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## Article

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Contemporary Economics

## Provided in Cooperation with:

University of Finance and Management, Warsaw

*Suggested Citation:* Mantikei, Bambang; Christa, Usup Riassy; Sintani, Lelo; Negara, Danes Jaya; Meitiana (2020) : The role of responsible leadership in determining the triple-bottom-line performance of the Indonesian tourist industry, Contemporary Economics, ISSN 2300-8814, University of Finance and Management in Warsaw, Faculty of Management and Finance, Warsaw, Vol. 14, Iss. 4, pp. 466-476,  
<https://doi.org/10.5709/ce.1897-9254.419>

This Version is available at:

<https://hdl.handle.net/10419/297542>

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Primary submission: 19.10.2019 | Final acceptance: 14.05.2020

# The Role of Responsible Leadership in Determining the Triple-Bottom-Line Performance of the Indonesian Tourist Industry

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## ABSTRACT

Responsible leadership plays an important role in enhancing innovation to boost up the Triple-Bottom-Line (TBL) performance of the industry. The purpose of the study was to measure the effect of responsible leadership on TBL which includes the social, financial and environmental performance of the Thai tourist industry along with the mediating effect of innovation. The study implemented a cross-sectional design and quantitative research. The employees of the Indonesian tourist sector were the population of the study. Sample size was 250. Simple random technique was used to collect the data. The findings of the study show that responsible leadership prefers to develop good relation among various stakeholders ensure openness and corporation which encourage the employees to stay innovative. Such positivity makes multi-dimensional benefits available to the organization. Moreover, in the presence of responsible leadership, firms are able to achieve higher levels of financial, social and environmental performance. Likewise, responsible leadership engages the employees in innovative activities which ultimately positively affect the TBL performance. From the managerial perspective, this study suggests that having responsible leadership enhances companies' social, environmental and financial performance. Based on this argument, companies should ensure the practices of responsible leadership to keep the employees motivated, innovative and constructive. Moreover, firms need to develop various training programs to develop responsible attitude among managers.

## KEY WORDS:

Responsible leadership, innovation, social performance, financial performance, environmental performance.

**JEL Classification:** L83, O32.

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## 1. Introduction

Determining the performance is the key objective of any firm (Barney, 2014). Likewise, measurement of business performance is a very important tool which motivates management to keenly check their firm's performance and to control specific activities. Moreover, business performance measurement also helps the management in forecasting the situation both internally and externally. Monitoring business performance also helps predict employees' behavior regarding the achievement of their goals, making decisions

within the required time, and effectively adjusting the behavior and company orientation (Kang & Han, 2008). Thus, business performance can be measured through financial and non-financial standards.

However, Miller, Washburn, and Glick (2013) stated that business leaders need broad-based performance measurement that fulfills the environmental, as well as, social perspectives. Also, in the business scenario, the demand regarding reporting triple-bottom-line (TBL) performance is increasing in the annual business reports. Moreover, mainstream sources such as ESG and Bloomberg also focus on determining the performance through TBL. In short, TBL determine the firm's performance at three levels: are social, financial, and environmental (Slaper & Hall, 2011). TBL perfor-

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mance enables the business to pursue its activities in a way which benefits its various stakeholders. TBL performance merges the business interest with the public purists such as making profits via strengthening the environmental and societal stewardship.

### *1.1. Problem Statement*

The Indonesian tourist market is unstable and vulnerable. Many crises occurred within the last eight years, which has limited the market's ability to expand and take on new opportunities. On the same note, tourist numbers and their confidence levels have particularly decreased, mainly during the time of those crises which emerged as a result of political instability.

Likewise, in 2007, foreign tourist numbers reached 14,464,228, which was a 4.65% increase when compared to the previous year. Nevertheless, this growth rate declined in 2008 to a mere 0.83%.the number of tourists fell in the following year by 2.98% resulting from the violent political conflicts of 2009's Coup. After that, in 2010, the situation looked brighter as the number of the tourists increased again.

However, the protests caused by the People's Democratic Reform Committee, which lasted from October 2013 to May 2014, brought about another political crisis. As a result, tourist arrivals dwindled and caused unpredictable impact to the tourism industry and the related businesses, such as hotels and accommodation which were directly impacted negatively (Suvittawat, 2015). Thus, lowered numbers of tourists affected the performance of the Thai tourism industry. The purpose of the current study is to address this issue by measuring the effects of responsible leadership on the social, financial and environmental performance, including the mediating effect of innovation.

## **2. Literature Review**

### *2.1. Responsible Leadership*

As of late, economic globalization, organizational structure and divergence in employees have gotten progressively conspicuous. To build fruitful associations, leaders should put emphasis on the benefit return of shareholders, as well as commercial and social responsibility (Miska et al., 2014). Responsible leadership (RL) speaks to an incredible reaction to the differing needs and complications of the multifaceted stakeholder soci-

ety. The evaluation of RL starts in social relationships and the moral suggestion that happens in the social association process. RL involves a focal situation in the stakeholder linking system and assumes a variety of jobs (servant, resident, visionary) (Maak & Pless, 2006). It agrees on stakeholder requests through popularity based exchange and talk (Voegtlin et al., 2012). RL includes the capacity to assemble and support strong relations among all stakeholders by tending to four main types of trust: security, obtaining, association and comprehension (Lawrence & Pirson, 2015). The key contrast between responsible leadership and other traditional types of leadership (e.g., reformative leadership, moral leadership, administration leadership or valid leadership) is that responsible leadership centers on society and nature, feasible worth creation and positive change (Pless, Maak, & Stahl, 2011). Traditional leadership (e.g., moral leadership) overemphasizes its impact and does not sufficiently perceive the general condition on which the leadership depends and different stakeholders with which it interfaces. Likewise, such leadership structures disregard the duty measurement, which was the focus of studies on responsible leadership (Voegtlin, 2016). In this manner, RL rises above the parallel leadership-representative relationship that has been the focal point of traditional leadership contemplates and accentuates different pioneer stakeholder connections, focusing on not just the interests of shareholders in dynamic yet additionally the requirements of various stakeholders.

Radical innovations are innately increasingly complex and uncertain, along these lines neds difficult skills contrasted with gradual innovation (Nijstad et al., 2014). Radical innovation empowers firms to improve their worth, Uniqueness, and supremacy, helping them maintain competitive edge. Rubera and Kirca ( 2012) found that radical innovations are a greater amount of an empowering influence for positive execution, contrasted with steady innovations. The job of novelty of innovation could be especially useful in a domain where minor innovations could without much of a stretch copy other firms' imaginative endeavors. In a creative context, assets for R&D research, for example, financing and human capital, are impressively restricted. External sources, for example, FDI and through external coordinated effort are significant, and help much in firms' innovation (Osano & Koine, 2016). In this manner, openness in innovation is basic and is relied upon to bring alluring re-

sults, and help firms to improve. Openness unites assets, information, and hazard sharing capacity (Boudreau, 2010), consequently supporting the probability of a firm to take part in inventive practices just as the accomplishment of such deeds.

Responsibility refers to “being able to respond” thorough practicing accountability and proficiently using capabilities (Arendt, 2009). In other words, responsibility represents the idea of being effective and responsible at the same time. Not similar to the other leadership styles, responsibility in the concept of RL includes the stakeholders who show deep interest in the matters of the firm internally and externally and such stakeholders are suppliers, employees, shareholders and customers. Thus, RL is defined as “the art of building and sustaining good relationships to all relevant stakeholders” (Maak & Pless, 2006).

Moreover, RL positively interacts with and moderates the differences among the various stakeholders (Maak & Pless, 2006). RL fulfills another important role/responsibility by establishing and nurturing the quality of relationships between the stakeholders (Maak & Pless, 2006). Similarly, RL is a distinctive concept in leadership theory because of its focus on the idea of being responsible. The idea of responsibility in the RL mainly entails dealing with the leader’s capability to efficiently fulfill the duty and show skill of “being able to respond” (Brown, 1986).

RL has to take on different roles and responsibilities. For example as an expert RL exert his efforts to improve the firm’s economic performance through taking control over the working process and crafting work-related responsibilities (Voegtlin et al., 2012). Furthermore, RL also shows concern for the betterment of the community by promoting goodness and well-being collectively (Freeman, 2010). Researchers, such as Maak and Pless (2006) also shed a light on the actions of RL connected with rescuing the environmental resources in order to protect the environment as best as possible.

Such a responsible view of RL recognizes the individuals’ response skills towards particular situations. Likewise, RL is concerned with what is right, favorable and ethical and then suggests that a reasonable course of action may improve the situation (Walsh et al., 2003). RL nurtures the responsible culture via sharing knowledge and disseminating the information whenever needed and horizontally which leads the way towards innova-

tion and improved business performance (Thomas, 2004).

## 2.2. Innovation

The word innovation originates from Latin *innovare*, meaning change. The process of creating value from ideas is called innovation (Tidd & Bessant, 2018).

There are various factors that force a company to innovate, including changes in economy, technological pressure, or pressure from stakeholders, such as suppliers, customer shareholder and also competitors. Hence, when a firm initiates the process of innovation, the management designs the activities related to the process by dividing the resources into operational skills, making the best use of resources via developing basic skills of the employees which is difficult for competitors to imitate (Sammut-Bonnici & Paroutis, 2013).

Innovation can occur in any service or product which produce a significant value for the firm’s stakeholder and generate competitive edge over competitors along with providing effective solution which is acknowledge by valued customers (Jaaffar, Baharom, Ali, & Zaini, 2018). Moreover, firms can maintain competitive edge by identifying, creating and using unique firm’s expertise, knowledge and experiences which is hard to imitate by the competitors (Jaaffar et al., 2018). So, in this perspective firms must consider the innovation as the basic capability to compete in the market (Chrisman et al., 2015).

Moreover, the role of leadership is undeniable in fostering the innovation within the firm. In this perspective, RL adds to firm’s innovative capability by interacting and communicating with the stakeholders which, as a result, helps the firms in finding a unique and satisfying solution (Surie & Hazy, 2006). Following the same, RL enriches the responsible culture in the firm and encourages the sharing of knowledge and information vertically and horizontally which ultimately leads to innovation and then enhance the firm’s performance (Thomas, 2004). Hence, innovation can be a useful mediator among the relationship between RL, environmental, financial and social performance of the firm.

## 2.3. Social Performance

Corporate social performance (CSP) can be defined as “a business organization’s configuration of principles of social responsibility, processes of social responsive-

ness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (Jean-Paul & Martine, 2018). Jean-Paul and Martine (2018) also described that CSP can be examined with the help of the firm's principals that motivate the action of the firm related to CSR, and to what extent the firm makes an effective use of its socially responsive processes, and how proficiently the firm utilizes its policies and programs to manage its societal relationships, and how the firm's policies, actions, and programs influence the society.

Moreover, it has been proved from a number of studies that stakeholders expect that large firms will participate more in social initiatives than the smaller ones. As large firms and businesses that prefer to trade publicly face more pressure to show an obligation towards CSP (Brik et al., 2011). Moreover, Hasan et al. (2018), argued that large firms seem to be aware of the need of being a leader in their commitment to achieve higher levels of CSP. In addition, the role of leadership is also very important in ensuring the firm's corporate social performance in order to enhance the influence of other stakeholders such as environmental groups and government regulations.

#### **2.4. Financial Performance**

Financial performance is a factor mostly measured in business-related activities. Likewise, a company's achievements are evaluated based on financial performance, in spite of the other factors that firms pursue in order to dominate the market. Researchers Carton and Hofer (2006) described financial performance of the company as the measurement of the changes that an organization experiences in its financial state, or the financial outcomes which are mainly based on the management decision and the implementation of those decisions by the firm's members.

Similarly, performance represents the firm's capability in gaining and managing the resources via utilizing different methods to get the competitive edge over competitors (Iswatia & Anshoria, 2007). Financial performance is basically measured on the level of profitability that is why financial management focuses on maximizing the interest of the business owners. On the same note, researchers Khadafi et al. (2014) stated that on the basics of financial performance, the firm's capabilities are measured in the context of generating profit via the utilization of its resources. This will show the efficiency

of management when it comes to manage the assets and resources. Thus, high financial performance boosts the confidence of the investors and encourages them to invest more to enhance the profit of the firm. In addition, there are two ways of measuring the financial performance of the firm, one is to measure the firm's market performance and the second method is to measure the firm's accounting performance. Luo and Bhattacharya (2006) conducted a study to determine the firm's performance via market measures. On the other hand, Gartenberg et al. (2019) used financial measures to determine the firm's performance in their study. Moreover, in some studies both financial and market measures have been used to determine the firm's performance.

#### **2.5. Environmental Performance**

According to Al-Tuwaijri et al. (2004), environmental disclosures are defined as: "Those disclosures that relate to the impact company activities have on the physical or natural environment in which they operate." It is also revealing the information concerning the firm's past, current and future actions and performance linked with the environmental related initiatives. Similarly, information about the corporate environmental disclosure is based on the firm's financial implications of the past, current and future actions which are resulting from the environmental related decisions and of the firm (Dalle et al., 2020; Dalle & Hastuti, 2017). Such information can be gathered through different ways like the firm's financial statement, qualitative statements, figures or footnotes and quantitative facts or assertions (Berthelot et al., 2003). In accordance with the ISO 14001, environmental performance is basically the linkage between organization and the environment. It comprises the environmental effect because of the resources being consumed, the effect of the environment on the firm's procedures, environmental implications linked with services and products, the revitalization and processing of products fulfilling the requirements of environmental law (Gultom et al., 2020). Environmental performance is determined by two important factors: (1) assessable outcomes of the environmental management system connected with the firm's control over its environmental aspect stand with its environmental targets, policy and objectives, and (2) outcomes of the firm's management initiatives connected with its environmental impacts (Arafat et al., 2012).

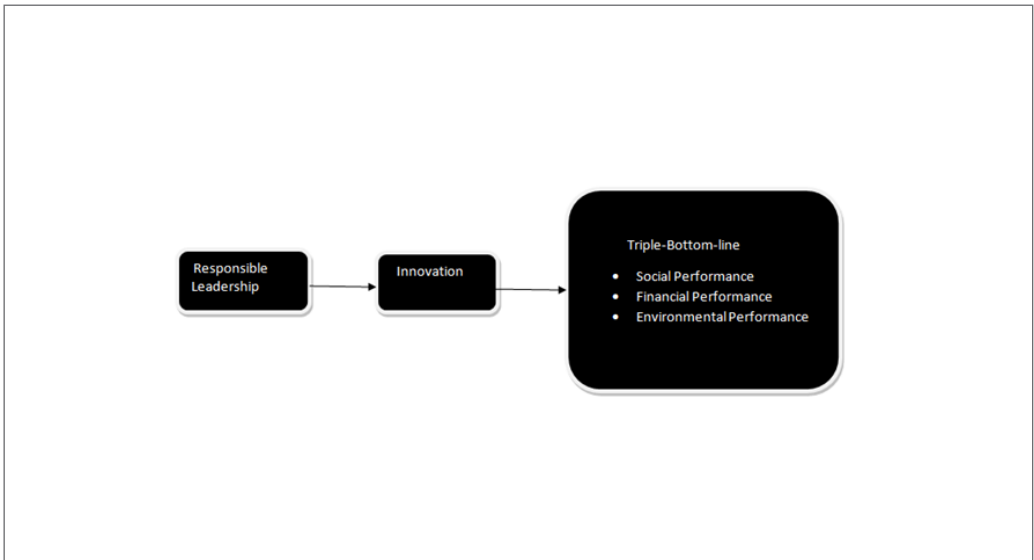


Figure 1. Research framework.

### 2.6. Research Hypothesis

H1: Positive effect of innovation on environmental performance

H2: Positive effect of innovation on financial performance

H3: Positive effect of innovation on social performance

H4: Positive effect of responsible leader on innovation

H5: Mediating effect of innovation between responsible leader and environmental performance

H6: Mediating effect of innovation between responsible leader and financial performance

H7: Mediating effect of innovation between responsible leader and social performance

## 3. Methodology

### 3.1. Instrument Development and Validation

The instrument was created for the current study to determine the effects made by recognized factors on performance. Therefore, the scales measured include: responsible leadership, innovation, environmental performance, social performance and financial performance. Responsible leadership was measured through 17 items scale; innovation was measured through 08 items scale. However, environmental

performance, social performance and financial performance were each measured through 4 items. Each respondent was informed to give rate to each item on the 5 point Likert scale, from (strongly agree) to 1 (strongly disagree) that measured the variables. Further, the scale was validated by using pilot data from 59 respondents. Moreover, through scale reliability of the different factors through was found to be significant statistically as shown in Table 4.1.

### 3.2. Sampling and data Collection

Since the reliability coefficients are significant statistically, the scale was applied for the data collection. Further, simple random probability sampling technique was applied to select the respondents from top managerial levels as well as lower managerial levels who were registered in small-scale organizations. There were 250 questionnaires divided to respondents and 192 were valid for further analysis, resultant in 77 % was response rate. Moreover, data analysis was done by using the measurement model and structural model. These two different models were estimated by using the both (SEM) modeling technique. The  $R^2$  value depicts the level of influence and strength of the constructs was found to be highly

significant statistically.

#### 4. Data Analysis

The smart PLS 3.0, in this study was used to measure the both model measurement and structural model. The measurement model regards as the assessment of the factors that shows that the level of properly the factors loading and reflecting their constructs. To measure the measurement model through the process of PLS-SEM, measuring the reliability and validity which are important and therefore, in PLS-SEM technique, for the measurement model, investigating reliability of each indicators, measuring internal consistency reliability, measuring content validity, measuring convergent validity, measuring discriminant validity. For Structural Model measuring the mediation (Hair Jr et al., 2016).

Table 4.1 exhibits the composite reliability with dependent, independent, mediating and for all the latent variables. Because revealed in the Table 4.1, the coefficient of composite reliability, from .877 to .949 for all the latent variables, indicates that satisfactory level of internal consistency for all the latent constructs has. In addition, it is found in Table 4.1 that the AVE value from .51 to .741 for all the latent constructs satisfied the threshold value of AVE which is above .50.

Discriminant validity, in contrast to the convergent validity, refers to latent variable is distinctive from other variables at what degree specific (Duarte & Raposo, 2010). However, probable to the convergent validity, AVE assists to draw discriminant validity especially latent variable. The study shows by using the Fornell and Larcker method for the discriminant validity. Further, the square root of AVE of the correlation matrix diagonal for all the latent constructs, with the bold value is revealed in Table 4.2. for all the constructs, the results exhibit that the square roots of AVE greater than the correlation values. Therefore, it is established that the constructs of the study are different and meet the criterion of discriminant validity.

Coefficient of determination is the criteria to evaluate the structural model to apply for all the latent constructs is recognized as determination of  $R^2$  (Hair Jr et al., 2016). The  $R^2$  value means that at what level total variances of variables might be elaborated by its variable. Although, it shows that the higher value of  $R^2$  have a better percentage of variances. Though,  $R^2$  of .1 is measured as a smallest amount of acceptable level. The value for  $R^2$  of EP is 0.24,

FP is 0.27, INV is .298 and SP is 0.33 while applying PLS-SEM path modeling technique.

Table 4.2 exhibits the total variances of two endogenous variables namely, employee engagement and organizational commitment. Results indicate that all the six HRM practices (independent variables) along with organizational commitment (mediating variable) can explain 63% variances to employee engagement (dependent variable). In addition, the six HRM practices altogether can have the contribution to explain the variances of 44% in organizational commitment. Thus, it is suggested that both the endogenous latent constructs such as employee engagement and organizational commitment can be accounted for moderate variances by their exogenous latent constructs.

To measure the relationship among independent variables such as responsible leadership, mediator such as innovation and dependent variables such as environmental performance (EP), social performance (SP) and financial performance (FP), bootstrapping process in PLS-SEM was conducted by using samples of 5000 (Hair Jr et al., 2016). Table 4.4 shows the direct and significant effect of innovation on environmental performance with the result of ( $\beta=.489$ ,  $p<.05=0.000$  and  $t>1.96=9.386$ ). So, H1 is accepted. Further, the direct and significant effect of innovation on financial performance with the result of ( $\beta=.514$ ,  $p<.05=0.000$  and  $t>1.96=9.868$ ). So, H2 is accepted. The direct and significant effect of innovation on social performance with the result of ( $\beta=.578$ ,  $p<.05=0.000$  and  $t>1.96=12.023$ ). So, H4 is accepted. The direct and significant effect of responsible leadership on innovation with the result of ( $\beta=.546$ ,  $p<.05=0.000$  and  $t>1.96=11.666$ ). So, H4 is accepted.

To measure the mediating effect of innovation between responsible leadership and environmental performance (EP), social performance (SP) and financial performance (FP), bootstrapping process in PLS-SEM was conducted by using samples of 5000 (Hair Jr et al., 2016). Table 4.5 shows the indirect and significant mediating effect of innovation between responsible leadership and environmental performance with the result of ( $\beta=.267$ ,  $p<.05=0.000$  and  $t>1.96=6.071$ ). So, H5 is accepted. The indirect and significant mediating effect of innovation between responsible leadership and financial performance with the result of ( $\beta=.281$ ,  $p<.05=0.000$  and  $t>1.96=6.323$ ). So, H6 is accepted. The indirect and significant mediating effect of innovation between respon-



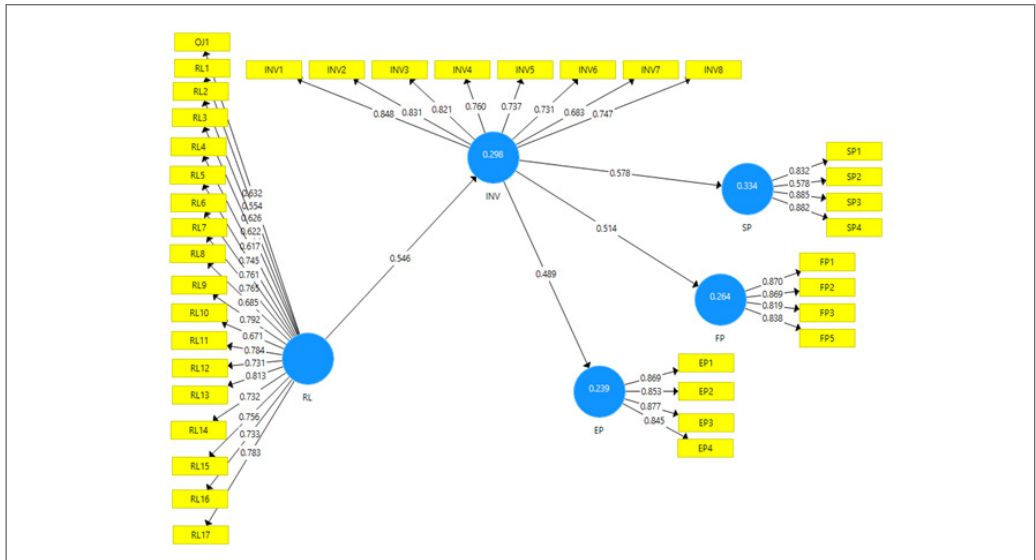


Figure 4.1. Measurement model.

Table 4.1. Cronbach's Alpha

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
EP	0.884	0.887	0.920	0.741
FP	0.872	0.88	0.912	0.722
INV	0.902	0.906	0.921	0.595
RL	0.943	0.945	0.949	0.511
SP	0.813	0.859	0.877	0.647

sible leadership and social performance with the result of ( $\beta=.316$ ,  $p<.05=0.000$  and  $t>1.96=6.999$ ). So, H7 is accepted.

After successful evaluation of structural assessment model, this study applies the Stone-Geisser's technique to draw predictive relevance ( $Q^2$ ) value by applying blind-folding. Table 4.6 shows that  $Q^2$  for all the latent variables

$>0$ . The value of FP is  $0.177>0$ , INV is  $0.163>0$  and SP are  $0.201>0$ .

### 5. Discussion

The purpose of the current study is to determine the mediating effect of innovation between responsible leadership and environmental performance, social per-



**Table 4.3.** Discriminant Validity

	EP	FP	INV	RL	SP
EP	0.889				
FP	0.871	0.85			
INV	0.489	0.514	0.772		
RL	0.511	0.509	0.546	0.715	
SP	0.758	0.832	0.578	0.499	0.804

**Table 4.4.** Direct Relationship

Hypothesis	Relationship	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Decision
H1	INV -> EP	0.489	0.052	9.386	0	Accepted
H2	INV -> FP	0.514	0.052	9.868	0	Accepted
H3	INV -> SP	0.578	0.048	12.023	0	Accepted
H4	RL -> INV	0.546	0.047	11.666	0	Accepted

**Table 4.5.** Q<sup>2</sup> Values

	SSO	SSE	Q <sup>2</sup> (=1-SSE/SSO)
EP	1,560.00	1,302.84	
FP	1,560.00	1,283.44	0.165
INV	3,120.00	2,611.31	0.177
RL	7,020.00	7,020.00	0.163
SP	1,560.00	1,246.71	0.201

**Table 5.** Indirect Relationship

Hypothesis	Relationship	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Decision
H5	RL -> INV -> EP	0.267	0.044	6.071	0	Accepted
H6	RL -> INV -> FP	0.281	0.044	6.323	0	Accepted
H7	RL -> INV -> SP	0.316	0.045	6.999	0	Accepted

formance and financial performance. To measure the relationship among independent variables such as responsible leadership, mediator such as innovation and dependent variables such as environmental performance (EP), social performance (SP) and financial performance (FP), bootstrapping process in PLS-SEM was conducted by using samples of 5000 (Hair Jr et al., 2016). Table 4.4 shows the direct and significant effect of innovation on environmental performance with the result of ( $\beta=.489$ ,  $p<.05=0.000$  and  $t>1.96=9.386$ ). So, H1 is accepted. Further, the direct and significant effect of innovation on financial performance with the result of ( $\beta=.514$ ,  $p<.05=0.000$  and  $t>1.96=9.868$ ). So, H2 is accepted. The direct and significant effect of innovation on social performance with the result of ( $\beta=.578$ ,  $p<.05=0.000$  and  $t>1.96=12.023$ ). So, H4 is accepted.

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performance with the result of ( $\beta=.316$ ,  $p<.05=0.000$  and  $t>1.96=6.999$ ). So, H7 is accepted.

### 5.1. Managerial Implications

From the managerial perspective this study suggests that having responsible leadership will enhance the firm's social, environmental and financial performance. Based on this argument, firms should ensure the practices of responsible leadership to keep the employees motivated, innovative and constructive. Moreover, firms need to develop various training programs to develop the responsible attitude among managers. Such training workshops must highlight the importance of responsible practice at the workplace in order to promote the sense of responsibility within the employees and also organization should take care to promote the wellbeing of employees (Ali, Naveed, ul Hameed, & Rizvi, 2018).

## 6. Conclusion

This study was conducted on the Thai tourist industry and the social, environmental and financial performance of the industry has been determined in the presence of responsible leadership with the mediating role of innovation. According to the study results, the role of responsible leadership is very important in improving the financial and non-financial performance of the firm. Responsible leadership develops good relations among various stakeholders, and ensures openness and cooperation which encourage the employees to stay innovative. Such positivity makes available multi-dimensional benefits to the organization. Moreover, in the presence of responsible leadership companies are able to achieve higher level of financial, social and environmental performance.

Likewise, responsible leadership engages the employees in innovative activities which ultimately positively affect the triple-bottom-line performance TBL including financial, social, and environmental aspects of the firm.

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