The definitional dilemma in family business research: outlines of an ongoing debate

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Abstract: Family business research has been considered as a distinct field from mainstream research. It has been pointed out the lack of a shared theory able to provide a strong conceptual framework, originating following limitations for empirical research. Various definitions of family business have been employed, limiting comparisons and generalisations of findings across studies. Therefore, the first concern researchers need to deal with is the definition of family business, for overcoming a basic limitation of the field of research. This paper aims to highlight, by a literature review, how recent perspectives may represent useful contributions towards theory building and empirical research. Although some uncertainties still remain in terms of trade-off between objective and subjective characteristics, they suggest new directions to address studies for overcoming the definitional dilemma.

Keywords: family business; definitional clarity; familiness; ownership; F-PEC; theoretical framework.

Reference to this paper should be made as follows: Di Toma, P. and Montanari, S. (2010) 'The definitional dilemma in family business research: outlines of an ongoing debate', *Int. J. Entrepreneurial Venturing*, Vol. 2, Nos. 3/4, pp.262–275.

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1 Introduction

Although family business has been considered in the past as distinct from mainstream research (Bird et al., 2002), recent efforts have been made to develop more rigorous theories on family business. Studies have been increasingly committed to overcome previous limitations, contributing to clarify the topic by developing an accepted framework within mainstream business research (Sharma, 2004; Zahra and Sharma, 2004).

The absence of common basic theories however, results in a considerable lack of consistency in the definition of family business, which becomes even more evident if the concept is needed for empirical research purposes. There is no widely accepted framework for a systematic integration of the differing approaches, such as strategic management, organisational theory, sociology, psychology and other disciplines that may provide useful contributions to the development of knowledge on the family business topic (Chrisman et al., 2005a).

There are, therefore, relevant limitations when comparing and for generalising findings across studies, in the absence of well established criteria for selecting homogeneous samples (Smyrnios et al., 1998). The subjects investigated often concern individuals, such as the founder or the members of the succeeding generation, or groups of individuals, such as relationships between family members, or between family members and professional managers, or the nature and resolution of conflicts and the succession to the leadership role. These perspectives focus on the problem of defining specific topics with regard to the role of the family business in the general economic system. Furthermore, they address the distinctive characteristics of the family business, mainly at a business or organisational level, such as strategic behaviour, organisational culture, performance (Sharma, 2004).

Differences also emerge if considering the family side of the definition. Sometimes only one family alone (Lyman, 1991) and sometimes two or more families have to be involved in the same business (Corbetta, 1995). Family may refer to the nuclear family (Barnes and Hershon, 1976) or to extended families (Pratt and Davis, 1986).

Once the terms of the problem underlying the definition of family business have been considered in depth, then this paper intends to organise the main proposals in line with the evolutionary path of the family business definition and to highlight how the most recent developments contributed to the definition of a theoretical construction that may usefully support empirical research.

Conclusions will emphasise the continued existence of a grey area where the old dilemma between the characteristics of family businesses which can be measured objectively and the more abstract qualities which are still ambiguous to measure without a certain degree of discretion, even though they are no less important, still remains unsolved.

2 The essence of the family business and uncertainties affecting the definitional clarity

The variety of distinguishing characteristics may help for explaining the relative underdevelopment of a family business definition (Westhead and Cowling, 1999) with respect to other topics, such as the founder, succession, or intergenerational relationships

(Astrachan et al., 2002). The overlap between the family and the firm ends up producing a huge variety of types arising from the interaction of differing characteristics and objectives, such as size, number of people involved, and organisational structure. Early definitions quoted ownership and/or the management, the degree of family involvement, and the potential generational transfer as the distinguishing characteristics of a family business, but there is no corresponding agreement for arranging each of these factors (Handler, 1989; Astrachan et al., 2002).

Early studies on family business mainly involved regulatory type studies (Swartz, 1989). They were focused on specific matters often linked to the continuation of the business, such as succession, planning strategy, conflict management, and so forth (Smyrnios et al., 1998), following a basically anecdotal approach. The absence of a widely accepted theory resulted over time in many original definitions of the family business, showing a theoretical evolution, even if not in a linear manner, in the contents, in the models and in the measurability.

The definitional dilemma exposes the fuzzy field of family business research to potential corruption by the overlapping research on similar topics, such as entrepreneurship or leadership (Sharma, 2004). In order to overcome the plot arising from the variety of the characteristics that may be used to define a family business, it is necessary to move to the highest theoretical level. A clear distinction is needed between an abstract definition aiming to represent the conceptual idea that identifies an entity, object, or phenomenon from another, and a contingent definition identifying objective and measurable characteristics that are the actual expression of their existence and strength since they come straight from the distinctive condition expressed at a theoretical level (Chua et al., 1999).

Family business differs from all other organisational forms when a family influences its purpose, strategies and structures, in addition to the manner in which these are framed, created and implemented, making it different from those businesses where there is no family involvement (Lansberg, 1983). Adopting this perspective, characteristics such as ownership and management, family involvement and the attitude towards generational transfer are not conditions of familiness per sè, but rather should be considered as instruments through which the family can act on the business to give it characteristics that differ from those of a non-family run business (Chua et al., 1999). It does not matter how many family members are involved in management, or which amount of capital share is held by the family, or any other objective characteristic because companies with the same objective requirements of familiness may have differing behaviour regarding the degree of influence of the family on the business (Chrisman et al., 2005b).

This perspective is a basic step forward in searching for a shared solution to the definitional problem. It separates the theoretical conceptualisation from its working effects. It addresses a potential solution to the problem of confusing working and measurable characteristics such as ownership shares, or the number of members involved in management, with theoretical ideas which can not actually be verified unless analysed in depth on a case by case basis, such as common culture and values, sense of belonging, sharing vision, even though they may be more effective for conceptualising the topic.

Distinguishing theoretical from working perspectives allows researchers to debate on the distinctiveness of family businesses without restrictions of objectivity and measurability (Habbershon et al., 2003). The debate can be focused on the essence of the family business, starting off by clarifying whether it regards a way of being or a specific type of firm and thus formulating a consistent theoretical framework. Increasing the degree of consensus on the characteristics distinguishing one family business from another and explaining their diversity would make easier to identify the objective characteristic useful for measuring whether it is a family business or not. A theoretical framework unable to address objective criteria would be ineffective as it could not be applied. If the underlying basis of a theoretical definition refers to an appropriate identification of the essential characteristics of a situation, an entity, or an object, then the significant aspect of a working definition must lie in the inferential capacity of the identified operating characteristics and their measurability and objectivity.

A definition must be capable of being measured to the extent that following research findings can be measured and replicated (Astrachan et al., 2005). The requirements considered must also be clear, neutral, and unambiguous. Also critical is collecting data to make the definition work. In fact, many definition proposals require data gathering directly by the firm, which makes it particularly difficult building large databases. Subjecting theoretical taxonomies to empirical tests able to operationally distinguish family firms from non-family firms and, furthermore between the different types of family firms is a main challenge that needs to be faced to develop a consistent body of knowledge (Sharma, 2004).

3 One-dimensional definitions and the opposite logic for distinguishing a family business

According to a well established analytical framework (Handler, 1989; Sharma et al., 1996; Winter et al., 1998), this stage's contributions can be grouped into four different approaches addressing the prevailing requirements of the family's influence considered by the authors:

- ownership, governance and management
- generational transfer
- the interdependence between subsystems
- existence of multiple conditions.

3.1 Ownership, governance, and management

Power is considered the crucial dimension in defining family business, and is represented by ownership and involvement in management, even though there is no accordance to the minimum degree of involvement needed in either management or ownership. A family business may be defined as a firm owned and managed by a single family, but different positions emerge on identifying the number of family members that should be involved and the percentage of share capital owned by the family. As an example, Lyman (1991) takes the view that the family must hold complete ownership of the firm, with at least one owner and another family member involved in the business. Daily and Dollinger (1993) focus on management as the primary variable and consider two or more individuals with the same surname listed as managers as distinguishing family-managed from professionally managed firms. In a less restrictive approach, Holland and Oliver (1992) require the influence of the family on decisions regarding the ownership or management of the firm.

On the other hand, there is no agreement on the hybrid positions whereby the family holds ownership but not management power, or the family has a decisive influence on management but does not hold the majority share capital. Among the main definitions focused on the ownership variable, examples of suggested requirements are the legal control (Lansberg et al., 1988) or specific percentages of shares (Donnckels and Frohlich, 1991), or such a level of shares that ensures family control of the firm (Barry, 1975; Corbetta, 1995). In spite of their different formulation, the common basic idea is that a family business can be recognised when one or more families control the business based on their ownership shares.

Family involvement in management has also been considered as the dividing line between family and non family business. Upton and Sexton (1987) require two or more family members and at least two generations involved daily in the management, while Tagiuri and Davis (1996) propose the influence on management of two or more of the extended family members. Therefore, different approaches have been adopted, even among researchers who agree on the same basic idea.

3.2 Intergenerational transfer

In this perspective, the potential transfer of ownership and management to the next generations is the discriminating variable between family business and non-family business (Ward, 1987; Barach and Ganitsky, 1995; Heck and Scannell Trent, 1999). The division may refer to an expectation (Churchill and Hatten, 1987) or to the existing conditions (Ward, 1987). Accordingly, continuity through time represents a main distinctive characteristic of family business. However, since transferring the firm to the heirs is an intention, this perspective excludes from family business research any situation where the generation in power intends to assign the firm to third parties instead of passing it on to the succeeding generations, or vice versa, when no member of the succeeding generation is interested in taking over from the previous generation (Chua et al., 1999).

3.3 Interdependence between sub-systems

This approach considers a unique, complex system where family and business emerge as two interdependent sub-systems. The areas of overlap and interdependence between the sub-systems are considered as significant elements. Beckhard and Dyer (1983) propose a model encompassing four sub-systems, identified as the business, the family, the founder and connecting bodies, such as the board of directors. Davis (1983) emphasises the interaction between family and business as a unique characteristic of the family business and Gersick et al. (1997) define the family business as a unit system of three independent but overlapping sub-systems, identified as the business, the assets and the family. This perspective emphasises the institutional overlap as one of the significant requirements of the family business. Although this model may be effectively employed in case study research, it shows relevant limitations applying quantitative methods since the abstract characteristic of its claims jeopardises the objectivity and precision needed to create sample groups.

3.4 The existence of multiple conditions

With the aim of explaining the distinctiveness of family business while overcoming the limitations of one dimensional approaches, some definitions suggest combining objective conditions to subjective phenomena. Measurable parameters are often referred to ownership and management, while subjective conditions are identified in behavioural characteristic, such as perception, identification or the intentions of the individual involved. However, even when adopting this approach, an agreement on the identifying characteristics has not been reached. Accordingly, Donnelly (1964) distinguishes a family business by its identification with at least two generations of a family and a reciprocal influence between the family and the business goals, interests and policies. Handler (1989) also suggests main decisions and the leadership succession of family members involved in the governance or in the management as required conditions. The interdependence between the family and the firm will determine common values and internal transfer of power and leadership within the family.

Astrachan and Kolenko (1994) consider the control of the capital share associated to the presence of more than one member of the family working in the company, or the expectation of transferring ownership to the succeeding generation of the family, or alternatively, the identification of the company by the owners as a family business. Similarly, Miller and Le Breton Miller (2003) point out a level of ownership which is enough to determine the composition of the board, and then require that the CEO and at least one other executive belong to the family and, finally, the intent to pass the firm on to the next generation.

Even if multiple conditions are proposed, this view also leads to distinguishing between family and non-family business, rather then addressing the essence of a family firm. Moreover, it supports that definitional clarity may require the analysis of a plurality of dimensions, hence shaping the basis for segmentation models.

4 Multivariate models for the segmentation of the fields of research: the 'bull's eye'

Studies highlighting the main differences in the field of research, even though starting from various approaches were proposed since the mid 1990s. Emphasis was placed on distinguishing the numerous species which often are very different one from another within the genre of the family business. Recognising existing differences among family firms, each theoretical generalisation requires to be put into the context of its specific family business species (Pieper and Klein, 2007). Even though arising from differing theoretical paths, these perspectives highlighted how the family characteristics selected for defining a family business can take on different strengths. By measuring selected requirements either on an opposing scale (true/false), or on a continuous value scale, they result in a segmentation of the field of research in accordance with the combination of the variables employed. Furthermore, they identify types of family businesses with varying degrees of familiness.

Gallo (1992) proposed a model whereby the variables that refer to ownership and the willingness to transfer the business can take on one of two states (true/false), and the third management variable in turn can assume one of three states (full family presence, partial family presence, or no family presence). In this view a business is not considered a family business when the family does not hold capital shares, and it was uncertain when the family did not take part in running it (cyclical family business). Litz (1995) mainly focused on clarifying the definitional problem, identifying significant requirements in the ownership and management structure and in the intention of keeping close relationships between the family and the firm. Discussing arising potential definitions he points out that a family firm can be recognised only when ownership and management are closely held by the family and its members intend to increase or to maintain a close connection between the two systems.

Although a highly regulatory perspective and sometimes existing difficulties in the measurability of the selected variables, a significant contribution from these models relies on the emphasis on the definition of the field of research and on its segmentation into homogeneous sub-systems. Moreover, addressing limitations in quantitative research stemming from the lack of definitional clarity, Shanker and Astrachan (1996) moved from the dichotomous logic to the family universe bull's eye. Based on the influence of the family on the business, by ownership, governance and management requirements, and on the degree of the family involvement on the business, by intentions and number of family members involved, they obtained broad, middle and narrow definitions of the family business, measuring different degrees of family involvement in the business on a continuum ranging. The bull's eye approach helps to overcome the dichotomous logic, then focusing on the family influence and involvement for capturing the essence of a family business. Nevertheless, a more fine grained distinction could be helpful for a better understanding of a family business behaviour (Astrachan et al., 2002).

Aiming to distinguish between family business and non-family business in Germany, Klein (2000) proposed a parameter of substantial family influence (SFI) combining the percentages of capital held by the family, of family members on the board of directors, and of family members among the top managers. From this point of view, a family business definition should be a function of the compliance of the data with the theoretical definition, and not in accordance with the subjective opinion of researchers, or family members, or others. This perspective overcomes one of the main previous limitations affecting a more rigorous approach in family business definition.

5 Multivariate models of measuring familiness

The increasing efforts to extend empirical studies on large scale data bases make the family business definition and its working utility an essential methodological tool. Because of limitations stemming from of opposing definitions distinguishing family and non-family businesses as discrete variables, it may be useful to evaluate the degree of family influence on a business as a continuous variable where both family and non-family business represent the extremes (Chua et al., 2004).

Although a variety of conditions has been highlighted by researchers to distinguish between family and non- family business (Chrisman et al., 2003a), a specific and shared set has not been reached. Considering family and non-family business as both distinct populations and as a spectrum of organisational types may increase methodological consistency with the theoretical conditions implied by the specific definition adopted (Chua et al., 2004, p.39). Thus recent perspectives facing the family business dilemma propose multivariate models combining characteristics searching for convergent, discriminating and predictive validity (Cliff and Deveraux Jennings, 2005).

In order to comply with these requirements, some models focus on operational features, distinguishing between latent and observable variables. Latent variables, although abstract, represent the family business whereas the observable variables record the actual behaviour of the entities being studied and they can be measured and statistically processed. Therefore a further strand of research is developed, aiming to identify family business characters that are both useful to represent objective information and inferential effectiveness.

According to these premises Chrisman et al. (2002) explored the influence of national culture and the involvement of the family in the perception of entrepreneurship and performance of the new businesses. A definition theoretically consistent with Chua et al. (1999) is adopted and selected measurable parameters were the capital share controlled by the family, the percentage of family managers employed, and the degree to which the company leaders expected that the future president of the company would be a member of the family. Moreover, Chua et al.(2004), basing on their previous work to distinguish family from non-family business, measured familiness by a cluster analysis as the distance between the position of each family business in the sample and the barycentre of the cluster. The greater the distance from the centre of mass of the cluster, the greater the degree of involvement of the family. Even if variables such as ownership, management and the intention to transfer the firm to family members have been broadly recognised in previous research, some ambiguities still remain (Chrisman et al., 2004).

First of all, clarification is needed regarding whether the variable associated with the intent to transfer leadership to family members refers to mere hope or potential, or if on the other hand, it is in line with a process of hereditary succession which has already begun or at least has already been planned with all members of the family. The difference is not trivial because it leads to a subjective or objective evaluation of the family continuity in the business and this topic is often taken as one of the main requirements to distinguish between family and non-family business (Chua et al., 1999; Chrisman et al., 2005b). Furthermore, applying a cluster analysis to measure the degree of familiness may trigger limitations for generalisations and comparison purposes. The degree of familiness comes from its position with respect to the cluster's centre of mass which however, depends on the cluster composition itself. However, Chrisman et al. (2009) overcame this limitation by separating the sample firms into family and non-family firms, then measuring the family influence by ownership, management and succession intention within the family firm group. In this way they measured the combined moderating effect of family influence stemming from selected variables consistent with previous studies (Chrisman et al., 2004).

6 Recent improvements in the measurement of the familiness degree: the F-PEC model.

Astrachan et al. (2002, 2005) developed a further perspective with the purpose of measuring the family influence on the business. Their F-PEC model identifies *power, experience* and *culture* as the three main channels through which a family influences the business. Each dimension of power, experience and culture is measured by a questionnaire submitted to the leading members of the family involved in the business as owners or appointed to managerial roles and then statistically validated. Power addresses all ways by which control is exercised, both directly and indirectly and it embraces ownership, governance and management. They are grouped together in accordance with an additive logic to the extent that it is considered that the influence exercised through one channel (ownership, governance and management) balances or strengthens the greater or lesser influence exercised by a differing channel (Klein, 2000).

Experience concerns the cumulated involvement of the family in the business crossing through generations. Familiness has already been associated with the transfer of the business to succeeding generations within the family (Barach and Ganitsky, 1995; Ward, 1987), or to the ability of transmitting experience from one generation to the next (Gersick et al., 1997). The assumption implied in the definition of this channel of influence is that there is a direct relationship between the experience brought by the family into the business in terms of the ability to deal with critical junctures in the family business, the number of generations that have succeeded to the business, and the number of members of the family working in the company. Finally, culture is represented by the level of overlap between the values and the principles of the family and the business, in addition to the commitment of the family members to the business, not just work-wise but also in a moral sense. In this way, the model is consistent with previous definitions considering the institutional overlap between the family and the firm as a distinguishing characteristic of the family business or identifying its essence in a shared culture (Lansberg, 1983; Hollander and Bukowitz, 1990).

The F-PEC model has been received as a promising solution to the problem of the definition of family business and, in fact, this approach suggests convincing answers to traditionally unsolved questions. It reduces the complexity of the family business phenomenon to a measurable entity facing the variety of its distinguishing dimensions. The model focuses not only on requirements such as shareholdings, the number of family members employed in the firm, but also considers deeper matters such as experience, value sharing, and commitment to participation. Therefore, the essence of a family business emerges also in the behaviour that makes a family business as run by the shared vision of the family. The multidimensionality of the model has the power of synthesising findings from a variety of previous studies, thus increasing the interest in the F-PEC model, in addition to a broad consensus on its explanatory capacity (Chrisman et al., 2003a; Sharma, 2004). Finally, the non opposing approach which allows the family business definition on a familiness scale can be used to make empirical comparisons, favouring the development of a shared conceptual framework, within mainstream business research.

6.1 Potential limitations affecting the definitional clarity

Despite the significant contribution supplied by the F-PEC model towards resolving the concern of the family business definition, some uncertainties still remain. In the first place, subjectivity in the evaluation of the degree of familiness does not seem to be overcome. Although widely quoted when addressing the essence of a family business, the cultural dimension is not clearly captured (Cliff and Devereaux-Jennings, 2005). A meaningful concern refers to the time required for considering as established the culture of a family and its following transmission to succeeding generations appointed to governance or leadership roles, but the model doesn't supply any clue on the topic. Another condition favouring the transfer of values between the family and the business is the commitment of the family members to the business (Carlock and Ward, 2001).

Hence, the cultural dimension of the familiness is shaped by the sharing of values between the two institutions and the commitment of the family members to the business. The cultural dimension is essentially based on a self-evaluation by the answerer regarding the degree of cultural overlap between the family and the business and is questionable if it is neutral judgement. On the contrary, a very fertile branch of research on the psychology of family businesses (Handler, 1994) shows how the leading family member finds it difficult to have an objective vision of his or her firm and of the network of implicit and explicit relationships the firm has with the family. Hence, it may result in a significant distortion of reality in the answers provided. As a consequence, may be excluded businesses adopting behaviour and strategies similar to firms considering themselves to be 'family' only because they do not consider themselves as family businesses. A further concern, also linked to the subjective approach in evaluating the cultural dimension of the family business, refers to the choice of the answerer. The items implying an evaluation of the degree of emotional involvement and sense of belonging of the family to the business can lead to significant differing answers according as whether the questionnaire is answered by the current leader of the company or by a member of the family who is not employed in the company, by the designated heir to the leadership succession, or by a member of the family who covers a marginal position. The concern of to whom the questionnaire is addressed and the following implications are not considered in the model, even though they should not be ignored, especially in the case of extended families. In this case, the F-PEC effectiveness as an instrument of measurement may be questionable.

Among the considered variables, the model doesn't provide any distinction to identify which ones allow the existence of behaviour consistent with familiness from variables representing the effect of that behaviour over time (Rutherford et al., 2008). As an example, the existence of family members appointed to managerial and governance roles shows the involvement of the family in the business and supports the family vision in the running of the business. However, it requires a precondition, given by the ownership variable which enables to appoint family members. This matter addresses the distinction between the identification of the object of the inquiry and the explanation of its essence. The matters of the generalisation of the research findings and of the comparisons across studies address a clear distinction of the family business respect to other organisational forms as a primary requirement. A family firm may be considered as a specific governance form where, due to their ownership rights (Carney, 2005, p.251), a family or a dominant coalition of a small number of families hold the power and the legitimisation to concentrate or to delegate governance or managerial responsibilities. Furthermore, by their power or leadership roles, the family members can influence the firm's strategic orientation and its development of values over time and across generations (Chua et al., 1999; Pearson et al. 2008), leading to its uniqueness.

Therefore, the ownership requirement may play a decisive role in ensuring the continuity of the family in the business, considering both the existence of potential successors and the intent to transmit the firm to succeeding generations. In fact, the character of familiness may really be perceived when the appointment of family members in managerial or governance roles balances the lack of ownership or its low level. In those circumstances, the behaviour of the firm may be consistent with a family business, but the power for maintaining relationships between the family and the firm over time cannot be ensured.

Furthermore, the family members appointed to governance or managerial roles, but without ownership or holding minority shares, will take different decisions about the firm goals and its strategic orientation, the long term orientation in resource allocation decisions, risk aversion. Finally the organisational mechanisms that legitimate their decision may be different if there is a substantial separation between ownership and control.

The lack of values permeability, even if the ownership is strictly concentrated, and a short term perspectives in the family involvement are not consistent with a family business behaviour. Defining a family business requires a sound evaluation of the degree of familiness and, in this perspective, the F-PEC model becomes a useful instrument for measurement beyond previous limitations.

7 Conclusions

The lack of a clear definition has largely been considered a relevant limitation for advancing knowledge on the field of research (Sharma, 2004). Starting from dichotomous definitions, a rich doctrinal debate has been developed. Even though recent literature increasingly focus on the role of family for addressing the firm behaviour, such as the long term orientation, developing unique resources and establishing control mechanisms of the firm, the definitional dilemma still remains unsolved. Essential characteristics of the family business definition consistent with a theoretical construct and allowing objective measurement have still not been identified. Hence, this shortfall represents a serious limitation to the development of knowledge, since research findings often cannot be generalised and employed for comparative studies. The unsolved dilemma stems from selecting between the more objective and measurable characteristics, such as ownership or governance, which do not adequately describe family business which is essentially based on behaviour, and the more abstract characteristics which are difficult to determine and measure like culture, values, or belonging, even though these characteristics have great inferential and representative significance.

Developments in future research on the definition of family business should therefore focus on the identification of objective elements useful to adequately approximate some of the main abstract characteristics of family business. In the F-PEC model discrete variables, such as the number of generational transfers and the number of family members involved in the business, are considered reliable indicators of an abstract characteristic like experience in the business-family system. In this way, promising advances to clarify the definition of family business may be obtained by identifying sets of variables with requirements of objectivity and measurability, useful to represent other more abstract characteristics of family businesses. These findings could favour the development of empirical research founded on large scale data bases with a shared theoretical basis that could allow generalisation and comparisons, then improving the legitimisation of family business studies within an accepted framework of business research.

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