

## **Environmental Factors Affecting Procurement Performance in County Governments: A Case of Uasin Gishu County**

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**ABSTRACT:** *The study sought to answer the following objectives; investigate the effect of market environment on procurement performance in Uasin Gishu county government., establish the contribution of legal environment on procurement performance in Uasin Gishu county government, determine the effect of political environment on procurement performance in Uasin Gishu county government and finally, to find out the contribution of social economic environment on procurement performance on Uasin Gishu county government From the findings of the study it is apparent that market environment, political environment, legal environment and socioeconomic environment have an impact on procurement performance. Under market environment, maximization of competition, accomplishment of socioeconomic objectives and fulfilment of government needs are the market components influencing procurement performance. Concerning the legal environment, aspects of contracts, personnel regulations, research and development regulations, manufacturing regulations and finance regulations are the aspects that affect procurement performance at Uasin Gishu County Government. The political environment influence on procurement performance entails; influence on budget authorization, alteration of procurement statutes, political pressures, compromising of different interest groups and involvement in all aspects of the public procurement system. Regarding the socioeconomic environment, aspects influencing procurement performance include; Favourable /unfavourable economic environment, Government Favours for tenders and Pressure from environmental activists. The study recommends that, decentralization of duties especially at the procurement department should be encouraged to minimize wastages and corruption resulting from centralization of power. Under market environment, maximization of competition, accomplishment of socioeconomic objectives and fulfilment of government needs are the market components influencing procurement performance. Concerning the legal environment, aspects of contracts, personnel regulations, research and development regulations, manufacturing regulations and finance regulations are the aspects that affect procurement performance at Uasin Gishu County Government. The political environment influence on procurement performance entails; influence on budget authorization, alteration of procurement statutes, political pressures, compromising of different interest groups and involvement in all aspects of the public procurement system. Regarding the socioeconomic environment, aspects influencing procurement performance include; Favourable /unfavourable economic environment, Government Favours for tenders and Pressure from environmental activists.*

**KEY WORDS:** *Market, Legal, Political, Social Economic and Political Environment*

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### **I. BACKGROUND INFORMATION**

Studies have been carried out in the past concerning procurement especially in the public sector. Procurement essentially encompasses the whole process of acquiring property and or services. It begins when an agency has identified a need and decided on its procurement requirement. Procurement continues through the processes of risk assessment, seeking and evaluating alternative solutions, contract award, delivery of and payment for the property and or services and, where relevant, the ongoing management of a contract and consideration of options related to the contract. Procurement also extends to the ultimate disposal of property at the end of its useful life (Waters 2004). Sound public procurement policies and practices are among the essential elements of good governance (KIPPRA, 2006). Otieno (2004) notes the irregular procurement activities in public institutions provide the biggest loophole through which public resources are misappropriated. Thai (2001), argues that the basic principles of good procurement practice include accountability, where effective mechanisms must be in place in order to enable procuring entities spend the limited resources carefully, knowing clearly that they are accountable to members of the public; competitive supply, which requires the procurement be carried out by competition unless there are convincing reasons for single sourcing; and

consistency, which emphasizes the equal treatment of all bidders irrespective of race, nationality or political affiliation.

**Statement of the Problem :** Regardless of the effort by the governments of developing countries, like Uganda and development partners like World Bank to improve performance of the procurement function, public procurement is still marred by shoddy works, poor quality goods and services, (David, 2002). Environmental factors such as socioeconomic, political, legal and market environment factors have an influence on the procurement functions of most public entities (PPDA, 2006). These factors have had costly consequences for any public entity, and the country at large. It is in the interest of the researchers that financial performance should not be the only measure to conclude the performance of the procurement function thus intangible performances like quality of procured goods and services, timely delivery of orders, customer satisfaction, dependability, flexibility and quality of employees should all be included. The purpose of this study was to identify how the procurement process can contribute to improved performance of the procurement function.

#### **Objectives of the Study**

- To find out the effect of market environment on procurement performance in Uasin Gishu county government
- To establish the contribution of legal environment on procurement performance in Uasin Gishu county government
- To determine the effect of political environment on procurement performance in Uasin Gishu county government
- To find out the contribution of social economic environment on procurement performance on Uasin Gishu county government

#### **Literature Review**

**Procurement theories :** This chapter presents the theoretical framework applied for the study; it includes a review of Agency theory and also a discussion about the effect of environmental factors on procurement performance. This chapter also includes variables.

**Agency theory :** Agency theory attempts to describe the agency relationship, in which one party (the principal) delegates work to another party (the agent), who performs that work (Eisenhardt, 1989). Two problems can arise in such relationships, the desires and goals of the principal and agent can conflict, and it is difficult for the principal to verify what the agent actually is doing. Principal-agent researchers are concerned with a general theory of the principal-agent relationship, a theory that can be applied to employer-employee, buyer-supplier and other agency relationships. Agency theory is most relevant in situations in which contracting problems are difficult. These include situations in which there is a substantial goal conflict between principals and agents and sufficient outcome uncertainty to trigger the risk implications of the theory (Eisenhardt, 1989). Eisenhardt (op. cit.) discusses the assumptions of the theory and raises the issue of principals learning about the agents when there is a long term relationship, when there may be less need for outcome -based contracts. This may be more the case with procurement in the private sector, where there are fewer regulations than in the public sector, and where tendering is not required. Private businesses are free to have long term relationships with software developers and consulting firms. Jones (1995) suggests that long term relationships with vendors may in the long run lead to higher effectiveness, due to the stability of the relationship being dependent on controlling goal conflicts. Sharma, (1987) has extended the agency theory and focuses on the principal-professional relationship, where professionals can include consultants (Sharma, 1987). It is not uncommon for public entities to use consulting houses in specifying requirements and even in the tendering phase and the selection of vendor.

Sharma, (1987), argues that, there are some specific distinctions of the principal-professional agency exchange. The greatest is the power asymmetry. In an owner-manager or manager-worker relationship, the principal have the power to design and enforce contracts and hence the power to enter or to dismiss incentives for the managers and the workers. In contrast, principal -professional exchanges are inherently those in which professionals has the power over lay principals by virtue of their expertise, functional indispensability, and intrinsic ambiguity associated with the services they provide (op. cit.). It also involves a considerable information asymmetry; the principal does not only not know how the professional agent does the job, but also not what he or she does. This information asymmetry also makes it difficult for the principals to know beforehand how much service is actually needed. Dawson et. al. (unpublished) has expanded Sharma's work to study information asymmetry in IS consulting.

Procurement can be viewed as involving at least two parts with different goals, a buyer and one or more vendors competing for the contract. However in addition to the agency relationship between buyer and competing vendors, there may be a number of internal stakeholders possibly with conflicting goals, adding complexity to the procurement process. These groups of internal stakeholders may include IT staff, procurement personnel, users, user representatives, line managers, financial officers and cost controllers. These may have conflicting interests even though there may not be an agency relationship between them; one common observation is that different user groups in different parts of a business may have conflicting requirements. This is where stakeholder management theory may be helpful. Eisenhardt and agency theory has been influential development of stakeholder theory (Jones, 1995, Hill and Jones, 1992) Flak (2005) has done a thorough literature study of stakeholder theory and discusses the strengths and weaknesses of the theory for theoretical contribution to the e-government field. Jones (op. cit.) defines stakeholders as applying not only to groups easily characterized by words such as customers or employees but also to subgroups of customers and employees (e.g. shop workers and middle managers) who may have distinct and competing interests. In my work I plan to identify different stakeholders in a number of case organizations, what conflicting goals or interests they may have, and to what extent this influences the process. Two obvious groups of stakeholders which may have conflicting goals are IT managers and users. There may also be conflicting goals between different external stakeholders (e.g. small compare to big vendors, local compared to national vendors)

**Legal Environment** : Apart from public procurement regulations and rules, the legal environment refers to a broad legal framework that governs all business activities including research and development (regulations dealing with safety and health of new products), manufacturing (safety and health regulations at workplace and pollution control), finance (regulations dealing with disclosure of information), marketing (regulations dealing with deceptive advertising, disclosure of product characteristics), personnel (regulations dealing with equal opportunity for women and minorities), and contracts. Indeed, most aspects of contracts--public or private--such as contract requirements, disputes, and breach of contract are governed under the same contract law. In developing and particularly transitional countries, where legal systems are not comprehensive, government contracts may need detailed provisions, (Akintoge, 2000).

**Political Environment** : In a democracy many individuals, groups, and organizations in the private sector including trade associations, professional associations, and business firms or companies (commonly known as interest groups) are actively involved in all aspects of the public procurement system. Having various interests, objectives and beliefs, interest groups are involved in the public procurement system in several ways such as lobbying legislative bodies to pass or alter procurement statutes, influencing implementation of these statutes, and influencing budget authorization and appropriations processes. Normally, a government program that is eventually adopted is a compromise among different views of interest groups, policy makers and management. In this democratic environment, there are cases of a strong coalition of policy makers, bureaucrats and interest groups in their effort to get their programs adopted. This coalition has led to the concept of the 'iron triangle,' which is very popular in the area of defence procurement. However, the iron triangle shifts immediately after the procurement program authorization and appropriations stages to move to the procurement stage. As failure or success in winning large defence contracts has a great impact on a company, defence specialized companies compete against each other for these contracts. Public procurement practitioners have choices as they face various political pressures as well as sound economic decisions, (Thai, 2001).

**Social, Economic Environment** :While some countries impose social policies on their public procurement practices (such as a policy placing a fair proportion of government acquisitions with woman/minority-owned small business, or economically disadvantaged areas), most governmental entities --be it a developed or developing country or federal, state, and local governments-- use their large procurement outlays for economic stabilization or development purposes by preferring national or local firms over firms from other countries or other geographic locations. Public procurement practitioners may be in a favourable economic environment or market (with many competing renderers in their country or local areas) or an unfavourable economic environment (where competition hardly exists). This environment would have a great impact on their practices as they may face an imperfect competitive market. In addition to social and economic environment, public procurement practitioners are under other external pressures such as an environment protection movement, and foreign policy commitments (Van Weele, 2006).

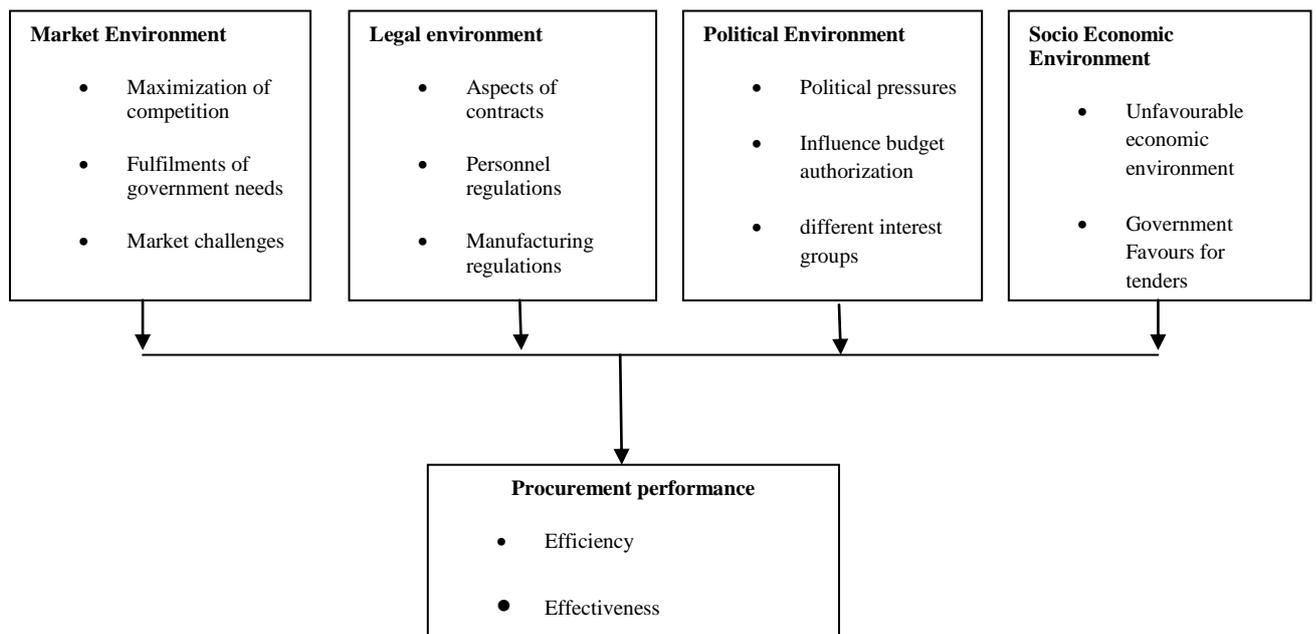
## **II. MARKET ENVIRONMENT**

Market conditions have a great influence on public procurement practitioners' effort to maximize competition. Moreover, the market determines whether or not socio-economic objectives of procurement are

accomplished, whether or not a governmental entity can fulfil its needs; the timeliness of fulfilment; and the quality and costs of purchased goods, services and capital assets. As there are different levels of economic growth among countries in the world, market conditions are very favourable in industrialized countries, while they may be unfavourable in developing countries. Even under a perfectly competitive condition like that in the United States, some supplies and services are required only by the government (particularly for weapons systems) and are available in the market. This is a captive market, which is limited in scope and competition. Also as markets become more and more globalized through regional and international trade agreements and treaties, public procurement practitioners face a greater challenge. In addition to compliance with their governments' procurement laws and policies and international trade requirements as mentioned above, they face additional challenges including communication, currency exchange rates and payment, customs regulations, lead-time, transportation, foreign government regulations, trade agreements, and transportation. Thus, "before embarking on a foreign purchasing program, public procurement practitioners must carefully assess the total cost implications and compare them to domestic costs" (National Institute of Governmental Purchasing, 1999). Public procurement practitioners are torn between free trade agreements and their countries' economic development/stabilization policies when they face a hard choice between selecting domestic or foreign firms, (Barath, 1977).

**Measurement of procurement performance.** :Van Weele (2006) states that purchasing performance is considered to be the result of two elements: purchasing effectiveness and purchasing efficiency. Performance provides the basis for an organization to assess how well it is progressing towards its predetermined objectives, identifies areas of strengths and weaknesses and decides on future initiatives with the goal of how to initiate performance improvements. This means that purchasing performance is not an end in itself but a means to effective and efficient control and monitoring of the purchasing function.

### Conceptual Framework



### III. RESEARCH METHODOLOGY

This chapter was organized under the following subsections, the research design, target population, sample size and sampling procedures, research instruments, data collection procedures and data analysis.

**Research Design:** In order to establish the effects of Environmental factors affecting procurement performance the researcher used descriptive research design. Descriptive research involved gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). It often uses visual aids such as graphs and charts to aid the reader in understanding the data distribution.

**Target Population:** The target population consisted of 15 employees from each of the seven departments and the chief officers who are the managers of the respective departments of Uasin Gishu county government. A list

of employees obtained from the county government office, Uasin Gishu in the year 2013 indicates that there are 105 confirmed staff and seven departmental heads appointed by public service board members.

**Sampling Size and Techniques:** Sampling refers to the process of the selection of a portion of the population to represent the entire population in study (Polit and Hungler, 1996). The total population can serve as a sample for a study. Due to the small target population, the researcher adopted the census method where by the entire population was used. To obtain the sample population purposive sampling was used, where the entire 7 department took part in the study with each department holding 15 employees. Thus making a sample population of 105 employees in the departments.

**Data Collection Methods:** The questionnaire was administered using a drop and pick later method. The respondents in the questionnaire were 105 employees and head of departments. The primary source of data collection method used in the study included use of questionnaire that was used to source for crucial information from the county's authorities. The questionnaire was both open and closed ended questions in order to enable effective data collection filled in the questionnaire. The secondary data was attained from the written materials which included the journals magazines, and other past studies and other relevant books. This enabled the researcher to compare the data from the questionnaires with the written materials. This helped to enable effective data collection and analysis from county government.

**Validity and Reliability of the Instruments :** Mugenda and Mugenda (1999), defines validity as the accuracy and meaningfulness of the inferences, which is based on the research results, It is the degree to which the results obtained from the analysis of the data actually represent the phenomena under study. To ensure that the data acquired is valid in this study, the following steps were taken; an extensive literature review was undertaken to understand how personal in-depth interviews and surveys should be conducted (Blanche and Durrheim, 1999; Gunn, 1994; Finn et al, 2000; Jennings, 2001). Further the validity of the instruments was determined through the content validity of the instrument. The Supervisors checked the questionnaire for its general content, content validity and thoroughness. Their noteworthy advice and comments was incorporated in the final instrument.

#### IV. DATA ANALYSIS

Sekaram, (2003) asserts that there are three objectives in data analysis; getting a feel for the data, testing the goodness of the data, and answering the research question. He notes that establishing the goodness of data lends credibility to all subsequent analysis and findings because it measures the reliability and the validity of the measures used in the study. After gathering data from questionnaire schedules, they were checked adequately for reliability and clarification. The data was analyzed using quantitative techniques, whereby the findings was presented in the form of frequency distribution tables and pie charts while qualitative techniques was incorporated in the study to facilitate description and explanation of the study findings. By so doing this created good understanding of the study findings. The data collated was entered into a computer and analyzed using Statistical Package for Social Sciences (SPSS Version 22). The software packages enabled the researcher to analyze the data into percentages, means and frequencies. First, multi-co linearity was tested on the independent variables to ascertain whether there was the problem of multi-co linearity. The retained independent variables were regressed against the dependent variables to explore possible strengths and direction of relationships.

#### V. RESULTS

##### **Extent to which market environment affect procurement performance**

Respondents were asked to indicate the extent to which market environment affects procurement performance. Based on a scale of five, respondents were required to tick against the response which they felt best suite the question. Findings of this item were as shown in table 4.3.

**Table 4.3 Extent to which market environment affect procurement performance**

Components of Market Environment	SA	A	UD	D	SD
Accomplishment of social economic objectives	57	33	5	10	0
Maximization of competition	55	20	10	0	20
Fulfilments of government needs	45	35	25	0	0
Market challenges	80	20	0	0	5
<b>Mean</b>	<b>59</b>	<b>27</b>	<b>10</b>	<b>3</b>	<b>6</b>

**Extent to which legal environment affect procurement performance :** Respondents were asked to indicate the extent to which legal environment affects procurement performance. A five point scale was used to ascertain the extent of effect. Findings of this item were as shown in the table 4.5.

**Table 4.4 Extent to which legal environment affects procurement performance**

Extent	Frequency	Percent
Very great extent	77	73
Great extent	23	22
Moderate extent	2	2
Little extent	3	3
Not at all	0	0
<b>Total</b>	<b>105</b>	<b>100</b>

Respondents were further asked to indicate the extent to which key components of legal aspect affects procurement performance. A five point scale was used to ascertain the extent of the effect. Findings of this item were as shown in table 4.5.

**Table 4.5 Extent to which the key components of legal aspect affect legal environment on procurement performance**

Components of legal aspect	VG	G	M	L	NA
Aspects of contracts	80	20	5	0	0
Personnel regulations	30	20	30	10	15
Research and development regulations	90	10	5	0	0
Manufacturing regulations	76	24	5	0	0
Finance regulations	30	20	0	50	5
<b>Mean</b>	<b>61</b>	<b>19</b>	<b>9</b>	<b>12</b>	<b>4</b>

**Extent to which the political environment affect procurement performance**

Respondents were asked to indicate the extent to which political environment affects procurement performance. A five point scale was used to ascertain the extent of the effect. Findings of this item were as shown in the table 4.6.

**Table 4.6 Extent to which the political environment affect procurement performance**

Extent	Frequency	Percent
Very great extent	88	83
Great extent	10	10
Moderate extent	2	2
Little extent	5	5
Not at all	0	0
<b>Total</b>	<b>105</b>	<b>100</b>

Respondents were further asked to indicate their level of agreement on effect of political environment on procurement performance. Findings of this item were as shown in table 4.7.

**Table 4.7 Respondents level of agreement with effect of political environment on procurement performance**

Effect	SA	A	U	D	SD
Influence budget authorization	92	8	5	0	0
Alteration of procurement statutes	50	20	20	5	10
Political pressures	100	5	0	0	0
Compromising of different interest groups	67	33	0	0	5
Involvement in all aspects of the public procurement system	90	10	5	0	0
<b>Mean</b>	<b>80</b>	<b>15</b>	<b>6</b>	<b>1</b>	<b>3</b>

**Extent to which the socio economic environment affect procurement performance**

Respondents were asked to indicate the extent to which socio economic environment affects procurement performance. A five point scale was used to ascertain the extent of the effect. Findings of this item were as shown in the table 4.8.

**Table 4.8 Extent to which the socio economic environment affect procurement performance**

Extent	Frequency	Percent
Very great extent	75	72
Great extent	25	23
Moderate extent	5	5
Little extent	0	0
Not at all	0	0
<b>Total</b>	<b>105</b>	<b>100</b>

Respondents were asked to indicate the extent to which the socio economic environment affect procurement performance. A five point scale was used to ascertain the extent of effect. Findings of this item were as shown in the table 4.9

**Table 4.9 Extent to which the socio economic environment affect procurement performance**

Effect	SA	A	UD	D	SD
Favourable /unfavourable economic environment	99	1	5	0	0
Government Favours for tenders	65	35	0	5	0
Pressure from environmental activists and so on	45	20	0	10	40
<b>Mean</b>	<b>70</b>	<b>19</b>	<b>2</b>	<b>3</b>	<b>13</b>

## VI. DISCUSSION

Findings on the extent to which legal environment affects procurement performance showed that, majority of the respondents (73.%) cited that the legal environment affects procurement performance to a very great extent, (22%) of the respondents cited great extent, (2%) cited moderate extent while (3%) cited little extent. The researcher concludes that, irrespective of the extent of effect of the legal environment on procurement performance, the legal environment affects procurement performance at the County government. Respondents were further asked to indicate the extent to which the key components of legal aspect affect legal environment on procurement performance in county government basing on a five point likert scale. Findings of this item showed that, majority of the respondents, an average of 61 respondents cited that the key components of the legal aspects effected procurement performance at the county government to a very great extent, 19 respondents cited great extent, 9 respondents cited moderate extent, 12 respondents cited little extent while 4 respondents cited no effect at all. The researcher therefore concludes that, the legal aspects of the legal environment have an effect on procurement performance at the County government of Uasin Gishu.

Findings on the extent to which political environment affected procurement performance showed that, (83%) of the respondents cited that political environment affect procurement performance to a very great extent.

(10%) of the respondents cited great extent, (2%) of the respondents cited moderate extent while (5%) of the respondents cited little extent. The researcher concludes that political environment has an effect on procurement performance at Uasin Gishu County government. Respondents were further asked to indicate their level of agreement with the statements that related to the effect of political environment on procurement performance in the county government of Uasin Gishu. Five statements on five point likert scale were tested and the mean response determined. Findings of this item showed that, majority of the respondents, an average of 80 respondents strongly agreed that the aspects of the political environment mentioned in the study affect procurement performance. 15 respondents cited that they agreed with the statement, 6 respondents were undecided, 1 respondent disagreed with the statements while 3 respondents strongly disagreed with the statements that sought to find out the effect of the legal environment on procurement performance at the County government of Uasin Gishu. The researcher concludes that, political environment a role in determine procurement performance at the County government of Uasin Gishu.

Based on the effect of socioeconomic environment on procurement performance, (72%) of the respondents cited that socioeconomic environment affects procurement performance to a very great extent. (23%) of the respondents cited great extent, (5%) of the respondents cited moderate extent. The researcher concludes that, socio economic environment has an effect on procurement performance at Uasin Gishu County government. The researcher further sought respondents' level of agreement based on the statements that sought to find out the effect of socio economic environment on procurement performance in the county government. Findings of this item showed that, an average of 70 respondents cited that they strongly agreed with the statements that sought to find out whether socio economic environment had an effect on procurement performance. 19 respondents agreed with the statements, 2 respondents were undecided, 3 respondents disagreed while 13 respondents strongly disagreed with the statements. Findings of this item show that, socioeconomic environment has an effect on procurement performance. These findings were consistent with Thai, (2001) study concerning procurement in the public sector where he was testing the effect of socioeconomic environment on procurement performance among other factors, findings revealed that socioeconomic environment influences the procurement process through government favours for tenders and pressure from environmental activists.

**Analysis of Correlations between procurement performance and environmental factors :** The researcher sought to determine the strength of the relationship between the independent and dependent variable. Pearson correlation was therefore determined and findings of the coefficients are presented in table 4.10.

**Table 4.10 Analysis of Correlations between dependent and independent variables**

Variables		Procurement performance	Market environment	Legal environment	Political environment	Economic environments
Procurement performance	Pearson Correlation	1	.889**	.816**	.822**	.688**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	225	225	225	225	225
Market environment	Pearson Correlation	.889**	1	.959**	.942**	.845**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	225	225	225	225	225
Legal environment	Pearson Correlation	.816**	.959**	1	.964**	.887**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	225	225	225	225	225
Political environment	Pearson Correlation	.822**	.942**	.964**	1	.935**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	225	225	225	225	225
Economic environment	Pearson Correlation	.688**	.845**	.887**	.935**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	225	225	225	225	225

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Results from the correlations analysis revealed a strong positive correlation between environmental factors and performance of procurement. The correlation coefficients between Market environment, Legal environment, Political environment, Economic environment and procurement performance were; 0.889, 0.816, 0.822 and

0.688 respectively. These results indicate a strong positive correlation between the dependent and independent variables. It can therefore be deduced that the independent variables which are the environmental factors were actually explaining the fluctuations in procurement performance.

## VII. CONCLUSION

The study was about environmental factors affecting procurement performance in Uasin Gishu County government. It aimed at identifying the environmental factors affecting procurement performance and thus finding better approaches to improve procurement performance. Studies done in Kenya and Germany have shown how environmental factors have had positive and negative effects on procurement performance in the public sector (Otieno, 2004, Thai, 2001, Ngugi & Mugo, 2011). Environmental factors are therefore seen to affect procurement performance. From the findings of the study it is apparent that market environment, political environment, legal environment and socioeconomic environment have an impact on procurement performance. Under market environment, maximization of competition, accomplishment of socioeconomic objectives and fulfilment of government needs are the market components influencing procurement performance. Concerning the legal environment, aspects of contracts, personnel regulations, research and development regulations, manufacturing regulations and finance regulations are the aspects that affect procurement performance at Uasin Gishu County Government. The political environment influence on procurement performance entails; influence on budget authorization, alteration of procurement statutes, political pressures, compromising of different interest groups and involvement in all aspects of the public procurement system. Regarding the socioeconomic environment, aspects influencing procurement performance include; Favourable /unfavourable economic environment, Government Favours for tenders and Pressure from environmental activists.

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