

Determinants of legal protection to improve MSMEs development

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Abstract

Determinant Legal Protection consists of business licenses, distribution permits, registered trademarks, and legality of business entities. From a theoretical perspective, this research contributes a novel integrated model that connects legal protection with MSME growth via digital platforms. It advances the literature by framing digitalization not only as a technological or market tool but as a strategic outcome of legal infrastructure. By quantifying both direct and indirect effects within a Structural Equation Modeling (SEM) framework, this study strengthens empirical understanding of how regulatory formalization supports enterprise digitalization and growth. This model can be adapted or extended for cross-regional or sectoral studies in emerging markets. From a practical standpoint, the findings underscore that legal formalization—when combined with digital platform readiness—produces greater developmental impacts on MSMEs. Policymakers and stakeholders should therefore prioritize joint initiatives that streamline legal registration while simultaneously enabling digital onboarding, such as e-license platforms linked to e-commerce or fintech ecosystems. The research uses quantitative research, utilizing descriptive and inferential analysis through the Structural Equation Modeling (SEM) technique. The utilized data comprises both primary and secondary sources, employing data collection methods such as questionnaires. MSME actors in Sungai Penuh City with a total of 150 are the sample of this study. The result of this study, business licenses, distribution permits, registered trademarks, and legality of business entities have proven to have a significant effect on legal protection. Legal protection has a positive and significant effect on digital trading platforms and MSME development.

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1. Introduction

Micro, small, and medium enterprises (MSMEs) have an important role in driving growth of the economy and development in many nations worldwide. People often view these small businesses as the cornerstone of the economy, providing employment opportunities, fostering innovation, and

bolstering overall economic stability (Valle et al., 2022). Micro, small, and medium enterprises (MSMEs) have been a huge contributor to increasing Indonesia's economic growth, employment creation, and cultural richness (Abduh et al., 2024). The community extension of Micro, Small, and Medium-sized Enterprises (MSMEs) emphasizes entrepreneurial initiatives designed to alleviate poverty. (Kusumaningtyas et al., 2022).

Notwithstanding their importance, MSMEs encounter various obstacles, including restricted access to financing, inadequate infrastructure, and regulatory obstacles that obstruct their growth potential. To completely realize the potential of MSMEs, it is imperative to overcome these obstacles and establish an environment that facilitates their success (Maulana et al., 2021). Governments can assist MSMEs in surmounting these challenges and prospering by enacting supporting laws and programs (Damiyana et al., 2024; Meldona et al., 2023). Access to affordable capital, enhanced infrastructure, simplified rules, and focused training and technical help are vital elements for fostering a favorable climate for MSMEs to thrive (Purwanto et al., 2023; Supari & Anton, 2022). The growth and success of MSMEs provide employment, stimulate economic development, and cultivate a culture of entrepreneurship and innovation that advantages society at large (Prabhu & Srivastava, 2023; Suci et al., 2024). By investing in and supporting MSMEs, nations may realize their complete potential and attain sustainable and inclusive growth. Governments can improve the competitiveness and resilience of Micro, Small, and Medium Enterprises (MSMEs) by providing necessary resources and support. This not only reduces poverty and inequality but also fosters the creation of employment, innovation, and economic diversification (Suparji, 2020). Investing in MSMEs also promotes sustainable practices and ethical business conduct, resulting in a more inclusive society and a brighter future for everybody (Disemadi, 2022).

Legal protection is essential for the development and sustainability of Micro, Small, and Medium Enterprises (MSMEs). In the absence of adequate legal protection, MSMEs may encounter difficulties like unfair competition, intellectual property infringement, and contractual conflicts (Kusumaningtyas et al., 2022; Nieuwenhuizen, 2019). Conversely, ethical and responsible economic exploitation can enable MSMEs to optimize their resources and access new markets (Kurniawati et al., 2024). By comprehending the influence of legal safeguards and ethical economic practices on MSMEs, policymakers can foster a more favorable climate for their development and prosperity. (Amiq et al., 2024). Small businesses need legal protection to secure trademarks and copyrights for unique products and branding, adhere to ethical practices like fair wages and sustainable ingredient sourcing, and attract customers who value socially responsible businesses (Disemadi, 2022). Nevertheless, despite legal safeguards, a larger firm might readily duplicate the products and branding, overwhelming them with superior marketing resources and distribution networks (Junus et al., 2021). Moreover, clients may not prioritize ethical norms in their purchasing decisions, potentially leading to a shift towards competitors offering lower prices or more convenient options. Legal protection is crucial for protecting the rights and interests of persons and groups. It consists of many rules and regulations aimed at preventing harm, guaranteeing accountability, and offering redress for individuals who have been harmed (Roque, 2022). By comprehending the legal protections accessible, persons can adeptly maneuver through intricate legal scenarios and guarantee the preservation of their rights (Balik et al., 2023; Shefrukova & Estamirov, 2023). Legal protection functions as a safeguard against injustices and abuses of power, encompassing employment laws that defend workers from discrimination and consumer protection laws that prevent fraudulent practices (Sudrajat et al., 2022). In the absence of these rules, individuals and businesses would remain susceptible to abuse and manipulation. Consequently, individuals must be cognisant of their legal rights and pursue legal counsel as necessary to maintain these safeguards. In a society that upholds and enforces the rule of law, legal protection is essential for fostering fairness, justice, and equality for all individuals.

In this study, 4 determinants of legal protection are used: business licenses, distribution permits, registered trademarks, and legality of business entities. Business licenses are formal authorizations granted by governmental bodies that allow persons or entities to operate within a designated jurisdiction (Abuodha C., 2000; Nurse, 2022). These licenses are essential for ensuring business compliance with local laws and regulations, as well as safeguarding consumers from fraud and other illicit acts (Hariyanto, 2022). To acquire a business license, applicants generally must provide information regarding their business activities, location, ownership, and other pertinent factors (Napaporn et al., 2022; Oskooii & Ajali, 2017). Neglecting to acquire a business license may lead to fines, penalties, or potential business closure (Balik et al., 2023). Distribution permits in commerce denote the licenses or authorizations necessary for the distribution of goods or services to consumers (Napaporn et al., 2022). These licenses are essential to guarantee that enterprises adhere to norms and criteria established by governmental bodies (Hariyanto, 2022). In the absence of appropriate distribution permits, enterprises may encounter legal repercussions and jeopardize their market reputation (Ma et al., 2018; Saputra et al., 2021). The second determinant is distribution permits. Distribution permits are legal instruments that authorize a corporation to distribute and sell items within a designated market, assuring adherence to local legislation and safeguarding product rights (Kurniawati et al., 2024). Registered trademarks are legally safeguarded symbols, emblems, or terms that differentiate a company's products from those of competitors, fostering brand awareness and loyalty while safeguarding intellectual property (Zufikri & Zulkarnaini, 2022). The third determinant is registered trademarks. Registered trademarks are essential for enterprises as they offer legal safeguards for their brand and inhibit competitors from utilizing analogous marks (Yufrizal et al., 2023). To obtain a trademark, firms must apply to the appropriate authority, which does a comprehensive review to verify that the mark is not already in use (Ma et al., 2018). Upon registration, the proprietor acquires exclusive rights to utilize the mark with their products or services, hence augmenting brand recognition and client loyalty (Zulham, 2023). The last determinant is the legality of business entities. Legality refers to a business's compliance with laws, licensing mandates, and other obligations (Siagian et al., 2024). It's crucial to avoid complications, lawsuits, and reputation damage (Puluhulawa et al., 2024). Accurate documentation and record-keeping are essential for adherence to laws and regulations (Alshehaby, 2024; Kurniawati et al., 2024). Noncompliance can result in fines and potential business closure (Parlyna et al., 2024). Maintaining accurate financial documentation, obtaining necessary permissions, and adhering to labor regulations are essential aspects of legal compliance (Petropoulou et al., 2024).

This study aims to see the influence of the determinants of legal protection on the improvement of MSME development in Sungai Penuh City. Previous Research on Legal Protection Efforts to Develop MSMEs (Disemadi, 2022, 2022; Kusumaningtyas et al., 2022; Saputra et al., 2021), Legal protection based on product and brand protection (Simatupang et al., 2024), Legal protection on technology crimes (Khairudin et al., 2024), Legal protection of MSMEs after Covid 19 (Han et al., 2020; Madeira et al., 2021; Rumanti et al., 2022), MSME legal protection related to digital and technology (Abduh et al., 2024; Damiyana et al., 2024; Supari & Anton, 2022). The state of the art of this study is compared to previous research: (1) This study analyzes the legal protection of MSMEs with respondents in one city or regency area, (2) This study analyzes the impact of the legal protection on the development of MSMEs and community welfare. The novelty of this study is: to develop and formulate a determinant model of MSME legal protection from economic exploitation based on digital trade platforms.

While previous studies have explored legal protection for MSMEs, most focus narrowly on either brand/trademark protection, post-pandemic recovery, or general regulatory frameworks. There is a lack of integrative empirical models that connect the institutional aspects of legal protection with the adoption of digital platforms and their measurable impact on MSME growth.

Furthermore, existing research typically operates at the national level or in macro-regional scopes, overlooking the specific socio-economic and bureaucratic challenges faced at the city or municipal level. This study addresses that gap by: Constructing and validating a comprehensive structural model that quantifies both direct and indirect pathways from legal protection to MSME development via digital platforms. Focusing on Sungai Penuh City, where regulatory constraints, limited digital literacy, and low formalization rates uniquely affect MSME potential. Introducing digital platform adoption as a key mediating mechanism, offering a novel contribution to the literature on institutional support and enterprise digitalisation.

2. Method

The author utilizes a validated descriptive research methodology through a survey approach in this study. Survey research methods are utilized to acquire data from certain natural environments (A. Sari, 2022); however, researchers introduce interventions during data collection, including the administration of questionnaires and the execution of organized interviews.

The object of research is the object that is researched and analyzed (A. E. Sari et al., 2022, 2024). In the research conducted by the author, the object of research is the legal protection of MSMEs. Meanwhile, the subjects used in this research are MSMEs in Sungai Penuh City. This study uses a non-probability sampling technique that uses purposive sampling. The sample for this study consists of MSMEs that match the following criteria: Used digital platforms in business. The total number of data samples meets the SEM criteria requiring a minimum of 150 samples, matching with the recommended range between 100 to 200 samples (Junaidi, 2021).

This study analyzes the impact of MSME development on independent variables including business licenses, distribution permits, registered trademarks, and legality of business entities. It identifies legal protection and digital trading platforms as intervening variables, establishing indirect relationships between the independent and dependent variables. The variables are manipulated for analysis and comparison.

The researcher analyzes and processes data using SEM (Structural Equation Modeling) and the software utilized AMOS. The use of SEM in this study is because it is considered more accurate, as the researcher understands not only the relationship between variables but also the components that make up the variable and its magnitude.

This study employed a quantitative research approach using a survey design to examine the relationship between legal protection and MSME development, with digital trading platforms serving as a mediating variable. Data collection was conducted using two main instruments: a structured questionnaire and interviews. The questionnaire was designed based on previously validated constructs and was divided into three sections: (1) demographic information of MSME respondents, (2) items measuring four legal protection determinants—business licenses, distribution permits, registered trademarks, and legality of business entities—and (3) items measuring digital platform usage and MSME development outcomes. All items were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

To ensure the validity and reliability of the instrument, a pilot test was conducted with 30 MSME respondents outside the main sample. Construct validity was assessed using factor loading values, and all items demonstrated loading values above 0.5, indicating acceptable validity. Internal consistency was measured using Cronbach's Alpha, where all constructs exceeded the recommended threshold of 0.7. Specifically, Cronbach's Alpha values were as follows: business licenses (0.842), distribution permits (0.799), registered trademarks (0.873), legality of business entities (0.851), digital trading platforms (0.860), and MSME development (0.831), confirming high reliability across all scales.

In addition to the questionnaire, structured interviews were conducted with selected MSME actors and local regulatory officers to complement the survey data and gain deeper insights into legal compliance and digital engagement practices. The structured interview format ensured consistency across respondents and alignment with the core constructs of the research model.

The data obtained from 150 MSME respondents in Sungai Penuh City were analyzed using Structural Equation Modeling (SEM) with AMOS software. SEM was chosen for its ability to test complex relationships between latent variables, including mediation effects. The analysis followed several key stages. First, the measurement model (outer model) was assessed through confirmatory factor analysis (CFA) to evaluate the validity and reliability of latent constructs. Factor loadings, average variance extracted (AVE), and composite reliability (CR) were calculated, and all values met recommended cutoffs (loadings > 0.5, AVE > 0.5, CR > 0.7), indicating a good fit between observed indicators and latent variables.

Second, the structural model (inner model) was evaluated to test the hypothesized causal relationships among variables. Model fit was assessed using multiple goodness-of-fit indices, including Chi-Square (χ^2), Root Mean Square Error of Approximation (RMSEA), Goodness of Fit Index (GFI), Adjusted Goodness of Fit Index (AGFI), Tucker-Lewis Index (TLI), and Comparative Fit Index (CFI). The model was considered acceptable based on the following criteria: Chi-Square p-value > 0.05, RMSEA < 0.08, and CFI, TLI, IFI values > 0.90, even though some indices such as GFI and AGFI were marginal.

Finally, hypothesis testing was conducted using Critical Ratio (C.R.) and significance level (p-value) outputs from AMOS. A C.R. value greater than 1.65 and a p-value less than 0.05 were used as thresholds for statistical significance. The direct, indirect, and total effects were also calculated to examine the mediating role of digital platforms in the relationship between legal protection and MSME development. These comprehensive SEM procedures provided robust empirical support for the proposed theoretical model and the research hypotheses.

3. Result And Discussion

1. Identification of Structural Models

Another approach for determining problem identification is to examine the results of the estimation. SEM analysis is enabled if the model identification results show that the model reduces inside of the over-identified group. The identification is performed by examining the df value of the created model. The results show a df model value of 311. This indicates that the model has been characterized as over-identified for its positive degree of freedom value. Therefore, data analysis can continue to the next process.

The evaluation of model fit in this study used several Goodness of Fit (GoF) indices to assess whether the proposed structural model appropriately represented the empirical data. The Chi-Square statistic yielded a value of 281 with a p-value above 0.05, indicating that the model does not significantly differ from the observed data—a positive indicator. The Comparative Fit Index (CFI = 0.909), Incremental Fit Index (IFI = 0.910), and Normed Fit Index (NFI = 0.901) all surpassed the recommended threshold of 0.90, supporting an acceptable model fit. However, several indices were found to be marginal, including RMSEA (0.105), GFI (0.769), AGFI (0.689), and TLI (0.887). These values fell below conventional cutoffs (typically RMSEA < 0.08, GFI and AGFI > 0.90, and TLI > 0.90), signaling areas for cautious interpretation.

The elevated RMSEA value (0.105) suggests a potential model misspecification or residual error in the approximation of the population covariance matrix. However, RMSEA is known to be sensitive to sample size and degrees of freedom—conditions present in this study, which used a moderate sample size ($n = 150$) and a relatively complex model ($df = 311$). In such contexts, marginal

RMSEA values may not severely threaten model validity, especially when other fit indices are satisfactory. Similarly, the GFI and AGFI values, although below the ideal threshold, often underestimate fit in models with many observed variables and small to moderate sample sizes. The TLI value, although close (0.887), marginally underperforms the cutoff, indicating a slightly less-than-optimal parsimony correction.

In sum, while several indices were marginal, the overall fit of the model remains acceptable when evaluated holistically, especially given that key indices (CFI, IFI, NFI, Chi-Square) indicate strong support. The marginal indices suggest that future model refinements—such as removing weak indicators or respecifying paths—could further improve fit. Nevertheless, the current model retains sufficient validity to support hypothesis testing and interpretation of the structural relationships among legal protection, digital platform adoption, and MSME development.

2. Path Diagram Development

The created theoretical model is illustrated in a path diagram to facilitate researchers' understanding of the causal linkages they intend to examine. A path diagram is a representation of a model indicating all relationships between its variables (Elizar et al., 2017). The development of the Path Diagram can be seen in the following image:

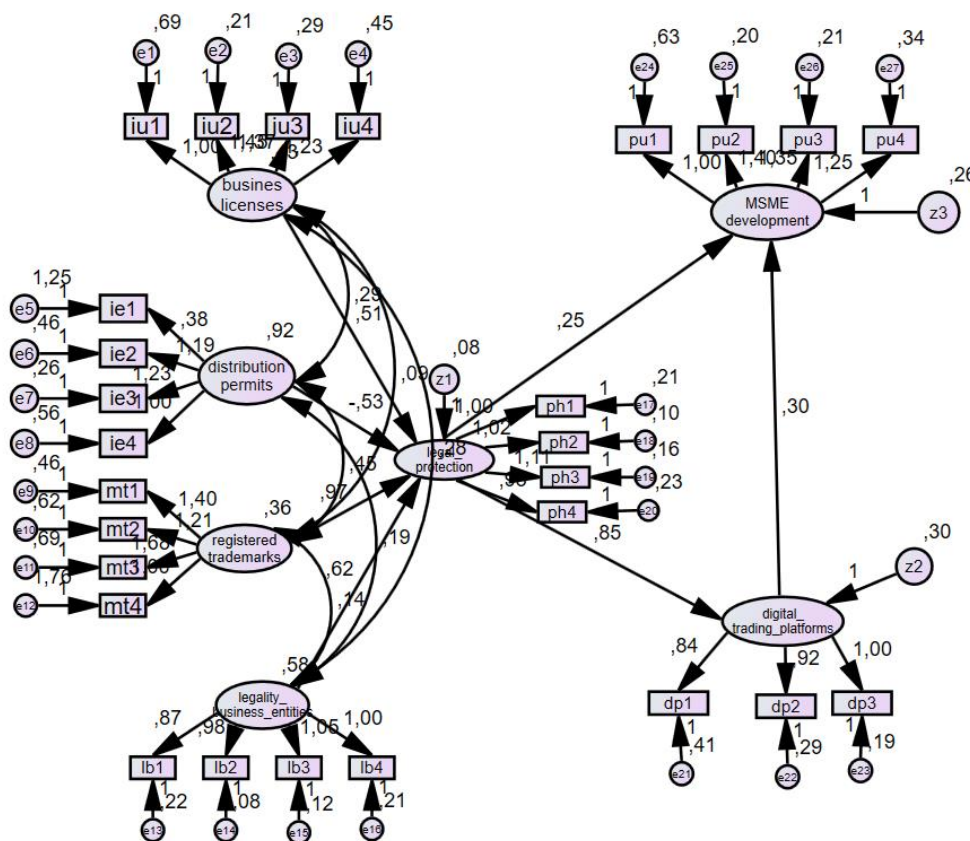


Figure1. Structural Equation Modeling (SEM) model

3. Evaluating goodness of fit

The primary objective in Structural Equation Modeling (SEM) is to evaluate the goodness of fit, determining the way in which the hypothesized model matches the data sample. The outcomes of the goodness of fit data analysis will be presented in the subsequent material.

Table 2. Goodness of Fit Test Results

Index Goodness of fit	Cut off value	Model Result	Fit Result
Chi-Square	< 353,1277	281	Good
Probability Chi Square	> 0,05	2,629	Good
RMSEA	< 0,08	0,105	Marginal
GFI	> 0,90	0,769	Marginal
AGFI	> 0,90	0,689	Marginal
IFI	> 0,90	0,910	Good
TLI	> 0,90	0,887	Marginal
CFI	> 0,90	0,909	Good

Table 2 indicates that the goodness of fit test results for the modified structural model are comparable to those of the original structural model. The model has been deemed appropriate for the existing data.

4. Structural Equation Modeling (SEM) Result

1) Correlation Test

Table 3. Correlation Hypothesis Test between Variables

			Estimate	S.E.	C.R.	P
Distribution permits	<-->	Business licenses	,290	,071	4,083	***
Registered trademarks	<-->	Business licenses	,091	,043	2,110	,035
Legality business entities	<-->	Business licenses	,279	,061	4,556	***
Distribution permits	<-->	Registered trademarks	,455	,117	3,904	***
Distribution permits	<-->	Legality business entities	,192	,068	2,818	,005
Registered trademarks	<-->	Legality of business entities	,144	,052	2,739	,006

Correlation testing was carried out by looking at the calculated correlations between independent variables (latent exogenous) with independent variables (latent exogenous). Correlation testing can be defined as follows, based on Table 3:

- There is no correlation between distribution permits and business licenses. The predicted value of 0,290, which is less than 0,80, leads to the rejection of H0 and the acceptance of H1.
- There is no correlation between registered trademarks and business licenses. The predicted value of 0,091, which is less than 0,80, leads to the rejection of H0 and the acceptance of H1.
- There is no correlation between legality of business entities and business licenses. The predicted value of 0,279, which is less than 0,80, leads to the rejection of H0 and the acceptance of H1.
- There is no correlation between distribution permits and registered trademarks. The predicted value of 0,455, which is less than 0,80, leads to the rejection of H0 and the acceptance of H1.
- There is no correlation between distribution permits and legality of business entities. The predicted value of 0,192, which is less than 0,80, leads to the rejection of H0 and the acceptance of H1.
- There is no correlation between registered trademarks and legal business entities. The predicted value of 0,144, which is less than 0,80, leads to the rejection of H0 and the acceptance of H1.

2. Partial Test

Table 4. Partial Hypothesis Test

			Estimate	S.E.	C.R.	P
Legal protection	<---	Business licenses	,508	,146	3,471	***
Legal protection	<---	Distribution permits	-,529	,154	-3,440	***

			Estimate	S.E.	C.R.	P
Legal protection	<---	Registered trademarks	,973	,285	3,416	***
Legal protection	<---	Legality business entities	,624	,099	6,300	***
Digital trading platforms	<---	Legal protection	,849	,080	10,599	***
MSME development	<---	Legal protection	,253	,115	2,209	,027
MSME development	<---	Digital trading platforms	,299	,115	2,615	,009

The partial test was conducted by comparing the C.R. and p-values of each independent variable (latent exogenous) with the dependent variable (latent endogenous). Table 4 delineates the concept of partial testing as follows:

- Business licenses significantly influence legal protection. The value of 3.471 from C.R. exceeds 1.65, and the p-value is 0,000. is greater than 0,05; as a result, H0 is rejected and H1 is accepted.
- Distribution permits significantly influence legal protection. The value of 3,440 from C.R. exceeds 1,65, and the p-value of 0,000 is greater than 0,05; as a result, H0 is rejected and H1 is accepted.
- Registered trademarks significantly influence legal protection. The value of 3,416 from C.R. exceeds 1,65, and the p-value of 0,000 is greater than 0,05; as a result, H0 is rejected and H1 is accepted.
- Legality business entities significantly influence legal protection. The value of 6,300 from C.R. exceeds 1,65, and the p-value of 0,000 is greater than 0,05; as a result, H0 is rejected and H1 is accepted
- Legal protection significantly influences digital trading platforms. The value of 10,599 from C.R. exceeds 1,65, and the p-value of 0,000 is greater than 0,05; as a result, H0 is rejected and H1 is accepted
- Legal protection significantly influences MSME development. The value of 2,209 from C.R. exceeds 1,65, and the p-value of 0,027 is greater than 0,05; as a result, H0 is rejected and H1 is accepted
- Digital trading platforms significantly influence MSME development. The value of 2,615 from C.R. exceeds 1,65, and the p-value of 0,0097 is greater than 0,05; as a result, H0 is rejected and H1 is accepted.

3. Simultan Test

Simultaneous hypothesis testing was carried out by analyzing the R-square value in the AMOS output result.

Table 5. Simultan Test (R-square)

Endogenous variables	Estimate
Legal protection	,885
Digital trading platforms	,629
MSME development	,440

According to Table 5, the R Square (R²) value of the exogenous latent variable connected to the endogenous variable may be elucidated. Exogenous variables exert a strong influence on endogenous variables when the R Square (R²) becomes positive.

- R Square (R²) value of legal protection rate is 0,885, which represents 88,5%. Simultaneously impacted and explicable by the exogenous variable is the endogenous variable, which consists of business licenses, distribution permits, registered trademarks, and the legality of business entities, to the percentage of 88.5%. In addition, the remaining 11.5% was controlled by variables not included in the research model.

- b) Legal protection influenced digital trading platforms with the value of R-squared is 0,629 which represents 62,9%, the remaining 371% was controlled by variables not included in the research model.
- c) Legal protection and digital trading platforms influenced MSME development with the value of R-squared is 0,440 which represents 44%, the remaining 56% was controlled by variables not included in this study.

4. Three types of effects: direct, indirect, and total.

The value of indirect effect shows how an independent variable in a hypothesis directly affects a dependent variable. This study's hypothesis informed the following analysis, which sought to determine the nature of the direct and indirect relationships between the variables:

Table 6. Three types of effects: direct, indirect, and total

	Direct Effect	Indirect Effect	Total Effect
Legal protection → MSME development	0,309	0,310	0,619
Legal protection → digital_trading_platforms	0,793	-	0,793

The direct effect of legal protection on MSME development was 0.309. The indirect effect of legal protection through digital trading platforms on MSME development is 0.310. This means direct influence has a smaller impact than the indirect effect ($0.309 < 0.310$). As a result, it is identified that digital trading platforms operate as mediating variables for legal protection in the development of MSMEs, having a coefficient of indirect influence higher than that of the direct effect.

4. Conclusion

This study highlights the critical role of strong legal foundations in advancing the digital transformation and overall development of micro, small, and medium enterprises (MSMEs) in Sungai Penuh City. The research found that key legal factors, such as business licenses, distribution permits, trademark registration, and the legality of business entities, positively and significantly influence the level of legal protection for MSMEs. In turn, this legal protection enhances the adoption of digital trading platforms and contributes directly to MSME growth. The results also show that digital platforms mediate the relationship between legal protection and enterprise development, indicating that the pathway from legal compliance to improved business outcomes is significantly strengthened by digitalisation. With the model explaining 88.5% of the variance in legal protection, 62.9% in digital platform use, and 44.0% in MSME development, the findings underscore the importance of comprehensive legal and digital support for business advancement. Given these insights, several practical implications emerge. First, local authorities should implement streamlined and transparent systems for business licensing, trademark registration, and distribution permits to reduce barriers for MSMEs. Second, pairing legal compliance initiatives with digital-readiness programs—including access to e-commerce training and digital infrastructure—will likely maximize the benefits. Third, collaborative efforts among universities, business associations, and fintech providers are essential to support MSMEs through integrated mentoring that combines legal and technological guidance. For future research, it is recommended to replicate this study in other regions and across different industry sectors to test the generalisability of the findings. Longitudinal studies would offer deeper insights into how legal status and digital adoption evolve. Further, expanding the range of variables to include access to finance, entrepreneurial orientation, digital literacy, and market competition could help explain the remaining variance in MSME development. Qualitative methods, such as case studies, could also reveal informal barriers and cultural factors affecting legal compliance. Finally, experimental research evaluating legal-support interventions,

like online licensing portals or trademark assistance programs, could provide robust evidence on the most effective strategies to stimulate MSME growth. These future directions offer promising opportunities to enhance understanding and support for sustainable enterprise development in Indonesia and other emerging economies.

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