

# **The Impact of Ethical Leadership Behavior on Employee Outcomes: The Roles of Psychological Empowerment and Authenticity**

Weichun Zhu  
Douglas R. May  
Bruce J. Avolio

University of Nebraska-Lincoln, Lincoln, NE

Acknowledgments: The ideas presented here benefited from conversations with colleagues associated with the Gallup Leadership Institute at the University of Nebraska-Lincoln. Correspondence should be directed to the first author.

*The topics of authentic leadership and the ethical behavior of leaders have received significant interest in recent years due to the plethora of ethical scandals in corporations. In this paper, we developed a theoretical framework that maintains that employees' psychological empowerment mediates the relationship between leaders' ethical behaviors and employees' organizational commitment and trust in leaders. We also argue that authenticity (i.e., the consistency between leaders' true ethical intention and behavior) moderates the relationship between leaders' ethical behaviors and employee outcomes. We discuss the theoretical and practical implications of the proposed model for work on authentic leadership.*

Ethical leadership has been discussed recently by numerous scholars in the field of organizational behavior and management with respect to its impact on individual, group and organizational outcomes (e.g., Koh & Boo, 2001; Lucas, 2000; Petrick & Quinn, 2001; Trevino, Brown, & Hartman, 2003). While there have been studies that have examined the individual and situational determinants of ethical leadership behaviors and the consequences of such ethical behavior at the organizational level (Holmes, Langford, Welch, & Welch, 2002; Honeycutt, Glassman, Zugelder, & Karande, 2001), how ethical leadership influences

individual behavior has not been thoroughly explored.

The main purpose of this paper is to address the following two questions. First, what role does psychological empowerment play in the relationship between ethical leadership behavior and employees' attitudinal outcomes (i.e., organizational commitment and trust in leaders)? Second, how do employee perceptions of the authenticity of leaders' ethical behavior influence the relationship between ethical leadership behavior and employee outcomes?

## **Ethical Leadership Behavior**

Leaders are obligated to set a moral example for organizational members and to determine those organizational activities which may be detrimental to the values of society in general (Aronson, 2001). Leaders exhibit ethical behaviors when they are doing what is morally right, just, and good, and when they help to elevate followers' moral awareness and moral self-actualization. Indeed, ethical leadership encompasses more than the fostering of ethical behaviors. For example, Butcher (1997) pointed out that, "ethical business leadership requires not only investing in the small trees and experimental hybrids that won't yield a thing that in this quarter or the next, but also caring for the soil that allows us to produce such a harvest in the first place" (pp. 5-6). Thus, ethical leaders must create the right conditions and

organizational culture (i.e., an “organizational soil”) to foster the development of ethical behavior in associates in ancient China, Confucius pointed out that “gentlemen can convince the world only with their noble ethics.”

Ethics is fundamentally concerned with the impact of an individual’s action on others. Frankena (1973) outlined two of the major theoretical perspectives in the ethics field—which are referred to as teleological and deontological theories. The teleological perspective emphasizes the outcomes or consequences of an action when evaluating whether the act is moral (Helms & Hutchins, 1992). There are various teleological theories in the literature, including ethical egoism, act utilitarianism, and rule utilitarianism.

In the case of ethical egoism, Rallapalli, Vitell, and Barnes (1998) have suggested that an individual considers an act to be moral or immoral depending on the likelihood that it will achieve personal objectives. An act is ethical for a person only if the results of the act or behavior are more advantageous to that person than those of the alternatives (Hunt & Vitell, 1986). For the ethical egoist, the interests of others are only a concern if they help maximize one’s own welfare and interests.

Utilitarianism represents the second major teleological perspective. Quinton (1989) proposed that utilitarianism could be described as the aggregation of two core principles – the consequentialist and hedonist principles. According to consequentialist principle, whether an act is ethical or not is determined by the consequences of that act. The hedonist view maintains that only pleasure is inherently good and only pain is inherently bad. This viewpoint focuses on ‘the principle of greatest happiness’ for those involved in a decision or act. According to Frankena (1973), the utilitarian perspective determines what is ethical by endeavoring to create the greatest overall good for those influenced by a decision or action. There are two general forms of utilitarianism -- rule and act utilitarianism. Rule utilitarianism postulates that people conform to a set of general rules that are thought to result in the greatest good for the greatest number of people. According to act utilitarianism, whether a specific action is ethical or not is based on its calculated potential to produce the greatest

amount of good for the largest number of people (Rallapalli et al., 1998). Unfortunately, one of the primary criticisms of utilitarian logic is that it can result in decisions where employees’ basic rights might be violated in order to produce this outcome. Thus, utilitarian logic may justify horrible acts in organizations.

Alternatively, the deontological perspective is primarily concerned with the inherent obligations and rights of differing parties involved in decisions, not the overall outcomes per se. Hunt and Vitell (1986) argued that the crux of the deontological perspective is whether or not a behavior or act is inherently right. Such determinations are made based on moral principles or guidelines such as Kant’s categorical imperative or the “Golden Rule.”

A third perspective often discussed in both the organizational behavior and philosophy literatures is the “justice” or fairness of a decision. There are two types of organizational justice – distributive and procedural. Distributive justice addresses the fairness of a managerial decision based on the allocation of outcomes such as pay, rewards, recognition, and promotion relative to an employee’s input. Procedural justice addresses the impartiality of the methods and relative input from employees regarding the standards used to make and apply managerial decisions. In terms of the teleological versus deontological categorization discussed above, distributive justice may best be thought of as a teleological theory of fairness due to its focus on *outcomes*, while procedural justice is best considered a deontological theory because of its focus on the *means* of making decisions. Nevertheless, Lind (1992) and Lind, Kulik, Ambrose, and De Vera Park (1993) recognized that employees perceptions of one form of justice may spillover to their perceptions of the other form of justice.

It is expected that ethical leaders will treat their employees fairly and in an unbiased and impartial manner, i.e., using both distributive and procedural justice to guide their leadership behaviors. Followers’ perceptions of being treated fairly should affect both their job attitudes, such as satisfaction and commitment, and organizational outcomes (Dailey & Kirk, 1992; Koh & Boo, 2001). Tansky, Gallagher and Wetzel (1997) also indicated that perceptions of justice and equity influence

employees' attitudes about their organizations. For example, a strong set of personal ethical standards (e.g., the virtues of honesty and fairness) should stimulate a higher level of trust and loyalty in an organization.

### **Ethical Leadership Behavior and Employee Organizational Commitment**

The concept of organizational commitment has grown in popularity and received a great deal of attention in the organizational behavior and industrial psychology literatures (Mathieu & Zajac, 1990). It has been suggested that gaining a better understanding of the individual, group and organizational processes that are related to organizational commitment has significant implications for employees, organizations, and society (Conger, 1999; Koberg, Boss, Senjem, & Goodman, 1999; Mathieu & Zajac, 1990; Mowday, Porter, & Steers, 1982; Potterfield, 1999; Spreitzer, 1995, 1996; Spreitzer, Janasz, & Quinn, 1999).

Organizational commitment is defined as "the relative strength of an individual's identification with and involvement in a particular organization" (Mowday et al., 1982: p. 27). The antecedents of organizational commitment can be divided into three broad categories: organizational factors, personal factors, and work experiences (Eby, Freeman, Rush, & Lance, 1999; Meyer & Allen, 1997; Mowday et al., 1982). For example, Mowday et al. (1982) pointed out that supervision is one of the critical organizational factors that can influence employee commitment to the organization.

In the leadership literature, a number of authors have referred to effective leadership as being characterized as empowering which, in turn, would be expected to enhance organizational commitment and effectiveness (Conger, 1999; Conger & Kanungo, 1988). Along these lines, Mathieu and Zajac (1990) suggested that other leadership dimensions, such as initiating structure, consideration, communication, and participative leadership are all antecedents of organizational commitment at the individual level. However, despite its theoretical and practical significance, there are relatively few studies that have focused on

determining how a leader's ethical behavior may be related to their employee's level of commitment to their organization. With all of the popular attention being given today to factors that affect employee loyalty, commitment and ethical behavior, this represents an area of research that could have both theoretical and practical implications.

Prior research has shown that organizational commitment is greater for employees whose leaders encourage their participation in decision-making (e.g., Jermier & Berkes, 1979; Rhodes & Steers, 1981), who treat them with consideration (e.g., Bycio, Hackett, & Allen, 1995; DeCotiis & Summers, 1987), fairness (e.g., Allen & Meyer, 1990), and are supportive of them (e.g., Allen & Meyer, 1990; Mottaz, 1988; Withey, 1988). We would expect that leaders who exhibit ethical behaviors would be more likely to consider the individual needs and rights of employees and treat them fairly, which are core characteristics of transformational leadership behavior. Turner, Barling, Epitropaki, Butcher, and Milner (2002) indicated that transformational leadership is significantly associated with moral reasoning. Leaders viewed by followers as more transformational are more likely to have a higher level of moral reasoning. Mize (2000) suggested that there is a positive relationship between ethical behavior and employees' level of commitment. Thus, we propose that:

*Proposition 1: Ethical leadership behavior is positively associated with employees' organizational commitment.*

### **Ethical Leadership Behavior and Employee Trust in Leaders**

The construct of trust has received considerable attention in the organizational sciences literature, in part due to the potential consequences it has for organizational effectiveness and performance. It is proposed that employee trust in leaders will enhance their compliance with organizational rules and laws, increase their zones of indifference, and facilitate the implementation of organizational change (Tyler & DeGoeij, 1996; Van Zyl & Lazenby, 2002). Employee trust in leaders directly influences their contributions to the organization in terms of performance, intent to

remain, and civic virtue behavior (Robinson, 1996).

Jones and George (1998) argued that there are two types of trust, conditional and unconditional trust. Conditional trust is a state of trust in which both parties are willing to transact with each other, as long as each behaves appropriately and uses a similar interpretive scheme to define the situation. Conditional trust usually is sufficient to facilitate a wide range of social and economic exchanges (Lewicki & Bunker, 1996). Unconditional trust is characterized with the shared values that structure the social situation and become the primary vehicle through which whole individuals experience trust (Jones & George, 1998). Scholarly interest in trust has recognized the multidimensional nature of the construct. Two core aspects of trust relevant to our discussion here focus on a leader's (a) behavioral consistency with his/her words and (b) benevolence toward others (Bulter, 1991). First, most perspectives on trust acknowledge that a leader's words must accurately predict his/her future actions in order to create a necessary, though perhaps not sufficient, condition for the development of trust. Ethical leaders are those who have the moral courage to transform their moral intentions into behaviors despite pressures to do otherwise (May, Chan, Hodges, & Avolio, 2003). Such leaders believe in virtues such as honesty and attempt to practice it on a daily basis in both their personal and work lives. Thus, we expect the behavioral consistency between such leaders' words and actions will be relatively high and that they will be subsequently trusted by their associates.

Second, several scholars have focused their definitions of trust on the notion that an individual believes the person who he/she trusts will behave in a way that is beneficial to the person (i.e., benevolence). For example, Hosmer (1995) synthesized the definitions from previous research and proposed that "trust is the reliance...on a voluntarily accepted duty on the part of another...to recognize and protect the rights and interests of all others engaged in a joint endeavor or economic exchange" (p. 393). Similarly, Robinson (1996) defines trust as "one's expectations of beliefs about the likelihood that another's future actions will be

beneficial, or at least not detrimental, to one's interest" (p. 576).

The ethical leader is one who does not seek to fulfill his/her own self-interest (psychological egoism) at the expense of others, but who looks after the group's interest at a minimum (utilitarianism). Ideally, such a leader bases his/her behaviors on moral principles that respect the rights of associates and treats them fairly. Ethical leaders involve their employees in decision-making within their firms to enhance the procedural justice and autonomy over their work lives the employees' experience. Furthermore, such involvement facilitates the well-being and potential growth of the employees.

Based on the above discussion of how ethical leaders should demonstrate behavioral consistency between words and actions as well as benevolent behaviors, the second proposition is offered:

*Proposition 2: Ethical leadership behavior is positively associated with employees' trust in leaders.*

### **Mediating Effects of Psychological Empowerment**

**Dimensions of psychological empowerment.** Empowerment is another important construct that can potentially lead to positive organizational and individual level outcomes. There are several perspectives on empowerment, such as relational, social-structural, and psychological (Liden, Sparrowe, & Wayne, 1997). Conger and Kanungo (1988) identified four broad antecedent conditions of the psychological state of empowerment, namely organizational factors, supervision, reward system, and job characteristics. Supervision or the influence of a leader was described as one of the ways in which followers could receive information regarding their personal efficacy (Bandura, 1986) which, in turn, could serve to remove any powerlessness they may have been experiencing.

Thomas and Velthouse (1990), and later Spreitzer (1995), defined empowerment as "increased intrinsic task motivation manifested in a set of four cognitions reflecting an individual's orientation to his or her work role: meaning, competence, self-determination and

impact.” *Meaning* refers to when employees experience their jobs as having value or importance (Fulford & Enz, 1995; May, Gilson, & Harter, 2004). When the mission of the organization or goals of the activities they are engaged in are congruent with their own value system, employees feel that their work is important and care deeply about what they do (May et al., in press; Quinn & Spreitzer, 1997; Spreitzer, 1995; Thomas & Tymon, 1994; Thomas & Velthouse, 1990).

*Competence* (or self-efficacy) is the knowledge that the individual has the skill necessary to successfully perform the task in a specific context (Bandura, 1986; Conger & Kanungo, 1988; Fulford & Enz, 1995; Thomas & Tymon, 1994). *Self-determination* (or choice) refers to the sense of freedom or discretion one has to perform the work in the way that one chooses (Fulford & Enz, 1995; Thomas & Velthouse, 1990). Self-determination reflects autonomy in making decisions about work methods, procedures, pace and effort (Spreitzer, 1995; Spreitzer et al., 1997). *Impact* refers to the degree to which an individual feels that his/her work makes a difference in achieving the overall purpose of the task (Thomas & Tymon, 1994; Thomas & Velthouse, 1990) and the extent the individual believes that he or she can influence organizational outcomes in a positive way (Spreitzer, 1995).

**Ethical leadership behaviors and psychological empowerment.** As suggested above, ethical leaders are expected to be more likely to consider each employees’ developmental needs and to place them in positions where they can experience work role fit and a sense of *meaning* in their jobs (May et al., in press). Such leaders are also likely to treat their employees with respect, rather than treating them simply as a means to an end (i.e., organizational productivity). This respect for human dignity should result in employees experiencing a strong sense of meaning at work since their own goals are consistent with the organizations’ goals.

Ethical leaders’ consideration of their employees’ developmental needs and benevolence should cause them to place employees in situations that facilitate their growth and confidence in their job-related skills. Such leaders are likely to seek out training

opportunities for their employees and to support them in making tough ethical decisions on the job. Training, including experiencing successes and observing others’ successes, has a positive impact on an individual’s self-efficacy (Bandura, 1986). Thus, employees of ethical leaders should have higher feelings of *competence* in their positions.

Because ethical leaders wish to protect the basic human rights of dignity and autonomy, they are more likely to structure jobs so that employees have discretion in decision-making over dimensions of their jobs as well as more broad participation within decision-making structure of their organization. Such autonomy in the workplace fosters feelings of *self-determination* in employees and links back to the trust formed between ethical leaders and their followers.

Ethical leaders are more likely to provide opportunities to understand the *impact* that an employee has in his/her position and in the organization overall, such as participation in decision making and work design. Such leaders encourage the full engagement of the self at work (May et al., 2004) because this helps lift the human spirit to realize a person’s dreams in the workplace and make contributions that one alone could not make. In sum, ethical leadership behaviors that protect individual employee rights (particularly the most basic human rights of respect, dignity, and autonomy) are likely to result in employees have greater feelings of empowerment.

**Psychological empowerment and organizational commitment.** Prior research indicates that employees who feel more empowered are more likely to reciprocate by being more committed to their organizations (Eisenberger, Fasolo, & Davis-LaMastro, 1990; Kraimer, Seibert & Liden, 1999; Sims & Kroeck, 1994). By definition, empowered employees are more likely to see themselves as competent and able to influence their job and organizations in a meaningful way. Because of these psychological states, they are also more likely to engage in extra-role efforts, act independently, and have a high commitment to the organization (Spreitzer, 1995). Indeed, Thomas and Velthouse (1990) maintained that empowered employees have improved concentration, initiative, resiliency, and

subsequent commitment to the organization. Furthermore, Kanter (1983) found that meaningfulness results in higher levels of commitment to the organization and a greater concentration of energy. Wiley (1999) similarly reported that psychological empowerment overall had a positive relationship with employee levels of organizational commitment. In sum, this research suggests that ethical leaders who empower their employees will subsequently see greater reciprocal commitment to the organization. Based on this discussion, our third proposition is offered:

*Proposition 3: Employees' psychological empowerment mediates the relationship between ethical leader behavior and employees' organizational commitment.*

#### **Psychological empowerment and trust.**

Employees who feel empowered at work are more likely to have greater levels of trust in their leaders. For example, those who find meaning in their work are more likely to immerse themselves totally in their roles (May et al., 2004) and place themselves in a more vulnerable, trusting position as they expose their true selves at work. Individuals who feel more competent in their ability to handle their work roles are also more likely to take risks and similarly place themselves in a more open and vulnerable position. The feelings of self-determination associated with the sharing and delegation of control by leaders should be reciprocally related to the development of employee trust in such leaders (Whitener, Brodt, Korgaard, & Werner, 1998).

Ultimately, those employees who believe they can have an impact on the outcomes of their jobs and organization may attribute the responsibility for the design of their work environment to their leader and consequently extend more trust to them. These employees may believe that such work environments demonstrate concern on the part of the leader for their well-being, which would boost their level of trust in their leader (Whitener et al., 1998). Based on this discussion, we propose our fourth proposition:

*Proposition 4: Employees' psychological empowerment mediates the relationship between ethical leader behavior and employees' trust in leaders.*

### **Moderating Role of Authenticity of Ethical Leader Behavior**

Recently, Harter (2002) defined authenticity as being true to oneself. An authentic person is genuine and does not feign qualities or beliefs that he/she does not actually possess (e.g., piety or moral superiority). Similarly, Taylor (1991) maintained that authenticity is about discovering and expressing oneself, being true to oneself and finding the design of one's own life. Stated another way, authenticity is simply being 'loyal to oneself' (Avolio, Gardner, Luthans, May, & Walumbwa, 2004).

Simons (1999) suggests there is often a mismatch between the values a leader may espouse and the actual values represented by his/her behavior. To be authentic, leaders need to ensure their actions are consistent with both their rhetoric and intentions.

The focus here is on the employees' perceptions of the authenticity of a leader's ethical behavior. Authentic ethical behavior represents behavior which is consistent with the leader's values and moral intentions and does not seek to hide that intention, but rather is transparent with the moral evaluations that lead up to the behavior (May et al., 2003). A critical question to be address is how the authenticity of a leader's ethical behavior may affect an employee's level of trust and commitment.

First, Lewicki and Bunker (1996) proposed a sequential development model for trust in work relationships. They argued that trust moves from a more calculating form to a more intimate, empathic, and exclusive form, or from conditional trust to unconditional trust in Jones and George's (1998) terms. Under this framework, people who are perceived as not doing what they say might have substantial difficulties in establishing any trust at all. Thus, the congruence between word and actions is a necessary pre-condition for trust to be established, particularly if ethical behavior is promised but not delivered. When inconsistency between words and actions occur, employees' responses can range from disappointment to anger to destruction and theft.

Second, leaders can also exhibit ethical behaviors in organizations such as setting up

empowering, well-designed jobs for their employees, yet they may not necessarily have respect for the dignity and autonomy of the individuals in mind when they do so. Alternatively, they may be self-interested egoists who believe that such arrangements will raise worker productivity, higher profits, and bigger year-end bonuses. While employees' trust in such a leader may be higher than for the leader who displays no ethical behavior, the employees' response will be much less enthusiastic in terms of trust and commitment than for the leader who displays consistency between moral intentions and behaviors.

Third, without a well-developed sense of authenticity leaders are unable to earn the credibility they need to motivate people to follow them toward their dreams, missions, purposes, and goals, even if they display ethical leadership behaviors (Morrison, 2001). Employees want to be treated authentically as well as fairly and with respect. When such ethical behavior is aligned with authentic moral intentions, employees will respond in an overwhelmingly positive manner (Lucas, 2000). Such authentic leaders engage in authentic moral behaviors (May et al., 2003) that are consistent with their transparent moral evaluations. Employees are able to trust and commit to such leaders because they can rely on them to do what they say they will do and believe them to be individuals with high moral development. Such authentic ethical leaders inspire employees to feel psychologically safe and be authentic

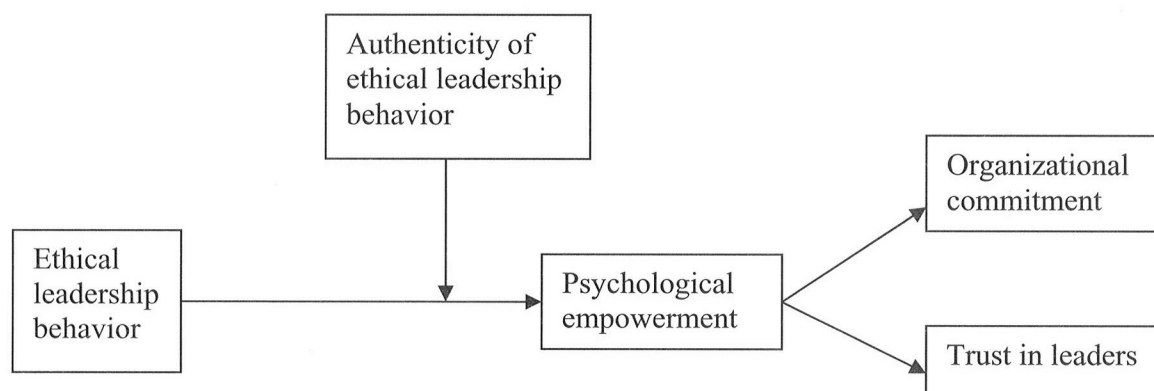
themselves at work (Kahn, 1990; May et al., 2004). Such leaders display undistorted communication of the moral intentions which engenders trust among associates (Mishra, 1996). Authentic ethical leaders display the highest levels of integrity, which serves as the strongest determinant of trust among its antecedents (Butler, 1991).

Thus, based on the above discussion, we believe that employees will respond most positively to a leader's ethical behavior when that behavior is perceived as genuine or authentic. However, when the moral intention behind a leader's ethical behavior becomes suspicious, the strength of the relationship between such behaviors and employees' responses should weaken.

*Proposition 5a: Employees' perception of the authenticity of a leader's ethical behavior moderates the relationship between ethical leader behavior and employees' trust. Compared with inauthentic ethical behaviors, authentic ethical behavior by leaders will have a stronger positive effect on employees' trust in their leader.*

*Proposition 5b: Employees' perception of the authenticity of a leader's ethical behavior moderates the relationship between ethical leader behavior and employees' organizational commitment. Compared with inauthentic ethical behaviors, authentic ethical leader behavior has a stronger positive effect on employees' organizational commitment.*

#### Theoretical Model of Authentic Ethical Leadership Behavior



## Conclusion

In this paper, we advanced a theoretical model that attempts to explain how ethical leader behavior influences employees' organizational commitment and trust via psychological empowerment. We proposed that employees' psychological empowerment (i.e., meaning, self-determination, competence, and impact) mediated the relationship between ethical leader behavior and employee organizational commitment and trust. We also proposed that employees' perception of the authenticity of a leader's ethical behavior (i.e., the consistency between leaders' moral intentions and their behaviors) should moderate the linkages between ethical leadership behavior and individuals' organizational commitment and trust in their leaders.

One of the important theoretical implications of this model is the discussion of the authenticity of ethical leadership behavior as a variable that moderates the impact of leaders' ethical behaviors on individual outcomes such as trust and commitment. Prior research focused primarily on the consistency between leaders' words and actions, while the proposed framework expanded the construct of authenticity to include the consistency between leaders' moral intentions and their ultimate actions. This paper hopefully contributes to the ongoing discussion of what constitutes authentic leadership and its development (Avolio et al., 2003; Luthans & Avolio, 2003; May et al., 2003).

## Future research directions

It should be noted, nonetheless, that our model is potentially limited by other factors we have not discussed here. For example, personal attributes (e.g., ethnic), education and employment background (e.g., type of education, employment and years of employment), personality (big five personality dimensions), values, and referent groups (e.g., peer group influence) are all factors that need to be considered when examining the impact of ethical leadership behavior on organizational commitment and trust. Ford and Richardson (1994) and Loe, Ferrell, and Mansfield (2001)

provided comprehensive reviews of the business ethics literature that may be helpful for advancing future theory building and research on authentic moral leadership. Future studies may wish to examine the impact of some of these factors on the relationship between ethical leadership behavior and employees' organizational commitment and trust in their leader.

While we have focused on the impact of ethical leadership on individual outcomes (i.e., psychological empowerment, organizational commitment, and trust), future research may also want to investigate the interaction between leaders' ethical behavior and authenticity with respect to group or organizational level outcomes (e.g., financial performance – sales, profitability, etc.) or firm reputation.

Future research may also wish to explore whether authentic leadership is more likely to emerge in privately owned firms vs. public firms, because leaders in public companies are under tremendous pressure to maximize profits for their shareholders. Are the consequences of inauthentic ethical behavior as great in organizational contexts where the pressures to produce short-term profitable results are significant? All these questions deserve future theoretical inquiry and empirical research.

## Practical implications

We believe the proposed model may help to determine whether ethical behavior in organizations motivates and empowers employees. To be authentic ethical leaders, leaders must transcend their self-interest and focus on what is good for their group or organization. Yet, authentic ethical leaders must ultimately find and behave consistently with their moral principles that respect the rights of their employees and stakeholders. Such leaders value each employee and respect their right to be treated with dignity rather than just as a means to an organizational end. Such leaders involve employees in organizational decision-making to celebrate their right to autonomy. The authentic ethical leader in any organization listens to stakeholders and is truthful and transparent with them with regard to their moral evaluations. We believe that such a leader will succeed and gain the respect of everyone, while growing such



employees into more effective followers and potentially leaders providing a more solid basis for sustainable, veritable organizational performance.

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