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Lreakey Aliongo' Kuloba & Dr. Paul Waithaka, PhD

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THE EFFECT OF MARKET INNOVATION ON THE PERFORMANCE OF MICROFINANCE BANKS IN NAIROBI CITY COUNTY, KENYA

[1] Lreakey Aliongo' Kuloba & [2] Dr. Paul Waithaka, PhD

[1] MBA Student, School of Business, Economics and Tourism, Kenyatta University, Kenya
[2] Lecturer, School of Business, Economics and Tourism, Kenyatta University, Kenya

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ABSTRACT

Microfinance institutions' productivity is crucial to sustaining a healthy micro-banking system. Bad performance has an impact on microfinance banks' ability to withstand negative shocks, which has an impact on solvency. Microfinance banks face severe implementation problems, according to a report from Kenya's Central Bank. The study investigated the effect of market innovation on the performance of microfinance banks in Nairobi City County, Kenya. The research was informed by the stakeholders' theory. An explanatory research design was adopted. The study's target population was 12 microfinance banks within Nairobi County. All the institutions were included in the study. From each of the firms, the researcher targeted managers representing the marketing department. Thus, the total number of respondents was 48. Semi-structured questionnaires were used to collect primary data for the analysis. The validity and reliability of the instrument was tested. Percentages and means were used as descriptive statistics. Pearson correlation and regression analysis were used to assess the relationship between the independent and dependent variables. The results were presented in tables and graphs. Qualitative data was presented in the form of narratives. Results showed that market innovation had a positive and significant effect on the performance of microfinance banks. The study concluded that market innovation had a positive and significant effect on the performance of microfinance banks. Further, packaging strategy was also found to be effective in attracting new customers. A promotion strategy helps in reaching out to a wider market. The study concluded that the development of new products in most microfinance banks is informed by the needs of their customers. In addition, most microfinance banks are still in competition for market share with their rivals. The study recommended that microfinance institutions that have not fully adopted market innovation as a means of improving performance should look for ways of doing so as it has been proven that there is a relationship between market innovation and organizational performance.

Keywords: *Market Innovation, Microfinance Banks, Business Performance,* Financial Institutions

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INTRODUCTION:

To promote long-term economic activity, microfinance is a strategy has been used to entice marginalised people in the provision of financial services like loans, deposits, and insurance. Most of the time, microfinance is disregarded by commercial banks and other lending institutions as a means of helping underprivileged communities become more capable (Anand & Kanwal, 2011). Microloans, which are tiny loans with little to no traditional collateral, and microfinance have coexisted for a long time to support small business endeavours and enhance the lives of customers and their families (Addisalem, 2015). Kenya's microfinance institutions have been performing dismally poor over time. The last two fiscal years, 2018 and 2019, saw bank losses despite overall growth in the banking industry. According to Angola (2014), success is a financial measure of how well an organisation performs in relation to its goals, plans, and processes. It expresses the state of a company's finances as compared to those of other businesses in the same industry.

A company's long-term competitive advantage and financial performance depend heavily on its strategic innovation (Nybakk & Jenssen, 2012). This is a prerequisite for the expansion and financial success of a company. This has a major impact on the expansion of the business and increases market competition, which boosts output (Walker, 2013). Long-term business success requires strategic innovation. A company's degree of strategic innovation is assessed using a variety of metrics, including productivity, cycle times, enforcement, and waste reduction (Brown, 2013).

China has created a strategic innovation plan to address new economic and social issues (Fabre & Grumbach, 2012). In 2010, China overtook the US as the largest manufacturing nation, overthrowing the US's 110-year hegemony as the world's leading product producer (19.8% of global output) (Chandra, 2012). Real estate, manufacturing, equipment, and exports all saw average annual growth rates of 24 to 29% after China's manufacturing sector entered the World Trade Organisation in 2001. China's economy was driven by strategic advances, especially the widespread application of modern technology, throughout its golden decade (2002-2007).

Malaysia has purposefully emphasised innovation as the essential component of more worthwhile growth and views progress as the catalyst for the nation's long-term prosperity (Doree, 2011). According to the economic reform programme, innovation would be the driving force behind Malaysia's Vision 2020. Barlow (2010) pointed out that governments should establish change projects to boost organisational performance, with one of the projects' objectives being to increase creativity, and that the development sector should be dynamic.

Ukiri (2013) observed that innovation has played a major role in Nigeria's progress towards expanding medical coverage. The expansion of health insurance and the country's efforts to achieve universal healthcare depend heavily on innovation. With 170 million residents, it was essential to develop innovative solutions and state-of-the-art technology to satisfy the demands of the many market segments in the nation and their reasonableness standards. Nigerians will have easier access to healthcare thanks to this invention.

Financial institutions in Kenya operate in a highly regulated sector where sharing sensitive information requires a high level of dedication. For these companies to succeed and produce organisational outcomes, they must learn how to adapt to fast changing market conditions, fierce competition, evolving customer demands, and changing demography. Because of this, a lot of companies realise that continuing to use antiquated methods yields little profit. These businesses have developed innovative business strategies that help clients and offer them a competitive advantage in the present market (Kariuki, 2017).

Organisational Performance

When assessing a company's performance, factors including staff relationships, customer satisfaction, market success, and service innovation should all be taken into account (Dess & Robinson, 2014). According to the author, a balanced scorecard is used to assess customer happiness, sales margins, ROI, skill utilisation, and product quality. Revenue, profit per share, and return on assets are a few examples of organisational performance measures (Morin, 2014). A few of the various attributes that an organisation may possess include its personnel, the means by which they achieve their objectives, and the setting in which they operate. The Balanced Scorecard was developed by Kaplan and Norton (2001) and integrates both financial and non-financial metrics for four essential components of an organisation: cash, clients, internal processes, innovation, and development.

Richard, Devinny, Yip and Gerry (2009) stated that organisational results are made up of three different elements that represent a company's performance: financial results, product-market presentation, and advantages for shareholders. Every company should strive for ongoing success since it is the only way to grow and change (Gavrea, Ilieş & Stegerean, 2011). Using a balanced scorecard approach, which tracks and measures results in multiple dimensions, including financial results (shareholder returns), customer service, social responsibility (company citizenship, community size), and people management, organisations have attempted to manage business success (Upadhaya, Munir & Blount, 2014).

Agola (2014) established that, a company's financial standing in relation to other businesses in the same industry is referred to as its performance. Performance is one of an organization's most crucial attributes as it affects its effectiveness, business prospects, management's financial interests, and the dependability of both present and future contractors (Dufera, 2010). When it comes to microfinance banks, success is defined as the ability of the bank to meet its goals without the support of donors (Thapa, 2015). Several organisational performance dimensions were used in this investigation. This encompasses market performance (market share), non-financial performance (quality service), and financial performance (profitability). Similar indicators were utilised by other researchers (Richard, P. J., Devinney, T. M. Yip, G. S. & Gerry, J. 2009; Gavrea, C., Ilies, L. & Stegerean, R. 2011; Upadhaya, B., Munir, R. & Blount, Y. 2014; Dess & Robinson, 2014; Mbogori, Gichohi & Moguche, 2018).

Strategic Innovation

The introduction of novel ideas, concepts, systems, products, or services is known as strategic innovation (Kodama, 2018). According to Witja ra, Herwany, and Santosa (2019), strategic innovation is a forward-thinking corporate planning technique that finds creative growth opportunities, expedites business decisions, and generates measurable short-term results while upholding a long-term perspective on long-term competitive advantage. This compels businesses to consider options beyond their present endeavours. Strategic innovation can help define the course of an organisation by providing information about the company's activities, promoting teamwork, making the organisation readily interpreted, guaranteeing continuity, and lowering uncertainty (Wijethilake, Munir & Appuhami, 2018).

Strategic innovation, defined by Seybold (2014), is the process by which companies reimagine their processes and goods in order to offer their clients better goods and services. Furthermore, according to Afuah (2009), strategic innovation refers to how companies entirely change the competitive landscape within a certain industry and gain a competitive advantage by employing tactics that set them apart from their competitors. Yang (2014) characterises innovation as "reimagining markets, customer expectations and the entire value-delivery chain". Strategic innovation is essential for long-term organisational viability since inventive organisations perform better than non-innovative ones (Kariuki, 2014).

Process, product, marketing, and technological innovation are all recognised as types of strategic innovation by the Organisation for Economic Cooperation and Development (OECD, 2017). The term "industry innovation" describes the application of cutting-edge marketing techniques, such as major adjustments to pricing, positioning, packaging, and promotion. Product innovation aims to raise sales by repositioning a company's product or service on the market, increasing market potential, or improving customer happiness (Kjellberg, Azimont & Reid, 2015). According to Pisano and Teece (2011), corporate innovation involves selecting the appropriate market and market mix to satisfy consumer demands. If executed properly, a market innovation has the potential to succeed. Sometimes all that's needed to launch a new product or service on the market is to increase consumer awareness. In the words of Saemundsson and Candi (2014), businesses must adapt their products or services somewhat to successfully cater to new customers in order to prosper in a new market. Uncharted zone where one may demonstrate the great value of his solution is perceived as new markets. In order to quantify marketing innovation, Tavassoli and Karlsson (2015) used price methods, design elements, placements, and/or promotional activities. This study looked at creative methods to price, promotion, packaging, and positioning in order to assess market innovation.

Microfinance Banks in Kenya

Based no the Microfinance Act of 2006, a microfinance institution, commonly referred to as a deposit-receiving bank, is a business where the proprietors pretend that they are accepting deposits on a daily basis. According to Alastair (2015), microfinance banks are governed by many of the same regulations as fully registered banks that fall under the purview of central bank supervision because they rely on client deposits to create capital for lending. Microfinance banks use investments and deposits to build up capital before lending it to their clients (Alastair, 2015). Kenya is ranked sixth internationally and first in Africa for microfinance (Ayele, 2015).

In line with the Central Bank of Kenya's 2018 report, there are 13 microfinance banks in Kenya that are registered, and their net profit after taxes was 1,192,000,000 Kenyan shillings. This indicates that during the fiscal year that concluded in December 2018, the companies lost 1.2 billion Kenyan shillings in total. Considering that the companies had made an overall profit of 2.3 billion Kenya shillings in the previous fiscal year, which concluded in December 2017, this was a sharp drop in performance. According to the CBK (2019) report, the banks lost 302 million Kenya shillings during the fiscal year that concluded in December 2019. The planned inquiry was required due to a consistent decrease in the profitability of microfinance institutions.

Statement of the Problem

Microfinance has rapidly expanded throughout several nations, becoming a substantial segment of the financial sector (Meesters, Assefa & Hermes, 2010). For the microbanking sector to stay stable, there has to be a robust microfinance sector. Inadequate financial outcomes impair IFAC's resilience to adverse shocks, hence affecting its solvency (Yenesew, 2014). According to the CBK (2018) report, MFB experienced a 1.2 billion Kenyan shilling deficit for the fiscal year that concluded in December 2018. This was a notable decline in performance considering that the companies had made 2.3 billion Kenya shillings in profit the year before. Furthermore, according to the CBK (2019) report, the banks lost 302 million Kenya shillings during the fiscal year that concluded in December 2019. The information above makes it quite evident that microfinance banks are dealing with a significant performance issue

Tsuma, Musiega, Albert, and Douglas (2015) focused on the Kakamega Teachers Cooperative Society Limited as they investigated how innovation in this process affects SACCOs' financial performance in Kenya. This study looked at just one organisation, however the current study looked at

multiple organisations. Determinants of product inventiveness in Kenyan MFIs were explored by Mbogo and Ashika (2011). This study demonstrates a conceptual distinction since product innovation is utilised as the dependent variable instead of organisational success. Moreover, there exist empirical disparities, exemplified by the conflicting conclusions drawn by Karabulut (2015) and Biégas (2018) about the relationship between marketing innovation and company efficiency. By examining the relationship between strategic innovation and the success of microfinance banks in Nairobi, Kenya, an African nation, this study closes a knowledge vacuum.

LITERATURE REVIEW

Stakeholder Theory

Friedman (2006) popularised the idea of organisational effectiveness by introducing the principle. According to Hubbard (2009), stakeholder expectations are used to assess an organisational policy's efficacy. The activities of each organisation have aroused interest in a number of important nations. The main players in the performance of the microfinance bank are its clients, workers, and investors/owners. As a result, stakeholders care about the company's operations to guarantee better success.

Among the success criteria that stakeholders are interested in include sales, liquidity, return on investment, and return on assets (Borror, 2009). The goal of investing is to maximise returns on capital for investors. The state is also worried about the microfinance banks' performance because they get funding from corporate taxes. Customers are also concerned about the companies' ability to meet their needs. Employees worry about sales because their productivity is measured by sales as well (Zanjirchi & Moradi, 2012).

The concept of organisational performance in the current research can be explained by the stakeholder principle. The main objective of any organisation is to maximise profits, and microfinance institutions are no different. According to the notion, many stakeholders have varying expectations about a firm's performance. Stakeholders, including investors, the government, customers, and workers, have expectations of microfinance institutions. Therefore, in order to guarantee that stakeholder expectations are fulfilled, organisational leadership is crucial. Consequently, the theory offers a theoretical framework for organisational performance as the dependent variable.

Empirical Review

Using a sample of 95 BPRs from 179 BPRs in East Java, Alhabsji, Suharyono, and Zaiunul (2020) conducted an explanatory research project. In order to provide rural banks in the Indonesian province of East Java with a competitive advantage, the association between learning orientation and market orientation is investigated using a proportionate random sample. According to statistics, orientation to the organisation and training have a big impact on competitive advantage. The manner you train has a big impact on your competitive edge. In Indonesia and Kenya, the reviewed study was carried out in a different environment as opposed to being conducted locally.

Biégas (2018) looked into the connection between creative marketing potential and commercial outcomes in the Brazilian apparel industry. Transverse descriptive study was carried out quantitatively utilising investigation as a research technique. The ability of market innovation to predict market outcomes positively predicts financial results, according to the data. This study on the apparel industry in Brazil was conducted in a different environment than the current study, which focuses on conditions in Kenya and the banking sector. Owing to the contextual differences, the current study was started.

The effects of various forms of innovation on company productivity in Turkish manufacturing enterprises were studied by Karabulut (2015). The author highlights the problem with measuring business effectiveness using the Balanced Scorecard

technique. The results showed that learning outcomes and development were negatively impacted by marketing innovation. These findings conflict with those of Biégas (2018), who discovered a connection between corporate innovation and productivity. There were contradictory findings in a study that examined the relationship between customer innovation and company success. The goal of this research is to show that the two variables have a positive correlation. Kwale County's industrial efficiency was examined by Kiptoo and Koech (2019) in relation to strategic innovation. The analysis done was a linear regression one. Research showed that innovative marketing has a favourable effect on the efficacy of organisations. Though not Karabulut (2015), the authors' findings support Biégas (2018). Compared to the study, which focused on financial organisations, this research was conducted with a different backdrop, focusing on industrial companies.

METHODOLOGY

The processes employed for this study are laid out in this section. Design of the study, target population, methods for gathering and analysing data, and ethical standards.

Research Design

Etkan and Bala (2017) observed that, a research design serves as a roadmap to help you through the research process. This study made use of explanatory survey research. It was suitable since the design made it easier to ascertain how one variable influences another. The purpose of this study was to determine how performance is impacted by innovation strategy.

Target Population

The target population is the entire set of variables from which conclusions are drawn and applied to every case that would be interesting for additional research (Asiamah, Mensah & Oteng-Abayie (2017)). Because it comprises individuals or organisations with comparable qualities, it is helpful in defining the parameters of a study (Sekaran & Bougie, 2010). In Nairobi County, thirteen (13) microfinance banks were examined (CBK, 2023). However, just one MFB was utilised in the trial operation. Consequently, the target audience was expanded to include twelve microfinance banks. Four managers from each organization—one each for marketing, finance, operations, and information technology—were the subject of the study. Consequently, 48 people in all responded.

Table 1: Target Population

Departments	Number	Percentage
Marketing	12	25%
Finance	12	25%
Operation	12	25%
IT	12	25%
Total	**48**	**100%**

Data Collection Instrument

The practice of gathering information from respondents is known as data collection (Sutton & Austin, 2015). Because semi-structured questionnaires are shorter, less expensive, and need fewer administrative steps, they were used in this study. Additionally, questionnaires made it simple to analyse data after it had already been gathered. There were two pieces to it. The initial section of the survey requested minimal demographic information from the participants. They were put to the test using the study's variables in the second section.

Pilot Study

A questionnaire designed to collect data needs to be evaluated before it is put to use (Silverman, 2015). To facilitate respondents' answering of the questions, the questionnaire was designed with more ease of use in mind. Randomly selected

members of 10% of the target group in this sample were given the questionnaire. The tool was distributed to Key Microfinance Bank Limited managers. The final research did not take the pilot's results into account. A study tool testing 5–10% of the target population is ideal, according to Mugenda & Mugenda (2003).

Validity and Reliability of the Research Instrument

The validity and reliability of the questionnaire were confirmed to ensure that the data collected was trustworthy and ensured that the information was accurate.

Validity of the Research Instrument: An instrument's validity is influenced by how well it specifies what needs to be measured (Kothari, 2004). The content, construction, and look of the criteria were all scrutinised, in addition to their validity. The supervisor reviewed the questionnaire and, based on recommendations from the supervisor, made any necessary modifications to guarantee the accuracy of its contents. In order to attain constructive validity, all metrics and measures are meticulously developed using the information that is currently accessible. The suitability of the instrument's content is ensured by its face validity. The findings from this study were contrasted with those from earlier investigations that employed comparable criteria and validity markers.

Reliability of the Research Instrument: As defined by Orodho (2009), dependability is the degree to which a test conducted on a sample produces results that are verifiable and repeatable. Cronbach's alpha was used to assess the instrument's dependability (Cronbach, 1951). It establishes the homogeneity and internal consistency of research tools. The range of values for the alpha coefficient is 0 to 1. A value of less than 0.7 indicated an unsatisfactory piece, which was removed. The standard was a Cronbach alpha coefficient of 0.7.

Data Collection Procedure

To collect data and make it relevant for analysis, a data-gathering technique is required (Groves, 2009). There was a drop-and-pick process used to complete the survey. By maintaining track of the questionnaires supplied and gathered, it is feasible to ensure that every questionnaire submitted to respondents is approved. The researchers had two helpers to aid with data collection. Prior to starting the data gathering process, the research assistants received a comprehensive briefing on how to complete the assignment. The training addressed how to reply to inquiries from respondents and what to do in the event that a respondent is unable to finish the survey.

Data Analysis and Presentation

The survey data was coded, examined for accuracy, and analysed using the Statistical Package for Social Sciences (SPSS Version 21.0.). Descriptive statistics such as means and percentages were utilised. The relationship between the constructs was demonstrated through the use of regression analysis and correlation. Tables and graphs were utilised to display the results.

The model below was used.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Performance of Microfinance Banks

β_0 = constant

$\beta_{=1, 2, 3, 4}$ = regression coefficients

X_1 = Market Innovation

X_2 = Product innovation

X_3 = Process Innovation

X_4 = Technology Innovation

ε = error term

The R-square, F-statistic, P-value, and beta coefficient were used to interpret the data. The square root of the variance in the dependent variable can be explained by the general

independent variable. The explained construct's variations in response to changes in the explanatory construct are explained by the beta coefficient. While the P value explained the model's statistical significance, the F statistic explained the model's appropriateness. Thematic analysis was used to examine the narratively given qualitative data.

FINDINGS

Response Rate

A total of 48 questionnaires were distributed to microfinance marketing, finance, operations, and information technology managers. The response rate result is shown in Table 2.

Table 2: Response Rate

Response	Frequency	Per cent
Returned	41	83.33%
Unreturned	7	16.67%
Total	**48**	**100%**

Source: Researcher (2024)

The overall response rate was 83.33%. According to Mugenda & Mugenda (2003) and Kothari (2004), a response rate of more than 50% is appropriate for a descriptive study. Based on these assumptions, the response rate of 86.59% was appropriate for the study.

Reliability Results

The reliability test findings were used to analyse the internal consistency of the variables using a five-point Likert scale. The coefficients of dependability for each Likert Scale item were determined, and the findings are provided in Table 3.

Table 3: Reliability Assessment

Variable	Cronbach's Alpha	Number of items	Comment
Market Innovation	0.754	8	Reliable

Source: Researcher (2024)

This was conducted using Cronbach's alpha which ranged between 0.754 for market innovation. According to Sekaran and Bougie (2013), a Cronbach alpha of 0.7 or greater is deemed reasonably sufficient for this investigation.

Descriptive Analysis

All independent and dependent variables were subjected to descriptive analysis, and the findings were given as means and standard deviations.

The following Likert Scale was used: Strongly Disagree [1], Disagree [2], Neutral [3], Agree [4], and Strongly Agree [5].

Descriptive *Analysis for Market Innovation*

The descriptive results for market innovation are presented in Table 4.

Table 4: Descriptive Analysis for Market Innovation

Statement	Mean	Std.Dev
We have a pricing strategy in place.	3.38	1.15
The pricing system is effective for both existing and new products and services.	3.80	1.07
We have developed a packaging strategy for our products.	3.93	0.94
The packaging strategy is effective in attracting new customers.	3.68	1.31
We have a promotion strategy in place.	3.52	1.36
The promotion strategy has been effective in reaching out to a wider market.	4.00	1.09
We have a well-developed placement strategy.	3.90	1.26
The placement strategy has been effective in expanding our market share and customer purchases.	3.60	1.22
Average	**3.73**	**1.18**

Source: Research Data (2024)

As seen in Table 4, the statement "We have a pricing strategy in place" (mean=3.38, SD=1.15) indicates that the majority of microfinance institutions have implemented a pricing strategy, which is predicted to improve performance. The statement "We have developed a packaging strategy for our products" (mean = 3.8, standard deviation = 1.07). The results imply that most microfinance institutions have a packaging strategy for items, which is likely to improve performance.

The statement "We have a promotion strategy in place" (Mean = 3.52, SD = 1.36), indicates that microfinance institutions have promotional initiatives, which are likely to improve performance. Furthermore, the statement "We have a well-developed placement strategy" (mean = 3.9, standard deviation = 1.26). This indicates that most microfinance institutions have created placement methods that are intended to improve performance.

The total mean (Mean=3.73, SD=1.17) indicates that microfinance banks believe market innovation is vital to increasing organisational effectiveness. The results are comparable with those of Kiptoo and Koech (2019), who found that marketing innovation enhances organisational effectiveness.

Qualitative Analysis

Managers were asked to identify other marketing innovation strategies employed by the organisation. According to the data, the most common strategy of marketing innovation adopted by the organisations was rebranding. Rebranding is the process of revising a company's target market, packaging, logo, or mission based on market study.

CONCLUSION, RECOMMENDATIONS, SUGGESTION FOR FUTURE RESEARCH:

This section summarises the findings from the analysis. This is done in keeping with the study's aims. The primary goal of the study was to look into the impact of market innovation on the performance of microfinance banks in Nairobi City County, Kenya. The findings revealed that the majority of microfinance banks have a pricing strategy in place. The majority of respondents said that the pricing structure was effective for both existing and new items and services. Furthermore, most microfinance institutions have created a packaging strategy for their offerings. The findings also suggested that the packaging technique is beneficial at attracting new clients. The research also showed that most microfinance institutions have implemented a promotion strategy.

The findings also revealed that the promotion campaign was successful in reaching a larger market and had a well-developed placement plan. Further results demonstrated that the placement strategy was beneficial in increasing market share and consumer purchases. Correlation studies revealed a weak positive and substantial relationship between market innovation and the success of microfinance institutions. The regression results revealed that market innovation had a favourable and significant effect on the performance of microfinance institutions.

The study concluded that microfinance banks and other financial institutions should implement effective pricing mechanisms for both existing and new products and services. The researcher also suggests that microfinance institutions who have not completely embraced market innovation as a means of increasing performance look for ways to do so, as there has been evidence that a link exists between market innovation and organisational success. At the same time, it is recommended that those who have been successful in doing so start looking for new ways to increase their performance, as the banking business is fast evolving.

The purpose of this study was to look into how marketing innovation affected the performance of microfinance banks in Nairobi City County, Kenya. More research can be conducted on this topic, but it should focus on other financial organisations such as commercial banks. Furthermore, a similar study might be done in other counties in Kenya, such as Mombasa and Machakos counties.

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