

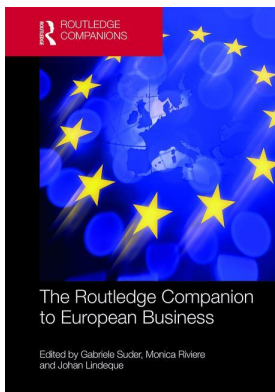
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Natalie Solveig Mikhaylov

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EUROPEAN SUB-REGIONAL APPROACHES TO HUMAN RESOURCES MANAGEMENT

Natalie Solveig Mikhaylov

Introduction

This chapter addresses the development, convergence and divergence of human resources management (HRM)-related practices in Europe, focusing on specific under-researched regions to illustrate and compare employee-related systems, policies and practices applied to European businesses. It demonstrates that while there are clear regional clusters in Europe that develop in similar manners, the questions of complete European conversion is premature. This indicates the relevance of further research into HRM issues in the regional context of Europe and its various forms of market grouping, including the European Union (EU), European Free Trade Association (EFTA) and the European Economic Area (EEA).

The chapter defines human resource management as a distinct method and addresses the current debates in convergence and divergence of HRM policies and practices in Europe. In addition, the role of multicultural companies in the introduction and promotion of HRM in European regions is highlighted. Then it moves to a discussion of European regional clusters, using Central Eastern European and Nordic clusters to illustrate the influence of culture and economic factors on the development of HRM systems. As a conclusion, the possibility of adopting a uniform HRM method in Europe and the conversion of practices are discussed, pointing to further research avenues.

Prior to a discussion of different approaches to HRM, it is appropriate for researchers to properly define it: the term HRM is often incorrectly applied to any practice of employee management and relations. Yet Storey (2007, p. 7) states that 'HR is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using arrays of cultural, structural and personnel techniques'. The distinct HRM approach is based on a unitaristic view of the management and employee relationship, where it is expected that all shareholders share the goals and objectives of an organisation and the main purpose of employees belonging to an organisation is to fulfil these goals. Human resources management can be implemented as a 'hard' HRM model, with the goal of the most efficient utilisation of the workforce, or as a 'soft' model, which seeks the commitment of employees (Guest 1987) by an implementation of high commitment work practices (HCWP) (Wood and De Menezes 1998). Both of the approaches were developed in the USA and explored in US-centric contributions to literature.

They mainly illustrate a pragmatic approach to management rooted in the predominantly individualistic and achievement-oriented national cultures of the USA and other Anglo-Saxon cultures (Truss et al. 1997). As such, they are found to be at odds with the rest of the world, including most of Europe, which is more collectivistic and less achievement-oriented than the USA and the UK (Hofstede 1991; Trompenaars and Hampden-Turner 2011).

The discussion of convergence vs. divergence trends in HRM has its roots in the analysis of management practices. A conversion stand is supported by globalisation and growing cooperation among countries, harmonisation of regional labour laws (in Europe) and an understanding of capitalism as the only successful economic system (Drori et al. 2006). The view that there is a diversion trend, however, is supported by a cultural perspective. It states that regional and national differences in norms, practices, values and belief systems result in a different understanding of roles of organisations and management priorities (Hofstede 1991, Trompenaars and Hampden-Turner 2011, House et al. 2004, Hofstede et al. 2004) and thus in diverse approaches to managing employees (Mayrhofer et al. 2004). Mayrhofer et al. (2011, p. 51) suggest that Europe is an appropriate case study for addressing this debate as it ‘reflects this peculiar tension between convergence and divergence in a unique way’. Europe combines highly integrated markets including the Single European Market (SEA) and a number of common institutional structures with substantial differences in cultural values, institutions, as well as different but interconnected historical backgrounds and development paths.

Brewster (2007) points out that while management assumptions and behaviour are different from country to country, the management thinking and HRM in particular is heavily influenced by US-style management education and the use of English as the main language in international business. Human resources management is dependent on the understanding of management as a distinctive profession and discipline. In contrast, in Europe, line managers were traditionally promoted from specialists without additional training and the personnel function was considered a clerical, administrative or social service oriented one. Just recently, personnel management was staffed by psychologists and social science professionals, thus putting an emphasis on employee selection, counselling and training rather than managing employee performance and input into organisational strategic plans (Brewster et al. 1992). As personnel management was considered neither a profession, nor a part of the management function, the evidence is mostly anecdotal. For example, the first HR course offered in the Czech Republic took place in 2000 (an undergraduate course of the University of New York and a Thunderbird MBA programme) and even in 2005 all but academic members of the HRM group in Central Eastern Europe (CEE) had non-business-related academic and professional backgrounds. The author’s personal contact with HR departments in leading Czech private enterprises and government organisations showed that HR departments were staffed with either psychologists or administrative/secretarial staff. Examples include CEZ (an energy provider), Social Security Administration, the Ministry of Material Resources, Border Guard Authority, as well as various private companies from logistics to food services. The situation was similar in other European countries (see also Hiltrop et al. 1995; Holt Larsen and Brewster 2003).

In the UK, employee-related practices have their historical roots in the social reform movement of the nineteenth century, for example, in the Cadbury model village, where Cadbury Company provided its workforce with housing as well as social and recreational facilities (Cadbury n.d.).

A step back into history illustrates the background to modern HRM approaches. In the 1930s in Central Europe, Jan Antonin Bata, a Czech entrepreneur, had built a model housing project based on the ideal city model for his workers at Bata shoe factories and had plans to expand the model to other European countries (Bata Industrial 2017). In contrast, employee

practices at the same time in the USA were based on the scientific management ideas of Taylor, implemented in Ford factories. Scientific management was based on the notion that all large tasks can be broken into smaller ones and that there is a best way to perform them; in addition, workers should be selected based on their knowledge and ability, and should be trained for the assigned tasks and provided with material incentives to achieve the best performance. It is less well known that the same scientific management practices were widely used in the Soviet Union prior to World War II – called the Stakhanovism movement (Bedeian and Phillip 1990). The same methods were applied in the Soviet penal system, with the major difference that instead of rewards for increased production, punishment and reduction of food rations were used for failing to meet production goals (see e.g. Andreev-Khomiakov and Healy 1998). Therefore, we can argue that while Europe has its personnel practices rooted in social welfare and an employee-centred reactive approach, the USA and the Soviet Union developed practices of performance-oriented pragmatic and strategic HRM.

HRM approaches in regional clusters

Holt Larsen and Brewster (2003, p. 12) state that in contrast to the so-called ‘universalistic HRM paradigm’, practised in the USA, in other countries including most of Europe, ‘HRM is understood differently, researched differently and is, in practice, conducted in quite distinct ways’. Consequently, the differences in understanding of the role of managers, their relationships with subordinates and other culturally specific variables determine the implementation of HRM practices in a region (Hodgetts et al. 2006; Hofstede 1991).

On the whole, legislation in Europe, particularly in the EU, shapes the application of HR tools and systems; it prescribes

how employees should be recruited and compensated, the level of union representation and participation in management and decision-making, the required notice periods and co-determination required before employee separation, appropriate qualifications for positions and their documentation.

For example, in France, the vast majority of employees are to work no more than 35 hours a week, and overtime is limited by law, including unpaid time worked by executives and managers. President Macron, when elected in 2017, revised French labour laws to some extent to allow more flexibility in the hiring and dismissal of employees, but his proposals remained unpopular with labour unions and provoked widespread strikes (Vinocur 2017).

Nevertheless, there are significant differences in Europe in the understanding of management’s role and, therefore, various ways to differentiate regions based on this shared understanding. One of the approaches is to group the countries according to their prevailing economic system or recent history (Suder 2011). One is the Anglo-Saxon cluster, comparable with stock-market-focused business systems and a liberal market economy. The other cluster is comprised of Germanic states with coordinated market economies, a stakeholder-focused approach to business and legalised employment guidance. The third cluster is South-Western Europe, encompassing Latin countries (Belgium, France, Italy, Portugal and Spain) and the fourth is Nordic economies with a high level of consensus and labour union membership. The next is Southern European or the Mediterranean group (Greece, Cyprus and Turkey), characterised by economies with small firms and mostly family ownership, extensive labour legislation but with general avoidance and noncompliance with such regulation. Finally, there is the CEE with a heritage of centrally planned economies (Parry et al. 2013, p. 18). Another possible differentiation is based on

national cultures (Hofstede 1991). A division based on Hofstede cultural dimensions (Hofstede 1994) proposes a clear divide between East and West, as well as North and South and suggests two clusters of North-Western and South-Eastern groups. Austria, Ireland, Finland, the UK, the Netherlands, Sweden, Denmark, Germany and Switzerland constitute the first group, while the rest of Europe falls in the second (Minkov and Hofstede 2014A; 2014B).

In addition, Ignjatovic and Svetlik (2003) propose a different segmentation of countries. In this approach, a Central Southern cluster includes Germany, Austria, Spain, Czech Republic, Slovenia, Italy and Portugal. In this cluster HR managers have strategic responsibility and are management board members. HRM departments here are typically small; employees are not involved in decision-making. The more traditional 'hard' HRM practices are used, aiming at performance management.

The second, Nordic cluster (Norway, Sweden, Denmark and Finland) stresses collaborative decision-making, combined with a greater role for trade unions and co-determination, although its current development is characterised by more individual contacts, a higher presence of MNEs and a lesser role for industry-wide labour agreements. The rules of an organisation are formalised; there is limited emphasis on performance management but an emphasis on employee training and flexibility of employment, which is consistent with family- and education-oriented policies of Nordic welfare states. Employee and union representatives participate in decision-making at industry and organisational levels. HRM departments tend to be small, but professionally trained and well equipped. The authors theorise that a 'small HR department and a highly participative approach increase trust and reduce the need for [formal] appraisal and evaluation' (ibid, p. 31).

In contrast to the Nordic cluster, in the Western cluster, which includes the UK, Switzerland, Belgium, the Netherlands and France, more programmes and initiatives focus on marginalised groups; they use more external services, and attempt to increase the transparency of management and decision-making – employees receive strategic and financial information about the organisation; recruitment, training, and career practices are sophisticated and open. The HR managers tend to be professionals recruited outside the organisation. They play the role of internal consultants with input into strategic plans.

The final 'peripheral' cluster includes Bulgaria, Estonia, Greece, Cyprus, Ireland and Turkey. Its main shared characteristic is the low status and professionalism of HR specialists. While new systems and programmes are implemented, they are reported to be rarely evaluated for effectiveness (ibid). One of the reasons for that might be the small size of firms in this cluster. HRM is not separated from the general management of organisations, with the exception of Greece (Nikandrou et al. 2003; Holt Larsen and Brewster 2003, p. 12).

Influence of MNEs on HRM practices in Europe

Conventional wisdom and existing research suggest that HR-related practices are spread throughout Europe, and specifically to CEE, by MNEs (Buck et al. 2003). For example, in the Czech Republic in 2000, the title of HR manager did not exist, yet with the arrival of international MNEs, including Oracle, Microsoft, IKEA, McDonald's and later Google, and European players, as well as an introduction of MBA degrees by internationally accredited programmes, HRM became a clearly recognised profession and HR as a function is present in large and medium-sized organisations. Yet despite a number of scholarly studies on MNEs' HR practices, they are mostly of a quantitative nature (Björkman et al. 2014) and thus rely on a shared understanding of terms, including HRM, rather than a qualitative and more nuanced approach. This assumption of uniformity can be problematic as the understanding of the goals

of organisations and management differ among national cultures (Hofstede 1991, House et al. 2004). As the majority of HR-related research has been conducted from so-called 'WEIRD' – western, educated, industrialised, rich, democratic – countries (Henrich et al. 2010), the question of 'how the local context for HRM is influenced by MNEs and MNE subsidiaries, is seldom researched, if at all' (Brewster et al. 2016, p. 28). Clark and Pugh (1999, p. 86) argue that 'if other countries adopt foreign management modes, as they own and expect them to be effective, they must be culturally close to the countries where those theories originated'. Alternatively, the cross-cultural competence of managers and their cultural agility could be a success factor in an adaptation of foreign practices and systems and their implementation in a new environment (Gilbert and Von Glinow 2015).

MNEs that entered the economies of CEE in the early 1990s took with them the HR-related practices that could have been incomparable with the predominant management practices of the local companies as well as the labour law. To avoid potential cultural conflicts with local employees, an MNE would often hire employees without prior experience in the industry, or bring expatriates or third-country nationals to work in a CEE location. They would only gradually recruit local residents, ensuring that recruits were introduced to a strong organisational culture where they were in the minority. In addition, local new employees would undertake a training and socialisation period when they would be immersed in the organisational culture, often at company HQ (Deresky 2017).

The case of Vodafone entering the Czech market in 2005 through a purchase of the Oskar mobile company illustrates intense acculturation of employees, including adopting informal business attire and informal communication channels instead of traditional business suits and hierarchy (Čáslavová 2007; Polak 2015). Oracle developed a comprehensive programme of employee engagement in CEE and Microsoft sponsored informal team-building events during the induction period to promote a spirit of entrepreneurship and company loyalty (Manwani and Bharadwaj 2014; Buttyán et al. 2016; Jehanzeb and Bashir 2013).

When HR-related practices are introduced by MNE management, it is unclear how well local employees understand the intention of such practices and how effective, for example, performance management would be in a legal environment where employers are bound by a written employment contract that requires a substantial notice period and in some cases severance compensation. Alternatively, an MNE could recruit and hire foreign employees or relocate them from another country. In this situation employees would depend on the company sponsorship for visa and work permits, being in effect employed at will (e.g., D'Amuri and Peri 2014; Paul 2013). Such practices are used in call centres located in Europe (Breathnach 2000). However, they are unlikely to change the employment-related practices in the host country. Therefore, we can conclude that the influence of MNEs on local practices would be moderated by the business and legal environment, and the cultural distance between the countries, with the North being more likely to adopt the practices, if not the goals, of the HRM, and employees – foreign employees and the less experienced – likely to support and implement HRM practices.

Central and Eastern Europe

Central and Eastern European countries are often combined in a single cluster, based on shared history and economic characteristics. Arguably CEE countries are no longer in a transition from socialist, centrally planned to market economies; nevertheless, the perception of the role and objectives of HRM has not changed that drastically during and since the transition period. One reason is that newly educated managers became familiar with the US-style HRM model, which cannot fully be implemented in Europe. Countries in CEE in the period before the Fall

of the Berlin Wall in 1989 had socialist, state-controlled economies with virtually no private ownership (with the exception of Poland and Hungary). In particular, Baltic countries (Latvia, Lithuania and Estonia) were heavily influenced by the Soviet approach to HRM.

As further discussed in the next chapter, in contrast to the supporting welfare and administrative function of personnel management in Western Europe, in the Soviet Union the personnel function was central to an organisation, responsible for vetting existing employees and applicants for security clearance and political trustworthiness. With the majority of industrial production linked to the military and security, security clearance was extensive and, as unemployment was criminalised in the Soviet Union, a department of cadres, as it was called, had power to destroy not only careers but the very lives of employees.

Therefore, there was no enthusiasm for the oppressive human resources-related practices of the Soviet Union in either the conquered Baltic republics or the controlled CEE states. As a 'politically oriented decision-making system' (Garavan et al. 1998, p. 210) personnel practices in the Soviet Union new states and spheres of influence could not get the buy-in of either employees or managers. Although union membership in all socialist states was close to 100 per cent (Kazlauskaitė and Bučiūnienė 2010), employee participation in decision-making was minimal. As promotions and performance bonuses were awarded based on communist party membership and active participation in state-sponsored political and economic campaigns (Karoliny et al. 2010), the department of cadre fulfilled ideological and social (rather than performance-related) purposes. Human resources professionals were perceived by employees as inefficient, bureaucratic and indeed unprofessional (Morley et al. 2016).

It is no wonder that after the disintegration of the Soviet Union and the Soviet sphere of influence, the role of the traditional personnel department had greatly diminished. An additional factor contributing to the decrease of the importance of the personnel function was that the majority of companies in the newly 'turned capitalist' CEE and Baltic States were family-owned micro-companies. In such cases, an investment in specific HRM could be considered too expensive and not conducive to increased productivity. As an example, Kasluskaite et al. (2009) analysed data sourced from Eurostat (2004), which showed that more than 75 per cent of Bulgarian, Slovenian, Czech, Lithuanian and Estonian firms were micro-enterprises. During the socialist period, organisations in the Former Soviet Union and CEE countries applied a uniform mode of personnel management (Koubek 2009), but in the transition period they took diverse paths, returning to their historical economic and cultural backgrounds. Kazlauskaitė et al. (2013) suggested that another reason for decreased HR management involvement in the CEE was a higher level of education of employees and candidates than the EU average, thus there was a reduced need for supervision and management involvement in the work process.

Eventually, the growing popularity of management education in the region and return migration from the USA and UK (Gittins and Fink 2015) gradually introduced western HR methods and practices into the management of these firms. Yet we find that in different countries, different paths to their further adaptation and development are still taken. Morley et al. (2012) suggest that CEE countries experienced diverse trajectories from socialism towards market-oriented economics and thus their HR-related practices and systems differ. For example, the so-called Visegrád Four group, i.e., the Czech Republic, Slovakia, Poland and Hungary, a group aiming to further their European integration, was historically connected with their Western neighbours – Germany and Austria – in particular since Poland and Hungary maintained elements of privately owned enterprises during the socialist regime, and thus used a rapid liberalisation of markets and economy during the transition period (Adam et al. 2009). This model is called by Morley et al. (2016, p. 80) a 'moderate interventionist model'. On the other hand, Bulgaria and the Baltic states have maintained a closer connection with Russia: Bulgaria and

Russia share the Orthodox religion, their languages are close, and a large minority of ethnic Russians reside in the Baltic States.

The third model that Morley et al. propose is characterised by self-management and personnel decision-making by workers' councils, and this model could be found in the countries of the former Yugoslavia, for example, Serbia and Slovenia.

Interestingly some practices are present in all models:

reliance on a personal interview as the preferable selection method,
training and development focused on managerial and professional employees,
individual-level managerial compensation,
other employees compensated at national levels, and
increasing use of performance appraisal (ibid).

It also appears that while research reports some HR-related practices are adopted in all regions, the objectives of increasing productivity and employee performance are not implemented strategically in any of the models.

The case of the Nordics

All the models discussed uniformly see Nordics – Denmark, Sweden, Finland and Norway – as one specific cluster. It is characterised by high formalisation, high involvement of labour unions in decision-making, both at an industry and individual organisation level, high spending on employee training, which, combined with a high level of education in general, means there is less need for performance management and more for flexibility in working place. Vanhala (2008) postulates that HRM plays a strategic role in Nordic countries, yet without any attempt to influence employee performance, such people-related practices have limited influence on an organisation's strategic results.

Based on Hofstede's (1994) cultural dimensions, the Nordic countries are unique in combining a low masculinity or achievement index with low power distance index and high individualism. Thus, the goals of society and individuals are to maintain their independence, while taking care of vulnerable and disadvantaged members of society in an egalitarian manner. In an organisational context, it is translated into group decision-making, managers as coordinators, not leaders. The focus is on employee-related practices to promote transparency, fairness and benefits to employees and society in general, not increasing company profits or maintaining a market share. Some of these practices, namely job security, merit-based selection of new employees, use of teams and performance-related pay can be found in the high-performance work system (Wood and De Menezes 1998). However, as their ultimate objective is not to increase a firm's performance measured as profit and market share, they could hardly be considered HRM, but rather can be traced to welfare capitalist firms like Bata, Cadbury, IKEA, and Nokia. In comparison with the rest of Europe, the region has relatively low degrees of regulation, a feature that Nordic countries share with the UK and the Netherlands (Mayrhofer et al. 2011). Yet social pressure, including boycotts and media campaigns to adopt the Nordic managerial culture and work practices, can be traced back to MNEs attempting to introduce more performance-oriented techniques and more management control than is customary in the region.

One illustration of the challenges originating from diverging approaches is the practice of hiring unexperienced young local employees, training them at the HQ and socialising them in the company culture. An interesting case was presented by international researchers Skippari et al. (2014), and widely discussed in Finnish official and social media. This case represents deep-rooted

differences in the understanding of HR objectives and functions even between Germany and Finland, the countries that can be considered to be culturally close to each other, but belonging to different clusters. Lidl, a German global discount supermarket chain, entered the Finnish market in 2002. Managers were trained in Germany, and the company opted to hire young employees without prior retail experience in Finland. As already mentioned, such practices are common for MNEs entering new markets and attempting to preserve strong organisational culture, which is often rooted in the national culture of the country of origin (Schneider 1988). Skippari et al. (2014, p. 5) stated that, upon entry, Lidl 'introduced its foreign corporate culture and differing operational practices with little intention to conform to local standards of practice' and then 'tried to transfer its global HR practices ... to Finland' (ibid.). As there is no discussion of the appropriate Finnish HR practices in this paper that focused on PR and communications policies (ibid, p. 6), this case reveals possible avenues for additional HRM-centric research. For example, it appears that the company followed all legal requirements for union participation and compensation. While in Finland Lidl followed the employment law, it was not considered to be sufficient from a cultural perspective (ibid, p. 11); one finding makes reference to the acceptability of monitoring employee behaviour on the job, a practice found more acceptable in Germany than in Finland. The case has a happy ending, as, eventually, it is reported, Lidl invested in effective employee training and development conducted by a local Finnish firm.

Thus, using the Lidl case as an illustration, it can be concluded that while there is a definite uniform and consistent approach to employee management in Nordic countries, research demonstrates that it cannot be considered HRM, nor illustrate a Europe-wide HRM approach. While many HPWP features are adopted, the high performance of the firm is not the goal. On the contrary, a firm is expected to fulfil employee needs in terms of income, development and, possibly, social connections. Thus, this distinct Nordic model is not an HRM one within our current research lens.

However, the latest development of Nordic economic and labour regulation point to an increasing degree of flexibility, notable in negotiating employment contracts at an individual enterprise, rather than at industry-wide level, there is more flexibility in using both part-time and limited-term employment contracts, as well as an extension of work hours. Even Iceland is considering abandoning the minimum wage (O'Sullivan and Royle 2014), which could drastically liberalise the labour market. In the case of Finland, the lack of minimum wage regulation had not resulted in low wages due to central collective bargaining, establishing compensation and work conditions industry-wide. Yet as of May 2016 this practice was abandoned and unions ('employee organisations' as they are called in Finland), negotiate sector-specific agreements; this is anticipated to result in more differentiation in compensation and work conditions. Combined with increased labour mobility in the EU and an increased presence of MNEs in the region, we can expect greater flexibility in employment and compensation, which again opens up future research questions.

Would these developments result in a conversion of the Nordic model to other European models? Unlikely, as the basic goals of management and employment are different in Nordic countries than in the rest of Europe. For example, a Social Services (Kela/Fra) initiative in Finland to test a basic income for everyone is a step towards making income dependency on employment obsolete, which will move the employment model even further away from the rest of the world. This chapter argues that the Nordic model is expected to continue to be unique and distinct even when it becomes more flexible. What that means in the future, and how European business opportunities for Nordic firms (and other firms interested in Nordic markets) may be influenced, remains a worthwhile research field to explore.

Conclusion

This chapter has provided an overview of the current employee-related systems and practice in Europe, and concluded that there is no current evidence in literature that organisations in Europe are likely to converge towards one model of HRM that would stress a unitaristic and pragmatic approach (Storey 2007), or focus mainly on performance, profit and return on investment. First, legal barriers to implementation of such a model, in Europe and specifically in the EU, were found; second, the understanding of the role of enterprises in society, the role of management and its responsibilities, and HRM application models are seen to differ throughout Europe. If convergence were to develop, a model of the process of HR practices adoption in Europe – taking the various current models into account – is presented in Figure 18.1, setting a conceptual basis to explore in future research.

Some practices, notably focused on employee development, training and the development of comprehensive and transparent compensation and employment systems are adopted across enterprises that are doing business in Europe. Yet, current literature shows their execution to vary in different regions. In a related matter, Chapter 15 of this book indicates, particularly in the context of the EU and EU regulations that aim at job quality, that there is little, if any, evidence to suggest a harmonisation of European job quality levels.

Unfortunately, there is virtually no comparable data available to date on how HRM practices are enacted by line managers or HR professionals, and qualitative research remains scarce. There is a clear tendency for regional HR systems to develop in a similar direction, which appears worthwhile to explore further. While there is no shared understanding among scholars of how to group different regions using current HRM definitions, the difference between South-East and North-West is shown as pronounced, and a Nordic cluster and CEE countries are taking their own distinct roads. This chapter points to the limitation of extant literature, hence restricting this analysis, and calls for more and more diverse research into the divergence and convergence trends of HRM practices in which European business operates across an integrated marketplace.

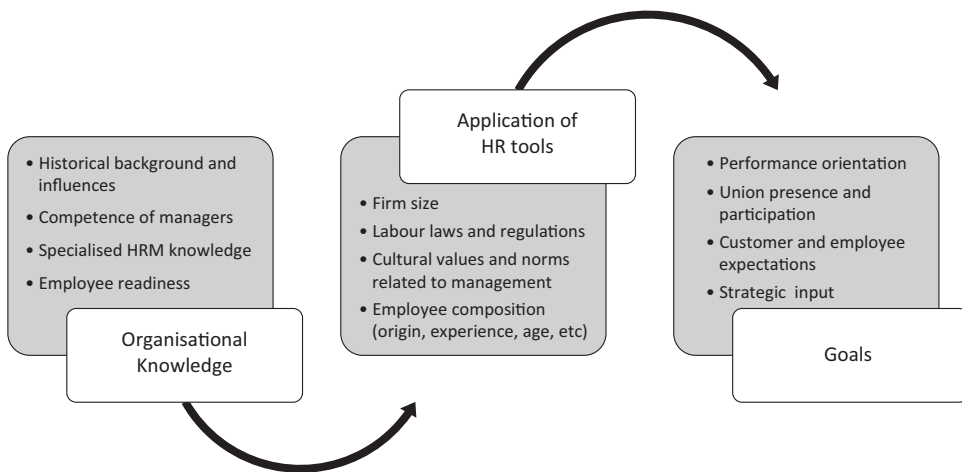


Figure 18.1 Conceptualising a development process of HR-related practices upon European cluster criteria: Strategic or employee oriented goals

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