

The Impact of Transformational Leadership in Micro, Small and Medium Enterprises (MSMEs) A Literature Review

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Abstract: This study aims to investigate the influence of transformational leader behavior in MSMEs. Globally, micro, small and medium enterprises (MSMEs) compete and work on their sustainability to survive and thrive. MSMEs rely solely on their internal strength, and this strength lies primarily in their employees. This research discusses how transformational leadership will affect how MSMEs leadership would play its role efficiently, and how it promotes volunteer attitude of work among employees. This research was carried out using literature review. The articles studied are collected using keywords "Leadership in Organizational Settings" and produced as many as 4,580 research articles. After going through the elimination stage by looking at factors such as object, subject, and location in relation, it has been found that there are 30 articles that is available for usage. From this research, it was found that transformational leadership has the potential to influence, motivate, and allow others to contribute to the effectiveness and success of the organization in which they are a member of. As a result, leadership orientations, perspectives, along with elements such as strategic vision and charisma are components which will play an important and crucial role in understanding how transformational leader could and would perform in MSMEs.

Keywords: Organizational Leadership Behavior, Transformational Leadership, Leadership Orientation, Effects and Impacts in business and MSMEs.

Introduction

MSMEs are vital to the economic growth and development of Indonesia. Indonesian MSMEs provide slightly more than 61% of the country's overall gross domestic product (GDP) and account for around 97% of the country's domestic employment. Approximately 99 percent of existing businesses in Indonesia belong into the category of micro, small, and medium-sized enterprises (MSME), which might allow them to dominate the economy if they are capable of improving exponentially relative to their current status. Such enhancements would necessitate strong leadership talents within each firm, with each leader needing to comprehend the most effective method for leading their organization.

This literature will also investigate the formation of organizational leadership. Previous research has demonstrated how good organizational leadership may improve a company's success. Leadership is crucial for sustaining organizational performance (Dirani et al., 2020). Leaders are crucial to the efficient deployment of human resources. In the present study, innovative leadership was therefore incorporated as a moderator. Creative leaders are adaptable and utilize innovative ideas to improve the "motivation, inventiveness, and adaptability" of their people in the workplace (Mawlawi et al., 2019). Leadership promotes innovation by managing the four subprocesses of organizational learning: information acquisition, knowledge

dissemination, knowledge interpretation, and organizational memory (Van et al., 2018).

To achieve this objective, a clear and specific technique of leadership must be defined. This study will focus on transformational leadership (TL), which plays a key role (Dvir, Eden, Avolio, and Shamir, 2002) in instilling an engaged workforce with the confidence to exceed expectations. Consequently, it is feasible that psychological well-being and transformational leadership might assist engaged employees in gaining organizational trust. There are few studies that establish a systematic relationship between employee engagement and organizational trust, despite the fact that this assertion appears rational and pragmatic. Recent research indicates that transformative leadership (TL) has a significant influence on the attitudes and actions of a number of people (Gao et al., 2020).

To determine what sorts of studies should be conducted in the future, it is vital to examine past research. Thus, the primary purpose of this study is to examine the diversity of research in the subject, characterize trends and gaps, and propose future avenues for studying the consequences and advantages of organizational leadership. This article outlines the techniques used to select and assess the prior research included in this review and presents what appear to be remarkable information from the selected papers. In an article that examines this phenomena in the context of the workplace, this research focuses on the significance of transformational leadership and understanding how such practice might help corporate performance, particularly for MSMEs. Then, present the findings from the literature and explore their implications before ending with suggestions for future theoretical and empirical research.

Materials and Methods

In order for the workplace to run efficiently and expand, it is necessary to have good organizational leadership. Consequently, it is crucial that this study examines in depth the business benefits of transformative leadership. Organizational leadership, transformational leadership, and their

respective business and MSMEs influences and effects will be examined.

Organizational Leadership

The leadership scholars have devoted a substantial amount of attention to defining their primary research concept (Reiche et al., 2017). Nevertheless, some argue that, in the event of a consensus on a common definition of leadership, it would be preferable for it to be comprehended. According to Rost (1991), there are 221 different definitions of leadership; yet, all 221 definitions state essentially the same thing, which is that leadership is about one person convincing others to do something (Ciulla, 2020). This validates the significant role and authority of leadership in directing corporate initiatives with the purpose of enhancing the organizational climate (Sal- as-Vallina et al., 2020; Walumbwa et al., 2017). Consequently, it is essential for every company to increase organizational leadership effectiveness in order to directly and indirectly improve the performance of the organization as a whole (Arzubiaga et al., 2018; Moslehpour et al., 2019). In this sense, Hemingway and Maclagan (2004) asserted that the moral integrity of leaders could accelerate this advancement and expansion. This position was reinforced by scholars who feel that the efficacy of a company, its performance, and its success are intimately linked to the ethical attitude and approach of its leaders (Feng et al., 2019; Saha et al., 2020; Sarwar et al., 2020; Shafique et al., 2019).

Transformational Leadership

Burns (1978) introduced the concept of transformational leadership; afterwards, Bass (1985) elaborated on this notion by explaining that transformational leadership drives individuals to work devotedly and attain organizational goals. Subsequently, Bass & Avolio (1995) proposed four elements of transformational leadership. (2) Inspirational motivation: This refers to a leader who motivates employees beyond their expectations in order to achieve both organizational and personal objectives. (3) Intellectual stimulation: Refers to a leader who encourages employees' abilities to solve problems creatively and to renew their thoughts. Intellectual

stimulation is defined by Gilmore, Hu, Wei, Tetrick, and Zaccaro (2013) as the act of fostering employee creativity and innovation. Individual concern (4) refers to a leader who pays attention to each employee by listening to their difficulties and providing help (Dionne, Yammarino, Atwater, & Spangler, 2004). The transformational leadership theory has been well-developed (Grant, 2012) and has produced significant insights into the impact transformational leaders have on organizations. A number of scholars have examined the effects of TL on employee creativity, dedication, and performance (Judge & Piccolo, 2004; Lowe, Kroeck, & Sivasubramaniam, 1996). Their research resulted in a greater understanding of staff creativity and innovation management. TL regulates the internal-external adjustments that individuals must make to fulfill organizational objectives. Beyond self-interest, this type of leadership prioritizes the welfare of employees, organizations, and societies (Ergeneli, Gohar, & Temirbekova, 2007). This leadership style motivates staff to work longer hours and exceed expectations in terms of output (Bass & Avolio, 1995).

Effective impacts towards business and MSMEs

A correct application of leadership to business and micro, small, and medium-sized enterprises (MSMEs) could move their enterprises forward. There are several benefits that are common to the majority of businesses, despite the fact that business-specific enhancements exist. The association between leadership and BI has been reported to be beneficial in prior studies (Jung, 2003; Garca-Morales et al., 2008; Gumusluoglu & Ilsev, 2009; Vaccaro et al., 2012). According to Jung (2003), senior-level leaders promote BI by fostering an organizational culture that encourages people to discuss and adopt innovative ideas. Recent research by Chaithanapat et al. (2022) indicates that leadership influences the innovation quality and performance of 283 small and medium-sized businesses in Thailand.

In addition, Hu et al. (2012) found a favorable correlation between leaders' core self-evaluation (CSE) and their leadership conduct. Leaders with a high CSE are more likely to earn followers' trust, enabling them to easily inspire and motivate them,

consequently boosting their followers' motivation and inventiveness at work (Chiang et al., 2014).

Leadership influences employee behavior and performance, which in turn influences the level of workplace satisfaction (Bass, 1985). In addition, the majority of studies have suggested a correlation between TL style and staff performance (Raja and Palanichamy, 2011). The relationship between TL and performance was discovered by Deluga and Souza in 1991. In their investigation, Buil et al. found a favorable correlation between TL and EP (2019). According to Thamrin (2012), TL has a good and substantial effect on employee performance. These are only a few examples of the numerous advantages that excellent leadership could provide to businesses and MSMEs, which will be revealed later in this investigation.

Research Method

This scholarly article makes reference to library research. This research was conducted by gathering and analyzing reading materials and carrying out a variety of tasks, including a thorough examination of the relevant prior literature. Literature is referred to here as sources that address topics pertaining to its definition and qualities. In this study, descriptive literature data are collected and analyzed using literature collection methods. Secondary data, either data from current publications or data issued by research institutes with the title of research and a document, were used to perform this survey. This research was conducted using secondary data sources, such as books, documents, and other data associated with the author's name (Sugiono, 2014). The primary research variable is corporate organizational leadership. Observation is used to investigate a problem phenomena that is currently occurring in the research design. In addition, the researchers employed a literature review methodology incorporating descriptive narrative methodologies.

The techniques and steps taken to review the literature in this research are presented in table 1 below:

Table 1. Relevant literature selection techniques

Step	Information	Change	Amount
Step 0	TITLE-ABS-KEY ("Organizational Leadership") AND TITLE-ABS-KEY ("Transformational Leadership")	+	4580
Step 1	Recording Duplicates	-1568	3012
Step 2	There is a relationship between "Organizational leadership to transformational leadership"	-1348	1664
Step 3	There is a relationship between "Trans leadership to impacts and effects to MSME"	-986	678
Step 4	There is a relationship between "Organizational leadership to impacts and effects to MSME"	-354	324
Step 5	Cannot be accessed	-294	30
Step 6	Other relevant (forward and backward)	+13	43

Results and Discussion

Organizational Leadership

The findings of prior study indicate that organizational leadership is a crucial aspect of corporate management. Such a position will be a significant determinant of a business's future growth and proper operation. To establish a good approach and understanding of how organizational leadership should be carried out, a literature review has been conducted to identify proven and discovered outcomes on the subject.

The results of the literature review in this study regarding organizational leadership are shown in table 2 below:

Table 2. Organizational Leadership

Authors	Study Design	Key Findings
Aman-Ullah, A., Mehmood, W., Amin, S., & Abbas, Y. A. (2022).	Data was collected through survey questionnaires from 356 managers working in small and middle-level hotels located in the four districts of Saudi Arabia. The present study used convenience sampling, and the data analysis method was partial least square structural equation modelling.	This study indicates that human capital capacity forms a significantly positive relationship with organisational performance. Results indicate that human capital knowledge forms a significantly positive relationship with organisational performance confirms the influence of human capital knowledge on organizational performance. Results indicate that innovative leadership shows a highly significant moderation relationship between human capital knowledge and organisational performance
Gökalp, P., & Soran, S. (2022).	In our study teacher leadership and organizational culture are assessed as important variables and examined. In aviation literature, there is a very small number of explanatory studies on flight performance and leadership. Additionally, no study has been found on teacher leadership of student pilots. In this context, how leadership styles affect student pilots' performances positively and negatively was investigated in our research	Based on the findings, it has been concluded that flight schools can have a positive impact on student pilots' flight performance and enhance their loyalty towards the schools by establishing an innovative organizational structure, being open to innovations and demonstrating consistent behaviour towards their students. Thus, flight schools can develop standard application procedures and treat each student consistently.
Mai, N. K., Do, T. T., & Phan, N. A. (2022).	A total of 638 samples were collected from leaders working at tourism firms in Vietnam and analyzed using a quantitative approach and the partial least squares-SEM technique.	The findings revealed that leadership personality traits, such as core self-evaluation, narcissism, the need for achievement, and risk propensity, have direct or indirect effects on business innovation
Saeidi, P., Robles, L. A. A., Saeidi, S. P., & Zamora, M. I. V. (2021).	Data collection was performed from 285 manufacturing and consumer products firms located in Malaysia during the four-month period of June–September of 2020. AMOS Structural Equation Modeling (AMOS-SEM) method was applied to analyze the model, followed the Baron and Kenny approach in testing the hypotheses.	On the whole, these findings highlighted a role for the Organizational Leadership in promoting the firm's non-financial performance indirectly and directly through CSR practices. In the other hand, the results proposed a role for CSR in promoting the firm's financial performance indirectly through enhancing the customer satisfaction, internal business processes, and growth and learning as components of the firm's non-financial performance.
Banmairuroy, W., Kritjaroen, T., & Homsombat, W. (2022).	This research aims to study the roles of knowledge-oriented leadership and human resource development on a sustainable competitive advantage of an organization using data from employees in the high technology and innovation organizations of Thailand. These sample organizations are called the New S-Curve industries under the definition of the "Thailand 4.0 Model"	This research finding reveals that knowledge-oriented leadership directly affects sustainable competitive advantage, whereas human resource development does not have a significant direct effect on sustainable competitive advantage

A study conducted by do Adro, F. J. N., and Leito, J. C. C. (2020) revealed a concern with the renewal of management bodies and a lack of qualified leaders, as evidenced by the preceding findings. In order to properly study, form, and perceive their business in a way that benefits the customers, the internal staffs, and the laws involved, a construct of strategies must be developed (Grinerud, K., Aarseth, W. K., & Robertsen, 2021). Schaedler, L., Graf-Vlachy, L., and Konig, A. (2021) have observed that leaders are highly capable of reversing a failing firm through the application of effective leadership methods and critical thinking.

Abed, M. T. (2021)., Banmairuroy, W., Kritjaroen, T., & Homsombat, W. (2022)., Aman-Ullah, A., Mehmood, W., Amin, S., & Abbas, Y. A. (2022)., & Aman-Ullah, A., Mehmood, W., Amin, S., Based on the aforementioned findings, the general consensus of these research is that a novel style of leadership must be implemented in business in order to adapt to the business climate and allow the organization to grow. Studies conducted by Mai, N. K., Do, T. T., & Phan, N. A. (2022)., Saeidi, P., Robles, L. A. A., Saeidi, S. P., & Zamora, and Guzmán, V. E., Muschard, B., Gerolamo, M., Kohl, H., & Rozenfeld, H. (2020).revealed that As demonstrated by the study conducted by Gokalp, P., and Soran, S., taking these elements into account in leadership can provide positive outcomes (2022).

Transformational Leadership

The table below lists research articles and studies regarding transformational leadership and its effectiveness in businesses.

Table 3. Transformational Leadership

Authors	Study Design	Key Findings
Morf, M., & Bakker, A. B. (2022).	We conducted a weekly diary study and collected data from leaders of organizations in Switzerland over five weeks (k = 100, N = 500).	The findings suggest that when leaders are exposed to motivating job characteristics (ie, high task significance, skill variety, and cooperation), they feel more energized and demonstrate more transformational leadership
Bakker, A. B., Hetland, J., Olsen, O. K., & Espevik, R. (2022).	A total of 57 Norwegian naval cadets filled out a diary booklet for 30 days (response = 72.6%; n = 1242). Multilevel modeling analyses largely supported our hypotheses.	This study has shown that transformational leadership is important for follower work engagement and performance because it encourages agentic follower behaviors such as strengths use and personal initiative.
Hoai, T. T., Hung, B. Q., & Nguyen, N. P. (2022).	Data from 319 public sector organizations in Vietnam corroborated our hypothesis that ICSS boost the intensity of innovation, which has a beneficial effect on organizational performance	Data demonstrated that intensity of innovation fully mediated the relationships between ICSS and organizational performance, and that transformational leadership reinforced the mediating relationships
Qalati, S. A., Zafar, Z., Fan, M., Limón, M. L. S., & Khaskheli, M. B. (2022).	Using a sample of 405 employees from Pakistani SMEs	Comparing the current findings with the extant literature shows that numerous studies support the findings in the Pakistani context. Pillai et al. (1999a, b) also confirmed that transformational leaders can encourage employees to display Organizational Citizenship Behavior (OCB). A recent study by Vipraprastha et al. (2018) revealed that OCB improves EP, and that it is likely that OCB plays an intermediary role between TL and EP.
Mulla, Z. R., & Krishnan, V. R. (2018).	From the engineering company, we collected data from 244 newcomers who were all engineers (graduates and post-graduates), of which there were 189 men and 35 women. Their ages ranged between 20 and 27 years with the median age being 22 years.	Having supervisors who display transformational leadership is likely to provide an important counteracting force and ensure that newcomers' values change such that they give more emphasis to self-transcendence values
Buil, I., Martínez, E., & Matute, J. (2019).	Data from 323 frontline hotel employees were analyzed using partial least square regression	Results show that identification and engagement fully mediate the relationship between transformational leadership and organizational citizenship behaviors, whereas engagement partially mediates the link between transformational leadership and job performance
Hetland, J., Bakker, A. B., & Demerouti, E. (2018).	Data were collected from 107 employees from Norwegian knowledge-based organizations (response = 93.2%). Participants responded to a general questionnaire and five daily diary questionnaires (total N = 535 occasions).	This study reveals that daily transformational leadership is positively related to daily job crafting, particularly when followers score high on promotion focus – i.e. are driven by growth and development needs.

Studies above generally consider transformational leadership's implementation to be effective and positive for business. According to Shafi, M., Lei, Z., Song, X., & Sarker, M. N. I. (2020), it promotes creativity and innovation for both the leaders and employees. Employees also trust executives more when they are given transformational leadership's perception (Jena, L. K., Pradhan, S., & Panigrahy, N. P. (2018)). It also increases their commitment to change and improve their work quality (Kim, H., Im, J., & Shin, Y. H. (2021)).

Findings also concluded that they're more inclined to perform transformational leadership when leaders are exposed to motivating job characteristics, such as high task significance, skill variety, and cooperation (Morf, M., & Bakker, A. B. (2022)). According to Buil, I., Martínez, E., & Matute, J. (2019) and Hoai, T. T., Hung, B. Q., & Nguyen, N. P. (2022), transformational leadership has the effects of mediating employee engagement

and Organizational Citizenship Behaviour (Buil, I., Martínez, E., & Matute, J. (2019), Qalati, S. A., Zafar, Z., Fan, M., Limón, M. L. S., & Khaskheli, M. B. (2022)). The study has revealed that transformational leadership is important for follower work engagement and performance because it encourages agentic follower behaviors such as strengths use and personal initiative (Hetland, J., Hetland, H., Bakker, A. B., & Demerouti, E. (2018)), particularly when followers score high on promotion focus – i.e. are driven by growth and development needs (Bakker, A. B., Hetland, J., Olsen, O. K., & Espevik, R. (2022)).

Effective Impacts Towards Business and MSME

The table below displays proper leadership attributes with its beneficial effects in business and MSMEs.

Table 4. Effective Impacts Towards Business and MSME

Authors	Study Design	Key Findings
Ocasal, D. L. M., Lugo, A. L. V., Melo, L. A. B., & Miranda, P. P. (2022).	The research is associated with the analysis of data on competitiveness, innovation, and technological development in SMEs in Colombia, the highest concentration of researchers is in the education sector with 95.7% and only 2.5% is in companies, 1.7% is outside the country.	it is necessary to develop an innovative mentality in managers and this is only possible if companies apply a model for the development of innovative thinking that stimulates strategic management in organizations.
Nguyen, P. V., Huyen, H. T. N., Lam, L. N. H., Le, T. B., & Nguyen, N. H. X. (2021).	The consistent PLS-SEM approach was applied to analyze valid data collected from 182 small and medium IT enterprises operating at Quang Trung Software City, Ho Chi Minh City, Vietnam.	The empirical results reveal that entrepreneurial leadership via the full mediators of team creativity, dynamic capabilities, and competitive advantages can enhance the performance of IT SMEs.
Zhang, Y., & Wei, F. (2021).	Survey data were collected from small and medium enterprises (SMEs) along the east coast of China	Study concluded that the product life cycle is a contextual factor in the effects of charismatic leadership on environmental performance to support the strategy of product stewardship; SMEs' charismatic leadership helps share visions among stakeholders for promoting environmental performance and sustainable development; and environmental performance ultimately improves financial performance for sustainability.
Madanchian, M., Hussein, N., Noordin, F., & Taherdoost, H. (2018).	To test the hypothesis data were collected from 150 Malaysia' SMEs operating in service sector specifically Information Communication Technology (ICT). Exploratory factor analysis, confirmatory factor analysis and structural equation modelling (SEM) using path analysis were used to test the model and verify the hypothesis on the direct and positive effects of ethical leadership on leadership effectiveness.	Research has shown that leadership is an important factor for organizational success. The findings of this research show that ethical leadership have direct and positive effect on leadership effectiveness.
Chatterjee, S., Chaudhuri, R., Shah, M., & Maheshwari, P. (2022).	Later the model is validated using structural equation modelling (SEM) technique with 327 usable respondents from SMEs from India.	The SME technology leadership supports to facilitate, sponsor, and deploy big data related applications, IoT enabled applications, cloud computing optimization and so on, which is seen to have impacted the SME performance by improving SCM system even after COVID-19 pandemic. This implies that it will be the duty of the leadership of the SMEs to establish a collaborative as well as conducive atmosphere which will help the employees to be more proactive to combat any untoward situation like COVID-19 pandemic to sustain the SCM activities to improve the SME performance

Madanchian, M., & Taherdoost, H. (2019); Bagheri, A. (2017) have established that leadership effectiveness' aspects play an essential part in measuring leadership effectiveness, which has an effect on the performance of SMEs. Leadership has

been proved to be a significant determinant for organizational success. It demonstrates that ethical leadership has a direct and beneficial influence on leadership effectiveness (Madanchian, Hussein, Noordin, Taherdoost, & Taherdoost, 2018). CKM can be enhanced when businesses adopt knowledge leadership. Organizations will develop a favorable cultural orientation toward CKM as a result of KOL. This indicates that knowledge-oriented leaders fostered both open innovation and trial and error, resulting in the acquisition, assimilation, and exploitation of consumer knowledge (Chaithanapat, P., Punnakitikashem, P., Oo, N. C. K. K., and Rakthin, S., 2022). SME performance can be improved by entrepreneurial leadership via the full utilization of team creativity, dynamic talents, and competitive advantages (Nguyen, P. V., Huynh, H. T. N., Lam, L. N. H., Le, T. B., and Nguyen, N. H. X., 2021). This implies that it will be the responsibility of the leadership of the SMEs to create a collaborative and conducive environment that encourages employees to be more proactive in the face of adversity in order to sustain SCM activities, thereby enhancing SME performance (Chatterjee, Chaudhuri, Shah, and Maheshwari, 2022).

Do, V. P. A., & Bui, Q. T. (2022) suggest that human resource professionals can provide the best environment for leadership behaviors that promote innovation and profitability in SME by providing business skills training to owners and managers. Managers must create an innovative mentality, and this is only feasible if businesses implement a model for the development of innovative thinking that stimulates strategic management (Aman-Ullah, Mehmood, Amin, and Abbas, Y. A., 2022). To sustain international operations, enterprises must engage in large-scale business model innovation in order to fully adapt to the needs of foreign customers, and empowering leadership aids sales growth in overseas markets. Engaging followers through management agency is vital for long-term success in multinational operations (Colovic, A., 2012). Environmental performance eventually enhances financial performance for sustainability (Zhang, Y., and Wei, F., 2021).

Discussion

Based on the findings of a literature research, this study examines the interactions and effects of leadership methods in business environments. This study reveals that an enhanced and appropriate technique of leadership could raise the firm's effectiveness characteristics, such as employee well-being, company engagement, motivation, cooperation, a more effective interaction mediator, growth, and improvement. It is considered that these characteristics can be attained when leaders consider how organizational leadership is defined, what transformational leadership can offer as a leadership approach, and the benefits and outcomes it can produce for their business, particularly MSMEs.

According to research, many businesses have not embraced a good form of leadership, leading to the conclusion that a proper form of leadership could aid in advancing their businesses. Leaders must be creative and self-motivated in order to develop a more effective management strategy, such as employee competence and corporate interaction. Staff capability must be enhanced in a manner that increases members' competence, awareness, and cooperation, and company interactivity must be established in order to mold the company's work branch into a more efficient and productive framework. Such objectives can be attained through the implementation of transformational leadership, as the aforementioned study demonstrates that it is a more effective strategy for fostering positive relationships with corporate personnel. Transformational leadership has been demonstrated to have positive implications and effects on various company characteristics, such as organizational citizenship behavior, follower engagement, and growth incentive, as well as widespread acceptance and approval among employees. To generate good reactions and a productive work environment for all organization members, leadership must also be conducted in an ethical manner. Entrepreneurship also has a role, since it helps to encourage adaptability and leader dynamics in decision-making, resulting in a better, more effective business solution. Appropriate leadership could in turn boost firm performance and survivability,

resulting in a sustainable business entity that grows over time.

Conclusions

According to our research, leaders must take into account the skillsets and knowledge required for their own staffs in order to optimize their work capability, the communication behavior and mindset required to ease company workflow, trust among staff and cooperativeness, the demands required by consumers and the market, and the awareness required by leaders to see what actions must be taken to achieve a better outcome. It has been demonstrated that the implementation of transformational leadership will facilitate the attainment of these objectives, as organization staffs generally welcome improved relationships and cooperation between their members and leaders. It can be argued that the availability of such a leadership style could be advantageous for the survival, growth, adaptation, and sustainability of an organization.

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