

Revealing the Structure of Financial Performance on Stock Prices

Faizul Mubarak

Center for Management and Implementation of Postgraduate Programs, Universitas Terbuka, Indonesia

*corresponding author e-mail: faizul.mubarak@ecampus.ut.ac.id

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Abstract

Purpose – Businesses are required to be able to present evidence of successful financial performance. The purpose of this research is to examine the relationship between specific financial ratios and the stock market performance of corporations in the infrastructure, utility, and transportation sectors.

Methodology – This study employs panel data regression with quarterly reports from 6 companies from 2015 to 2020. Variables such as stock prices, total asset turnover, the debt to equity ratio, the return on assets, the price to book value, the size of the firm, and the current ratio are analyzed.

Findings – Total asset turnover was found to have little effect on stock prices compared to other metrics such as the current ratio, firm size, price to book value, return on assets, and debt to equity ratio. It is imperative that businesses pay attention to the ratio indicators that persistently impact stock prices. Large swings in financial ratios are associated with an increased risk as well as a decline in public trust.

Originality – This study extends the scope of previous research by extending the fundamental factors that are not only centered on liquidity, solvency, and profitability, but also with new variations, specifically the ratio of total asset turnover and price to book value.

1. Introduction

It takes a certain amount of money to keep a business running smoothly and meet the objectives that have been set for the foreseeable future. If the need for cash develops in tandem with the expansion of the firm, but if the company has already spent a significant portion of its internal funds, then there is no other option except to use funds from external sources. Companies can satisfy their finance requirements by issuing shares or taking on debt (Berkowitz et al., 2014; Rouf, 2014). On the other hand, the general public, acting in their capacity as investors, has the goal of making a profitable investment in the future (Li et al., 2020). Because of this, the capital market is a location where people who want to invest and those who have money to invest can come together to do so (Antônio et al., 2015; Cai et al., 2016).

Stocks are one of the various investment vehicles that buyers and sellers of capital market assets favor the most frequently (Ahmed & Elsayed, 2019; Alali, 2020). According to Coşkun et al. (2017), investors do not spend sufficient capital on stock investments despite the fact that stocks offer higher returns than bonds do. Investment in stocks is considered to be very risky in light of

the high-risk, high-reward versus low-risk, low-reward hypothesis (Cieslak & Schrimpf, 2019). It is important for investors to have a solid understanding of stocks and stock price movements. This can be accomplished through careful pre-investment analysis and careful consideration of the hazards that can result from varying stock price movements (Amini et al., 2020; Aye et al., 2018).

Investors in the stock market need a suitable level of analytical prowess and the capacity to select equities that are deserving of being picked as investment vehicles if they want to make substantial gains while minimizing the risks they face (Al-Khazali, 2014; Lalwani et al., 2019). Technical analysis and fundamental analysis are the two types of stock analysis that can be utilized to identify effective stock investments (Agustin, 2019). The data on changes in stock prices are given a greater emphasis in technical analysis. The historical data from the past is used by investors to make projections about likely price behavior in the future, or they evaluate the volume of activity. At the same time, fundamental analysis provides an estimate of share value independent of stock price information by examining a company's financial statements and evaluating its performance in light of financial ratios. This allows the fundamental analysis to provide a more accurate picture of a company's overall health (Tan et al., 2019; Thampanya et al., 2020).

Since the fundamental technique may provide details about the firm's financial performance that affect its earnings, it was chosen for this investigation. The financial ratio is a metric that may be used to analyze a company's finances more deeply. The company's financial ratios can be used as a tool for assessing the organization's overall health. Common financial ratios include measures of liquidity, solvency, profitability, activity, and market value (Ayedh et al., 2019; Olson & Zoubi, 2017). When assessing a company's performance and making a stock price prediction, it's important to take into account not only financial ratios but also the company's size.

For this reason, companies that are effective in attracting investors are those that have a track record of solid financial performance. Through analysis of the company's financial measures, one can learn about both the company's strong and weak areas of performance (Innocent et al., 2014; Restianti & Agustina, 2018). Speculative demand for a company's stock drives up its price when the company does well, and vice versa. Investors from both the United States and other countries are interested in purchasing shares in the infrastructure, utility, and transportation industries.

In addition, the government of Indonesia is making strides toward expanding this industry in order to bring it up to speed with that of other nations and to make the economic system in the country run more smoothly. Every year, there is an increase in the amount budgeted for infrastructure. It is possible for the nation's economy to be bolstered by improvements made in the areas of infrastructure, utilities, and transportation if these areas are well handled. Stocks in Indonesia's utilities, transportation, and other essential infrastructure areas can ride out the current volatility in the market with confidence. Capital market's positive impact on stock movements of various enterprises makes this achievable.

Ratio analysis of a company's finances can shed light on its financial health. It does this by providing an explanation of the various financial relationships and indicators that are used to show shifts in the company's historical financial conditions or its operating performance. The interpretation of the meaning and purpose of financial ratios in business practice is highly dependent on the manner in which analysis is carried out within the applied analysis (Dalnial et al., 2014; Fowowe, 2017). One way to measure a business's success over a certain time frame is with the help of financial ratios. These ratios can provide insight into the position, financial condition, and future economic performance of an organization (Kariyawasam, 2019; Mulyawan, 2015). The interpretation of financial statements, which also encompasses the research process for financial ratios, is one of the stages in the process of conducting research on financial ratios (Al-Nasser, 2014). In actual business practice, financial ratio analysis is still applied as a model of

financial ratio analysis. Despite the fact that its relevance is, of course, highly subjective and depends on the goals and interests of each analysis, it is still applied as a model of financial ratio analysis.

1.1 Relationship between Total Asset Turnover and Stock Price

The amount of profit that a business generates from all of its activities can be determined by using a ratio that is known as total asset turnover. It is important that the amount of time that must elapse before an entire company's assets are transferred over be cut down as soon as humanly possible. Investors will be more enticed to buy the company's stock if the management team has a good handle on the company's assets and can put those monies to good use running the business. An organization is not a good bet for investors if it cannot efficiently manage its resources and use the money it has on hand to run its business. As a corporation becomes more desirable, its stock price rises on the stock exchange. This is so because of the link between those two elements. Total asset turnover is found to positively affect stock prices by the studies of Megawati (2016), Wardana & Fikri (2019), and Calista & Widjaja (2019). The results of those studies would be strengthened by the adoption of this hypothesis, as it is in line with the data they gathered.

H₁: The total turnover of assets has an effect on stock prices

1.2 Relationship between the Ratio of Debt to Equity and the Stock Price

As a measure of both debt and equity, the debt-to-equity ratio is an important quantitative metric. Simply compare the whole amount of debt to the total amount of equity to get this ratio. This ratio is watched by investors because it may reveal details about a company's total debt or obligations. Investment risk increases when the debt-to-equity ratio of a company is high. The stock price of a company can fall if investors become wary of investing due to the elevated risk involved. With a reduced debt-to-equity ratio, an investor can rest easier knowing their money is being well-protected. However, investors will be more comfortable with a company that can service its debt from internal resources (equity) when the debt equity ratio (DER) is low. Increased demand from buyers of a company's stock is correlated with a lower debt to equity ratio. Researchers Darmawan (2016), Wardana & Fikri (2019), and Avriani et al. (2018) all found that a low Debt to Equity Ratio was positively correlated with stock price. Assumption was supported by these results.

H₂: The Debt to Equity Ratio is a factor influencing stock prices

1.3 Relationship between Return on Assets and Stock Price

A company's profitability can be gauged by looking at the return on its total assets, or return on assets (ROA). Investors consider a number of criteria, including the rate of return on profits received after making an investment, when evaluating the rate of return on their investment. There should be a growth in the stock price on the capital market as a result of the firm's high profitability, which indicates that the company is efficient in its use of its available resources to generate profits. Recent research supports this hypothesis, with studies by Junaeni (2017), Kusumadewi (2018), Fauza & Mustanda (2016), and Sari et al. (2019) all finding that ROA has a favorable effect on stock price.

H₃: Return on Assets influences the value of stocks

1.4 Relationship between Price to Book Value and Stock Price

To calculate price to book value, take the current stock price and divide it by its book value from the past. The market's perception of a company's book value and its confidence in the company's ability to realize its potential are both reflected in the price-to-book value ratio. The share price of a firm will fall if the lower Price to Book Value has an effect on the reduced market confidence in the company's prospects, which in turn reduces the demand for the company's shares. In contrast, a greater Price to Book Value suggests that investors see the company's prospects more favorably, which should boost its share price. Anah et al. (2018), Rimbani (2016), Arifin & Puspita (2018), and Astuty (2017) all draw the same conclusion that the market price to book value ratio has a favorable effect on the price of a company, thus it seems reasonable to assume that this is the case here as well.

H₄: The price to book value ratio influences the prices of stocks

1.5 Relationship between Current Ratio and Stock Price

One way to measure a company's ability to pay its short-term debts is through the Current Ratio. This is determined by contrasting the company's short-term assets with its short-term obligations. Stock prices are positively correlated with the current asset to liability ratio of a corporation. It is a good sign when a company can cover its short-term debt with the collateral of its present assets, as this indicates the health of the company as a whole. Simply put, the company's current assets are pledged as security for the debt. This is evidence that business is thriving and the company is in good shape.

Short-term debt service capacity is a key factor that influences investors' willingness to put money into a company. The interest rate on the company's short-term debt is directly proportional to its liquidity. The computation of this interest is intrinsically linked to the company's capacity to meet its short-term debt obligations. In addition to this, the amount of company shares that are being made available will be increased, which will lead to a rise in the price that is being made available per share (Pratama et al., 2020). Current Ratio is a factor that has a beneficial impact on stock prices, as indicated by research carried out by Rianisari et al. (2018), Ramadhani & Zannati (2018), Megawati (2016), and Sari et al. (2019). The findings of these investigations are in line with this notion, which makes sense.

H₅: Stock prices are influenced by the current ratio

This study builds on the work done by others by extending the list of essential characteristics to include not just those that are centered on liquidity, solvency, and profitability, but also with new variations, specifically the ratio of total asset turnover and price to book value. In addition, the research sample employs the most recent data from the infrastructure, utilities, and transportation sectors. It also uses quarterly financial reports to ensure that the observations are as specific as possible. The study's goal is to discover how changes in the mix of financial ratios have affected stock prices in the industries of transportation, utilities, and infrastructure.

The results of this research are useful to the firm since they can be used as examples and guidelines for determining the stock price of the company, which in turn helps the company achieve its financial goals. Information is provided for investors about how the composition of financial performance affects stock prices in the transportation, utility, and infrastructure industries. Academics can profit from this since it gives them a chance to expand their understanding of the topic of financial performance and add new insights. In order to arouse

interest and encourage potential investors to purchase stock in transportation, utilities, and infrastructure businesses, the public provides an overview of these industries.

2. Research Methods

In this investigation, quarterly financial data from seven different corporations functioning in the transportation, utility, and infrastructure sectors were analyzed. The sampling technique involves purposive sampling and takes into account the availability of the data in order to obtain the six companies that have quarterly financial report data from 2015 to 2020. This is done in order to obtain the data. In addition, the report on finances makes use of measurement in order to carry out an analysis of financial ratios in a manner that is congruent with the objectives of the research.

Using the panel data method, which combines cross-sectional and time-series data in which the same cross-sectional unit is measured repeatedly, this investigation analyzes quantitative data. The correlation between the two is the primary topic of the study. When it came time to analyze the data, which was a big part of the study, this strategy was used. In this study, we make use of the Current Ratio (CUR), the Price to Book Value (PBV) ratio, the Return on Assets (ROA) ratio, the Debt to Equity Ratio (DER) ratio, Total Assets Turnover (TATO), and Stock Ratio (STP). Panel data equation where $\beta_1 - \beta_6$ is the regression coefficient of each independent variable, i is the company, t is time, e is the error term.

$$STP_{it} = \alpha + \beta_1 TATO_{it} + \beta_2 DER_{it} + \beta_3 ROA_{it} + \beta_4 PBV_{it} + \beta_5 CUR_{it} + e$$

One way to measure a business's liquidity is by looking at its Current Ratio (CUR), which measures how easily its current assets can be converted into cash to meet its immediate debts. The Price to Book Value (PBV) ratio measures how much a stock is currently trading for in relation to its book value. This can also be used as a comparison. The Return on Assets (ROA) ratio reveals the outcomes (return) of a company's total assets. Alternatively, it can be written as ROA. The Debt to Equity Ratio (DER) is a common financial ratio used to show how much debt there is relative to equity in a company's current market value. Total asset turnover (TATO) is a ratio used to evaluate the efficiency with which a business uses its assets. Reducing the time it takes to convert assets is beneficial for all parties involved.

To find the most reliable model, the panel data technique employs a battery of tests, including the chow test. The goal of this comparison is to determine whether of two models—the common effects model or the fixed effects model—is more appropriate for estimating panels of data. The Hausman test is a useful tool for determining whether the fixed effect model or the random effect model would be more appropriate for a certain situation. After obtaining the best possible model, the data must not exhibit any multicollinearity, heteroscedasticity, and it must have a normal distribution.

3. Results and Discussions

The descriptive statistics of each variable are included in Table 1, which may be found here. The descriptive statistical test known as Current Ratio (CUR) produced findings that ranged from a minimum value of 3.293 to a maximum value of 6.353, with a mean value of 4.867 and a standard deviation of 0.748. A high ratio number does not necessarily indicate that the company is doing well because the corporation does not make effective use of its current assets, despite the ratio's high value. On the other hand, if we had an option, we would much rather have a high ratio than a

low one. This is without a doubt the case. The only thing that businesses with a current ratio that is already too high need to focus on is improving their financial management efficiency.

Table 1. Displays Descriptive Statistics

Indicator	STP	CUR	PBV	ROA	DER	TATO
Mean	7.849	4.867	5.398	1.025	4.638	2.621
Maximum	9.187	6.353	7.692	2.802	7.411	4.171
Minimum	6.543	3.293	3.554	-1.561	3.224	0.993
Std. Dev.	0.675	0.748	0.898	0.945	0.813	0.812
Observations	144	144	144	144	144	144

Source: processed data, 2022

The Price Book Value (PBV) index displays a minimum value of 3.554 and a maximum value of 7.692, with a mean value of 5.398 and a standard deviation of 0.898. It is common practice to evaluate a company by comparing its Price Book Value to the values of other companies. The purpose of this comparison is to determine whether companies provide stock prices that are more expensive than others. However, when comparing the two numbers, it is important to take into account the identical characteristics of the two organizations because this is what needs to be regarded. Whether on a firm scale or from the moving industry, it is imperative for investors to compare two businesses that have the same exact features. It is essential to guarantee consistency in the requirements of these companies. If they are different, then it is impossible to make a valid comparison between the two.

Return on Assets (ROA) ranges from a minimum of -1.561 to a maximum of 2.802, with a mean of 1.025 and a standard deviation of 0.945. The result of these computations is the number that demonstrates the return that the company has earned from all of its assets or assets that it has acquired. Because the firm's return on investment is also growing more substantial, the fact that the company has a more fantastic ROA value as a result shows that the company is in good condition because the return on investment is also getting more significant.

The Debt to Equity Ratio (DER) has a mean of 4.638, standard deviation of 0.813, and minimum value of 3.224. The maximum value is 7.411. DER ratio that is above 100% is not considered to be good. This indicates that the fundamental condition of the company is in a much better place the lower the DER ratio is. A low ratio demonstrates that the amount of a company's debt is lower than the total value of its assets. In the event that the loan is not repaid when it is due, the business will still have the resources necessary to meet all of its commitments and will be able to carry on as usual.

The Total Asset Turnover (TATO) indicator has a minimum value of 0.993 and a maximum value of 4.171, with a mean value of 2.621 and a standard deviation of 0.812. The company has assets that it will employ in the course of conducting its business activities, and those assets will be used to generate money from the company's sales. As a result, the corporation utilizes its current resources in an effort to generate as many sales as it can. The greater the amount of income that is obtained, the better the financial performance. When the value of the asset turnover ratio or the total asset turnover ratio is high, it indicates that the assets are being used in an excellent manner. Therefore, a stronger financial performance for the organization can be inferred from a greater Total Asset Turnover Ratio.

The choice between a common effect model and a fixed-effect model was the first step in the process of selecting the optimal model to use in the chow test. In the event where the results of the chow test reveal that the probability value is higher than 5%, the common effect model will be selected as the best option. On the other hand, if the probability value is less than 5%, the fixed

effect model will be selected as the best option. The results of the chow test indicate that the probability value is lower than 5%, and as a result, the fixed effect model has been chosen to serve as the model that will be used for the time being.

Table 2. Best Model

Chow		Hausman	
Prob. Cross-section F	0.0000	Prob. Cross-section Random	0.0000

Source: processed data, 2022

In order to choose the best model, we first ran it through the Chow test, and then we settled on either a common effect model or a fixed-effect model. If the probability value of the Chow test performed on the data is greater than 5%, then the common effect model is chosen as the best alternative. In contrast, the fixed effect model will be implemented if the probability value is below 5%. The Chow test indicated a probability value of less than 5%, hence the fixed effect model will be utilized temporarily.

After the Chow exam is finished, the Hausman test is the next step that needs to be taken. Hausman's test is used to determine whether or not a fixed effect model or a random effect model was employed to analyze the data. A random-effects model is used if the Hausman test returns a probability value of higher than 5%. On the other hand, if the probability value is less than 5% of the total, the fixed-effect model is used instead. The Hausman test results indicate a likelihood of less than 5%, hence a fixed-effect model is being employed for this analysis. After settling on the best model, it's time to put the classical assumptions to the test. The reliability, uniformity, and objectivity of the regression equation are checked with this procedure. Based on the results of the normality test, it can be concluded that the data reported in this study follow a normal distribution (probability jarque-bera value > 5%).

Table 3. Regression Diagnostic

Diagnostic	Indicator	Value	Probability
Normality	Jarque-Bera	1.9251	0.3819
Heteroskedasticity	White	1.5346	0.2347

Source: processed data, 2022

Following the conclusion of the normality test, it is essential to carry out a multicollinearity test in order to determine whether or not there is a connection between variables that are generally seen as being independent. When the independent variables are found to have a correlation with one another, we can no longer consider these variables to be orthogonal. Conduct an investigation of the correlation matrix consisting of independent variables. In general, multicollinearity is indicated when the correlation between the independent variables is greater than 0.9. If there is a reasonably high correlation between the independent variables, then this is an indication of multicollinearity. Even if there is not a strong correlation between the independent variables, this does not guarantee that there is no multicollinearity present in the data. The combined effect of two or more independent variables can give rise to the phenomenon known as multicollinearity. The findings of the test on the correlation matrix indicated that all of the variables had a value that was lower than 0.9.

The white test is used to check for heteroscedasticity. The findings indicate a likelihood that is higher than 5 percent, which indicates that the residual has a homogenous variance and that there is not a problem with heteroscedasticity. In addition, the objective of the heteroscedasticity test is

to establish whether or not the residuals have a homogenous variance (that is, a variance that is constant). In order to be valid, the heteroscedasticity test needs to have a residual that has a consistent variance. According to the test requirements, if the likelihood of Obs*R-squared is more than 5 percent, then the residuals either spread randomly or have a homogeneous variance, which means that there is no heteroscedasticity problem. The value of Obs*R-squared is 1.5346 and it has a probability of 0.2347 according to the findings of the white heteroscedasticity test.

Table 4. Findings from a Multicollinearity Analysis

	CUR	PBV	ROA	DER	TATO
CUR	1.0000	-0.6821	0.0498	-0.3997	0.2435
PBV	-0.6821	1.0000	0.2467	0.6446	-0.0969
ROA	0.0498	0.2467	1.0000	0.0341	0.6451
DER	-0.3997	0.6446	0.0341	1.0000	-0.0499
TATO	0.2435	-0.0969	0.6451	-0.0499	1.0000

Source: processed data, 2022

The results of this study used a fixed-effect model to determine which one was the most appropriate to apply, and the research data did not exhibit any autocorrelation, multicollinearity, heteroscedasticity, or normal data. The following is the regression equation that was used in this investigation when the fixed-effect model was used.

$$STP_{it} = 4.202 + 0.426CUR_{it} + 0.552PBV_{it} - 0.071ROA_{it} - 0.379DER_{it} + 0.161TATO_{it} + e$$

If we assume that everything else stays the same, a one percent increase in the Current Ratio (CUR) variable will lead to a 0.426 percent increase in the stock prices of the infrastructure, utilities, and transportation sectors. The current ratio (CUR), which can be fluctuating, has a substantial impact on stock prices. If a corporation has a high current ratio, it suggests that the company is doing well financially, as it is able to satisfy its short-term obligations by pledging the security of its current assets (Durrah et al., 2016; Husna & Satria, 2019). The current ratio has the potential to alter investors' interest in the company since it provides assurance that the company will be able to pay off its short-term debt. This assurance leads to increased bids for company shares, which in turn causes stock prices to rise (Amanda, 2019; Irman et al., 2020).

Table 5. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CUR	0.426	0.089	4.752	0.0000*
PBV	0.552	0.069	7.991	0.0000*
ROA	-0.071	0.061	-1.162	0.2473
DER	-0.379	0.056	-6.741	0.0000*
TATO	0.161	0.064	2.469	0.015*
C	4.202	0.755	5.559	0.0000

*significant at 5 percent

Source: processed data, 2022

If we assume that everything else stays the same, a one percentage point rise in the Price to Book Value (PBV) variable will result in a 0.552 percent gain in the stock price of the infrastructure, utilities, and transportation sectors. PBV is an indicator of how much the market values the book value of a company's shares and how much faith the market has in a company's

future prospects (Sihotang & Munir, 2021; Yuliani et al., 2020). Investors should focus their attention on the fact that a lower price to book value will have an impact on a lower market confidence in the company's prospects, which will ultimately result in a decrease in stock demand and, as a consequence, a decrease in the stock price of the company. This is the most important thing for investors to pay attention to (Anah et al., 2018; Guidi & Gupta, 2013; Lin, 2018; Rimbani, 2016). On the other hand, a greater price to book value indicates that the market has a positive perception of the future prospects of a company, which leads to an increase in the share price of that company (Mardhiana, 2020; Silwal & Napit, 2019; Suhadak et al., 2019).

The return on assets (ROA), which might be changeable, exerts a substantial influence on stock prices. When assessing the rate of return after investing, one of the considerations that investors take into account is the return on assets (Albulescu, 2015; Saksonova, 2014). Under the premise that all other factors remain same, a one percentage point rise in the Return on Assets (ROA) variable will result in a 0.071 percent decrease in the stock price of the infrastructure, utilities, and transportation sectors. The high profitability of the firm is a reflection of how well it uses its resources to generate profits, which in turn will lead to a growth in the stock price on the capital market (Alam et al., 2019; Law et al., 2020).

If we assume that everything else stays the same, a one percent increase in the Debt to Equity Ratio (DER) variable will result in a 0.379 percent decrease in the stock prices of the infrastructure, utilities, and transportation sectors. Prices of stocks are significantly impacted by the variable debt to equity ratio, also known as the DER. Investors have a greater sense of security when the debt to equity ratio is low because it indicates that the company is better able to pay off its obligations using the capital that it has on hand (Innocent et al., 2014; Irman et al., 2020). This safety will entice investors, which will lead to an increase in stock prices (Ferris et al., 2018).

In the event that all other factors remain constant, a one percent rise in the Total Asset Turnover (TATO) variable will result in a 0.161 percent increase in the stock price of the infrastructure, utilities, and transportation sectors. There is no correlation between the variable total asset turnover (TATO) and stock price movements. If the company is able to successfully manage its assets and use the funds it already has for its operational activities, it will be able to attract investors who are interested in investing in their shares (Calista & Widjaja, 2019; Irman et al., 2020). When there is an increase in desirability, there is also an increase in the share price of the company on the capital market (Rahman et al., 2018; Saraswati & Suryantini, 2019).

4. Conclusions

The research aims to understand how different financial parameters affect the stock prices of companies operating in the transportation, utility, and infrastructure sectors. The results show that total asset turnover has no effect on stock prices, while the current ratio, company size, price to book value, return on assets, and debt to equity ratio all do. Paying attention to the current ratio, firm size, price to book value, return on assets, and debt to equity ratio can help investors, both seasoned and novice, make informed decisions about infrastructure, utility, and transportation companies. This applies to investors who have invested as well as investors who have not invested. In order for firms to raise their stock values, they need to improve their financial performance by making better use of their expenses in an effective and efficient manner.

Restrictions, as well as recommendations for more investigation. To begin, the sectors of infrastructure, utilities, and transportation are included in the study's scope of investigation. After that, data from other industries that are presumed to produce distinct outcomes can be incorporated. The inclusion of extra variables that were not accounted for in this investigation is the second

problem with the study. The third theme addresses the exploitation of more recent data in an effort to increase scientific knowledge.

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