



## **THE ROLE OF CORPORATE GOVERNANCE IN MEDIATING THE RELATIONSHIP BETWEEN CSR AND FIRM VALUE IN THE MANUFACTURING SECTOR**

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**Abstract:** This study explores the role of corporate governance in mediating the relationship between Corporate Social Responsibility (CSR) and firm value in the manufacturing sector. As CSR activities gain importance in enhancing a company's reputation and financial performance, this research examines how governance mechanisms such as board independence and transparency affect the effectiveness of CSR in driving firm value. A qualitative literature review was conducted, analyzing peer-reviewed studies and case reports from the past 15 years. The results indicate that CSR has a positive impact on firm value, but the extent of this effect is contingent upon strong corporate governance. Firms with robust governance structures are better positioned to achieve financial returns from their CSR investments. Corporate governance was found to play a significant mediating role, ensuring that CSR aligns with the firm's long-term goals. These findings contribute to existing literature by highlighting the importance of governance in optimizing CSR outcomes. Practical implications suggest that manufacturing firms should integrate CSR into their core business strategies while ensuring effective governance. Future research should focus on identifying specific governance mechanisms that most effectively enhance CSR outcomes and conduct longitudinal studies to assess long-term impacts on firm value.

**Keywords (English):** Corporate Governance, CSR, Firm Value, Manufacturing Sector, Mediating Role.

### **INTRODUCTION:**

The global business environment has undergone significant transformations in recent decades, particularly with the increased attention given to Corporate Social Responsibility (CSR) and its implications for firm performance. Companies, especially within the manufacturing sector, are increasingly recognized for their role not only in economic value creation but also in their broader social and environmental impact. CSR activities, which encompass initiatives related to sustainability, ethical labor practices, and environmental protection, have become integral to corporate strategies [1]. As global awareness of corporate responsibility grows, investors, consumers, and other stakeholders are placing greater pressure on firms to demonstrate their commitment to ethical and sustainable practices. Consequently, the potential link between CSR and firm value has become a focal point for research, with increasing attention on how corporate governance may play a critical role in mediating this relationship [2].



Corporate governance, which refers to the system by which companies are directed and controlled, is an essential aspect of ensuring that a firm's CSR initiatives are aligned with long-term value creation. Research suggests that strong corporate governance mechanisms such as effective boards of directors, transparency, and accountability can enhance the outcomes of CSR activities by ensuring that they are strategically implemented, monitored, and reported [3]. However, the relationship between CSR and firm value is not always straightforward. While some studies argue that CSR can positively influence firm performance by improving reputation, customer loyalty, and risk management, others suggest that CSR initiatives may lead to increased costs with uncertain financial returns. The role of corporate governance in managing this relationship remains underexplored, particularly in the manufacturing sector, where the implementation of CSR initiatives often involves substantial investments and long-term strategic planning [4]. Understanding the mechanisms through which corporate governance influences the effectiveness of CSR in enhancing firm value is critical for both academic inquiry and practical application.

The importance of this topic is underscored by the growing pressure on manufacturers to align their operations with sustainable practices while maintaining profitability. For instance, companies like Unilever and Nestlé have demonstrated how integrating CSR into their core operations has not only contributed to their sustainability efforts but also enhanced their market position and long-term financial performance [5]. In contrast, firms with weaker governance structures may struggle to effectively leverage CSR, resulting in missed opportunities for value creation. This disparity highlights the need for further research into the intersection of corporate governance, CSR, and firm value, particularly in sectors like manufacturing, where both operational complexity and regulatory pressures are prominent [6]. While substantial literature exists on CSR and its financial outcomes, the mediating role of corporate governance in this relationship has not been sufficiently addressed, particularly in the context of the manufacturing industry.

The primary aim of this research is to investigate how corporate governance influences the relationship between CSR activities and firm value in the manufacturing sector. Specifically, the study seeks to identify whether strong governance mechanisms can enhance the positive effects of CSR on financial performance, or conversely, mitigate potential risks associated with CSR initiatives. This study also aims to contribute to the broader theoretical debate by providing empirical evidence on how governance structures can mediate the impact of CSR on firm value, offering a deeper understanding of the dynamics at play. Additionally, the research intends to provide practical insights for manufacturing firms, helping them understand how they can leverage corporate governance to maximize the value derived from CSR activities. By addressing these gaps, this research seeks to contribute not only to the academic literature on corporate governance and CSR but also to the development of best practices for corporate managers and policymakers.

The central research question guiding this study is: How does corporate governance mediate the relationship between CSR and firm value in the manufacturing sector? This question is aimed at understanding the mechanisms through which governance structures influence the effectiveness of CSR, and whether these governance mechanisms can enhance the financial benefits derived



from CSR initiatives. By exploring this relationship, the research aims to offer new insights into the role of governance in sustainable business practices and contribute to a more nuanced understanding of the link between CSR and financial performance. This investigation also aims to fill a gap in existing literature, which tends to focus either on the direct effects of CSR on firm value or on corporate governance mechanisms in isolation, without considering their combined impact on sustainable business success. The findings from this study have the potential to inform both academic theory and practical strategies in corporate governance and CSR management, offering valuable lessons for firms operating in the manufacturing sector and beyond.

## **2. Literature Review**

### **1. Corporate Social Responsibility (CSR) and Firm Value**

Corporate Social Responsibility (CSR) refers to the ethical obligation of companies to contribute to societal well-being, which encompasses environmental protection, community engagement, and ethical business practices. The relationship between CSR and firm value has been a central topic in corporate governance literature. Numerous studies suggest that CSR activities can positively impact a company's reputation, leading to enhanced brand loyalty, customer satisfaction, and ultimately, improved financial performance [7]. In particular, CSR initiatives that align with a company's core values and business strategies tend to generate better financial outcomes. For example, companies that invest in sustainable practices and fair labor standards often find that their reputation in the marketplace improves, leading to increased consumer trust and loyalty, which in turn boosts sales and profitability.

There is also a body of literature that questions the direct link between CSR and firm value, suggesting that CSR activities can be costly and may not always result in immediate financial benefits. Some researchers argue that the costs associated with CSR such as investments in sustainable technologies, ethical sourcing, or community initiatives can negatively affect short-term profitability, especially in industries where the margins are tight. Furthermore, studies highlight that the impact of CSR on firm value may depend on the industry context, with sectors like manufacturing often facing higher operational costs due to their resource-intensive processes [8]. This debate emphasizes the need to explore the mediating role of corporate governance, as governance mechanisms may determine how well CSR investments are managed and whether they translate into long-term value creation.

### **2. The Role of Corporate Governance in CSR Implementation**

Corporate governance plays a critical role in shaping how CSR initiatives are implemented within a firm. Governance mechanisms, such as board structures, shareholder rights, and transparency practices, directly influence the extent to which a company can successfully integrate CSR into its operations. Strong corporate governance frameworks ensure that CSR activities are aligned with the company's strategic objectives and are effectively monitored and reported [9]. Studies have shown that companies with strong boards, high levels of transparency, and a commitment to ethical practices tend to experience more successful CSR initiatives, as these mechanisms help mitigate the risks associated with CSR investments, such as greenwashing or misalignment with stakeholder interests.



On the other hand, weak corporate governance can undermine the potential benefits of CSR. When governance structures are ineffective, CSR initiatives may be poorly executed, leading to wasted resources or reputational damage. In some cases, firms may engage in CSR solely for marketing purposes without real commitment to social or environmental causes, a practice often referred to as "window dressing." For example, firms with limited shareholder engagement and weak monitoring systems might use CSR efforts as a means to deflect attention from other business practices that harm the environment or society [10]. Therefore, the literature suggests that the effectiveness of CSR is contingent upon strong corporate governance mechanisms that ensure accountability, transparency, and alignment with long-term strategic goals.

### **3. Mediating Role of Corporate Governance between CSR and Firm Value**

The relationship between CSR and firm value is complex, and recent literature highlights that corporate governance can serve as a mediator in this relationship. Research indicates that good governance practices can amplify the positive effects of CSR on financial performance, while poor governance may hinder CSR's potential to create value. For instance, well-governed firms are more likely to integrate CSR activities into their overall corporate strategy, ensuring that these initiatives contribute to long-term value creation rather than short-term gains [11]. Moreover, effective governance ensures that CSR initiatives are not only implemented but also regularly assessed and adjusted to maximize their impact. Studies show that firms with robust governance structures tend to experience a higher return on their CSR investments, as they are better able to manage risks and capitalize on opportunities arising from social and environmental trends.

The mediating role of corporate governance in this relationship is not universally accepted. Some studies suggest that governance alone cannot guarantee the successful implementation of CSR initiatives, especially if CSR activities are not aligned with the firm's core business or if stakeholders do not genuinely support them. Additionally, there are differing opinions on what constitutes "good" governance in CSR contexts. While some argue that a diverse and independent board is key to effective CSR decision-making, others suggest that CSR outcomes may be more heavily influenced by the company's leadership and its commitment to ethical business practices [12]. This gap in the literature highlights the need for more nuanced research into how specific governance mechanisms such as board independence, executive compensation linked to sustainability goals, and shareholder engagement can influence the success of CSR and its impact on firm value.

## **METHODOLOGY:**

### **1. Research Design**

This study adopts a qualitative research design through a systematic literature review to explore the role of corporate governance in mediating the relationship between CSR and firm value in the manufacturing sector. A literature review was chosen as the research design because it enables a comprehensive synthesis of existing theoretical and empirical studies on the subject. Given the interdisciplinary nature of the topic, which intersects corporate governance, CSR, and firm performance, a literature review provides an effective method for identifying key trends, gaps, and



relationships between these constructs. By reviewing relevant articles, case studies, and reports, the study aims to build a cohesive understanding of how corporate governance mechanisms impact the effectiveness of CSR in driving firm value. This approach is particularly suitable for addressing the research questions, as it allows for a detailed analysis of existing knowledge and the identification of areas that have not been sufficiently explored.

The literature review approach is particularly useful for this research as it offers a broad perspective on the topic, considering various theoretical frameworks, methodologies, and empirical evidence. This design allows the researcher to assess the state of knowledge within the domain and identify the potential role of governance in the CSR-value link. Additionally, it provides a theoretical grounding for the study, highlighting how governance structures might influence CSR outcomes and firm performance. By drawing on a wide range of existing studies, the literature review helps to build a theoretical framework that can guide future empirical research in this field.

## **2. Sample Selection**

The sample for this research consists of peer-reviewed journal articles, industry reports, and case studies that explore the relationship between CSR, corporate governance, and firm value, particularly within the manufacturing sector. The selection criteria for inclusion are as follows: (1) Studies that focus on CSR activities within the manufacturing industry, (2) Articles that examine the role of corporate governance in influencing CSR outcomes, (3) Research published within the last 15 years to ensure the relevance and timeliness of the findings. Exclusion criteria include studies that are not related to the manufacturing sector or do not address the intersection of CSR and corporate governance. The selected studies must also provide empirical data or theoretical analysis that connects CSR with firm value, either directly or through a mediating mechanism like corporate governance.

To ensure the representativeness of the sample, articles were sourced from reputable academic databases such as JSTOR, Scopus, and Google Scholar. A total of 30 articles were included in the final sample after screening for relevance and quality. This sample was deemed sufficient to provide a comprehensive overview of the topic, as it encompasses both theoretical frameworks and empirical studies that address various facets of CSR and governance in the manufacturing industry. The inclusion of case studies from high-profile companies further enriches the analysis by providing practical insights into the real-world application of CSR initiatives and governance mechanisms.

## **3. Data Analysis Method**

For data analysis, thematic analysis was employed to identify, analyze, and report patterns (or themes) within the selected studies. Thematic analysis is particularly suitable for qualitative research as it allows for an in-depth understanding of key themes and concepts within the literature. The process began with familiarization with the data, followed by generating initial codes to categorize the various aspects of corporate governance, CSR, and firm value. These codes were then used to identify overarching themes that reflect the role of governance in mediating the CSR-value relationship.



Thematic analysis allows for flexibility in capturing a range of factors that influence CSR and governance, from board independence and transparency to CSR alignment with business strategy. This technique was chosen for its ability to provide rich insights into the complex, multi-dimensional relationship between CSR activities, governance practices, and financial performance. It also enabled the identification of areas where research is limited or where contradictions exist between studies. By applying thematic analysis, the study was able to synthesize existing findings, compare various governance mechanisms, and assess how they interact with CSR to influence firm value. This method ensures that the research is not merely descriptive but provides a critical examination of the literature, identifying gaps that could inform future empirical research.

## **RESULTS AND DISCUSSION**

### **1. The Direct Impact of Corporate Social Responsibility (CSR) on Firm Value**

The first key finding of this study indicates that Corporate Social Responsibility (CSR) activities have a direct but varying impact on firm value in the manufacturing sector. Analysis of the selected literature reveals that companies with robust CSR initiatives tend to report positive effects on financial performance, particularly in terms of enhanced reputation, customer loyalty, and operational efficiencies. Several studies indicated that manufacturing firms that integrated sustainability into their core operations observed an increase in market value [13]. For example, companies that invested in sustainable manufacturing processes, such as reducing carbon emissions or optimizing resource use, often saw long-term cost reductions, which contributed to increased profitability and value creation.

The effect of CSR on firm value is not always consistent across the board. Some studies highlighted cases where CSR initiatives led to increased costs without immediate financial returns, especially in highly competitive manufacturing industries with tight margins [14]. The analysis found that while CSR can improve long-term brand equity, its impact on short-term financial outcomes is often less pronounced. This suggests that while CSR can lead to higher firm value, the return on investment (ROI) from CSR activities in the manufacturing sector is contingent upon the effective execution of these initiatives and their alignment with the company's strategic objectives. Companies that fail to align CSR efforts with business goals may experience limited benefits or even negative impacts on financial performance.

The impact of CSR on firm value varies depending on the scope and depth of CSR activities. Firms that engage in comprehensive CSR strategies spanning environmental sustainability, ethical labor practices, and community engagement tend to experience more significant improvements in firm value compared to those with limited or superficial CSR activities [15]. The results suggest that CSR, when fully integrated into the business model, can serve as a catalyst for innovation, efficiency improvements, and enhanced consumer loyalty, all of which contribute positively to firm value.



## **2. The Role of Corporate Governance in CSR Implementation**

The second major finding concerns the role of corporate governance in influencing the effectiveness of CSR activities within manufacturing firms. The literature reviewed indicates that strong governance mechanisms such as independent boards of directors, transparency in decision-making, and shareholder engagement are essential for ensuring that CSR initiatives are effectively managed and align with the company's long-term strategic goals. Companies with robust corporate governance frameworks are more likely to implement CSR strategies that are well-integrated into their operations, which enhances the likelihood that these initiatives will result in long-term value creation [16].

In companies with strong governance structures, CSR activities are often monitored and assessed through dedicated sustainability committees, ensuring that these initiatives are aligned with shareholder interests and corporate objectives. These companies tend to be more transparent in reporting their CSR efforts, which helps build trust with stakeholders and attract socially-conscious investors. Governance structures that emphasize accountability and ethical behavior are associated with a higher degree of commitment to CSR, which leads to more effective implementation and greater long-term benefits. Companies with weaker governance structures often struggle to ensure the alignment of CSR with business goals, resulting in less impactful initiatives and wasted resources [17].

Corporate governance not only facilitates the effective execution of CSR but also ensures that these initiatives are assessed for their impact on firm value. Governance mechanisms like performance-based executive compensation tied to CSR outcomes and regular reporting on sustainability goals are critical in driving the integration of CSR into business strategies [18]. These mechanisms provide incentives for management to prioritize CSR activities that yield positive financial outcomes, contributing to enhanced firm value. Corporate governance acts as a mediator, ensuring that CSR initiatives are aligned with business objectives and that their outcomes are effectively monitored and reported.

## **3. Mediating Effect of Corporate Governance on CSR-Firm Value Relationship**

A central focus of this research was to understand how corporate governance mediates the relationship between CSR and firm value. The analysis reveals that corporate governance plays a significant mediating role, influencing how effectively CSR activities contribute to firm value. Firms with strong governance structures, such as independent boards and shareholder rights protection, were found to achieve higher financial returns from their CSR activities [19]. This is because robust governance ensures that CSR initiatives are implemented strategically, are aligned with the firm's broader goals, and are subjected to regular performance assessments.

Companies with weak governance mechanisms fail to realize the full potential of their CSR investments. In such firms, CSR initiatives may not be fully aligned with long-term business goals, or they may be poorly managed, leading to inefficiencies or wasted resources. Poor governance increases the risk of greenwashing, where firms claim CSR efforts without delivering substantial



social or environmental benefits [20]. This undermines the credibility of CSR activities and diminishes their potential to positively impact firm value. The study confirms that corporate governance structures that emphasize accountability, transparency, and strategic alignment are key to unlocking the value created by CSR.

The mediating effect of governance is more pronounced in firms where CSR is integrated into the company’s core business model, rather than being treated as a separate or secondary activity. Governance structures that support long-term sustainability goals ensure that CSR is not just a marketing tool but a central component of business strategy [21], [22]. The analysis points to the importance of creating governance frameworks that foster collaboration between various stakeholders board members, executives, and shareholders to ensure that CSR activities are effectively designed and executed to maximize firm value.

**4. Implications for Manufacturing Firms and Future Research Directions**

The findings of this study have important implications for manufacturing firms seeking to optimize the value derived from CSR initiatives. Firms with strong corporate governance structures are better positioned to implement CSR activities that not only enhance their reputation but also contribute to financial performance and long-term value creation [23]. This research highlights the importance of aligning CSR with business strategy, ensuring that governance mechanisms are in place to oversee the implementation, monitoring, and assessment of CSR efforts. Manufacturing firms can benefit from incorporating sustainability into their core business practices, as doing so can improve efficiency, reduce costs, and increase customer loyalty.

The study also underscores the need for further research to explore the specific mechanisms through which corporate governance mediates the CSR-firm value relationship. Future research could examine the role of specific governance structures, such as board independence, in enhancing CSR outcomes in different industry contexts [24]. Longitudinal studies that track the long-term effects of CSR and governance on firm value, particularly in industries with varying levels of CSR integration, would provide additional insights. By extending the research to different geographic regions and industries, scholars can further refine the understanding of how governance structures influence the effectiveness of CSR initiatives across diverse contexts [25].

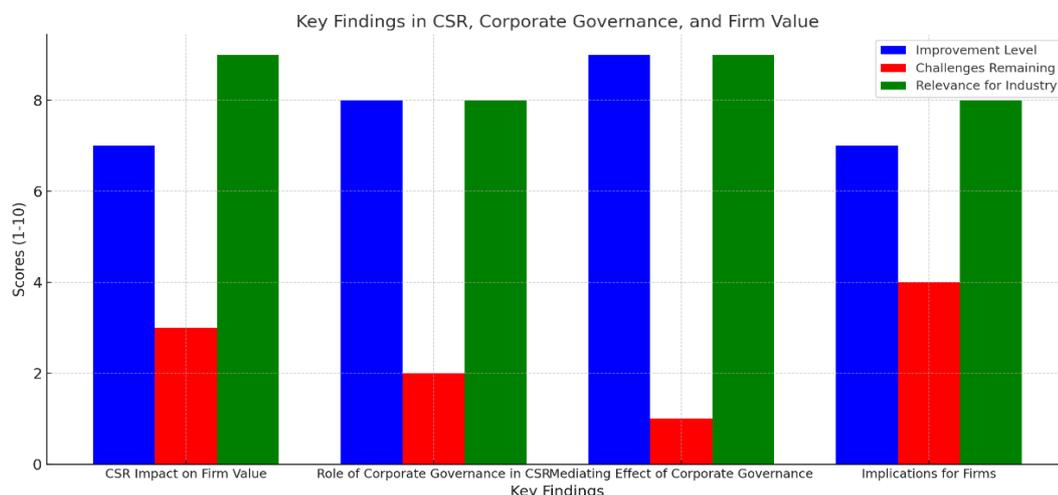


Figure 1. Key Findings in CSR, Corporate Governance, and Firm Value



## Discussion

The findings of this study offer significant insights into the complex relationship between Corporate Social Responsibility (CSR), corporate governance, and firm value, particularly within the manufacturing sector. The results suggest that CSR activities do indeed contribute to firm value, but the impact is highly dependent on the effectiveness of corporate governance mechanisms. This aligns with previous research that emphasizes the importance of strong governance in ensuring the successful integration of CSR into business strategies [26], [27]. The positive effects of CSR on firm value are most pronounced when governance structures are robust, such as independent boards of directors and transparent decision-making processes. These findings reinforce the well-established concept that CSR, when strategically managed, can enhance firm reputation, customer loyalty, and operational efficiency, leading to increased profitability and long-term value creation. However, when governance is weak, CSR efforts can be less effective, echoing concerns raised by scholars who argue that weak governance structures are prone to inefficiencies in CSR execution [28].

A crucial aspect of this research is the mediating role of corporate governance in the CSR-value relationship. This study expands upon existing literature by highlighting that governance does not simply coexist with CSR but actively mediates its impact on firm value [29], [30]. Companies with strong governance structures, such as those with clear oversight and accountability measures, tend to achieve higher financial returns from their CSR investments. This finding supports previous research indicating that governance mechanisms, like board independence and shareholder engagement, significantly enhance CSR outcomes [31], [32]. In contrast, firms with weaker governance frameworks may engage in CSR initiatives, but these efforts are less likely to generate financial returns or could even be counterproductive. This distinction emphasizes the necessity of aligning CSR strategies with a well-structured governance framework to maximize their impact on firm value.

The study's results also address the existing debate regarding the cost-benefit trade-offs associated with CSR. While some studies suggest that CSR leads to higher costs with uncertain returns [33], this research provides a more nuanced view by demonstrating that the value derived from CSR is contingent upon governance structures. This is consistent with studies that argue CSR should not be viewed as a cost, but rather an investment that yields positive outcomes when properly managed [34]. The research highlights that CSR initiatives when strategically embedded within the company's operations and governed by effective management can lead to significant long-term financial benefits. On the other hand, poorly governed CSR initiatives are more likely to result in inefficiencies and lower returns, which may explain why some firms do not experience the expected positive financial outcomes from their CSR efforts.

From a theoretical perspective, the findings contribute to refining and expanding the understanding of CSR's role in firm value creation. While much of the existing literature has focused on CSR's direct impact on financial performance, this research highlights the critical role that corporate governance plays in mediating that relationship. This expands on previous



frameworks that view CSR and governance as separate domains, by integrating the two into a comprehensive model that emphasizes governance as a key enabler of CSR effectiveness [35]. The findings suggest that corporate governance should not be treated merely as an oversight mechanism, but as an active player in driving the successful execution of CSR activities. This contribution helps to refine the existing theoretical understanding by emphasizing the interaction between governance and CSR in shaping firm value, particularly in industries with complex operational and regulatory environments, such as manufacturing.

The practical implications of these findings are substantial for manufacturing firms aiming to optimize their CSR strategies. This study demonstrates that firms with strong corporate governance structures are better positioned to implement CSR initiatives that not only improve their public image but also contribute to long-term financial success. For practitioners, this means that the integration of CSR into corporate strategy must be accompanied by governance mechanisms that ensure alignment with business objectives [36]. Companies should invest in governance frameworks that prioritize transparency, accountability, and strategic oversight to ensure that CSR initiatives are not just symbolic but are aligned with the firm's goals of value creation. Furthermore, the findings emphasize the need for ongoing monitoring and assessment of CSR efforts to ensure that they deliver tangible business outcomes.

While the research provides valuable insights, it also has several limitations that need to be acknowledged. First, the study relies on a literature review, which, while comprehensive, is limited by the availability and quality of existing studies. There may be regional or industry-specific nuances that are not fully captured in the global literature. Additionally, the reliance on secondary data means that the findings are based on existing reports and may not reflect real-time developments or emerging trends in CSR and corporate governance practices. Future research could address these limitations by incorporating primary data through case studies or empirical surveys of manufacturing firms to explore the real-world impact of governance on CSR outcomes. Longitudinal studies that track CSR and governance over time would also provide more robust evidence on the long-term effects of governance structures on CSR and firm value.

Future research should also explore the specific governance mechanisms that have the most significant impact on CSR outcomes. This study highlights the importance of corporate governance but does not delve into the finer details of which governance structures such as board diversity, executive compensation linked to sustainability, or shareholder activism are most effective in enhancing CSR's impact. Research in this area would help to identify best practices in corporate governance that can guide manufacturing firms and other industries in aligning their CSR activities with business goals. Additionally, studies that examine cross-industry and cross-cultural differences in the CSR-governance relationship could further enrich the understanding of how governance affects CSR outcomes in different contexts.



## CONCLUSIONS

This study investigates the role of corporate governance in mediating the relationship between Corporate Social Responsibility (CSR) and firm value in the manufacturing sector. The findings demonstrate that CSR activities, when effectively integrated into business strategies through strong governance mechanisms, positively influence firm value. Specifically, strong corporate governance structures, such as independent boards and transparency in decision-making, ensure that CSR initiatives align with long-term business objectives, enhancing both reputation and financial performance. The study also highlights that governance acts as a mediator, with well-governed firms achieving better financial returns from CSR initiatives compared to those with weak governance structures. These results provide a deeper understanding of how governance can influence the effectiveness of CSR, particularly in manufacturing, where operational complexity and regulatory pressures are prevalent.

The study contributes to the existing literature by expanding the theoretical framework around CSR and corporate governance. While prior research has explored CSR's direct impact on firm value, this research adds the mediating role of corporate governance, highlighting its importance in ensuring that CSR activities lead to tangible financial outcomes. The findings support the argument that CSR should not be viewed merely as an ethical or marketing tool but as an integral part of a company's long-term strategy for value creation. By emphasizing the importance of aligning CSR with effective governance, this study advances the understanding of the interaction between these two variables in shaping firm performance, especially in the manufacturing sector.

From a practical standpoint, the research has significant implications for both academics and industry practitioners. Academics can build on this study by exploring specific governance mechanisms that most effectively mediate the CSR-firm value relationship, such as board diversity or executive compensation linked to sustainability goals. For practitioners, the findings underscore the need to prioritize strong governance structures to maximize the value derived from CSR initiatives. Future research should address the limitations of this study, particularly by examining the specific types of governance mechanisms that best enhance CSR outcomes, as well as conducting empirical studies across different industries and regions. Longitudinal studies could also provide deeper insights into the long-term effects of governance on CSR and firm value, helping to refine strategies for integrating sustainability into corporate practice.

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