

## The Influence of Corporate Governance and Company Characteristics on the Performance of Manufacturing Companies Listed on the Indonesian Stock Exchange

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### ABSTRACT

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*This study aims to determine the effect of corporate governance and company characteristics towards manufacturing companies' firm performance for the period of 2018-2022. The independent variables include in this study are board size and CEO age as the measurement of corporate governance. Moreover, firm size, firm leverage, and firm age are also used as the measurements of the company characteristics variables. Return on equity and return on assets are used in this study to measure the firm performance as the dependent variable. This study used a quantitative approach method, and the sample was taken by using a purposive sampling method which then resulted in 40 food & beverage subsector manufacturing companies that meet the sampling characteristics. The data processed using EViews 10 to analyze the multiple linear regression. The results indicate that firm leverage and firm age have a significant effect on firm performance. Meanwhile, the other variables, namely board size, CEO age, and firm size have no influence on firm performance. The results obtained from this study are expected to be useful for company management to analyze the corporate governance and company characteristics towards firm performance and put more attention to variables that have a major influence on firm performance so that the company's survival can be maintained in the future.*

## 1. INTRODUCTION

The quality of corporate governance can vary, being favorable or unfavorable, and efficient or otherwise. This depends on what is implemented during the governance process and is also based on relevant quality standards or criteria (Al-ahdal et al., 2020). Then according to research conducted by (Almashhadani et al., 2022) revealed that a good corporate governance system is one of the key elements in improving company performance and company value.

Firm characteristics refer to various attributes or factors that distinguish one firm from another, such as firm size, ownership structure, leverage, profitability, and others. The purpose of studying firm characteristics is to understand how these factors can affect firm performance, risk and managerial decisions. Research on firm characteristics aims to evaluate the relationship between certain attributes and firm performance, firm value, risk, and other relevant factors (HO, 2023). The current research is based on research that has been conducted in Vietnam by (HO, 2023) using independent variables, namely corporate governance as measured using board size (BOZ) and ceo age (COA), and company characteristics as measured using firm size (SIZE), firm leverage (LEV) and firm age (FAGE).

The results of research (HO, 2023) show that there is a positive influence of CEO Age (COA) on Firm Performance, because an aged CEO can contribute experience, insight, and leadership skills that positively affect company performance. However, this is inversely proportional to the results of research conducted by (Setiawan & Gestanti, 2022) which indicates that there is no significant positive influence between the age of a CEO and the return on assets (ROA) of a company. This implies that company performance is not affected by whether the CEO is young or old.

In addition, research conducted by (HO, 2023) shows that there is a negative effect of Board Size (BOZ) on Firm Performance. Which means that with more directors, coordination and communication become more difficult, causing delays in decision making. A larger board size can cause some members to contribute less, which affects the quality of decisions. However, this research is inversely proportional to the results of research conducted by (Huynh et al., 2022) with research results showing that Board Size (BOZ) has a positive relationship with Firm Performance, because as the number of board members increases, company performance tends to improve.

Furthermore, research (HO, 2023) has determined that the performance of a firm is negatively impacted by its size (SIZE). This is due to the fact that larger companies may have more intricate organizational structures and decision-making processes, which can lead to a delayed decision-making process and an increase in bureaucracy. This can result in ignored opportunities and inefficiencies, thereby diminishing the performance of the firm. However, the results of this study are inversely proportional to research conducted by (Bibi et al., 2020) which shows Firm Size contributes positively to innovation and Firm Performance, because large companies

have access to more resources to invest in innovation and build an atmosphere that supports innovation.

Another research conducted by (Liu et al., 2014) on Firm Leverage, the results show that leverage and company listing history tend to have a negative influence on company performance. This suggests that a 0.75%-point decline in firm performance is associated with a one-unit increase in financial leverage. Therefore, in economic terms, a one standard deviation increase in financial leverage will result in a reduction of up to 21.4% in firm performance (Danso et al., 2020). It was also supported by research conducted by (Habtoor, 2022) that corporate leverage is significantly and negatively related to ROA.

The results of research conducted by (Dang et al., 2022) show a U-shaped relationship pattern between Firm Age and Firm Performance. Initially, there was a negative impact of company age on company performance, but then there was a change to a positive effect of company age on company performance. This research is also supported by research conducted by (Messeni Petruzzelli et al., 2018) which indicates that company age has a negative relationship with innovation, because long-established companies tend to be reluctant to accept changes because they want to maintain the existing situation.

Since there are still many differences among researchers regarding the results of the influence between the independent variables (board size (BOZ), ceo age (COA), firm size (SIZE), firm leverage (LEV) and firm age (FAGE)) on the dependent variables (return on equity (ROE) and return on asset (ROA)), this study's purpose to find out the effect between BOZ, CEOA, size, leverage, and FAGE whether it will affect the firm performance. The following are the hypothesis that this study will attempt to answer:

**H1** = There is a negative influence of Board Size on Firm Performance

Based on the results of research conducted (HO, 2023) in Thailand, it is stated that there is a negative effect of Board Size (BOZ) on Firm Performance. Which means that with more directors, coordination and communication become more difficult, causing delays in decision making. A larger board size can cause some members to contribute less, which affects the quality of decisions. This result is also supported by recent research conducted by (Brahma et al., 2021) which shows that board size has a negative impact on the profitability of companies listed in Nigeria and shows that a larger board size increases costs associated with salaries and their personal interests, which leads to a decrease in company performance.

**H2** = There is a negative influence of CEO Age on Firm Performance

According to research conducted by (Belenzon et al., 2019), CEO age has a negative influence on firm performance. This can be seen from the results of research showing that as the age of the CEO increases, the company experiences a decrease in investment, sales growth, and profitability. However, companies led by older CEOs also have a higher probability of survival. Younger CEOs tend to be more aggressive in making investments and growth, while older CEOs tend to be more conservative and focus on the survival of the company. This result is in line with (Serfling, 2014) that CEO age has a negative influence on firm performance, as measured by the volatility of the company's stock returns. Older CEOs tend to reduce corporate risk

through less risky investment policies, such as less R&D investment, more diversified operations, more diversified acquisitions, and lower operating leverage.

**H3** = There is a negative influence of Firm Size on Firm Performance

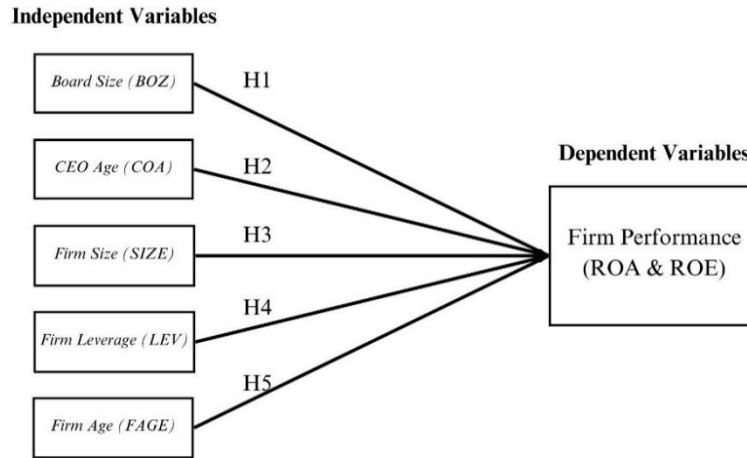
According to research conducted (Lin et al., 2019) there is a negative effect of firm size on firm performance. This may be due to the higher agency costs faced by larger firms when implementing geographic information systems (GIS), which affects the strategic benefits that can be obtained by these firms after making green innovation investments. On the other hand, smaller firms show higher efficiency than larger firms. This supports (HO, 2023)'s finding that firm size affect performance. Complex organizational structures and lengthier decision-making procedures in larger organizations may reduce efficiency and missed opportunities, lowering firm performance. Large organizations may be less nimble and adaptive, making it harder to adjust to rapidly changing market conditions. Missed chances and lower competitiveness can ensue.

**H4** = There is a negative effect of Firm Leverage on Firm Performance

According to the findings of (Danso et al., 2020), financial leverage reduces firm performance. This means that the bigger a company's financial leverage, the higher its interest costs. High interest costs can reduce the company's net profit and reduce the company's value. This result is supported by (Chen, 2020) that found the conclusion drawn is that financial leverage has a negative influence on company performance. This is due to the restrictions imposed by creditors on companies that borrow money, which can limit the company's ability to obtain funding in the future and limit company growth. In addition, financial leverage and operational leverage can increase company risk, so companies must balance the two.

**H5** = There is a positive influence of Firm Age on Firm Performance

Based on research (Younis & Sundarakani, 2020), there is a positive influence between firm age and environmental performance improvement and operational performance improvement because of implementing green supply chain management practices. It can be concluded that the longer a company operates, the more mature and organized its company management is, so that it can implement more effective and efficient supply chain management practices. Moreover, research conducted (Kwaltommai et al., 2019) on consumer goods firms in Nigeria, there is a positive influence of firm age on firm performance. This means that the older the company is, the more likely it is that the company will have a good reputation, a wide business network, and experience in facing different business challenges. These things can help the company to produce better financial performance.



**Figure 1.** Research Model

Source: Author, 2024

**2. RESEARCH METHODS**

In this study, the type of data used is secondary data. All data for this study were obtained based on the annual reports of food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2022 period based on the research conducted by (HO, 2023). The purpose of measuring each variable in this study is to discover the link between the independent and dependent variables. The dependent variable used is Firm Performance, which is measured using ROE and ROA, then the independent variables used are Board Size, CEO Age, Firm Size, Firm Age, Firm Leverage. The variables and measurements used are listed in the table below:

**Table 1.** Measurement of Research Variables

| Variables             | Measurements                                    | Sources                   |
|-----------------------|---|---------------------------|
| Dependent variable    |   |                           |
| Financial performance | Net Income                                      |                           |
| Return On Equity      | $\frac{\text{Total Equity}}{\text{Net income}}$ | (Kyeré & Ausloos, 2021)   |
| Return On Asset       | $\frac{\text{Total Asset}}{\text{Total Asset}}$ | (Theiri & Hadoussa, 2023) |
| Independent variables |   |                           |
| Corporate Governance  |   |                           |
| Board Size            | Total Directors                                 | (Kyeré & Ausloos, 2021)   |
| CEO Age               | CEO Age   | (HO, 2023)                |
| Firm Characteristics  |   |                           |
| Firm Size             | Log Total Asset                                 | (Kyeré & Ausloos, 2021)   |
| Firm Leverage         | $\frac{\text{Total Debt}}{\text{Total Asset}}$  | (Freihat et al., 2019)    |
| Firm Age              | Company Age                                     | (Shao, 2019)              |

Source: Authors (2024)

Panel data regression analysis is used by testing free variables with bound variables where there are several companies within a certain time frame. The systematic formulation of panel data regression analysis is as follows:

$$ROE = \alpha + \beta_1BOZ + \beta_2COA + \beta_3SIZE + \beta_4LEV + \beta_5FAGE + e.....1$$

$$ROA = \alpha + \beta_1BOZ + \beta_2COA + \beta_3SIZE + \beta_4LEV + \beta_5FAGE + e.....2$$

- $\alpha$  : Constant coefficient
- $\beta$  : Regression coefficient
- e : Error
- BOZ : Board Size
- COA : CEO Age
- SIZE : Firm Size
- LEV : Firm Leverage
- FAGE : Firm Age

### 3. RESULTS & DISCUSSION

**Model Selection Test.** The study uses a panel data regression method that has three models: Common Effect (CEM), Fixed Effect (FEM), and Random Effect (REM). Before that, the most accurate model for assessing the impact of independent factors on dependent variables related to financial performance must be determined using the Chow, Hausman, and Lagrange Multiplier tests.

**Table 2.** Chow Test ROE Model

| Effect Test              | Statistic  | d.f      | Prob   |
|--------------------------|------------|----------|--------|
| Cross-section F          | 3.526187   | (39,155) | 0.0000 |
| Cross-section Chi Square | 127.022458 | 39       | 0.0000 |

*Source: Data processed by EViews (2024)*

Based on Table 2, the Cross Section Chi-Square results were obtained at probability of  $0.000 < 0.05$  so that the model chosen was FEM and could be continued using the Hausman Test.

**Table 3.** Hausman Test ROE Model

| Test Summary         | Chi-Sq. Statistic | Chi-Sq d.f | Prob.  |
|----------------------|-------------------|------------|--------|
| Cross-section random | 11.517854         | 5          | 0.0420 |

*Source: Data processed by EViews (2024)*

Based on Table 3, random cross section results were obtained at probability of  $0.0420 < 0.05$ . The Lagrange Multiplier Test is not necessary as the outcome is below 0.05; so, the Fixed Effect Model (FEM) is the optimal model selected for the influence of independent variables on ROE.

**Table 4.** Chow Test ROA Model

| Effect Test              | Statistic  | d.f      | Prob   |
|--------------------------|------------|----------|--------|
| Cross-section F          | 4.201782   | (39,155) | 0.0000 |
| Cross-section Chi Square | 144.271365 | 39       | 0.0000 |

*Source: Data processed by EViews (2024)*

Based on Table 4, the probability of Chi-square cross-section is  $0.0000 < 0.05$ , so the best model chosen is the Fixed Effect Model (FEM) and can be continued using the Hausman test.

**Table 5.** Hausman Test ROA Model

| Test Summary         | Chi-Sq. Statistic | Chi-Sq d.f | Prob.  |
|----------------------|-------------------|------------|--------|
| Cross-section random | 2.049469          | 5          | 0.8423 |

*Source: Data processed by EViews (2024)*

Based on Table 5, the probability of Random Cross-section is  $0.8423 > 0.05$ , so the best model chosen is the Random Effect Model (REM) and the Lagrange Multiplier test needs to be carried out.

**Table 6.** Lagrange Multiplier Test ROA Model

| Test             | Statistic | d.f. | Prob.  |
|------------------|-----------|------|--------|
| Breusch-Pagan LM | 1084.129  | 780  | 0.0000 |

*Source: Data processed by EViews (2024)*

Based on Table 6, the Breusch-Pagan probability value is  $0.0000 < 0.05$ , so the most appropriate model for the influence of independent variables on ROA was Random Effect Model (REM).

**Regression Test.** The impact of the independent factors (Board Size, CEO Age, Firm Size, Firm Age, Leverage, Firm Age) separately in determining the dependent variable (Return on Equity and Return on Assets) was ascertained by the T test.

**Table 7.** Result T Test ROE Model

| Variable    | Coefficient | Prob.  | Conclusion                        |
|-------------|-------------|--------|-----------------------------------|
| c           | -5.471941   | 0.1952 | Not significant effect            |
| BOZ_X1      | 0.003277    | 0.9316 | Not significant effect            |
| CEOA_X2     | 0.020073    | 0.0705 | Not significant effect            |
| SIZE_X3     | 0.438085    | 0.1962 | Not significant effect            |
| LEVERAGE_X4 | -0.642776   | 0.0082 | Has a significant negative effect |
| FAGE_X5     | -0.044540   | 0.0163 | Has a significant negative effect |

*Source: Data processed by EViews (2024)*

Based on Table 7, the results indicate that corporate governance which is measured with Board Size and CEO Age have no significant effect to ROE with a coefficient value of 0.003277 and 0.020073, and the p-values are also greater than the significance level (0,050), at 0.9316 and 0.0705, respectively. This result also goes the same with Firm Size as one of the measurements of board characteristics, with the coefficient of -0.438085 and the probability of 0.1962 which is greater than 0,05, means that Firm Size has no significance effect to ROE. On the other hand, Leverage and Firm Age indicate that it has a negative significant effect with the coefficient of -0.642776 and -0.044540. Their probability is at 0.0082 and 0.0163 which is below the significance level of 0,05, which means that Leverage and Firm Age impact the firm performance of manufacturing companies.

**Table 8.** Result T Test ROA Model

| Variable    | Coefficient | Prob.  | Conclusion                        |
|-------------|-------------|--------|-----------------------------------|
| c           | 0.136136    | 0.5665 | Not significant effect            |
| BOZ_X1      | 0.004750    | 0.4210 | Not significant effect            |
| CEOA_X2     | 5.20E-05    | 0.9607 | Not significant effect            |
| SIZE_X3     | -0.012502   | 0.5474 | Not significant effect            |
| LEVERAGE_X4 | -0.040213   | 0.2154 | Not significant effect            |
| FAGE_X5     | 0.004205    | 0.0002 | Has a significant positive effect |

Source: Data processed by EViews (2024)

Based on Table 8, Board Size and CEO Age have no significant effect on firm performance (ROA) with the coefficient of 0.004750 and 5.20E-05. The probability is also greater than 0,05. Firm Size and Leverage also indicate the same result with the probability of 0.5474 and 0.2154 which is greater than the significance level of 0,05. However, Firm Age seems to have a different result with the coefficient of 0.004205 and probability of 0.0002 which is below 0,05. This means that the Firm Age does impact firm performance of manufacturing companies.

The effect of the independent factors (Board Size, CEO Age, Firm Size, Firm Age, Leverage, Firm Age) concurrently in determining the dependent variable (Return on Equity and Return on Assets) was investigated by F test. Finding the viability of the study regression model takes front stage on the F test.

**Table 9.** F-Test Result ROE Model

| Dependent Variable | F-Statistic | Probability |
|--------------------|-------------|-------------|
| ROE                | 4.206403    | 0.000000    |

Source: Data processed by EViews (2024)

Table 9 illustrates the results of the F Statistical Test for the ROE variable, which indicate that the F-Statistic value is 4.206403 with a probability value of 0.000000. Consequently, it can be inferred that the independent variable influenced the dependent variable.

**Table 10.** F-Test Result ROA Model

| Dependent Variable | F-Statistic | Probability |
|--------------------|-------------|-------------|
| ROA                | 3.419503    | 0.005527    |

Source: Data processed by EViews (2024)

Table 10 exhibits the results of the F Statistical Test for the ROA variable, which indicate that the F-Statistic value is 3.419503 with a probability value of 0.005527. Consequently, it can be inferred that the independent variable influenced the dependent variable.

Testing the coefficient of determination or goodness of fit (Adjusted R<sup>2</sup>) is carried out to measure and see how big the role of the independent variable is in its relationship to the dependent variable. The R value is zero to one, if the R value is closer to one, the influence between the independent and dependent variables will be stronger.



**Table 11.** Coefficient Determination Test ROE Model

|                   |          |
|-------------------|----------|
| R-Squared         | 0.544227 |
| Adjusted R-Square | 0.414847 |

*Source: Data processed by EViews (2024)*

The Adjusted R-Square value is 0.414847, which is equivalent to 41.48%, as indicated in Table 11. This implies that the Company Performance variable can be accounted for by the variables Board Size, CEO Age, Firm Size, Firm Age, Leverage, and Firm Age, which account for 41.48% of the variance. The remaining 58.52% is accounted for by variables that were not included in this study.

**Table 12.** Coefficient Determination Test ROA Model

|                   |          |
|-------------------|----------|
| R-Squared         | 0.080993 |
| Adjusted R-Square | 0.057308 |

*Source: Data processed by EViews (2024)*

The Adjusted R-Square value is 0.057308 or 5.73%, as indicated in Table 12. This implies that the Company Performance variable can be accounted for by the variables Board Size, CEO Age, Firm Size, Firm Age, Leverage, and Firm Age, which account for 5.73% of the variance. The remaining 94.27% is accounted for by variables that were not included in this study.

**Discussion. There is a negative effect of Board Size on Firm Performance.** The probability value of board size on ROE is 0.9316, which is greater than the threshold of 0.05. The coefficient on ROE has a positive magnitude of 0.003277. The probability value of board size on ROA is 0.4210, which is greater than the threshold of 0.05. The coefficient on ROA is positive, with a value of 0.004750. Results indicated that ROE and ROA are not influenced by board size. This conclusion is consistent with the findings of (Goel & Sharma, 2020); (Robin & Amran, 2016) have demonstrated that the size of a company's board does not affect its performance. The root of the problem lies within the organization. The duration of their tenure in the company is more significant than the number of members of the board of commissioners in Indonesian manufacturing who can improve the company's performance. This is due to the fact that they will build a positive rapport with the board of directors, which will influence decision-making in order to enhance the company's performance (Robin & Amran, 2016). The duration of their tenure in the company is more significant than the number of members of the board of commissioners in Indonesian manufacturing who can improve the company's performance. This is due to the fact that they will forge a cordial relationship with the board of directors, which will influence decision-making in order to enhance the company's performance (Robin & Amran, 2016).

**There is a negative effect of CEO Age on Firm Performance.** The probability value of CEO Age on ROE is 0.0705, which is greater than the threshold of 0.05. The coefficient on ROE has a positive magnitude of 0.020073. The probability value of CEO Age on ROA is 0.9607, which is greater than the threshold of 0.05. The coefficient on ROA has a positive magnitude of 0.0520. At a significance level of 0.05, these findings suggest that the age of the CEO does not have a statistically significant impact on ROA and ROE. This research is consistent with the

findings of (Siregar & Khomsiyah, 2023) and (Garcia-Blandon et al., 2019) which concluded that the age of CEOs does not influence their performance. The propensity of a CEO to take risks can be influenced by their age, as elderly CEOs tend to invest less in research and development (R&D) and prefer safer investment strategies. It is crucial to evaluate the performance of a company in non-financial areas. In conjunction with the growing emphasis on corporate social responsibility, the use of solely financial metrics in performance evaluation is considered to be extremely restrictive (Garcia-Blandon et al., 2019).

**There is a negative effect of Firm Size on Firm Performance.** The probability value of Firm Size (SIZE) on ROE is 0.1962, which is greater than the threshold of 0.05. The ROE coefficient is positive at 0.438085. The probability value of Firm Size (SIZE) on ROA is 0.5474, which is greater than the threshold of 0.05. The coefficient on ROA has a negative value of -0.012502. The results indicated that SIZE does not have a substantial impact on ROE and ROA. This finding is consistent with the assertion made by (Prasetyandari, 2023) that firm size has a considerable negative impact on firm performance. The total number of assets the company's management's ability to effectively manage finances to ensure that the company has a complete set of assets is not guaranteed by ownership. Even those that are substantial may not necessarily yield favorable financial results. In contrast, there is an opportunity for professional management to supervise the operations of minor companies that lack substantial total assets. This will lead to a considerable increase in profits, which will have a beneficial effect on the company's performance (Prasetyandari, 2023). This conclusion is also corroborated by the findings of (Nurdiana, 2018) and (Ratnasari & Budiyo, 2016), which indicated that the performance of a company is not significantly influenced by the magnitude of the firm.

**There is a negative effect of Firm Leverage on Firm Performance.** The probability value of Firm Leverage (LEV) on ROE is 0.0082, which is less than the threshold of 0.05. The coefficient on ROE is negative, with a value of -0.642776. The probability value of Firm Leverage (LEV) on ROA is 0.2154, which is greater than the threshold of 0.05. The coefficient on ROA has a negative magnitude of -0.040213. According to the findings, the ratio of loans to assets has a substantial negative impact on the performance of the firm as measured by ROE, but it does not have a significant impact on the performance of the firm as measured by ROA. This research, which is supported by (Huynh et al., 2022), demonstrates that corporate leverage is associated with inferior firm performance when measured by ROE (Return on Equity). Furthermore, the potential advantages of debt utilization are diminished by the fact that corporate leverage is also linked to increased financial distress costs.

**There is a positive effect of Firm Age on Firm Performance.** The probability value of Firm Age (FAGE) on ROE is 0.0163, which is less than the threshold of 0.05. The coefficient on ROE is negative, with a value of -0.642776. The probability value of Firm Age (FAGE) on ROA is 0.0002, which is less than the threshold of 0.05. The coefficient on ROA is positive, with a value of 0.004205. The results indicated that Firm Age (FAGE) has a substantial positive impact on Company Performance as reflected in ROA, but it has a substantial negative impact

on Company Performance as reflected in ROE. This finding is consistent with the assertion made by (Kwaltomma et al., 2019) that the performance of a firm is positively impacted by its age. This implies that the company's reputation, business network, and experience in overcoming various business challenges are more likely to be favorable as the company ages. The company can achieve improved financial performance by implementing these measures. This conclusion is also corroborated by the findings of (Younis & Sundarakani, 2020) which demonstrated that the operational performance of the company is influenced by the age of the firm. It can be inferred that the more time a company has been in operation, the more mature and organized its management is.

#### 4. CONCLUSION & SUGGESTION

This study concluded that Board Size (BOZ) has no effect on Firm Performance. The same result is shown by Firm Size (SIZE) and CEO Age (COA) which also have no effect on Firm Performance. Different result is shown by Firm Leverage (LEV) that negatively affects Firm Performance measured by ROE but has no effect on Firm Performance measured by ROA. Then finally Firm Age (FAGE) negatively affects Firm Performance measured by ROE and has a positive effect on Firm Performance measured by ROA.

**Limitation.** Based on the results of the research that has been conducted, this study has several limitations, namely as follows: The time span in this study is limited to only five years, namely from 2018-2022, many food and beverage sector companies have just offered shares to the public (IPO) after 2017, there are several companies on the Indonesia Stock Exchange (IDX) whose financial statements use currencies other than rupiah as reporting.

**Implications.** Researchers hope that the results of this study can provide benefits and can be applied to academics, financial managers, and investors. For academics, this research can be a reference to support further research by considering the variables of return on assets (ROA) and return on equity (ROE) as factors that affect the financial fluency ratio of banks. For financial managers, this study suggests maintaining an increase in assets and equity along with the characteristics of the company, namely the age of the company and the age of the CEO at the maximum level to maximize company performance as measured by ROA and ROE. In addition, financial managers also need to consider increasing firm value by financing more profitable investment projects in the future.

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