

How Managerial Overconfidence Shapes M&A Decisions: A Systematic Literature Review

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Abstract

This study examines how managerial overconfidence influences merger and acquisition (M&A) decisions and outcomes through a systematic literature review approach. The study aims to synthesize empirical evidence regarding the effects of managerial overconfidence on acquisition decisions, post-merger performance, market reactions, and the moderating role of corporate governance across different institutional settings. This study employs a Systematic Literature Review (SLR) method following the PRISMA 2020 guidelines. A total of 34 empirical studies published between 2004 and 2025 were selected from major academic databases, including Scopus, Elsevier, Springer, Emerald, Routledge, and Google Scholar. The reviewed studies cover both developed and emerging markets and apply various empirical methods such as regression analysis, event studies, and panel data analysis. The findings indicate that overconfident CEOs and managers tend to pursue larger, riskier, and more speculative acquisitions, which are frequently associated with weaker post-merger performance and unfavorable market reactions. Investor sentiment, decision framing, and organizational dynamics may further intensify the negative effects of overconfidence, while governance mechanisms such as board independence and internal controls can mitigate biased managerial decisions. Recent studies also introduce alternative measurement approaches, including synergy forecast error and machine-learning models, to improve the identification of overconfidence-driven acquisition risks. This study concludes that managerial overconfidence is an important behavioral determinant of M&A decisions and highlights the need for more context-specific research in emerging markets such as Indonesia, particularly regarding appropriate overconfidence proxies and governance mechanisms in strategic corporate decision-making.

INTRODUCTION

Mergers and acquisitions (M&A) are among the most widely used corporate strategies for achieving rapid external growth, expanding market reach, acquiring technological capabilities, and strengthening competitive advantage (Sudarsanam & Huang, 2006; Pan et al., 2006). Despite their strategic importance, a substantial body of empirical literature indicates that many acquisitions fail to create sustainable shareholder value and frequently result in weak post-merger performance (Rau & Vermaelen, 1998; Moeller et al., 2005). Previous studies suggest that acquiring firms often overestimate potential synergies while underestimating integration complexity, operational risk, and organizational challenges following acquisitions (Bassen et al., 2010; Guo et al., 2020).

Traditional neoclassical explanations are often insufficient to explain why firms continue to engage in value-destroying acquisitions. Recent developments in behavioral corporate finance argue that strategic corporate decisions are strongly influenced by managerial biases and cognitive limitations under conditions of uncertainty (Heaton, 2002; Baker et al., 2007). This perspective is further supported by behavioral decision-making theories, which suggest that managers frequently rely on subjective judgment and imperfect information when making complex strategic decisions under uncertainty (Simon, 1955; Kahneman & Tversky, 1979). One of the most prominent

behavioral biases discussed in the M&A literature is managerial overconfidence, which refers to executives' tendency to overestimate their ability to evaluate acquisition targets, generate synergies, and manage post-merger integration processes (Malmendier & Tate, 2005). This perspective is closely related to the Hubris Hypothesis proposed by Roll (1986), which suggests that managers may engage in acquisitions because they overestimate their own capabilities and the expected value of the transaction.

The relationship between executive characteristics and strategic corporate decisions is also consistent with Upper Echelons Theory, which posits that organizational outcomes reflect the cognitive values, experiences, and psychological characteristics of top executives (Hambrick & Mason, 1984). In the context of M&A, overconfident CEOs are more likely to pursue aggressive acquisition strategies, including larger transactions, diversification mergers, and cross-border acquisitions with higher uncertainty levels (Ferris et al., 2013; Doukas & Petmezas, 2007). Empirical evidence further shows that overconfident managers often experience negative market reactions because investors perceive their acquisition decisions as excessively optimistic and potentially value destroying (Malmendier & Tate, 2008).

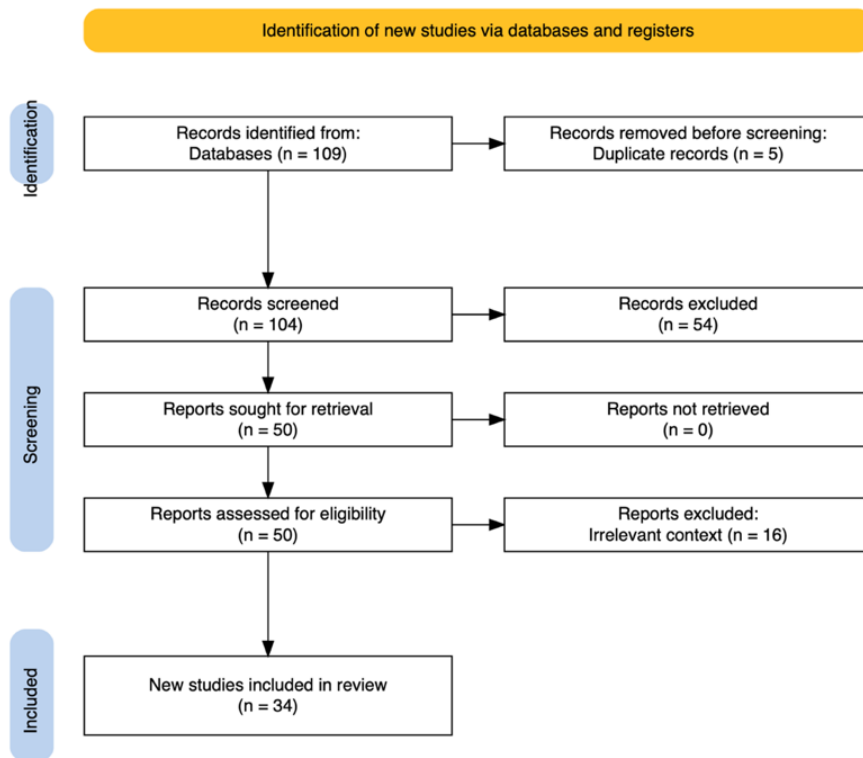
In addition to managerial characteristics, corporate governance mechanisms play an important role in constraining irrational managerial behavior. From an agency theory perspective, effective governance structures are necessary to reduce managerial discretion and minimize opportunistic or biased strategic decisions (Jensen & Meckling, 1976; Fama & Jensen, 1983). Prior studies indicate that governance mechanisms such as board independence, board vigilance, audit oversight, and institutional monitoring can mitigate the negative consequences of managerial overconfidence in acquisition decisions, although their effectiveness varies across institutional and cultural settings (Twardawski & Kind, 2023; Brahma et al., 2023). Comparative evidence also suggests that differences in governance quality, ownership concentration, and market environments significantly influence the prevalence and impact of managerial overconfidence across countries (Ferris et al., 2013; Li et al., 2025).

Given the growing scholarly attention toward behavioral determinants of strategic corporate decisions, a systematic review is necessary to synthesize existing evidence regarding how managerial overconfidence shapes M&A decisions, market reactions, and post-merger performance across different institutional contexts. Although prior studies have extensively examined overconfidence in developed markets, evidence from emerging markets remains relatively limited and fragmented. Therefore, this study aims to:

1. Review and synthesize empirical findings on the role of managerial overconfidence in M&A activities across global settings;
2. Identify patterns, moderating factors, and methodological approaches used in prior research; and
3. Propose future research directions, particularly for emerging markets where evidence remains limited.

METHODS

Figure 1. PRISMA 2020 Flow Diagram of the Literature Search Process



This study employs a Systematic Literature Review (SLR) approach to examine the role of managerial overconfidence in global merger and acquisition (M&A) decisions. The review follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 guidelines (Page et al., 2021), ensuring that the review process is systematic, transparent, replicable, and scientifically rigorous. Article searches were conducted using major academic databases, including Scopus, Google Scholar, Elsevier, Springer, Routledge, and Emerald, with keywords related to managerial overconfidence and M&A activities.

The inclusion criteria required that studies examine CEO or managerial overconfidence within the context of mergers and acquisitions, investigate its antecedents, consequences, or moderating factors such as corporate governance, employ empirical methods whether quantitative or qualitative and available in full-text format. Meanwhile, the exclusion criteria eliminated articles that did not focus on managerial overconfidence, were unrelated to M&A activities, were purely conceptual without empirical evidence, or lacked accessible full text.

An initial search yielded 109 articles, which were screened through titles, abstracts, and full texts. After removing duplicates and applying the eligibility criteria, 34 studies remained for in-depth analysis. These articles were subsequently extracted for information regarding research objectives, methodologies, key findings, and relevant moderating variables. A PRISMA flow diagram is used to summarize the stages of identification, screening, eligibility assessment, and final inclusion in the review.

RESULTS AND DISCUSSION

RESULT

Based on the screening process, 34 empirical articles were identified as the primary sources for this review. These studies were published between 2004 and 2025, with the majority appearing between 2015 and 2025, reflecting the growing academic interest in behavioral finance and executive psychology. Most studies analyze publicly listed firms in both developed and emerging markets, using data drawn from financial statements, international M&A databases, CEO characteristics, and board composition.

A wide range of methodologies was applied across the reviewed studies. The majority used quantitative empirical techniques, including multivariate regression models, panel data estimations, moderating regression analysis, and Heckman two-stage procedures to address selection bias. Several studies employed event study methods to measure short-term market reactions to acquisition announcements (e.g., Billett et al., 2007; Doukas & Petmezas, 2007). A smaller number incorporated qualitative elements, such as CEO interviews, to enrich the interpretation of empirical results, as seen in Tang et al. (2020)'s case study in China.

Sample sizes vary substantially from a few dozen observations to more than 29,000 firm-year records covering diverse industries and cross-country contexts. Detailed information on the authors, research objectives, methodologies, and key findings of each study is presented below in Table 1.

Table 1 Summary of 34 Selected Empirical Studies

Author(s)	Context / Sample	Method	Key Findings
Tang et al. (2020)	China, 193 firms	Regression	Young optimistic CEOs increase post-M&A value.
Ferris et al. (2013)	Global Fortune 500	Poisson Regression	Overconfidence drives M&A frequency, type, financing.
Twardawski & Kind (2023)	U.S. public M&A	Heckman, OLS	Board overconfidence reduces returns, raises premiums.
Wang (2022)	China A-share	Regression	Overconfidence leads to value-destroying M&A.
Billett et al. (2007)	U.S. 2,301 CEOs	Event study, Logit	Self-attribution reinforces overconfidence, harms returns.
Doukas & Petmezas (2007)	U.S. bidders	Heckman, Probit	Overconfident bidders earn lower abnormal returns.
Guo et al. (2020)	China	Fama-French, Heckman	Limited short-term effect; mixed long-term.
Sudarsanam & Huang (2006)	1,953 M&A	OLS	Overconfidence drives risky, speculative deals.
Hong et al. (2023)	3,069 firms	OLS, 2SLS	Negative long-term performance amplified by policy.
Gu (2023)	673 firms	Regression	Reduces innovation and profitability.
Brahma et al. (2023)	UK, 707 deals	Event study, PSM	Board overconfidence worsens performance.
De-yong et al. (2012)	China	Regression	Overconfidence increases M&A; governance moderates.

Nie & Yen (2024)	U.S. 1,219	Logit	Investor sentiment amplifies overconfident mergers.
Ismail & Mavis (2021)	29,239 obs	Logit, DID	Synergy Forecast Error improves measurement.
Chen et al. (2022)	497 firms	Heckman	Overconfident CEOs benefit bondholders.
Zhang & Wang (2022)	China	OLS, PSM	Board vigilance moderates overconfidence.
Kotlyar & Karakowsky (2007)	Case study	Qualitative	Negative framing reduces overconfidence.
Can & Dizdarlar (2022)	62 firms	OLS	Overconfidence lowers firm value.
Shah & Kannadas (2020)	Literature	Review	Biases shape M&A decisions.
Brown & Sarma (2007)	65 U.S. firms	Logistic	CEO dominance increases M&A.
Lei & Wu (2010)	618 firms	Logit	Overconfidence increases likelihood of M&A.
Pan et al. (2006)	1,625 deals	Real options	High overconfidence reduces bidder returns.
Wu et al. (2017)	4,553 firms	Logit	Irrational decisions damage performance.
Li et al. (2025)	35,245 obs	OLS, Logit	Retail attention fuels misguided M&A.
Hwang et al. (2020)	13,754 firm-years	IV, DID	CEO power increases overconfidence.
Wang (2017)	2,417 firms	Logit	Overconfidence drives M&A.
Liu et al. (2020)	424 obs	Regression	Overconfidence reduces cross-border performance.
Pan et al. (2019)	1,625 deals	IV, Heckman	Increases premiums; debt amplifies.
Bassen et al. (2010)	German bidders	Event study	Private targets yield positive CAR.
Lee et al. (2025)	51,923 obs	Regression	Sentiment increases debt-financed M&A.
Pavicevic & Keil (2021)	349 deals	GLS, Probit	Procedural rationality reduces overpayment.
Yang (2015)	303 mergers	Regression	Hubris increases cost stickiness.
Malmendier & Tate (2004)	477 firms	Logit	Overconfidence increases diversification M&A.
Malmendier & Tate (2008)	394 firms	Logit	Market reacts negatively to overconfident deals.

Following the summary presented in Table 1, several consistent patterns emerge across the selected studies despite differences in research settings, sample sizes, and empirical techniques. Overall, the literature demonstrates that managerial overconfidence significantly shapes the acquisition process from the decision to initiate a merger, to the financing structure chosen, to the subsequent financial and market outcomes. The following subsections synthesize these findings into the major themes identified throughout the review.

1. Managerial Overconfidence and M&A Decision-Making

The findings show that managerial overconfidence influences multiple dimensions of merger and acquisition decisions. Overconfident CEOs, managers, and executives consistently exhibit more aggressive acquisition behavior, pursuing larger transactions and preferring payment methods that involve speculative or opportunistic risks. This aligns with Ferris et al. (2013), who found that CEO overconfidence significantly correlates with the number of bids, merger types, and cross-border payment choices. Tang et al. (2020) similarly noted that excessive optimism motivates managers to expand acquisition activity even under unfavorable market conditions. Wu et al. (2017) added that irrational managerial behavior, including overconfidence, reduces M&A performance and contributes to the trend of excessive acquisitions in China. Liu et al. (2020) also highlighted that executive overconfidence weakens cross-border M&A outcomes, particularly among private firms acquiring targets in developed economies.

Sudarsanam and Sudarsanam & Huang (2006) found that CEO overconfidence leads to non-synergistic or unrelated acquisitions, especially in cross-sector deals that overlook integration needs. This is reinforced by Guo et al. (2020), who noted that overconfident CEOs pursue high-risk targets outside the firm's core competencies. Can & Dizdarlar (2022) further emphasized that weak internal evaluation systems often amplify this bias, making firms unable to screen unproductive acquisition proposals effectively.

These findings are consistent with the Hubris Hypothesis proposed by Roll (1986), which argues that managers tend to overestimate their ability to create value and generate synergies through acquisitions. The evidence also supports the perspective of behavioral corporate finance, suggesting that cognitive biases and excessive optimism may distort managerial judgment under uncertainty (Heaton, 2002; Baker et al., 2007). Furthermore, the aggressive acquisition tendencies shown by overconfident executives are aligned with Upper Echelons Theory, which posits that strategic organizational outcomes reflect the psychological characteristics and cognitive orientations of top executives (Hambrick & Mason, 1984).

2. Effects of Overconfidence on Post-Merger Performance

Several studies conclude that overconfidence negatively affects post-acquisition financial performance. Wang (2022) showed that M&A decisions driven by overconfident managers often result in negative NPV due to overestimated synergies. Hong et al. (2023) found that these negative effects persist in the long term and are more pronounced in industries that promote aggressive expansion. Pan et al. (2006) also documented that high overconfidence can reduce bidder returns, depending on bidder size and synergy distribution. In contrast, Bassen et al. (2010) found that some cross-border deals generate positive CAR for U.S. private targets, indicating that overconfidence effects vary across contexts. Hwang et al. (2020) highlighted that CEO power strengthens overconfidence, triggering further acquisitions and more complex financing choices. Gu (2023) showed that overconfident CEOs tend to maintain the post-acquisition structure without critically assessing integration effectiveness, leading to medium-term operational declines. Chen et al. (2022) similarly found that ineffective post-merger integration driven by overly optimistic expectations is a major cause of M&A failure in energy and infrastructure industries.

Overall, the findings suggest that overconfident managers frequently overestimate expected synergies while underestimating integration costs and organizational complexity. This pattern reinforces the Hubris Hypothesis (Roll, 1986), which explains that excessive managerial confidence may encourage firms to undertake value-destroying acquisitions. The findings are also consistent with prior evidence indicating that many acquisitions fail to create sustainable shareholder value in the long term (Rau & Vermaelen, 1998; Moeller et al., 2005). However, the variation in findings across industries and institutional settings suggests that the effects of overconfidence may depend on contextual factors such as governance quality, acquisition type, and market conditions.

3. Market Reactions to Overconfident M&A Decisions

Overconfidence also influences market reactions. Studies consistently report negative announcement returns for mergers led by overconfident CEOs. Doukas & Petmezas (2007) found that such bidders earn lower abnormal returns than conservative bidders. This pattern aligns with Malmendier & Tate (2008), who showed that markets tend to penalize overly optimistic acquisition decisions. Lei and Wu (2010) documented negative market responses when acquisition decisions are based on intuition rather than fundamentals. Pan et al. (2019) noted that firms with high leverage experience even lower abnormal returns when their CEOs exhibit strong overconfidence. From a behavioral finance perspective, negative market reactions toward acquisitions initiated by

overconfident managers indicate that investors may perceive such decisions as excessively optimistic and insufficiently supported by economic fundamentals. The findings imply that capital markets are capable of partially recognizing managerial bias and incorporating perceived acquisition risk into stock prices. Investor skepticism appears to become stronger when acquisitions involve high leverage, speculative targets, or uncertain synergy projections.

4. Moderating Role of Corporate Governance

Several studies highlight corporate governance as a moderating factor that reduces overconfidence-related risks. Zhang & Wang (2022) found that independent directors can mitigate speculative acquisition tendencies. Conversely, De-yong et al. (2012) reported that weak governance amplifies the negative effects of overconfidence on M&A frequency and size. Twardawski & Kind (2023) expanded this by showing that board overconfidence lowers announcement returns and increases acquisition premiums. Brahma et al. (2023) also found that male-dominated boards and repeated acquisition histories worsen M&A outcomes, especially in cash-financed deals. Yang (2015) demonstrated that multilayered ownership structures can restrain managerial overconfidence, while Wang (2017) emphasized the importance of strong internal controls in countering biased managerial perceptions during acquisition evaluations.

These findings strongly support agency theory, which emphasizes the importance of governance mechanisms in constraining managerial discretion and reducing biased strategic decisions (Jensen & Meckling, 1976). Effective governance structures, including independent directors, audit oversight, and internal monitoring systems, may function as behavioral control mechanisms that reduce the negative consequences of managerial overconfidence. This perspective is also consistent with Fama and Jensen (1983), who argue that effective separation between decision management and decision control is essential for improving organizational decision quality.

5. Investor Sentiment and Market Context

Nie and Yen (2024) found that CEO overconfidence leads to more aggressive mergers when investor sentiment is high, although sentiment remains the dominant driver. Lee et al. (2025) noted that strong managerial sentiment encourages debt-financed cash mergers, even when markets fail to identify their risks. Li et al. (2025) warned that retail investor attention increases the likelihood of value-destroying mergers, particularly in high-risk firms. The interaction between managerial overconfidence and investor sentiment further demonstrates that acquisition decisions are influenced not only by firm fundamentals but also by broader psychological and market dynamics. Periods of optimistic market sentiment may reduce external resistance toward risky acquisitions and strengthen managerial confidence in pursuing aggressive expansion strategies. These findings are consistent with behavioral finance theory, which argues that investor psychology and managerial cognition jointly shape corporate financial decisions.

6. Psychological Factors and Measurement Approaches

Studies also discuss related behavioral factors. Shah & Kannadas (2020) reviewed psychological biases such as hubris and optimism, which shape M&A decisions. Kotlyar & Karakowsky (2007) showed that negative framing can reduce the adverse effects of overconfidence. Pavićević and Keil (2021) highlighted the role of procedural rationality in preventing overconfident CEOs from paying excessive premiums. Ismail & Mavis (2021) introduced the Synergy Forecast Error as a more accurate proxy for overconfidence, demonstrating strong predictive power for capital spending and leverage. These findings indicate that managerial overconfidence should be understood as part of a broader behavioral decision-

making framework involving optimism bias, framing effects, and bounded rationality. This perspective aligns with Simon (1955), who argues that decision makers frequently operate under cognitive limitations and imperfect information. The findings are also consistent with Prospect Theory proposed by Kahneman and Tversky (1979), which suggests that individuals often make decisions based on subjective perceptions of gains and risks rather than purely rational calculations.

7. Analytical Models and Predictive Risk Assessment

Zhang & Wang (2022) developed a machine-learning model to predict acquisition failure driven by CEO overconfidence, combining historical M&A activity, financing patterns, and CEO media exposure. Their results indicate that these indicators reliably predict post-merger synergy failure, offering a methodological contribution to understanding behavioral risks in strategic decisions. The growing application of predictive analytics and machine-learning techniques reflects an important methodological development in behavioral corporate finance research. These approaches may improve the objectivity of overconfidence measurement and enhance early identification of acquisition strategies that are likely to generate integration failure or shareholder value destruction.

DISCUSSION

The findings of this review reinforce the core propositions of behavioral finance, showing that cognitive biases, particularly managerial overconfidence, substantially shape strategic merger and acquisition decisions. Overconfidence influences acquisition intensity, financing choices, post-merger performance, market reactions, and investor perceptions. Recent studies further demonstrate that managerial overconfidence interacts with broader behavioral and organizational factors such as investor sentiment, decision framing, governance quality, and organizational rationality. Emerging measurement approaches, including the synergy forecast error, also provide more accurate methods for identifying excessive managerial optimism. Overall, the evidence indicates that behavioral biases, when combined with favorable market conditions or weak governance systems, may intensify the likelihood of value-destroying acquisitions.

Although the majority of studies report negative consequences of managerial overconfidence, several findings suggest that the effects are not universally detrimental. Certain acquisitions may still generate positive market reactions or strategic benefits depending on acquisition characteristics, governance quality, industry conditions, and institutional environments. This variation implies that managerial overconfidence does not operate uniformly across contexts and may interact with firm-specific and market-specific factors. In some cases, moderate managerial confidence may encourage strategic expansion and risk-taking that support long-term growth when accompanied by effective governance and rational evaluation processes.

Theoretically, the findings strengthen the growing body of behavioral corporate finance literature by demonstrating that strategic corporate decisions cannot be fully explained through rational economic assumptions alone. Instead, executive cognitive biases, psychological characteristics, and governance structures jointly shape acquisition behavior and post-merger outcomes. The review also highlights the relevance of integrating behavioral finance theory, agency theory, the Hubris Hypothesis, and Upper Echelons Theory in explaining acquisition decisions under conditions of uncertainty. Consequently, the findings contribute to a broader understanding of how behavioral and organizational factors influence corporate strategic decision-making.

Practically, these findings highlight the importance of strengthening governance mechanisms through independent boards, robust audit processes, effective internal controls, and objective risk assessments before acquisition decisions are implemented. Such mechanisms may help constrain overly optimistic managerial judgments and reduce the likelihood of value-destroying acquisitions. However, much of the existing evidence originates from developed

markets with regulatory environments and ownership structures that differ substantially from those in emerging economies, revealing a contextual gap that warrants further investigation, particularly in Indonesia. This issue is especially relevant in emerging markets such as Indonesia, where concentrated ownership structures, family-controlled firms, and relatively weaker governance enforcement may intensify managerial discretion and behavioral bias in strategic decision-making.

Future research should therefore examine managerial overconfidence in emerging-market settings using proxies that better reflect local institutional and data conditions. Traditional measures, such as stock-option behavior or linguistic analysis, may not be fully applicable in these contexts, making indicators such as acquisition frequency, financing choices, and payment methods more suitable alternatives. Future studies should also explore additional moderating variables, including institutional ownership, shareholder pressure, political connections, and industry competition, to deepen understanding of how governance and market forces shape behavioral outcomes. Furthermore, the application of predictive analytics and machine-learning techniques may improve the early identification of biased acquisition decisions, while comparative studies across ASEAN markets could provide broader insights into how institutional differences influence managerial overconfidence and M&A performance.

CONCLUSION

This systematic literature review of 34 selected studies demonstrates that managerial overconfidence plays a significant and consistent role in shaping merger and acquisition decisions across different institutional settings. Overconfident CEOs and managers tend to pursue larger, riskier, and more speculative acquisitions, often relying on financing and payment methods that increase strategic and financial risk. These behavioral tendencies are frequently associated with weaker post-merger financial performance, lower abnormal returns, and value-destroying acquisitions, although the magnitude and direction of the effects vary across industries, governance structures, and market environments. The findings also confirm that corporate governance functions as an important moderating mechanism capable of reducing irrational managerial behavior and improving acquisition decision quality.

The review further highlights that managerial overconfidence interacts with broader behavioral and organizational factors, including investor sentiment, decision framing, executive power, organizational rationality, and governance effectiveness. These findings strengthen the relevance of behavioral corporate finance, the Hubris Hypothesis, Upper Echelons Theory, and agency theory in explaining strategic corporate decisions under uncertainty. In addition, the emergence of alternative measurement approaches such as the synergy forecast error and predictive machine-learning models reflects important methodological developments in behavioral corporate finance research. External dynamics, including investor pressure and optimistic market conditions, may further intensify the negative consequences of overconfidence, particularly during periods of heightened market expectations.

From a practical perspective, the findings emphasize the importance of strengthening governance mechanisms through independent boards, effective internal controls, audit oversight, and objective acquisition evaluation processes. Such mechanisms may help reduce excessive managerial optimism and limit the likelihood of value-destroying acquisitions. These governance challenges are particularly relevant in emerging markets such as Indonesia, where concentrated ownership structures, family-controlled firms, and relatively weaker governance enforcement may increase managerial discretion and behavioral bias in strategic decision-making.

Given that much of the existing literature remains concentrated in developed markets, the findings underscore the need for more context-specific research in emerging economies. Future studies in Indonesia and other ASEAN countries are encouraged to develop proxies for managerial

overconfidence that better reflect local institutional conditions and data availability. Traditional measures such as stock-option behavior or linguistic analysis may not be fully applicable in these contexts, making indicators such as acquisition frequency, financing decisions, and payment method choices more suitable alternatives. Future research should also examine the moderating roles of institutional ownership, shareholder pressure, political connections, industry competition, and family ownership structures in shaping acquisition outcomes. Furthermore, the application of predictive analytics and machine-learning techniques may improve the early identification of overconfidence-driven acquisition risks and contribute to more disciplined and value-enhancing merger and acquisition practices.

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