



جامعة سلطان زين العابدين  
**UNISZA**  
UNIVERSITI SULTAN ZAINAL ABIDIN

*Abstract Book*

# *i*CBM2019

INTERNATIONAL CONFERENCE ON BUSINESS MANAGEMENT  
18 - 19 DECEMBER 2019

*Organized by:*

FACULTY OF BUSINESS AND MANAGEMENT, UNISZA

*Co-organizers:*



جامعة السلطان الشريف علي الاسلاميه  
UNIVERSITI ISLAM SULTAN SHARIF ALI  
SULTAN SHARIF ALI ISLAMIC UNIVERSITY



UIN SUNAN AMPEL  
SURABAYA

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# INTERNATIONAL CONFERENCE ON BUSINESS MANAGEMENT (ICBM 2019)

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ISBN: 978-967-0899-77-0





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## PREFACE

International Conference on Business and Management 2019 (ICBM2019) with the theme of "Reforming Business Management Towards IR 4.0". The conference aims to bring together leading academicians, researchers, scholars and students to exchange and share their experiences and researches on all aspects of business and globalization. It provides a premier interdisciplinary platform for researchers, practitioners, educators, and students to present and deliberate the most recent findings, trends, and concerns as well as practical challenges encountered and solutions adopted in the fields of business and management.

ICBM2019 is proposed to be held at Universiti Sultan Zainal Abidin, Terengganu, Malaysia on 18 and 19 December 2019. The conference is to be hosted and organized by Faculty of Business and Management, Universiti Sultan Zainal Abidin, Terengganu, Malaysia. It is also jointly organized by Faculty of Islamic Economics and Finance, Universiti Islam Sultan Sharif Ali, (UNISSA), Brunei and Faculty of Economics and Business Islam (FEBI), The State Islamic University of Sunan Ampel Surabaya, Indonesia.

ICBM 2019 received 118 abstract from various universities across three countries (e.g., Malaysia, Indonesia, and Brunei). All abstracts received are from Business, Management, Marketing, Entrepreneurship, Finance, Islamic Finance and Accounting areas. The selected papers from this conference will be recommended for the publication in the Scopus journal as listed in the conference website, whereas all accepted abstract published in the conference proceeding with **ISBN: 978-967-0899-77-0**. These abstract also will be indexed in the following reputable databases such as Google Scholar, ResearchGate, Academia.edu, and Slideshare to increase the visibility of authors work.



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## Customer Loyalty to The Sharia Microfinance Institution in Indonesia

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### Abstract

Various studies have identified the correlates of customer loyalty including satisfaction, trust, commitment, involvement, perceived cost, and service quality. This paper aims to describe customer loyalty to the Sharia microfinance institution in Indonesia. The main question developed was whether the customers of this institution have similar drives in maintaining their loyalty in using its services. The study uses qualitative method with a phenomenological approach and descriptive analysis. Data were collected from a series of in-depth interviews and focus group discussions with the management and the customers of Bayt al Mal wa al Tamwil Maslahah (BMTM) Sidogiri Pasuruan Indonesia. The study found that customer loyalty to BMTM Sidogiri was characterized by a positive response to and the utilization of products. The positive attitude towards BMTM products was based on the motives of meeting daily needs, business development and the acceptance of sharia values in the form of blessing and economic justice when using the products. In addition, the customer loyalty to BMTM Sidogiri was driven by emotional connection among the alumni of Sidogiri *pesantren* even though there is no structural connection between BMTM and Sidogiri *pesantren*. In maintaining its customer loyalty, the BMTM Sidogiri attempts to bring its services closer to the community, opens BMTM branches in other cities and adds new counters to ease customer transaction services. This study suggests that the customer loyalty to the Islamic financial institution is determined by a combination of shariah values acceptance and the fulfilment of daily need as well as business development.

**Keywords:** customer loyalty, Indonesia, shariah microfinance institution



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### Abstract

Various studies have identified the correlates of customer loyalty, including satisfaction, trust, commitment, involvement, perceived cost, and service quality. This paper describes customer loyalty to the Sharia microfinance institution in Indonesia. The main question developed was whether the customers of this institution have similar drives in maintaining their commitment in using its services. The study uses a qualitative method with a phenomenological approach and descriptive analysis. Data were collected from interviews and focus group discussions with the management and the customers of Bayt al Mal wa al Tamwil Maslahah (BMTM) Sidogiri Pasuruan Indonesia. The study found that customer loyalty to BMTM Sidogiri was characterized by a positive response to and utilizing products. The positive attitude towards BMTM products was based on the motives of meeting daily needs, business development and accepting sharia values in the form of blessing and economic justice when using the products. In addition, the customer loyalty to BMTM Sidogiri was driven by emotional connection among the alumni of Sidogiri *pesantren* even though there is no structural connection between BMTM and Sidogiri *pesantren*. In maintaining customer loyalty, the BMTM Sidogiri attempts to bring its services closer to the community, opens BMTM branches in other cities and adds new counters to ease customer transaction services. This study suggests that a combination of shariah values acceptance and the fulfillment of daily needs and business development determines customer loyalty to the Islamic financial institution.

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### 1. Introduction

The Indonesian Minister of Finance states that Micro, Small and Medium Enterprises (MSMEs) play an important role in warding off economic storms due to their large contribution in creating jobs for the general public or identified with labor-intensive businesses (Ariyanti, 2016). Data from the Indonesian Ministry of Cooperatives and SMEs shows that in 2017 the number of MSMEs reached 62,922,617 business units (99.99%) and Large Enterprises (LE) of 5,460 business units (0.01%) (Depkop, 2019). Overall MSMEs absorb around 97% of the national workforce, while Large Enterprises only absorb around 3% of the total national workforce (Haryanti & Hidayah, 2018). Of these total MSMEs, around 8 percent have marketed their products through online





platforms in 2017 (Ayuwuragil, 2017).

This large number of MSMEs cannot be separated from the funding of Microfinance Institutions (MfIs), namely "financial institutions specifically established to provide business development services and community empowerment, whether through loans or financing in micro scale businesses to members and the public, savings management, or providing business development consulting services that are not solely for profit" (Gol, 2013). In addition, Islamic Microfinance Institutions (IMfIs) also play a role in MSME funding through Baitul Mal wa Tamwil (BMT). Both MfIs and IMfIs can be said to be one of the important pillars in the financial intermediation process needed by small and medium-sized communities both for consumption and production and for storing their business results.

IMfI-BMTs have developed very rapidly. Since its introduction in the 2000s, in 2015 there have been around 4,500 units with 16 trillion assets serving around 3.7 million people with managers of around 20 thousand people (Salama, 2018; WE Online, 2018). Three provinces have the most BMTs, sequentially are West Java 637 units; East Java 600 units; and Central Java 513 units (Sakti, 2013). This figure indicates the existence of greater community acceptance of the presence of IMfI-BMT as an alternative for meeting their financial needs.

Islamic Financial Institutions (IFIs) are non-banking institutions engaged in finance that not only sell goods in certain circumstances, but also sell services in other situations. A financial institution is a body or institution whose activities draw funds from the community and distribute it to the community, or in other words as an institution that provides financial services to the public (customers) (Kasmir, 2005). Unlike conventional banks, Islamic banks are banks that carry out their business activities based on sharia principles and by its type, consisting of Sharia Commercial Banks and Sharia People Financing Banks (Gol, 2008). Therefore, Islamic banking is the provider of sharia financial services needed by customers both in the form of savings and investment services and customer fund facilities in order to improve the standard of living of customers.

Islamic economics stands based on three main frameworks, namely religiosity, economic justice institutions, and the benefit of the people. Religiosity prevents a person from usury or interest in earning an economy. The concept of economic justice with the system of profit sharing and profit sharing becomes the main instrument in Islamic economics. The people benefit give birth to various concepts, including zakat as a form of social life, avoiding prohibited transactions, avoiding gambling. The framework of religiosity, economic justice and the concept of people benefits are very fundamental difference between Islamic economics and conventional economics.

The interest system in conventional economics is considered as a form of fairness so that capital can develop along with the global economy. The time value of money system makes the current value of money greater than the price of the same money in the future. The use of money must be assessed, so time must be taken into account in making a profit using money. Islam always rewards time, but that does not mean changing time as a cost that must be added to capital, but rather on economic activities carried out in utilizing time. The way for Muslims to respect time as a gift from Allah is to use the best possible time in order to produce something more useful, or increase the productivity and efficiency of doing things.

One important element of success in business management and is the artery that strengthens and makes a business healthy is capital. However, capital cannot be used as a measure to ascertain whether there are benefits in the future. Because humans cannot be certain of what will happen in the future, they must ensure that the benefits of the money used do not violate the provisions of religion. What happens in the future cannot be predicted at this time.



Because of future uncertainty, the use of the value of money can obtain various possibilities for profit, break even or loss. This uncertainty is one of the reasons why Islam forbids real usury. Empirically in interest, there is a potential for discrimination because interest contains injustice in the distribution of risk and profit between the two parties. Injustice is manifested when one party benefits and the other party is in uncertainty. The interest system will limit investment, and the interest applied too high will reduce investment, low interest will increase investment.

International research finds various reasons why someone prefers Islamic banking. Recent research in Bangladesh shows that religiosity is a determining factor in choosing an Islamic bank (Chowdhury, Saba, & Habib, 2019). Research in Pakistan found that customer service and strong bank-consumer relations influence the choice of Islamic banking as their financial backers (Mir, Iftikhar, Ahsan, & Naqvi, 2019). Studies in Malaysia found two important factors that influence the selection of Islamic banking, namely consumer knowledge and consumer satisfaction with Islamic banking services (Mariadas & Murthy, 2017). Research in Oman found two reasons why Muslims have Islamic financial institutions, namely knowledge of Islamic finance and personal characteristics (Al Balushi, 2019).

Research in Indonesia has found a variety of reasons why people use sharia (Islamic) banking or financial services. Mukhlis's research found that the main reason people use IMfi-BMT Central Java as economic transactions is because of the sharing system (Muhlis, 2011). Whereas Aini's (2015) study found that the level of margin had a positive and significant effect on the decision to make *murabaha* financing. Other research found that banking professionalism, security, service convenience and convenience are factors that encourage people to choose and not choose Islamic banks (Hermawan, 2013). Rinuastuti, et al. (2018) found a positive and significant relationship between religiosity and the decision to choose Islamic banking.

Adawiyah's research (2015) found seven reasons people choose Islamic banks, namely perception, process, appearance, price, people, social, and location. However, the strongest reason is a positive perception of Islamic banks. Mariyono (2013) analyzes four determinants of investing in sharia schemes, namely age, gender, and religion, finding that religion is the strongest factor. Waldelmi (2017) found three main factors that influence consumers choosing Islamic banking products, namely the characteristics of banks, profit sharing systems and service quality. Other research shows that perceptions and benefits significantly influence the decision to take *murabaha* financing (Albab, 2018).

Specific research relates to the reason people use BMT as a place to save produces a variety of factors. Arifah and Budi's research (2018) shows that knowledge and attitudes positively influence saving decisions in BMT; whereas trust has no effect. Whereas Saifudin's research (2018) shows that promotion, trust and religiosity have a positive and significant effect on people's interest in saving at Islamic banks. Similar is Iranati's research (2017) which found that religiosity, trust, knowledge, and location positively influence people's interest in saving at Islamic banks. Whereas Sari (2018) found brand equity and rational motives influenced people's interest in saving at Islamic banks.

Previous research has revealed many factors that influence people choosing to use Islamic banking or financial institutions. However, research is still rarely done regarding consumer loyalty to IMfi-BMT and how IMfi-BMT maintains consumer loyalty. This article presents the results of research on the background of consumer loyalty to IMfi-BMT and how the IMfi-BMT builds and maintains customer loyalty.



## 2. Method

The location of this research is the Islamic Microfinance Institution at Baitul Mal Watamwil (BMT) Masalahah (hereinafter abbreviated as IMfi-BMTM) in Sidogiri Pasuruan, East Java, Indonesia. The informants of this study were selected based on theoretical sampling techniques (Creswell, 2007). IMfi-BMTM customers, leaders and employees are figures who are assumed to have complete information related to the theme of this study and are therefore selected as informants. Various background informants will give different views because of differences in status in IMfi-BMTM. Informants involved in this study were 111 consumers (29 alumni and 82 non-alumni) IMfi-BMTM.

Interviews with semi-structured interfaces are used as data collection techniques and this is considered an appropriate approach and is used in qualitative research (Creswell, 2009). With this approach, it is possible to obtain complex information, which mostly contains opinions, attitudes, and personal experiences. The interview guide was created to direct the focus of the interview, containing global questions about the reasons why consumers remain loyal to IMfi-BMTM and how IMfi-BMTM leaders strive to maintain customer loyalty. Generally, interviews are conducted during 1-1.5-hour sessions and this is in accordance with the general practice of qualitative research using the interview method (Seidman, 2019). All interviews are recorded to help in the analysis process. The interviews were interpreted using a thematic framework, that is, the conversational data were analyzed for recurrent themes and the relationships between these themes, which are brought together into categories based on their similarities (Ritchie & Lewis, 2003). For ethical reasons, in this article, all references to the names of participants were eliminated. Data relating to IMfi-BMTM was collected through document review techniques (Bretschneider, Cirilli, Jones, & Lynch, 2017). Documents reviewed were printed and electronic and include agency reports, minutes of meetings, customer records, and institutions.

## 3. Result and Discussion

### *Site Background*

BMT Masalahah Cooperative (BMTM) located in Sidogiri Pasuruan, East Java, Indonesia has been established for 20 years, operating under Law number 17 of 2012 concerning Indonesian Cooperatives. The main mission of the establishment of BMTM is to address the *ribawi* economic practices in the community and to provide welfare for its members. Originally, the BMTM cooperative consisted of only 348 people consisting of teachers and leaders and administrators of the Miftahul Ulum Madrasah of the Sidogiri Islamic Boarding School. The capital used for the business was obtained from the members' savings amounting to IDR13,500,000.

The development of the number of members and assets of BMTM is very rapid. In 2013 BMTM consisted of 2,999 people with total assets of IDR271,569,523,981.31. In the following four years, 2017, BMTM had 5,065 members (up by 68.9%) with assets of IDR538,431,261,944.51 (up 98.3%). In addition, BMTM also has fixed assets in the form of land, buildings, vehicles and office inventory.

The main business of this cooperative stems from savings and loans for members, and then reaches a variety of halal business fields. The variety or types of businesses and services run by BMTM are also growing. Savings businesses include general sharia savings, *wadiah* savings, *aqiqah* / *qurban* savings, hajj savings, pilgrimage / travel savings, *walimah* savings, educational /



institutional savings, and term deposits. Financing and loans include *mudarabah* (profit sharing), *musharakah* (inclusion), *murabahah* (buying and selling), *al qard al-hasan* (*virtue*), *rahn* (pawn), *ijarah* (rent), and pilgrimage bailout. Included in services are PPOB (Payment Point Online Banking), transfer of students, hajj arrangements, other management services, and ticketing. Other businesses are the management of zakat, *infaq*, and *shadaqah*.

Now BMTM has 96 Service Offices (94 Sub-Branch Offices and 2 Cash Offices). The total management (management and employees) reaches approximately 650 people. BMTM employees undergo professional training in their area of work with trainers from professional financial institutions.

BMTM collects funds from members and prospective members or the community with a *wadi'ah* or *mudharabah* / *qiradh* or *qard* agreement. Whereas lending or financing uses one of five types of contracts, namely *mudharabah* / *qiradh*, *musyarakah* / *syirkah*, *murabahah*, *bai' bitsaman ajil* and *qard hasan*. BMTM applies *mu'amalah* sharia pattern, i.e. not using interest rewards, but using profit sharing rewards for *mudharabah* and *musharakah* or profit rewards for *Murabahah* and *Bai' Bitsamanil Ajil*. *Qard Hasan* is usually used for activities that are social (non-profit).

### **Consumer loyalty**

The results of the interview found several aspects and dimensions related to BMTM consumers. BMTM consumers in the form of savings or loans generally last more than 5 years, some even up to 22 years.

*First*, product information and credibility of information provision. The informant expressed his confidence in information about BMTM products because the ones providing the information were alumni friends, coworkers, family and or relatives, and neighbors. These sources of information are felt to be stronger in encouraging consumers, both alumni and the public, to use BMTM products. The role of Sidogiri pesantren leaders and teachers in influencing the use of BMTM seems to be less strong. In fact, 74% of BMTM consumers from non-alumni circles and 26% from alumni indicated that leaders and teachers did not require alumni to use BMTM products. The process of product recognition by credible sources contributes to consumers' understanding of the product as well as the organizing agency.

*Second*, the decision to use. Owning an understanding of information about the product does not always make consumers use the product. Informants provide specific reasons related to the use of BMTM products, which can be categorized into three dimensions, namely the dimensions of value, operational technical dimensions, and dimensions of specific needs. The dimension of values is related to sharia principles applied by BMTM. The informant believes that the value of religion must be actualized in the form of the use of financial products and the selection of financial institutions that are based on sharia principles. Included in the dimensions of the value of efforts to contribute to the strength of alumni ties and strengthen goodwill among alumni. The operational technical dimension is related to service products provided by BMTM, including no deductions for administration, ease of access, and distance of the house from BMTM. Consumers assume that BMTM is a service institution that provides enough convenience compared to other financial services. The dimensions of specific needs is related to meeting the needs of daily life and this is the main reason. Storing and obtaining profit sharing, increasing business capital, and other forms of special needs such as education and worship activities respond to the fulfillment of future life needs.



*Third*, consumer loyalty. The informants stated several indicators related to loyalty, namely the implementation of the sharia system, inviting others, and high satisfaction. The majority of informants stressed that the sharia values practiced in BMTM made them reluctant to move to other conventional financial institutions. This fact is supported by several previous studies that Muslims pay close attention to aspects of sharia before deciding to buy an item or use a service (Ashraf Ali, 2016). Even shopping orientation factors, such as quality awareness, impulsive shopping, and price awareness are strongly related to a person's diversity (Mokhlis, 2006). In addition, the study found that one's religiosity is an important factor in shaping shopping behavior for Muslims (Shah Alam, Mohd, & Hisham, 2011). In Muslim countries such as Indonesia, doing business or selling goods and services with sharia characteristics is an advantage in itself because most consumers are also Muslim and care about sharia aspects. Owning the same ideology and values as the BMTM business makes consumers loyal in utilizing BMTM products.

The majority of informants also tried to invite friends, relatives, and families to use BMTM products. This indicates that consumers have benefited from and believed in BMTM products, so high that they want others to use them too. Literature study found 6 main factors that have a positive influence on customer loyalty, namely customer satisfaction, service quality, trust, values, comfort, and technology (Al-Maamari & Abdulrab, 2017). Consumer confidence in a product can influence them to buy products that are trusted continuously. In addition, when someone has high trust in a product, it is very likely he will invite others to buy the item. Recommending an item to someone else indicates trust in that item (Todd, 2007).

The majority of informants from consumers are satisfied with BMTM products and services so that they still want to use it and will not even think of moving to other products. Customer satisfaction is an important factor in making it loyal to goods or services (Al-Maamari & Abdulrab, 2017; Chiguvi & Guruwo, 2015; Kuusik, 2007). Even the consumers loyalty to a brand does not guarantee they will repeat buying if they do not feel satisfied with goods that have been purchased previously (Saif, Ahmed, Shareef, & Khalid, 2018). Consumer loyalty is also shown by the length of use of BMTM products and services, for example up to 22 years.

### ***Strategy to Maintain Loyalty***

Informants from BMTM management stated seven main strategies that need to be implemented to maintain consumer loyalty.

*First*, it provides convenience in making transactions easily, safely, quickly and precisely. BMTM makes the transaction system as easy as possible and as simple as possible so that consumers feel safe and comfortable, by providing an acceptable payment instrument, and adding payment counters in sufficient quantities so that consumers in making transactions do not need to queue for long. A fast, safe and precise transaction system can help increase customer loyalty. E-banking is a service model that does not need to make people queue when conducting financial transactions, and it turns out the use of e-banking has a positive effect on consumer loyalty (Al-Hawary & Hussien, 2016; Konalingam, Ratnam, Sivapalan, & Naveen, 2017). It has become a trend of service systems to get closer to consumers, for example driving license services and motor vehicle tax extensions.

*Second*, offer interesting products or services. BMTM management offers products or services that are interesting or limited edition to loyal customers first and then offered to consumers in general. Consumers who get attractive offers will feel more important so that they will also be more concerned with the company. *Third*, follow up after the transaction with BMTM. After



the completion of a transaction, the BMTM does not stop communicating with that person and keeps asking about how the product or service they feel. *Fourth*, mutual benefits. Sidogiri BMTM is not solely oriented to seeking profit for the company, but also provides benefits for consumers. If both parties feel the profit, the possibility of a consumer to leave the company is less. Both companies and consumers feel they need each other and will be loyal to each other.

*Fifth*, gift giving. BMTM Sidogiri always gives prizes to loyal customers who put their funds ranging from 1 year to 3 years and 4 years and above with a gift giving model that varies enough depending on the length of time they put funds in BMTM. Giving a gift will not harm BMTM because consumer satisfaction will be maintained then consumer loyalty is higher and consumers continue to grow. Several studies have found a positive relationship between gift giving and consumer loyalty. For example, Keh and Lee (2006) and Waari, Bonuke, & Kosgei (2018) found that gifts increase consumers loyalty even though they are full of satisfaction with goods and or services purchased. Similarly, gift giving can increase loyalty even if it needs to be planned and implemented as a broader loyalty management strategy (O'Brien & Jones, 1995).

*Sixth*, good attention to consumers. BMTM Sidogiri continually gives attention to consumers. BMTM always asks consumers what products and services they need and what they want. Starting with that question, BMTM will get important information to get the hearts of consumers. Consumer involvement, namely repeated interactions that strengthen emotional, psychological, and physical bonds between consumers, between consumers and companies, and between consumers and brands can increase consumer loyalty (Greve, 2014). Likewise, loyalty to services can be strengthened by consumer involvement, in addition through experience in using services (So, King, Sparks, & Wang, 2016).

*Seventh*, employee performance. Sidogiri BMTM provides training to employees on a periodic basis, so that employees provide excellent service to consumers because employees reflect the company's brand. Research in Fasmasi indicates that work performance has a positive effect on consumer loyalty (Rabbanee, Burford, & Ramaseshan, 2015).

Several approaches taken by BMTM to retain customers are in line with what Griffin (2002) has formulated, namely building three important barriers so that customers do not turn to competitors. Physical barriers include providing physical services that can provide benefit to customers. Psychological barriers are done by creating perceptions in customers' minds so that they depend on the company's products or services. Economic constraints include providing incentives for customers who are economically profitable, for example by giving discounts or discounts.

#### 4. Conclusion

Consumer loyalty needs to be maintained in business, because consumers are the parties who determine the profit and loss of a company. Although Sharia Micro Finance Institutions (IMfIs) such as Bayt al Mal wa al Tamwil (BMT) are not entirely institutions that pursue financial gain, customer loyalty still needs to be maintained. BMT Maslahah (BMTM) in Sidogiri Pasuruan is an Islamic financial institution that was initially engaged in savings and loans for members, then covered a variety of halal business fields, such as hajj management and management of zakat, infaq, and shadaqah.



Consumers in BMTM can be said to be loyal to the financial services provided, and this is demonstrated in their efforts to invite others to use BMTM services, long-term membership, and no intention to turn to other conventional financial institutions. Some of the specific reasons they have remained using BMTM products are because of the ease of the loan process, low interest costs, no savings fee, BMTM readiness in meeting their needs, and the application of the sharia system. In general, BMTM consumers have high satisfaction with the services offered.

Some of the strategies implemented by BMTM in maintaining customer loyalty are providing convenience in transactions, attractive product offerings, post-transaction attention, engaging consumers, giving gifts, and improving employee performance.

Besides the general factors related to consumer loyalty, such as affordable prices, good places, and good services, it appears that customer loyalty to services is closely related to the ideology adopted by service providers and consumers. Therefore, running a business needs to pay attention to aspects of consumer socio-religiosity around it, especially for business sectors that are still concerned with direct interaction between consumers and services.

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