

# CORPORATE HYPOCRISY, CORPORATE ENVIRONMENTAL ACCOUNTABILITY, AND REPUTATION: CASE OF NIGER DELTA REGION

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## **Abstract**

*Corporate environmental accountability refers to the company environmental commitment, whereby the company fully embraces sustainability and has a net positive impact on environment and society. All companies report having some sorts of environmental support programmes, yet, there remain activities highlighting the hypocrisy of some corporations, thereby, affecting their reputation. This study tends to look at the mediating effect of corporate environmental accountability on the relationship between corporate hypocrisy and reputation of oil companies in Niger Delta Region of Nigeria. Questionnaire was used to collect data from 250 respondents in Asaba, Delta State, 200 copies of questionnaire were correctly filled, returned and used for the analysis. PROCESS Macro was used to analyze the data with the aid of SPSS. The results indicate that corporate environmental accountability mediates the relationship between corporate hypocrisy and reputation. Thus, corporate environmental accountability can be used to mitigate the effect of hypocrisy on reputation. The study suggests that companies should be transparent and honest in their corporate environmental accountability initiatives as it can be used as a tactics to improve reputation with the public.*

**Keywords:** Environmental Accountability, E – Philanthropy, Community Involvement, Customer Wellbeing, Corporate Hypocrisy

## **1.0 Introduction**

One of the major challenges of most corporations is how to achieve integrity and trust from its stakeholders. Companies should be held accountable for the impact their activities have on the environment. With increasing awareness on environmental issues and the magnitude of costs associated with it, it has become imperative for companies to integrate environmental efforts into their business strategy. There is a growing awareness among organizations on conservation and optimum utilization of natural resources to gain competitive advantage (Hart, 1995). In this regard, a growing body of environmental management literature suggests that firms can gain sustainable competitive advantages such as corporate reputation by reducing the adverse impacts of their operations on the natural environment (Clarkson, Li, Gordon & Vasvari, 2011). Environmental accountability is now accepted as a norm for sustainable organizations. Hansen and Mowen, (2007) argue that successful treatment of environmental concerns is becoming a significant competitive issue and meeting sound business objectives and resolving environmental concerns are not mutually exclusive.

All companies report having some sorts of environmental support programs, yet there remain activities highlighting the hypocrisy of some corporations. For examples, many oil companies in Niger Delta region claim to

be environmental friendly (Enuoh & Eneh, 2015), but their claims cannot be accepted, because their operations still create environmental damages, such as oil spillage, exploitation and pollution.

Moreover, studies on the mediating effect of corporate environmental accountability on corporate hypocrisy and reputation have recorded inconclusive reportage. While Van-Esch (2017); Prentice & Handsjuk (2016); Ewing & Boudette (2017) assert that corporate environmental accountability mediates the relationship between corporate hypocrisy and reputation, Cheung, Jiang & Tan (2013); Lin, (2015) argue that corporate environmental accountability does not mediate the relationship between corporate hypocrisy and reputation. Thus, the aim of this research is to investigate the mediating effect of corporate environmental accountability on the relationship between corporate hypocrisy and reputation of oil companies in Niger Delta region.

## **2.1 Corporate Environmental Accounting**

Corporate environmentalism manifests as part of corporate social responsibility (CSR) project of an organization. Corporate environmental accountability or responsibility as defined by Jamison, Reynolds, Holroyd, Veldman & Tremblett (2005) takes into account environmental commitment, whereby the company fully embraces sustainability and has a net positive impact on environment and society. Lyon & Maxwell (2008) define corporate environmental accountability as environmentally friendly actions not required by law, also referred to as going beyond compliance, the private provision of public goods or voluntarily internalizing externalities. It can be described as precautions and policies organizations adopt to reduce and prevent hazards to environment (Kusku, 2007) along with stakeholders' participation to induce transparency (Sumita & Niraj, 2012). It makes lot of sense for companies to be

environmentally responsible because of its multifarious tangible and intangible benefits (Hansen & Mowen, 2007).

### **2.1.1 Barriers to Corporate Environmental Accountability**

Barriers in corporate environmental accountability can be categorized as institutional and cognitive (Hoffman, Riley, Troast & Bazerman, 2002). Both individual cognition and societal institutions act by force or habit, creating resistance to change and a rejection of new forms of policy and growth indicators. They present psychological and cultural constraints, which alter individual and organizational perspectives on issues such as pollution control and endangered species protection (Hoffman et al., 2002).

Institutionally, the mechanisms within the organization, such as established reward and incentives systems, misaligned reward systems can lead individual managers toward fulfilling immediate personal goals that diverge from broader long-range goals of the sustainable organization (Kerr, 1995). A change in corporate communication and networking within institutions helps in accepting patterns of green production and consumption (Setthasakko, 2009).

Cognitively, economic gains rule over ecological concerns and investing in new technologies is ruled out for short-term economic gains. Environmentally responsible strategies involve direct day-to-day costs and risks and uncertainties associated with new technologies (Wu, 2009). Cognitive barriers often lead to mistrust, as each competing interest believes its own views and lacks the ability to find creative traits (Hoffman et al., 2002). Cultural diversity in institutions is one of the major barriers to operational success and a change in corporate culture from one that focuses on an economic driven goal to one that integrates ecological concerns into business plans and practices (Harris & Crane, 2002).

Empirical study by Setthasakko (2009) in the fishing industry in Thailand shows that human behavior and corporate culture are the root causes of barriers to the creation and implementation of green change in organizations. They state three primary barriers to corporate environmental accountability, namely, lack of system perspective, short-term objective, and absence of management commitments.

Developing countries face additional barriers to compliance in form of corruption, loose enforcement and monitoring, lack of punitive and deterrent mechanism in case of non-compliance and fines are just treated as cost of doing business. Scarce inspections, corrupt officials and lenient courts aid the process of non-compliance (Dasgupta, Wang & Wheeler, 1997). Sumita & Niraj (2012) opine that the benefits of corporate environmental accountability need to be communicated widely to clear some of the myths vis-à-vis barriers to corporate environmental accountability.

### **2.1.2 Benefits of Corporate Environmental Accountability**

There are two sets of advantages obtained from environmental strategies (Azzone & Manzini, 1994). These are internal advantages (which are a consequence of costs savings derived from a more efficient use of natural resources, reduction of fines for pollution or harmful activities to the environment and sanctions for actions against environmental laws) and external advantages (marketing benefits derived from a company's improved image and therefore, its social legitimation).

Many authors (Hart & Ahuja, 1996; Russo & Fouts, 1997; Margolis & Walsh, 2001) evaluated the relationship between changes in environmental performance and changes in financial performance using different methodologies and concluded that environmental performance is positively related to financial performance. Moreover,

proactive corporate environmental strategies or a pattern of environmental practices that went beyond compliance with environmental regulations were found to be associated with improved financial performance (Judge & Douglas, 1998; Klassen & McLaughlin, 1996). Klassen & McLaughlin (1996) found a positive relationship between the environmental awards won by firms and their stock prices. Christmann (2000) shows that complementary process capabilities contributed to cost advantage when a firm implemented best practices for environmental management. Triebswetter & Hitchen (2005) examine, through three case studies, whether German industrial plants suffered from a negative impact on competitiveness caused by the stringent environmental legislations. The results encouragingly indicate that the pollution abatement initiatives had been implemented without obviously economic damages.

Studies on external benefits show that first movers, in going beyond environmental regulatory compliance, created entry barriers that favors industry incumbents (Dean and Brown, 1995) and also provided them with sources of competitive advantage in international markets (Nehrt, 1998). Claver, Lopez, Molina & Tari (2007) found a positive relationship between environmental strategy and competitive advantage and economic performance in a case study of farming cooperative. Stafford (2007) investigated whether self-policing reduced future enforcement activity and found that facilities that self-police were rewarded with a lower probability of inspection in the future.

## **2.2 Corporate Hypocrisy**

Corporate hypocrisy is the belief that a firm claims to be something that it is not (Wagner, Lutz & Weitz, 2009). It arises when a company's actual performance differs from its claims (Janney & Gove, 2011). It also refers to a lack of sincerity in a corporation's motives (Yoon, Gurhan-

Canil & Schwartz, 2006). The direct effect of a bad reputation increases suspicion level towards a corporate environmental message and when there is a gap between assertion and performance, customers may perceive the corporation as hypocritical (Bae & Cameron, 2006). Thus, hypocrisy is attributed to both corporations and brands when consumers believe they claim to be something that they are not (Aaker, 1997). People perceive the hypocritical characteristics of another in the same way as their distinct characteristics and they are not only experience a feeling of betrayal, but also try to avoid the person (Wagner et al, 2009).

Although prior hypocrisy research has focused on individuals (Wagner et al, 2009), social psychological research suggests that it is appropriate to examine perceptions of organizations and coherent groups for dispositional qualities or characteristics that are commonly associated with perceptions of individuals (Hamilton & Sherman, 1996). For example, the research stream on brand personality in the marketing literature views brands including both specific products and firms as a whole in terms of distinct human characteristic (Aaker, 1997). Such a perspective has also been accepted by and proved to be useful for contemporary marketing management (Ogilvy, 1983). Thus, organizations, like people, may be perceived as demonstrating hypocrisy when inconsistent information about their own statements and observed behavior emerge (Wagner et.al 2009)

In a CSR context, corporate hypocrisy refers to consumer' ethical judgment of an organization's prosocial and philanthropic endeavors (Shim & Yang, 2016); in relation to the belief that a firm claims to be something that it is not (Wagner et al, 2009). Corporate hypocrisy can negatively influence consumer attitudes toward an organization, which ultimately leads to feelings of betrayal and avoidance because the hypocritical characteristics of the

organization nullify the distinct characteristics of the organization (Wagner et al, 2009).

### **2.2.1 Corporate Hypocrisy and Corporate Environmental Accountability**

When a company has a bad reputation, the direct effect of it increases suspicion level towards that company corporate environmental activities and when there is a gap between expectations and performance, customers (stakeholders) may perceive the corporation as hypocritical (Bae & Cameron, 2006). Thus, hypocrisy is attributed to a company when stakeholders believe they claim to be something that they are not (Aaker, 1997). As such we propose the following hypothesis:

**H1:** There is a negative relationship between corporate hypocrisy and corporate environmental responsibility.

### **2.3 Corporate Reputation**

Corporate reputation affects the way in which various stakeholders behave towards an organization; it also influences for example, employee retention, customer satisfaction and customer loyalty. Not surprisingly, CEOs see corporate reputation as a valuable intangible asset (Institute of Directors, 1999). It is an amalgamation of all expectations, perceptions and opinions of an organization developed over time by customers, employees, suppliers, investors and the public at large in relation to the organization's qualities, characteristics and behavior, based on personal experience, hearsay or organization's observes past actions (Bennett & Kottasz, 2000). Corporate reputation refers to a stakeholder's evaluation of a company, which is based on the everyday impressions consumers have of the company (Gotsi & Wilson, 2001). It involves an assessment of the company's success in performing social responsibilities as well as the company's economic performance (Etzioni, 1998 in Kim, Hur & Yeo, 2015). Corporate

reputation is a valuable intangible asset for the company and plays a role as one of the company's key characteristics (Melo & Garrido-Morgado, 2012; Branco & Rodrigues, 2006). Moreover, a strong corporate reputation helps prevent negative consumer perceptions of information (Lange, Lee & Dai, 2011). Therefore companies often use corporate environmental accountability activities to improve their corporate image and establish a good reputation (Jones, 2005; Porter & Kramer, 2006).

### **2.3.1 Key Elements of Corporate Reputation**

The elements of corporate reputation used in the literature are; corporate identification and corporate image. The definition of reputation used by individual authors is dependent on how these other key elements, corporate identity and corporate image are defined (Chun, 2005). These elements were briefly defined below:

#### **2.3.1.1 Corporate Image**

Corporate reputation is often used synonymously with image, and this can lead to confusion (Markwick & Fill, 1997). In the marketing literature, the terms image and reputation are used interchangeably without making clear any relationship between what can be usefully seen as two distinct concepts (Chun, 2005). Early research into corporate image focused on retail store image and corporate (brand) image in the marketing discipline.

Bromley, (1993); Davies & Mills (1998) define image in the context of reputation as a summary of the impressions or perceptions held by external stakeholders. Within this definition, a self is considered from the position of the other (Hatch & Schitz, 2000). Among external stakeholders, the main focus is on consumers, so that image is defined not as what company believes, but what customers believe or feel about the company from their experiences and observations.

#### **2.3.1.2 Corporate Identity**

Corporate identity refers to visual cues such as name, logo and symbols (Bernstein, 1984), or the strategic cues of identity such as vision, mission and philosophy, which are conceptualized as part of the strategic process linking corporate strategy to company image and reputation (Dowling, 1994; Selame & Selame, 1988). Several authors point out there is a danger of seeing corporate identity mainly as the company logo (Kings, 1973). More recently, researchers have increasingly acknowledged that corporate identity should reflect the unique characteristics of corporate personality rooted in the behavior of the organization and should reflect how employees identify themselves with the company (Staurt, 2002; Shamma, 2012). This supports the claim (Chun, 2001) that the most notable trend in the subject of corporate identity is in the emphasis of the role of employees and the interplay between internal and external perception of an organization (Chun, 2001).

### **2.4 Corporate Environmental Accountability and Corporate Reputation**

In order to survive in the intense competitive global market, it becomes essential that each company put its efforts in differentiating itself from other competitors for easy identification by the customers and other stakeholders. Investing in a strong reputation is good opportunity for gaining competitive advantage and more and more companies adopt diverse strategies to build it based on corporate environmental accountability.

Even though it is not new, there isn't still a consensus on the aggregation of the two concepts. Some industry survey came with the preliminary evidence on the topic, enhancing that corporate environmental accountability may induce consumer goodwill towards the organization. It was expressed that consumers are willing to support corporate environmental accountability business but it was not clear

which organizations' social behaviors are contributing for that customers' performance (Maignan, 2001). The assumption that customers are willing to support actively good corporate citizens highly contributing to the enthusiasm about the corporate environmental accountability subject (Maignan & Ferrell, 2003).

Along the literature, there were various authors defending that corporate environmental accountability which is a domain of corporate social responsibility influences reputation (Siltaoja, 2006) besides helping businesses to build up credibility and trust (Habisch, Jonker, Wegner & Schmidpeter, 2005). CSR also contributes to a reputation which consumers and investors can identify with, based on the assumption of value priorities (Siltaoja, 2006). Thus, one could conclude that corporate environmental accountability as a dimension of CSR is a precedent of corporate reputation. Also, it precedes reliability, which contributes to corporate reputation and therefore, being a driving force to reputation and trust (Filho, Brito, Gosling & Souki, 2009). Thus, we hypothesize:

**H2:** There is a positive relationship between Corporate Environmental Accountability and corporate reputation.

## **2.5 Corporate Hypocrisy and Reputation**

Wagner, Lutz and Weitz (2009) suggest that CSR (which include environmental accountability) behavior are often contradictory to an organization's stated standards of social responsibility and, when such standards precede conflicting observed behavior, this leads to increased levels of perceived hypocrisy. When customers believed that the motives that drive an organization's corporate environmental accountability actions are for selfish interest, they negatively affect consumer perceptions of corporate environmental

accountability (Homburg, Stierl & Bornemann, 2013). For example, when oil companies in Niger Delta region published that they spend money on cleaning the environment, yet, there still evidence of oil spillage and exploitations. Torres, Bijmolt, Tribo & Verhoef (2012) opine that corporate environmental accountability activities that are split by visible (e.g., directed at customers) and credible (e.g., directed at community) orientations may have negative effects, causing a persuasive perception that the organization's corporate environmental accountability motives are self-benefiting. This will affect the reputation of the organization. Hence we hypothesize:

**H3:** There is a negative relationship between corporate hypocrisy and corporate reputation.

## **2.6 Mediating Variable (Corporate Environmental Accountability)**

Organizations are always interested on how consumers and their stakeholders react to their CSR activities, especially when it involves environment. Perceiving a company of being hypocritical creates bad reputation for the company. This affects the position of the company in the mind of the customers. To remedy this, companies have engaged in many strategies such as corporate environmental accountability. Despite such efforts, it remains unclear if corporate environmental accountability can be used to mitigate the effect of hypocrisy on reputation. As a result of this, we hypothesis:

**H4:** Corporate environmental responsibility mediates the relationship between corporate hypocrisy and reputation.

## **3.0 Methodology**

We employed survey design in this study, which was conducted in Asaba, Delta State. The data were collected with structured questionnaire and each of the three variables

used was measured with items scale adapted from previous studies; for corporate environmental accountability, four items scale were adapted from Mohr & Webb (2005). Three items scale for measuring corporate reputation were adapted from Brown (1995) and Ganesan (1994) and three items scale for measuring corporate hypocrisy were adapted from Wagner et al. (2009). These measures were assessed using five point Likert scale with anchor ranging from 1 (strongly disagree) to 5 (Strongly agree). The population of the study comprises of all the citizens living in Asaba that are up to 18years to 60years. The sample of 250 respondents was determined using mean or average value method. The sampling procedure adopted was quota sampling method and this sampling method was chosen to allow for the selection of respondents from the different gender, educational background and age in the sample. Out of 250 copies of questionnaire distributed, 200 copies were correctly filled, returned and certified usable. This represents a response rate of 80 percent and it is considered for a study of this nature. The reliability of the instrument was checked via Cronbach's Alpha reliability statistics. Table 1 below shows that a value of 0.73 was obtained for Cronbach's Alpha, thus, yielding a high internal reliability.

**Table 1: Cronbach's Alpha Reliability Statistics (Output)**

Reliability Statistics		
Cronbach's Alpha <sup>a</sup>	Cronbach's Alpha Based on Standardized Items <sup>a</sup>	N of Items
.730	.730	10

#### 4.0 Result of Hypotheses Testing

Hypotheses were tested via the macro PROCESS with the aid of SPSS version 23. The rule of thumb for determining whether to accept or reject the null hypothesis; for direct effect, if the path coefficient is statistically different from zero and p-value less than 0.05, the null hypothesis will be rejected (Hayes, 2013). For indirect effects, if the null of zero falls between the lower and upper bound of the 95% confidence interval, then the inference is that the indirect effect is zero, then, the null hypothesis will be accepted, but if zero falls outside the confidence interval, then the indirect effect is inferred to be non-zero, then the null hypothesis will be rejected (Hayes, 2013). Table 2, shows the result of direct effect hypothesis testing for corporate hypocrisy and corporate environmental accountability, the path coefficient is -.2480, standard error of .0245 and p-value of .0000. Thus, the hypothesis was supported. The result of hypothesis testing for direct effect of corporate environmental accountability and corporate reputation was shown in table 3. The path coefficient is .2865, standard error .0243 and p-value .0000. Hence, our hypothesis was supported. Table 4 shows result of hypothesis testing for the direct effect of corporate hypocrisy and corporate reputation, the path coefficient is -.3055, standard error is .0197 and p-value is .0000. Table 5 shows the result of the indirect effect of corporate hypocrisy on reputation via corporate environmental accountability. This has the point estimate effect of .6410, BootSE of .0118, BottLLCI of .0487 and BootULCI of .0944. Thus, the hypothesis was supported, showing that 64.1% of effects of corporate hypocrisy on reputation are accounted by corporate environmental accountability.

**Table 2: Relationship between Corporate Hypocrisy and Corporate Environmental Accountability**

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OUTCOME VARIABLE:

COREVA

Model

	coeff	se	t	p	LLCI	ULCI
constant	4.6601	.0510	91.4174	.0000	4.5601	4.7602
CORHYP	-.2480	.0245	-10.1025	.0000	-.2961	-.1998

**Table 3: Relationship between Corporate Environmental Accountability and Corporate Reputation**

OUTCOME VARIABLE:

COREP

Model

	coeff	se	t	p	LLCI	ULCI
constant	5.4950	.1199	45.8265	.0000	5.2597	5.7303
COREVA	.2865	.0243	11.7758	.0000	.3342	.2387

**Table 4: Relationship between Corporate Hypocrisy and Corporate Reputation**

OUTCOME VARIABLE:

COREP

Model

	coeff	se	t	p	LLCI	ULCI
constant	5.4950	.1199	45.8265	.0000	5.2597	5.7303
CORHYP	-.3055	.0197	-2.764	.0000	-.0442	.0333

**Table 5: Indirect Effect of Corporate Hypocrisy on Reputation.**

Indirect effect(s) of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
COREVA	.6410	.0118	.0487	.0944

**5 Discussion and Implications**

The aim of this study is to assess the mediating effect of corporate environmental accountability on the relationship between corporate hypocrisy and reputation in Asaba, Delta State. It was based on a sample of 250 respondents, out of which 200 responded. The study aims to find out if the

IV (corporate hypocrisy) influences corporate reputation and how. That is whether corporate environmental accountability mediates the relationship between corporate hypocrisy and corporate reputation. The data collected were analyzed using PROCESS Macro with the aid of SPSS version 23. The analyses show that

corporate hypocrisy has negative influence on corporate environmental accountability and reputation. Corporate environmental accountability has positive influence on reputation and corporate environmental accountability mediates the relationship between corporate hypocrisy and corporate reputation. These findings well agree with previous researches Van-Esch (2017); Prentice & Handsjuk (2016); Ewing & Boudette (2017) referenced earlier. There are three ways to test mediation: the causal method, the iterative method and the bootstrapping method. The mediation analysis in this work was based on bootstrapping and was based on the guidelines of Hayes (2013). Our analyses based on 5000 bootstrap resample, show that the IV has statistically significant indirect effect on the DV. The indirect effect size for the IV on DV is .6410, indicating that corporate environmental accountability fully mediates the relationship between corporate hypocrisy and corporate reputation.

The study has theoretical and managerial implications. Theoretically, the study establishes a critical linkage between corporate hypocrisy and corporate reputation by adding corporate environmental accountability as a key mediator. This enables both marketing practitioners and researchers to predict the outcome of corporate environmental accountability initiatives as it mediates the relationship between corporate hypocrisy and reputation. Also, the study demonstrates that the relationship between corporate hypocrisy and reputation is fully mediated by corporate environmental accountability. Wagner et al. show that corporate hypocrisy has positively influence corporate environmental accountability. However, this study has contradicted it and also confirmed that the reverse relationship is also significant.

The results also reveal that corporate environmental accountability mediates the relationship between corporate hypocrisy

and reputation, which is an indication that stakeholders are tolerant for strategic motives for corporate social engagement. Also, the study shows that corporate policy makers should be fully informed that adopting corporate environmental accountability programs can backfire unless they pay particular attention to communities' attributions for corporate environmental accountability engagement. Insufficient understanding of communities' explanations for corporate involvement may result in the cultivation of corporate hypocrisy, rather than the development of goodwill.

Managerially, these findings have important implications because knowledge on the damaging consequences of corporate hypocrisy can boost efforts to minimize this phenomenon. Given the general rise of hypocrisy toward the role of corporations in the society and its potentially contagious nature (Chyllinski and Chu, 2010), companies should devote greater efforts to convince their stakeholders that their environmental activities are genuine.

The results also show that corporate hypocrisy has a negative effect on company reputation. Perceiving a company of being hypocritical will also affect their CSR perception, as stakeholders will judge the company CSR actions as self-benefitting and green washing. These results have implications for practice in the sense that more still need to be done by oil companies on corporate environmental accountability. This is important since Table 5 showed that corporate environmental accountability can be used to mitigate the effect of hypocrisy on reputation.

## **6. Conclusions, Recommendation and Future Studies**

This research has shown that corporate hypocrisy has negative influence on corporate environmental accountability and reputation. Also corporate environmental accountability has a positive influence on

corporate reputation. The study also revealed that corporate environmental accountability has a positive influence on corporate reputation. The main aim of the study however was to ascertain if corporate environmental accountability mediates the relationship between corporate hypocrisy and reputation. Mediating analyses can produce three results; full mediation, partial mediation and no mediation. The study also shows that the IV has significant indirect effect on corporate reputation and that corporate environmental accountability fully mediates the effect of corporate hypocrisy on corporate reputation. Based on rule of thumb, corporate hypocrisy transmits its effects on reputation through (corporate environmental accountability) the mediator. The study also suggests important implications for CSR managers who seek to foster high quality community-corporate relationships via corporate environmental accountability initiatives. As corporate environmental accountability initiatives reduce corporate hypocrisy as well as increase corporate reputation, corporate CSR managers should consistently monitor whether their corporate environmental accountability initiatives have increase the level; of corporate reputation. The study recommends that companies should be honest, transparent and serious with their corporate environmental accountability as it is a viable tool that can be used to mitigate the effect of corporate hypocrisy on reputation. Since this research focuses only on oil and gas sector, future research should be done in other sectors like political sector, telecommunication sector etc.

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