiti banking sector ranks sixth in terms of the volume of assets, according to the fourth annual report of the Central Bank of Kuwait 2020, as it acquired 6% of the total assets of the Arab banking sector and 7% of its deposits. Islamic banks are the fastest growing in this sector with a rate of 23.2%, where both the National Bank of Kuwait and Kuwait Finance House own most of the Kuwaiti banking sector's assets at a rate of 56%, being the most flexible and for their focus on supporting entrepreneurship.

Since the employee retention problem is one of the challenges that hinder business development, especially in the Arab work environment. Moreover, the

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limited understanding and lack of empirical evidence regarding internal service quality and its role in enhancing organizations' ability to retain their employees in the context of contemporary dynamic work environments. Besides, the significant role of the Islamic banking sector of Kuwait, the aim of this study is to investigate the relationship between internal service quality and employee retention in Kuwait Finance House, which is considered the most widespread and the acquisition of a market share.

II. THEORETICAL BACKGROUND

a) *Internal service quality*

The appropriate organizational environment encourages the employees to provide the best services to the customers. Magetoand Luke (2019) Identified a set of factors that create a supportive organizational environment for employees in order to provide distinctive experiences for customers. These factors included administrative support for employees, providing them high quality services, and flexible regulations and work procedures. Internal service quality provided to an organization's employees is the beginning of the chain that determines external service quality provided to customers, where employees respond to the quality of services provided by the organization which make them satisfied by making efforts to achieve customer satisfaction (Al-Ababneh et al., 2018; Njilo et al., 2020).

Abdullah et al. (2021) defined the internal service quality as the perceived quality of services provided by organizational departments to their employees or/and to other departments in the same organization. In the same context, Shakya and Tamang (2020) considered it as the degree of employee satisfaction as an internal customer due to his awareness of the services provided by another employee as an internal service provider. Over the past decades, internal service quality measurements have been a dynamic field that has attracted many researchers. Many theoretical and empirical studies were conducted to identify the role of internal service quality in achieving job satisfaction by using various measures of internal service quality (Abdullah et al., 2021; Al-Ababneh et al., 2018; Gandhi et al., 2018; Jen-Hung Wang & Chun-Yan Li, 2018; Njilo et al., 2020; Wang, 2012).

However, the model commonly used in these studies is INTER-SERVQUAL model that includes five dimensions that have unshakeable psychometric characteristics and contribute to an analysis of internal service quality in most targeted organizations (Al-Bilbiese & Al-Nuaimi, 2017; Shakya & Tamang, 2020). Tangibility refers to the physical assets that an organization provides to its employees with the aim of facilitating their work (Dahleez, 2015; Fadil et al., 2016).

Reliability expresses an organization's ability to fulfill its obligations to its employees with confidence and accuracy (Gandhi et al., 2018). Responsiveness is dealing with the employees' needs effectively and solve their problems as quickly as possible in a way makes them feel that they are of interest to the organization (Al-Ababneh et al., 2018; Al-Bilbiese & Al-Nuaimi, 2017; Shakya & Tamang, 2020). Assurance is the organization's keenness to support its employees and develop their skills and career (Zheng et al., 2018). Empathy indicates to the degree of care and concern for an organization with the psychological aspects of its employees (Abdullah et al., 2021; Li et al., 2019).

b) *Employees' retention*

Employee retention is a vital source of competitive advantage, and it continues to pose one of the biggest challenges facing organizations in the current climate of intense competition for talent among organizations around the world (Chahal & Poonam, 2017). Therefore, employee retention is the motivational practice that will prevent the loss of high-value employees in the organization and encourage them to stay as long as possible for the benefit of both (Kurdi et al., 2020). Moreover, the concept of employee retention is linked to the hierarchical arrangements and policies used to stop the migration of essential personnel to other organizations (Alhmoud & Rjoub, 2019). According to Papa et al. (2018), the motivating and satisfactory factors provided by the organization, depending on its human resources strategy, make employees leave or stay, where the study concluded that motivated and satisfied employees have an intention to leave work about 62% less than those who are unsatisfied.

Azeez (2017) argued that material motivations are external factors affecting employee retention, while the two main factors for employee retention are the psychological factor related to a sense of respect and appreciation of achievement, and the organizational factor related to the procedural fairness and the degree of freedom afforded to make decisions. Further, Wassem et al. (2019) emphasized that employee retention is based on key factors that human resources management plays a fundamental role, these factors represented by (1) matching between employee's abilities and skills with the job content, (2) compensations based on the foundations of fair performance evaluation, (3) promoting opportunities for career advancement and stability, (4) the relationship between the supervisor and employees, (5) the last factor, the positive and supportive work environment.

III. STUDY MODEL AND HYPOTHESES

Organizations devote significant time, effort, and resources to investing in their employees, thereby they should always devise strategies that enable them to

ensure employee stability and increase their effectiveness. Studies have shown that material motivations have a clear role in encouraging employees to stay (Alhmoud & Rjoub, 2019; Bibi et al., 2017; Terera & Ngirande, 2014). However, there are many studies that indicated the existence of other factors that affect the ability of an organization to retain its employees and reduce the intention to leave their work (Dhanpat et al., 2018; Frye et al., 2020; Rakhra, 2018). Among these factors is the prevailing culture that plays a prominent role in supporting the organizational climate that stimulates employee retention (Chahal & Poonam, 2017; Madueke & Emerole, 2017; Ndife, 2020; Remijus et al., 2019), the organization's adoption of human resources policies that contribute to increasing the skill of employees and developing their careers that helps them remain in the organization (Azeez, 2017; Bibi et al., 2018; Khan et al., 2011; Wassem et al., 2019). This study is highlighted the impact of internal service quality on employee retention, where the organization's endeavor to fulfill the desires of its employee by providing a set of distinctive services to them and integrating their goals with the organization's goals enhances their sense of satisfaction and drives them to stay in the organization. As such, the main hypothesis of the study:

H1: There is a significant positive impact of internal service quality on employees' retention.

When the organization allocates part of its assets and resources to meet the desires of employees, it contributes to increasing their productivity (Choi et al., 2015). It also improves their efficiency in performing their tasks by providing advanced equipment and tools, which is reflected in their performance (Abdullah et al., 2021; Pieter, 2020). The improved performance and higher productivity of the employees increases their sense of job justice and drives them to commit to and remain in the goals of the organization. Thus, the first sub-hypothesis of the study is represented by:

H1.1: There is a significant positive impact of tangibility on employees' retention.

Fulfilling the employees' desires within the agreed terms and specific timelines that are commensurate with them increases their sense of confidence towards the organization's leadership (Gandhi et al., 2018; Khan et al., 2011; Shakya & Tamang, 2020). This feeling contributes to developing their loyalty as they consider the organization to be able to fulfill its obligations to its employees. Therefore, the second sub-hypothesis indicates:

H1.2: There is a significant positive impact of reliability on employees' retention.

Employees often face challenges and problems while performing their duties. The ability of the organization's leadership to support employees, solve their problems, and respond to challenges quickly

enhances the feeling of job security among employees (F Latif et al., 2016; Mageto & Luke, 2019). The feeling of job security and the ability of the organization to respond to challenges is reflected in the employees' desire to continue performing their duties optimally and staying in the organization. Hence, the third sub-hypothesis is as follows:

H1.3: There is a significant positive impact of responsiveness on employees' retention.

Moreover, organizations seek to build the capabilities of their employees and develop their career through a range of services they provide such as training programs and consultations (Al-Bilbiese & Al-Nuaimi, 2017; Shakya & Tamang, 2020). Such services enhance employee satisfaction and their ability to innovate and make effort to achieve the organization's goals and drive them to stay in their workplace. Hence, the fourth sub-hypothesis indicates:

H1.4: There is a significant positive impact of assurance on employees' retention.

The employees make a lot of efforts in order to achieve the goals of the organization, whether it is a physical or intellectual effort (Gandhi et al., 2018; Li et al., 2019). Organizations should appreciate and respect these efforts by employees to enhance the work environment in which employees feel as family members and enable the organization to retain them. Thus, the fifth sub-hypothesis indicates:

H1.4: There is a significant positive impact of empathy on employees' retention.

Figure 1 shows the proposed relationship between internal service quality and employee retention, as well as the main and subsidiary study hypotheses.

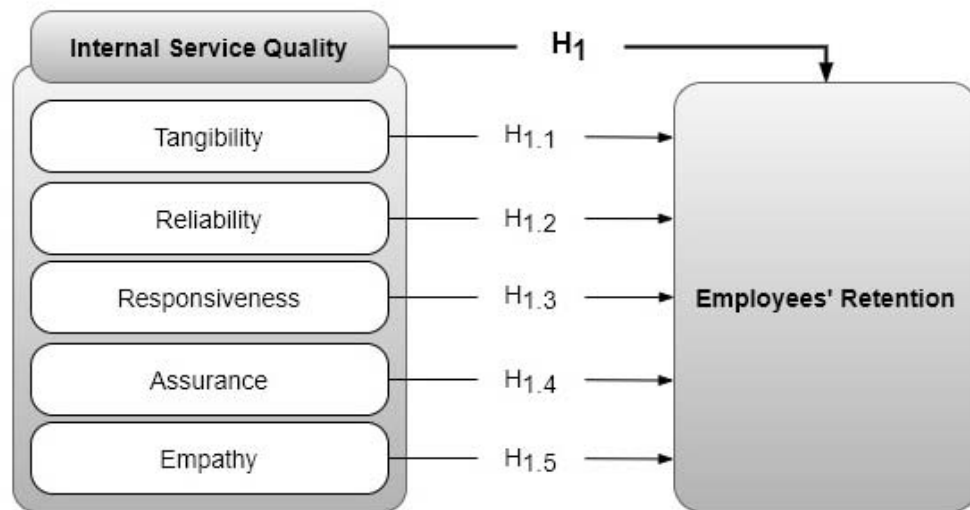


Figure 1: Conceptual Model and Hypotheses

IV. STUDY METHODOLOGY

a) Study Population

The banking sector in Kuwait has the highest utilization rate of financial services compared to other countries in the Arab region, and it is the second largest economic sector in Kuwait next oil. There are 23 banks operating in Kuwait, including two government banks and 21 private banks. These banks carry out their activities through 353 local branches. This sector has contributed significantly to enhancing the added value and growth of Kuwait's GDP. Kuwaiti banks are the lifeblood of the national economy and the external front of the country through their branches spread in a large number of countries of the world. More than 50 percent of the workforce in the Kuwaiti private sector employs in Kuwaiti banks. Further, the Kuwaiti banking sector is one of the most highly trained economic sectors for human resources and the most use of technology.

The structure of this sector consists mainly of conventional banks and Islamic banks, as Kuwait plays a pioneering role in the fields of Islamic banking through the establishment of the second largest bank operating according to Islamic banking regulations, which is the Kuwait Finance House (KFH). This bank provides its clients with a variety of Islamic financial products and services through 519 branches with about 15,000 employees in many countries such as the United Kingdom, the United States of America and Canada, while the headquarters is in Kuwait. Consequently, the population of the current study consists of employees in KFH due to the importance of this sector in developing the national economy of Kuwait and the pioneering role of this bank in the fields of Islamic banking.

b) Data collection procedures

This study used quantitative data as a basis to test the impact of internal service quality on employees'

retention. The primary data were collected through a self-report electronic questionnaire designed by Google Forms. However, the wide spread of KFH branches inside and outside Kuwait made it difficult to conduct a complete census. Consequently, the sampling method was used to collect data related to the study, whereby the purposive sampling method was used as Taherdoost (2016) recommended by sending an electronic questionnaire via e-mail to 860 employees in Kuwait branches whose number approximately 2430 employees, as indicated in the KFH fourth annual report 2020. The retrieved questionnaires reached 645, while the valid ones for statistical analysis reached 612 questionnaires, which constituted a response rate of 71.16%.

The demographic and functional characteristics of the study sample show that the majority of respondents are male (73.04%) compared to the percentage of females (26.96%). The results also show that the age group 30-40 ranked first (46.07%), followed by the age group 40-50 (34.47%), then the age group less than 30 (12.74%), and finally the age group higher than 50 (6.72%). In terms of educational level, most of the employees hold a bachelor's degree (52.61%), followed by a diploma degree (28.59%), while those with postgraduate degree have the lowest percentage (18.80%). Additionally, the results indicated that most of the respondents had job experience from 10 to 15 years (49.18%), followed by those with an experience of more than 15 years (36.60%), at the last, those who had experienced less than 10 years (14.22%).

c) Variable definition and measurement

To measure the concepts used in this study, the guidelines of Sekaran and Bougie (2016) were followed and also relied on empirical evidence and pretesting with academics and banking professionals to develop measures. Respondents were asked to rate the degree

of their agreement/disagreement with the items used to measure each variable according to the five-point Likert scale. The following is a definition of the study variables and the mechanism for developing the scale:

d) *Independent variable*

Internal service quality (ISQ) can be defined as the organization ability to meet the employees' requirements by using interactive internal marketing practices to motivate them toward achieving the organization's goals. ISQ was measured by 19 items developed according to (Mageto & Luke, 2019; Shakya & Tamang, 2020). These items distributed into five dimensions: four items for tangibility (e.g. the bank provide the modern equipment and tools needed to accomplish my duties perfectly), four items for reliability (e.g., we treat with faced problem seriously), three items for responsiveness (e.g., the bank climate motivate me to exchange information and knowledge), four items for assurance (e.g., the bank welcomes complaints and suggestions making by employees), and three items for empathy (e.g., I feel respect and trustworthy when dealing with my colleagues and managers).

e) *Dependent variable*

Employees' retention can be defined as strategies and procedures that enable an organization to shape a work climate that encourages its employees to remain for the longest possible period. This variable was measured through six items developed in accordance with (Bibi et al., 2018; Papa et al., 2018; Soundara Rajan & Jayaraman, 2018). The items (e.g., I see a bright future for myself within this bank) formed the first-order construct to measure employees' retention.

f) *Control variables*

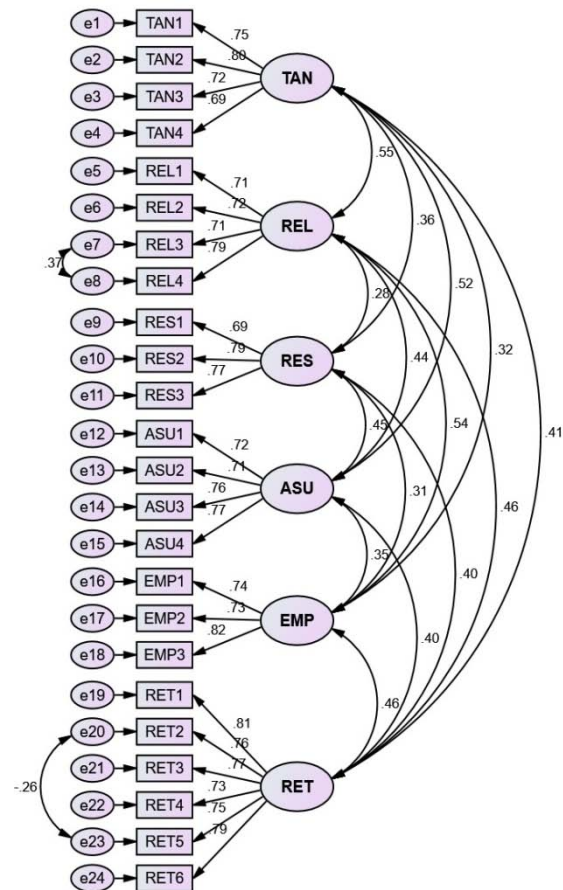
The control variables were also included in this study by four categorical control variables: gender, age group, educational level, and experience. Gender was measured into two categories which were male and female. An age group was divided into four categories: the first category was less than 30 years, the second from 30 to less than 40 years, the third from 40 to less than 50 years, and the fourth 50 years and higher. Educational level was measured through three qualifications: diploma, bachelor, and postgraduate. Experience was classified into three levels: less than 10 years, from 10 to 15 years, and more than 15 years.

V. STUDY RESULTS

a) *Measurement model assessment*

The reliability, convergent validity, and discriminant validity of first-order reflective latent constructs were evaluated as demonstrated in Figure 2. The Reliability was investigated at both construct and item level. Composite reliability (CR) and Cronbach's alpha (CA) indicators were used at the construct level,

where all indicators' values exceeding the threshold of 0.70, indicating appropriate construct reliability (Al-Lozi et al., 2018; Henseler, 2017). The construct-to-item loadings were used to determine item reliability, with those below 0.60 being excluded, thereby all remaining items had loadings greater than 0.688. The average variance extracted (AVE) for each construct was calculated to ensure if it was greater than the lowest limit of accepted convergent validity of 0.50, where the lowest construct achieved the AVE value of 0.531, which extremely exceeds the lower limit.



Note: TAN: tangibility; REL: reliability; RES: responsiveness; ASU: assurance; EMP: empathy; RET: retention.

Figure 2: The measurement model - standardized coefficients

Discriminant validity was tested using the Fornell-Larcker criterion who assumed that discriminant validity achieved when the AVE square root of each construct is greater than its higher correlation with each other constructs and maximum shared variance (MSV) for each construct less than its AVE. Furthermore, all variance inflation factors (VIF) were less than 3, suggesting low multicollinearity (Al-Hawary & Al-Namlan, 2018; Cheah et al., 2019). The results of these tests seen in Table 1 indicated that first-order reflective measures were reliable and valid to complete further analyse.

Table 1: Evaluation of reliability, validity, and descriptive statistics of reflective constructs

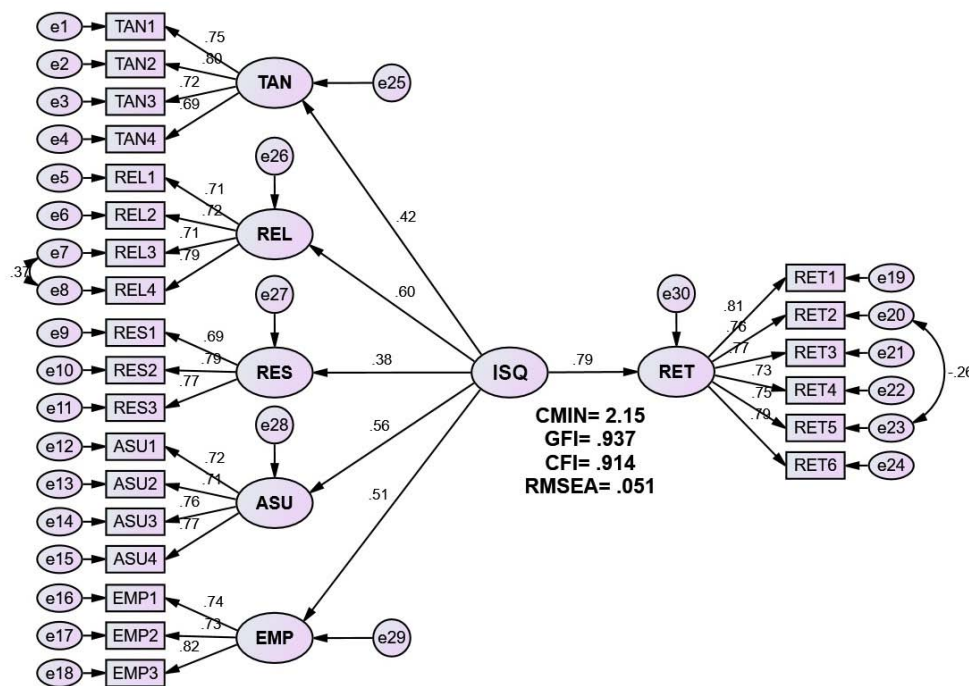
Constructs	1	2	3	4	5	6
1. TAN	.742					
2. REL	.671	.728				
3. RES	.528	.388	.754			
4. ASU	.615	.494	.604	.744		
5. EMP	.428	.681	.473	.419	.765	
6. RET	.490	.527	.551	.434	.568	.768
LR	.688-.814	.721-.768	.692-.794	.708-.775	.730-.821	.728-.806
Mean	3.73	3.41	3.30	3.62	3.76	3.69
SD	.879	.925	.772	.970	.854	.943
AVE	.550	.531	.569	.553	.586	.590
MSV	.415	.506	.398	.511	.527	.534
CR	.830	.819	.798	.832	.809	.896
CA	.827	.812	.784	.830	.801	.889
VIF	1.68	2.05	1.99	1.37	2.16	---

Note: TAN: tangibility; REL: reliability; RES: responsiveness; ASU: assurance; EMP: empathy; RET: retention; LR: loadings range; SD: standard deviation; AVE: average variance extracted; MSV: maximum shared variance; CR: composite reliability; CA: Cronbach's alpha; VIF: variance inflation factor; Bold fonts in the table indicates to the square root of average variance extracted.

b) Structural model assessment

The structural model used to test the main hypothesis through the AMOS program is summarized in Figure 3, where it provides the values of the standard path coefficients (β) along with the values of goodness fit indices. The values of these indicators indicate suitable goodness of the test model, where the chi-square ratio (CMIN) was less than 3, the values of

goodness of fit index (GFI) and comparative fit index (CFI) were greater than 0.90, and the value of root mean square error of approximation (RMSEA) less than 0.08 (Byrne, 2016). Moreover, the main hypothesis (H1) was confirmed as shown in Table 2, where there was a positive significant impact of internal service quality on employees' retention ($\beta = 0.792$, $t = 28.25$, $P < 0.001$).

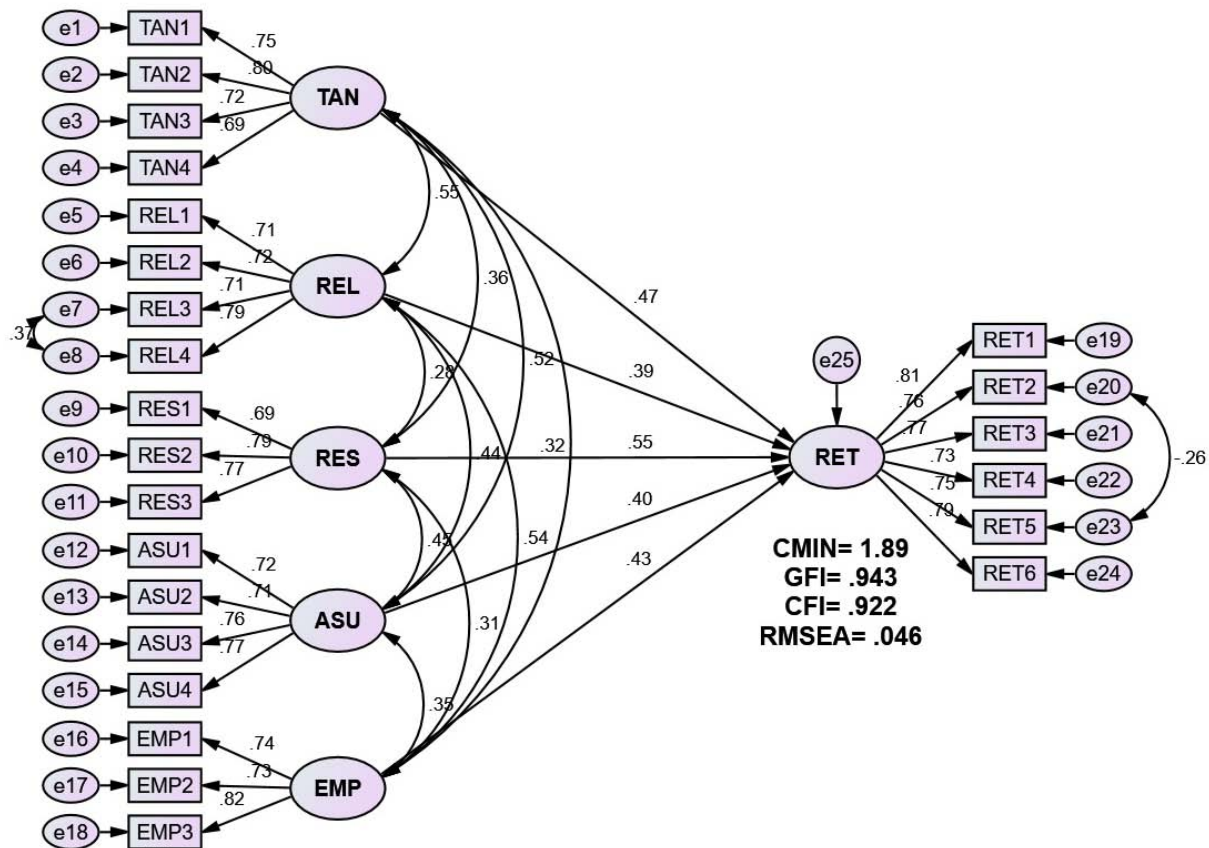


Note: TAN: tangibility; REL: reliability; RES: responsiveness; ASU: assurance; EMP: empathy; RET: retention; ISQ: internal service quality; CMIN: chi-square ration; GFI: goodness of fit index; CFI: comparative fit index; RMSEA: root mean square error of approximation.

Figure 3: The structural model for the main hypothesis testing

For testing the study sub-hypotheses emanating from the main hypothesis, the structural model shown in Figure 4 was constructed. The results demonstrated an appropriate goodness of this model based on the value of CMIN which was 1.89, the value of GFI and CFI that was higher than the minimum threshold of 0.90, and the value of RMSEA which was 0.046. Further, Table 2 is listed the standard path coefficients whose results supported all the sub-hypotheses that there was a significant positive impact

of the internal service quality dimensions on employees' retention. Additionally, The results indicated that the greatest impact was for the dimension of responsiveness ($\beta = 0.548$, $t = 15.33$, $P < 0.001$), followed by tangibility ($\beta = 0.474$, $t = 14.80$, $P < 0.001$), then empathy ($\beta = 0.427$, $t = 11.84$, $P < 0.01$), assurance ($\beta = 0.405$, $t = 11.20$, $P < 0.01$), and reliability ($\beta = 0.391$, $t = 8.68$, $P < 0.05$) at the last ranked in terms of impact.



Note: TAN: tangibility; REL: reliability; RES: responsiveness; ASU: assurance; EMP: empathy; RET: retention; CMIN: chi-square ration; GFI: goodness of fit index; CFI: comparative fit index; RMSEA: root mean square error of approximation.

Figure 4: The structural model for the sub-hypotheses testing

Table 2

Hypothesis	Path	B	SE	β	t-value	Conclusion
H1	ISQ → RET	.876	.031	.792	28.25***	Supported
H1.1	TAN → RET	.592	.040	.474	14.80***	Supported
H1.2	REL → RET	.417	.048	.391	8.68*	Supported
H1.3	RES → RET	.644	.042	.548	15.33***	Supported
H1.4	ASU → RET	.493	.044	.405	11.20**	Supported
H1.5	EMP → RET	.545	.046	.427	11.84**	Supported

Note: TAN: tangibility; REL: reliability; RES: responsiveness; ASU: assurance; EMP: empathy; RET: retention; ISQ: internal service quality; * significant at $p < 0.05$; ** significant at $p < 0.01$; *** significant at $p < 0.001$ (two-tailed test).

VI. DISCUSSION

The aim of this study is to explore the impact of internal service quality on employee retention at Kuwait Finance House. The results show a moderate level of internal service quality which corresponds with (Abdullah et al., 2021; Li et al., 2019; Zheng et al., 2018). Consequently, the employees of KFH are aware of the efforts exerted by their leadership to provide them with a set of distinguished services and their continuous endeavor to integrate the objectives of the employees in the strategic plans of the bank with the aim of achieving job stability and providing them with well-being while performing their services to customers. Whereas, the results indicated a high level of employees' retention, and this is consistent with (Papa et al., 2018). Therefore, the employees of KFH have loyalty and appreciation to the bank and are relatively satisfied with the work environment and the support provided by the bank's leadership to them, thus they intend to continue to make efforts to achieve the planned goals.

Besides, the results of hypothesis testing indicated that the internal service quality positively affects employee retention, which is consistent with what was reached by (Frye et al., 2020; Khan et al., 2011). Therefore, the administration's endeavor and efforts to provide a supportive organizational climate for employees by seriously responding to the challenges faced by employees in a timely manner and providing them with the necessary equipment and tools to perform their duties effectively and efficiently enables them to reach the required performance and increases their chances of retention in the long term. Moreover, the respect and appreciation that the management shows to employees as a result of their hard work and their eagerness to achieve the goals of the organization reflects positively on their psychological state, as it leads to their sense of satisfaction and enables them to do more to stay in the performance of services and tasks that contribute to strengthening the image of the organization among clients and urges them not to dispense for their work easily.

a) Study implications

Based on the results of the study, there are a set of suggestions and implications addressed to managers and leaders in the banking sector in general, and Islamic banks particularly. Theoretically, this study provided empirical evidence of the role of internal service quality in enhancing employee retention. Moreover, the research findings have contributed to the development of the conceptual framework for both internal service quality and employee retention that future researchers can benefit from. Practically, this study suggests that managers and leaders increase attention to the psychological aspects of employees, that they feel respect and appreciation for their efforts

exerted and enable them to continue performing their work. The work environment greatly affects the behavior and decisions of employees; thus, managers and leaders should build a work environment that attracts talent and stimulates their stay in the organization through the application of modern technology in the performance of work and the provision of infrastructure and material resources to facilitate the implementation of their work. Moreover, they have to go towards formulating human resource strategies that help in retaining employees by increasing trust between employees and the leadership of the organization and integrating their personal goals with the overall goals of the organization and achieving their well-being.

b) Limitations and future research directions

This study has some limitations that need to be discussed. Firstly, data was collected from KFH branches for reasons related to financial constraints and accessibility. Hence, the scope of future research could be expanded to include other banks in Kuwait or branches out boarder of Kuwait. Secondly, only employees were considered participating in this study. Thus, results can be generalized by selecting managers and leaders as respondents in future research. It is also suggested that other sectors such as manufacturing and telecommunications be studied in future research. Last but not least, this study reported a partial effect of internal service quality on employee retention, indicating that internal service quality is not the only factor that contributes to employee retention. Therefore, future studies should incorporate some other variables such as organizational culture, job security, and strategic leadership.

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