

Research Paper

The Relationships between Current Ratio, Firm Age, Good Corporate Governance, and Corporate Social Responsibility: The Moderating Effects of Firm Size

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ABSTRACT

Few studies have explored how firm size moderates the effect of the current ratio, firm age, and good corporate governance on corporate social responsibility. This research examined the effect of current ratio, firm age, and good corporate governance on corporate social responsibility. It explored the moderating effects of firm size on the relationships between current ratio, firm age, and good corporate governance on corporate social responsibility among mining sector companies listed on the Indonesia Stock Exchange from 2017 to 2021. Purposive sampling was used to select 17 different mining firms that met the study's criteria. By applying a moderated regression analysis, the results indicated a negative and statistically insignificant relationship between the current ratio and corporate social responsibility. Corporate social responsibility was positively affected by the maturity of the company and by its commitment to ethical business practices. Meanwhile, there was an inverse relationship between firm size and corporate social responsibility. Furthermore, firm size did not affect the relationship between the current ratio and corporate social responsibility, nor the relationship between firm age and corporate social responsibility. This study revealed that firm size weakened the link between good corporate governance and corporate social responsibility.

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Introduction

The primary objective of companies is typically to generate profit to serve the interests of their shareholders (Digdowiseiso et al., 2022). However, companies need to shift their focus beyond mere profitability and acknowledge their responsibility toward the environment resulting from their operational activities (Bekmezci, 2015; Nemoto & Morgan, 2020). In recent times, there has been a growing concern about pollution and environmental harm caused by business operations (Juniarti et al., 2021; Zhang, 2022). In the contemporary business landscape, companies are expected not only to disclose financial reports but also to report on their corporate social and environmental responsibilities (Suhardjanto et al., 2017), commonly referred to as corporate social responsibility. The regulations pertaining to corporate social responsibility implementation in Indonesia are outlined in Law No. 40 of 2007, Article 1, Paragraph 3. According to this law, social and environmental responsibility encompasses a company's commitment to contribute to sustainable economic development, aiming to enhance the quality of life and the environment for the company itself, the local community, and society as a whole.

To evaluate a company's environmental performance, the government has introduced the Company Performance Assessment Program (PROPER). PROPER is designed to address pollution, environmental damage, waste management, and the handling of hazardous and toxic materials following relevant laws and regulations. It operates by selecting participating companies, targeting those listed on the stock market and engaged in export-oriented products or products widely used by the community, due to their significant environmental impact. The Ministry of Environment and Forestry has established a five-color rating system for PROPER, starting with the best rating, gold, followed by green, blue, red, and finally black, which represents the worst rating.

To illustrate the progression of PROPER over the period 2017 to 2021, Figure 1 has included the following trend. The number of companies participating in PROPER has been steadily increasing each year, with a noticeable rise in the number of companies receiving a blue rating, indicating positive action. The companies that obtained a green rating experienced a significant decline from 2017 to 2018 but showed a subsequent increase in both 2020 and 2021. However, there are still only a few companies that have achieved a gold rating, indicating the highest level of compliance. PROPER also provides information on the percentage of company compliance with their environmental responsibilities. From 2017 to 2018, the compliance rate stood at 85%, which then rose to 92% in the 2018-2019 period. During the 2019-2020 period, the compliance rate was 87%, but it experienced a slight decrease of 2% in the 2020-2021 period.

Corporate social responsibility has evolved beyond being solely focused on corporate value and its reflection in its financial condition. It now encompasses the triple bottom lines, which entail considering social and environmental concerns (Varyash, 2020). When analyzing corporate social responsibility in companies, several factors come into play, such as the current ratio, firm age, good corporate governance, and firm size (Putra et al., 2022; Tran et al., 2022). The first factor that affects corporate social responsibility is the current ratio. A high current ratio will give a sign to other companies that they are better than other companies in implementing corporate social responsibility. The second factor is the firm age. The longer a company has been established, the more experience and knowledge it possesses. The third factor is good corporate governance, which

encompasses transparency, accountability, responsibility, and fairness. good corporate governance can enhance the quality of financial reports and promote the implementation of corporate social responsibility towards society and the environment. Lastly, firm size is a factor that effects corporate social responsibility. Larger companies typically have more resources at their disposal. In this study, firm size serves as a moderating variable in the relationship between current ratio, firm age, good corporate governance, and corporate social responsibility.

Limited research has been conducted to investigate how firm size moderates the effect of the current ratio, firm age, and good corporate governance on corporate social responsibility. Thus, this study seeks to examine the gap by exploring mining sector companies listed on the Indonesia Stock Exchange from 2017 to 2021.

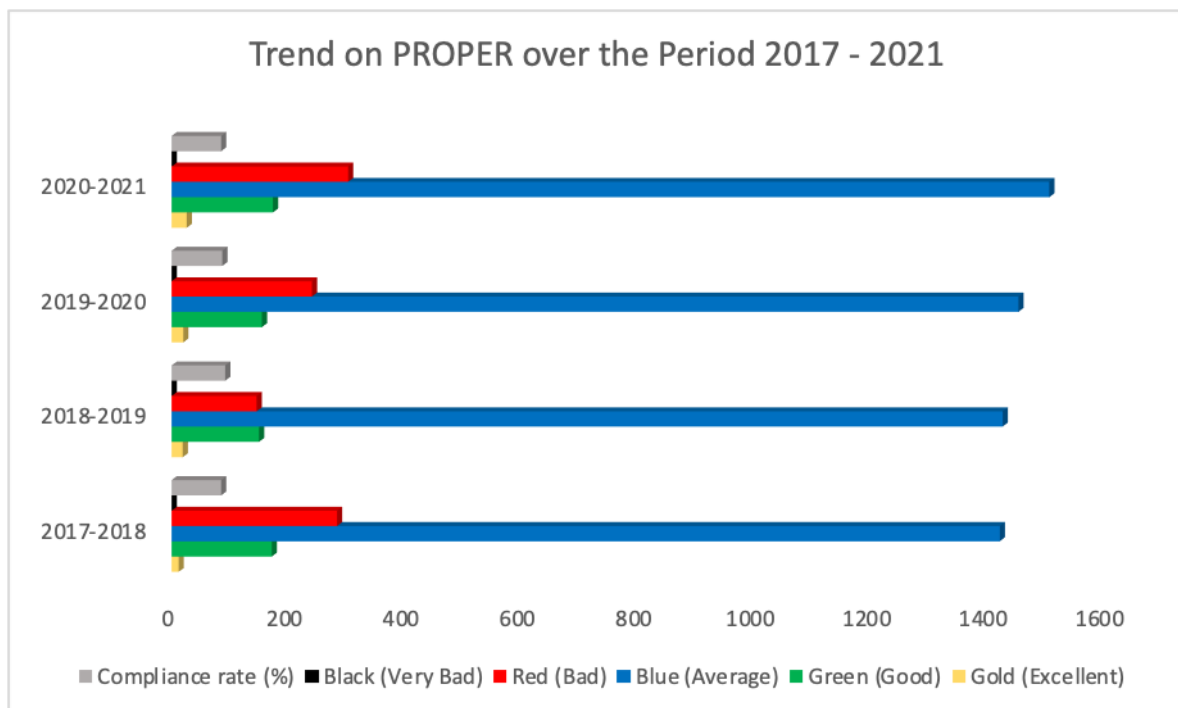


Figure 1. PROPER Trend

Hypothesis Formulation

The Effect of Current Ratio on Corporate Social Responsibility

The current ratio, which is the most widely used ratio in financial statement analysis, serves as a key indicator of the extent to which short-term creditors' claims are backed by assets expected to be converted into cash within a timeframe similar to the maturity of the claims (Krishnankutty & Chakraborty, 2011). Companies with higher cash reserves are more likely to disclose corporate social responsibility information. Elfeky (2017) and Seran (2022) highlight that liquidity ratios influence the extent of voluntary disclosure. Strong liquidity indicates a sound financial structure and overall company health (Furqoni, 2019). When this positive performance is publicly known, it emphasizes the importance of corporate social responsibility. Consequently, companies with higher liquidity levels tend to exhibit a higher level of corporate social responsibility disclosure. Previous studies (Mudjiyanti & Maulani, 2017; Ruslim & Hasim, 2019) show that the current ratio has a

significant positive effect on the disclosure of corporate social responsibility. Thus, a hypothesis was formulated:

H1: Current ratio has a positive effect on corporate social responsibility

The Effect of Firm Age on Corporate Social Responsibility

Firm age refers to the number of years that the company has been in operation, starting from its establishment to the current point of investigation (Wang, 2011). Firm age reflects the duration of a company's existence and indicates the length of time it has been engaged in its operational activities. The longer a company has been established, the greater the experience and knowledge accumulated throughout its operations (Coad et al., 2014). Previous studies (Hendi et al., 2022; Pradana & Suzan, 2016; Sari, 2012; Tran et al., 2023; Waluyo, 2017) indicate that firm age has a significant effect on the disclosure of corporate social responsibility. This shows that the longer the company has been established, the more social activities are revealed, especially to stakeholders. The second hypothesis is:

H2: Firm age has a positive effect on corporate social responsibility

The Effect of Good Corporate Governance on Corporate Social Responsibility

Corporate social responsibility is one of the indicators that shows the good performance of the company (Sudirman & Ningrum, 2022). Good corporate governance refers to a system that oversees and manages business control, aiming for the success of the company while considering stakeholders. It regulates relationships and responsibilities among employees, creditors, and shareholders, both internally and externally, in line with rules and laws (Harjadi et al., 2022). It can enhance shareholder confidence and ensure equitable treatment of all stakeholders (Mahrani & Soewarno, 2018). Good corporate governance involves the company's commitment to contribute to sustainable economic development, improving quality of life, and fostering a healthy environment for the company, local community, and society (Damayanti & Septiyani, 2022). In Indonesia, the classification of Good corporate governance is still weak due to the absence of professional company management, coupled with the lowest investor protection level in Southeast Asia (Khasanah & Sucipto, 2020). Research carried out by Soelton et al. (2020) and Worokinasih and Zaini (2020) show that good corporate governance has a significant effect on corporate social responsibility. This study put forward the following hypothesis:

H3: Good corporate governance has a positive effect on corporate social responsibility.

Effect of Firm Size on Moderating the Relationship between Current Ratio and Corporate Social Responsibility

Furthermore, it is expected that disclosing corporate social responsibility initiatives will contribute to enhanced business performance (Ríos-Manríquez et al., 2016). A limited study has investigated the moderating role of firm size on the effect of the current ratio on corporate social responsibility. A study conducted by Fitriyani and Annisa (2021) found that firm size can moderate the effect of the current ratio on profitability. In the study conducted by Sugiyanto et al. (2021), firm size mediates corporate social responsibility and firm value. The following hypothesis was proposed:

H4: Firm size moderates the relationship between the current ratio and corporate social responsibility.

Effect of Firm Size on Moderating the Relationship between Good Corporate Governance on Corporate Social Responsibility

Firm age is closely related to the development and behavioral changes, which become increasingly evident as the company matures. As a company survives for a longer duration, it tends to yield higher returns on investment. However, older companies also face the need to manage costs due to varying levels of internal learning and the ability to learn from other companies. We established the following hypothesis:

H5: Firm size moderates the relationship between firm age and corporate social responsibility.

Effect of Firm Size on Moderating the Relationship between Good Corporate Governance on Corporate Social Responsibility

Good corporate governance includes the principles that companies must be aware of the interests of their stakeholders, comply with applicable laws and actively cooperate with stakeholders to ensure the long-term survival of the company. In addition, corporate governance mechanisms and structures can be used as infrastructure to support corporate social responsibility practices and socialization in Indonesia. We developed the following hypothesis:

H6: Firm size moderates the relationship between good corporate governance and corporate social responsibility.

Effect of Firm Size on Corporate Social Responsibility

Large companies tend to attract considerable public attention, which may result in heightened social pressure for them to demonstrate their commitment to corporate social responsibility. The firm size determines the company's obligation to disclose corporate social responsibility (Winarto, & Rachmawati, 2020), large companies have many stakeholders pay attention to the company's performance, so the company will try to improve its social responsibility activities. Indirectly, the company's good reputation also grows through corporate social responsibility disclosure. Research conducted by Yovana (2020) supports this notion, suggesting that firm size has a significant and positive effect on the disclosure of corporate social responsibility some studies reveal that it has a positive effect on the disclosure of corporate social responsibility (Aboud & Yang, 2022; Agnes, 2023; Fatoni et al., 2016; Hendi et al., 2022; Marlina, 2022; Putra et al., 2022; Sriyatun et al., 2023; Tran et al., 2023). The following hypothesis was formulated:

H7: Firm size has a positive effect on corporate social responsibility.

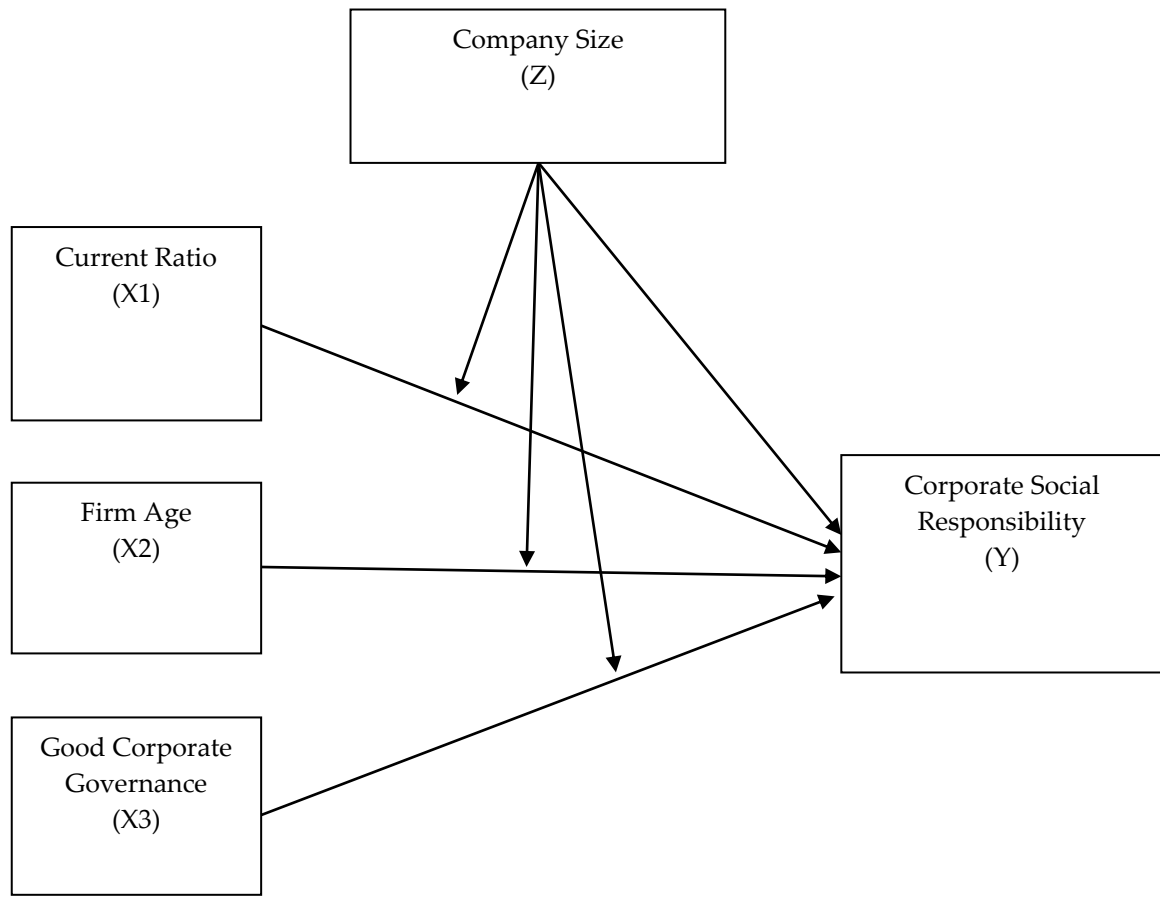


Figure 2. Research Model

Method

This research employed a quantitative approach, specifically utilizing secondary data obtained from annual financial reports of mining sector companies listed on the Indonesia Stock Exchange from 2017 to 2021. Trustworthiness was carried out using credibility criteria. The data collection process involved gathering information from www.idx.co.id and the official websites of the companies. The research methodology employed was causality research, aimed at establishing cause-and-effect relationships between variables. The population for this study consisted of mining sector companies listed on the IDX during the predetermined period, and the sample selection followed the purposive sampling method. The sample criteria are presented in [Table 1](#).

Table 1. Research Sample

No	Sample Criteria	Amount
1	Mining Industry Sector Companies Listed on the IDX for 2017-2021	48
2	Companies that publish annual financial reports consecutively on the Indonesia Stock Exchange during the 2017-2021 period.	(8)
3	Mining Industry Sector Companies that publish complete annual reports for the 2017-2021 period.	(3)
4	Companies that did not experience losses during the 2017-2021	(15)

No	Sample Criteria	Amount
5	period. Companies that use USD currency in financial reports.	(5)
Number of Observations		17

The regression model in this study is as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 Z_{it} + \beta_5 (X_{1it} \times Z_{it}) + \beta_6 (X_{2it} \times Z_{it}) + \beta_7 (X_{3it} \times Z_{it}) + \epsilon_{it}$$

Information:

Y	= Corporate Social Responsibility(CSR)
X1	= Current Ratio (CR)
X2	= Firm Age (FA)
X3	= Good Corporate Governance (IDK)
Z	= Firm size (SIZE)
(X1 x Z)	= Interaction Variable X ₁ with Z
(X2 x Z)	= Interaction Variable X ₂ with Z
(X3 x Z)	= Interaction Variable X ₃ with Z
β_0	= Constant
i	= Number of Mining Companies
t	= Observation Period
ϵ	= Error
$\beta_1 - \beta_7$	= Coefficient of Variables X1 to X7

In this study, SIZE was used as the moderating variable, so that the interaction test between the moderating variable and the independent variable was added to the regression analysis.

Results

Model Selection Test

The restricted F test and Lagrange multiplier test were carried out in the model selection test. Table 2 depicts the results of the restricted F test. The test results indicate that the probability value F in the FEM output results is 0.9743, which exceeds the significance level of α (5%). As a result, the H₀ is accepted, and PLS is considered the best estimation model for the time being.

Table 2. Restricted F test

Prob > F	0.943
α	0.05

The next test was the Lagrange multiplier test. The test results indicate that the prob>chibar2 value is 1.000, leading to the selection of PLS as the optimal model for estimating the effect of the variable's current ratio, firm age, and good corporate governance on corporate social responsibility (see Table 3). Based on the test results, it is stated that the prob>chibar2 value is 1,000 so PLS is chosen as the best model to estimate

the effect of the variable's current ratio, firm age, and good corporate governance on corporate social responsibility.

Table 3. Lagrange Multiplier Test

Prob > F	1.0000
α	0.05

Classical Assumption Test

The classical assumption test in this study included multicollinearity test (see Table 4), heteroscedasticity test (see Table 5), autocorrelation test (see Table 6), and normality test (see Table 7). The Variance Inflation Factor (VIF) calculations yielded a value of 1.11, which is less than 10. Additionally, the tolerance value for each variable is greater than 0.10. These results indicate that there is no significant correlation among the independent variables.

Table 4. Multicollinearity Test

Description	VIF	1/VIF
CR	1.09	0.914767
FA	1.08	0.929291
GCG	1.17	0.853099
VIF means		1.11

The output results of the heteroscedasticity test indicate that the prob>chi2 value is 0.0072, which is less than 0.05. Consequently, the H1 hypothesis is accepted, suggesting that the data is not free from heteroscedasticity symptoms.

Table 5. Heteroscedasticity Test

Prob>F	0.0072
α	0.05

Based on the output of the data processing, it is evident that the prob>F value is 0.000, indicating that it is less than 0.05. Consequently, we can conclude that the H1 hypothesis is accepted, suggesting that the regression model exhibits symptoms of autocorrelation.

Table 6. Autocorrelation Test

Prob>F	0.0000
α	0.05

During the normality test, it was observed that the variables Y (CSR), X1 (CR), and X3 (IDK) yielded values < 0.05, indicating that they do not follow a normal distribution. On the other hand, the variable X2 (FA) produced values > 0.05, suggesting that the data exhibits a normal distribution.

Table 7. Normality Test

Variable	Prob>z
Y (CSR)	0.00031

Variable	Prob>z
X1 (CR)	0.00001
X2 (FA)	0.04686
X3 (GCG)	0.00012

Multiple Linear Regression Analysis

The result of the Moderated Regression Analysis is depicted in [Table 8](#).

Table 8. Moderated Regression Analysis

Independent Variable	Dependent Variable	
	Before MRA	After MRA
CR	0.23 * (0.13)	0.12 (0.13)
FA	0.36 *** (0.91)	0.47 *** (0.05)
GCG	0.05 (0.08)	0.77 *** (0.13)
SIZE	-	-0.96 ** (0.16)
SIZE_CR	-	0.27 (0.23)
SIZE_FA	-	-0.03 (0.09)
SIZE_GCG	-	-1.60** (0.21)
Observations	85	85
Adjusted R-square	0.18	0.48
F-values	4 x 10 ⁻⁴	4 x 10 ⁻⁴

Notes:

*** = Significant at 1% level

** = Significant at 5% level

* = Significant at 10% level

() = Numbers in parentheses are the robust standard of error

In the variable current ratio before moderation, a coefficient of 0.23 was obtained with a value of $p > |t|$ of 0.091. This indicates a significance level between 0.00 and 0.10, suggesting a significant positive effect of the current ratio on corporate social responsibility before moderation. However, after being moderated, the coefficient decreased by 11% to 0.12 with a value of $p > |t|$ of 0.372. This indicates that the significance level is now greater than 0.10, implying that after moderation, the current ratio no longer has a positive effect on corporate social responsibility.

In the variable firm Age before moderation, a coefficient of 0.36 is obtained with a value of $p > |t|$ of 0.000. This indicates a significance level between 0.00 and 0.01, suggesting a significant positive effect of firm age on corporate social responsibility before moderation. However, after being moderated, the coefficient increased by 11% to 0.47 with a value of $p > |t|$ of 0.000, which means that the p-value is significant at the 1% level, indicating that after moderation, firm age continues to affect corporate social responsibility

in a positive direction.

For the variable good corporate governance before moderation, a coefficient of 0.05 with a value of $p > |t|$ of 0.522. This indicates that the p-value is greater than the significance level, suggesting that before moderation, good corporate governance does not have a significant positive effect on corporate social responsibility. However, after being moderated, the coefficient increased by 72% to 0.77 with a $p > |t|$ of 0.000. This indicates that the p-value remains significant at the 1% level, suggesting that after moderation, good corporate governance positively affects corporate social responsibility.

When the current ratio variable is multiplied by the firm size variable as a moderating variable, a coefficient of 0.27 is obtained with a $p > |t|$ of 0.244. This indicates that the significance level is greater than 10%. Therefore, it can be concluded that the firm size variable is unable to moderate the relationship between the current ratio and corporate social responsibility in a positive direction. The firm size does not have a significant effect on how the current ratio affects corporate social responsibility when considered as a moderating factor.

When the firm age variable is multiplied by the firm size variable as a moderating variable, a coefficient of -0.03 is obtained with the value of $p > |t|$ of 0.691. This indicates that the significance level is greater than 10%. Therefore, it can be concluded that the firm size variable is not able to moderate the relationship between firm age and corporate social responsibility in a negative direction. The firm size does not have a significant effect on how firm age affects corporate social responsibility when considered as a moderating factor.

When the good corporate governance variable is multiplied by the firm size variable as a moderating variable, a coefficient of -1.60 is obtained with a $p > |t|$ of 0.000. This indicates that the significance level is lower than 5%. Therefore, it can be concluded that the firm size variable is able to moderate the relationship between good corporate governance and corporate social responsibility in a negative direction. Firm size has a significant effect on how good corporate governance affects corporate social responsibility when considered as a moderating factor, resulting in a negative effect.

In the firm size variable, a coefficient of -0.96 is obtained with a value of $p > |t|$ of 0.000, indicating significance at the 5% level. This means that the firm size variable has a significant effect on corporate social responsibility in a negative direction. The findings demonstrate that firm size has a notable negative effect on corporate social responsibility. It can be inferred that smaller companies tend to have a broader scope of corporate social responsibility disclosure.

The regression model in this study is as follows:

$$CSR_{it} = 3.11e-09 + 0.23CR_{it} + 0.36FA_{it} + 0.48IDK_{it} + (-0.96)SIZE_{it} + 0.27(CR_{it} \times SIZE_{it}) + (-0.03)(FA_{it} \times SIZE_{it}) + (-1.60)(IDK_{it} \times SIZE_{it}) + \epsilon_{it}$$

Discussion

This research aims to explore the effect of current ratio, firm age, and good corporate governance on corporate social responsibility. It examines how firm size affects the relationship between factors such as Current Ratio, Firm Age, Good Corporate Governance, and Corporate Social Responsibility within the Mining Sector companies listed on the Indonesia Stock Exchange between 2017 and 2021.

First, this study indicates that the current ratio has no positive effect on corporate social responsibility. This is in line with the research conducted by [Budiyono and Maryam \(2017\)](#) that the current ratio has no significant effect on the disclosure of corporate social responsibility. liquidity does not affect corporate social responsibility disclosure ([Sriyatun et al., 2023](#)). Conversely, based on research conducted by [Mudjiyanti and Maulani \(2017\)](#) and [Ruslim and Hasim \(2019\)](#), the current ratio has a significant positive effect on the disclosure of Corporate Social Responsibility.

Second, firm age has a positive effect on corporate social responsibility. The longer the company has been operating, the more social activities it reveals. This result is supported by the research of [Waluyo \(2017\)](#), [Hendi et al. \(2022\)](#), and [Tran et al. \(2023\)](#), [Sari \(2012\)](#) that firm age has a significant positive effect on the disclosure of Corporate Social Responsibility. [Al-Gamrh and Al-dhamari \(2019\)](#) and [Odoemelum et al. \(2020\)](#) describe that companies that have been doing business for a long time tend to disclose more corporate social information than companies that have just started operating. Older businesses have a better understanding of what information should be given in the disclosure ([Waluyo, 2017](#)). In contrast, [Putra et al. \(2022\)](#) and [Fatoni et al. \(2016\)](#) that firm age has no effect on corporate social responsibility.

Third, the results suggest that good corporate governance positively affects corporate social responsibility. When good corporate governance practices are implemented effectively, it can have a significant effect on promoting and enhancing corporate social responsibility ([Zarefar & Sawarjuwono, 2021](#)). This result is in line with the research carried out by [Soelton et al. \(2020\)](#) and [Worokinasih and Zaini \(2020\)](#) that good corporate governance has a significant effect on corporate social responsibility. In contrast to the research of [Hutabarat et al. \(2017\)](#) that good corporate governance does not have a significant effect on corporate social responsibility.

Fourth, firm size does not have a significant moderating effect on how the current ratio affects corporate social responsibility when considered as a moderating factor. The author suspects that this is caused by companies that have paid their obligations correctly and according to the stipulated period, companies can allocate funds for social activities or not. Fifth, firm size does not have a significant moderating effect on how firm age affects corporate social responsibility. The author suspects this is because large companies do not only always carry out more social and environmental activities to affect internal and external parties of the company, but rather on the awareness of these companies to make broad disclosures of corporate social responsibility. The finding is corroborated by [Putra et al. \(2022\)](#) that firm size can't moderate the relationship between the effect of firm age on corporate social responsibility. Sixth, firm size has a significant effect on how good corporate governance affects corporate social responsibility when considered as a moderating factor, resulting in a negative effect. A previous study also reveals that firm size can't moderate the relationship between the effect of corporate governance on corporate social responsibility ([Putra et al., 2022](#)). Based on research conducted, firm size weakens the relationship between good corporate governance and corporate social responsibility. The author suspects this is because large companies have greater agency costs to disclose broader social information to get a positive impression for investors, but independent commissioners are only focused on the company's financial performance, not focused on corporate social responsibility activities so spending on company finances will certainly be reduced because the company wants as much profit as possible. There have

been limited studies investigating the role of firm size in moderating the effect of current ratio, firm age, and good corporate governance on corporate social responsibility which opens up the possibility for other research.

Lastly, firm size is the main influencer for corporate social responsibility disclosure (Razafindrambinina et al., 2020). Based on previous research by Saputra (2016) and Budiyo and Maryam (2017), showed that there was no significant positive effect between firm size and Corporate Social Responsibility. In contrast, some studies reveal that it has a positive effect on the disclosure of corporate social responsibility (Aboud & Yang, 2022; Agnes, 2023; Fatoni et al., 2016; Hendi et al., 2022; Marlina, 2022; Putra et al., 2022; Sriyatun et al., 2023; Tran et al., 2023). The stronger the characteristics possessed by a company in producing social impacts for the public, the stronger the fulfillment of its social responsibility to the public will certainly be. We conclude that the lower the firm size, the higher the level of the company's ability to earn profits, the more smoothly the company pays its short-term debt, and the higher the company's growth from year to year, the better the disclosure of corporate social responsibility to the public.

This study underlines the importance of considering corporate social responsibility, particularly in mining industries. Engaging in corporate social responsibility practices yields long-term benefits as it enhances a company's reputation, branding, efficiency, and internal party appreciation, and ultimately leads to strong profitability (Wardhani & Awaluddin, 2019). Companies that prioritize corporate social responsibility invest significant effort into enhancing their corporate reputation, resulting in lasting benefits and challenging the traditional focus on financial performance (Orlando, 2022). Thus, the mining industry should prioritize not only profitability but also the long-term sustainability of the environment.

Conclusion

The results showed that there was a negative and insignificant relationship between the current ratio and corporate social responsibility. Moreover, both firm age and good corporate governance had a significant effect on corporate social responsibility in a positive direction. Meanwhile, firm size was negatively correlated with corporate social responsibility. Firm size was also unable to moderate the relationship between the current ratio and corporate social responsibility, as well as between firm age and corporate social responsibility. In addition, firm size weakened the relationship between good corporate governance and corporate social responsibility.

Since this study solely focused on mining companies listed on the Indonesia Stock Exchange between 2017 and 2021, its applicability is limited and generalization cannot be made. From this study, the Indonesian authorities ought to establish a set of instructions for companies and the general public, aiming to enhance understanding of the significance of corporate social responsibility initiatives, particularly within the mining sector, widely recognized as one of the major contributors to environmental pollution.

Authors' Declaration

The author made substantial contributions to the conception and design of the study. The author took responsibility for data analysis, interpretation and discussion of results. The author read and approved the final manuscript.

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