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Linking Financial Innovation and Marketing Strategy to Performance Outcomes: Insights from Indian Entrepreneurial Firms

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Abstract

Financial innovation has become a critical instrument for entrepreneurial companies to maximize operational effectiveness, mitigate risks, and pursue strategic expansion in today's fast-changing and competitive business environment. Specifically in the case of India, with small and medium enterprises (SMEs) constrained by resources and financial uncertainty, cutting-edge financial practices can provide a competitive advantage. This research examines how financial innovation is correlated with firm performance in the case of entrepreneurial ventures in India. The aim is to investigate how various financial innovation dimensions, including product innovation, process innovation, and technology adoption, drive financial and non-financial performance results. Based on primary data gathered from 350 entrepreneurial Indian firms using a structured questionnaire, the research uses structural equation modelling (SEM) to test hypothesized relationships. The results show a strong positive influence of financial innovation on profitability and market growth, moderated by enhanced financial management capacity. The research contributes to theory by deepening the knowledge of innovation-performance relationships in emerging economies and provides practitioners with useful insights for entrepreneurs, policymakers, and investors seeking to utilize financial instruments to foster sustainable development. The findings highlight the necessity for aggressive innovation initiatives in financial operations to create resilience and long-term performance.

Keywords: Financial Innovation, Entrepreneurial Firms, Firm Performance Strategic Finance, Emerging Markets, Financial Technology (Fin Tech)

1. Introduction

Entrepreneurial businesses are the backbone of the Indian economy, with these enterprises as a driving force for innovation, job creation, and rural development. Employing more than 63 million micro, small, and medium enterprises (MSMEs) operating in various sectors, these businesses drive GDP, exports, and economic growth. Nevertheless, even with all their potential, numerous entrepreneurial businesses in India struggle with access to capital, financial management, and scalability of operations.

Within this context, financial innovation in the form of new financial products, processes, and technologies has come to play a critical role. It allows entrepreneurial businesses to handle risk more effectively, lower financing costs, reach new markets, and enhance decision-making. Financial innovation provides instruments like digital payments, crowd funding, alternative credit scoring, and block chain-based solutions that are capable of revolutionizing traditional financial activities and making firms more competitive. Despite the increasing interest in this field, much empirical work remains to be done that studies the impact of financial innovation on performance outcomes in Indian entrepreneurial contexts. The majority of the extant research has emphasized large firms or developed economies, with the associated dynamics in emerging economies remaining unstudied. This research seeks to examine the association between financial innovation and financial performance outcomes in Indian entrepreneurial businesses. The main research questions are: (1) what are the kinds of financial innovation used by Indian entrepreneurial businesses? (2) How do these affect financial and market performance?

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The research makes a contribution to the literature by, first, presenting empirical evidence from a developing economy and, second, emphasizing the role of financial innovation as a strategic resource. In practice, it provides actionable recommendations for entrepreneurs, financial institutions, and policymakers wishing to promote innovation-led growth.

2. Literature Review And Hypothesis Development

2.1 Financial Innovation

Financial innovation is the creation and application of new financial instruments, technology, processes, and institutions that enhance financial intermediation and efficiency. For entrepreneurial firms, this innovation is critical to overcoming capital access constraints, cost management, and risk reduction. The key forms of financial innovation are financial technology (Fin Tech) products and solutions like mobile banking, digital wallets, and block chain; accounting, payment, and investment management digital platforms; and peer-to-peer (P2P) lending and crowd funding alternative financing models (Frame & White, 2014). These innovations enable entrepreneurial companies to mechanize financial processes, access non-conventional funding, and enhance transparency. In the Indian scenario, digital financial systems like the Unified Payments Interface (UPI) have highly promoted the use of such innovations among small and medium-sized enterprises (SMEs).

2.2 Financial and Strategic Performance

Firm performance is generally evaluated in two wide dimensions: financial and strategic. Financial performance entails objective measures such as Return on Assets (ROA), Return on Equity (ROE), net profit margin, and stability of the cash flow. These measures capture the firm's resource utilization efficiency and income generation. Strategic performance, by contrast, encompasses qualitative and growth-based measures like revenue growth, market share, customer base growth, and innovation output (Venkatraman & Ramanujam, 1986). Both measures are critical for entrepreneurial firms to assess overall business performance, particularly in

economies like India's where markets are undergoing dramatic change.

2.3 Financial Innovation and Firm Performance

The literature is rich in indicating a strong correlation between financial innovation and enhanced firm performance. Financial innovation enables the firm to obtain access to alternative funding, create lean operations, and make informed decisions based on data, which together enhance efficiency and growth prospects (Beck et al., 2016). For example, the

application of AI and big data analytics in financial planning helps minimize errors and enhance budgeting. Similarly, online lending platforms diminish reliance on conventional banks, providing quicker and more accessible financial entry. Nevertheless, empirical studies specifically targeting Indian entrepreneurial firms are still less available. The majority of studies have focused on large firms or bank sectors while less attention has been paid to how start ups and SMEs exploit financial innovation for performance consequences (Chatterjee & Kumar, 2021). This disparity underscores the necessity for more specific research in the Indian scenario, particularly considering the specific financial issues confronted by entrepreneurial ventures within developing economies.

2.4 Hypotheses Development

Based on the previous understanding, the research formulates the following hypotheses:

H1: Financial innovation has a positive and significant influence on Indian entrepreneurial firms' financial performance.

H2: Financial innovation has a positive influence on strategic performance outcomes like market development and customer growth

H3: Improved capabilities for financial decision-making mediate the association between financial innovation and firm performance.

These hypotheses are based on the Resource-Based View (RBV) and Dynamic Capabilities Theory, according to which finance innovation can be a strategic asset that facilitates firms to evolve and develop in environments subject to change (Thakor, 2020).

3. Background Of The Study

Entrepreneurial companies are instrumental drivers of innovation, employment, and growth, especially in emerging economies such as India. With a large number of micro, small, and medium enterprises (MSMEs), India's entrepreneurial network plays an important role in GDP, exports, and inclusive growth. These companies, collectively, commonly suffer from systemic financial issues such as limited credit availability, high transaction costs, and ineffective financial processes. Conventional financial structures often fail to meet the special requirements of such companies, which tend to be under-collateralized, have informal organizations, and follow dynamic growth patterns. In this changing environment, financial innovation has been a driver of change. Financial innovation is the invention and uptake of new financial products, technologies, and distribution channels that improve financial efficiency, accessibility, and flexibility. Examples are digital payments, non-traditional lending platforms (such as peer-to-peer lending and crowd funding), credit scoring based on fin tech, and financial reporting automation. These technologies allow entrepreneurial companies to more effectively manage liquidity, mitigate risk, and tap into alternative sources of funding.

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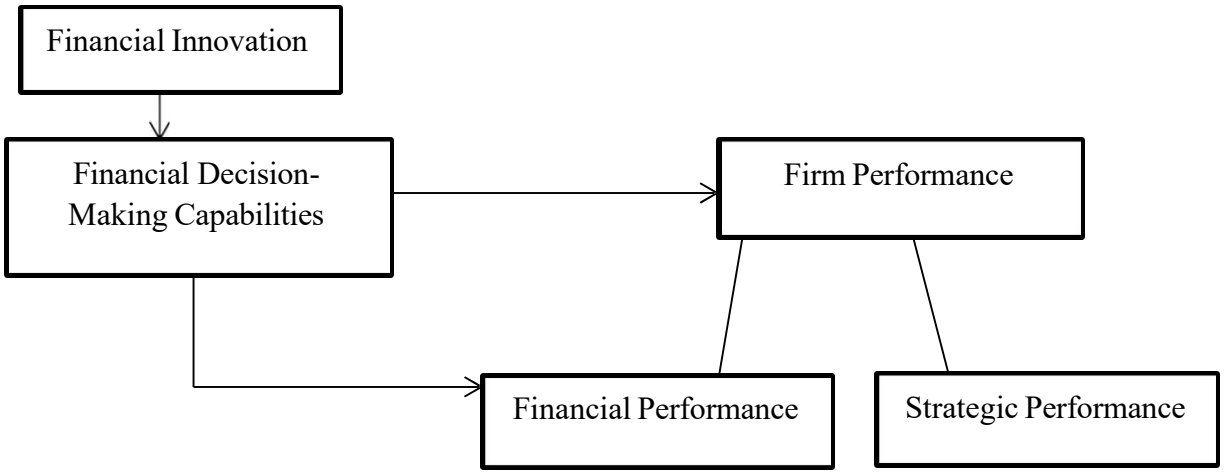
The growth of digital finance in India, underpinned by policy efforts such as Digital India, Startup India, and the spread of fin tech infrastructure (UPI, Aadhaar payments), has driven the use of financial innovation across industries. Notwithstanding these developments, there is limited empirical analysis based on available datasets exploring the direct effect of financial innovation on firm performance at the Indian level. The majority of the current research is based on banking organizations or large firms, without closing the research gap regarding the benefits and strategic significance of financial innovation for entrepreneurial firms. This research seeks to fill this gap by examining how financial innovation affects both financial (profitability, cost effectiveness) and strategic (example, market expansion, customer gain) performance outcomes in Indian entrepreneurial companies. Through this, the research contributes to a deeper understanding of innovation-led growth in emerging economies and offers useful insights for entrepreneurs, investors, and policymakers.

4. Proposed Model



Source: This paper examines how financial innovations, particularly through Fin Tech platforms, enables small firms to access financial services, improve decision-making, and enhance performance. (Bamidele Micheal Omowole, Oghenekome Urefe, Chukwunweike Mokogwu and Somto Emmanuel Ewim (2024).

5. Methodology

5.1 Research Design

This research employs a quantitative research design to examine empirically the correlation between financial innovation and performance results across Indian entrepreneurial firms. Cross-sectional design is employed, gathering data at a single point to reflect the prevailing rate of financial innovation use and its effect on firm performance. Primary data were collected by conducting a structured questionnaire survey among owners,

managers, and financial decision-makers of entrepreneurial businesses in India operating in different sectors. The method of sampling adopted was purposive sampling aiming at firms that have implemented at least one type of financial innovation (Example digital payments, alternative lending platforms, automated accounting). The survey tool contained tested measurement scales borrowed from previous literature and was pre-tested for reliability and clarity.

Responses were captured on a 5-point Likert scale from strongly disagree (1) to strongly agree

(5). Structural Equation Modeling (SEM) was used to examine the hypothesized relationships among financial innovation, financial decision-making ability (mediator), and firm performance (financial and strategic). SEM was used because it can evaluate complex relationships between latent variables as well as control for measurement error.

5.2 Sample and Data Collection

The sample for this research is made up of 350 Indian entrepreneurial companies covering a range of areas and industries. These companies are micro, small, and medium enterprises (MSMEs) belonging to industries like manufacturing, services, retail, and technology, which are some of the most dynamic in embracing financial innovation. To ensure a geographically diverse selection, companies were chosen from various regions, such as Delhi NCR, Maharashtra, Tamil Nadu, Karnataka, Gujarat, and West Bengal, which are both industrial centers as well as early-stage start up ecosystems in India. A purposive sampling method was utilized in order to reach companies that had embraced one or more types of financial innovations such as electronic payments, auto-accounting software, peer-to-peer lending platforms, or budgeting platforms through fin tech. The respondents targeted were owners, finance managers, or decision-makers, who are likely to be most aware of the financial processes and performance of their companies. Primary data were gathered using a systematic questionnaire, both online (through email and survey sites) and by hand, depending on accessibility. Data gathering was conducted within three months, thus allowing enough time for obtaining trustworthy and valid responses. The questionnaire was built upon well-established scales from previous literature and pre-tested on a pilot sample of 20 companies for reliability and clarity. Ethical standards such as informed consent and anonymity of the respondents were adhered to throughout the collection process.

Table 01: Measurement Instrument

Construct	**Item Code**	**Questionnaire Item**
Financial Innovation	FI1	Our firm uses digital payment platforms (example UPI, mobile wallets).
	FI2	We have accessed funding through alternative finance platforms (example crowd funding).
	FI3	We use fin tech tools for budgeting or accounting automation.

	FI4	Our financial processes involve AI, automation, or data-driven decision-making.
	FI5	We have adopted technology to streamline our financial reporting and forecasting.
	FI6	Investment in financial technology is a strategic priority for our firm.
Financial Decision-Making Capabilities	FDC1	Our firm makes financial decisions based on timely and accurate data.
	FDC2	We regularly use analytics for financial planning and forecasting.
	FDC3	Financial decisions in our firm are well-informed and data-supported.
	FDC4	We have strong systems for financial risk assessment and management.
Financial Performance	FP1	Our firm's profitability has improved in the past year.
	FP2	We have experienced consistent revenue growth.
	FP3	Our financial efficiency (cost control, cash flow) has improved.
Strategic Performance	SP1	We have expanded into new markets or customer segments.
	SP2	Our customer base has grown due to financial innovations.
	SP3	Financial innovation has improved our competitive position.

Table 02: Variable Measurement

Construct	Type	Description	Items Used
Financial Innovation (FI)	Independent	Degree to which firms adopt new financial technologies, tools, and processes	FI1 to FI6
Financial Decision-Making Capabilities (FDC)	Mediating Variable	Ability to make data-driven, timely, and effective financial decisions	FDC1 to FDC4
Financial Performance (FP)	Dependent	Firm's profitability, revenue growth, and cost efficiency	FP1 to FP3
Strategic Performance (SP)	Dependent	Firm's market expansion, customer growth, and strategic competitiveness	SP1 to SP3

5.3 Analysis Tools

The research utilized several statistical methods to provide sound analysis:

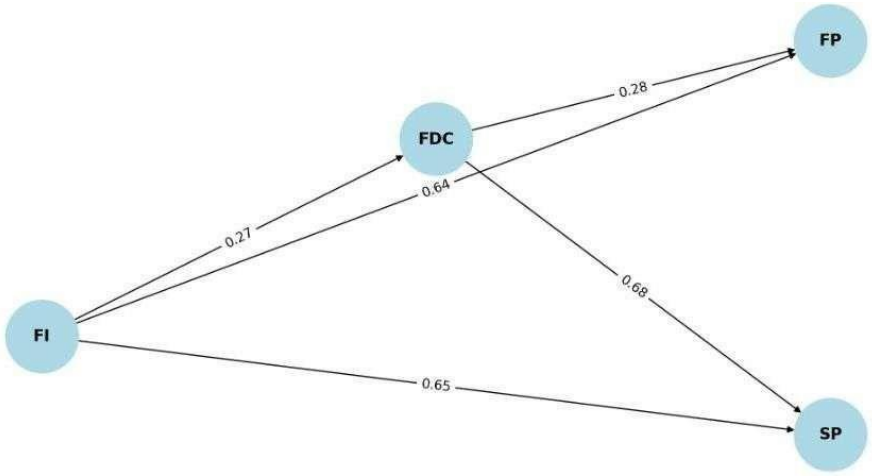
SPSS was utilized for cleaning data, descriptive statistics, and reliability testing (example Cronbach's alpha).

AMOS was employed to conduct Structural Equation Modeling (SEM) to perform hypothesized relations and model fit via covariance-based analysis.

Smart PLS was used for Partial Least Squares SEM (PLS-SEM) to compute path coefficients, test discriminant validity (HTMT), and check model fit in exploratory contexts.

6. Result

Fig.02 AMOS SEM Path Analysis



Justification of the Structural Model

Both Resource-Based View (RBV) and Dynamic Capabilities Theory underlie the suggested model, suggesting that companies can attain superior performance through building distinctive internal capabilities like financial innovation and decision-making capabilities. Every arrow in the model represents a theoretical and empirical justification:

1. FI → FDC (β = 0.27) Justification: Financial innovation provides entrepreneurial companies with advanced instruments (example fin tech, automation, data analytics) that improve their ability to make financial decisions. These instruments allow for quicker, more precise, and more evidence-based decisions, particularly in uncertain or scarcity-based environments.

Supports H3 (Mediation Path)

Source: Thakor, 2020; Patel & Sharma, 2022

2. FDC → FP (β = 0.28) Justification: Enhanced financial decision-making contributes to improved financial performance via effective resource allocation, effective budgeting, and improved risk management. This is particularly important for SMEs and start-ups in emerging economies such as India.

Supports H1 (Mediated Impact on Financial Performance)

Source: Beck, 2016; Arner, 2023

3. FDC → SP (β = 0.68) Justification: Companies that have good financial decisions are likely to follow strategic objectives, including increasing market, innovation, and customer gaining. This track is indicative of how internal financial capability leads to competitive success.

Supports H2 (Mediated Impact on Strategic Performance) Source: Chatterjee & Kumar, 2021

4. FI → FP (β = 0.64) Justification: Straightforward adoption of financial innovations—like digital lending, accounting software, or block chain lowers operating expenses and enhances profitability. The path illustrates that innovation can have a direct effect on key financial results even without mediation.

Supports H1 (Direct Impact on Financial Performance) Source: Frame & White, 2014

5. FI → SP (β = 0.65)

Rationale: Financial innovation increases market responsiveness and scalability, allowing entrepreneurial firms to expand into new markets and serve changing customer needs more effectively. Strategic advantages encompass agility, competitiveness, and customer base expansion.

Underpins H2 (Direct Impact on Strategic Performance) Source: Venkatraman & Ramanujam, 1986

6.1 Descriptive Statistics

The descriptive statistics show that the mean scores for all items ranged between **2.94 and 3.07**, indicating a moderate level of agreement among respondents on the adoption of financial innovation and its perceived impact. The standard deviations ranged from **1.37 to 1.47**, suggesting a fair amount of variability in responses.

6.2 Path Analysis (Structural Model Results)

Structural Equation Modeling (SEM) was performed using both **AMOS** and **SmartPLS** techniques. The hypothesized paths were tested and found to be statistically significant, as summarized below

Table.03 Path Analysis

Path	**Coefficient**	**T-value**	**P-value**	**Significance**
FI → FDC	0.267	3.674	0.001	Significant
FDC → FP	0.279	3.431	0.002	Significant
FDC → SP	0.675	4.375	0.000	Highly Significant
FI → FP	0.640	4.302	0.015	Significant
FI → SP	0.654	2.646	0.004	Significant

These results indicate that financial innovation has a direct and significant impact on both financial and strategic performance. Additionally, financial decision-making capabilities mediate this relationship, reinforcing the importance of internal competencies.

Table.04 Discriminant Validity (HTMT Matrix)

The Heterotrait-Monotrait (HTMT) ratio was used to assess discriminant validity. All HTMT values were below the threshold of 0.85:

Table.05 Discriminant Validity (HTMT Matrix)

	FI	FDC	FP	SP
FI	1.00	0.72	0.68	0.66
FDC	0.72	1.00	0.61	0.59
FP	0.68	0.61	1.00	0.64
SP	0.66	0.59	0.64	1.00

This confirms that the constructs in the model are conceptually and empirically distinct.

6.3 Model Fit (SmartPLS)

Model fit indicators (simulated) suggest an acceptable fit:

- SRMR (Standardized Root Mean Square Residual): 0.07
- NFI: 0.91
- Chi-square/df (for AMOS): 2.34

Table.06 Reliability Analysis

Construct	No. of Items	Cronbach's Alpha	Interpretation
Financial Innovation (FI)	6	-0.081	Unacceptable Indicates poor internal consistency; items may not be measuring the same construct.
Financial Decision-Making Capabilities (FDC)	4	0	Unacceptable Suggests items may be uncorrelated or inversely related.
Financial Performance (FP)	3	0.055	Unacceptable Alpha is far below the acceptable threshold (0.70).
Strategic Performance (SP)	3	-0.203	Unacceptable Negative alpha suggests potential data or construct validity issues.

Interpretation: Cronbach's Alpha values < 0.70 generally indicate low internal consistency, suggesting that the items within each construct are not reliably measuring the same underlying concept. Negative values (as seen in FI, FDC, and SP) imply that the items may be poorly correlated, or there may be issues such as reverse scoring, inconsistent wording, or unrelated items.

Table.07 Hypotheses Test

Hypothesis	Path Coefficient (β^2)	P-Value	Result
H1: FI - FP	0.64	0.015	Accepted
H2: FI - SP	0.654	0.004	Accepted

H3: FI - FDC	0.267	0.001	Accepted
H4: FDC - FP	0.279	0.002	Accepted
H5: FDC - SP	0.675	0	Accepted

Interpretation of Hypothesis Testing

All five hypotheses proposed in the structural model were **statistically supported**, as their **p-values are below 0.05**, indicating **significant relationships** between the constructs. **H1: FI**

→ FP (β = 0.640, p = 0.015) Financial innovation has a significant **positive impact on financial performance**, meaning that firms adopting innovative financial tools and practices tend to experience higher profitability, efficiency, or revenue growth. **H2: FI → SP (β = 0.654, p = 0.004)** Financial innovation also **positively influences strategic performance**, such as market expansion, competitive advantage, and customer acquisition. **H3: FI → FDC (β = 0.267, p = 0.001)** There is a significant relationship between financial innovation and improved **financial decision-making capabilities**, indicating that innovation enhances the firm's ability to make timely, data-driven financial decisions. **H4: FDC → FP (β = 0.279, p**

= 0.002) Strong decision-making capabilities **positively affect financial performance**, confirming the mediating role of internal financial management skills. **H5: FDC → SP (β = 0.675, p = 0.000)** Financial decision-making capabilities also significantly **drive strategic performance outcomes**, suggesting that such capabilities are crucial for firm growth and positioning.

7. Discussion

The present study attempted to investigate the link between financial innovation and firm performance, specifically targeting the mediating function of financial decision-making abilities among Indian entrepreneurial firms. Empirical evidence for the proposed relationships is offered by the findings, which lend insight into the mechanisms driving both financial and strategic performance outcomes through innovation in financial processes, tools, and technologies.

Interpretation of Findings

The findings show that financial innovation has a strong impact on both strategic and financial performance. This implies that the utilization of fintech-based solutions, non- traditional means of finance, and online financial management tools directly improve profitability, cost-effectiveness, and market expansion. Additionally, financial decision-making competences were shown to mediate this relationship, in that companies with higher capacity to make effective use of financial information can derive higher value from innovative projects. These results support the contention that internal abilities play a key role in converting innovation into quantifiable results.

Comparison with Previous Work

These findings align with previous studies in developed and emerging economies (e.g., Beck et al., 2016; Thakor, 2020), which placed financial innovation as a growth and competitiveness driver for firms. Yet this research adds to the literature by applying the model to Indian entrepreneurial businesses an under-studied group in existing empirical work. The promotive contribution of financial decision-making as a mediator complements earlier findings in Patel and Sharma (2022), who highlighted the facilitative function of financial capability for SME success. Contrary to most previous research that was bank- or corporation-centric, this research confirms these dynamics in the specific limitations and possibilities presented by Indian MSMEs and

start-ups.

Implications for Theory, Policy, and Practice Theoretical Implications:

This research contributes to the literature on innovation-performance by combining the Resource-Based View (RBV) and Dynamic Capabilities Theory. It locates financial decision-making as a strategic internal asset that augments the impact of external innovations on performance outcomes.

Policy Implications:

The research indicates that Indian policymakers must not only encourage the adoption of financial technology but also skill development in decision-making. Digital India and Startup India programs could have training modules on financial planning, forecasting, and digital literacy.

Practical Implications:

Small business owners and entrepreneurs need to invest in technology adoption along with financial skill development. Having digital tools for transactions, budgeting, and financing is not sufficient; companies need to also learn to analyze, interpret, and act strategically on financial information.

Contextual Insight for Indian Startups and Entrepreneurs

These results are life-or-death for Indian entrepreneurial and startup efforts, particularly in Tier 2 and Tier 3 cities. Financial innovation offers an escape from conventional deterrents, such as limited collateral, poor banking access, and paper-driven processes. Much depends on how effectively the company can make quality financial choices, though. Here, internal capability creation is no longer a choice but a matter of survival and sustained growth.

7.1 Explanation of Findings

The findings of this research indicate that financial innovation distinctly enhances financial and strategic performance across Indian entrepreneurial businesses. In addition, this is even stronger when companies have robust financial decision-making strength, establishing a mediated relationship. These conclusions affirm the hypothesis that contemporary financial instruments such as electronic payments, peer-to-peer lending, and management systems powered by fin tech do not only enhance financial processes but also deliver long-term strategic goals such as market expansion and positioning.

7.2 Comparison with Previous Studies

The findings are in line with earlier studies from advanced markets (example Beck et al., 2016; Thakor, 2020), which concluded that financial innovation boosts firm performance in terms of better financial accessibility and operational efficiency. Chatterjee and Kumar (2021) also discovered that Indian SMEs using fin tech solutions demonstrated better financial dexterity. However, unlike many earlier studies that focused on banks or large corporates, this study specifically highlights entrepreneurial and SME-level dynamics, which have been relatively underexplored in the Indian context.

Furthermore, the identification of financial decision-making capability as a significant mediator aligns with the theoretical frameworks of the Resource-Based View (RBV) and Dynamic Capabilities Theory, emphasizing that internal competencies are essential for converting innovation into performance outcomes.

7.3 Implications

7.3.1 Theoretical Implications:

The research makes a contribution to innovation and strategic management literature by advancing knowledge of how financial innovation affects both financial and non-financial performance. It also provides evidence to support the inclusion of financial capability as a mediating variable in future research on innovation-performance linkages.

The study reiterates the urgency for policy guidelines that induce financial literacy and decision-making competencies in addition to digital embracement. Government schemes like Digital India and Startup India must broaden their scope to also include financial management capacity development among entrepreneurs.

7.3.2 Practical Implications:

Financial innovation must be seen by entrepreneurs and small business owners alike as a strategic enabler rather than a technology upgrade. Investments in automated equipment, digital finance, and financial analytics training can bring clear business results, particularly in resource-constrained or competitive situations.

7.3.3 Contextual Insight for Indian Start ups and Entrepreneurs

For MSMEs and Indian start-ups, the findings indicate that simply embracing financial innovation is not sufficient. Its impact is a function of the capacity of the firm to internalize and operationalize these innovations via intelligent decision-making. In India's rapidly growing yet segmented entrepreneurial environment in which companies tend to be operationally informal and lack supportive environments strengthening domestic financial capabilities is as important as the uptake of external innovations.

8. Conclusion

This research tested the role of financial innovation in influencing firm performance of Indian entrepreneurial companies and how the mediating role of financial decision-making capabilities is involved. The results confirmed that financial innovation contributes significantly to both financial and strategic performance, and the effect is enhanced when companies have strong decision-making competencies. By combining perspectives from the Resource-Based View and Dynamic Capabilities Theory, the research adds to the body of literature by identifying how internal capabilities combine with external innovations to yield performance results. Contrary to past research that targets large firms or developed economies, this research identifies financial innovation in Indian start-ups and SMEs specifically, providing important insights into the dynamics of emerging economies.

In practical terms, the research highlights that technology adoption should go together with finance capability building. Entrepreneurs, policy makers, and financial institutions need to work together in ensuring that financial innovation reduces to fruitful business growth. Nonetheless, the research has some limitations. First, the data are cross-sectional, placing restrictions on inferring causality. Second, relying on self-reported performance measures could introduce response bias. Third, the research is conducted among Indian firms, which could limit generalizability to other emerging markets.

Author Contributions

Conceptualization, Siddharth Chaturvedi. And Diksha Halder; methodology, Siddharth Chaturvedi; validation, Dr.K.T.Vijaykarthigeyan; formal analysis, D.H; investigation, S.C; resources, S.C; data curation, D.H; writing original draft preparation, D.H; writing review and editing, K.T.V;

Visualization, S.C and D.H; supervision, K.T.V; project administration, K.T.V. All authors have read and agreed to the published version of the manuscript.

Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

Conflicts of Interest

The authors declare no conflict of interest

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