

The Role Of Investment Opportunities In The Influence Of Ownership Structure And Corporate Debt Policy

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Abstract

Objective: The purpose of this study is to determine the effect of managerial stock ownership, the impact of institutional stock ownership, on debt policies that are moderated by investment opportunities.

Methodology: This research method is quantitative and causal associative. The regression method is used in data analysis in research.

Results: It was found that managerial ownership has a significant impact on debt policy with a significant value, positive relationship with the telecommunications sub-sector company. This means that the amount of share ownership by managerial will make the Manager use a high debt policy so that the benefits received can be distributed to shareholders and not used for company capital. Institutional ownership does not significantly influence debt policy with its negative relationship with telecommunications companies in the sub-sector. This means that the amount of share ownership by the institutional party will not make the supervision or monitoring more closely the management behavior, so it will not influence decisions about the use of debt made by the Manager. The specified investment opportunity does not strengthen the effect of managerial ownership on the debt policies of the telecommunications sub-sector companies. This means that when a company has a substantial investment opportunity set, managers will prefer to take investment opportunities. The specified investment opportunities do not strengthen the effect of institutional ownership on debt policies in the telecommunications sector of the sub-sector companies. The investment opportunity set does not affect the impact of managerial ownership, institutional ownership over the debt policies of the telecommunications sub-sector companies. The specified investment opportunities do not strengthen the effect of institutional ownership on debt policies in the telecommunications sector of the sub-sector companies. The investment opportunity set does not affect the impact of managerial ownership, institutional ownership over the debt policies of the telecommunications sub-sector companies. The specified investment opportunities do not strengthen the effect of institutional ownership on debt policies in the telecommunications sector of the sub-sector companies. The investment opportunity set does not affect the impact of managerial ownership, institutional ownership over the debt policies of the telecommunications sub-sector companies.

Implication: The investment opportunity set does not strengthen the effect of managerial ownership on debt policy. This means that when a company has a substantial investment opportunity set, managers will prefer to take investment opportunities. Because by investing, the company will get a profit and will turn around if the company decides to use debt because making a debt decision will make the company have a high risk when the company cannot pay the debt. So the investment opportunity moderation variable outlined in this study cannot strengthen the effect of managerial ownership on debt policy. Managerial ownership has a significant impact on loan policy. This implies that managerial ownership increases profits because company profits are distributed to managers as shareholders. The influence of investment opportunity sets has not been proven to affect institutional ownership on debt policy; this implies that high institutional ownership will not affect the level of loans to be used by the company, which can also involve a higher level of institutional will not make the loan according to the choices needed because the company will prefer to invest.

Keywords: ownership structure, agency, investment opportunity set, debt policy, investment opportunity

1. Introduction

Debt policy is a policy that needs to be taken by managers relating to the function of getting funds from outside (debt) and (Rauh & Sufi, 2010), where companies simultaneously use several types of debt to reduce incentive conflicts. The policy of composition of a massive debt allocation will add to the company's financial risk (Borensztein & Lee, 1999; Brandao-Marques et al., 2019; Goodhart, 2005; Mankiw, 1986). The risk is in the form of the company's inability to fulfill its obligations; the targeted profit level will not be reached (Carey, 1998; Elsilä, 2015; Grenadier & Hall, 1996). This can have an impact on the company's financial position in the crisis category.

Debt is a policy that needs to be taken by managers relating to the function of getting funds from outside (debt) (Arnone & Presbitero, 2010; Dornbusch, 1998; Mehran et al., 1999) so too according Dwyer et al., (2012) debt is a useful source of making the necessary investment. However, policies with the use of debt that are too high will increase the company's financial risk which includes the company's inability to pay its obligations (Lizarazo, 2012; C. Reinhart & Rogoff, 2013) and, likely, the targeted profit level of the company will not be reached which in turn will cause the company to enter a financial crisis (A. Beker, 2014; McKibbin & Stoeckel, 2010; Minescu, 2011; Moeller, 2011; Overbeek, 2012; Panico, 2010; CM Reinhart & Rogoff, 2011)

A conflict of interest arises because the Manager's decision is more partial, protecting the interests of the body from the interests of the principle (Ballan, 2017; Dworkin & Callahan, 1991; Lockwood, 2010; Samuels & Pope, 2014). Alignments for management groups regarding company risk allows organizations to operate in certain competitive situations (Chorn, 1991; Chorn N, 1998; Shamekh, 2008; Van Riel, 2007). This difference in orientation is the basis of the conflicting interests of the parties.

Some of the results of the study, many previous researchers paid attention to the topic of the influence of ownership and managerial structure policies in deciding debt transactions in the internal company (Anjum et al., 2012; Belkhir, 2009; Lauterbach & Vaninsky, 1999; Mohammed, 2018; Wahla et al., 2012; Yasser & Al Mamun, 2016). Ownership standards assume insiders ultimately bear all agency costs and therefore act to minimize conflicts of interest (Chernenko et al., 2012), as with the statement of ownership structure, agency costs are significantly higher when an internal company person does not manage the company (Chernenko et al., 2012; Li et al., 2007; Ruan, 2014) and performance continues to increase with managerial ownership (Wang et al., 2019). However, there is a contradiction in studies (Demsetz & Villalonga, 2001, 2005; Kirchmaier & Grant, 2011) that shareholders dominate the negative influence on the long-term share price performance. Therefore this gap will be a sharper discussion on different company objects. Jensen & Meckling, (1979) state that shareholders can take over wealth from debtors by undertaking new projects that are more profitable, while debt holders generate most of the costs.

However, equity holders with large shares of undiversified ownership may have different incentive structures than atomistic shareholders (Shleifer & Vishny, 1990), whether shareholders are banks, non-financial companies, the state, institutional investors or the Board of Directors. Our analysis shows that Directors who own shares tend to be aligned with external shareholders, that companies with government ownership enjoy lower debt costs and that banks effectively monitor management, thereby reducing the cost of debt institutions (Sánchez-Ballesta & García-Meca, 2011). This phenomenon shows that leverage that is relevant because it uses debt, can reduce the conflict of having equity outside ownership (Bathala et al., 1994; Moon et al., 1994), another support was expressed by (Rahmawati et al., 2018) Institutional ownership does not affect debt policy, temporarily (Lumapow, 2018; Moon et al., 1994) Institutional ownership influences debt policy. Then the purpose of this study is to emphasize the inconsistency of the results of previous studies by examining investment opportunities, whether to strengthen or weaken the determination of debt policy.

2. Literature Review

2.1 Agency Theory

Jensen, (1986) argues that, because a company's "Bond" debt is to make periodic payments of interest and principal, thus, reducing control managers have more than the company's cash flow and incentives to engage in non-optimal activities. Grossman & Hart, (1982) also argue that the existence of debt forces managers to consume less extra income and be more efficient because this increases the likelihood of bankruptcy and loss of control and reputation. However, the debt levels of corporate subjects are too high for agents of debt costs, especially in the form of risk-shifting incentives. The increase in debt mostly drives companies to risky projects. This is because companies can pay-off from

debt holders at the contract level and capture residual profits if the project is successful. However, if the project fails, the Bondholders bear higher risk costs. The trade-off between the cost of an external equity agent and the debt results in the optimal amount of debt and managerial ownership in the company.

2.2 Signaling Theory

Signaling theory is becoming increasingly popular in strategic management research (Bergh et al., 2014; Bergh & Gibbons, 2011). This growing popularity is not surprising, because theories direct attention to the core problems facing strategic decision-makers, namely how they can use signals to reduce the uncertainty associated with making choices among choices made in situations that have incomplete and asymmetric information—distributed (A. M. Spence, 1974; M Spence, 1973; Michael Spence, 2002). For example, strategic actions such as the initial Public Offering (Pollock et al., 2010) and name change (Lee, 2001) can be shrouded in incomplete information and create uncertainty for stakeholders about the company's prospects. In response,

2.3 Pecking Order Theory

This theory holds the view that if financial managers need funds because of favorable investment opportunities, companies will choose to use internal funds first. If internal funds are insufficient, the company will meet its first funding needs by issuing bonds, and the final step is to sell shares (Endri et al., 2019).

2.4 Managerial Ownership

We include stock return volatility (stokvel), the value of intangible assets (read), asset growth (Growth), company size (TA), institutional ownership (install), and debt ratio (DR) as explanatory variables for managerial ownership equations. In explaining the STKVOL variable, Crutchley & Hansen, (1989) and Friend & Lang, (1988) argue that because human capital is tied to the company, managers will be reluctant to commit their wealth to the company because this dramatically reduces their diversification opportunities. Furthermore, this non-diversification problem becomes more severe as stock returns to corporate volatility increasing. Standard deviations from monthly stock returns estimated for five years are used to proxy for total risk to capture this effect. Based on the argument, The negative coefficient for STKVOL is hypothesized. Alternatively, Brealey et al., (1977) show that large RDAD companies tend to have relatively more positive personal information and, therefore, higher managerial ownership. Thus, a positive coefficient is expected for the RDAD variable.

We assume that past asset growth reflects profitability and future growth potential; Managers will be less reluctant to invest in company equity. The positive relationship between growth and managerial ownership can come from information gains for Insiders about the company's growth prospects. Brealey et al., (1977) show that large RDAD companies tend to have relatively more positive personal information and, therefore, higher managerial ownership. Thus, a positive coefficient is expected for the RDAD variable. We assume that past asset growth reflects profitability and future growth potential; Managers will be less reluctant to invest in company equity. The positive relationship between growth and managerial ownership can come from information gains for Insiders about the company's growth prospects.

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2.5 Institutional Ownership

The concentration of ownership as a governance mechanism has received much interest because large block shareholders are increasingly active in their demands that companies adopt effective governance mechanisms to control managerial decisions (Huson & Bryant, 2006). While spread ownership (a large number of shareholders with small holdings and few, if any, large-block

shareholders) results in weak monitoring of managers' decisions. Spread ownership (individual owners) also makes it difficult for owners to coordinate their actions effectively. A higher level of monitoring can encourage managers to avoid strategic decisions that are detrimental to shareholder value.

The empirical phenomenon, as evidence from several studies, shows that institutional ownership has a strong influence on the lower level of product diversification. In reducing agency costs, institutional ownership replaces Insider's ownership role as an institutional owner monitors the performance of organizations such as creditors and inside the owner. Several studies have examined the role of monitoring institutional ownership for large companies.

2.6 Investment opportunity set

IOS is the availability of alternative investments in the future for the company, IOS theory implications relating to funding decisions that have been made by companies consist of short-term, medium-term, and long-term funding decisions. Smith Jr & Watts, (1992) find empirical evidence that companies that have opportunities to grow have lower debt to equity ratios in their capital structure decisions. The prospect of a company that grows for investors is beneficial because investment is expected to provide high returns. IOS is currently used as a basis for determining the classification of company growth in the future, whether a company is classified as growing or not growing.

2.7 Debt Policy

Jensen & Meckling, (1979) state that lack of managerial ownership makes managers less work, so they are more likely to consume additional income. Therefore, increasing share ownership by managers will lead to convergence of interests between managers and shareholders in reducing agency conflict. In fact, at a high marginal tax rate, the reduction in debt costs is due to debt reduction and increased managerial ownership. Debt policy is considered as one of the solutions to accelerate production activities and also maintain the company's position to continue operating. According to Nengsi, (2013), a company's debt policy is a management action in order to fund the company's operations.

2.8 Theoretical Framework

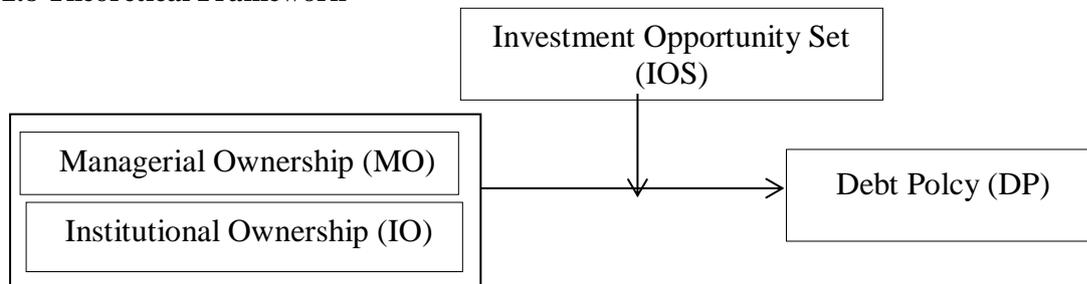


Figure 1. Conceptual framework

3. Hypothesis Development and Research Method

Hypothesis (1): the proportion of share ownership by a manager will double the position as a manager and also as a shareholder, a manager does not want the company to go bankrupt so that managers who are usually opportunistic in taking personal advantage become more careful in deciding on a debt policy (Erkaningrum, 2013; Gaver & Gaver, 1995; G. R. Jensen et al., 1992; Kallapur & Trombley, 2001; Smith & Watts, 1992). High managerial stock ownership will increase the risk so that managers will be more careful in using debt (Hubbard & Palia, 1995; Shinn, 1999). Then the higher the percentage of shares owned by managers will increase the level of prudence of managers in making funding decisions (Cheung, 2010; Florackis et al., 2009; Hu & Zhou, 2006) to reduce debt policies used to fund company activities.

Hypothesis (2): Institutional ownership can reduce the amount of corporate debt because substantial institutional ownership makes monitoring tighter on management behavior (Bhattacharya & Graham, 2011; Chaganti & Damanpour, 1991; Duggal & Millar, 1999), so that management is encouraged not to take opportunistic actions that are only related to personal interests. The higher the level of

institutional ownership, the more effective the level of monitoring, resulting in less use of debt by managers.

Hypothesis (3): If an increase in managerial ownership will affect the decision making on debt (Johnson, 1997; Moh'd et al., 1998), If the investment opportunity specified is low, the debt will be high. A set of high investment opportunities will strengthen the relationship between managerial ownership (Al-Sharif et al., 2015; Ben Moussa & Chichti, 2013; Joher et al., 2011) and debt policy when the opportunity to invest is high, the Manager will reduce the level of debt use because managers prefer to take the opportunity to invest and benefit rather than take high risk using debt, but when the opportunity to invest is low the managerial party will increase the use of debt because they do not have the opportunity to invest

Hypothesis (4): The higher the level of supervision by institutional authorities institutional ownership the higher the level of supervision and the lower the level of debt by the company because managers tend to take the opportunity to invest for profit (Baker et al., 2007; Lal Mahajan, 1999; Majluf & Myers, 1984; Myers & Majluf, 1984). IOS excellent use of corporate debt will remain low because companies will prefer to invest. An extraordinary set of investment opportunities will strengthen the relationship between institutional ownership and debt policy.

Research Method

The population to be examined in this study is the telecommunications sub-sector listed on the Indonesia Stock Exchange. An example in this study is all telecommunications sub-sectors of companies listed on the Indonesia Stock Exchange. The sampling technique in this study is to use a deliberate sampling technique, which is sampling based on predetermined criteria. The sample criteria in this study are: (1) all telecommunications sub-sector companies listed on the Indonesia Stock Exchange. (2) telecommunications company sub-sector which has complete financial account data and annual report data.

Managerial ownership can be defined as the number of shares owned by the total shares in the company available in the company

$$\text{Managerial ownership} = \frac{\text{Number of shares owned by the manager}}{\text{Number of shares outstanding}}$$

Institutional ownership can be defined as some shares owned by corporate institutions

$$\text{Managerial ownership} = \frac{\text{Number of shares owned by the institutional}}{\text{Number of shares outstanding}}$$

Investment Opportunity Set (Z)

The opportunity set is a series of investment opportunities that can be used as a control tool to determine the debt policy in a company as measured by the market for book value of equity; this ratio is influenced by leverage

$$\text{MVEBVE} = \text{x Price Share} \frac{\text{Number of shares outstanding}}{\text{Total Equity}}$$

The debt policy can be defined as a payment policy for companies from outside management as an additional source of funding for the company's operations

$$\text{ER} = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$$

4. Findings

4.1 Descriptive Statistics

The following is a table that presents a statistically descriptive description of the research variables of the Telecommunications Sub-Sector Companies variable from 2015 to 2019:

Table 1
 Descriptive Statistics

Variable	N	Minimum	Maximum	The mean	Std. Deviation
DER	40	0.16019	5,92773	2.0545581	1.37441513

MO	40	0.00000	0.02608	0.0022884	0.00611038
IO	40	0.32716	1,00,000	0.7216295	0.16539519
MVEBVE	40	0.00290	17,71415	3.9055469	3.69149617
Valid N (listwise)	40				

Based on table 1, it is known that the amount of research data is 40 data. The debt policy, which is proxied by DER, has an average value of 2.0545581. Managerial ownership has an average value of 0.0022884. Institutional ownership has an average value of 0.7216295. Free cash flow has an average value of 0.0951135. Furthermore, the investment opportunity set proxied by MVEBVE has an average value of 3.9055469.

4.2 Linear Regretion

The results of the calculation of linear regression analysis performed using SPSS 20. Produces a regression equation, namely:

- a. $DP = 1,904 + 65,827 MO$
- b. $DP = 1,904 - 1,590 IO$
- c. $DP = 1,703 + 147,960 MO + 0,060 IOS - 10,787 MOIOS$
- d. $DP = 1,378 + 0,562 IO + 0,264 IOS - 0,292 IOIOS$
- e. $DP = 3,130 + 138,147 MO - 1,727 IO + -5,634 MOIOS + 0.015 IOIOS$

4.3 Hypothesis Test

Table 2. T Test

Model	Standardized Coefficients Beta	t	Sig
(Constant)		2,702	0.011
MO	0.614	2,040	0.049
IO	-0,208	-1,222	0.230
Moderate 1	-0,284	-0,582	0.565
Moderate 2	0.030	0.085	0.932
Moderate 3	-0,387	-1,405	.169

The effect of managerial ownership on debt policy

- a. Managerial ownership has a significant impact on debt policy and the direction of positive relationships. This is indicated by the results of a significant value of 0.049 where the value is smaller than the value of α 0.05, and the direction of the positive relationship is indicated by the coefficient β 0.614 so that managerial ownership has a significant impact on debt policy and H1 is accepted. The results of this study are in line with agency theory, which states that the presence of share ownership by managers will make Managers as shareholders immediately feel the benefits of each decision taken and share the losses that occur in the company as a consequence of wrong decision making. So managers will be more careful to take action on every decision, including decisions regarding the use of debt. The results of this study indicate that the amount of managerial shareholding has a positive and significant impact on corporate debt policy. It also shows that the higher the amount of managerial ownership, the smaller the number of company loans. This is not in line with the opinion of Jensen & Meckling, (1976), who explains that greater managerial ownership can overcome agency conflicts or cannot align agency and aid interests (convergence). The results of this study are also in line with the theory of tweeting by Morck et al., (1988), which results in more significant agent costs. This is triggered by the actions of shareholders who will be used to their advantage. Lumapow, Stevanus lizard, 2018, the smaller the number of company loans. This is not in line with the opinion of Jensen & Meckling, (1976), who explains that greater managerial ownership can overcome agency conflicts or cannot align agency and aid interests

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b. The results of this study are supported by the results. Qiang, (2007) found a positive relationship between the percentage of institutional ownership and the debt ratio. He also noted the negative relationship to the capital structure with a decentralized level of institutional ownership, which means that higher decentralization of institutional ownership results in a lower debt ratio. Chung, (2012) shows that a simultaneous relationship exists between institutional ownership and corporate leverage. In this study, it is explained that the lower the corporate debt, the higher the level of institutional ownership, indicating that companies that use leverage where institutional compilation can take on the role of controlling foreign debt. Different results are agreed upon in the relationship between ratio and institutional ownership(Hayat et al., 2018).

c. A collection of investment opportunities moderates the effect of managerial ownership on debt policies

The results of hypothesis testing indicate that the investment opportunity determined does not affect the effect of managerial ownership on debt policy, and the direction of the relationship is negative. This is indicated by the results of a significant value of 0.565 where the value is higher than the value of α 0.05, and the direction of the negative relationship is shown from the coefficient β -0.284 so that the completion of investment opportunities does not strengthen the effect of managerial ownership on debt policy. The results of this study are in line with research conducted by Tarjo & Jogyanto (2003), where if managerial ownership increases, it will not influence decision making on corporate debt, especially if a high set of corporate investment opportunities is known. This means that when the Manager owns several shares in the company, Manager's decision will prefer to invest the investment set rather than using a debt policy because investment can make the company able to maintain better growth prospects and even be more optimal in developing the company. The Effect of Institutional Ownership on Debt Policy which is moderated by the Investment Opportunity Set

The results of hypothesis testing indicate that the investment opportunity set does not affect the effect of institutional ownership on debt policy, but the direction of a positive relationship. This is indicated by the results of a significant value of 0.230 where the value is higher than the value of α 0.05, and the direction of the positive relationship is shown from the β coefficient of 0.030 so that the investment opportunity specified does not strengthen the effect of institutional ownership on debt policy and H5 is rejected.

The results of this study are in line with research conducted by Safitri & Asyik, (2015), which states that institutional ownership does not affect debt policy. This means that the role of institutional ownership only applies as a supervisor to prevent management that is wasteful by management, and management is considered as a party that understands better and has authority in every decision making regarding funding needs within the company, for the use of debt, investment and other company management.

5. DISCUSSION AND CONCLUSION

5.1 Managerial Ownership has a significant effect on the Debt Policy with a significant value, a positive relationship with the Telecommunications Sub-sector company. This means that the amount of share ownership by the managerial will make managers use the policy on high debt so that the benefits received can be distributed to shareholders and not used for company capital. This is done by managers because the management has a dual role other than as a manager, namely as a shareholder and any profits received by shareholders will be received by managers who are also shareholders. After all, there is ownership of shares in the company, so the use of debt policy is the right choice to do.

- 5.2 Institutional Ownership has no significant effect on the Debt Policy with its negative relationship with the Telecommunications Sub Sector company. This means that the amount of share ownership by the institutional party will not make supervision or monitoring more stringent towards the behavior of the management so that it will not affect the decision on the use of debt made by the Manager. This happens because the party who understands better and has the authority to make decisions regarding funding and debt needs in the company is the Manager rather than the institution so that the existence of institutional owners is unable to monitor combat funding policies, including funding policies using debt.
- 5.3 The Investment Opportunity Set does not strengthen the effect of Managerial Ownership on the Debt policy of the Telecommunications Sub Sector company. This means that when the company has a tremendous investment opportunity set, the Manager will prefer to take investment opportunities. Because by investing, the company will benefit, and it will turn around if the company decides to use debt because making a debt decision will make the company have a high risk when the company is unable to pay the debt. So the investment opportunity moderation variable set in this study cannot strengthen the effect of managerial ownership on debt policy.
- 5.4 The Investment Opportunity Set does not strengthen the effect of Institutional Ownership on the Debt Policy in Telecommunications Sub-Sector Companies. These results indicate that high institutional ownership will not affect the level of debt that will be used by the company, which means that the higher level of supervision by the institution as the party monitoring agent will not make the debt as an alternative funding option, because companies will prefer to invest. The investment opportunity set does not strengthen the effect of institutional ownership on debt policy.
- 5.5. The Investment Opportunity Set does not affect the effect of managerial ownership, Institutional Ownership on the debt policy of the Telecommunications Sub-Sector company. This means that companies have a great investment opportunity set, even though managerial ownership, institutional ownership, will not affect the level of debt that will be used by the company. Managers and institutions prefer to take the opportunity to invest and make profits rather than taking risks using debt. So managerial ownership, institutional ownership moderated by the investment opportunity set do not affect the debt policy.

6. Contributions and future studies

The investment opportunity set does not strengthen the effect of managerial ownership on debt policy. This means that when a company has a significant investment opportunity set, managers will prefer to take investment opportunities. Because by investing the company will get a profit, and will turn around if the company decides to use debt, because by making debt decisions will make the company has a high risk when the company cannot pay debts. So the investment opportunity moderation variable outlined in this study cannot strengthen the effect of managerial ownership on debt policy.

Managerial ownership has a significant impact on debt policy. This means that managerial ownership increases debt because company profits are distributed to managers as shareholders. Besides, investment opportunities that are specified as moderate variables do not significantly strengthen or weaken the effects of managerial ownership, institutional ownership for debt policy. This means that managerial and institutional commitments commit little debt policy and prioritize investment opportunities set, even though free cash flow from companies is high. Managerial equity ownership is inversely proportional to institutional equity ownership. The consistency of institutional equity ownership is negatively related to the level of managerial equity ownership in the company. Institutional ownership does not significantly influence debt policy. The relationship is negative; the amount of share ownership by educational institutions will not make monitoring management behavior stronger so that it will not influence the policy - debt allocation by managers.

The effect of investment opportunities has not been proven to strengthen the impact of institutional ownership on debt policy. High institutional ownership will not affect the level of debt that will be used by the company, which means that a higher level of institutional control will not make debt as an alternative funding option, because companies will prefer to invest. The specified investment opportunity proved unable to strengthen the effect of institutional ownership on debt policy. Before buying company shares, investors should look at how the company's funding sources are more likely to use debt or share capital,

Increase the amount of managerial ownership so that fund management becomes more effective and can reduce the use of debt. Because the increase in share ownership by managers will make managers feel the direct benefit of every decision taken, including debt decision making taken by the company, and if there are losses that arise are the consequences of making wrong decisions. So that will make managers careful in making decisions, including financing decisions regarding debt. Increase the number of institutional ownership so as to make supervision or monitoring more stringent towards management behavior so that it will reduce the use of debt by managers.

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