

The Effects of Institutions, Internal Resources and External Knowledge Acquisition on Competitive Advantage

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Doctoral Thesis Summary



Tomas Bata University in Zlín
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**The Effects of Institutions, Internal Resources
and External Knowledge Acquisition
on Competitive Advantage**

Vliv institucí, interních zdrojů a externího získávání znalostí na
konkurenční výhodu

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ABSTRACT

The level of activity in an economy is conditioned by the institutional settings where the activity is taking place. However, institutional theory does not provide a comprehensive view over the competitive advantage's predictors since it informs only from an institutional angle. Likewise, the resource-based view covers only organisational resources that highlights their successful utilisation for competitive advantage. In addition, knowledge-based view, fails to explain only by itself the firm's competitive advantage. However, the three theories jointly offer a comprehensive view of the competitive advantage's determinants. Therefore, in contemporary time, there is a need to study deep-rooted institutions and the utilization of resources and knowledge to obtain competitive advantage. By integrating these three perspectives, this thesis seeks to fill in such research gaps via examining an improved conceptual framework, which sheds light on the direct and moderating effects of institutions and resources (internal resources and external knowledge acquisition) on firms' competitive advantage.

The research strategy that is used in this thesis is survey. The sample frame for this study consists of enterprises operating in three countries in Western Balkans: Albania, Kosovo, and North Macedonia. A quantitative approach is used to test the formulated hypothesis. 819 questionnaires are collected and after the data cleaning, only 651 records (above 200 respondents per each country) are used in the data analysis and hypothesis testing. Three data processing and analysis computer software: Microsoft Excel, SPSS 23 and SmartPLS 3.0. Partial least square (PLS) structural equation modelling (SEM) method is performed to examine and test the formulated research model.

The main findings suggest that: (i) informal and economic institutional obstacles constraint the firm's competitive advantage; (ii) the institutional interplay is important in exploring the formal institutions' role in moderating the effects of informal and economic institutions on competitive advantage in transition economies; (iii) internal resources and external knowledge acquisition are significant determinants for competitive advantage. Nevertheless, contrary to the expectations, the direct effect of formal institutions on competitive advantage is not significant, which emphasises its moderating role in the above linkages.

The work contributes to the entrepreneurship literature by combining in an improved research model three perspectives: institutional theory, resource-based and knowledge-based views, and enriching the existing literature by filling in the identified research gaps. The research implications, limitation, and future research are highlighted.

ABSTRAKT

Stav činnosti v ekonomice je určován institucionálním prostředím, v němž je činnost vykonávána. Institucionální teorie však neposkytuje komplexní pohled na prediktory konkurenční výhody, protože informuje pouze z institucionálního hlediska. Stejně tak pohled založený na zdrojích zahrnuje pouze organizační zdroje, které zdůrazňují jejich úspěšné využití pro konkurenční výhodu. Kromě toho pohled založený na znalostech nedokáže vysvětlit konkurenční výhodu firmy pouze sám o sobě. Tyto tři teorie však společně nabízejí komplexní pohled na determinanty konkurenční výhody. Proto je v současné době potřeba studovat tradiční instituce a využití zdrojů a znalostí k získání konkurenční výhody. Integrací těchto tří perspektiv se tato práce snaží zaplnit tyto mezery ve výzkumu prostřednictvím zkoumání zdokonaleného koncepčního rámce, který osvětluje přímé a moderující účinky institucí a zdrojů (interních zdrojů a externího získávání znalostí) na konkurenční výhodu firem.

Výzkumnou strategií, která je v této práci použita, je průzkum. Výběrový soubor pro tuto studii tvoří podniky působící ve třech zemích západního Balkánu: Albánii, Kosovu a Severní Makedonii. K ověření formulované hypotézy je použit kvantitativní přístup. Bylo shromážděno 819 dotazníků a po vyčištění dat bylo pro analýzu a testování hypotéz použito pouze 651 záznamů (nad 200 respondentů v každé zemi). Využity byly tři počítačové programy pro zpracování a analýzu dat: Microsoft Excel, SPSS 23 a SmartPLS 3.0. Zkoumání a testování formulovaného výzkumného modelu bylo provedeno metodou modelování strukturálních rovnic (SEM) metodou parciálních nejmenších čtverců (PLS).

Hlavní zjištění naznačují, že: (i) neformální a ekonomické institucionální překážky omezují konkurenční výhodu firmy; (ii) institucionální interakce je důležitá při zkoumání role formálních institucí při zmírňování účinků neformálních a ekonomických institucí na konkurenční výhodu v tranzitivních ekonomikách; (iii) interní zdroje a externí získávání znalostí jsou významnými determinanty konkurenční výhody. Nicméně v rozporu s očekáváním není přímý vliv formálních institucí na konkurenční výhodu významný, což zdůrazňuje jejich moderující roli ve výše uvedených vazbách.

Práce přispívá k novým poznatkům tím, že ve vylepšeném výzkumném modelu kombinuje tři perspektivy: institucionální teorii, pohled založený na zdrojích a pohled založený na znalostech, a obohacuje tak stávající literaturu tím, že zaplňuje zjištěné mezery ve výzkumu. Jsou zdůrazněny důsledky výzkumu, omezení a budoucí výzkum.

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1 INTRODUCTION

1.1 Research problem

A major challenge for firms is the way how to find an optimal strategic response that enables firms to adjust to external environmental conditions. As Oliver (1997) argues, a strategic response could be the one that balances (i) the need to acquire and exploit the resource in order to obtain competitive advantage, and (ii) the need to achieve legitimacy in the sector where the firm is operating. The first need leads to a diverse (heterogeneity) within an industry, whereas the second one leads to a homogeneity within an industry.

Two different theories of the firm (institutional theory (North, 1990) and resource-based view (Barney, 1991)) are used by scholars to better understand the abovementioned needs. Institutional theory aims to explain how being in compliance with formal and informal rules affects firm behaviour, which leads to an industry characterized as a more homogeneous one. By way of an alternative, resource-based view goal is to explain the firm need to environmental uncertainty by acquisition and utilization of possessed resources. Different from the first theory, this view aims to explain the heterogeneity within an industry.

External knowledge acquisition is an extension of resource-based view, which is defined as the organisational capability to gain from the knowledge that exists in the environment and apply in the organisation activity (Kraaijenbrink & Wijnhoven, 2008). External knowledge acquisition is a direction of knowledge management. Knowledge management is used by scholars to explain how businesses obtain competitive advantage (Coff, 2003; Tallman et al., 2004), including the case of SMEs (Edvardsson & Durst, 2013).

Following Oliver's (1997) suggestion, this thesis combines or integrates the institutional theory and resource-based view, along with external knowledge acquisition, with the aim to provide a better understating of firm behaviour and competitive advantage. Barney et al. (1991) suggest that fusing institutional and resource-based perspectives and knowledge management will create room for more advancement in resource-based view. In the latter study, it is stated that the jointed institutional and resource-based theories may offer an additional understanding of the development of local enterprise's resources which are seen more attractive and valuable to nonlocal enterprises (Bu et al., 2021).

The knowledge-based view of an enterprise was introduced as a development of the resource-based view (Sun & Yoon, 2016). Consequently, by utilizing resources, including managerial aspects, a firm can optimize its value and build an infrastructure that it needs to maintain its competitive advantage. Since changes in knowledge resource affect the enterprise's performance in the long-run, and an enterprise may take care of the core competencies by making it not

possible for its rivals to easily replicate the way how resources and capabilities are managed, the role of external knowledge acquisition that an enterprise has, is highlighted, in particular.

Current knowledge in the field of institutional environment provides evidence on how institutions shape the entrepreneur's behaviour and business activity (Chowdhury et al., 2019). However, in contemporary times, there is a need on examining deep-rooted institutions that constrain and foster firms' competitive advantage. This is a constant concern of policymakers, since a better performance of entrepreneurship in start-ups and in their activity leads to the decreasing of unemployment and to the economic growth. Throughout this thesis, it is intended to have a better understanding of the situation by finding the joint effects of institutions, resources and external knowledge acquisition on competitive advantage, and to give some useful recommendations mostly for policymakers and managers.

Generally, institutions are out of control of the entrepreneurs. However, they can manipulate the level of their firm by focusing on the possessed resources. Internal resources are possessed by organisations and comprise organisational procedures, assets, capabilities, attributes, expertise, and so on. They can be harmonised or combined using techniques aimed at increasing company effectiveness and efficiency. Consequently, limited assets and ineffective management limits the possibilities of obtaining competitive advantage. Human resources, as an engine of company activity, can play a specific role in this regard (Stacho et al., 2017). Thus, besides institutional constraints, internal resources can influence business activity and competitive advantage.

1.2 Research questions and objectives

The main goal of the current study is to develop a comprehensive model to investigate effects of institutional environment, internal resources, and external knowledge acquisition on competitive advantage. The identification of these constraints will lead to the possibility of improving the quality of business environment in these countries. Research problem and aim can be formulated as follow:

Research problem: Investigating the effects of institution constraints, internal resources, and external knowledge acquisition on competitive advantage of the firms operating in transition countries. Considering the policymakers' perspective, this study is beneficial because identifies the institutions (institutional environment: formal, informal and economic) and resources (internal resources and external knowledge acquisition) which affect competitive advantage. This process may lead to a friendlier regulatory framework that policymakers can design. Therefore, the main question is the following below:

Research question: How institutional constraints, internal resources, and external knowledge acquisition influence competitive advantage of firms operating in transition countries?

The partial research questions and objectives are given as follows:

Research objective	Research objective
1. To what extent do formal institutional constraints affect competitive advantage?	1. To identify how formal institutional constraints influence competitive advantage.
2. To what extent do informal institutional constraints impact competitive advantage?	2. To identify how informal institutional constraints impact competitive advantage.
3. To what extent the competitive advantage is influenced by economic institutions?	3. To identify how economic institutional constraints affect firm performance.
4. Do formal institutional constraints moderate the relationships between informal and economic institutions and competitive advantage?	4. To investigate the role of formal institutions in moderating the relationships between informal and economic institutional constraints and competitive advantage.
5. Do internal resources influence competitive advantage?	5. To investigate the effect of internal resources on competitive advantage.
6. Does external knowledge acquisition influence competitive advantage?	6. To investigate the effect of external knowledge acquisition on competitive advantage.

2 LITERATURE REVIEW

2.1 Theoretical perspectives

Entrepreneurship occurs in a controlled and moulded market by the institutional environment. As a result, common mental models or institutions create the environment for entrepreneurship to happen. Institutions are defined as “humanly devised constraints that shape human interaction” (North, 1990, p. 3). Numerous institutions represent formal rules that clarify which action and responsible is foreseen by the law or written regulations. On the other hand, institutions that are linked to ideology and cultural norms are classified as informal institutions.

As indicated earlier, an economy’s institutional environment consists of informal and formal institutions (North, 1990; Williamson, 2000). Hence, institutions form the business environment and, as a result, determine the conditions under which entrepreneurship occurs in the economy.

The resources-based perspective is the second theory which is used in this thesis. It encompasses a diverse set of linked theoretical tools for analysing competitive advantage sources at the enterprise level (Barney, 1991). Thus, scholars use the resources-based view to study and understand the differences in competitive advantage among enterprises (Sachitra & Chong, 2018). Consequently, “valuable, rare, imperfectly imitable (history dependent, causal ambiguity, social complexity) and non-substitutable” (Barney, 1991, p. 112) are considered to be the sources of competitive advantage. The principle of this theory is that the performance variations among enterprises are explained by a firm’s resource heterogeneity (Wong & Wong, 2011). In short, it stresses out that what an enterprise owns and how it controls them lead to long-term competitive advantage.

The knowledge-based perspective is a theory that emphasizes the knowledge’s role in framing the enterprise’s strategic opportunities, which leads to new sources of income (Zahra & George, 2002). It is part of knowledge management, which, in turn, refers to a process for gathering, managing, and communicating tacit and explicit knowledge of the staff with the aim that others may use it to achieve better results in terms of effectivity and productivity (Sun & Yoon, 2016).

The knowledge-based perspective is seen as an extension of the dynamic theory of organizational knowledge introduced by Nonaka (1994), which is known as one of the key contributors in the literature regarding knowledge management. According to Nonak (1994), in an organisation, knowledge is created through a transformation process with four steps: socialization, externalization, combination and internalization. This model of knowledge creation is seen as a spiral process of the interplay between both categories of knowledge: explicit and tacit.

The knowledge-based view is used by scholars in studying the determinants of competitive advantage of the organization (Azeem et al., 2021; Coff, 2003). As mentioned above, knowledge-based view is linked to resources-based view, and they together influence the competitive advantage of the firm. This is the reason why the knowledge-based view is considered in this thesis.

2.2 Integration of the three theories

The institutional theory, resource-based and knowledge-based views are used separately by scholars in different contexts. Nevertheless, the latest developments in the academic literature, in particular, that of the organisation and management literature have pointed to a combination of the above theories in studying the determinants of competitive advantage.

Oliver (1997) is among the first authors that emphasises the need of combining institutional theory and resource-based perspective in having a wider understanding of the determinants that influence competitive advantage. Oliver

(1997) stated that even though resource-based view offers critical information on business activity and competitive advantage, yet it lacks of the capacity to the effects of other factors beyond resources and resource markets. Merging the two perspectives offers a wider view over the determinants of competitive advantage originated from the possessed resources and institutional contexts where a firm is operating.

The knowledge-based view of an organization/ establishment/ enterprise was introduced as a development of the resource-based view, which represents the most fundamental base of the resource-based view (Sun & Yoon, 2016). Consequently, by utilizing resources and capabilities (managerial aspects), an enterprise may optimize its value and build an infrastructure that it needs to maintain its competitive advantage. Considering the fact that changes in knowledge resources affect enterprise's performance in the long-run, and an enterprise may take care of the core competencies by making it not possible for its rivals to easily replicate the way how resources and capabilities are managed, the role of knowledge resource that an enterprise has is underlined, in particular.

According to the resource-based view, which originates from knowledge management, claims that organizations have the capacity to distinguish themselves based on their level of resource linked to knowledge (Chuang, 2004). Based on this principle, the resource-based perspective, which highlights knowledge as a fundamental competency and cumulative resource in the long-term, is helpful in understanding why companies undertake knowledge management as part of their business strategy. Thus, it is logical to link both knowledge-based and resource-based perspectives to competitive advantage.

Institutional theory does not offer a full picture of the determinants of the competitive advantage, since it informs only from an institutional perspective (Peng et al., 2008). Similarly, the resource-based view only covers resources that emphasise successful acquisitions and alliances. In addition, knowledge-based view, fails to explain only by itself the firm's competitive advantage, considering the fact that it is an extension of resource-based view. However, the three perspectives jointly can provide a better picture of the competitive advantage's predictors. This integration of the three theories offers a far better explanation on how entrepreneurs construct learning tools and mechanisms to get over institutional constraints (Wright et al., 2005).

2.3 Hypotheses development

Written rules that use official channels to be communicated are known as formal institutions. Among others, they form the policy and regulatory setting of a country. Thus, the level of complexity and enforcement of regulations is shaped by such institutions. Complicated regulatory frameworks and not friendly business regulations can stymie entrepreneurial activity and deter people from

taking the steps necessary to become entrepreneurs (Chowdhury et al., 2019). Thus, formal institutions, like those dealing with business impeding or enabling policies and tax rates and administration impact entrepreneurship by impeding or stimulating business activity and competitive advantage (Duran et al., 2019).

Tax administration may affect the doing business. In middle-income countries is found that tax administration to be a serious concern for entrepreneurship, as compared to high-income economies. (Dethier et al., 2011; La Porta & Shleifer, 2014). Similarly, entrepreneurs operating in South East and Central European economies regard taxation, particularly tax administration, as one of the primary barriers to firm growth (Batsakis, 2014; Hashi & Krasniqi, 2011; Hashi & Mladek, 2001). Albanian enterprises have recognized changes in tax policy and administration as one of the most significant obstacles (Bitzenis & Nito, 2005; Xheneti & Bartlett, 2012). In empirical study on the relationship between taxation and entrepreneurship, there is no unanimity (Belitski et al., 2016). According to Stallmann and Deller (2011), tax limitations are linked to a weaker business environment and lower performance. According to Chowdhury et al.'s (2019) work, based on Sobel's (2008) research, tax rates should be considered as one of main formal institution which impedes entrepreneurship quality. These factors create a negative important association among each-other. Low start-up rates are seen in those countries with complex legislation (Aidis et al., 2012; Verheul et al., 2006). In this line, others have demonstrated that such cumbersome regulations do not stimulate business growth (Estrin et al., 2013) and do not encourage competitive advantage (Duran et al., 2019). Complicated tax rules, for example, may lead to the situation where entrepreneurs seek outside of the business for experts to handle tax regulations and administration, which lead in an increase of their expenses, thus influencing business performance, including competitive advantage.

H1: *Formal institutional constraints negatively impact competitive advantage.*

Informal institutions are unofficially conveyed socially agreed rules that are typically not documented (North, 1990). An individual behaviour can be influenced by deeply ingrained beliefs and traditions. Informal institutions are considered to be major drivers of start-ups, entrepreneurial activity, and competitive advantage in transition countries. The explanation for this might be the fact that the communist regime left behind weak formal structures, as well as insufficient institutional changes during the time of transition (Krasniqi & Desai, 2016; Xheneti & Bartlett, 2012). According to Belitski et al. (2016), a nation with a weak formal institutional framework may put more pressure on informal institutions to determine business behavior.

Corruption is seen as a traditional informal institution (Estrin et al., 2013) particularly in transition countries (Krasniqi & Desai, 2016). Corruption can shift resources towards those activities that are considered more corruptible ones

because entrepreneurs would like to gain or benefit from these conditions (Boudreaux et al., 2018). Corruption is mentioned by several scholars as a factor that influences economic activity (Fereidouni & Masron, 2012; Tonoyan et al., 2010), however, in researchers disagree over the direction on entrepreneurship (Boudreaux et al., 2018; Khyareh, 2017; Tomaszewski, 2018). Controlling corruption, according to Grosanu and Bota-Avram's (2015) work, is a critical component in the business environment, particularly for new business start-ups and competitive advantage. However, other research has revealed evidence that corruption harms entrepreneurship (Bu et al., 2021; Dempster & Isaacs, 2017; Mohamadi et al., 2017). When the business climate is not corruption-friendly, the corruption consequences remain unfavorable, but they become less, according to Dutta and Sobel (2016). However, another line of evidence suggests that corruption might aid a business start-up and entrepreneurial activity (Aparicio et al., 2016). For firms operating in South-Eastern Europe economies, their growth is positively affected by corruption, but the reverse effect is demonstrated for those operating in Central-East Europe economies (Hashi & Krasniqi, 2011). The justification of this finding might be searched into the fact that countries with weak formal institutions are known as societies which accept corruption (Traikova et al., 2017). Moreover, entrepreneurs operating in Western Balkans excuse corruption in their countries since it is seen as "greasing the wheels" of doing business (Budak & Rajh, 2014).

The business's political ties can determine whether corruption is harmful or beneficial to entrepreneurship. Hence, another informal institution that can impact doing business can be political connections. Political connections (at the municipal or national level) can assist company owners in facilitating transactions and gaining benefits to better their operations (Guo et al., 2014). Entrepreneurs prefer to engage in political ties in nations with weak institutions, particularly post-communist countries (Krasniqi & Desai, 2016; Rajwani & Liedong, 2015). Such participation leads to the possibility of future advantages from government officials, resulting in informal competition. In various European economies and Central Asia, businesses have identified informal competition as one of the main barrier in doing business (Dethier et al., 2011). This is consistent with what academics have found in the Albanian business environment: firms see unfair competition as a barrier (Bitzenis & Nito, 2005). Furthermore, having less experience in the market and less possibly political and social ties, younger business owners are less active in connecting with government officials (Xheneti & Bartlett, 2012). So:

H2: *Competitive advantage is negatively associated with informal institutional constraints.*

Besides formal and informal institutional constraints, there are other institutions that can constrain or enable entrepreneurship. Economic institutions

are frequently viewed as a distinct collection of institutions that have the potential to impact business activity (Boudreaux et al., 2019; Wennekers et al., 2005). The macroeconomic climate, access to financing, technology, and population and consumption are all part of this institutional component. Their implications on business activity are explored in the following paragraphs.

The domestic economic environment is seen as one of the main factor that affects the doing business (Kadocsa & Francsovcics, 2011). More recently, Ipinnaiye et al. (2017) investigated the factors of SME success and discovered that the macroeconomic environment influences business growth both directly and indirectly. Thai and Turkina (2014) did a research following the principles of the eclectic theory of entrepreneurship and found that informal entrepreneurship is negatively affected by abilities and resources (among others GDP per capita). Furthermore, they failed to demonstrate the significant relationship between abilities and resources and entrepreneurship, which is consistent with the findings of Rusu and Roman's (2017) research. Likewise, Grilli et al. (2018) that GDP growth has a favorable influence on venture capital activities. Consequently, GDP growth can be seen as a booster for venture capital activity, as a result, entrepreneurship. These results are supported by Dvoulet's (2017) work, which highlight the positive impact of GDP per capita on business activity. These findings are consistent with Dvouletý's (2017) research, which emphasizes the positive effect of GDP per capita on entrepreneurial activity. However, on the other hand, Bosma et al. (2018) examined the opposite relationship (effect of entrepreneurship on growth of the economy). Entrepreneurship, as predicted, has a favorable impact on economic growth, according to their findings. As a result, economic conditions, particularly macroeconomic components, have an impact on entrepreneurship.

Access to finance is generally seen as an important factor for entrepreneurship and competitive advantage. According to Ardic et al. (2012), access to finance is a barrier for entrepreneurship. Krejčí et al. (2015) investigated the elements that determine SMEs' performance in Czechia, and found that access to financial resources have a importance for their success. Nevertheless, according Rusu and Roman's (2017) work, these factors manifest a negative association, which contradicts what was expected. Chowdhury et al. (2019) studied the associations between quality entrepreneurship and different institutions for developed and developing countries throughout the globe. According to the latter mentioned research, credit in an economy (defined as domestic loans from banks to private sector) manifest a positive influence on entrepreneurship quality. Based on the above discussion of the role of economic institutions has on competitive advantage, a hypothesis can be raised:

H3: *Economic institutional constraints negatively affect competitive advantage.*

From the policymakers' perspective, it is of interest to investigate whether formal institutions govern the effect of informal and economic institutions or not. Different scholars have tried to shed light in this regard (Dilli & Westerhuis, 2018; Ghura et al., 2017; Grilli et al., 2018; Lim et al., 2016). Hence, a study investigated the moderating effects of formal and informal institutions on the relationship between opportunity entrepreneurship and economic development (Ghura et al., 2017). According to the latter research, institutions govern the linkage between opportunity entrepreneurship and economic development. Through the creation and promotion of institutions that encourage opportunity entrepreneurship, governments may change their economies toward a more sustainable and diverse model.

By analysing longitudinal country-level data on some European economies, Grilli et al. (2018) explored whether the "usual suspects," typically seen within "reformable formal institutions", manifest a key role for businesses operating in these countries. The above study also examined whether informal institutions, and particularly social capital, had a significant impact for entrepreneurship or not. This research shows that venture capital activity is indirectly influenced by social capital, by defining the structural formal institutions that have a considerable impact of venture capital activity. Another study conducted by Dilli and Westerhuis (2018) utilizing data of the Global Entrepreneurship Monitor from almost 20 European countries and the USA, paid special attention to the moderating effect of institutional context on the relationship between gender and entrepreneurial activity. Their study concludes by demonstrating the importance of this moderation.

The research done by Lim et al. (2016) specifically focused on the moderating effect of institutional conditions such as regulatory, cognitive, and normative dimensions on the effect of individual resources (human capital and financial capital) on engagement in entrepreneurship. These hypotheses were tested on a multi-source dataset from 22 developing countries. The findings revealed that the direct effect of an individual's household income on their entrepreneurial participation persists independent of institutional settings; however, the impact of education level changes depending on institutional conditions. Similarly, Raza et al. (2019), found that formal institutions do moderate the relationship between entrepreneurial readiness and entrepreneurial behaviour. Based on the above discussion, it is not only about effects of institutions on firm performance, but who moderates them as well. Therefore, the level of institutional conditions where the activity takes place is important for the influences of informal and economic institutions on firm performance. Considering all together, it is expected that formal institutions govern the latter relationships. Thus:

H4: *The influence of informal institutional constraints on competitive advantage is moderated by formal institutions, such that the relationship is stronger when formal constraints are more present.*

H5: *The effect of economic institutional constraints on competitive advantage is moderated by formal institutions, such that the relationship is stronger when formal constraints are more present.*

Hence, the resources-based perspective claims that by harmonizing and utilizing internal resources businesses can achieve a higher performance (Barney, 1991). “Internal resources include organizational processes, assets, firm attributes, capabilities, knowledge, etc., which are controlled by an organisation that gives the opportunity to harmonize or combine them by implementing strategies aiming its effectiveness and efficiency”. Thus, the ability to achieve greater performance is constrained by limited assets and ineffective asset management. In this line, human resources, as an engine of organisational activity, may play a particular role (Stacho et al., 2017). In addition, the manner how procedures and activities within an organisation influences all business aspects. Organizational practices that are difficult to follow may have a negative impact on the firm’s performance or competitive advantage. When such resources are well-aligned, they produce superior results; otherwise, they may impede business activity and may cause its failure. So:

H6: *The way how internal resources and capabilities are utilized influences competitive advantage, in such a way that their optimization leads to higher competitive advantage.*

As indicated in pervious sections, knowledge management is important for enterprises in obtaining competitive advantage (Coff, 2003; Tallman et al., 2004), including in case of SMEs (Edvardsson & Durst, 2013). In entrepreneurship, external knowledge consists of the process of identification, acquisition, and utilisation of knowledge that are linked to business activities. “External knowledge is often embedded and contextualised in individuals or organisations that differ on aspects such as location, language, culture, and technological platform” (Kraaijenbrink & Wijnhoven, 2008, p. 277). Knowledge acquisition is seen as an important aspect of general potential resources that a business can gain advantage by filling the gap between knowledge in the environment and knowledge in the enterprise.

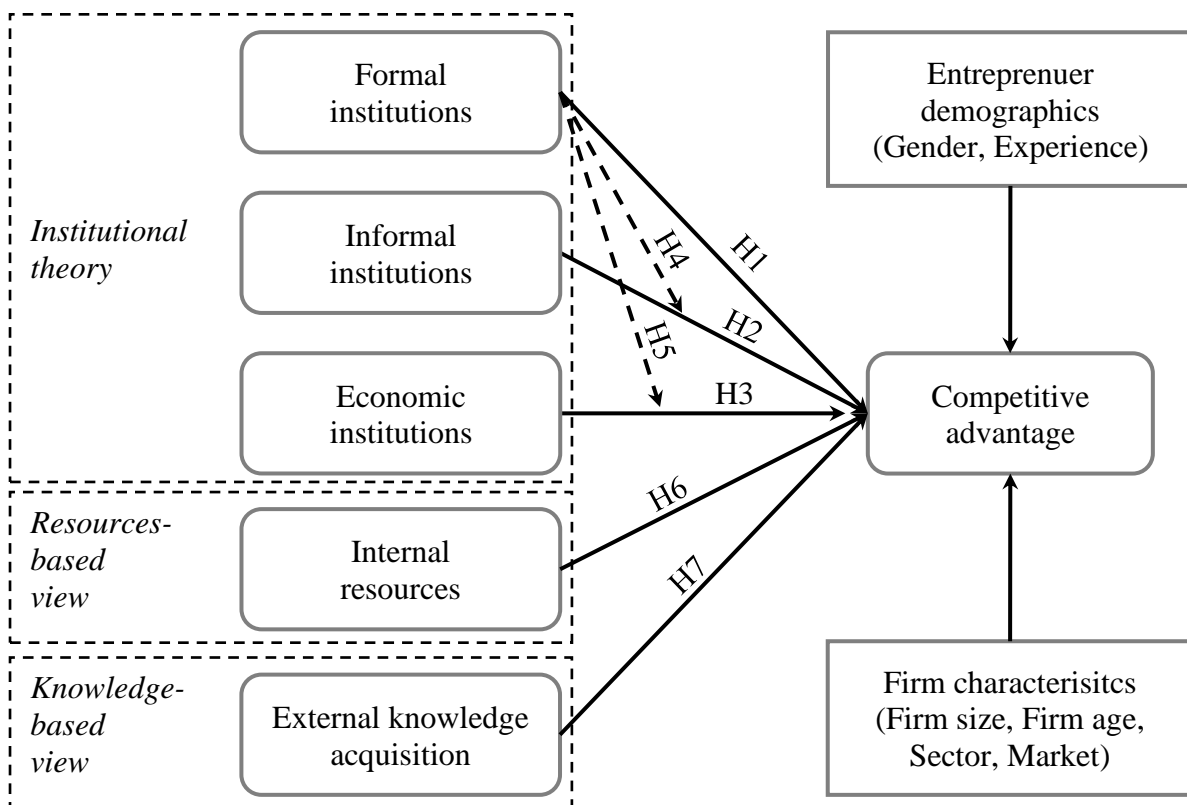
Scholars have call for more focus on the linkage between competitive advantage and external knowledge acquisition, even though there are studies covering the role of knowledge management in business performance or growth (Abu Bakar et al., 2016; Bibi et al., 2021). In the literature, there are studies that found evidence in support of the above relationship, for example Salojärvi et al. (2005) and Verma and Verma (2013). According to Abu Bakar et al. (2016),

knowledge acquisition, along with knowledge conversion, application and protection, are important determinants of growth performance. Thus:

H7: *Competitive advantage is positively influenced by external knowledge acquisition relevant for the organisation.*

2.4 Conceptual framework

Figure 1 illustrates the joint influence of three theories on competitive advantage along with entrepreneur demographics and firm characteristics. In addition, the moderating effect is illustrated in the figure by dash lines.



Source: Own research

Figure 1. The conceptual model

3 RESEARCH DESIGN AND PROCEDURES

3.1 Research design

The research objective of this thesis is to explore the influences of institutional constraints, internal resources, and external knowledge acquisition on competitive advantage of SMEs. From this objective, one can identify the need to apply a quantitative method in order to examine the abovementioned effects.

The research strategy that is used in this thesis is survey. According to Saunders et al. (2009), this type of research strategy is adequate for quantitative

data collection, and then to examine the linkages between variables and propose the model of relationships, as well as has the capacity to generalize the findings of the sample to the whole population.

The unit of the analysis for this thesis is SMEs. A member of each firm's executive team is interviewed face to face in a structured interview. As suggested by Jolley et al. (2015), the right person that can represent firm's point of views is the "owner, co-owner, financial manager, director, deputy director or manager".

3.2 Questionnaire and sampling

As indicated earlier, the research strategy of this thesis is to do a survey. The survey is based on a questionnaire which is designed upon the finalization of the literature review. Initially, the questionnaire was initially formulated in English language and then translated into the local languages (Albanian in Albania and Kosovo, and Macedonian in North Macedonia).

The survey items are refined through two rounds of pilot tests. In the first round, the questionnaire is reviewed by two academics as expert in the field of entrepreneurship, two businessmen and one representative from business chamber to assess the items' accuracy in representing corresponding constructs. A detailed description of the focal constructs along with the representative items was provided. Respondents were asked to circle words or phrase in the questions or items making them confusing, reword statements in their own words, and make any other general comments about the statements. In the second round, a pilot test of 38 firms, which are not involved in the final phase, was conducted to evaluate the quality of content and reliability of measures. A small-scale pilot survey enables author to observe patterns in respondents' answers and any issues with the questionnaire to ensure the quality of content and reliability of measures.

The size of minimum 200 responses per country is the target set for this research taking into account the model complexity and the possibility to do a disaggregated analysis by firm characteristics as well. For this study data is collected in three countries.

Since the size of the target population is known, respondents (SMEs) are selected randomly from a spreadsheet in Microsoft Excel using first Randbetween function and then sort command. In case of Albania, the business database of the General Directorate of Taxation is accessed. In case of Kosovo and North Macedonia, a consultant company has been contacted to do the field work. The time span for data collection were August – November 2021 in Albania; October – December 2021 in Kosovo; December 2021 – February 2022 in North Macedonia.

In Table 1 is shown the sample profile of surveyed businesses only the records of those answered by owner or manager of the enterprise.

Table 1. Sample profile across the three countries – firm characteristics

Variable Category		Albania	Kosovo	North Macedonia	Total	
		(n=246)	(n=201)	(n=204)	N	%
Principal market	Local	46%	46%	56%	322	49%
	National	39%	37%	32%	237	36%
	International	14%	16%	12%	92	14%
Business tenure	1 year or less	12%	7%	8%	60	9%
	2 to 5 years	28%	37%	17%	176	27%
	6 to 10 years	18%	21%	21%	128	20%
	10 to 20 years	20%	23%	23%	142	22%
	More than 20 years	22%	12%	32%	145	22%
Business size	5 employees or less	61%	27%	49%	304	47%
	6 to 9 employees	13%	21%	15%	106	16%
	10 to 20 employees	12%	18%	13%	91	14%
	21 to 50 employees	9%	20%	14%	90	14%
	> 50 employees	6%	13%	10%	60	9%
Total		100%	100%	100%	651	100%

Source: own research

3.3 Measurement development

The dependent variable in the proposed research model of this thesis is competitive advantage. The scale introduced by Li et al. (2008) was adapted to this research to measure competitive advantage. The respondents were asked to state to what extent do they agree with the five statements formulated a 5-point Likert scale, with 1 standing for *totally disagree* and 5 for *totally agree*.

The Business Environment and Enterprise Performance Survey designed by European Bank for Reconstruction and Development (Dethier et al., 2011), served as a starting point to define the indicators per each category of institutions. Institutional constraints are variables measured with a 5-point Likert scale, with 1 standing for *not a problem* and 5 for *severe problem*.

Regarding the measurement scale of internal resources, the scale proposed by a prior (Milošević et al., 2019) was adapted to the context. Similar to institutional constraints measures, this scale is measured with five statements formulated as a 5-point Likert scale, with 1 standing for *not a problem* and 5 for *severe problem*. The following statements are included in the questionnaire right after the question “Please, evaluate to what extent each of them poses a problem for start-up/operating normally”: “The level of fixed assets free from any burden/inscription”; “Difficulties in absorption/acquisition of new technologies/innovation”; “Delay in fulfilling bank obligations”; “Management of receivables/payables”.

Motivated by prior scales (Foss et al., 2013; Yli-Renko et al., 2001), in this thesis a six-item measure of external knowledge acquisition was introduced with the main question “*Which of the following business services do you consider necessary for improving your business performance?*”

3.4 Data analysis

With the aim to meet the research’s objectives and to test hypotheses, the partial least squares (PLS) structural equation modelling (SEM) method is performed in SmartPLS 3.0. The PLS approach is a variance-based structural equation modelling (SEM) method. There are several reasons why PLS-SEM is selected. The PLS method allows both measurement and structural models to be tested at the same time (Hair et al., 2017). Another reason is dealing with the normality of the latent variables, which is not a criterion to be fulfilled for PLS-SEM. Additionally, PLS is a useful method for examining moderating effects since it produces a new indicator that is same to traditional regression parameter. In this thesis, all constructs are modelled as reflecting indicators.

Firstly, the structural model is formulated to measure the latent variables and their relationships. Secondly, the measurement model of the constructs is assessed with the aim to measure the item and scale reliabilities, to perform the validity analysis along with the discriminant validity. These procedures would allow to further examine the linkages between the latent variables (Hair et al., 2017). The standardized paths are examined to explore the significance of these relationships. These coefficients of the paths are calculated by applying bootstrap procedure, with 5000 iterations of resampling (Hair et al., 2019).

Taking into account that latent variables from the combined data of three countries did not differ across countries, the analysis is done for the whole dataset, as a merged dataset of the three countries. Analysis of variance is performed to explore for any difference in the latent variables across the three countries. Its result indicates no difference in any constructs. On the other hand, multi-group analysis was not supported by the data, since its assumptions were violated.

3.5 Assumption checks

Common method bias is a concern when one is dealing with primary data collection (Podsakoff et al., 2003). A full collinearity test is performed (Kock, 2017). None of the VIF coefficients resulted equal or above the value of 3.3, which indicates that common method bias is not an issue in this study.

The first thing to check in reflective measurement model assessment is **item reliability**. This is examined by checking item or indicator loadings. It is recommended that these loadings should be above 0.708 (Hair et al., 2019). Not all item loadings that did satisfy the above rule were removed from the analysis. Hence, the list of the indicators which were not qualified consists of these items:

CFI1, CF3, CFI4 and CFI5; CEI3, CEI6 and CEI7; CIB1; EKA2 and EKA3. The item loadings of the selected indicators range from 0.761 to 0.900. Given this result, it can be concluded that the rule of having loadings above 0.708 is satisfied, providing evidence of acceptable indicator reliability.

The second step of the reflective measurement model assessment is assessing **internal consistency reliability**. This step can be done by examining the values of Cronbach's alpha and composite reliability for each scale. The lowest Cronbach's alpha is found for the scale of economic institutional constraints (0.835), while the highest one is reported for competitive advantage (0.892). The values of composite reliability range from 0.890 to 0.921. Rho_A is another metric used in this case, where its values vary from 0.839 to 0.897. Based on the rule of thumb, the scale reliability ranges from good to excellent. This result means that internal consistency reliability is not an issue for this research.

The third step of the reflective measurement model assessment deals with **convergent validity** of the measured constructs. The metric of average variance extracted (AVE) is computed for each set of items of the constructs. All AVE values are found to be above the value of 50%, meaning that all assessed constructs explain more than the half of the variation among their indicators.

Discriminant validity is the fourth step when dealing with a reflective measurement model assessment. The most suitable metric for it is heterotrait-monotrait (HTMT) ratio of the correlations. None of the HTMT coefficients exceeded the threshold of 0.85, meaning that all measured constructs are empirically distinct from other constructs in the structural model.

4 RESULTS

4.1 Hypotheses testing

Table 2 summarizes the results of PLS-SEM approach for the surveyed SMEs. Altogether, excluding control effects, there are seven paths (five direct and two moderating paths) of interest for this thesis. Regarding the direct effects, results show that four out of five paths are statistically significant for determining competitive advantage. Hence, SMEs' competitive advantage is negatively influenced by informal ($\beta = -0.107, t = 2.034, p < 0.05$) and economic institutional constraints ($\beta = -0.145, t = 2.561, p < 0.01$), internal resource-related constraints ($\beta = -0.114, t = 2.377, p < 0.05$). The fourth statistically significant direct path is related to the effect of external knowledge acquisition on competitive advantage, which is found to be positive ($\beta = 0.203, t = 4.835, p < 0.001$) (see Table 2). Therefore, the data supports H2, H3, H4, H5, H6 and H7. On the other hand, the data fails to support H1, which claims that formal institutional constraints negatively influence firm's competitive advantage.

Table 2. Hypotheses testing

Effect	Hypothesis	Path	β	t	p
Direct	H1	CA \leftarrow CFI	0.063	1.206	0.228
	H2	CA \leftarrow CII	-0.107	2.034	0.042
	H3	CA \leftarrow CEI	-0.145	2.561	0.009
	H6	CA \leftarrow CIB	-0.114	2.377	0.017
	H7	CA \leftarrow EKA	0.203	4.835	0.000
Moderate	H4	CA \leftarrow CII x CFI	-0.319	2.430	0.015
	H5	CA \leftarrow CEI x CFI	-0.113	6.594	0.000
Control variables	Enterprise level	CA \leftarrow Business size	0.166	4.958	0.000
		CA \leftarrow Business tenure	-0.011	0.304	0.761
		CA \leftarrow Manufacturing	0.006	0.203	0.839
		CA \leftarrow National market	-0.021	0.671	0.502
	Individual level	CA \leftarrow Experience	0.026	0.735	0.462
		CA \leftarrow Gender	0.001	0.008	0.994

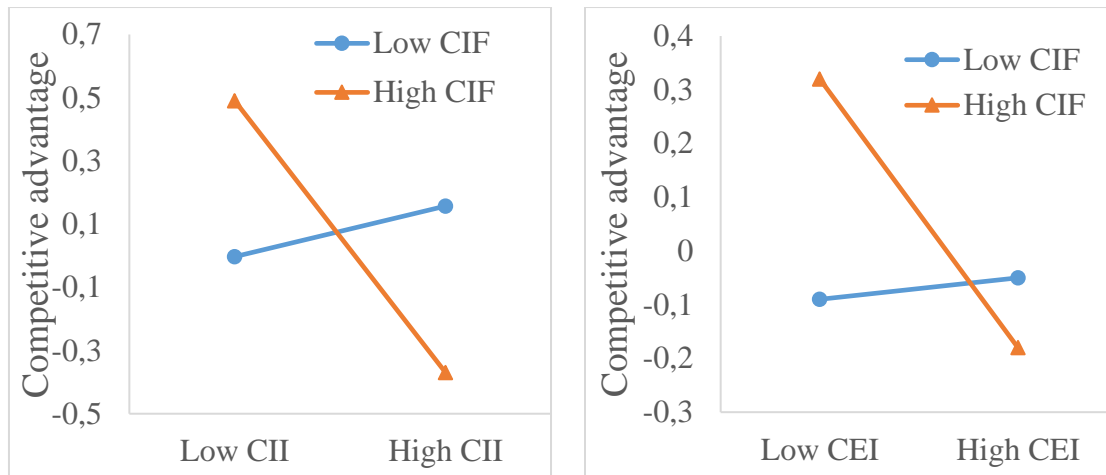
Note: CA, competitive advantage; CFI, formal institutions, CII, informal institutions; CEI, economic institutions; CIB, internal resources; EKA, external knowledge acquisition. Source: own research

Regarding the moderating paths (refer to Table 2), the analysis showed that formal institutional constraints moderate both informal ($\beta = -0.319$, $t = 2.430$, $p < 0.05$) and economic institutional constraints effects on competitive advantage ($\beta = -0.113$, $t = 6.594$, $p < 0.001$). This analysis is not enough to conclude on the acceptance or rejection of the raised hypotheses on moderating role.

4.2 Institutional interplay: moderating effect

Figure 2 (left hand) illustrates the interplay of two groups of institutions (formal and informal) and their effect on competitive advantage. The figure demonstrates a steeper line of the relationship between informal institutional constraints and competitive advantage for high formal institutional constraints, as compared to low formal institutions. H4 claimed exactly this effect, thereby H4 is supported, since the influence of informal institutional constraints on competitive advantage is moderated by formal institutions, such that the relationship is stronger when formal constraints are more present.

In Figure 2 (right hand) is demonstrated in a visual way of the interplay of formal with economic institutional constraints and their impact on competitive advantage. One can see that a steeper line is that of the relationship between economic institutions and competitive advantage with high formal institutions, compared to that of with low formal institutions. According to H5, the effect of economic institutional constraints on competitive advantage is moderated by formal institutions, such that the relationship is stronger when formal constraints are more present. Thus, the data fails to reject H5.



Note: CFI, CII and CEI are formal, informal and economic institutions. Source: Own research

Figure 2. Moderating effect of formal institutions

Table 3 summarizes the conclusion for each formulated hypothesis.

Table 3. Hypotheses testing – conclusion

Hypothesis	Conclusion
H1 Formal institutional constraints negatively influence firm's competitive advantage	Rejected
H2 Competitive advantage is negatively associated with informal institutional constraints	Supported
H3 Economic institutional constraints negatively affect firms' competitive advantage	Supported
H6 The way how internal resources and capabilities are utilized influences competitive advantage, in such a way that their optimization leads to higher competitive advantage	Supported
H7 Competitive advantage is positively influenced by external knowledge acquisition relevant for the organization	Supported
H4 The influence of informal institutional constraints on competitive advantage is moderated by formal institutions, such that the relationship is stronger when formal constraints are more present	Supported
H5 The effect of economic institutional constraints on competitive advantage is moderated by formal institutions, such that the relationship is stronger when formal constraints are more present	Supported

Source: own research

5 DISCUSSION

The findings are highlighted and discussed with respect to the following research questions:

- *To what extent do institutional constraints affect competitive advantage?*
- *Do formal institutions moderate the relationships between informal and economic institutions and competitive advantage?*
- *Do internal resources and external knowledge acquisition influence competitive advantage?*

5.1 Institutional constraints

Regarding the first question listed above, except for formal institutions, the research confirms that institutional constraints are important determinants for SME's competitive advantage. The research has found that competitive advantage is negatively influenced by both informal and economic constraining institutions.

On the impact of informal institutions on competitive advantage, it is of interest mentioning the measurement of this scale, where its items are corruption, crime, theft and disorder, unfair competition, and relationship (unofficial) with local government. Focusing only on corruption indicator, and assuming the same linkage as its construct, the negative influence of this institutional component on competitive advantage, somehow supports the “sand the wheels” view (Méon & Weill, 2010; Mohamadi et al., 2017). This is consistent with what has been observed in advanced economies with not weak formal institutions, where corruption works as an extra tax (Belitski et al., 2016). Usually, in developing and transition economies characterised by not strong formal institutions, corruption serves to lubricate the wheels of entrepreneurship, known as “grease the wheels” view (Dreher & Gassebner, 2013; Hashi & Krasniqi, 2011; Krasniqi & Desai, 2016). Additionally, for business owners/managers is not possible to work without corruption in these economies (Williams & Vorley, 2017). As Goel et al. (2015) argues, business owners/managers “might also be involved in mutual corruption to counter law requirements.” This might be a result of operating in an environment with both not strong formal institutions and a poor entrepreneurial culture, which leads to business owners eager to circumvent legal requirements or tax authorities' scrutiny, and/or engage in bribery or corruption as a means of conducting business.

Regarding the economic constraining institutions, thesis' analysis found that it negatively affects competitive advantage, similar to the effect of informal institutions. Part of the scale of economic institutions are the indicators pointing to inflation, access to finance and electricity. Raza et al. (2019) discusses on the use of economic institutions in explaining entrepreneurship. In their work, they found that financial capital availability is a significant determinant of both entrepreneurial entry and opportunity-based entrepreneurship. However, our finding contradicts Krasniqi and Desai's (2016) study covering 26 transition economies. Some of the above-mentioned indicators are used by Krasniqi and

Desai (2016) and labelled as inputs. Interestingly, they found that this variable does not predict high-growth firm.

Regulative components (formal institutions) of a country is found to be not an important predictor in prior research, as well (Čadil et al., 2017; Ur Rehman et al., 2019; Valdez & Richardson, 2013). For instance, Ur Rehman et al. (2019) studied the obstacles to growth of SMEs in Western Balkan countries and concluded that obstacles related to tax administration and rates do not statistically predict labour productivity for firm operating in Kosovo and North Macedonia. Moreover, two other studies have confirmed the insignificance of regulation-related constraints in predicting firm growth in Albanian (Xheneti & Bartlett, 2012) and sales of under-reporting firms in Kosovo (Williams & Krasniqi, 2018). In a more recent study, it was demonstrated that business enabling policies do not predict business climate for the businesses operating in Albania (Çera et al., 2019). Following Jolley's et al. (2015) argument, business owners/managers may be in favour of a strategy that seeks to reduce tax rates over tax incentives or tax administrations that are procedure-based, so to achieve a better performance of the overall economy. Therefore, the thesis' finding regarding the effect of formal constraining institutions is in line with studies covering the Western Balkans countries.

5.2 Institutional interplay: the role of formal institutions

One of the key findings of the thesis is that formal constraining institutions do not influence competitive advantage of the SMEs, while the other two institutions do. As discussed above, such results are found in the literature as well. However, no prior research has studied in depth the institutional interplay in a post-communist and transition economies, with the aim to explain this insignificant effect of formal institutions and important influences of informal and economical institutions on competitive advantage. The institutional interplay is discussed by scholars in different contexts, such as firm profitability in emerging countries (Kafouros et al., 2022), expatriation assignment (Moreira & Ogasavara, 2018), international trade (Park, 2021), entrepreneurship (Chowdhury et al., 2019; Escandon-Barbosa et al., 2019; Sahasranamam & Nandakumar, 2020) etc.

This thesis sheds light on the role of formal institutions by investigating its moderating effect in the influences of informal and economic institutions on competitive advantage. Both moderations are found to be statistically significant determinants of competitive advantage. Our findings suggest that the negative impact of informal and economic institutions on competitive advantage is stronger when the formal constraining institutions are more unfriendly towards businesses. These findings go in line with the study of Yi et al. (2019), as they found that formal institutions (measured with investment freedom) moderate the informal institutions' influence on foreign direct investment. Therefore, once can

say that informal and economic constraints combined with formal unfriendly business rules worsen the firm's competitive advantage. On the other hand, Krasniqi and Desai (2016) found a positive interaction of formal and informal institutions when explaining high-growth firms in 26 transition countries. The logic behind this contrast between the thesis' finding and Krasniqi and Desai's (2016) work lies in the fact that direct effect of informal institution on dependent variable is positive in this thesis, while in their study is negative. Hence, the institutional interplay is manifested differently.

5.3 Internal resources and External knowledge acquisition

As it was expected, the results of the analysis confirm the direct and significant effect that internal resources have on firms' competitive advantage. This finding is consistent with the resource-based view, which suggests that firm resources are and should be considered as important determinants of competitive advantage. As with Newbert's (2007) and Hinterhuber's (2013) claims, this thesis finding stresses out that enterprises' resources must be utilized in such a way to generate competitive advantage. As discussed earlier, internal resources are the possessed resources, which leads to the fact that managers can manipulate them to achieve and/or obtain competitive advantage. From this perspective, managerial implications can be pointed out.

The analysis showed that external knowledge acquisition has a positive influence on competitive advantage, suggesting that information and knowledge acquisition play an important role in achieving and obtaining competitive advantage. Our finding is consistent with prior research, including Xheneti and Bartlett's (2012) work conducted in Albania, which emphasizes the importance of information-related constraints on firm growth. Additionally, this is strengthened by the key role related to information and knowledge in the transition economies in Western Balkans countries, and the importance of offering relevant business information and knowledge to support entrepreneurship. This aspect of knowledge management can be translated into a practical implication for both policymakers and manager.

6 BENEFITS OF THE STUDY

This thesis contributes at the least in two strands of literature. Firstly, the research in this thesis contributes to the entrepreneurship literature by combining in an improved and unique research model different perspectives of institutional theory (Baumol, 1990; North, 1990; Williamson, 2000), resource-based view (Barney, 1991) and knowledge-based perspective (Nonaka, 1994).

Based on the discussion in the literature review and arguments provided by this research, one can conclude that institutional theory does not offer a full picture of

the determinants of the competitive advantage, since it informs only from an institutional view (Peng et al., 2008). Similarly, the resource-based view only covers resources that emphasises successful acquisitions and alliances. In addition, knowledge-based view, fails to explain only by itself firm's competitive advantage, since it is an extension of resource-based view. However, the three perspectives jointly can provide a better picture of the competitive advantage's determinants. This integration of the three theories offers far better explanation on how entrepreneurs construct learning tools and mechanisms to get over institutional constraints (Wright et al., 2005).

By integrating the three theories (institutional, resource-based, and knowledge-based views) it is assumed that a better understanding can be reached about the issue on how enterprises behave when they face institutional constraints and have the capacity to utilize the possessed resources and external knowledge acquisition (Fernández-Alles & Valle-Cabrera, 2006). The combination of these theoretical perspectives provides a suitable conceptual framework since it is assumed that covers technical (resources and knowledge) and institutional contexts.

Secondly, the proposed conceptual framework offers the possibility to explore the relationships between institutions (formal, informal, and economical) and resources (internal resources and external knowledge acquisition) and competitive advantage. Giving this, the study contributes to enrich the existing literature by pointing out that: (1) Institutional constraints negatively affect competitive advantage; (2) the role of formal institutions is noted when is considered as a moderator of the influences of informal and economical institutions on competitive advantage; (3) organisational resources (internal resources and external knowledge acquisition) predict competitive advantage.

The findings of this thesis are useful for policymakers and decision-takers within the government who aim to create a better business environment and to boost market entry. As Fereidouni and Masron (2012) claimed, it is critical for policymakers to understand which type of institutions are most essential to business owners/managers and which is their influence on entrepreneurship. The findings of this thesis provide insights regarding the development of new policies or adjusting the existing ones so to encourage entrepreneurship and improve the overall environment of doing business. It is this reason why the findings of this thesis are of interest for policy-makers.

Secondly, determining the vital role of formal institutions in moderating the linkages between informal and economic institutions and competitive advantage, provides meaningful information to policymakers. In this way, they can manipulate the effect of informal institutions on firm performance by adjusting or designing effective formal institutions. The reason why direct effect of formal institutions on competitive advantage is insignificant should be examined in the

quality business policies and the nature of their designed and how they are implemented. Here it comes the role of policy formulation for SMEs.

Similarly, Xheneti (2017) provides an interesting framework for examining policy formation, establishing a relationship between policy formation and the desired policy results (Xheneti & Kitching, 2011). Business regulations aimed at improving business environment should promote entrepreneurship or lead to higher start-up rates. As a result, policymakers should pay attention to the design of such policies and regulations which create business-friendly environment a well-functioning educational system (Brixiova & Égert, 2017), which may increase the supply of educated entrepreneurs (La Porta & Shleifer, 2014).

Additionally, from a managerial point of view, the study offers insights regarding the impact of internal resources on firm performance. By identifying these internal factors, managers can adjust their processes following the best practices. Furthermore, the knowledge that exists outside of the business and it would be good to bring it to the internal environment, should be consider as a priority, in particular, considering the new environment and the COVID-19 pandemic's consequences. Here, it becomes visible the role external knowledge acquisition, for which government should intensify its action in providing additional business trainings or services on how to bridge the knowledge from the external environment to the one that exist within the firm environment.

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