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Determinants of Corporate Social Responsibility Disclosure in Indonesian Mining Companies

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Abstract

Mining companies are known for their operational activities that contribute to many environmental issues. For this reason, environmental disclosure serves as essential information for stakeholders to ensure transparency in the environmental practices undertaken by companies. This research was conducted to determine factors influencing corporate social responsibility disclosure. The sample population used in this research was mining companies listed on the Indonesian Stock Exchange between 2019 and 2022. This research used the purposive sampling method. The data used was the annual or sustainability report obtained from the Indonesian Stock Exchange. Multiple regression analysis was used for data analysis. The results of this research showed that the board of commissioners had a positive and significant effect on corporate social responsibility disclosure. In contrast, market capitalization, institutional ownership, and company size did not affect the disclosure of corporate social responsibility. This research may inform investors about the significance of considering internal factors, such as the board of commissioners, in their supervisory function regarding the implementation of policies on company information disclosure.

Keywords:

Corporate social responsibility, board of commissioners, market capitalization, institutional ownership, company size

1.0 Introduction

The mining industry is one of the largest contributors to the development of countries in Southeast Asia (Pimpa, 2021). The mining industry in Indonesia also contributes significantly to its economic growth. According to the data from the Ministry of Investment, domestic investment in the mining sector ranked first surpassing all other sectors, with a total amount of IDR 61.63 trillion as of November 26, 2023 (Investment, 2023). Article 15 of Law Number 25 of 2007 on Investment stipulates that every investor must implement corporate governance principles and carry out corporate social responsibility (CSR) to create good relationships and comply with the surrounding environment and norms. Additionally, Law Number 40 of 2007 mandates that companies engaged in activities related to the use of natural resources to disclose their social and environmental responsibility reports. Therefore, the realization of high investment signifies a major responsibility for companies to manage these funds in a sustainable manner, especially for mining companies whose primary activities involve the use natural resources.

A company's success in implementing social responsibility practices depends on how the company upholds the right moral values, as this will also become a strategy for building long-term sustainability (Xu, 2023). However, in their research, Siddiqui et al. (2023) stated that many stakeholders are skeptical about corporate social responsibility (CSR) in some organizations. This skepticism arises from the actual conditions where stakeholders, especially the community, significantly feel the impact of the company's business activities.

Furthermore, other studies, such as those by Habek and Wolniak (2016), have shown that CSR disclosure is voluntary. In contrast, Indonesian regulations, specifically Law Number 40 of 2007, stipulate that disclosure of social responsibility reports is mandatory. This indicates a possible difference, such as CSR disclosure for each company, which implies that companies have their reasons for disclosing CSR. According to Mathews (1997), the primary reason for companies to disclose CSR is to enhance their financial and economic performance, as the main target of a company is to generate profits and ensure shareholder welfare. Other reasons include increasing legitimacy and social connections.

Mining companies in Indonesia tend to engage in CSR disclosures because it is mandatory. Unfortunately, mining companies in Indonesia carry a substantial risk of environmental damage resulting from their operational activities. Several mining companies listed on the Indonesian Stock Exchange have been involved in conflicts with the communities, including PT Aneka Tambang Tbk in 2021, PT Cita Mineral Investindo in 2022, and PT Bukit Asam Tbk in 2021. The issues were commonly related to water pollution caused by waste spills, which made it difficult for fishermen to catch fish and caused crop failures. Another damaging impact that occurred was the damage to the highway caused by mining activities carried out by PT Injatama Bengkulu (Supandi, 2023). This can lead to speculation about potential irregularities in Indonesian mining companies that consistently disclose their annual reports on social responsibility. This may give the impression that CSR disclosure serves merely as a procedural formality for compliance with government regulations, allowing companies to continue their operational activities. The Global Reporting Initiative (GRI) provides generally accepted sustainability reporting guidelines which some companies in Indonesia have adopted (Gunawan et al., 2022; Sari et al., 2021). However, adopting the GRI guidelines is voluntary and may not cover specific social and environmental aspects present in Indonesia. This suggests that the regulation only requires the physical form of the CSR report, but the regulation does not address the accuracy of the contents of the report (Wicaksono, 2023). Thus, this research was conducted to determine the factors influencing corporate social responsibility disclosure in Indonesian mining companies.

2.0 Literature Review

Legitimacy Theory

The legitimacy theory serves as a guiding principle for company management to disclose corporate social responsibility (CSR) activities (Sugiharto et al., 2023). This theory emphasizes that companies must ensure that their activities follow the norms of the local community (Gladiola & Wirjawan, 2021). These societal norms must be maintained to facilitate and provide flexibility for companies in conducting their business activities. The theory also indicates that a gap between corporate actions and societal expectations prompts the management to use disclosure media such as annual reports to address public concerns (Hurst, 1970; Lindblom, 1994). The disclosure of CSR information in these reports addresses public concerns and demonstrates that the company meets community and societal expectations (Deegan et al., 2002). When the legitimacy of stakeholders is maintained, the company's sustainability is ensured because it strives to meet its stakeholders' desires. This theory touches on the relationship between the company and its stakeholders, especially the community. According to the legitimacy theory, the factors of perception, pressure, and recognition from the community are key determinants that drive companies to disclose information (Fadilah et al., 2022).

Agency Theory

The agency theory put forward by Jensen and Meckling (1976) discusses efficient work contracts that can influence the relationship between two parties, the agent and the principal, to achieve peak investor welfare. This theory elucidates the differences in goals pursued by the principal (owner) and the agent (manager), which indicates that each party has their interests in the company (Limbong, 2019). This underlies the need for optimal management supervision to avoid conflicts of interest. According to this theory, disclosure is a product of the agency relationship between the principal and agent. Jensen and Meckling (1976) argue that higher levels of disclosure reduce the uncertainty faced by investors and thereby reduce a company's cost of capital. Therefore, principals (shareholders) exert pressure on agents (managers) to disclose company information transparently and accountably. In addition, corporate disclosure can be used to reduce information asymmetry and agency conflicts between principals and agents (Wicaksono et al., 2023).

Stakeholder Theory

The stakeholder theory explains that a company must pay attention to the benefits provided to stakeholders (Bariroh & Desitama, 2023). Companies must be able to maintain their relationships with parties who greatly influence the company's sustainability. One factor that is taken into consideration by management in disclosing the company's financial and non-financial information is the existence of stakeholders (Limbong, 2019; Roberts, 1992). Therefore, the stakeholder theory aims to help companies create positive value from company operational activities to minimize losses that stakeholders may face (Sulastri et al., 2023).

2.1 Hypotheses Development

2.1.1 The Influence of the Board of Commissioners on Corporate Social Responsibility Disclosure

A theory that can explain the relationship between the board of commissioners and CSR disclosure is the agency theory. This theory provides insight into the employment contract between company commissioners and company directors, where the commissioner acts as a principal who supervises the directors or management and acts as an agent who carries out operations and makes decisions. This perspective is supported by research conducted by Dewi and Andani (2023), which found that the CEO will be easily controlled when many members of the board of commissioners carry out monitoring. Therefore, the greater the number of board of commissioners, the easier it will be to assert pressure on management to demonstrate social responsibility, thereby allowing for a broader presentation of the information that meets stakeholders' needs. This finding is supported by research conducted by Gladiola and Wirjawan (2021), Tiwow and Destriana (2022), Bariroh and Desitama (2023), and Dewi and Andani (2023), who found that the size of the board of commissioners has a positive and significant effect on corporate social responsibility disclosure. Based on this description, the following hypothesis is formed:

H1: The board of commissioners has a positive effect on corporate social responsibility disclosure.

2.1.2 The Influence of Market Capitalization on Corporate Social Responsibility Disclosure

This variable is rarely found in previous research, but Oktavila and NR's (2019) research found that market capitalization influences corporate social responsibility disclosure. A theory that can support this variable is the legitimacy theory, which states that companies must align their activities with the societal norms and regulations. A high market capitalization value can attract stakeholders, enabling interested investors to invest their capital, thereby leading to heightened expectations regarding social responsibility (Abubakar &

Julianto, 2023). The large market capitalization value shows that the company is growing well in the capital market and has extensive relationships with stakeholders. To maintain good relationships with the stakeholders, the company is committed to disclose social responsibility information to maintain its legitimacy in the eyes of the stakeholders who regard it as a company that has "market capital." This is supported by research conducted by Oktavila and NR (2019), Abubakar and Julianto (2023), and Putri and Setiawan (2022), which shows that market capitalization has a positive and significant influence on corporate social responsibility disclosure. Therefore, the following hypothesis is formulated:

H2: Market capitalization has a positive effect on corporate social responsibility disclosure.

2.1.3 The Influence of Institutional Ownership on Corporate Social Responsibility Disclosure

Research conducted by Yuliawati et al. (2020) found that high or significant share of ownership by institutional parties in a company will influence the level of supervision carried out on company's management, where the institutional owner is one of the stakeholders of the company who has control to influence the management in decision making. This is also related to the stakeholder theory, which posits that companies must create positive value from their business activities by increasing their commitment to social and environmental issues because one of the company's priorities is meeting the needs of the stakeholders (Parwati & Dewi, 2021). Therefore, the higher the institutional share of ownership, the greater the pressure on the company to disclose corporate social responsibility. This is supported by the results of research conducted by Sugiharto et al. (2023), Andriani and Sudana (2023), and Dewi (2021), who found that institutional ownership has a positive and significant effect on corporate social responsibility disclosure. Based on the above description, the following hypothesis is formed:

H3: Institutional ownership has a positive effect on corporate social responsibility disclosure.

2.1.4 The Influence of Company Size on Corporate Social Responsibility Disclosure

The legitimacy theory provides a theoretical basis that can substantiate the company size variable. This theory explains the measures a company undertakes to maintain its legitimacy in the eyes of the stakeholders, which is important for its sustainability. According to Surbakti and Wijayanti (2022), the quantity of a company's resources will influence the effort made to gain legitimacy from extensive CSR implementation. This suggests that disclosing corporate social responsibility effectively exposes one's concern for the society (Edinov et al., 2022). Therefore, the larger a company, the greater the pressure on its management to disclose its social responsibility. This is supported by the results of research conducted by Sugiharto et al. (2023), Totanan et al. (2022), and Prasetya and Sari (2022), which show that company size has a positive and significant effect on corporate social responsibility disclosure. Therefore, the following hypothesis is formulated:

H4: Company size has a positive effect on corporate social responsibility disclosure.

3.0 Methods

3.1 Sample

This research used a population of 63 mining companies listed on the Indonesia Stock Exchange from 2019 to 2022. This population was chosen because companies in the mining sector engage in business activities that heavily use natural resources and significantly impact the community and the surrounding environment.

The sample year used was between 2019 and 2022 because the measurement of CSR disclosure in this study was based on the GRI standard, which was enacted in 2018. In addition, the 4-year period was chosen to ensure that the results of this study are representative. This study used a purposive sampling technique, where data was taken based on specified criteria, specifically the inclusion of an annual report or sustainability report, the provision of a report on corporate social responsibility activities, and the financial reporting in rupiah. Based on this determination, a sample of 18 mining companies was obtained with a research period of 4 years, resulting in a total research sample of 72.

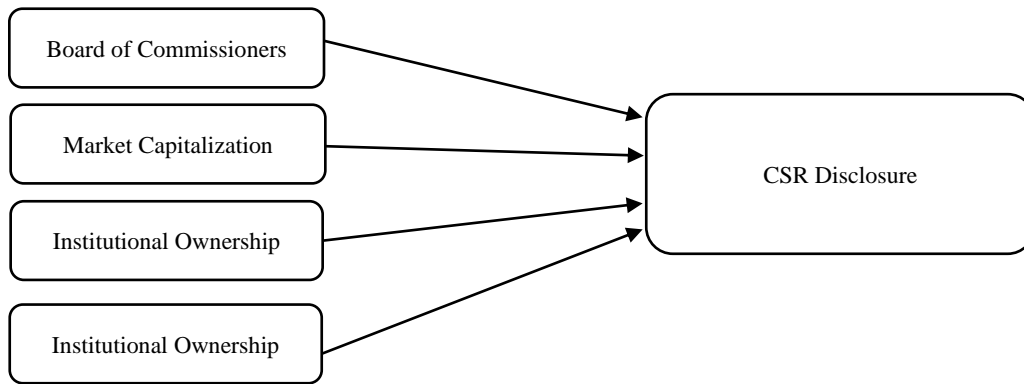


Figure 1: Conceptual Framework

3.2 Regression Model

This research used multiple regression analysis techniques with the following regression model:

$$CSR D = \alpha + b_1 BC + b_2 MC + b_3 IO + b_4 CS + e$$

where CSR D is corporate social responsibility disclosure, α is constant, BC is board of commissioners, MC is market capitalization, IO is institutional ownership, CS is company size, $b_1 - b_4$ is regression coefficient, and e is error.

3.3 Operational Definition of Variables

3.3.1 Disclosure of Corporate Social Responsibility

Corporate social responsibility disclosure variables can be measured using GRI standards. GRI, or Global Reporting Initiative, is an organization that initiated the concept of CSR reporting (Limbong, 2019). GRI is an established reporting standard, widely used by companies to increase credibility and transparency regarding their contribution to sustainable development (Global Reporting, 2022). The measurement of CSR disclosure in this research was based on an index compiled in GRI 2018 or the fourth generation (G4), using economic, environmental and social categories with 91 indicators (Edinov et al., 2022). According to Hamdani et al. (2022), the basis for assessing each indicator is that a value of 1 is given when the company discloses items according to the indicator. Meanwhile, 0 is given when the company does not disclose items according to the indicator. Once the assessment has been carried out, the results of each company's assessment based on GRI-G4 can be calculated using the following formula:

$$CSRI_j = \frac{\sum X_{ij}}{n_j}$$

where $CSRI_j$ is corporate social responsibility index disclosure of company j , ΣX_{ij} is total score of the company's CSR disclosure, and n_j is maximum score of the company's CSR disclosure.

3.3.2 Board of Commissioners

In this research, the board of commissioners referred to the size of the board of commissioners. The size of the board of commissioners can be determined by considering the number of board of commissioners in a company. In a company, it is clear that a composition of many boards of commissioners is present (Dewi & Andani, 2023). Therefore, the equation for the size of the board of commissioners is expressed as:

$$BC = \Sigma D_KOM$$

3.3.3 Market Capitalization

Market capitalization describes the company's value based on the share price and the number of shares circulating in the capital market. Market capitalization is measured by multiplying the share price and the number of shares in circulation (Oktavila & NR, 2019). In this research, the stock price was used at closing to avoid stock price instability in the capital market. Apart from that, the company also used natural logarithms to achieve uniformity in the results. The formula is expressed as follows:

$$MC = Ln (\text{share price at closing} \times \text{number of shares outstanding})$$

3.3.4 Institutional Ownership

Institutional ownership refers to ownership of shares owned by the company by institutions. Institutional ownership is measured through the proportion of ownership recorded in the company's annual report. The institutional ownership is shown in percentage. The formula for calculating the percentage of institutional share ownership is:

$$IO = \frac{\text{number of institutional share}}{\text{number of shares outstanding}} \times 100\%$$

3.3.5 Company Size

Company size illustrates the overall size of a company. Company size can be determined by using numbers that show the condition of a company as a whole based on the total assets recorded in the financial statements (Cahyani & Hariyono, 2023). In this study, company size was measured using the natural logarithm of total assets, following the approach taken by Kharisma and Sulistyowati (2022). According to the researchers, the use of total assets will show the actual condition of a company. Therefore, the formula is as follows:

$$\text{Company Size} = Ln (\text{Total Assets})$$

4.0 Results and Discussion

4.1 Descriptive Analysis

Table 1: Descriptive Analysis

| Information | Quantity |
|--|----------|
| Mining companies were listed consecutively on the Indonesian Stock Exchange (IDX) and reported annual results from 2019 to 2022. | 63 |
| Companies that did not report their finances in rupiah from 2019 to 2022 | (33) |
| Mining companies that submitted reports on corporate social responsibility activities from 2019 to 2022 | (12) |
| Research Sample | 18 |
| Number of Research Year | 4 |
| Number of Research Sample | 72 |

4.2 Classic Assumption Test

Table 2: Normality Test Results

| | Unstandardized Residual | Result |
|------------------------|-------------------------|----------------------|
| Asymp. Sig. (2-tailed) | .200 | Normally distributed |

In this study, normality testing was carried out using the One-Sample Kolmogorov-Smirnov with a significance result of 0.200. Based on the results of the test, the data used was normally distributed. According to normal distribution criteria, if the significance value is > 0.05 or $(0.200 > 0.05)$, the data from the research variables is normally distributed.

Table 3: Autocorrelation Test Result

| Durbin-Watson | Result |
|---------------|--------------------|
| 1.895 | No autocorrelation |

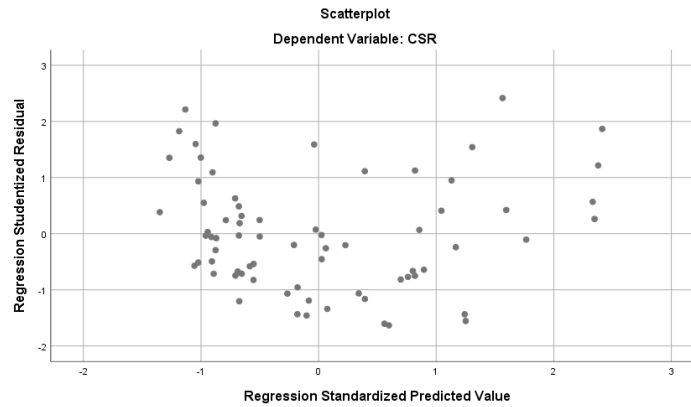
According to the Table 3, the Durbin-Watson value in this study was 1.895. The result of this test was achieved by considering a sample size of 72, independent variables of 4, and a confidence level of 5% (Table 3). Based on the values of the lower limit ($dL = 1.5029$) and the upper limit ($dU = 1.7366$), the Durbin-Watson value for this study was 1.895, which was between the upper limit (dU) and $(4-dU = 2.2634)$. This indicates that there was no autocorrelation in this study.

Table 4: Multicollinearity Test Results

| Variable | Tolerance | VIF | Results |
|------------------------------|-----------|-------|----------------------|
| Board of Commissioners (X1) | .836 | 1.196 | No multicollinearity |
| Market Capitalization (X2) | .653 | 1.532 | No multicollinearity |
| Institutional Ownership (X3) | .764 | 1.310 | No multicollinearity |
| Company Size (X4) | .844 | 1.186 | No multicollinearity |

The results of the tests showed that each independent variable's tolerance value and VIF value met the criteria for good test results, with the tolerance value of > 0.10 and the VIF value of < 10 . Overall, the independent variables in this study did not occur in multicollinearity.

Figure 2: Scatterplot Test Result



A good regression model is one with no symptoms of heteroscedasticity. As shown in the scatterplot in Figure 2, the data did not form a clear pattern, and the points were spread above and below the Y-axis line. No signs of heteroscedasticity were observed in the regression model of this research.

4.3 Regression Analysis

Table 5: F Test Result

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|-----------------|----------------|----|-------------|-------|-------|
| 1 Regression | 3435.440 | 4 | 858.860 | 4.294 | 0.004 |

As shown in Table 5, the calculated F value was 4.294 and was significant at 0.004. These results show that $0.004 < \text{probability } 0.05$; therefore, the research model was suitable for use.

Table 6: Regression Test Results

| | Unstandardized Coefficients | |
|------------------------------|-----------------------------|------------|
| | B | Std. Error |
| Constant | -23.453 | 31.520 |
| Board of Commissioners (X1) | 3.049 | 1.401 |
| Market Capitalization (X2) | .000 | .000 |
| Institutional Ownership (X3) | .000 | .001 |
| Company Size (X4) | -4.837 | .000 |

Based on the results of the linear regression analysis, the regression equation model developed in this research can be expressed as follows:

$$PCSR = -23.453 + 3.049DK + 0.000KP + 0.000KI - 4.837UP$$

Table 7: Coefficient of Determination

| Model | R | R Square | Adjusted R Square |
|-------|-------|----------|-------------------|
| 1 | 0.452 | 0.204 | 0.157 |

The results of the coefficient of determination test (R²) in Table 7 showed that a coefficient of determination value of 0.157 or 15.7% was obtained. This indicates that the research regression model with independent variables could explain the dependent variables, which in this case was 15.7%. The remaining 84.3% could be explained by other factors not tested in this research.

Table 8: T-Test Result

| | Unstandardized Coefficients | | | Result |
|------------------------------|-----------------------------|--------|-------|---------------------|
| | B | t | Sig. | |
| Board of Commissioners (X1) | 3.049 | 2.177 | 0.033 | Hypothesis accepted |
| Market Capitalization (X2) | 0.000 | 1.806 | 0.075 | Hypothesis rejected |
| Institutional Ownership (X3) | 0.000 | -0.650 | 0.518 | Hypothesis rejected |
| Company Size (X4) | -4.837 | -1.220 | 0.227 | Hypothesis rejected |

As shown in Table 8, the regression coefficient, which described the influence of the board of commissioners on CSR disclosure, showed a positive relationship with a value of 3.049. At the alpha level of 0.05, the significance obtained was 0.033, which means $0.033 < 0.05$. This suggests that the variable of board of commissioners positively and significantly affected corporate social responsibility disclosure. Meanwhile, the regression coefficient that described the influence of market capitalization, institutional ownership, and company size on CSR disclosure showed a significance level, greater than the alpha level of 0.05. This indicates that the variables of market capitalization, institutional ownership, and company size did not affect corporate social responsibility disclosure.

4.4 Discussion

This research found that the board of commissioners had a positive influence on CSR disclosure. Many boards of commissioners can work together to encourage company management to comply with the rules or policies set by the company's leadership. This includes the obligation to disclose corporate social responsibility, which is presented either in the annual report or the company's sustainability report. Apart from that, the authority of the board of commissioners will ease the implementation and execution of policies that are required to be followed by the management of the company. Their performance can be seen in the success of the board of commissioners in carrying out their duties in supervising company operations. The results of this research showed the applicability of the agency theory, which states that the presence of a large board of commissioners as principals will make it easier to control the CEO and carry out supervision, which is also related to the pressure given to the management to disclose corporate social responsibility. Thus, a large number of board of commissioners in a company has a significant influence, which can encourage the management to disclose information on social responsibility. This finding is in line with research conducted by Bariroh and Desitama (2023), Dewi and Andani (2023), Dewi and Sisdyani (2022), Gladiola and Wirjawan (2021), Oktavila and NR (2019), and Tiwow and Destriana (2022), which found that the board of commissioners has a positive and significant effect on corporate social responsibility disclosure.

On the other hand, the results of this research found that market capitalization did not influence CSR disclosure. In reality, stock performance alone cannot describe the company's overall performance because financial performance, such as liability payment policies or other relevant factors, can be another

consideration for investors or stakeholders to assess whether a company is good or bad. This suggests that the level of market capitalization cannot be used as a benchmark for a company's growth potential, which can encourage companies to disclose corporate social responsibility and maintain their legitimacy toward stakeholders. Consequently, the results of this research are not in line with the legitimacy theory, which states that an increase in the market capitalization value correlates with increased demands for disclosure of corporate social responsibility by maintaining surrounding norms to gain legitimacy from stakeholders. This research is in line with research conducted by Damayanti and Dewi (2022) that shows that market capitalization does not affect corporate social responsibility disclosure.

Institutional ownership was also found to have no effect on CSR disclosure in this study. This might be caused by the large number of shares owned by the institutions that cannot encourage or assert pressure on the management to disclose corporate social responsibility. In Indonesia, awareness of disclosing social responsibility is relatively low and lacks significant (Effendy et al., 2022). The results of this research are contrary to the stakeholder theory, which states that companies must create positive value for their business activities by disclosing corporate social responsibility under supervision and with emphasis on company's management by institutions. The results of this research are in line with those of Effendy et al. (2022) and Sihombing et al. (2020), which showed that institutional ownership has no effect on corporate social responsibility disclosure.

Company size does not affect CSR disclosure because the size of a company does not guarantee that the company will disclose its social responsibility. In fulfilling their social responsibility, both large and small companies invest similar amounts in CSR activities. Because of their operational impacts, both large and small companies are equally highlighted by the public; therefore, it is essential for companies to disclose corporate social responsibility regardless of their size (Sihombing et al., 2020). This research confirms the corporate social responsibility disclosure statement, which is considered voluntary. Thus, when large companies have high total assets, they do not necessarily disclose corporate social responsibility to gain legitimacy from stakeholders. This research is not in line with the legitimacy theory. This is evident in the case of PT Cita Mineral Investindo (CITA) and PT Transcoal Pacific (TCPI). Based on the statistical data, PT Cita Mineral Investindo (CITA) had the highest total asset value, while the PT Transcoal Pacific (TCPI) had the lowest. PT CITA is known to have an average CSR disclosure of 17 points, while PT TCPI has an average CSR disclosure of 22.25 points. Based on the data processed, the size of a company cannot influence the breadth of CSR disclosure. In reality, small companies can also disclose CSR as a form of social responsibility for their business (Sulastris et al., 2023). This research is in line with that of Bariroh and Desitama (2023) and Sugeng (2020), which found that company size has no effect on corporate social responsibility disclosure.

5. Conclusion

Based on the results of the research, the board of commissioners has a positive and significant influence on CSR disclosure because the board functions as a team that supervises company's management in operations and decision making. Meanwhile, market capitalization, institutional ownership, and company size

variables do not affect CSR disclosure. Therefore, these variables are not included in the factors influencing the company's disclosure of non-financial information.

This research has several limitations that may influence the results. The instrument used for measurement adhered to an internationally recognized standard, namely the GRI-G4 index. However, in reality, several companies disclose CSR based on the Peraturan Otoritas Jasa Keuangan (POJK) index. This may lead to outcomes that do not accurately reflect the capabilities of mining companies in Indonesia. Future research can use an index measuring tool that can be adapted to the ability to disclose corporate social responsibility in Indonesia. In addition, the research variable only used four variables, which were factors that influenced disclosure. Further research could include other independent variables related to the dependent variables used, such as environmental performance, board of directors, or other variables to obtain better or more recent results.

The results of this research may provide investors insights into the importance of considering internal factors, such as the board of commissioners, in carrying out their supervisory function regarding the implementation of policies on company information disclosure. Furthermore, this paper suggests that mining companies enhance their concern over the content of CSR disclosure.

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Tarikh : 20 Januari 2023

Prof. Madya Dr. Nur Hisham Ibrahim
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Tuan,

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Sekian, terima kasih.

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