



Fakultas Bisnis & Manajemen
Universitas Widayama



Certified Management System
DIN EN ISO 9001:2000

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THE RESOURCE-BASED VIEW (RBV) THE EMERGING THEORY OF COMPETITIVE ADVANTAGE

SUNARDI S. BRAHMANA

ABSTRACT

The resource-based view (RBV) of the firm is an important, emerging theory of firm resources heterogeneity. The RBV is well grounded in industrial economics and has benefited in its development from multiplicity of contributions by strategic management as well as strategic marketing scholars. However, like most of developing body of knowledge, the RBV is not short of confusion, ambiguity and conceptual and empirical difficulties. This paper attempted to provides an integrated review of the RBV in an effort to eliminate much of the ambiguity caused by the inconsistent and conflicting use of terminology used in explaining the RBV.

Keywords : Resources, Advantage-Generating Resources, Competitive Advantage, Sustainable Competitive Advantage

INTRODUCTION

The search of competitive advantage is an idea that stays at the heart of most of the strategic management and strategic marketing literature (Coyne, 1986; Ghemawat, 1986; Porter, 1985). Aharoni (1993) argued that, whatever its different definitions, strategy entails an attempt by a firm to achieve and sustain competitive advantage over other firms. This prominent role of competitive advantage may derive from the economic and militaristic origins of the strategy literature (Wernerfelt, 1984). Early classical economist give pride to the idea of the rational economic man inherently pursuing his own self-interest and, therefore, strategy could be seen as an elaborate game of move and counter-move, bluff and counter-bluff as business sought to gain positions of advantage (Ansoff, I., 1965; Whittington, 1993). The word strategy itself is related to Greek word *stratos*, meaning army and military metaphors such as leadership, planning and implementation are very prevalent in the strategy literature (Whittington, 1993).

The resource-based view (RBV) has emerged in recent years as a popular theory of competitive advantage. The term RBV was originally coined by Wernerfelt in 1984 (Wernerfelt, 1984) and the significance of this contribution is evident in its being awarded the Strategic Management Journal best paper prize in 1994 for reasons such as being "truly seminal" and an "early statement of an important trend in the field" (Zajac, 1995). What followed was something of an explosion of interest reflected in a diverse range of contributions which were based on insights from both economics and management (Barney, 1991; Colis, 1991; Dierickx and Col, 1989; Grant, 1991; Mahoney and Pandian, 1992; Peteraf, 1993; Reed and DeFillipi, 1990). The purpose of this paper is to review this growing body of literature with a view to assessing its contribution to our understanding of the nature of competitive advantage.

THE DEVELOPMENT OF THE RESOURCE-BASED VIEW

Until the late 1980s, the resource-based view was characterized by a rather fragmented process of development. The earliest acknowledgement of the potential importance of firm-specific resources is to be found in the work of economists

(Chamberlain, 1933; Robinson, 1933) which was subsequently developed by Penrose (1959). Rather than emphasize market structure, these economists highlighted firm heterogeneity and proposed that the unique assets and capabilities of firms were important factors giving rise to imperfect competition and the attainment of super-normal profits. Chamberlain (1933) identified that some of the key capabilities of firms included technical know-how, reputation, brand awareness, the ability of managers to work together and, particularly, patents and trademarks, many of which have been revisited in the recent strategy literature (Day, 1994; Hall, 1992).

Firm differences were at the heart of much of the early work in the business policy, which later matured into the field of strategic management. Early models of strategic decision making typically propose a rational process of setting objectives, followed by an internal appraisal of capabilities, an external appraisal of outside opportunities leading to decisions to expand or diversify based on the level of fit between existing products/capabilities and investment prospects (Ansoff, 1965). A more complete illustration of the issue of fit is to be found in the LCAG framework (Andrews, 1971; Learned, Christensen, Andrews, and Guth, 1969) emerging from Harvard in the late 1960s. It extended earlier work to incorporate not only the firm's strengths/weaknesses and opportunities/threats in the environment, but also the personal values of key implementers and broader social expectations, all four of which were interrelated (Figure 1). Overtime, particular elements of the LCAG framework have come to be emphasized. For example, in the early 1980s, the work of Porter (1980), which was grounded in Bain/Mason Industrial Organization (IO theory), emphasized industry quadrant of Figure 1 (quadrant 2). Porter (1980) re-worked the traditional structure-conduct-performance paradigm (SCP theory) to show that, while industry structure as measured by his five forces model meant some industry were inherently more profitable than others, firm could optimize performance by how they positioned themselves *vis-à-vis* these forces.

The Learned, Christensen, Andrews and Guth (LCAG) framework (1969)

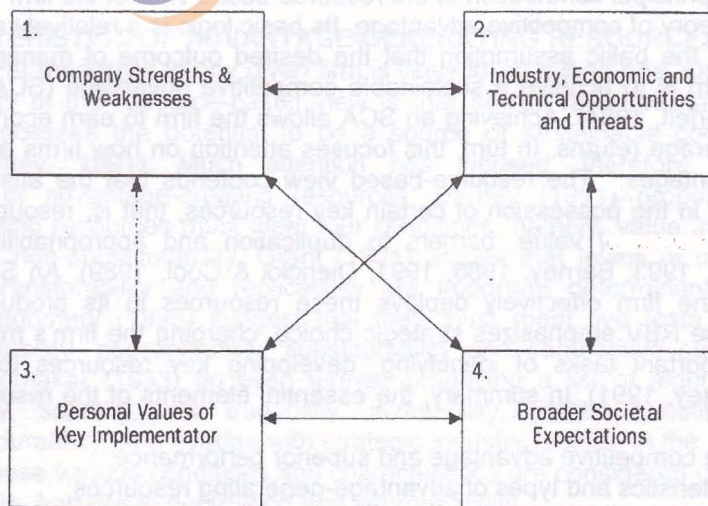


FIGURE 1

SOURCE: LEARNED, CHRISTENSEN, ANDREWS AND GUTH (1969)

The resource-based view of the firm emerged in 1984 and a hint of the richness that lay in the approach is evident in Wernerfelt's description of his article

as a "first cut at a huge can of worms" (Wernerfelt, 1984). However, the concept remains dormant for much of the 1980s. Then towards the latter part of the decade increased interest in firm-specific variables became apparent and the number of contributions claiming to adopt a resource-based perspective" mushroomed. A burgeoning management literature highlighted examples and cases of where companies with particular skills and capabilities were able to out-perform their rivals (Coyne, 1986; Ghemawat, 1986; Grant, 1991; Hall, 1989). A number of industrial economists contributed rigorous examinations of why performance differences persisted in situations of open competition, which has become one of the core insights of the resource-based view (Amit & Schoemaker, 1993; Barney, 1986, 1991; Dierickx & Cool, 1989; Peteraf, 1993; Reed & DeFillipi, 1990). By the mid-1990s, the resource-based view, with its cogent mix of economic rigor and management reality, had assumed centre stage in strategic management literature.

The RBV is firmly grounded in early economic models of monopolistic competition and its focus on firm heterogeneity departs from neo-classical microeconomics and Bain/Mason IO theory which characterize the behavior of the representative firm (Hill & Deeds, 1996). Its relationships and similarities with other branches of industrial economics have been well documented (Mahoney & Pandian, 1992). But it means that on the issue of exchanges. Equally, it assumes rationality and views organizational actors as rational beings assessing choices and making decisions which maximize their self-interests. These points aside, it has been described as an illuminating generalisable theory of the firm (Mahoney & Pandian, 1992). Building on the view that good science is good conversation, Mahoney and Pandian (1992) argue that the resource-based view effectively sustains the conversation within strategic management and branches of economics such as agency theory, and industrial organization.

THE RESOURCE-BASED VIEW AND COMPETITIVE ADVANTAGE

The principal contribution of the resource-based view of the firm to date has been as a theory of competitive advantage. Its basic logic is a relatively simple one. It starts with the basic assumption that the desired outcome of managerial effort within the firm is to achieve a sustainable competitive advantage (SCA) (Barney, 1991; Wernerfelt, 1984). Achieving an SCA allows the firm to earn economic rents or above-average returns. In turn, this focuses attention on how firms achieve and sustain advantages. The resource-based view contends that the answer to this question lies in the possession of certain key resources, that is, resources having the characteristics of value, barriers to duplication and appropriability (Amit & Schoemaker, 1993; Barney, 1986, 1991; Dierickx & Cool, 1989). An SCA can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasizes strategic choice, charging the firm's management with the important tasks of identifying, developing key resources to maximize returns (Barney, 1991). In summary, the essential elements of the resource-based view are:

- Sustainable competitive advantage and superior performance;
- The characteristics and types of advantage-generating resources;
- Strategic choices by management.

SUSTAINABLE COMPETITIVE ADVANTAGE AND SUPERIOR PERFORMANCE

Though discourse on competitive advantage is widely prevalent, clear definitions are rare and it is often used interchangeably with concepts like distinctive competence (Day & Wensley, 1988). Understanding competitive advantage requires an analysis of its constituent elements. Advantage is a relative concept (Hu, 1995), only meaningful when compared to another entity or set of entities. A competitive advantage, then, is an advantage one firm has over a competitor or group of competitors in a given market, strategic group or industry (Kay, 1993). Any given firm may have many advantages over another firm, such as a superior production system, a lower level of wages and salaries or an ability to deliver superior customer service, but the important advantages are those in which customers place some level of value (Coyne, 1986). Therefore, the locus of advantage is in the marketplace and positions of advantage are generally regarded as being either differentiation or lower delivered cost (Porter, 1985; Gilbert & Strelbel, 1989). More than one firm in a given market can have a competitive advantage. For example, firm A can have an advantage over firm B but firm B can also have an advantage over firm C (Kay, 1993).

Also of interest to researchers is the question of whether advantages are sustainable. The terms sustained advantage (Barney, 1991) and sustainable advantage (Grant, 1991) both appear in the literature, but both can be interpreted in the same way. Sustainability does not refer to a particular period of calendar time, nor does it imply that advantages persist indefinitely (Gunther MacGrath et al., 1995) but rather depends on the possibility and extent of competitive duplication. The attainment of an SCA can be expected to lead to superior performance measured in conventional terms such as market share and profitability (Bharadwaj et al., 1993). However, the economics literature holds that, given strong competitive pressures, high rationality will prevail and such economic rents will dissipate (Schoemaker, 1990). But where the resources underlying the advantage are limited in supply, superior returns will persist (Peteraf, 1993), focusing attention on the nature of the firm's resource pool.

THE CHARACTERISTICS OF ADVANTAGE-GENERATING RESOURCES

The list of resources in any given firm is likely to be a long one. One of the principal insights of the resource-based view is that not all resources are equal importance or possess the potential to be a source of sustainable competitive advantage (Barney, 1991). Much attention has focused, therefore, on the characteristics of advantage-creating resources. Barney (1991) proposes that advantage-creating resources must meet four conditions, namely, value, rareness, inimitability and non-substitutability. Grant (1991) argues that levels of durability, transparency, transferability and replicability are important determinants, while Collis and Montgomery (1995) suggest that they must meet five tests, namely inimitability, durability, appropriability, substitutability and competitive superiority. Amit and Schoemaker (1993) go even further, producing a list of eight criteria: complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability, and overlap with strategic industry factors. In the interests of parsimony, these various conditions and characteristics are considered under the headings of value, barriers to duplication and appropriability.

It was noted above that value to customers is an essential element of competitive advantage. Therefore, for a resource to be a potential source of competitive advantage, it must be valuable or enable the creation of value (Barney, 1991). Resource must permit the firm to conceive of or implement strategies that

improve its efficiency and effectiveness by meeting the needs of customers. This implies that, though resources may meet other conditions, if they do not enable the creation of value, they are not a potential source of advantage. It also indicates a complementarity between the resource-based view and environmental models of competitive advantage (Barney, 1991; Collis & Montgomery, 1995). The firm must identify those resources which are overlapping or congruent with the strategic industry factors prevalent at the present time and likely to be important in the future (Amit & Schoemaker, 1993), if advantage is to be attained.

The inability of competitors to duplicate resource endowments is a central element of the resource-based view (Barney, 1991; Wernerfelt, 1984). However, the discussion of barriers to duplication has been complicated by the inconsistent and at times conflicting use of terminology in the literature. Several overlapping classifications have been proposed including asset stock accumulation (Dierickx & Cool, 1989) capability gaps (Coyne, 1986), capability differentials (Hall, 1992, 1993), ex-post limits to competition (Peteraf, 1993), isolating mechanisms (Rumelt, 1984, 1987), uncertain inimitability (Lippman & Rumelt, 1982), and causal ambiguity (Reed & DeFillipi, 1990). In more parsimonious terms, barriers to duplication can be said to exist if the resource is inimitable, immobile and non-substitutable. A resource may be inimitable if it can not be clearly identified or if its ability to generate superior performance is unclear. Such causal ambiguity exists where resources are highly tacit, highly complex or are the result of accumulated firm-specific activities (Reed & DeFillipi, 1990). Even in cases where advantage-creating resources are identifiable, they may be inimitable due to regulatory protection such as in the case of patents and copyright (Hall, 1992) or due to economic deterrents such as pre-emptive large-scale investments (Collis & Montgomery, 1995). Resources must also be immobile. This particularly true in the case of service industries such as investment banking and advertising where individuals or small groups may be the key advantage creating resource and may be hired away by competitors. Similarly, advantage-generating resources must not be easily substitutable.

Finally, once value is derived from a resource, the key question becomes: who appropriates it? Value is invariably subject to a host of potential claimants such as customers, suppliers, employees, shareholders and the government (Collis & Montgomery, 1995; Kay, 1993). Appropriation of value becomes a particular problem where property rights are not clearly defined. While the firm may be effective in appropriating value from its physical and financial assets, it may be less so in the case of intangible assets such as brand names and copyright (Grant, 1991). Companies must guard against the dissipation of value added and appropriability is the ability to turn value added into profit (Kay, 1993).

TYPES OF ADVANTAGE CREATING RESOURCES

A further problem of nomenclature hampering the development of the resource-based view has been the variety of labels used to describe the firm's resource set. For example, the term competencies appears frequently in the literature, sometimes preceded by adjectives, core and distinctive, sometimes not, sometimes used interchangeably with the term skills, which frequently preceded by adjectives, core. To overcome this ambiguity, the label resources are best adopted as a general, all embracing one. Resources, in turn, comprise three distinct sub-groups, namely tangible assets, intangible assets and capabilities (Hall, 1992).

Tangible assets refer to the fixed and current assets of an organization (e.g. plant, equipment, land, other capital goods and stocks, debtors and bank deposits) which have a fixed long-run capacity (Wernerfelt, 1989). Tangible assets have the properties of ownership and their value is relatively easy to measure (Hall, 1989). Tangible assets are also transparent (Grant, 1991) and relatively weak at resisting duplication effort by competitors (e.g. although plant or land are geographically immobile, they are relatively imitable and substitutable).

Intangible assets include intellectual property such as trademarks and patents as well as brand and company reputation, company networks and databases (Hall, 1992; William, 1992). The presence of intangible assets accounts for the significant differences which are observed between the balance sheet valuation and stock market valuation of publicly quoted companies (Grant, 1991; Rumelt, 1987), such as in the pharmaceutical sector where patents are critical. Intangible assets have relatively unlimited capacity and firms can exploit their value by using them in-house, renting them (e.g. a license) or selling them (e.g. selling a brand) (Wernerfelt, 1989). They are relatively resistant to duplication efforts by competitors. Intellectual property is afforded regulatory protection (Hall, 1992), while databases, networks and reputation are examples of assets stocks (Dierickx & Cool, 1989) and the inherent complexity and specificity of their accumulation hinder imitability and substitutability in the short run.

Capabilities have proved more difficult to delineate and are often described as invisible assets (Itami, 1987) or intermediate goods (Amit & Schoemaker, 1993). Essentially, capabilities encompass the skills of individuals or as well as the organizational routines and interactions through which all the firm's resources are coordinated (Grant, 1991). Typical of the latter, for example, are teamwork, organizational culture and trust between management and workers. Capabilities do not have clearly defined property rights as they are seldom the subject of a transaction (Hall, 1989), resulting in a difficulty in their short run due to learning and change difficulties but have relatively unlimited capacity in the long run (Wernerfelt, 1989). Individuals' skills may be highly tacit, making them inimitable and non-substitutable, though as noted earlier they may be hired away by competitors. Where capabilities are interaction-based, they are even more difficult to duplicate due to causal ambiguity, and the RBV literature has tended to favor capabilities as the most likely source of sustainable competitive advantage (Collis, 1994).

THE ROLE OF STRATEGIC CHOICES BY MANAGEMENT

Resources in and of themselves do not confer a sustainable competitive advantage. As Kay (1993) puts it, a resource only becomes a competitive advantage when it is applied to an industry or brought to a market. Consequently, Williams (1992) describes the managerial role as a specifically one of converting resources into something of value to customers. This involves identifying, developing and deploying the firm's resource base (Amit & Schoemaker, 1993). Though the characteristics of advantage-creating resources are becoming better understood, their identification may still be difficult due to causal ambiguity (Reed & De Fillipi, 1990). Once identified, they must be developed and protected. Dierickx & Cool (1989) consider resources as stocks, which cannot be adjusted instantaneously but rather are accumulated through consistent investment. Where investment patterns lack consistency, the stock depreciates. Some models of the resource-based view propose a re-investment of the firm's profits as an essential element of developing the resource base (Bharadwaj et al., 1993; Day & Wensley, 1988). Resources must also be protected, such as the guarding of trade secrets

and the use of the legal framework where intellectual property rights have been violated. Finally, the key managerial task is the effective deployment of resources in the marketplace. Resources should seek to meet industry success factors (Amit & Schoemaker, 1993) or try to create new ones (Lado et al., 1992). Developing a match between the firm's resources and the success factors in the industry is a demanding task and the success of the match is a function of the accuracy of managerial expectations about the value of the strategy (Barney, 1990).

The essential elements of the resource-based view of the firm are the firm's key resources and the role of management in converting these resources into positions of sustainable competitive advantage, leading to superior performance in the marketplace. A basic resource-based model of sustainable competitive advantage which demonstrates the linkages and builds on the work of Bharadwaj et al. (1993), Day & Wensley (1988), and Hunt & Morgan (1996) is presented in Figure 2. It highlights that not all resources are of equal importance in terms of achieving an sustainable competitive advantage and that management plays a critical role in the process of its attainment.

EVALUATING THE RESOURCE-BASED VIEW OF THE FIRM

Through its insights into the nature of competitive advantage, the resource-based view of the firm has already made an important contribution to the field of strategic management (Day & Wensley, 1988). The resource-based view, which has benefited from the rigor of its economic origins, greatly enhances our understanding of the nature and determinants of sustainable competitive advantage (Amit & Schoemaker, 1993; Hall, 1992). It helps to explain why some resources are more advantage-generating than others and also why resource asymmetries and consequent competitive advantages persist even in conditions of open competition. But to date, the vast majority of contributions within the resource-based view have been of a conceptual rather than an empirical nature, with the result that many of its fundamental tenets still remain to be validated in the field.

FIRM VERSUS INDUSTRY EFFECTS

The work of Porter (1980) focused attention on the role of industry in determining firm level profitability. Porter (1980) argued that some industries were inherently more profitable than others due to their structural make-up and that firms could earn monopoly rents by either selecting the structurally attractive industries or by manipulating the forces driving competition in their favor through the selection of generic competitive strategies (Porter, 1980). However, in the latter part of the 1980s, a growing body of empirical work testing Porter's ideas began to leave doubt on their validity. Researchers observed performance differences not only between firms in the same industry (Rumelt, 1991) but also within the narrower confines of strategic groups within industries (Dierickx & Cool, 1989). This is then to justify the growth of the resource-based view. The important role of the resource-based view suggest that, though it does not ignore industry and may, in fact, act as a bridge between firm-based and industry-based perspectives on advantage (Amit & Schomaker, 1993; Collis & Montgomery, 1995). Some empirical research has shown that the resource-based view can be applied at the level of the strategic group and the industry as well as the firm (Dierickx & Cool, 1989; Kay, 1993).

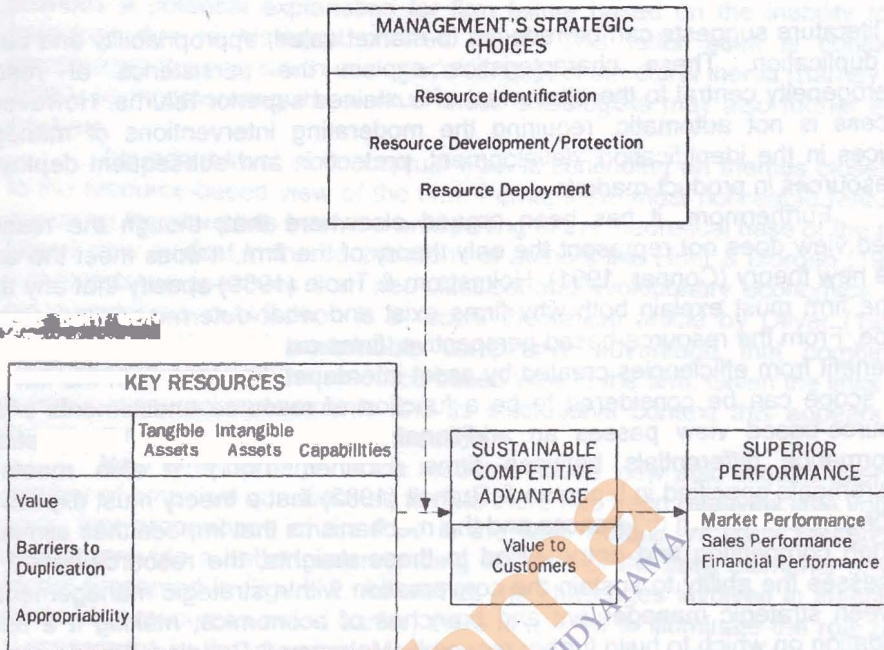


FIGURE 2
A RESOURCE-BASED MODEL OF COMPETITIVE ADVANTAGE
 SOURCE: ADAPTED FROM BHARADWAJ ET AL. (1993), DAY & WENSLEY (1988), AND HUNT & MORGAN (1996)

IDENTIFYING SOURCES OF ADVANTAGE

There has been a relative paucity of empirical research within the boundary of the resource-based view. This may be due to the fact that resources constitute as an unobservable in strategic management research (Godfrey & Hill, 1995). Their critique relates particularly to the notion of firm-specific capabilities which are characterized by high levels of tacitness and causal ambiguity. A research difficulty is created because the less observable the resources and the less easy it is to understand, the greater the likelihood that it is also an important source of sustainable competitive advantage (Collis, 1994). Taking this thinking to its logical conclusion implies that the best resource can never be identified and the strategy field can never find the ultimate source of sustainable competitive advantage (Collis, 1994). Trying to find out which capability is superior leads one into the arena of meta-capabilities and the problem of infinite regress where any resource can be theoretically superseded by a higher order resource (Collis, 1994).

CONCLUSION

The purpose of this paper is to provide an understanding of the origins, insights and current status of the resource-based view of the firm, which has emerged in recent years as a popular conceptualization of competitive advantage at the level of the firm. Its underpinning is in economic models of competition that allow for strategic choices in interactions with the environment. Above normal profits or rents are assumed to be possible and to accrue to resource scarcity. This focuses attention on the characteristics of key resources, which an examination of

the literature suggests can be reduced to market value, appropriability and barriers to duplication. These characteristics explain the persistence of resource heterogeneity central to the attainment of sustained superior returns. However, the process is not automatic, requiring the moderating interventions of managerial choices in the identification, development, protection and subsequent deployment of resources in product-markets.

Furthermore, it has been argued elsewhere that, though the resource-based view does not represent the only theory of the firm, it does meet the criteria for a new theory (Conner, 1991). Holmstrom & Tirole (1989) specify that any theory of the firm must explain both why firms exist and what determines their size and scope. From the resource-based perspective, firms exist because of the opportunity to benefit from efficiencies created by asset interdependencies within the firm. Size and scope can be considered to be a function of resource endowments and the resource-based view passes an additional test in terms of its explanation of performance differentials between firms (Conner, 1991). It also meets the requirements specified in Lippman & Rumelt (1982) that a theory must explain both the origins of interfirm differences and the mechanisms that impede their elimination through competition and entry. Allied to these insights, the resource-based view possesses the ability to sustain the conversation within strategic management and between strategic management and branches of economics, making it a reliable foundation on which to build further research (Mahoney & Pandian, 1992).

However, this paper has shown that the future development of resource-based view needs to take account of a number of key conceptual and empirical issues. This paper have shown that the resource-based view has attracted the interest of a substantial number of scholars in the field and that its popularity has been further confirmed by the award of the 1994 Strategic Management Journal best paper prize to Birger Wernerfelt. Reflecting on its development, Wernerfelt (1995) suggested that the resource-based view is here to stay because it is a truism that firms have different resource endowments, a fact that he considers will lead authors to drop the compulsion to note that an argument is resourced-based. In the future, there may be an emerging debate in the marketing literature where the resource-based view framework has been adopted by marketing writers in their analysis of competition and the role of marketing assets (Hunt & Morgan, 1995). Its application in marketing has attracted some strong criticism (Deligonul & Cavusgil, 1997), though this appears to have been motivated more by a reaction to the sweeping claim of Hunt & Morgan (1995) that their contribution is a new and integrated theory that replaces the neoclassical theory of perfect competition than by any difficulty with its content.

The dynamic aspects of resource developed outlined earlier highlight the links between the resource-based view of the firm and the Schumpeterian/evolutionary theory of economic change. Evolutionary economists propose that firms compete primarily through s struggle to improve and innovate (Barney, 1986). These efforts are characterized by a poor understanding of the causal structure of the firm's technologies and organizational routines are developed and bettered through repetition and practice. This learning by-doing means that the current capability of a firm is extremely difficult to copy even when best practice is observed. In the literature on the resource-based view of the firm, this proposition is central to Dierickx & Cool's (1989) treatment of accumulated asset stocks. It also suggests that further integration of the literature will help to increase our understanding of how the firm's resource pool is developed, and also

provides a potential explanation for firm failure based on the inability to change trajectory due to historical choices made. This latter point is considered to complement the population ecologist's concept of structural inertia (Barney & Ouchi, 1986), so incorporating the work of these sociologists may also further enrich the analysis.

Abundant level of conceptual work is continuing on themes closely related to the resource-based view of the firm. Perhaps the most noticeable feature of the emerging literature has been the broadening of the theoretical base of the resource-based view evident in the contributions of authors like Hunt & Morgan (1995), who incorporate perspectives from neo-classical and evolutionary economics. An even more ambitious contribution is a recent theoretical article by Oliver (1997), who describes a view of sustainable competitive advantage that combines both institutional theory and the resource-based view of the firm. Given the links between a firm's resource endowments and its institutional context this appears to be a further, very promising research direction.

New developments of the resource-based view also require attention to a number of empirical questions as to date there has been relatively little validation of some key propositions of the RBV in the field. Future empirical research should seek to provide a better understanding of some of the core elements of the basic model presented in Figure 2. As well as the challenges involved in identifying and measuring resources noted earlier, there is a need to illuminate the role played by management in the process by which resources are converted into positions of advantage. In contrast to the view put forward by Hill and Deeds (1996), resources in and of themselves are not sufficient to explain persistent differences in firm profitability. The management literature highlights that executives play a role in the process of converting resources into something of value to customers (Williams, 1992). These involve resource identification, development, protection and deployment (Amit & Schoemaker, 1993) and managerial skill in these activities is in itself a source of sustainable competitive advantage. It is important that future research finds suitable ways of operationalising this management role.

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