An Assessment of the Effect of Firm Profitability on the Financial Reporting Quality of Quoted Consumer Goods Manufacturing Companies in Sub-Sahara Africa

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Abstract
Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing. This study investigates the effect of firm profitability on the financial reporting quality of listed consumer goods manufacturing firms in Sub-Sahara Africa. In this study, profitability is the firm attribute proxy adopted to evaluate the effect on financial reporting quality in Sub-Sahara Africa. Financial reporting quality is measured in terms of Jones discretionary accrual. The population of the study consists of all the listed consumer goods manufacturing firms with representation from Nigeria, Kenya, and South Africa. As of December 2020, we had 22 consumer goods manufacturing firms in Nigeria, 16 consumer goods manufacturing firms in Kenya and 35 consumer goods manufacturing firms in South Africa. However, only consumer goods manufacturing firms that had all relevant data due to continuous existence were included in the sample. The data for the sampled companies were sourced from related countries' Exchange Group Fact Books and related companies' annual financial reports and footnotes for the periods covered in the study. The panel fixed and random effects were employed and estimated using the appropriate techniques. The findings of the study reveal that firm profitability has a significant influence on financial reporting quality in quoted consumer goods manufacturing firm in Sub-Sahara Africa. Based on the findings of the study, we recommend that regulators such as the FRCN can look into the trend of firm's financial performance to identify cases of potential financial manipulation.

1.0 Introduction
The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (FASB, 1999; IASB, 2008). Financial reporting quality can be defined as the precision with which financial reporting conveys information

about the firm's operations; in particular its expected cash flows, in order to inform equity investors (Uwuigbe, Eluyela, Uwuigbe, Obarakpo, & Falola, 2018). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing (IASB, 2006; IASB, 2008). The quality of financial reporting is determined by the usefulness of information provided to meet the needs of users.

In this regard, the IFRS have been adopted by a large number of countries with the expectation that it will improve the financial reporting quality which is key amongst other potential benefits (Doubnik and Perero, 2007). IFRS represents a single set of high quality, globally accepted accounting standards that can enhance comparability of financial reporting across the globe. This increased comparability of financial information could result in better investment decisions and even ensures a more optimal allocation of resources across the global economy (Palea, 2013; Anowor *et al, 2022*). Consistently, academics around the world are now extensively studying the effects of Firm Attributes on financial reporting quality (Armstrong, Barth, Jagolinzer & Riedl, 2010; Byard, Li & Yu, 2011; Jiao, Koning, Mertens & Roosenboom, 2012). IFRS appears to have a positive effect on financial reporting quality and in general it requires more extensive and sophisticated disclosures than were afforded by prior local standards and this requirement may cause a positive influence on the quality of financial reporting (Adeyemi, 2012). The IFRS regime or standard is an example of an exogenous factor (IASB, 2008). This study provides an empirical template within which

to examine the relationship between endogenous drivers of financial reporting quality within the context of existing exogenous factors which in this case is the firm attributes.

Most of the studies (Nwonye et al, 2020; Umoren, Akpan and Ekeria 2018; Ahmed, Ilu and Bahamman 2018, Okafor, Ogbuehi and Anene, 2017) simply focus on the relationship between firms' attributes and financial reporting quality without recognizing the interaction of firm specific drivers of financial reporting. Another strand of studies (Dewata, Hadi and Jauhari 2016; Firoozi, Magnan and Fortin 2016; Onuorah and Imene 2016; Adebiyi 2017; Akeju and Babatunde 2017; Echobu, Okika and Mailafia 2017) look at the relationship between firms' attributes as drivers for financial reporting quality without again looking at their impact on cross country basis. Consequently, this study adopts a different approach utilizing an empirical template which investigates the effect of firm attributes on financial reporting quality in quoted consumer goods manufacturing firms in Kenya, South Africa and Nigeria simultaneously. The need for cross-country studies and comparison is becoming more incrementally relevant for researchers and for the policy by eliminating the parochial view that could result from evaluating subjects in isolation. However, cross country empirical studies for countries in the African continent is largely non-existent or at best difficult to find. As stated earlier, majority of the studies were largely single country studies. This study addresses this gap by adopting a cross-country approach using Nigeria Kenya and South-Africa.

2.0   Conceptual Literature
Financial Reporting Quality

Financial reporting is important for management to make informed business decisions based on facts of the company's financial health. The four key types of financial statements found within a financial report include income statements, statement of financial position formally referred to as balance sheets, a statement of retained earnings, and cash flow statements. An income statement, also known as the profit and loss statement, summarizes a company's revenue, expenses, and profits. The income statement essentially shows how much the business earned or lost during a period of time and ultimately determines a company's net income or "bottom line." The statement of financial position delivers a snapshot of a company's assets, liabilities, and stockholders' equity at a single point in time. A statement of retained earnings reveals a company's changes in equity during a standard accounting period. Finally, a cash flow statement shows the amount of cash coming in and out of a business. The cash flow statement gives stakeholders an idea of how a business operates and manages cash to pay off debt and fund current expenses and future investments (Onodugo, Kalu & Anowor, 2013; Yeboah & Yeboah, 2015). Jonas and Blanchet (2000) put forward a description of two basic dimensions used to assess financial reporting quality. The first-dimension centers on the specific interests of the various stakeholders. In this dimension, the quality of financial reporting is a function of how useful the information output is to the various stakeholders. This dimension actually satisfies the requirement of General-Purpose Financial Reporting that dwells on providing that which stakeholder actually require for taking and assessing decisions made that relate to allocating limited resources (CPA Australia 2006).

Firm Profitability

The concept of corporate performance or profitability has not been unanimously defined. Lebans et al, (2011) gave a set of definitions to buttress the concept of performance: performance is a set of financial and non-financial indicators which give information on the extent of achievement of objectives and results, performance is dynamic, requiring judgemental and interpretation; performance may be illustrated by using a casual model that describes how current actions may affect future results; performance may be understood differently depending on the person involved in the assessment of the organizational performance (e.g. performance can be understood differently from a person within the organization compared to one from outside). To define the concept of performance is important to understand its characteristics. Looking at each area of responsibility and to report an organization's performance level, it is necessary to be able to quantify the results. Fauzi, Svenson and Rahman (2010) divided corporate performance into operational and financial performances. Operational performance includes: (i) market share (ii) product quality, and (iii) market effectiveness. Financial performance is broken down into two subcategories: (i) market-based performance (e.g., stock price, dividends payout and earnings per share) and (ii) accounting-based performance (e.g., return on assets and return on equity). The corporate performance in accounting literature refers normally to financial aspects such as profit, return on assets (ROA) and economic value added (EVA), using the

nickname of 'the bottom line' (Fauzi et al, 2010).

Hypotheses Development Firm Profitability and Financial Reporting Quality

Most of the popular theories that address disclosure argue that profitable firms tend to have a higher quality of financial reporting (Waweru et al., 2013). Take for example the agency theory purports that management of firms showing high profits would always take advantage of the privy information to gain grounds in the company and get higher pay. According to Astami and Tower (2006), the profits of company play an important role in determining compensation packages both explicitly and implicitly. Also, Bushman and Smith (2001) opine that bonus packages have been explicitly utilised in designing the strategic management's compensation plan. Further, used implicitly, profitability has been widely used to appraise the board and motivate top management.

Agency theory suggests that manager of profitable firms tend to disclose more information to support the continuance of their positions and compensate arrangements (Waweru et al., 2013). Signaling theory implies that when company performance is good, companies will be more inclined to signal their quality to investors (Watson, Shirives& Marston, 2002). Political process theory argues that firms disclose more information in order to justify the level of profits (Chau&Gray, 2010). In addition, management of a profitable firm may wish to disclose more information to the public to promote a positive impression (Alsaeed, 2006). The empirical evidence, however, is mixed. Cheng and Countenay (2006), Gul and Leung (2004), Haniffa and Cook (2002),

and found positive significant association, whereas Alsaeed (2006), Chau and Gray (2010), Ho and Wong (2001) and Hossain and Hammami (2009) found no significant association. On the bases of the above, we hypothesized that:

H0: **Firm profitability has no significant effect on the Financial Reporting Quality of Listed Consumer Goods Manufacturing Firms in Sub-Sahara Africa.**

Theoretical Framework
Signaling Theory

The signalling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether to communicate (or signal) the information and how, and the other party, the receiver, must choose how to interpret the signal. In circumstances of the information asymmetry (Akerlof, 1970), signalling theory suggests that companies with superior performance (or good companies) use financial information to send signals to the market. (Ross, 1977; Spence, 1973) showed that cost of signal is higher for the bad type than it is for the good type, the bad type may not find it worthwhile to mimic, and so the signal could be credible. Ross (1977) demonstrated how debt could be used as a costly signal to separate the good from the bad. Therefore, managers can be motivated to disclose private information voluntarily. This is because they expect this to provide (and to be interpreted as) a good signal about their company's performance to the market, and as reducing information asymmetry. Signalling theory would suggest that the provision of high-quality financial disclosures would give an indication of

Ogbebor, Rowland Osamudiame; Ifurueze, Meshack S; Ofor, Theresa Nkechi (2022)
An Assessment of the Effect of Firm Profitability on the Financial Reporting Quality of Quoted
Consumer Goods Manufacturing Company in Sub-Sahara Africa
GOUni Journal of Faculty of Management and Social Sciences (10/1) 22-36
ISSN: 2550-7265

firms' decision-making process and financial behaviour (Eccles, Hertz, Keegan & Phillips, 2001). For example, financial quality disclosure may signify the intention of firms to distinguish themselves and give positive signals to market participants about their managerial ability and performance (Watson, Shrives & Marston, 2002). Also, the violation of debt covenants would give investors a negative signal of corporate performance with negative implications for firm creditability and future financial prospects. Thus, the combination of agency and signalling theory is possible to lead to predictions about firm financial behaviour and accounting choices and improve the understanding of financial statements (Morris, 1987).

Empirical Literature
Nalarreason, Sutrisno, and Mardiati (2020) aimed to determine the effect of leverage and firm size toward earnings management. This study used a sample of the financial report data from manufacturing companies listed on the Indonesia stock exchange for the 2013-2017 period. The data analysis testing in this study employed EViews (Econometric Views). The results showed that the best panel regression model in this study was random effect model. Consistent with agency theory and positive accounting theory, leverage and firm size has a positive effect on the earnings management for manufacturing companies in Indonesia. The empirical results showed that leverage and firm size increase provide encouragement for managers to manipulate earnings.

Amr (2016) examined the effect of firm`s liquidity on the quality of financial report in Egyptian firms. In the study, Proper Liquidity level is a sign of the firm ability to cover its short-term debt, also a sign for its future

solvency and hence better firms" viability. The Study uses simple multiple regression technique for data analysis. The sample consists of 32 firms listed in the Egyptian stock exchange for the periods of 2014 and 2015. Firm liquidity was measured quick ratio, while quality of financial reports is measured by accounting conservatism. Financial leverage, profitability and company size were used as moderating variables affecting the relationship in question. The results revealed significant positive relationship between with significance liquidity and earnings quality. The study was used conservatism as a measure of earnings quality. However, existing literatures have shown that it is still difficult to tell whether conservatism increases or increases earnings quality.

Waweru and Riro (2013) while studying earnings management and firm characteristics using 37 listed firms in Kenya for five-year period 2016 to 2010 and employing accounting accrual approach to measure earnings management finds that the financial reporting quality of firms that are not highly geared were not compromised. They therefore concluded that investors can rely more on the financial reports of firms with lower debt to equity ratio.

Waweru and Riro (2013) examined corporate governance, firm characteristics and earnings management in an emerging economy using a panel data of one hundred and fourty eight (148) firms year obtained from the annual reports of the thirty-seven (37) companies listed on the Nairobi Stock Exchange (NSE), the study found that ownership structure and board composition were the main corporate governance characteristics influencing earnings management by Kenya listed companies. It was also seen from the study that there is a significant relationship

between leverage and earnings management but independent of the audit committee, firm size and firm performance are not significantly related to earnings management

3.0 Methodology

Given that the study is cross-country in nature, the study covered the selected countries that were used for the study. Therefore, the study selected listed consumer goods manufacturing firms from Nigeria, South Africa, and Kenya. The countries are selected because they have the most active capital markets in their respective regions within Africa. The population of the study consists of all the listed consumer goods manufacturing firms with representation from Nigeria, Kenya, and South Africa. As of December 2020, we had 22 consumer goods manufacturing firms in Nigeria, 16 consumer goods manufacturing firms in Kenya and 35 consumer goods manufacturing firms in South Africa. However, only consumer goods manufacturing firms that had all relevant data due to continuous existence were included in the sample. Our final sample size consists of 16 consumer goods manufacturing firms in Nigeria, 7 consumer goods manufacturing firms in Kenya, and 30 consumer goods manufacturing firms in South Africa. The data for the sampled companies were sourced from related countries' Exchange Group Fact Books and related companies' annual financial reports and footnotes for the periods covered in the study. Specifically, the econometric techniques adopted in this study are the panel fixed and Random effect regression techniques. The rationale for its usage is based on the following justifications: the data that will be collected may have time and cross-sectional attributes as well as

across the sampled firms (cross-section); panel data regression provides better results since it uses large observation and reduces the problem of degree of freedom (Muhammad, 2012); it avoids the problem of multicollinearity and help to capture the individual cross-sectional (or firm-specific) effects that the various pools may exhibit with respect to the dependent variable in the model. We modified the model specified by Bolarinwa and Adegboye (2020) to express the econometric form of our model as:

$$JOSA_{it} = \beta_0 + \beta_1 RETA_{it} + \beta_5 FSIZ_{it} + \mu_{it}$$

Where:

JOSA = Jones discretionary accrual (Proxy for Financial Reporting Quality)

RETA = Return on Asset (proxy for profitability)

FSIZ = Firm Size

β_0 = Constant

β_1- β_6 = Slope Coefficient

μ = Stochastic disturbance

i = i[th] firm

t = time period

Operationalization of the Variables

S/N	Variables	Definition	Type of Variable	Measurement	Used by	Apriori Sign.
1.	JOSA	Financial Reporting	Dependent	Discretionary accruals.	Jones (1991)	N/A

		Quality				
2.	RETA	Profitability	Independent	Return on assets (RETA)	Mahboub (2017)	+
3.	FSIZ	Firm Size	Control	Natural logarithm of total assets.	Ahmed (2012)	+

Source: Researcher's compilation (2022)

4.0 Empirical Results

The study investigates the effect of firm profitability on financial reporting quality by employing samples from listed consumer goods manufacturing firms in Sub-Sahara Africa between the periods of 2011-2020. In this study, profitability is the firm attribute proxy adopted to evaluate the effect on financial reporting quality in Sub-Sahara Africa. Financial reporting quality is measured in terms of Jones discretionary accrual.

Descriptive Statistics Analysis

In this section, we examine the descriptive statistics for both the explanatory and dependent variables of interest. Each variable is examined based on the mean, standard deviation, maximum and minimum. Table 1 below displays the descriptive statistics for the study.

Table 1: Descriptive Statistics

COUNTRIES	VARIABLES	MEAN	SD	MIN	MAX	NO OBS
COMBINE SAMPLE						
	JOSA	-0.02	0.16	-1.05	1.42	516
	RETA	8.03	16.23	-192.39	131.44	525
	FSIZ	6.95	0.80	5.30	9.19	525
NIGERIAN SAMPLE						
	JOSA	-0.08	0.16	-0.50	0.61	160
	RETA	6.90	9.22	-44.16	39.87	160
	FSIZ	7.53	0.79	5.35	9.14	160
KENYAN SAMPLE						
	JOSA	-0.05	0.19	-1.05	0.48	63
	RETA	4.41	31.70	192.39	41.19	68
	FSIZ	6.94	0.67	5.76	9.19	68
SOUTH AFRICA SAMPLE						
	JOSA	0.02	0.14	-0.85	1.42	293

RETA	9.47	13.70	-93.34	131.44	297
FSIZ	6.65	0.65	5.30	7.92	297

Source: Author (2022)

The table above shows the descriptive statistics of this study for the Combine sample, Nigerian sample, Kenyan sample, and South African sample. From the table, we find that the mean of financial reporting quality for the combine sample as proxied by Jones discretionary accrual (JOSA) was -0.02 with a standard deviation of 0.16. However, we find that for the Nigerian sample, the mean of financial reporting quality was -0.08 with a standard deviation of 0.16, while for Kenya samples the mean of financial reporting quality was -0.05 with a standard deviation of 0.19. For South African sample, our results shows that the mean of financial reporting quality was 0.02 with a standard deviation of 0.14. In the case of our independent variable, the table shows that the mean of profitability (RETA) was 8.03 with a standard deviation of 16.23. However, specific to the countries, our results show that for Nigerian consumer goods manufacturing firms the mean of profitability was 6.90 with a standard deviation of 9.22. For Kenyan firms, the mean of profitability is observed to be 4.41 with a standard deviation of 31.70 while for South African consumer goods manufacturing firms, the mean of profitability was 9.47 with a standard deviation of 13.70. Comparatively, our results shows that consumer goods manufacturing firms in South Africa are more profitable in terms of return on asset than those in Nigeria and Kenya. For our

control variable, we find that the mean of firm size (FSIZ) for the combine samples was 6.95 with a standard deviation of 0.80. However, specific to the countries, our results show that for Nigerian consumer goods manufacturing firms the mean of firm size was 7.53 with a standard deviation of 0.79. For Kenyan firms, the mean of firm size is observed to be 6.94 with a standard deviation of 0.67 while for South African consumer goods manufacturing firms, the mean of firm size was 6.65 with a standard deviation of 0.65. Comparatively, our results shows that consumer goods manufacturing firms in Nigeria are bigger in terms of size than those in Kenya and South Africa.

Regression Analyses
We used a panel regression analysis since the data had both time series (2011 to 2020) and cross-sectional properties (listed consumer goods manufacturing firms in Sub-Sahara Africa). The panel data regression and an OLS pooled results obtained is presented and discussed below.

Table 2: Combine Regression Result

	JOSA Model (Pooled OLS)	JOSA Model (FIXED Effect)	JOSA Model (RANDOM Effect)
C	0.03 {0.664}	-1.37 {0.000} ***	-0.03 {0.750}
RETA	0.00 {0.000} ***	0.01 {0.000} ***	0.00 {0.000} ***
FSIZ	-0.02 {0.085}	0.24	-0.01 {0.610}

	{0.000} *******		
F-statistics/Wald Statistics	27.47 (0.00) ***	36.71 (0.00) ***	129.09 (0.00) ***
R- Squared	0.21	0.29	0.20
VIF Test	1.13		
Heteroscedasticity Test	6.51 (0.0107) **		

HAUSMAN TEST
Prob>chi2 =   101.25 (0.0000)

 Note: (1) bracket {} are p-values

          (2) **, ***, implies statistical significance
at 5% and 1% levels respectively

In the table above, we observed from the OLS pooled regression that the R-squared value of 0.21 shows that about 21% of the systematic variations in financial reporting quality proxied by Jones discretionary accrual in the pooled consumer goods manufacturing firms in Sub-Sahara Africa over the period of interest was explained by the independent variables in the model. The unexplained part of financial reporting quality can be attributed to exclusion of other independent variables that can impact on financial reporting quality but were captured in the error term. The F-statistic value of 27.47 and its associated P-value of 0.00 shows that the OLS regression model on the overall is statistically significant at 1% level, this means that the regression model is valid and can be used for statistical inference. The table above also shows a mean VIF value of 1.13 which is within the benchmark value of 10, this indicates the absence of multicollinearity, and this means no independent variable should be dropped from the model. Also, from the table above, it can be observed that the OLS results had heteroscedasticity problems since its probability value was significant at 5% [6.51 (0.01)]. The presence of heteroscedasticity clearly shows that our sampled firms are not homogeneous. This therefore means that a robust or panel regression approach will be needed to capture the impact of each firm and country heteroscedasticity on the results. In this study we adopted the panel regression method using both fixed and random effect models.

The F-statistic and Wald-statistic value of 36.71 (0.00) and 129.09 (0.00) for fixed and random effect models respectively shows that both models are valid for drawing inference since they are both statistically significant at 1%. In the case of the coefficient of determination (R-squared), it was observed that 28% and 20% systematic variations in financial reporting quality proxied by Jones discretionary accrual was explained by the independent variables in both models respectively. This therefore implies that more of the variation in financial reporting quality were explained when compared to the OLS pooled regression. In selecting from the two panel regression estimation results, the Hausman test was conducted, and the test is based on the null hypothesis that the random effect model is preferred to the fixed effect model. A look at the p-value of the Hausman test (0.0000), implies that we should reject the null hypothesis and accept the alternative hypothesis at above 5% or 1% level of significance. This implies that we should adopt the fixed effect panel regression results in drawing our conclusion and

recommendations. This also implies that the fixed effect results tend to be more appealing statistically when compared to the random effect.

Discussion of Findings

Our empirical results shows that Profitability (Fixed effect regression = 0.01 (0.000)) as an independent variable to financial reporting quality appears to have a positive and significant influence on financial reporting quality. This therefore means we should reject the null hypothesis {$H0_2$: Profitability has no significant effect on financial reporting quality of listed consumer goods manufacturing firms in Sub-Sahara Africa}. This suggests that an increase in profitability will significantly increase financial reporting quality of consumer goods manufacturing firms of the three countries in our sample. This result agrees with prior empirical results which show that profitability significantly increases financial reporting quality (Drago and Silipo, 2017, Agostino et al. 2010, Devalle et al. 2010; Stolowy & Jeny-Cazavan, 2001; Haller, 2002). However, we fail to agree with the studies of Agostino et al. 2010, Devalle et al. 2010 who concluded that profitability significantly reduces financial reporting quality. We document that an increase in profitability will significantly increase financial reporting quality of consumer goods manufacturing firms of the three countries in our sample. Our result implies that profitable firms have the incentive to improve their financial reporting quality. The main disclosure theories tend to indicate that there is a positive relationship between profitability and quality of financial reporting (Waweru et al., 2013). Proponents of signaling theory held that when company performance is good, companies will be more inclined to signal their quality to investors (Watson, Shirives & Marston, 2002). The finding confirms the signalling theory that financial reporting quality is potentially an efficient means for management to communicate firm performance and governance to outside investors (Sanad and Al-Sartawi, 2016). Hence, most profitable companies will provide complete and better information for the market, and this implies that firm attribute of profitability as a way of motivating signaling through quality reporting. The empirical evidence, however, is mixed. Cheng and Countenay (2006), Gul and Leung (2004), Haniffa and Cook (2002), and found positive significant association. In addition, Hashem (2012) as cited by Shehu et al. (2013) showed that Return on asset used as proxy for performance of firms is significantly positively related to financial reporting quality, which indicates that when there is any increase on performance of firms, there will be a corresponding increase in earnings manipulation and as a result of this, the quality of the earnings reported is at jeopardy. Shehu and Ahmed (2013) conducted a study on firm characteristics and financial reporting quality of listed manufacturing firms in Nigeria. They found that Profitability has positively associated with earnings quality.

5.0   Conclusion and Recommendation

Providing high quality financial reporting information is important because it will positively influence capital providers and

other stakeholders in making investment, credit, and similar resource allocation decisions enhancing. The quality of financial reporting is determined by the usefulness of information provided to meet the needs of users. This study investigates the effect of firm profitability on the financial reporting quality of listed consumer goods manufacturing firms in Sub-Sahara Africa. In this study, profitability is the firm attribute proxy adopted to evaluate the effect on financial reporting quality in Sub-Sahara Africa. Financial reporting quality is measured in terms of Jones discretionary accrual. In testing for the effect of the above variables on financial reporting quality of listed consumer goods manufacturing firms in Sub-Sahara Africa, we conducted panel least square regression before proceeding to check for inconsistencies with the basic assumptions of the OLS regression. Succinctly, these diagnostics tests include test for multicollinearity as well as test for heteroscedasticity. The panel fixed and random effects were employed and estimated using the appropriate techniques. The findings of the study reveal that firm profitability has a significant influence on financial reporting quality in quoted consumer goods manufacturing firm in Sub-Sahara Africa. Our implies that increases in profitability results in improve FRQ and hence the result implies that profitable firms have the incentive to improve their financial reporting quality. Based on the findings of the study, we recommend that regulators such as the FRCN can look into the trend of firm's financial performance to identify cases of potential financial manipulation.

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