American Journal of Humanities and Social Sciences Research (AJHSSR)
e-ISSN :2378-703X
Volume-08, Issue-08, pp-16-26
www.ajhssr.com
Research Paper Open Access

Antecedents of Local Company Profit Growth in East Kalimantan

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ABSTRACT : This research is about Antecedents of Local Company Profit Growth in East Kalimantan, which analyzes the influence of financial performance and firm size on the growth of Local Company with capital structure as a moderating variable. The data used is panel data from Local Company in East Kalimantan for the period 2014-2023. This research uses quantitative methods with panel data analysis, applying the fixed effect model to test the hypotheses using Eviews 13. The results show that financial performance has no significant effect on Local Company growth, while firm size has a negatif but significant effect. Capital structure is proven to strengthen the relationship between financial performance and Company Growth, and significant in moderating the relationship between Firm Size and Company Growth. The conclusion of this study is that financial performance and firm size is an important factor influencing the growth of Local Company, with capital structure as a reinforcement in this relationship.

KEYWORDS -*Financial Performance, Firm Size, Local Company Growth, Capital Structure*

I. INTRODUCTION

The economic growth of a country has become the main priority. Synergy between the private sector and the government is needed to achieve sustainable economic growth stimulus (Haryanto & Aimon, 2021). In the era of constantly changing economic dynamics, company growth has become the main focus for various business entities, including Local Company. In Indonesia, the strategy to drive economic growth through State-Owned Enterprises (SOEs) and Local Company is mandated by the Constitution (UUD) of the Republic of Indonesia Article 33, and further regulated in Government Regulation of the Republic of Indonesia Number 54 of 2017.

Local Company has a strategic role in driving the regional economy, providing public services, and promoting community welfare. As an important part of the regional economic ecosystem, the sustainability and growth of Local Company is a priority for local governments (Wijoyo & Mashuri, 2020). The contribution of Local Company to the regional and national economy is important, especially in strengthening local economic growth.

Local Company has a strategic role in driving the regional economy, providing public services, and promoting community welfare. As an important part of the regional economic ecosystem, the sustainability and growth of BUMD is a priority for local governments (Wijoyo & Mashuri, 2020). The contribution of Local Company to the regional and national economy is important, especially in strengthening local economic growth.

Overall, Local Companies in Indonesia are business entities formed by local governments, where most or all of the capital comes from the local government (Aras, 2023). Local Companies not only pursue profit, but also contribute to Regional Original Revenue (ROR). Healthy growth of Local Companies will have an impact on increasing ROR, which can ultimately be used to finance regional development and improve public welfare.

Some provinces in Indonesia are experiencing a slowdown or even a decline in economic growth. This phenomenon indicates disparities in potential between provinces, including in terms of capital, human resources, and development policies. Nevertheless, the role of Local Company in driving local economic growth remains important, but a deeper understanding of the factors affecting Local Company growth is needed.

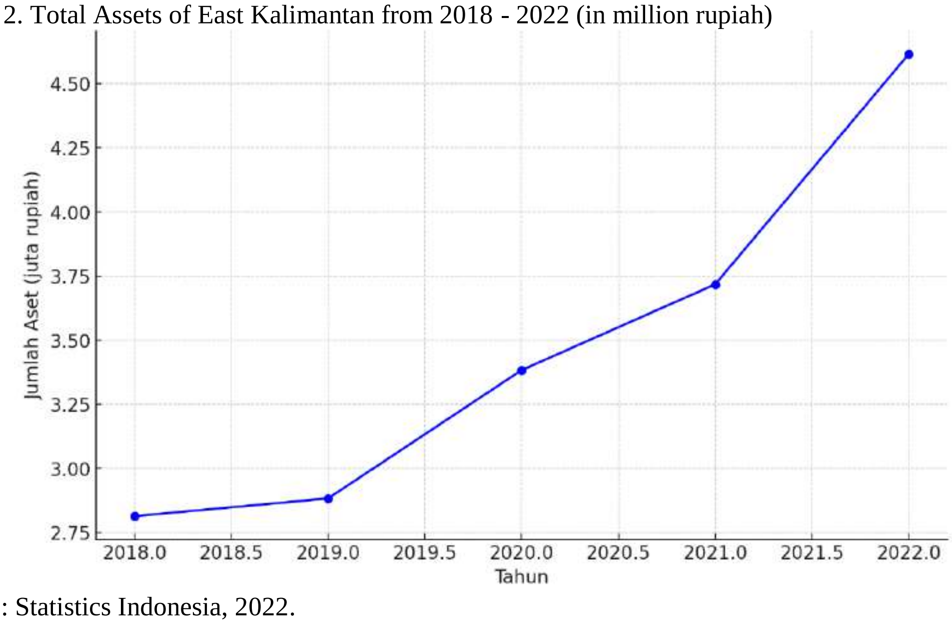
Figure 1. Net Profit of Local Company in Indonesia from 2018 - 2022 (in Million Rupiah)

Source: Statistics Indonesia, 2022

Based on the Local Company net profit data from 2018 to 2022, there is a consistent declining trend over the past five years across Indonesia. In 2018, local company net profit reached Rp14,048,281, which then increased to Rp15,994,297 in 2019. However, after that, there was a significant decline in 2020 with net profit dropping to Rp11,562,696. This decline continued in 2021, where net profit further decreased to Rp10,018,815. Although there was a slight increase in 2022 to Rp12,483,653, the decline from the previous year was still significant. This phenomenon indicates that Local Companies across Indonesia have faced significant challenges in maintaining their financial performance, and in-depth analysis is needed to identify the contributing factors and steps that can be taken to improve their financial condition.

One example of a Local Company in Indonesia is the Local Company of East Kalimantan. The Local Company of East Kalimantan has a strategic role in supporting regional development in the province. As a region rich in natural resources, particularly oil and gas, as well as the plantation and forestry sectors, the Local Companies in East Kalimantan have great potential to drive the regional economy. However, to maximize this potential, in-depth analysis is required on various factors that influence the performance of Local Companies in the province.

Figure 2. Total Assets of East Kalimantan from 2018 - 2022 (in million rupiah)



Source: Statistics Indonesia, 2022.

Based on the asset data from 2018 to 2022, the Local Company of East Kalimantan has shown significant growth. The available data indicates an increase in the assets of Local Companies in East Kalimantan, which grew from Rp28,132,369 million in 2018 to Rp46,153,738 million in 2022. This increase reflects the great potential possessed by Local Companies in this province, particularly in managing the abundant natural resources. However, the challenges faced by Local Companies in East Kalimantan are also significant. Local Companies in East Kalimantan face several key challenges, such as fluctuations in global commodity prices, central and regional government policies, and competition with private companies.

Table 1. Revenue, Expenses and Profit of Local Company in East Kalimantan from 2018 - 2022 (in million rupiah)

Year	Operating Revenues	Other Income	Net Profit
2018	Rp 2.929.178	-Rp 5.588	Rp 442.489
2019	Rp 3.727.731	-Rp 1.788	Rp 305.099
2020	Rp 3.858.720	Rp 57.552	Rp 311.999
2021	Rp 3.506.501	-Rp 74.562	Rp 267.014
2022	Rp 3.786.739	Rp 30.744	Rp 441.789

Source: Statistics Indonesia, 2022.

The revenue, expenses, and net profit of Local Companies in East Kalimantan from 2018 to 2022 show significant fluctuations. Although operating revenue has fluctuated, there is an increasing trend from 2018 to 2022. Other income shows greater variability, with some years experiencing negative income. Net profit has also fluctuated, with a significant decrease in 2019 and 2021, but then increased again in 2022. These fluctuations reflect the challenges faced by Local Companies in maintaining financial stability amidst various external factors.

Company growth is an important indicator in showing the development and progress of a company (Adfentari et al., 2020; Alvareza and Topowijono, 2017). Sustainable growth can reflect operational efficiency, innovation, and the company's adaptability to changes in the business environment. The growth of companies, especially Local Companies, is influenced by a number of complex factors, including financial performance and Firm Size. Strong financial performance, such as high profitability, good liquidity, and operational efficiency, can be an important indicator for predicting a company's growth potential (Nadila, 2022; Sohilauw et al., 2022).

On the other hand, Firm Size, which includes the scale of operations, number of employees, and assets owned, also plays a crucial role in determining a company's ability to grow. Larger companies tend to have more resources and better capabilities in facing various challenges and opportunities in the market (Mardianto, 2022; Efrinal and Astuti, 2022). The capital structure, which reflects the proportion of debt and equity used by the company to finance its operations (Adfentari et al., 2020), can affect investment policies, growth, and risk of the company. Therefore, a deep understanding of how capital structure moderates the relationship between financial performance, Firm Size, and company growth becomes crucial in optimizing the development strategies of Local Companies.

Based on the available empirical data, it appears that Local Companiesacross Indonesia have experienced fluctuations in financial performance over the past few years. Some provinces have shown an increase in net profit from year to year, while others have experienced significant declines. This phenomenon indicates variations in the performance of Local Companies at the regional level, which need to be studied further to understand the underlying factors. By understanding the factors that influence the growth of Local Company, both individually and through their interactions, local governments and other stakeholders can formulate appropriate policies and effective development strategies to enhance the contribution of Local Companies in driving economic growth and community welfare in East Kalimantan. In-depth research in this context becomes important to provide valuable insights for decision-making and sustainable regional economic development.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The agency theory explains the relationship between shareholders (principals) and company management (agents), where shareholders entrust the management of the company to the management (Jensen and Meckling, 2019). Management is responsible for carrying out the company's operations and making strategic decisions (Invesnesia, 2023). However, since the interests of management and shareholders can be different, conflicts of interest can occur. Therefore, companies need to have good monitoring and control mechanisms (Wardoyo et al., 2021).

In agency theory, the company's financial performance is an indicator of management's effectiveness in running the company. Management's ability to manage resources and make the right decisions is reflected in the level of the company's success in achieving financial goals (Hervieux et al., 2021). Effective management can improve financial performance, company value, and profits for shareholders, indicating a significant influence of management on the overall success of the company (Bhagat et al., 2020).

Agency theory provides a basis for analyzing how the financial performance and size of Local Company can affect their growth (Chandra et al., 2022). Understanding the dynamics of the principal-agent relationship in Local Company is important to formulate strategies and policies that minimize conflicts of interest and improve the performance and growth of Local Company as a whole. This study aims to analyze the effect of financial performance and Firm Size on the growth of Local Company in East Kalimantan, considering the role of capital structure as a moderator.

Financial Performance on Company Growth

The company's financial performance can be measured through several indicators, including the current ratio, return on equity, and total asset turnover. The current ratio is a ratio that measures the company's ability to meet its short-term obligations using current assets. Return on Assets (ROA) indicates the level of profit obtained by the company from the assets invested by shareholders.

Research by Apriliyani and Yudiantoro (2022) highlighted the impact of financial performance, which includes the current ratio, return on equity, and total asset turnover, on the development of corporate profits in the consumer goods sector. The results show that partially, ROE has a significant influence on the development of profits, while the current ratio and total asset turnover do not have a significant effect.

Other studies by Muamilah et al. (2019); Hermuningsih (2019); Nurhaida & Nurhasanah (2022); Vuković et al. (2022); Jessica et al. (2022); Raharjo & Lestari (2022); and Rahayu (2019) aimed to test the effect of financial performance on growth. The results show that financial performance has a positive and significant effect on growth, as it is believed that high ROA has good company growth prospects and the ability of a company to dominate a wider market, generate higher sales, and obtain higher company profits. In the research of Rahayu (2019) and Nurhaida & Nurhasanah (2022), measuring company performance with ROA (Return on Assets) explains the expectation of future income determines the amount of assets to be used. In agreement with the research of Raharjo & Lestari (2022) and Vuković et al. (2022), which measure financial performance with ROA, it proves that the company strives to maximize profits by achieving a return on the funds involved and maintain the absolute value of the net assets invested, thus having a positive impact on the company's growth. In this case, in line with the research by Muamilah et al. (2019), good ROA will give a signal to investors and will make investors increase their demand for shares and high investor expectations for returns. Therefore, the following hypothesis is proposed:

H_1: Financial performance has a positive effect on company growth.

Firm Size on Company Growth

Company growth is one of the important indicators to measure the performance and success of a company. Firm Size, which is generally measured by total assets, revenue, or number of employees, is often associated with its growth potential. This study aims to examine the effect of Firm Size on company growth.

Research on the relationship between Firm Size and company growth has become an important topic in the economics and management literature. Firm Size is often considered one of the factors that affect a company's ability to grow and develop in a competitive market. Company growth, on the other hand, is a strategic goal for many companies as it can improve financial performance, expand market share, and increase company value.

Empirical research shows that Firm Size has a complex relationship with company growth. Some studies have found that larger Firm Size can facilitate company growth because they have more resources, better access to capital markets, and the ability to expand into new markets. However, there is also research showing that Firm Size that is too large can hinder growth by increasing bureaucracy, reducing flexibility, and slowing down the decision-making process.

For example, research by Yuwanita and Ilona (2020) and Raharjo & Lestari (2022) found that Firm Size has a positive effect on company growth. They found that larger companies tend to have higher growth rates compared to smaller companies. A study by Fatika et al. (2020) also highlighted the importance of Firm Size in influencing growth. They found that larger Firm Size is positively correlated with company growth in various industry contexts. In the research of Vuković et al. (2022), Firm Size has a positive and significant effect on growth because larger Firm Size is seen as impacting company revenue, and as the Firm Size increases over time, the company's growth will also increase. In addition, according to Jessica et al. (2022), Firm Size has a negative and significant effect on growth. However, in the research of Supyati et al. (2024), Firm Size does not affect growth. Therefore, the following hypothesis is proposed:

H_2: Firm Size has a positive effect on company growth.

Financial Performance and Company GrowthModerated by Capital Structure

Company Growth is one of the main goals that companies aim to achieve. To achieve sustainable growth, companies need to have good financial performance and the right capital management strategy. This research focuses on the influence of financial performance on Company Growth, taking into account the role of capital structure as a moderating variable.

A company's financial performance is an important indicator that reflects the company's ability to generate profits and the efficiency of its use of financial resources. On the other hand, Company Growthis a strategic goal pursued by many companies to increase market share, business expansion, and increase the company's value. In the financial management literature, the relationship between financial performance and Company Growthhas been a subject of significant attention.

Empirical research shows a complex relationship between financial performance and Company Growth. Some studies find that strong financial performance can facilitate Company Growth by providing sufficient resources for investment and business development. Conversely, weak financial performance can be an obstacle to Company Growthby limiting access to capital and increasing the risk of bankruptcy. The role of capital structure, which reflects the proportion of debt and equity in the company's financial structure, can affect how the company uses its financial resources to support growth. Thus, capital structure can moderate the relationship between financial performance and Company Growthby regulating the availability and cost of capital.

Previous research on the relationship between financial performance, capital structure, and Company Growthhas yielded diverse findings. Some studies show that financial performance has a positive effect on Company Growth, while others find an insignificant or even negative relationship. Factors such as industry, firm size, and economic conditions can affect this relationship. The research results of Muamilah et al. (2019) state that partially company performance and capital structure affect company growth. Company performance will reflect company growth, while a high capital structure will help company growth when the company is unable to finance its operations. The studies of Hasanudin et al. (2024) and Vaicondam & Ramakrishnan (2018) show that company performance has a positive effect on capital structure, while the study of Ameira & Mohammad (2023) finds that company performance has a negative and significant effect on capital structure, where companies often rely on debt to finance their assets.

Further research by Yuwanita et al. (2020); Raharjo & Lestari (2022) and Ariyani et al. (2019) shows that firm performance has a significant negative effect on capital structure, where high firm performance will reduce the company's dependence on loans. Additionally, the study by Yuwanita et al. (2020) shows that Company Growth has a positive but not significant effect on Capital Structure.

The study by Hermuningsih (2019) shows that company growth can be accelerated by the company's financial performance. However, in the research by Ferliana & Agustina (2018), they highlight the need to consider how the company's capital structure moderates the relationship between financial performance and company growth. Capital structure, which reflects the proportion of debt and equity in the company's financial structure, can affect how the company uses its financial resources to support growth. Therefore, capital structure can moderate the relationship between financial performance and company growth by regulating the availability and cost of capital.

The study by Syafputri (2022) shows that financial performance has a significant influence on capital structure, with positive company performance indicating that the company is able to use its capital effectively in operational activities, which can increase the company's net profit and improve the capital structure both internally and externally. Other research by Fatika et al. (2020) also highlights that capital structure moderates the relationship between variables such as firm size and Company Growth, where firms use relatively lower debt if they have high returns.

However, there is still little research that specifically explores how capital structure moderates the relationship between financial performance and Company Growth. Further research in this field is expected to provide deeper insights into how the interaction between financial performance, capital structure, and Company Growth can shape more effective and sustainable financial strategies. The following hypothesis is proposed:

H_3: Capital structure strengthens the influence of financial performance on company growth.

Firm Size on Company Growth is Moderated by Capital Structure

Previous research has shown a complex relationship between firm size and Company Growth. Larger firm size is often associated with more resources, the ability to gain access to capital markets, and advantages in loan negotiations, all of which can support higher company growth.

Research has also highlighted that capital structure can moderate the relationship between firm size and company growth. An optimal capital structure can facilitate company growth by providing access to additional resources through debt or equity. However, an inappropriate capital structure can impede company growth by increasing the cost of capital or financial risk.

For example, studies by Yuwanita and Ilona (2020) and Ariyani et al. (2019) found that firm size has a significant influence on capital structure. This suggests that the larger the company's debt as the company's capital, the more likely it is because large companies will guarantee greater access to obtain these funds. However, this effect can be moderated by the capital structure, indicating that the effect of firm size on company growth can vary depending on the level of debt and equity used by the company.

Further research by Yuwanita et al. (2020) shows that partially, firm size has a positive and insignificant effect on Capital Structure. However, other research by Ariyani et al. (2019) found that company growth did not have a significant effect on capital structure. Other studies by Fatika et al. (2020); Vuković et al. (2022) and Syafputri (2020) also highlight that capital structure moderates the relationship between variables such as firm size and company growth, as larger firms tend to have easier access to alternative funding sources and the ability to bear greater risk, which may be reflected in a higher proportion of debt in their structure. These findings highlight the importance of considering capital structure in the context of the influence of firm size on company growth.

Thus, past research has provided a strong basis for understanding how capital structure can moderate the relationship between firm size and company growth. However, there is still a need to further deepen the understanding of this dynamics and its implications for corporate policies. Therefore, the following hypothesis is proposed:

H_4: Capital structure strengthens the influence of firm size on company growth.

III. RESEARCH METHOD

This research uses a descriptive methodology and a quantitative approach. In the methods section, the research process is described in detail. This research uses secondary data in the form of financial reports from all Local Company in East Kalimantan, which number 7 companies. Based on the hypotheses that have been formulated, this research will be tested using multiple linear regression tests and moderated regression analysis (MRA) tests. The tool used in this research is Eviews 13.

The structure of this research is panel data with balanced data. Balanced data is observed objects where all object units are observed at the same time. According to Ghozali & Ratmono (2017), panel data is a type of data that combines time series data and cross-section data. Panel data is a collection of data where the behavior of cross-sectional units (such as people, businesses, or countries) is tracked over time. Panel data is also often called pooled data (a combination of time series and cross-section).

Table2. Operational Variables

Variable	Formula
Company Growth	$Company\ Growth = \frac{EAT_y - EAT_{(y-1)}}{EAT_y} \times 100\%$
Finansial Performance	$ROA = \frac{EAT}{TOTAL\ ASSETS}$
Firm Size	$ASSET\ = Log\ (TOTAL\ ASSETS)$
Capital Structure	$DER = \frac{TOTAL\ LIABILITIES}{TOTAL\ EQUITY}$

Source: Data is processed (2024)

IV. RESULT AND DISCUSSION

Panel Data Regression Test Results

Table 3. Panel Data Regression Test Results.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.101616	0.027818	3.652875	0.0005
ROA	0.014946	0.017184	0.869722	0.3877
LN_ASET	-0.009431	0.002488	-3.790741	0.0003
ROA*DER	0.000324	8.45E-05	3.832367	0.0003
LN_ASET*DER	8.74E-05	6.08E-07	143.7334	0.0000

Source: E-views 13 Output, 2024

Based on the regression results above, the regression model in this study can be written as follows:

$$\mathbf{Y = 0.101616 + 0.014946\ X_1 - 0.009431\ X_2 + 0.000324\ X_1\_Z + 8.74E\text{-}05\ X_2\_Z + e}$$

The Table 3 above shows that the regression equation for the panel data regression test can be interpreted as follows:

1. Table 3 shows that Financial Performance (X_1) has a significantvalue of 0.3877 > 0.05 and a t-statistic of 0.869722 < 1.66792, so it can be said that Financial Performance (X_1) Local Companies in East Kalimantan from 2014 to 2023 has no significant effect on company growth (Y). It can be concluded that the first hypothesis is rejected.
2. Table 3shows that the firm size size proxied by total assets in this study has a significant value of 0.0003 < 0.05 and a t-statistic of -3.790741 > 1.66792, so it can be said that the firm size proxied by Total Assets (X_2) has a significant negative effect on company growth (Y). It can be concluded that the second hypothesis is rejected.
3. Table 3shows that the significant value for the moderating variable of capital structure proxied by DER strengthens the influence of the relationship between financial performance proxied by ROA and company growth has a significance value of 0.0003 < 0.05 and a t-statistic of 3.832367 > the t-table of 1.66792, so it can be said that the capital structure proxied by DER is able to moderate the effect of financial performance proxied by ROA and company growth of Local Companies in East Kalimantan from 2014 to 2023. It can be concluded that the third hypothesis is accepted.
4. Table 3shows that the significant value for the moderating variable of capital structure proxied by DER is able to strengthen the influence of the relationship between firm size proxied by total assets and company growth has a significance value of 0.0000 < 0.05 and a t-statistic of 143.7334 > the t-table of 1.66792, so it can be said that the capital structure proxied by DER is able to moderate the effect of firmsize proxied by total assets and company growth of Local Companies in East Kalimantan from 2014 to 2023. It can be concluded that the fourth hypothesis is accepted.

Disscussion

The first hypothesis states that financial performance has a positive effect on company growth. Based on the research results, financial performance as measured by Return on Assets (ROA) does not have a significant effect on the growth of companies at Local Company in East Kalimantan. These results indicate that although high ROA usually indicates the company's efficiency in managing assets to generate profits, this is not always directly proportional to the growth of companies in this sector.

This finding is in line with some previous studies showing that financial performance indicators such as ROA, although important, do not always have a strong influence on company growth. For example, research by Muamilah et al. (2019) and Raharjo & Lestari (2022) showed that the effect of ROA on company growth can be influenced by various external factors such as market conditions and government policies.Agency theory explains that the relationship between owners (principals) and managers (agents) can influence how financial performance is translated into growth. In this context, managers who work for the interests of the owners may focus on good short-term financial performance, but external factors such as market uncertainty can reduce its impact on company growth.

The second hypothesis states that firm size has a positive effect on company growth. Based on the research results, firm size as measured by total assets shows a significant negative effect on the growth of companies at Local Company in East Kalimantan. These results indicate that larger companies tend to experience lower growth compared to smaller companies.

Some previous studies support these findings. For example, research by Yuwanita and Ilona (2020) as well as Raharjo & Lestari (2022) found that larger companies often face complex bureaucratic problems, which can hinder flexibility and the ability to respond to market changes quickly.Agency theory explains that in large companies, managers may face pressure to meet political or social interests that can hinder growth. In addition, the lack of effective supervision by regional governments as owners can lead to inefficiency and waste of resources, which ultimately hinders the company's growth.

The third hypothesis states that capital structure can moderate the effect of financial performance on company growth. The research results show that capital structure, as measured by Debt to Equity Ratio (DER), is unable to moderate the effect of financial performance as measured by ROA on the growth of companies at Local Company in East Kalimantan.

Previous research, such as that conducted by Suhardjo (2022), showed that capital structure does not always strengthen the relationship between financial performance and company growth. This can be caused by the company's dependence on funding from retained earnings compared to using debt. In addition, factors such as limited access to competitive funding sources and strict government regulations can limit the role of capital structure in moderating the effect of financial performance on company growth.

The fourth hypothesis states that capital structure can moderate the effect of firm size on company growth. The research results show that capital structure is unable to moderate the effect of firm size on the growth of companies at Local Company in East Kalimantan.

This finding is surprising given the assumption that an optimal capital structure can strengthen the relationship between firm size and growth. However, in the context of Local Company, capital structure influenced by public policies and political considerations may not have the same flexibility in supporting company growth. Agency theory helps explain that managers may be more focused on financial stability than aggressive growth that may be risky, especially under pressure from local governments.

Overall, these findings highlight the importance of understanding the specific context of Local Company in designing financial and investment strategies. Factors such as bureaucracy, government regulations, and political dynamics play an important role in determining how financial performance and firm size affect company growth. Agency theory provides an additional perspective in understanding the dynamics of the relationship between owners and managers in the financial management of Local Company in East Kalimantan.

V. CONCLUSION

Based on the results of this study, financial performance does not have a positive effect on the growth of Local Company in East Kalimantan from 2014 to 2023, so the first hypothesis (H_1) is rejected. This result indicates that an increase in financial performance does not always contribute to the growth of Local Companies in this region. In addition, firm size has a negative effect on growth, which also rejects the second hypothesis (H_2). This finding suggests that larger companies tend to experience slower growth.

However, the capital structure was able to moderate the effect of financial performance and firm size on company growth, so the third (H_3) and fourth (H_4) hypotheses were accepted. This shows that companies with an optimal capital structure can strengthen the impact of financial performance and firm size on growth. A balanced capital structure between debt and equity can improve the efficiency of fund utilization and promote better growth.

Contribution and Implications

This study has limitations in the use of secondary data from the financial statements of Local Company in East Kalimantan, which may be less accurate, as well as the coverage of certain time periods that do not reflect long-term dynamics. Additionally, environmental, political, and regulatory factors were not analyzed, so the results may not fully reflect reality. This study also only focuses on Local Company in East Kalimantan, so the generalization of the findings may be limited. Therefore, it is recommended that future research use longer and more comprehensive data, as well as consider relevant external factors.

Local Companies are expected to pay more attention to the management of financial performance, develop firm size, and optimize capital structure to achieve sustainable growth.A conclusion section must be included and should indicate clearly the advantages, limitations, and possible applications of the paper. Although a conclusion may review the main points of the paper, do not replicate the abstract as the conclusion. A conclusion might elaborate on the importance of the work or suggest applications and extentions.

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