

Nonprofit Human Resource Management Challenges

Nonprofit Human Resource Management Challenges: Strategies and Implications for Managers

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Abstract

Most nonprofit organizations have to work with a number of resource challenges including financial, information, and human resources. The human resource challenge is the most significant because the personnel are the architects and agents of the services. This paper identifies the major human resource challenges and argues that retention of employees is the most persistent and severe challenge. A comparison of the findings of two case studies and an expansive literature review also confirms this argument. Based on the Public Service Motivation theory and the findings of this study, a conceptual model of employee retention is presented that identifies several motivational factors that can improve employee retention in nonprofit organizations.

Nonprofit organizations play an increasingly important role in providing services for which the public and the private sector lack time, information, or inclination. They advocate for the variety of social, political, environmental, ethnic, and community interests and concerns, contribute to the social and cultural life of the society, and actively participate in community building (Salamon, Sokolowski, & List, 2003). Most nonprofit organizations, in the course of their service, face several challenges in terms of reductions in federal funding, decline in charitable contributions, competition from for-profit providers in certain services, and demands for accountability. These pressures tend to divert nonprofit managers' attention from the critical human capital dimensions in spite of the fact that the human resources are the architects and agents of services provided by these organizations.

The most significant and persistent human resources (HR) challenge for nonprofit managers is with respect to attracting and retaining talented workforce. The questions that arise are: why is it difficult to attract workforce to nonprofit organizations, and does the perceived difference in compensation level compared to for-profit organizations play a role in it? Dewees and Salamon (2001) found that nonprofit wages in California were at par with or higher than those of for-profits in many sectors where both were involved. In the case of Texas, Salamon and Geller (2007) found that average weekly wages of nonprofit employees are lower than that of for-profit and state government employees. However, in industries such as education and healthcare, where both are significantly involved the average nonprofit wages are sometimes higher than for-profits. Yet, previous studies (Smith & Lipsky, 1993; Brown, Yoshioka, & Munoz, 2004) cite low wages as an important reason for employee turnover and prolonged vacant positions. If nonprofit wage differentials are not significant, then why are the nonprofit organizations constantly under pressure from a high turnover rate? A study conducted in the

Silicon Valley in 2002 where nonprofits employ around 250,049 paid staff found that 8 percent of these paid staff positions were vacant with 30 percent of these positions vacant for four months and more. In addition, 24 percent of these vacancies were in the management level.

This paper argues that recruitment is not the major challenge for nonprofit human resource (HR) managers, and that retention of employees presents a far more significant and persistent challenge. After identifying the major constraints in recruiting and retaining talented individuals as well as the reasons for the high turnover rate, this paper presents a model that identifies motivators that could reduce turnover rates. Further, this paper provides solutions and recommendations to meet the retention challenge.

#### Theoretical Framework

This paper draws on the Public Service Motivation (PSM) theory espoused by Perry and Wise (1990) that argues that individual behavior is not just the product of rational self-interested choices, but is rooted in normative and affective motives as well. PSM is defined as “an individual’s predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations” (Perry & Wise, 1990, p.368). Further, individuals with a high sense of commitment to public service are more inclined towards public service organizations. Other scholars have expanded on this construct to explain motivations for public service (Perry, Brudney, Coursey, & Littlepage, 2008; Alonso & Lewis, 2001; Brewer, Selden & Facer, 2000; Houston, 2000; Brewer & Selden, 1998; Crewson, 1997; Perry, 1997, 1996). PSM has also been associated with high performance and productivity, higher job satisfaction, and low turnover (Wright, 2003, Naff & Crum, 1999). Thus, this theory links the pursuit of public interest with employee behavior and provides an important framework in developing a model for employee retention.

## Methodology

A brief review of the relevant literature highlights the dominant themes and concepts pertaining to nonprofit personnel management. A detailed examination of personnel management practices in two nonprofit organizations in the Dallas metropolitan area provides inputs for developing a model for employee retention. This study is designed as a small-scale exploratory study where the data is collected through in-depth personal interviews of the executive directors of Foundation for Community Empowerment (FCE) and Central Dallas Ministries (CDM), in order to examine their perceptions with respect to personnel functions.

This paper is organized in the following manner. First, an overview of the literatures pertaining to nonprofit management is discussed. Second, the case studies on FCE and CDM are presented, which is followed by a comparison of the findings from the literature and the case study. Third, a conceptual model of employee retention is presented, with discussions and an analysis of the implications drawn from the findings. Finally, the conclusions derived are discussed with recommendations and suggestions for future research.

## Literature Review

Nonprofits combine economic and market forces with social norms (Vigoda & Cohen, 2003) and their employees are expected to follow business requirements and demonstrate ethics, accountability, and equity in services. Ban, Drahnak-Faller, and Towers (2003) maintain that recruitment, retention, and workforce diversity are some of the major problems facing nonprofit HR managers. In addition, they found that it is difficult to recruit for certain positions, such as information technology and development.

Nonprofits usually recruit through employee referrals and newspaper advertising, methods that are low cost, require minimum use of the internet and have a local focus. Although

referrals are highly effective, the tendency of people to recommend individuals like themselves can potentially lead to the lack of diversity in the workforce (Ban et al., 2003). With the population in United States (U.S.) becoming more diverse, executive and leadership positions in nonprofit organizations require more diversity in terms of gender, race, and ethnicity as these positions of power and influence continue to be held by white men. In relation to demographic changes, namely aging of the baby boomer population, Halpern (2006) states that a considerable amount of scientific research has been directed to investigating of executive turnover and transition in the nonprofit sector.

#### *Characteristics of Nonprofit Employees*

Onyx and Maclean (1996) argue that nonprofit employees typically have a spiral career pattern with changing positions that require different skills, creativity and ability to work in challenging working environments. Individuals who choose to work in nonprofits are more likely to have non-monetary goals, aspire for a socially meaningful job, and have a philosophy for self-development and social change. Light (2002) maintains that organizational mission and a dedication towards public service inspire both volunteers and paid professional staff to join nonprofit organizations. Mann (2006) states that these employees have a strong service orientation, seek for a chance to make a difference, and value more intrinsic work incentives than salaries and benefits. They are more attached to the organizational mission than employees in federal government and private sector employees, and demonstrate dedication to achieve the common good. Despite the public service motives, retention is a major problem in the nonprofits because of resource scarcity and burnout. Mann (2006) drew attention to unanswered questions on measuring and harnessing public service motivation in recruitment and retention efforts. Mission attachment positively affects satisfaction along with pay and career opportunities,

prevents burnout, and fosters a feeling of appreciation and organizational commitment (Kim & Lee, 2005), resulting in employee retention (Brown et al., 2004). Yet, mission commitment has been found to work better for younger, part-time workers than for their older, full-time counterparts.

### *Compensation in Nonprofit Organizations*

Nonprofit organizations offer lower wages and less educational opportunities to their workforce in comparison to the for-profit agencies with similar missions (Lynn, 2003). Data provided by the National Center for Charitable Statistics in 2002 showed that the workers in nursing homes, housing and shelter, disabled development facilities received the lowest compensation. However, Ruhm and Borkoski (2003) found that the difference in wages between nonprofit employees and those in for-profit positions is not statistically significant. Weekly earnings of nonprofit workers were 11 percent less on average compared with those in for-profit occupations. The difference in compensation was due to shorter working hours and location of nonprofit jobs in low-paying industries. In addition, the positive value of providing services to needy individuals compensated the difference in wages (Ruhm & Borkoski, 2003).

Preston (1990) points to the causal relationship between gender and low salary in nonprofits. Women represent up to 80 percent of workforce in nonprofits because many of these occupations suit women better than they suit men. The decrease in salary for women in nonprofits is less because women in for-profits are paid less as well (Preston, 1990) and they change their jobs less frequently (Lipman, 2000). Brown, Carlton, and Munoz (2004) argue that compensation is an important factor in employee turnover. Even though employees are attracted by the mission and are satisfied with their work, they do not consider remaining in the organization because of low compensation. This finding contradicts the argument that employees

who continued to work with the organization are motivated by the achievement of common good. Mission attachment is a strong predictor of retention, but it should be combined with other intrinsic rewards to compensate lower salaries and benefits in the nonprofit sector (Brown et al., 2004).

### *Employee Retention*

Retention of non-leadership staff deserves special attention since the loss of staff is costly in terms of training and development, interrupted service provision, and decreased employee morale (Halpern, 2006; Ban et al., 2003; Lynn, 2003). Researchers maintain that the most important goal of the contemporary human resource systems is not to recruit the finest professionals, but to create congruence between people and organizations (Lynn, 2003; Vigoda & Cohen, 2003). Watson and Abzug (2005, p.628) refer to it as “fit and embeddedness.” Work congruence positively affects employee performance, job satisfaction, tenure, and career success. In the absence of congruence, an employee cannot reach the minimum level of expectations, and tends to accuse the organization of being politically discriminative and inequitable. In order to avoid such a destructive situation, there needs to be continuous assessment of the interface between employees and their work environment, including advanced HR strategies for recruitment and retention (Vigoda & Cohen, 2003).

An employee’s interests lie in their personality-based passions that determine the kinds of activities that make them happy, keep them engaged in what they do, and prevent quitting. Butler and Waldroop (1999) identified eight deeply embedded life interests. They are application of technology, quantitative analysis, conceptual thinking, mentoring, managing people and relationships, enterprise control, influence through language and ideas, and creative production. Many people are not aware of their own deeply embedded life interests at least until midlife and



do not know what kind of work actually inspires them. According to Butler and Waldroop (1999), studies on job and career satisfaction concentrate on three elements, namely, ability, values, and life interests. There is a wrong perception that employees are satisfied when they are good at their jobs. Skills lead to competence, but do not necessarily engage them in jobs. Values are rewards that include money, intellectual challenge, prestige, and a comfortable lifestyle. However, only life interests make people happy and satisfied over a long time. If skills do not match deeply embedded life interests, people become frustrated and unattached. To retain employees, supervisors must explore expectations of their employees and sculpt jobs and careers in a way that brings satisfaction and happiness to both sides. However, the feasibility of sculpting jobs in nonprofits with scarce resources is questionable.

Kelner, Rabkin, Saxe, and Sheingold (2004) present six job characteristics that can lead to job satisfaction. They are complexity and challenge of a job, ambiguity and conflict, emotional exhaustion and depersonalization, wage equity, and met expectations. Perry, Mesch, and Paarlberg (2006), after a review of the social and behavioral research on employee motivation in all the sectors, identified four elements for motivating human performance. These are employee incentives, job design, employee participation, and goal setting. These elements proved to be effective in reducing turnover, and improving attendance, job satisfaction, organizational commitment, productivity and work quality.

Horwitz, Heng, and Quazi (2003) argue that the highly effective motivational and retention methods frequently overlap in case of knowledge workers. The motivational strategies should focus on work nature, such as challenging work, opportunities for development, access to technology, and top management support. A highly competitive pay package combined with performance bonuses works better for attracting and retaining knowledge workers than for

motivating them. The core of successful strategies lies in the idea of working with an “employer of choice” that serves as a starting point for building social identity, respect, and developing communitarian loyalty. In motivating knowledge workers, strategies such as freedom to plan and work independently, challenging work, and access to advanced technology were best.

### *Employee Turnover*

A comprehensive meta-analysis of turnover antecedents conducted by Griffeth, Hom, and Gaertner (2000) confirms the validity of previous results and reports that the best predictors of turnover are job satisfaction, organizational commitment, job search, comparison of alternatives, withdrawal cognitions, and quit intentions. Characteristics of the work environment such as job content, stress, work group cohesion, autonomy, leadership, distributive justice, promotional chances, and alternative job opportunities were predictors with a moderate and small effect. The introduction of collective rewards instead of individual incentives increased turnover among high performers. Women were more likely to stay with an organization as they age compared with their male counterparts. Job dissatisfaction is the first step in a general decision to quit a job (Griffeth et al., 2000).

Maertz and Griffeth’s (2004) model of eight distinctive motives of turnover determines the degree of employee’s intention to stay or leave the organization. These motives include emotion, future benefits, perceived obligation, tangible and psychological costs, belief about alternative jobs, expectations of family or friends, general moral behavior, and relationship with colleagues. These eight forces interact with each other, change over time, and drive in opposite directions. Knowledge of these interactions can help in understanding mechanisms of the turnover process. Allen, Shore, and Griffeth (2003) argue that perceived organizational support (POS) may elucidate the association between favorable organizational HR strategies and

turnover. Perceptions of supportive HR practices, such as employee participation in decision-making process, growth opportunities, and fairness of rewards are positively correlated with organizational commitment and POS, resulting in less turnover intentions.

### *Diversity*

Diversity in nonprofit management is a new concept and most researches have focused on board composition and governance issues (Brown, 2002; Duca, 1996; Siciliano, 1996; Widmer, 1987). Since the clients and communities served by nonprofit organizations are increasingly becoming diverse in terms of gender, race, and ethnicity, there is an increased need for these organizations to reflect and represent their clientele base. Yet, the boards, executives and staff in most of the nonprofits are largely white (O'Neill, 2002). In fact, Rogers and Smith (1994) found that only 14.3 percent of nonprofit managers were minorities, and of the managers with some graduate education, 12.5 percent were people of color.

Diversity can impose challenges to recruitment and retention of staff in nonprofits because of the complex socio-cultural mix within U.S. as well as within different states and localities. In a narrow sense, diversity can be defined in terms of race and gender. Organizations that follow this view attempt to recruit and retain minority and female employees (Ivancevich & Gilbert, 2000). Critics, including Roosevelt Thomas Jr. who introduced the term “managing diversity,” however, argue that this narrow view of gender and race diversity would result in an incomplete transformation of organizational culture (Ivancevich & Gilbert, 2000). Thomas (1992) presented a broader perspective of diversity management that advocates recruiting, and retaining workers irrespective of color, gender, sexual orientation, physical abilities and so forth (Ivancevich & Gilbert, 2000). The diversity challenge can be more acute if the nonprofit staff members have different views regarding diversity. Weisinger (2005) maintains that a distinction

between diversity concepts espoused by executive management and those used by staff in the field could compromise effective diversity and pluralism efforts.

#### Case Study 1: Foundation for Community Empowerment (FCE)

The Foundation for Community Empowerment (FCE), founded in 1995 by J. McDonald Williams, Chairman Emeritus of Trammell Crow, mobilizes people, data, ideas and resources for the improvement of the low-income communities in Dallas. FCE is an intermediary organization that helps people in the poor neighborhoods of south Dallas to articulate a common agenda, exercise their own capacity for change, and forge working relationships with institutions and power structures outside their community. FCE is unique as it acts as a catalyst in the revitalization of these low-income neighborhoods and focuses on three program areas, namely, community development, education, and social capital development. They provide technical assistance, coalition building, and grant making to support capacity development efforts with their partners, which includes community and faith based organizations, public schools, collaboration and funding partners.

The research wing of FCE, the J. McDonald Williams Institute, conducts research in education, crime, health, housing, economic development, social capital, and urban revitalization. FCE is a small organization but has been successful in serving as a facilitator in empowering the community through its efforts and the contributions of its highly experienced employees and volunteers. The staff of FCE consists of eleven full-time employees with a five-person leadership team. This leadership team comprises of the President and Chief Executive Officer, Directors of Community Building, Education, Research, and Project Leader. With volunteers, part-time workers, loaned executives from corporations, and research associates, the number of workers at times increases to twenty-one. Eighty percent of FCE's workers are female

and the staff is primarily African-American. The diversity of the staff reflects south Dallas' primarily African-American community that FCE serves.

Employees are attracted to FCE because of its involvement in a variety of work such as community building, institutional change, research, and innovative work in web-based capacity building. Moreover, competitive salaries are another attraction. Recruitment of employees is usually through referrals. An interesting aspect of recruitment to FCE is getting the right fit of personnel to position. In fact, a potential employee at the executive level is not only interviewed by the board of directors but also by the community. The community plays a vital role in the recruitment of employees. The board and the community determine if the person is suitable for the position. This helps in finding the right fit, which results in a very low employee turnover. In addition, passion for the mission is considered very important.

Despite having a low employee turnover, FCE face challenges in recruiting and retaining employees. The recruitment challenge is because nonprofit organizations do not make enough efforts in marketing themselves as a viable employment opportunity. As a result, nonprofits face an image and exposure challenge that makes recruitment of professionals difficult. The retention challenge is because of the eminent exit of baby boomers and brain drain to other well-paying organizations. Realizing that recruitment and retention is a challenge, FCE has a very intensive succession planning process whereby the leaders and the board plan to continue with the work in spite of these challenges.

#### Case Study 2: Central Dallas Ministries (CDM)

Central Dallas Ministries (CDM) is a 501(c) (3) faith based nonprofit organization that tries to improve the lives of communities in Dallas and the surrounding areas through its food pantries, affordable housing, health clinics, legal services, technology center, educational

outreach, and foster care transition services. CDM began in 1988 with a food pantry for the poor and grew into a large community development organization with a network of overlapping programs originating from many different sites. Over the years, CDM has grown into a medium-sized nonprofit organization with a 100 employees. Seventy-five percent of the employees are female and the average employee tenure is two years with some employees being with CDM since its founding. Although a not-for-profit, CDM is managed like a for-profit because it has different departments catering to different aspects of the organization, but without the profit motive. For instance, CDM has a Human Resources department (HR), a Finance department, Development department and Information Technology department. In addition, each of the different programs has a manager and its own set of staff.

Commitment towards the organization is very high among those in the upper level positions, which is reflected in the low turnover rate in the executive level. A focus on the mission as well as on the job training and mentoring helps in keeping the employees motivated. In addition, monthly staff meetings with the CEO help in keeping the employees informed, and employees feel they are involved in the functioning of the organization. Passion for the cause is believed to be integral to working in such organizations. However, there is some turnover among the lower level positions. This is because these positions are not very well paid, and employees leave the organization when they get a better paying job. Even though the compensation is not as competitive, the benefits include a generous vacation package, matching 401K plan, and employee relations and appreciation activities.

CDM personnel include about 25 professional employees, administrative and program level staff, former clients as well as AARP members. Senior citizens are employed as greeters and support staff. CDM employs like-minded people who have compassion to serve other people

and make a difference in the lives of the truly needy people. In addition, they are not influenced by monetary incentives.

CDM advertises job opportunities through “Opportunity 501(c) (3),” a nonprofit management publication, and through word of mouth. The HR department screens an applicant’s qualifications for a position before setting up an interview with the concerned Department Director, who selects the person based on the interview. The board of directors is involved in the hiring of the executive management. The Chief Operations Officer along with the HR manager is responsible for recruiting for all other positions. The HR department formalizes policies, procedures, safety and risk-management process, and reviews the budget.

While diversity is prevalent in the line staff in CDM, the management is primarily Caucasian. Therefore, there has been a conscious effort in recent times to include more African-American and Hispanic leadership in the management. The programs also are determinants of the section of people it serves. As for instance, the clients of the Food pantry are primarily African-American because of which the staff of this program is African-American. On the other hand, the Health Clinic serves more Hispanics as most of them are undocumented immigrants and do not have access to Medicaid. Therefore, Hispanic and bilingual staff serves this community.

The HR challenges mentioned by CDM are recruitment of professional staff who does want to take a pay cut of almost 50 percent on joining a nonprofit, retention of line staff who leave the organization upon being offered a better paying job, and diversity in the upper management level. In addition, time required for recruiting employees varies, and professionals are the hardest to recruit in contrast to lower level less-skilled employees. This is because of the

monetary incentive. The professionals do not appreciate a salary cut whereas the lower level employees use the job opportunity to further their career goals.

### Findings and Discussion

In spite of being different in scope and size, this study found that FCE and CDM face similar HR challenges including recruitment, retention of employees in non-leadership positions, and workforce diversity. These challenges are in concert with those outlined by the literature. Turnover rate was higher among lower level workers than in the executive level. This brings up the issue of Public Service Motivation (PSM) theory among lower level workers. In addition, women workers dominated the workforce. Women were in more leadership positions in FCE compared to CDM. Yet, the leaders of these organizations are primarily Caucasian men.

A HR challenge mentioned was executive turnover and transition in nonprofit organizations because of near retirement age of baby boomers. Moreover, there is the additional concern of filling up these vacancies. Perry (2005) mentions the efforts of the government to formulate a national policy on aging. Proponents of this movement advocate for getting the baby boomers involved in nonprofit activities. The FCE interviewee stated that nonprofits have problems with attracting “new talent” because they rely heavily on referrals and word of the mouth to recruit prospective employees and do not make enough efforts to reach out to recent graduates and younger professionals. This method of recruiting employees is questionable because word of mouth advertising can attract needy workers but not necessarily workers whose interests would match those of the organization. Perceived low pay and an absence of opportunities for career growth further restrict the nonprofits from attracting talented workers. Broadening the pool of candidates, targeting the external labor market, and better use of technology to advertise vacancies could help the organizations to address and solve this problem.



Another challenge is the retention of the professional workforce. The main reasons of the turnover were frustration with the lack of resources and overworking. Moreover, small nonprofits cannot offer competitive salaries, which leads to employees leaving for better paying jobs. Students and recent graduates work with nonprofits to gain work experience that serve as a stepping-stone for future careers. This is consistent with the argument of Brown et al. (2004) that lower compensation drives employees away from nonprofits regardless of their organizational commitment and job satisfaction. Ballard (2005) suggested that educational debt of young employees entering nonprofit organizations contributes to a high turnover rate. Nearly seventy-five percent of nonprofit workforce entrants have educational debt, which is higher than for those in the private or public sector. Wage differentials between the nonprofit and the other sectors as well as these debts leads to a high turnover among young employees, who prefer to work in a better paying job to write-off their debts. In addition, the motivation to serve the public for a lower salary with minimal or no benefits can be daunting. Workers with a public service motivation would rather work for the public sector.

Consistent with the findings from the literature review, about eighty percent of the nonprofit personnel are women. Yet, lack of diversity in the workforce is mentioned in the literature as well as by CDM as another challenge in the leadership level. In order to have diversity, CDM collaborates with African-American and Hispanic associations to hire qualified candidates for leadership positions. Diversity should also include religion, nationality, and orientations. Further, right fit to position is mentioned as a necessary factor to retain workers. This is consistent with Mann's (2006) PSM model, Watson and Abzug's (2005) "People First" model that emphasizes fit and embeddedness, and Vigoda and Cohen's (2003) work congruence model. Passion for public service along with a desire to make a difference, and a willingness to

serve needy people is claimed by the findings as a requirement and determinant for those entering the nonprofit sector. Butler and Waldroop (1999) argue that the work matching life interests brings happiness and satisfaction, increases organizational commitment and loyalty, and prevents burnout and quitting. This is true but in smaller nonprofits, matching employee interests to a job involves resources that are scarce and sometimes unaffordable.

Compensation and benefits are found to be important and the organizations studied try to be competitive at least within the sector, and provide employees with generous benefits. Intrinsic rewards and regular staff meetings made workers feel empowered, engaged, involved, and appreciated. In addition to the attachment towards the organizational mission, public service motivation, and the passion to serve common goals, employees seek opportunities for professional growth and development. CDM tries to meet these needs by providing in-house training for their personnel, however, budget constraints restricts the management from offering tuition support or conference expenses.

### Conclusions and Implications

As postulated earlier, employee retention is the persistent HR challenge in nonprofits. Based on the PSM model and findings from this study, a conceptual model (see Appendix) of employee retention in nonprofits has been designed. This model identifies seven intrinsic and extrinsic factors that motivate employees to work in nonprofits in spite of lower compensation and over work. The intrinsic factors are mission attachment and personal motivators. The extrinsic are organizational support, satisfaction, communication, work environment, and rewards and appreciation. Organizational mission attracts people with similar views to the organization and retains them. However, a diversion from the original mission during the course of organizational development can lead to frustration and turnover. Personal motivators such as

passion to serve for social good as well as the sense of accomplishment from doing the job serves as a significant motivator in retaining personnel. Support from the organization can be in the form of empowering employees by involving them in decision-making. Providing job satisfaction, improved communication, and a positive work environment with appropriate rewards and appreciation can have a positive impact on employee retention.

HR managers need to take into account these factors while assessing periodically the satisfaction level of their employees. This model can be a good resource for keeping track of the intrinsic and extrinsic variables that help maintain interest and loyalty in an employee. This model, however, is not meant to be a “one-size-fits-all” approach to retaining employees. While being comprehensive, not all components of the model may be applicable to all situations. Alternatively, several parts of the model can be rearranged to fit to a specific situation. Moreover, although the model is based on extensive literature review, the empirical study is of a very limited sample size. This is a limitation of the current study but the basic components of the proposed conceptual model should hold true. A study of more nonprofits especially large ones might provide further insights.

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**APPENDIX**





