

The Effect of Financial Performance on Firm Value: Dividend Policy's Moderating Role

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ABSTRACT

The rapid economic growth in Indonesia has markedly influenced corporate performance. This study aims to provide empirical evidence concerning the effects of liquidity, leverage, activity, profitability, and dividend policy on firm value. A purposive sampling technique was utilized for this research. Data were gathered through non-participant observational methods. Utilizing SPSS software, the researchers conducted a moderation regression analysis on the acquired data. The findings indicate that liquidity, leverage, and profitability do not significantly affect firm value. However, activity was shown to impact firm value, whereas dividend policy does not alter the relationship between liquidity, leverage, and activity on firm value. Interestingly, dividend policy does enhance the effect of profitability on firm value.

Keywords: Firm Value; Financial Performance; Dividend Policy

Pengaruh Kinerja Keuangan pada Nilai Perusahaan dengan Kebijakan Dividen sebagai Variabel Moderasi

ABSTRAK

Perkembangan ekonomi di Indonesia yang bergerak secara dinamis mempengaruhi kinerja perusahaan. Tujuan dilaksanakannya penelitian ini ialah untuk mendapatkan bukti empiris pengaruh likuiditas, leverage, aktivitas, profitabilitas, dan kebijakan dividen pada nilai perusahaan. Dalam pengambilan sampel metode yang digunakan adalah purposive sampling. Teknik pengumpulan data menggunakan metode observasi non partisipan. Untuk menganalisis data metode yang digunakan adalah analisis regresi moderasi dengan bantuan program SPSS. Hasil penelitian menunjukkan bahwa likuiditas, leverage, dan profitabilitas tidak mempengaruhi nilai perusahaan. Selanjutnya, aktivitas berpengaruh pada nilai perusahaan, sementara kebijakan dividen tidak memengaruhi likuiditas, leverage, dan aktivitas pada nilai perusahaan. Namun, kebijakan dividen memperkuat dampak profitabilitas pada nilai perusahaan.

Kata Kunci: Kinerja Keuangan; Nilai Perusahaan; Kebijakan Dividen

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INTRODUCTION

Indonesia's economic development has exhibited a dynamic trajectory in recent years, rebounding from the negative impacts of the pandemic. In 2022, the country recorded an economic growth of 5.31 percent on a year-over-year basis, marking the highest rate in the last decade and surpassing the 5.56 percent growth observed in 2013. This trend has significantly influenced all sectors, including the capital market. Notably, the Jakarta Composite Index (JCI), a critical market indicator, experienced fluctuations with a 4.09 percent increase followed by a subsequent 5.09 percent decrease in 2022. Similarly, the LQ45 index, which tracks large-cap corporations, demonstrated considerable volatility; it reached a peak in 2020, then declined by 21.42 percent, but later recovered with an 11.71 percent increase. These market movements underscore the profound impact of the pandemic's economic repercussions on major corporations and reflect broader economic trends.

Several variables influence the value of a firm, including the financial success of the organization (Mahendra et al., 2012). Economic conditions compel companies to enhance their operations to increase effectiveness and efficiency, and ultimately to survive (Indrawaty & Mildawati, 2018). Financial ratio analysis is a pivotal method for identifying key factors in economic activities, particularly in decision-making processes. It is commonly employed to evaluate a company's financial performance (Setiyono & Amanah, 2016). There are five categories of financial ratios: profitability, liquidity, leverage, company activity, and market value (Wiagustini, 2014). Financial reports are crucial in assessing a company's performance as they are considered capable of demonstrating the level of success attained by the organization (Damayani & Wirawati, 2022).

This study employs signaling theory, which posits that financial information derived from a company's financial statements serves as an indicator for investors to make informed decisions. According to (Simanjuntak & Hasibuan, 2023), the robust performance of a company can be perceived as a sign of its soundness and potential for substantial financial gains, thereby instilling confidence in investors. Furthermore, (Dewi & Hasibuan, 2022) suggests that prospective investors are more likely to be encouraged by a company's profitability when it is strong.

Various studies have produced conflicting results regarding the relationship between financial performance and firm value. Due to this inconsistency, researchers have begun to examine moderating factors that could either amplify or mitigate the influence of different variables. In this context, dividend policy emerges as a significant moderating factor. Dividends often attract considerable focus due to the 'bird in hand' theory, which suggests that dividends are viewed as more assured sources of capital gains (Rutin et al., 2019).

Liquidity refers to a corporation's capacity to meet its immediate financial obligations using readily accessible cash (Wiagustini, 2014). Signaling theory posits that maintaining substantial liquidity can enhance a company's worth and convey a favorable message to those who analyze financial statements (Rutin et al., 2019). A series of studies conducted by Damayani & Wirawati (2022), Agustina (2020), Indrawaty & Mildawati (2018), Putra & Lestari (2016), Sondakh (2019), Reschiwati et al. (2020) collectively confirmed the presence of a favorable association between liquidity and firm value. These studies found that ample

liquidity reduces the risk of failing to meet short-term obligations and may enhance firm value. Conversely, insufficient liquidity heightens this risk and diminishes firm value.

H₁: Liquidity has a positive effect on firm value.

According to Kasmir (2016), the leverage ratio indicates the degree to which a company relies on debt to finance its assets. Leverage provides insight into the level of risk and corporate policies associated with the use of debt, as each firm must decide how to structure its debt to fund its operations. A company's use of balanced debt sends a signal that influences how the market evaluates the performance of the company. Studies by Oktaviani & Mulya (2018), Markonah et al. (2020), Setyawati (2019), Afinindy et al. (2021), Fajaria & Isnalita (2018), Rutin et al. (2019), Sukmawardini & Ardiansari (2018), Andriansyah et al. (2023), Tahu & Susilo (2017), Ahmad et al. (2022), and Simanjuntak & Hasibuan (2023) collectively assert that leverage negatively affects firm value. An elevated level of leverage signifies a higher reliance on debt relative to equity, increasing the likelihood of defaulting on obligations and amplifying risk for investors (Indrawaty & Mildawati, 2018).

H₂: Leverage has a negative effect on firm value.

The activity ratio is a metric used to evaluate how efficiently a company utilizes its assets (Kasmir, 2016). Signaling theory suggests that a firm's ability to effectively utilize its assets can communicate important information and shape the opinions of stakeholders who are evaluating the organization. Several studies conducted by Adita & Marwadi (2018), Rambe et al. (2023), Salam (2023), Hulasoh & Mulyati (2021), Simorangkir (2019), Widagdo & Sa'diyah (2021), Hasangapon et al. (2021), Andriansyah et al. (2023), Karyatun & Ardhana (2022), and Vedy & Santoso (2022) have similarly found that activity positively influences firm value. A high total asset turnover within a company correlates with enhanced profitability and return on investment, fostering public trust and augmenting the worth of the company.

H₃: Activity has a positive effect on firm value.

The profitability ratio assesses a company's capacity to generate earnings and reflects operational efficiency, effectiveness, and future prospects (Kasmir, 2016). According to Setyawati (2019), financial information about profitability elicits favorable perceptions among stakeholders, as posited by signaling theory. Studies conducted by Pangestuti et al. (2022), Dewi & Hasibuan (2022), Indahsari & Asyik (2021), Prihanta et al. (2023), Purwani & Oktavia (2018), Rante (2023), Setiawan & Rahmawati (2020), and Wahyuniyasanti & Mertha (2022) collectively determined that profitability positively contributes to a company's value. Favorable profitability figures can generate enthusiasm for stocks, impacting their prices in the stock market and signaling an increase in the company's value. Strong profitability growth signifies robust company performance and improved prospects (Indrawaty & Mildawati, 2018).

H₄: Profitability has a positive effect on firm value.

The 'bird in hand' theory posits that investors prefer companies with dividends, as they offer more reliable and predictable profits. This hypothesis suggests that the value of the bird currently in hand exceeds that of uncertain future financial rewards. Moreover, a company's dividend policy can

communicate its strong performance and prospects according to signaling theory. Studies conducted by Fajaria & Isnalita (2018), Indrawaty & Mildawati (2018), and Rutin et al. (2019) indicated that dividend policy can moderate the impact of liquidity on a company's value. Conversely, Setyawati (2019), Oktaviani & Mulya (2018), and Indrawaty & Mildawati (2018) found that dividend policy can also restrict the influence of leverage on a company's value. Further research by Dewiningrat & Baskara (2020), Lita et al. (2022), Nurmadi & Novietta (2022), Salam (2023), Simangunsong & Solikhin (2022), and Suliastawan & Purnawati (2020) has shown that dividend policy has the capacity to either diminish or augment the impact of profitability on a company's value. The distribution of dividends by companies is perceived as a positive signal that attracts investors due to the reliability of dividend income. This increased demand for shares subsequently raises share prices and enhances firm value.

H₅: Dividend policy can moderate the effects of liquidity, leverage, activity, and profitability on firm value.

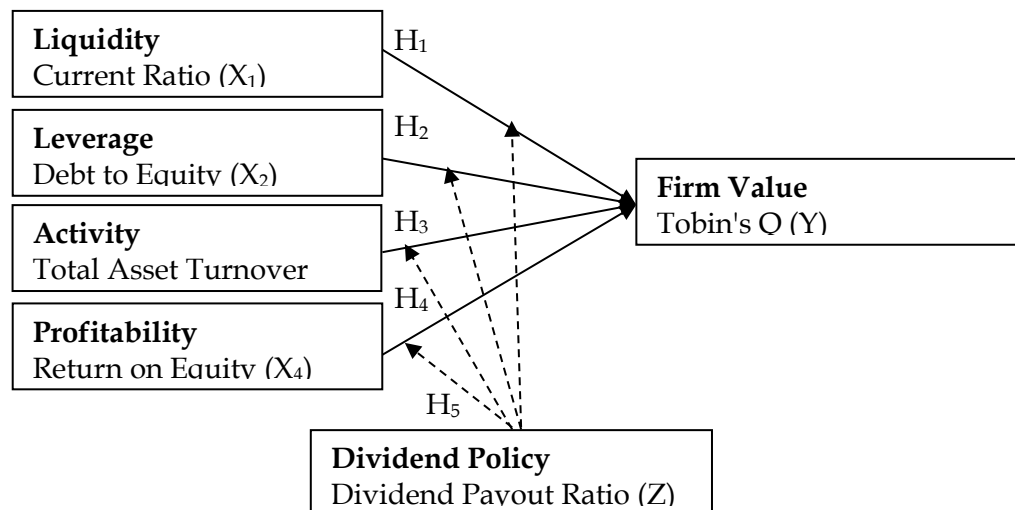


Figure 1. Research Conceptual Framework

Source: Research Data, 2023

RESEARCH METHOD

This study focuses on companies included in the LQ45 index during the timeframe of 2018-2022. The selection of this index is based on its representation of various industries and its inclusion of companies with significant activity in the Indonesian capital market, rendering it highly responsive to economic and market variations. A total of 69 companies included in the index during the period were used as the study population. The study employed purposive sampling, selecting 16 companies that met the following criteria: consistently listed and actively trading in the LQ45, publishing complete financial statements, using Rupiah in annual reports, making profits, and distributing dividends during the study period. Secondary data were gathered through non-participatory observation from sources such as Yahoo Finance, the official websites of the companies, and the Indonesia Stock Exchange (IDX).

Firm value, the dependent variable, is determined by aggregating the market worth of both debt and equity. Tobin's Q was chosen as the valuation method because it assesses the overall market value of the firm's assets. (Simanjuntak & Hasibuan, 2023). Tobin's Q can be computed using the following formula.

$$\text{Tobin's Q} = \frac{(\text{Share Price} \times \text{Outstanding Stock}) + \text{Total Liabilities}}{\text{Total Assets}} \dots\dots\dots (1)$$

Liquidity refers to a company's capability to meet its immediate financial obligations (Kasmir, 2016). The liquidity ratio, evaluated through metrics like the current ratio, gauges the company's capacity to settle short-term debts using its accessible assets. The concept of the current ratio is drawn from research conducted by Salam (2023).

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} \dots\dots\dots (2)$$

Leverage is a measure indicating the extent to which a company's assets are financed by debt or external sources of capital. The debt-to-equity ratio (DER) is a tool used to gauge the prominence of debt within a firm and is employed to assess the company's leverage. Setiyono & Amanah (2016) outlined a formula for determining the DER in their research.

$$\text{Debt to Equity} = \frac{\text{Total Liabilities}}{\text{Total Equity}} \dots\dots\dots (3)$$

One measure of a company's performance is its ability to convert assets into revenue effectively (Kasmir, 2016). Total asset turnover (TATO) is employed to evaluate how efficiently a company utilizes its assets to generate sales (Wiagustini, 2014). TATO can be calculated using the following mathematical formula.

$$\text{Total Assets Turnover} = \frac{\text{Net Income}}{\text{Total Assets}} \dots\dots\dots (4)$$

A company's profitability can be defined as the amount of money it makes from its operations over a given period (Kasmir, 2016). Return on equity (ROE) measures how well a business turns its shareholder's money into profit. According to the Sukmawardini & Ardiansari (2018) research, the calculation of ROE can be determined by utilizing the subsequent formula.

$$\text{Return on Equity} = \frac{\text{Earnings Before Interest and Tax}}{\text{Total equity}} \dots\dots\dots (5)$$

Dividend policy pertains to a company's choice of either distributing profits to shareholders as dividends or retaining them (Wiagustini, 2014). Evaluating the dividend policy involves utilizing the dividend payout ratio (DPR) as a metric, as employed in this study. The calculation of DPR follows the formula presented by Sukmawardini & Ardiansari (2018) and Nurmadi & Novietta (2022).

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend per Share}}{\text{Earnings per Share}} \dots\dots\dots (6)$$

The data for this research were processed using SPSS (Statistical Product and Service Solutions), a statistical software package. Prior to conducting moderation regression analysis, researchers carried out a series of traditional assumption tests along with descriptive analyses. These included tests for heteroscedasticity, autocorrelation, multicollinearity, and normality, which are typical in preparing data for regression analysis. In the regression model, the relationship between the dependent and independent variables is examined to assess the impact of the moderating variable through moderation regression analysis. The moderating variable influences the strength or direction of the

relationship between independent and dependent variables, acting as a critical factor in this investigation. The following equation is employed to determine the correlation between the variables:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 Z + \beta_6 X_1 \cdot Z + \beta_7 X_2 \cdot Z + \beta_8 X_3 \cdot Z + \beta_9 X_4 \cdot Z + \varepsilon \dots\dots\dots (7)$$

Where:

- Y = firm value
- α = constant
- β₁ - β₉ = regression coefficients
- Z = dividend policy
- ε = standard error

In this study, the R² coefficient was utilized to evaluate how much of the variability in the dependent variable can be explained by the independent variable. Furthermore, feasibility testing (F-test) and hypothesis testing (t-test) were performed to gauge the degree of influence exerted by the independent variables.

RESULT AND DISCUSSION

The assumption of multivariate normality is critical for examining data before conducting statistical tests. To screen for normality, the Kolmogorov-Smirnov test was utilized. The Asymptotic Significance (2-tailed) value reported is 0.000, indicating that the data distribution is not normal. Consequently, the data were subjected to transformation using the square root formula, SQRT(x), following the shape of the histogram graph, which exhibits moderate positive skewness (Ghozali, 2018).

Table 1. Descriptive Statistical Test Results

Model	Unstandardized Coefficients				Sig.
	B	Std. Error	t		
1 (Constant)	-1.425	1.264	-1.127	0.264	
CRR	0.354	0.508	0.697	0.488	
DER	0.755	0.381	1.979	0.052	
TATO	2.113	0.820	2.577	0.012	
ROE	-1.117	0.898	-1.244	0.218	
DPR	0.826	1.486	0.556	0.580	
DPR.CRR	0.285	0.639	0.446	0.657	
DPR.DER	-0.556	0.418	-1.331	0.187	
DPR.TATO	-1.664	0.840	-1.980	0.052	
DPR.ROE	2.518	0.953	2.643	0.010	
Adjusted R Square	0.747				
F Count	26.878				
Sig. F	0.000				

Source: Data Processed, 2024

Using Tobin's Q as a measure, firm value spans from a minimum of 0.90 to a maximum of 3.80, with an average value of 1.384 and a standard deviation of 0.553. The current ratio, utilized to assess liquidity, ranges from 0.70 to 2.16, with an average of 1.246 and a standard deviation of 0.370. The leverage variable, evaluated through the debt-to-equity ratio, shows a range from 0.43 to 2.63, with an average of 1.246 and a standard deviation of 0.724. The activity metric, measured by the total assets turnover ratio, has an average value of 0.778 and a

standard deviation of 0.366, spanning from 0.24 to 1.51. The profitability measure, the return on equity ratio, varies from 0.19 to 1.37, with an average of 0.492 and a standard deviation of 0.244. Concerning the dividend policy variable, quantified by the dividend payout ratio, the mean is 0.746 with a standard deviation of 0.256, ranging from 0.23 to 1.50.

In this research, the one-sample Kolmogorov-Smirnov test was employed to ascertain the normality of data distribution, yielding a test statistic of 0.066. The asymptotic significance (two-tailed) of 0.200, which exceeds the threshold of 0.05, indicates that the distribution of variables in this study is as expected. The multicollinearity analysis shows tolerance values over 0.10 and VIF values below 10, suggesting the absence of multicollinearity in the model.

The Glejser test was utilized to examine heteroscedasticity, revealing that each variable has a significance value above 0.05, which indicates that the regression model does not exhibit heteroscedasticity. Furthermore, the Durbin-Watson (d) value with n=80 and k=5 is 2.123. This result falls between the upper limit (du) of 1.7716 and 4 - du (2.2284), suggesting the absence of autocorrelation in the regression analysis.

Table 2. Moderation Regression Analysis Results (MRA)

Model	Unstandardized Coefficients				Sig.
	B	Std. Error	t		
1 (Constant)	-1.425	1.264	-1.127	0.264	
CRR	0.354	0.508	0.697	0.488	
DER	0.755	0.381	1.979	0.052	
TATO	2.113	0.820	2.577	0.012	
ROE	-1.117	0.898	-1.244	0.218	
DPR	0.826	1.486	0.556	0.580	
DPR.CRR	0.285	0.639	0.446	0.657	
DPR.DER	-0.556	0.418	-1.331	0.187	
DPR.TATO	-1.664	0.840	-1.980	0.052	
DPR.ROE	2.518	0.953	2.643	0.010	
Adjusted R Square	0.747				
F Count	26.878				
Sig. F	0.000				

Source: Data Processed, 2024

Based on these findings, a regression equation model can be formulated as follows:

$$TQ = -1.425 + 0.354CRR + 0.755DER + 2.113TATO + -1.117ROE + 0.826DPR + 0.285DPR.CRR - 0.556DPR.DER - 1.664DPR.TATO + 2.518DPR.ROE$$

A total Adjusted R² value of 0.747 suggests that the regression model accounts for 74.7 percent of the variability in firm value. The remaining 25.3 percent is attributable to other factors not considered in this study. The overall regression model is considered acceptable, with an F value of 26.878 at a significance level of 0.000, suggesting that all independent variables together exert a significant influence on firm value.

Hypothesis 1 testing revealed that liquidity does not exert a significant influence on firm value. Although liquidity demonstrates a positive correlation with company worth, as evidenced by a regression coefficient of 0.354, this association lacks statistical significance, with a significance level of 0.488

surpassing the 0.05 threshold. These findings are consistent with research conducted by Yuliyanti et al., (2022), Simangunsong & Solikhin (2022), Salam (2023), Setiawan & Rahmawati (2020), and Rante (2023). Liquidity levels refer to a company's capability to meet its immediate financial obligations, yet investors often prioritize the long-term outlook of a company over short-term liquidity. While strong liquidity signals good company performance, it is not the primary focus of company valuation. Rante's (2023) similarly underscores that financial statement users, particularly investors, are more concerned with a company's profit-generating capacity than its debt repayment ability.

The examination of Hypothesis 2 revealed that leverage did not significantly impact firm value. However, the findings showed a favorable association between leverage and firm valuations, with a regression coefficient of 0.755. This implies that the leverage ratio aligns with the company's value. However, although this relationship exhibits positivity, there is uncertainty regarding whether changes in leverage substantially influence the firm value of the company under study. Nevertheless, this effect lacks statistical significance, as it fails to meet the 0.05 significance threshold ($0.052 > 0.05$). These findings are consistent with the research by Yuliyanti et al. (2022), Vedy & Santoso (2022), and Prihanta et al. (2023). The composition of corporate debt evokes varied perceptions among stakeholders. While high debt levels may be interpreted negatively, suggesting a company's inability to internally fund its operations, debt can also signify a commitment to future growth, as long-term projects often necessitate external financing. These differing viewpoints contribute to ambiguity regarding the impact of leverage, resulting in an absence of a direct, definitive effect on firm value.

Analysis of Hypothesis 3 indicated that activity had a notable positive effect on firm value, evidenced by a significant regression coefficient and a p-value of 0.012, below the 0.05 threshold. This suggests that activity exerts a positive influence on a firm's value. These findings are aligned with research conducted by Adita & Marwadi (2018), Hulasoh & Mulyati (2021), Salam (2023), Andriansyah et al. (2023), and Vedy & Santoso (2022). The outcomes corroborate signaling theory, which underscores the significance of how information can serve as a signal for stakeholders in decision-making processes. The level of activity signifies the company's adeptness in efficiently utilizing assets to generate profits. A heightened level of activity, as demonstrated through a company's asset turnover, indicates its ability to achieve greater profitability (Setiawan & Rahmawati, 2020).

Testing Hypothesis 4 revealed that profitability does not significantly influence firm value. Profitability demonstrated an insignificant negative effect on firm value, as indicated by a regression coefficient of -1.117 and a p-value of 0.218, surpassing the 0.05 threshold. This finding aligns with research conducted by Gunadi et al. (2020), Lita et al. (2022), Vedy & Santoso (2022), and Yusnita (2023). Profitability levels reflect the efficiency of a company's operations and its capacity to generate earnings, which can potentially enhance the company's value by stimulating demand for shares. However, profitability is frequently subject to

manipulation through earnings management practices, where earnings are artificially adjusted to present a favorable image. Such practices diminish stakeholder trust as they may not accurately reflect the true state of the company. Additionally, investors consider various factors such as sales growth, market share, and growth potential, beyond mere profitability, in their assessments.

The hypothesis testing results indicated that dividend policy does not act as a moderator for the impact of liquidity, leverage, and activity on firm value. Although there is a positive relationship between liquidity and dividend policy with firm value, as evidenced by a regression coefficient of 0.285, Hypothesis 5 was invalidated due to its significance level of 0.657, surpassing the 0.05 threshold. This suggests that dividend policy does not change the effect of liquidity on firm value. Conversely, there is a negative relationship with firm value indicated by the regression coefficient of -0.556 for the interaction between the leverage variable and dividend policy. However, this hypothesis was rejected as the significance level is 0.187, higher than the threshold of 0.05, indicating that dividend policy does not alleviate the impact of debt on firm value. Furthermore, there is a negative correlation between firm value and the interaction between activity factors and dividend policy, with a regression coefficient of -1.664. Hypothesis 5 was also rejected as the p-value is 0.052, slightly exceeding the 0.05 threshold, suggesting that dividend policy cannot influence the effect of activities on firm value.

This finding aligns with the research by Prihanta et al. (2023), Setiawan & Rahmawati (2020), and Tahu & Susilo (2017), all of which conclude that dividend policy fails to effectively counteract the impact of financial performance on firm value. Although dividends can indicate financial stability, investors often prioritize other factors when evaluating a company. A high dividend policy might be perceived as an attempt to entice investors with immediate returns, yet it could also suggest a shortage of quality investment opportunities or innovation. Furthermore, consistent dividend payouts may obscure deeper issues within operations or capital structure, often prioritizing short-term gains and cash distributions to shareholders, which may not align with long-term growth strategies necessary for sustainable increases in company value.

Conversely, the interaction variable linking profitability and dividend policy demonstrates a favorable association with firm value. Significantly, with a level of significance at 0.010 (<0.05), this suggests that dividend policy enhances the influence of profitability on firm value. These findings are consistent with studies by Nurmadi & Novietta (2022), Dewiningrat & Baskara (2020), Salam (2023), Lita et al. (2022), Simangunsong & Solikhin (2022), and Suliastawan & Purnawati (2020). Consistent dividend disbursements signify stable cash flow and robust financial health for the company, thereby fostering investor trust. Dividend distribution is often perceived as a favorable signal that attracts investors, indicating a dependable return on investment in accordance with the 'bird in hand' theory.

"This research contributes to the implementation of signaling theory and the 'bird in hand' theory within financial literature by examining the influence of financial performance on firm value, with dividend policy acting as a moderating factor. It offers fresh perspectives on the utilization of dividend policy as a strategic instrument for enhancing firm value and can serve as a benchmark for future studies in the realm of financial decisions and investor behavior. For corporations, this study provides supplementary insights that can aid decision-making processes concerning dividend policy and the dissemination of financial information. Meanwhile, for investors, this research serves as a guide in discerning which companies are worth investing in.

CONCLUSION

Profitability, leverage, and liquidity do not exert a notable influence on firm value. Conversely, active engagement in business activities significantly contributes to enhancing firm value. Moreover, dividend policy does not moderate the impacts of activity, leverage, and liquidity on firm value. Nonetheless, it efficiently regulates and enhances the correlation between profitability and firm value.

This research is expected to provide advantages to multiple stakeholders. Companies are strongly recommended to give careful consideration to all the information they disclose in financial reports or submit to a wider audience. Investors are encouraged to exercise caution while evaluating and analyzing the company's financial data. Future research is advised to employ diverse measurement techniques to evaluate each variable. For instance, liquidity can be assessed using the quick ratio, profitability can be gauged using the net profit margin, and leverage can be evaluated using the debt-to-asset ratio.

This study is limited in scope as it examines only the IDX LQ45 index. Subsequent investigations may explore the utilization of alternative indices, such as IDX80 or Kompas100, to obtain more comprehensive and pertinent findings. Additionally, researchers could focus on specific sectors, such as finance or energy, to enhance the specificity of their analysis

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