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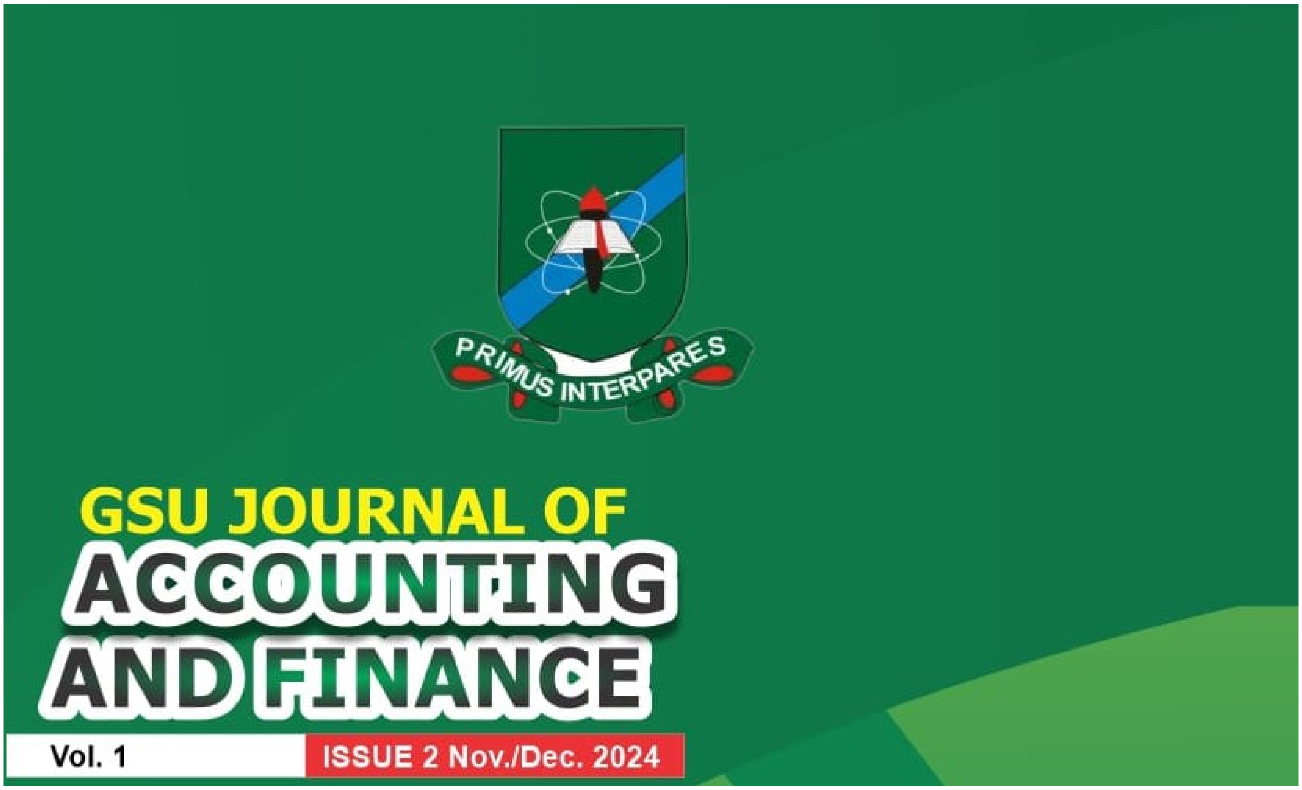

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IMPACT OF SUSTAINABILITY REPORTING ON THE FINANCIAL PERFORMANCE OF CONSUMER GOODS COMPANIES LISTED IN NIGERIA

Dr. Rabiu Ado[1] & Emeka Paul Ohagwu[2]

[1]Department of Accounting Bayero University Kano
[2]Ph.D. Scholar Department of Accounting Bayero University Kano

Abstract

This study examined the impact of sustainability reporting on financial performance of listed consumer goods companies in Nigeria. Ex-post facto research design was used and secondary data was extracted from the annual report and account of the companies under study and the data was analysed using multiple regressions analysis. The findings revealed a positive and significant influence of economic indicators of sustainability reporting on financial performance (ROE) of listed consumer goods companies in Nigeria. The result revealed a negative and significant influence of environmental indicators of sustainability reporting on financial performance (ROE). The results further revealed a negative and significant influence of social indicators of sustainability reporting on financial performance (ROE) meaning an increase in the disclosure of economic indicators of sustainability reporting reduced financial performance (ROE) of listed consumer goods companies in Nigeria. It is recommended that management of listed consumer goods companies in Nigeria should disclose more indicators of economic, social and environmental performance activities to boost their corporate image and reputation of being environmentally friendly as this will significantly influence financial performance (ROE).

Keywords: Sustainable Development, Sustainability Reporting, Financial Performance, Consumer Goods Companies.

1.0 Introduction

Sustainability is currently a burning issue and a major cause of concern across the globe. The terms corporate sustainability and sustainable development were first defined in the Brundtland report of 1987. The report created and defined the meaning of sustainable development as the process of economic growth, environmental protection, and social equality. Sustainability in the business arena denotes the process by which companies manage their economic, social, and environmental risks, obligations, and opportunities. In broad terms, sustainability is defined as economic practices which meet the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987).

Sustainability has found itself in many areas, and terminologies such as sustainable development, sustainable growth, sustainable products, sustainable processes, sustainable agriculture, sustainable cities, sustainable economy, sustainable architecture, and sustainable technologies are used by business leaders when discussing sustainability issues. Many have launched proactive programs that include life cycle accounting, design for eco-efficiency, community outreach, clean technology development, and a variety of other initiatives to ensure corporate survival with the overall aim of meeting the demand of diverse stakeholders.

Organizations should take accountability for various beneficial and harmful impacts of their activities on the overall society and the environment in which they exist. Moreover, the firms should make proper disclosure of these impacts in an appropriate sustainability report which provides a detailed description of their governance structure, stakeholder engagement approach and 'triple bottom line' to emphasize three aspects – people (social), profits (economic) and planet (environmental). It is widely believed and suggested by researchers that in today's dynamic and complex business environment, corporate sustainability is likely to influence corporate profitability and overall performance. It lays a foundation for preserving and enhancing the value of the firm. The firm reaps plenty of strategic benefits as a result of embedding sustainability in its core strategies (Aggarwal, 2013). These various benefits are improved stakeholder engagement/relations, customer access, employee morale, retention, loyalty and recruitment and improved corporate governance, among others (Warren & Thomsen, 2012).

Performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. One of the ways of measuring the performance of an organization is through financial performance, which refers to the degree in which financial objectives has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure the business overall financial health over a given period of time and can also be used to compare with similar firms across the same industry or to compare industries or sectors in aggregation. Dilling (2009) stated that high profitability and strong long-term growth will significantly affect the sustainability of a company's business. In addition, return on equity is consider as the best metric of measuring financial performance because it shows the extent at which returns is generated for the equity owners.

Studies on sustainability reporting and financial performance in Nigeria includes but not limited to the study of Nnamani, Onyekwelu and Ugwu, 2017; Asuquo, Dada and Onyeogaziri, 2018; Emeka-Nwokeji & Osisioma, 2019). However, these studies tended to focus on sectors like the banking and manufacturing sectors. As such, this research will contribute to knowledge by focusing on the relationship between sustainability reporting and the financial performance of consumer goods companies in Nigeria. Additionally, while the a priori expectation of the relationship between sustainability reporting and performance especially in developed countries is that of a positive relationship, this expectation is not borne from the studies conducted in Nigeria. Hence the main objective of this study is to determine the impact of sustainability reporting on the financial performance of consumer goods companies listed in Nigeria. section two presents the review of related literature; section three is on methodology; section four presents the discussion of results and section five presents the conclusion and recommendations of the study.

2.0 Literature Review

Concept of Financial Performance

According to Saeidi et al.(2014) company performance is a concept that explains the extent to which an organization achieves its objectives. It indicates how organizations have been peering over time. Performance is the result of the fulfillment of the tasks assigned. Company performance illustrates the magnitude of the results in a process that has been achieved compared with the company's goal (Abubakar et al., 2018). Performance refers to the association between strategic effectiveness and operational efficiency of an organization. Key objectives of a firm include but are not limited to improved production processes; products, services and market management. The Financial performance of any firm is related to the profitability of that firm (Batool & Sahi, 2019).Financial performance measurement can be done with the assessment of financial ratio analysis.

Financial ratios have been known to be the oldest simple and practical financial and planning analysis tool. it appeared in the mid of the nineteenth century and were always used by accountants and financial analysts. Financial ratios were used by internal and external financial data users for making their economic decisions; including investment, and performance evaluation decisions. Many financial and accounting models were developed during the past decades. However, the financial ratios still kept their classical and fundamental power either as part of these financial and accounting models or as another important supportive analysis (Kabejeh, Al Nu'aimat & Dahmash, 2012).

Concept of Sustainability Reporting

There is no universally accepted definition of sustainability reporting. It is a broad term generally used to describe a company's reporting on its economic, environmental and social performance. It is synonymous with the triple bottom line reporting, social reporting, social accounting, social and environmental reporting, non-financial reporting, sustainability accounting and sustainable development reporting among others (Dilling, 2010;Pieno, 2013; Dagiliene, 2014; Sulkowski & Waddock, 2014;Haladu, 2018).Sustainability reports typically include non-financial information or all information reported to shareholders and other stakeholders that consists of economic, social and environmental performance (Eccles & Krzus, 2010). It involves the practice of measuring, disclosing, and being accountable to stakeholders for organizational performance in three perspectives of sustainability, environment, economic and social (Goel, 2010).

Global Reporting Initiative (GRI)

The GRI was established in late 1997 with the mission of developing globally applicable guidelines for reporting on economic, environmental, and social performance, initially for corporations and eventually for any business, governmental, or non-governmental organizations (NGOs). Convened by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP), the GRI incorporates the active participation of corporations, NGOs, accountancy organizations, governmental representatives, business associations, labour, universities, and other stakeholders from around the world. The Sustainability Reporting Guidelines were initially released in exposure draft form in March 1999. Revised Guidelines were released in June 2000 with a third version released in September 2002 by which point more than 140 companies had prepared reports based on the GRI Guidelines (Kwaghfan, 2015).

According to Garg (2016), The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental and social performance. It is designed for use by organizations of any size, sector or location. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization's sustainability performance." Below are the performance indicators for GRI reporting guidelines.

Economic Indicators

The economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and economic systems at local, national, and global levels. The Economic Indicators illustrate the flow of capital among different stakeholders however, financial performance is fundamental to understanding an organization and its sustainability. This information is normally already reported in financial accounts. What is often reported less, and is frequently desired by users of sustainability reports, is the organization's contribution to the sustainability of a larger economic system (GRI 2013).

Environmental Indicators

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste). In addition, they cover performance related to biodiversity, environmental compliance, and other relevant information such as environmental expenditure and the impacts of products and services (GRI, 2013).

Social Performance Indicators

The social dimension of sustainability concerns the impacts an organization has on the social systems within which it operates. The GRI Social Performance Indicators identify key Performance Aspects surrounding labour practices, human rights, society, and product responsibility (GRI, 2013).

Empirical Studies

Studies on sustainability reporting and financial performance include but not limited to the following studies Aggarwal (2013) examines the impact of sustainability performance of company on the financial performance of listed Indian companies. The sample of the study is 20 companies listed on the Indian Stock Exchange and selected using a purposive sampling technique. Data used in the study were obtained from secondary sources and analyzed using a regression model. The result of the study shows that there is no significant association between overall sustainability rating and financial performance proxied by ROA and ROE.

Hussain (2015) analyzed the impact of sustainability performance on the financial performance of Global Fortune N100 Firms from 2007-2011. The study sample comprises 44 N100 companies that issued their sustainability report(s) at least once in the selected study period. Secondary sources were used to gather the data required for the study and analyzed using a regression model. The findings of this study show that there is no significant relationship between the economic dimension of sustainability performance and financial performance proxied by ROA and ROE of reporting firms. A positive and significant relationship was discovered between the environmental dimension and financial performance proxied by ROA and ROE. Similarly, the study shows a positive relationship between the social dimension of sustainability and financial performance proxied by ROA and ROE.

In another study, Kasbun et al.(2016) examine the relationship between sustainability reporting and financial performance of Malaysian Public-Listed Companies. The sample of the study is 200 publicly listed companies in Bursa Malaysia. The study utilizes secondary data obtained from published Sustainability Reports (within annual reports or stand-alone reports) annual reports of the selected companies. The data obtained were analysed using a regression model. The result of the study shows that economic, social and environmental sustainability reporting is positively associated with financial performance measured using Return on Assets (ROA) and Return on Equity (ROE).

Kılıç et al.(2022) investigated the effect of sustainability performance on financial performance in developed and developing countries focusing on Turkey and South Korea. The population of the study was 94 companies listed on the floor of both countries' stock exchanges. Secondary sources of data were used to obtain the data used for this study and they also adopted a regression model in their data analysis. The findings of the study revealed mixed results. In Turkey, it was found that sustainability performance significantly affects ROA but did not significantly affect ROE. The reverse is the case for South Korea. In South Korea, the result of the study shows that sustainability performance had a significant and positive effect on ROE but no significant effect on ROA.

Nugrahani and Artanto (2022) investigate the effect of sustainability reporting on financial performance from economic, social and environmental dimensions of sustainability disclosures. The research sample consisted of 31 companies that published sustainability reports from 2015-2019 obtained using purposive sampling and analysed using a regression model. The results showed that the economic and environmental dimensions of sustainability disclosures showed a negative effect on ROA. This means that companies that disclose economic and environmental performance will reduce the achievement of ROA. However, the result shows no significant influence on ROA. This study proves that the theory of stakeholders is not sufficient to meet the achievement of profitability and companies need to look at the substantive aspects of sustainability reporting.

In the same vein, Ogiriki and Igo (2022) reviewed the indicators of sustainability reporting and the performance of 64 listed non-financial companies in Nigeria. Data was extracted from the annual report and account of the companies under study was analysed using a regression analysis and the result shows that sustainability reporting indicators impacted positively but not statistically significantly on financial performance proxied by Return on Asset (ROA) and Return on Equity (ROE).

However, Celik (2023) examined the impact of sustainability reporting on the financial performance of firms listed on the Istanbul stock market. Using secondary sources of data and after analyzing the obtained data using multiple regressions, the study finds that financial performance (proxied by ROA and ROE) is positively affected by sustainability reporting.

Theoretical Framework

Previous studies have used stakeholder theory, legitimacy theory and political economy theory to explain the association between sustainability reporting and financial performance. (Aggarwal, 2013; Kwaghfan, 2015; and Loh, Thomas & Wang, 2017).

Legitimacy theory explain that legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). Legitimacy in this context has been defined by Deegan (2007) as a condition or status which exists when an entity's system is compatible with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy. In the context of legitimacy theory, corporate social reporting provides information that legitimizes a company's behavior to influence stakeholders' and eventually society's perceptions about an organization (Hooghiemstra, 2000), resulting in a higher firm value. The main idea here is that legitimacy depends on how society perceives the organization and its actions (Cormier & Gordon, 2001).

According to Gray, Owen and Adam (1996), Political economy theory is defined as 'the social, political and economic framework within which human life takes place'. The perspective embraced is that society, politics and economics are inseparable, and economic issues cannot meaningfully be investigated in the absence of considerations about the political, social and institutional framework in which the economic activity takes place. It is argued that by considering the political economy a researcher is able to consider broader social issues that impact on how an organization operates, and what information it elects to disclose. The political economy perspective perceives accounting reports as social, political, and economic documents. They serve as a tool for constructing, sustaining and legitimizing economic and political arrangements, institutions and ideological themes which contribute to the corporation's private interests.

The term 'Stakeholder(s)' has been defined as all those individuals and groups with a 'critical eye' on corporate actors (Bowmann-Larsen & Wiggen, 2004). Freeman (1984) defined stakeholder(s) as "any group or individual who can affect or is affected by the achievement of the firm's objectives." According to this definition, stakeholders can be owners, customers, suppliers, and public groups. He further looked at companies' responsibilities as consisting of a two-way responsibility between business and groups of stakeholders in a society.

Ansoff (1965) first introduced stakeholder theory to explain the importance of identifying crucial stakeholders of an organization. As stated by Ansoff, the company's primary strategic objective is to achieve the capability to balance the different needs of diverse stakeholders in an organization. Stakeholder theory views organizations as part of a social system while focusing on the various stakeholder groups within society (Ratanajongkol, Davey, & Low, 2006). This theory postulates that there are various groups in society that an organization can impact. These stakeholder groups have a right on the organization for their interest to be addressed by the organization because of the agency relationship. Business operations affect the interests of multiple parties having a stake in a business. Similarly, the behaviour of multiple parties also affects business interests. Therefore, businesses should incorporate stakeholder expectations into their planning and policies (Harmoni, 2013).

The underpinning theory for this study is the stakeholder theory because stakeholder(s) theory posits that the organization exist not primarily for itself and its owners but also for the benefit of society. Moral and value considerations are as important as profitability matters in a business (Mansell, 2013). According to Oyewo & Badejo, (2014) recognizing that other stakeholders' have an interest in the organization has implications for business policy and strategies, such as striking a balance between sustainability and profitability as such stakeholder theory was adopted as the theory that best explain the relationship between sustainability reporting and financial performance.

3.0 Methodology

Ex-post facto research design was adopted because the study used secondary data extracted from the annual reports and accounts of the sampled consumer goods companies in Nigeria for the period covering 2018 to 2022. The population of this study comprises all the 21 Consumer goods companies listed on the Nigerian Exchange Group (NGX) as at 31st December 2022. However, ten (10) Consumer Goods Companies were randomly selected to be the sample size for this study, this is necessary to give all the consumer goods companies equal opportunity to be selected and to remove all forms of sample bias. The data extracted were analyzed using multiple regression analysis. This is because multiple regressions are expected to explain the variation in dependent variable (financial performance) due to the variation in any of the independent variables (sustainability reporting).

3.1 The Variables of the Study and their Measurement

Two different variables (dependent and independent) are considered in this study.

Variable Name	Type of Variable	Measurement	Sources
Return on equity (ROE)	Dependent	PBT divided by Total asset	Kijewska, (2016); Nnamani and Onyekwelu (2017), Nwobu, Owolabi and Iyoha (2017) and Nobanee and Ellili (2017)

Economic performance disclosure	Independent	measured using dichotomy 1 for disclosure otherwise 0	Nwobu, Owolabi and Iyoha (2017) and Nobanee and Ellili (2017)
Environmental performance disclosure	Independent	measured using dichotomy 1 for disclosure otherwise 0	Nnamani and Onyekwelu (2017), Nwobu, Owolabi and Iyoha (2017) and Nobanee and Ellili (2017)
Social performance disclosure	Independent	measured using dichotomy 1 for disclosure otherwise 0	Nnamani and Onyekwelu (2017), Nwobu, Owolabi and Iyoha (2017) and Nobanee and Ellili (2017)
Firm Size (FSIZE)	Control	Log of total assets	Lesakova (2007)
Leverage (LEV)	Control	Liabilities divided by total asset	Nwobu, Owolabi and Iyoha (2017)

Source: Compiled from literature, 2024.

Model Specification

The general model based on the variables of the study is as follows:

$ROE_{it} = \alpha + \beta_1 ECOND_{it} + \beta_2 ENVD_{it} + \beta_3 SOCD_{it} + \beta_4 NII_{it} + \beta_4 LEV_{it} - \beta_5 BSIZE_{it} + \varepsilon$

4.0 Results and Discussion

This section presents analysis and interprets the data generated for the study. The data relating to each of the statistical hypotheses of the study were presented and analyzed. The hypotheses of the study were also tested and inferences there from.

Table 4.1 Descriptive Statistics

Variable |	Obs	Mean	Std. Dev.	Min	Max
ROE |	50	0.1620	0.2266	-0.4809	0.7414
ECONDIS |	50	0.94	0.2399	0	1
ENVIRONDIS |	50	0.96	0.1979	0	1
SOCIADIS |	50	0.6909	0.20051	0.476	0.952

FSIZE |	50	10.5208	0.5405	9.5959	11.5171
LEV |	50	0.3555	0.2019	0.0370	0.6290

SOURCE: STATA OUTPUT, 2024

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Table 4.1 shows a mean of 0.1620 for return on equity meaning the average return on equity of the listed consumer goods companies under study is 16kobo with a minimum and maximum of -048kobo and 74kobo respectively. However, the standard deviation of 0.2266 signifies high variation in the return on equity generated by the listed consumer goods companies in Nigeria.

Economic indicators of sustainability reporting have a mean of 0.94 meaning on the average listed consumer goods companies disclose 94% of the information under economic indicator with the minimum and maximum of 0 and 1 respectively. However, the standard deviation of 0.2399 shows no much variation in the disclosure of information on economic indicators by the listed consumer goods companies under study.

Environmental indicators of sustainability reporting have a mean of 0.96 meaning on the average listed consumer goods companies disclose 96% of the information under economic indicator with the minimum and maximum of 0 and 1 respectively. However, the standard deviation of 0.1979 shows no much variation in the disclosure of information on environmental indicators by the listed consumer goods companies under study.

Social indicators of sustainability reporting have a mean of 0.6909 meaning on the average listed consumer goods companies disclose 69% of the information under social indicator with the minimum and maximum of 0.476 and 0.952 respectively. However, the standard deviation of 0.2005 shows no much variation in the disclosure of information on social indicators by the listed consumer goods companies under study.

Firm size has a mean of 10.5208 with the minimum and maximum of 9.5959 and 11.517 respectively. However, the standard deviation of 0.5405 shows no much variation in the size of the listed consumer goods companies under study.

Leverage has a mean of 0.3555 meaning that on average listed consumer goods companies under study finance 36% of their capital structure by debt with the minimum and maximum of 0.0370 and 0.6290 respectively. However, the standard deviation of 0.2019 shows no much variation in the use of debt in the capital structure of the listed consumer goods companies under study.

Table 4.2 Correlation Matrix

Variable	ROE	ECONDIS	ENVIROS	SOCIADIS	FSIZE	LEV	VIF
ROE	1.0000						
ECONDIS	0.1493	1.0000					1.25
ENVIRONDIS	-0.1416	0.3782	1.0000				1.21
SOCIADIS	-0.2854	0.0712	-0.0119	1.0000			1.24
FSIZE	0.2164	0.1238	-0.0109	0.2796	1.0000		1.61
LEV	-0.0954	0.0835	-0.0759	0.1666	-0.4658	1.0000	1.54

SOURCE: STATA OUTPUT, 2024

Table 4.2 shows the correlation coefficients between the independent variable (sustainability reporting) and dependent variable (financial performance). The coefficients show economic indicators of sustainability reporting and firm size are positively correlated with the financial performance (Return on equity) that environmental indicators of sustainability, social indicators of sustainability and leverage are negatively correlated with financial performance (Return on equity). In addition, the results of the VIF test confirm absence of multicolenearity since the VIF range between 1.21 and 1.61

Table 4.3 Random-effects GLS regression

ROE	COEFFICIENTS	STD. ERR.	Z	P>|z|
ECONDIS	0.3172	0.1110	2.86	0.004
ENVIRONDIS	-0.3528	0.1347	-2.62	0.009
SOCIADIS	-0.4295	0.2005	-2.14	0.032
FSIZE	0.1339	0.0668	2.01	0.045
LEV	0.1813	0.1631	1.11	0.266
_CONS	-0.9747	0.7375	-1.32	0.186

R-sq: within = 0.3550
between = 0.1029
overall = 0.2259
Prob > chi2 = 0.0014
Vif = 1.37
Hettest = 0.8383

Hausman test = 0.8273
LM test = 0.0002

SOURCE: STATA OUTPUT, 2024

The regression results above show an r-square of 0.355 meaning that 36% of the variation in the financial performance (Return on equity) of listed consumer goods companies in Nigeria however the remaining 64% are accounted by variables not considered in this study. The hettest p-value of 0.8383 revealed absence of hetrosckadasticity and hausman test p-value of 0.8273 suggest random effect regression results which has been confirmed by the Langrangian multiplier test (LM) p-value of 0.0002, hence random effect regression results were interpreted.

The results revealed a positive and significant influence of economic indicators of sustainability reporting on financial performance (ROE) meaning an increase in the disclosure of economic indicators of sustainability reporting increase financial performance (ROE) of listed consumer goods companies in Nigeria. This is consistent with the findings of Kasbun et al. (2016) whose findings revealed that economic, social and environmental sustainability reporting are positively associated with financial performance (ROA and ROE) of publically listed companies in Malaysia.

This finding however contracts the findings of Hussain (2015) whose findings revealed no significant relationship between the economic dimension of sustainability performance and financial performance.

The results revealed a negative and significant influence of environmental indicators of sustainability reporting on financial performance (ROE) meaning an increase in the disclosure of economic indicators of sustainability reporting reduced financial performance (ROE) of listed consumer goods companies in Nigeria. This is consistent with the findings of Nugrahani and Artanto (2022) that investigate the effect of sustainability reporting on financial performance from economic, social and environmental dimensions of sustainability disclosures and found a negative effect of the economic and environmental dimensions of sustainability disclosures on ROA. However, this finding contradict Kılıç et al. (2022) who found that sustainability performance had a significant and positive effect on ROE of Korean firms.

The results revealed a negative and significant influence of social indicators of sustainability reporting on financial performance (ROE) meaning an increase in the disclosure of economic indicators of sustainability reporting reduced financial performance (ROE) of listed consumer goods companies in Nigeria. This is contrary with the findings of Celik (2023) that found a positive and significant effect of sustainability reporting on the financial performance of firms listed on the Istanbul stock market.

The results revealed a positive and significant influence of firm size on financial performance (ROE) of listed consumer goods companies in Nigeria. This is consistent with the aprior expectation because larger companies are expected to have stabilized which will significantly influence their financial performance.

The results however revealed a positive but not significant influence of leverage on financial performance (ROE) of listed consumer goods companies in Nigeria. This is consistent with the aprior expectation because of tax advantage of using debt in financing business.

Conclusion and Recommendations

Sustainability reporting provides a platform of communication and engagement between the corporate organization and its stakeholders. Based on the findings of the study, it is concluded that sustainability reporting has a significant influence on the financial performance (ROE) of listed consumer goods companies in Nigeria. Thus management of listed consumer goods companies in Nigeria should be transparent and accountable to all stakeholders by disclosing environmentally sensitive information since this will significantly impact organization reputation. It is recommended that management of listed consumer goods companies in Nigeria should disclose more indicators of economic, social and environmental performance activities to boost their corporate image and reputation of being environmentally friendly as this will significantly influence financial performance (ROE).

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