CORPORATE SOCIAL RESPONSIBILITY IN BANKING IN INDONESIA: THE ROLE OF INTELLECTUAL CAPITAL AND CHARACTERISTICS OF THE BOARD OF COMMISSIONERS

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Abstract

This study aims to examine the influence of Intellectual Capital, the Board of Commissioners, and the Proportion of Independent Commissioners on Disclosure of Corporate Social Responsibility, with the population used in this study being bank companies registered with the Financial Services Authority (OJK) with a sample of 41 bank companies during the 2017 period -2021. This study uses panel data regression model analysis to test the hypothesis. The analysis techniques used in this study were descriptive statistical tests, preliminary tests (Breusch-Pagan, likelihood tests, Hausman tests), diagnostic tests (heteroscedasticity tests and autocorrelation tests), and hypothesis testing. Based on the results of the three preliminary tests in determining the panel data regression model, this study uses the fixed effect model to examine the relationship between variables in the regression model. The results of this study indicate that Intellectual Capital has a positive effect on CSR Disclosure, optimal utilization of Intellectual Capital resources can increase CSR quality disclosure more broadly. The Board of Commissioners variable has a negative effect on CSR disclosure, this shows that each additional member of the board of commissioners will have an impact on decreasing CSR disclosure. The independent board of commissioners proportion variable does not affect CSR disclosure because not all independent commissioners can demonstrate their independence so the oversight function does not function properly in conducting CSR disclosures.

Keywords: Intellectual Capital, Board Of Commissioners Size And Proportion Of Independent Commissioners, Disclosure Of Corporate Social Responsibility

PRELIMINARY

The world of banking has a very important role in the economy of a country where banks can determine the movement of growth for the economy in that country. The function of the bank is to collect public funds with savings and then distribute them in the form of credit or other forms to achieve community welfare. The profit that the bank gets is a profit that should not only be for the benefit of the capital owner, but the bank must also think about the interests of the community through social and environmental concerns (Gwijangge et al., 2021). Banks need to think about business sustainability by implementing Corporate Social Responsibility (CSR) and intellectual capital (IC) as well as Good Corporate Governance (GCG). This is done by banks to reduce various negative impacts to build a strong and sustainable company.

Research conducted by Maghfiroh (2016) examined the CSR core assessment in 2013-2014 which examined several sectors, one of which was the banking sector which was listed on the Indonesia Stock Exchange. This study uses the principle of sustainability reporting based on the Global Reporting Initiative (GRI) Generation 4, the conclusion obtained is that the banking sector has an average level of disclosure of 62.39%. This shows that the banking sector still needs to improve its social and environmental disclosures, to attract public attention and corporate image investors.

Corporate Social Responsibility is an action or concept carried out by a company as a form of corporate responsibility towards the surrounding environment. CSR is the commitment of companies or the business world to develop a sustainable economy by paying attention to environmental sustainability and social care to achieve world balance by aligning economic, social, and environmental aspects (Azheri, 2011). CSR is also an activity of corporate responsibility towards stakeholders by paying attention to social and environmental aspects. In line with stakeholder theory, companies will try to satisfy stakeholders and play a role in controlling important economic resources for the company, one of which is investors who have the right to limit the use of limited economic resources (Ghozali and Chariri, 2007). A company is said to be successful in its business if the company does not only pay attention to corporate values but also pays attention to social and environmental issues.

Disclosure of Corporate Social Responsibility (CSR) has been regulated in one of the regulations, namely Law Number 40 of 2007 article 66 paragraph (2) paragraph C concerning Limited Liability Companies. According to these regulations, companies are required to report not only regarding financial statements but also reports on the implementation of corporate social responsibility (Sumaryono and Asyik, 2017). Other regulations governing CSR disclosure are Government Regulation Number 47 of 2012 concerning the Social and Environmental Responsibility of Limited Liability Companies and Law Number 25 of 2007 concerning Investment (Tista and Putri, 2020). Social responsibility in the banking sector has an influence on supporting company performance (Roberts, 1992). This is very important for CSR to ensure sustainable social responsibility reporting, CSR reporting is important and requires a large role of accountability and transparency from the company because it can be used as a basis for making decisions related to investment to improve the image and quality of the company (Tasya & Cheisviyanny, 2019). Companies are not only faced with the responsibility to seek profit/profit alone (bottom line) but companies will be faced with a triple bottom line approach, that is, in addition to seeking profits (profit), companies need to pay attention to the welfare of their people (people) and contribute actively in preserving the environment (planet) (Jain et al., 2017).

Intellectual capital is an intangible asset that is structured and utilized to produce assets of high value (Ulum et al., 2014). Intellectual Capital is useful for increasing competitive advantage in a company to compete, especially in the banking sector which has various risks, especially credit risk. (Pratama, 2016) states that Intellectual capital has great potential to create a competitive advantage for companies so that they will achieve optimal performance. The higher the company's Intellectual Capital performance, the better the level of CSR disclosure, because Intellectual Capital can increase stakeholder trust in the company (Zhafira, 2019).

Research conducted by (S & Wijayanti, 2017) which examined banking industry companies listed on the Indonesia Stock Exchange (IDX) stated that there was a positive relationship between intellectual capital and CSR disclosure, with companies that were able to work optimally supported by structural capital. (structural capital) , good human capital, and strong customer relations can increase CSR disclosure more broadly. The same research conducted by Dzenopoljac (2017) also proves a positive relationship between intellectual capital and CSR disclosure.

The results of research conducted by Rafindrambinina and Kariodimedjo (2011) who examined companies listed on the Indonesia Stock Exchange (IDX) stated that there was a positive influence between intellectual capital and CSR disclosure. While research conducted by Shabrina et al. (2021), Aslam et al. (2018), found that there is no effect of intellectual capital on CSR disclosure. Meanwhile, research conducted by Musibah and Sulaiman (2013) found that intellectual capital has a negative effect on CSR disclosure.

According to Resources Based Theory (RBT), the company's ability to organize and manage resources properly is one of the main requirements for companies to create a competitive advantage from these resources. One of the parties that is very important in supervising the management of company activities, including intellectual capital management activities, are stakeholders or stakeholders (Grant 1996). The board of commissioners is one of the stakeholder parties or stakeholder parties.

The board of commissioners has the highest internal control which is responsible for monitoring the actions of management (directors). The composition of individuals working as members of the board of commissioners is important in monitoring management activities effectively (Fauziah & Fun, 2019). With the authority they have, the board of commissioners can exert a strong enough influence to pressure management to disclose more CSR information so that it can be explained that a company that has a larger board of commissioners will disclose a wider CSR.

Previous research conducted by Hutapea and Malau (2018), Sihombing (2020), Yanti et al. (2021) shows that board size has a positive relationship with CSR disclosure. Meanwhile, research conducted by Afiffah and Immanuela (2021), Sugeng (2020), Rivandi (2019) proves that the size of the board of commissioners does not affect CSR disclosure. The research conducted by Lestari and Deitiana (2019), Zulhaimi and Nuraprianti (2019), and Pare et al. (2017) proved that there is a negative effect of board size on CSR disclosure.

The independent board of commissioners is a party that does not have a business or family relationship with any party within the company. A greater percentage of independent commissioners will lead to an increase in monitoring activities on the quality of disclosure and minimize activities for not reporting company information (Widyastari and Ratnasari, 2018). The board of independent commissioners is tasked with providing advice in making decisions so that if the number of independent commissioners is greater, the supervision of the directors' decisions in carrying out activities such as CSR disclosure will be greater (Sajekti and Priyadi, 2019). The board of commissioners as a shareholder representative acts as a supervisor of company performance, including corporate social responsibility. This is done to fulfill the interests of all stakeholders as stated in the stakeholder theory. The theory developed by Donaldson and Preston (1995) states that there is a close relationship between the company and its stakeholders.

The results of research related to independent commissioners on CSR disclosure including Wiyuda and Pramono (2017), Restu (2017), Asiah and Muniruddin (2018) state that the proportion of independent commissioners has a positive effect on CSR disclosure. Meanwhile, research conducted by Nugroho and Yulianto (2015), Vivian et al. (2020) and Herdi and Erinos (2020) prove that the proportion of independent commissioners does not affect CSR disclosure. In contrast, research conducted by Anggraeni (2020) proves that the board of independent commissioners has a negative effect on CSR disclosure.

The Board of Commissioners acts as a supervisor in a company, while the independent commissioner acts as a balancing force in decision-making by the board of commissioners (Effendi, 2009). The existence of a board of commissioners and the proportion of an independent board of commissioners can provide a stronger or strengthening effect of

Intellectual capital on CSR disclosure. The board of commissioners and the proportion of independent commissioners can benefit from Intellectual capital resources in the process of corporate development and corporate social responsibility. Hutapea and Malau (2018) state that the more members of the board of commissioners, the easier it will be to control oversight of the directors and the more effective monitoring will be carried out. (Sajekti & Priyadi, 2019) states that the presence of independent commissioners on the board of commissioners can improve oversight of the performance of the directors where the more independent commissioners there are, the tighter management oversight will be.

This study develops research conducted by Asmawanti and Wijayanti (2017) who examined the Effect of Intellectual Capital on the Disclosure of Corporate Social Responsibility in the banking industry listed on the Indonesia Stock Exchange (IDX) during the 2012-2014 period. The development was carried out by adding the Board of Commissioners (Yanti et al., 2021) and the Proportion of Independent Commissioners (Asiah and Muniruddin, 2018) as independent variables. The period in this study is from 2017 to 2021. The objects in this study are conventional bank companies registered with the Financial Services Authority (OJK).

LITERATURE REVIEW

Resource Based Theory

Resource-based theory is a company's resources as a competitive advantage that can direct companies to create good performance in the long term (Wernerfelt, 1984). RBT explains that the creation of sustainable competitive advantage is closely related to a firm's ability to retain valuable, rare, and irreplaceable resources, as well as to allocate and deploy these resources effectively (Barney, 1991). This theory also discusses the resources owned by companies in handling and utilizing the resources they have. The resources owned by the company can create added value for the company in providing opportunities and facing threats so that the company has a competitive advantage in dominating the market (Wijayani, 2017).

This can be interpreted that if the company can manage its resources effectively, then the company will have a competitive advantage over its competitors. Having highly skilled and capable human resources is a competitive advantage for a company, if these competitive advantages can be used and managed properly it will increase employee productivity, and the use of resources or expenses will be more effective and efficient (Kamilia, 2015). So that the effective and efficient use of intellectual capital resources can improve the quality of broader CSR disclosure.

Stakeholder Theory

Stakeholders are a consideration for a company to disclose or not disclose information in financial statements. Stakeholders are considered important by the company for activities in running a business, the company will care about stakeholders and communicate well so that the efforts that will be carried out can be following company expectations (Zhafira, 2019). The company will try to disclose information related to the company's operational activities as well as the impacts and also countermeasures that have been carried out by the company to satisfy the interests of stakeholders in the company so that the company's survival is maintained. Stakeholder theory underlies the practice of CSR disclosure because there is a relationship between the company and stakeholders, where stakeholders have an important role in the sustainability of the company. The main purpose of this theory is to support the role of managers in understanding their stakeholder environment and carrying out effective handling between the surrounding environment and the company. The board of commissioners is a mechanism of Good Corporate Governance (GCG) whose role

ISSN 2798-6489 (Cetak)
ISSN 2798-6535 (Online)

is to encourage companies to fulfill the wishes of stakeholders to carry out CSR and express it.

The influence of Intellectual Capital on the disclosure of Corporate Social Responsibility

Intellectual capital is a measurable resource to increase competitive advantage with intellectual capital the company will be able to use the company's resources efficiently, economically, and effectively. From an RBT perspective, the creation of sustainable competitive advantage is closely related to a firm's ability to retain valuable, rare, and irreplaceable asset resources, and also to allocate and deploy these resources effectively (Barney, 1991). A sustainable competitive advantage can make a company able to beat the competition in the market or industry so that it can create value and achieve optimal performance. With optimal performance, the company will be able to disclose broader CSR reporting. Human capital, structural capital, and customer capital as variable-forming constructs have the main measures of intellectual capital, which collectively play a role in increasing the disclosure of social issues (Asmawanti and Wijayanti, 2017).

Asmawanti and Wijayanti (2017), Dzenopoljac (2017) proves that intellectual capital has a positive effect on CSR disclosure. Human capital owned by a company will be able to work optimally without the support of a good corporate structure (structural capital). A good company and company resource quality system will be perfect if it is supported by strong customer capital (Asmawati and Wijayanti, 2017). Based on this description, the hypothesis proposed in this study is as follows:

H1: Intellectual Capital has a positive effect on Disclosure of Corporate Social Responsibility

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

The Board of Commissioners is a mechanism to supervise and provide guidance and direction to company managers or management. In this case, the board of commissioners has the power over management to exert influence so that management discloses CSR (Restu, 2017). This is intended so that management does not only reveal useful information and tries to hide information that is not profitable, so that information transparency can be guaranteed. This is also following the duties and powers of the board of commissioners, namely implementing and guaranteeing the implementation of risk management and GCG, as well as maintaining information disclosure to shareholders. This is in line with stakeholder theory which can be used in the decision-making process.

There is a positive relationship between the board of commissioners and CSR disclosure Yanti et al. (2021), Sihombing et al. (2020), , Hutapea and Malau (2018). Because the greater the number of members of the board of commissioners, the easier it is to control the directors, the board of commissioners can act more objectively and can protect all stakeholders and determine company policies including CSR disclosure practices (Yanti et al. 2021). Based on this description, the hypothesis proposed in this study is as follows:

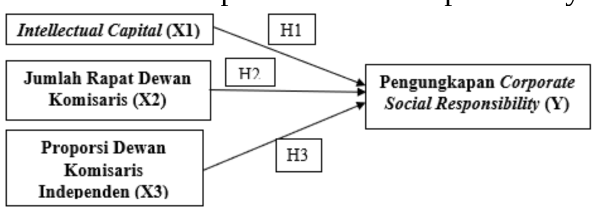
H2: The Board of Commissioners has a positive effect on the Disclosure of Corporate Social Responsibility.

The Effect of the Proportion of Independent Commissioners on Disclosure of Corporate Social Responsibility

Independent commissioners are parties that are not affiliated with parties who have business and family relationships with controlling shareholders, other members of the board of directors, and commissioners, as well as with the company itself (Nugroho and Yulianto, 2015). The Independent Board of Commissioners is considered one of the instruments for monitoring the integrity of management which in the future can encourage the breadth of information on social responsibility (Pasaribu, et al., 2015). In line with the theory of stakeholders who are part of a company that can determine the direction in the success of a business that can improve the quality of CSR reporting.

The research results of Yanti (2021), Sihombing (2020), Asiah and Muniruddin (2018), (Wiyuda and Pramono, 2017) show that the proportion of independent commissioners has a positive effect on CSR disclosure. This board is considered one of the instruments for monitoring the integrity of management which can encourage the breadth of information on social responsibility (Herizona & Yuliana, 2021). Based on this description, the hypothesis proposed in this study is as follows:

H3: The proportion of Independent Commissioners has a positive effect on the Disclosure of Corporate Social Responsibility.



METHODOLOGY

Population and Sample

The population used in this study are companies registered with the Financial Services Authority (OJK) through the website www.ojk.go.id. While the sample used is a conventional bank company registered with the OJK in 2017-2021. The criteria used are: 1) Bank companies that issue annual financial reports, 2) Companies that provide the required and complete information related to the variables in this study. Based on the sample criteria in this study, the research samples obtained were 41 companies for each year and the period used in the study was 2017 to 2021.

Operational Definition and Variable Measurement

Intellectual Capital

Intellectual Capital is an intangible asset that plays an important role in increasing company competitiveness and utilizing company profits effectively (Wijayani, 2017). This study used the Value Added Intellectual Coefficient (VAIC) method developed by Pulic (2000; 2004).

VAIC components (Pulic, 2004) are as follows:

$$VAIC_t = HCE_t + SCE_t + CEE_t$$

Information :

VAICt = Value added intellectual coefficient at t

HCEt = VAt / HCT; human capital efficiency coefficient at t

SCEt = SCt / VAt; structural capital efficiency coefficient at t

CEEt = VAt / CEt; capital employed efficiency coefficient at t

VAt = OPt + ECt + Dt + At;

VA is the calculation of operating income (OPt); employee costs (ECt); depreciation (Dt); and amortization (At)

HCt = total salary and wages at t

SCt = VAt - HCt; structural capital at t

CEt = book value of net assets at t

Board of Commissioners

The board of commissioners is the board authorized to provide advice to the directors. The board of commissioners can provide a strong influence to pressure management to disclose more corporate social responsibility, so companies that have a board of commissioners tend to disclose more corporate social responsibility. This measurement refers to the research of Hutapea and Malau (2018) with the following formula:

$$Dekom = \Sigma \text{ Dewan Komisaris Perusahaan}$$

Proportion of Independent Commissioners

Independent Commissioners are members of the Board of Commissioners who do not come from affiliated parties. What is meant by an affiliate is a party that has a business and family relationship with the controlling shareholder. The independent board of commissioners variable is measured through the proportion of independent commissioners with the percentage between the number of independent commissioners and the total number of commissioners (Restu, 2017).

ISSN 2798-6489 (Cetak)
ISSN 2798-6535 (Online)

$$DKI = \frac{\text{Jumlah Komisaris Independen}}{\text{Jumlah Dewan Komisaris}} \text{ x } 100$$

Disclosure of Corporate Social Responsibility

Corporate Social Responsibility or CSR is a company's responsibility towards its environment. The social responsibility disclosure variable is measured by the CSRDI (Corporate Social Responsibility disclosure index) proxy based on the GRI (Global Reporting Initiatives) indicator obtained from the website www.globalreporting.org, consisting of 3 disclosure focuses namely economic, environmental and social as the basis for sustainability reporting. The CSRDI calculation formula based on the Global Reporting Initiative (2016) is as follows:

$$CSRDIj = \frac{\Sigma X_{ij}}{91}$$

CSRDIj = Corporate Social Responsibility disclosure index Company j,
Xij = dummy variable: 1 = if the item i is disclosed; 0 = if the item i is not disclosed.
Thus, $0 \leq CSRDIj \leq 1$.

Data Analysis Technique

This study uses a panel data regression model analysis. According to Gujarati and Porter (2009), research that uses panel data must be tested with a panel data regression model. Panel data analysis consists of the ordinary least square regression model, the fixed effect model, and the random effect model. In this study, Breusch and Pagan Lagrangian are used to test the ordinary least square model versus the random effect regression model. Meanwhile, the Chow test was used to test the regression of the ordinary least square model versus the fixed effect model and the Hausman test was used to find the most suitable panel data regression model between the fixed effect model and the random effect model.

In this study, the equation model is used to examine the effect of intellectual capital, the board of commissioners, and independent commissioners on CSR disclosure. The regression equation in this study is as follows:

$$CSRD = \alpha + \beta_1 VAIC + \beta_2 Dekom + \beta_3 DKI + \varepsilon \quad ....(1)$$

Information :
CSRD = Corporate Social Responsibility Disclosure
VAIC = Value Added Intellectual Coefficient
Dekom = Board of Commissioners
DKI = Board of Independent Commissioners
α = Constant
β = Regression Coefficient
ε = Errors or leftovers

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics are used to obtain an overview of the distribution of the principal values of the mean. The CSRD variable has a mean value of 0.5770244. Meanwhile, the board of commissioners has a mean value of 4.853659. The average value of the independent board of commissioners is 0.5777073. The total number of members of the board of commissioners means that the average value of independent commissioners is sufficient in disclosing the company's CSR. Overall descriptive statistics for each variable can be seen in the (Table 1).

Preliminary Test (Breusch and Pagan Lagrangian Multiplier Test, Chow Test, and Hausman Test)

This Study has done the preliminary tests wich are breusch test and pagan lagrangian ,ultiplier (Table 2), chow test (Table 3), hausman test (Table 4).

Heteroscedasticity Diagnostic Test and Serial Correlation

The results of this study used the fixed effect model to test the Diagnostic Heteroscedasticity and Serial Correlation are presented in Table 5.

Discussion

The Effect of Intellectual Capital on Disclosure of Corporate Social Responsibility

The first hypothesis test aims to test the hypothesis that there is an influence of intellectual capital on the disclosure of Corporate Social Responsibility. Based on Table 6, the first hypothesis testing shows that Intellectual capital (IC) has a positive effect on CSR disclosure with a coefficient value of 0.0010272 at a significance level of 5%. This shows that Intellectual capital will affect the increase in CSR disclosure. Thus, the first hypothesis which states that there is a positive effect of Intellectual capital on CSR disclosure can be accepted and supported at a significance level of 5%.

This is because, with the utilization of Intellectual Capital resources, companies that can work optimally can increase CSR disclosure. When a company manages intellectual capital well, it can create added value (value added). for the company itself, investors will also provide added value to the company by investing higher so that this added value can also improve company performance so that it can encourage the disclosure of corporate social responsibility to improve the company's image in the eyes of society (Nurdin and Suyudi, 2019).

This is in line with Resource Based Theory, which explains that Intellectual capital functions as the core of value creation and a company's competitive advantage (Barney, 1991). To increase CSR disclosure more broadly. The results of this study are in line with the research of Asmawanti and Wijayanti (2017) and Dzenopoljac (2017) which state that Intellectual Capital has a positive effect on the disclosure of Corporate Social Responsibility.

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

The second hypothesis test aims to test the influence of the board of commissioners on the disclosure of Corporate Social Responsibility. Testing the second hypothesis shows that the board of commissioners has a negative effect on CSR disclosure with a coefficient value of -0.027084 at a significance level of 5%. This shows that each additional member of the board of commissioners will have an impact on reducing the company's CSR disclosure. Thus, the second hypothesis which states that there is a positive influence of the Board of Commissioners on CSR disclosure is not supported by a significance level = 5%.

From the descriptive statistics in a table, it can be seen that the average value of the board of commissioners variable is 4.853659, which means that the average number of commissioners in 41 conventional bank companies registered with the OJK consists of 4-5 members of the board of commissioners. This shows that a large number of commissioners will affect the decrease in the supervisory function of the directors to disclose CSR activities.

This study cannot support the stakeholder theory which states that the board of commissioners functions as a supervisor of company performance, including corporate social performance. The ineffectiveness of the board of commissioners in disclosing CSR shows that members of the board of commissioners play more of a role in carrying out their function of providing control and supervision to management rather than carrying out the disclosure of CSR activities (Pare et al. 2017). The results of this study are in line with research conducted by Lestari and Deitiana (2019), Zulhaimi and Nuraprianti (2019), Pare et al. (2017) which states that the board of commissioners has a negative effect on CSR disclosure.

The Influence of the Proportion of Independent Commissioners on Disclosure of Corporate Social Responsibility

The third hypothesis test aims to test the effect of the proportion of independent commissioners on the disclosure of Corporate

ISSN 2798-6489 (Cetak)
ISSN 2798-6535 (Online)

Social Responsibility. The third hypothesis test shows that there is no relationship between the proportion of independent commissioners on CSR disclosure with a coefficient value of -0.554078 with a p>0.05 at a significance level of 5%. This proves that a large number of independent commissioners will have an impact on the oversight function and show less independence in contributing to CSR activities. Thus, the hypothesis states that the proportion of independent commissioners affects CSR disclosure is not supported.

It can be seen from the descriptive statistics in table 1 that the average value of the independent commissioners is 0.5777073 which indicates the high presence of independent commissioners on the board of commissioners. Data shows the presence of independent commissioners on the board of commissioners has an average of 57.77% of the number of commissioners, with the lowest number of independent commissioners being 1 person where the Financial Services Authority Regulation No. 55/POJK.04/2015 requires the number of independent commissioners to be at least 1 person from all members of the board of commissioners. The average number of commissioners in banking companies is 4-5 people, 57.77% of whom are independent commissioners, meaning that out of 4 members of the board of commissioners 2 -3 of them are independent commissioners. So that the dominance of independent commissioners is thought to influence decision-making, especially in CSR disclosure. This is not in line with stakeholder theory which assumes that the existence of a company is determined by stakeholders. In this case, social disclosure should be considered a form of dialogue between management and stakeholders.

The results of this study support research conducted by (Noviani et al., 2017) Herdi and Erinos (2020), and (Vivian, 2020) which state that the proportion of independent commissioners does not affect CSR disclosure.

CONCLUSION

The conclusions that can be drawn from this study are as follows: Intellectual Capital has an effect on CSR disclosure, the Board of Commissioners has a negative effect on CSR disclosure, and the proportion of Independent Commissioners has no effect on CSR disclosure. The results of this study indicate that conventional bank companies in Indonesia can increase their intellectual capital in CSR disclosure. The limitation of this study is that the board of commissioners variable cannot prove a positive effect on CSR disclosure. Based on the conclusions and implications that have been described, the researcher can provide suggestions for further research: 1) In future research it is expected to be able to examine various sectors 2) Future researchers are expected to add variables on the characteristics of the board of commissioners such as competency of the board of commissioners or educational background of the board of commissioners which can improve the quality of intellectual capital resources and disclosure of CSR activities.

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 ISSN 2798-6489 (Cetak)
ISSN 2798-6535 (Online)

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ISSN 2798-6489 (Cetak)
ISSN 2798-6535 (Online)