Sustainable oil palm plantations as a form of state-owned enterprise management with good faith standard

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Abstract. A sustainable oil palm plantation strives to generate great profits without neglecting its surrounding community and environment. This paper discusses the standard production management at Plantation SOEs based on the concept of sustainable development of oil palm plantations. In improving quality and profits, companies require good faith to prevent fraud. The management of Plantation SOEs avoid an action that causes company losses, be attentive, avoid conflicts of interest, and take preventative actions. This is a normative juridical research showing that fraudulent practices such as the delivering palm oil commodities without official documents, false records, double invoicing, theft, embezzlement, corruption, loss of assets, deterioration of company health and income, and debt can threaten the reputation and cause losses for Plantation SOEs and the country. In conclusion, a sustainable oil palm plantation as a form of standardized production management at Plantation SOEs based on good faith is the main approach to prevent fraud and corporate and state losses. However, Management is not yet committed to implement this approach. To realize this, the good faith must be regulated according to the law, articles of association, and SOP. This will enable violators to be subjected to legal sanctions to protect public interests.

1. Introduction
A sustainable Plantation State Owned Enterprises (Plantation SOEs) must not generate profit at the expense of the surrounding society and its environment. Citizens of Indonesia have the right to access state finances in SOEs since its capital is linked to public finances.

Fraudulent practices at Plantation SOEs such as the delivering oil palm commodities without official documents, false records, double invoicing, theft, embezzlement, and corruption can reduce the quality and quantity of production, cause asset loss, reduce corporate longevity and financial health, threaten its sustainability and reputation, create unhealthy work environments, and increase debt.

This can cause economic losses for both Plantation SOEs as well as state finances. In principle, losses occurred in SOEs also impact the community. Management is required to practice good faith to prevent fraudulent activities to improve the company production.

The Board of Directors must be fully responsible for managing and protecting the interests of the company according to its aims and objectives [1]. Directors, commissioners, officials, and employees of Plantation SOEs should avoid acting in such a way that causes company losses, be attentive, avoid conflicts of interest, and take preventative actions.

Good faith standards are regulated in Article 97 paragraph (5) of Law Number 40/2007 concerning Limited Liability Companies (Persero). But they cannot determine when and how the management of the company has violated good faith. Therefore, in order to realize sustainable oil palm plantations, the
management must also be guided by the principles of Good Corporate Governance (GCG), Standard Operating Procedures (SOP), and the prevalence of similar businesses. This study focuses on finding the relation between production management at Plantation SOEs, fraudulent activities, and the concept of sustainable development for the purpose of realizing sustainable oil palm plantations based on good faith standards.

2. Methods
This type of normative juridical research identifies problems based on Law Number: 19/2003 (State-Owned Enterprises); 40/2007 (Limited Liability Companies); 18/2004 (Plantation); Regulation of the Minister of Agriculture Number 19/Permentan/OT.140/3/2011 (Guidelines for Indonesian Sustainable Palm Oil); 31/1999 and 20/2001 (Corruption Eradication); 17/2003 (State Finance); and 1/2004 (State Treasury). This regulation serves as material for legal analysis of the production management standards of Plantation SOEs, fraudulent activities, and the concept of sustainable development.

3. Results and discussion
3.1. The plantation SOEs
SOEs is defined as a business entity which is wholly or most of the capital owned by the Indonesian State through direct participation originating from separated state assets [2]. The capital is divided into shares wholly or at least 51% of the shares are owned by the Republic of Indonesia whose main objective is to pursue profit. It is established to gain economic benefits and contribution to the country. It is one of the business actors in the national economy based on economic democracy. This is very important in improving people's welfare.

Besides, it aims to pursue profit; carry out public benefits; provide goods and / or services of high quality; meet the needs of many people; become a business pioneer that has not been implemented by the private sector and cooperatives; actively providing guidance and assistance to economically weak entrepreneurs and the community. The activities must be in accordance with the aims and objectives. Must not conflict with statutory regulations, public order, and decency.

SOEs to contribute to the national economy and state revenue; advantage; serving the community in the form of providing goods and services; pioneering business activities that have not been carried out by cooperatives and the private sector; and contribute to small business, collaboration and community [3].

Indonesia has 115 SOEs. They perform many business sectors. Includes: plantation, shipping, insurance, expedition, weaponry, housing, steel, food, chemistry and medicine, fertilizer, tourism, telecommunication, hotel, printing, cement, port, transportation, property, banking, airline, mutual funds, paper, and others [4].

In the commodity sector, among others, palm oil, tea, rubber, sugar cane, etc. It is also known as the Nusantara Plantation Limited Company. There are 14 Plantations SOEs. In the context of restructuring, all Plantation SOEs since 2014 are under Nusantara Plantation Limited Company III as a holding company [5].

As a business entity of the state ownership, it serves as a source of financing in maintaining and improving community welfare, apart from taxes and other business income. To create sustainable palm oil plantations, fraudulent practices must be avoided. Because, there are frauds that always threaten to run their business. Fraud comes from inside or outside the company. Reducing economic and operational income. Damaging the image of the company itself [6].

3.2. The principles of good corporate governance (GCG) are mandatory
The principles of GCG in running its business are professional, efficient, transparency, independence, accountability, responsibility and fairness [7]. Professional is not having a conflict of interest. Efficient is to balance the income and expenses of business activities and speed in dealing with problems.
Transparency is openness in making decisions. Disclose material and relevant information about the company.

Independence is a condition in which the company is managed professionally without conflict of interest and influence / pressure from any party that is not in accordance with the regulations and the principles of corporate health. Accountability is the clarity of functions, implementation and accountability of organs, so that the management of the company is effective. Responsibility and fairness is conformity in the management of the company to regulations and corporate healthy principles.

The application of GCG principles is not only a commitment and awareness, but an obligation. All SOEs are obliged to apply these principles. Leaders and management must apply it consistently and as an operational basis for realizing sustainable oil palm plantations.

Any violation of GCG principles, ethical values and regulations are the basis that must be avoided by the leadership and all management. The Company’s commitment to participate in sustainable economic development in order to improve the quality of life and a good environment, local communities and the public.

All Plantation SOEs must apply GCG principles consistently and sustainably based on applicable regulations. The board of directors is obliged to prepare a board manual, risk management, internal control system, internal control system, mechanism for reporting suspected irregularities, information technology governance, and a code of conduct.

Plantation SOEs prioritize the principle of transparency in decision making and information. Make the system management function effective and clear responsibilities. Ensure clarity of duties for each company organ. Each personnel is involved in making a gratuity report, conflicts of interest, and others.

Management is carried out independently without conflicts of interest and pressure from other parties that are not in accordance with the regulations and GCG principles. Implementing fair and equal treatment in fulfilling the rights of stakeholders, including government, workers, communities and others.

Plantation SOEs make GCG Code and code of conduct. This is socialized to commissioners, directors, staff, and employees. They are required to implement it and sign a statement of compliance periodically. For implementation and monitoring, appoint a member of the board of directors to oversee the implementation of GCG [8].

GCG is one of the main performance indicator elements as outlined in the management contract. Management that is clean from fraud is carried out through the implementation of prevention of corruption, collusion, nepotism, conflict of interest, strengthening internal control, and gratuity control policies.

The issue of gratification, bribery, collusion and nepotism is one of the company's main concerns in eradicating fraudulent practices. The gratuity control policy aims as a guide in taking a firm attitude, reporting compliance, and handling it.

Plantation SOEs has a whistleblowing system for reporting violations. All forms of violations can be reported through this system. This is intended as an early warning for stakeholders, ensures completion of reports, avoids negative publication, and exposes fraud.

Adopting an internal control system based on the Committee of Sponsoring Organizations. It has been widely adopted by organizations in the world. Internal control includes five components: environment; risk assessment; control activities; information or communication; and monitoring. These components can help directors achieve goals of effective internal control [9,10].

Implementing a cascade and aggregation risk management system based on ISO 31000. The cascade is analyzing risk from the top down by outlining the powers and responsibilities down to the lowest organization. Aggregation is analyzing risk management starting from the lowest organization to the highest organization.

Plantation SOEs also establishes GCG supporting organs, under the board of commissioners, namely the audit committee, the risk monitoring committee, and the secretary. Meanwhile, the supporting organs for GCG under the board of directors are the company secretary and internal supervisory unit. Each
organ carries out its duties, functions and responsibilities independently for the benefit of the company according to regulations.

3.3. **Fraudulent activities in plantation SOEs**

The principles of GCG as a global mandate are expected to help SOEs improve their management and be responsive to the public [11]. However, Plantation SOEs in practice are economically inefficient, with fraudulent practices as the source of the problem.

Fraudulent practices at Plantation SOEs such as the delivering oil palm commodities without official documents, false records, double invoicing, theft, embezzlement, and corruption often occur and reduce the quality and quantity of production, cause asset loss, reduce corporate longevity and financial health, threaten its sustainability and reputation, create unhealthy work environments, and increase debt.

Fraud is crime, fraud, abuse of power to enrich oneself or a group. Covering compulsion, strategy, cunning, hidden, dishonest, trick, omission, and other ways. The victims are individuals and legal entities or companies.

Insider actors in the company, such as individual employees, staff, and strategic positions. Even directors or commissioners. Perpetrators trick detection. If this is left without preventive measures, the company is in danger of going bankrupt.

Prevention is a top priority for this. Can help companies to minimize the risk of loss effectively and economically. To ensure that the principles of GCG are carried out internally and does not tolerate fraud.

Companies have the potential to become victims of fraud; none of them are immune to it [12]. This can be costly and can occur at all levels from administrative to managerial or directors. But generally companies don’t realize and underestimate the dangers of fraud.

Fraud committed management is more difficult to serve by employees. Indications of fraud at the managerial level include the discrepancy between management, immorality, the rising level of complaints, reduced financial health, loss of assets, and increased debt. Indications of fraud at the employee level include expenses without supporting documents, false records, and double invoicing.

Fraud on reports, for example: fictitious income, time differences, hiding liabilities and costs, improper disclosure, and improper asset valuation. Fraud against assets, for example: cheating on cash, cheating on inventory and other assets. Corruption, for example: enriching oneself or one’s group, gratuities, bribes, conflicts of interest, etc.

Fraud in Plantation SOEs, such as: cases of theft of oil palm fruit involve the foreman and employees. The case of shifting crop products involved the Head of the Processing Engineering Service. The case of embezzlement of crop damage compensation funds of 970 IDR million involving the former Chairman of the Plantation Workers Union.

The corruption case involved an internal supervisor and a portion of the scales that cost 2,057,742,610 IDR. Then the corruption in the sale of company assets / land covering an area of 78.16 hectares. The sugar distribution bribery case involved the former president and marketing director who received a bribe of SGD 345 thousand. Then the embezzlement case of 3,843,000,000 IDR etc.

Fraudulent practices can hinder the company from increasing its production. Its occur on a small and large scale and are difficult to detect. This is due to the less than optimal role and function of internal control. Plantation SOEs as a source of state finance must be ensured to be free from fraud and must be prevented.

3.4. **The state finances in plantations SOEs**

The losses resulting from fraudulent practices not only affect Plantation SOEs, but also state finances. This is because the working capital placed in them comes from separated state finances.

State finances are all rights and obligations of the state that can be valued in money, and everything in the form of money or goods that can be made the property of the state in connection with the exercise of these rights and obligations.
Included as state finances are state assets / regional assets managed by themselves or by other parties in the form of money, securities, receivables, goods, and other rights that can be valued in money. Including assets that are segregated in state / regional companies.

Plantations SOEs capital is included as state treasury. The state treasury is the management and accountability of state finances, including investment and assets separated from the State Budget. Mistakes in the management of state finances are considered corruption. The state finances include all state assets in whatever form, separated or not separated, including all state assets and rights and obligations arising from Plantations SOEs.

This definition emphasizes that capital and / or wealth in Plantations SOEs is part of state finances. This means that the losses incurred are state financial losses that can be prosecuted for criminal acts of corruption.

This is necessary in order to reach increasingly sophisticated and complex modus operandi of state finance diversion. The principle used is to prioritize elements of actions against formal and material laws.

The Anti-Corruption Law in Indonesia regulates elements of formal and material law violations. This confirms that corruption is seen as an extraordinary crime. Using criminal law as a primum remedium in eradicating corruption can be justified. So that violations of good faith in the management of Plantation SOEs, such as violations of SOP that result in losses are considered as corruption.

An act is considered corruption if it meets the elements that have been formulated in the law, not the result. However, the incidence of state financial losses is also considered as corruption.

SOP is a standard of prudence in the management of Plantation SOEs. Violating prudence is considered corruption. Management with bad intentions is against the GCG principles. This can be seen from the violation of the SOP. Meanwhile, those who have good intentions are their actions in accordance with regulations, GCG principles and SOP.

SOP are not explicitly stated as a type of hierarchy in legislation, but in practice the court remains one that is considered important. Court judges often see mistakes based on the SOP of an institution.

There are regulations that are lower regulations, such as those stipulated by ministers, agencies, or commissions which are equivalent or the government. The existence of regulations and SOP is still recognized and has binding legal force, as long as it does not conflict with higher regulations or is determined based on authority.

The state finance mechanism emphasizes that the management of state finances in Plantation SOEs must be done carefully, good faith, professionally, responsibly, efficiently, accountably and transparently. If Directors, commissioners, officers, and employees harm the company, violate precaution, have a conflict of interest, and do not take loss prevention measures, they can be convicted of corruption.

If we look at the correlation which considers the loss of BUMN Plantation to be the loss of state finance, it can be said that this is the government's effort to create sustainable oil palm plantations. The interests of Indonesian citizens must be safeguarded and protected by the state and the management of state companies.

3.5. Sustainable oil palm plantations
One of the goals of Plantation SOEs is to realize the concept of sustainable development and GCG principles. Guidelines for Sustainable Oil Palm Plantations in Indonesia, encourage oil palm plantations to make a profit, fulfill their obligations under regulations, protect the country's economy, and develop productivity according to market demand.

Indonesian Sustainable Palm Oil (ISPO) is a business system in the oil palm plantation sector that is economically, socially, and environmentally friendly. The ISPO assessment is determined based on plantation class. Class one (very good), class two (good), class three (moderate), class four (poor), and class five (very poor).

Class one, class two and class three plantations must be audited in order to be awarded an ISPO Certificate. Class four plantations are warned three times in four months. Class five plantations are given
a warning once every six months. If within the warning period the plantation company does not implement the recommendation, the business license is revoked.

Violation of this ISPO will be subject to a class downgrade sanction, such as revocation of business licenses, criminal, or a fine. Actions that may be subject to these sanctions include: intentionally falsifying the quality and / or packaging of plantation products; deliberately advertising plantation business results that are misleading consumers; intentionally buying plantation products obtained from theft, and others.

3.6. Director’s good faith standards as an obligation

Good faith standards are urgently needed for Plantation SOE management to realize sustainable palm oil plantations. Directors, commissioners, staff, officers, and employees of Plantation SOEs are all required to carry out good faith standards for the current and future of the company.

Fraud in a company is committed by people such as management (directors, commissioners, staff, officers, employees and employees). These people have bad plans for personal or group gain. They can also cooperate with outsiders, conspire to hide profits, assets, proceeds from the sale of oil palm fruit, eliminate bookkeeping, etc.

Bad faith is one of the elements that can ensnare management for the company's losses. Often members of the board of directors postulate policies based on good faith for company goals, but it's actually a modus operandi for smoothing out bad plans. His actions indicated that he was a fraud that was detrimental to BUMN Plantation.

Management with bad intentions involved in fraud must be responsible for replacing losses caused by his crimes. Sometimes directors with good intentions can also be accused of being involved in fraudulent practices. This can harm the directors themselves and as an unfair treatment for them. If they are always blamed without any minimum standards, it will be difficult for them to develop the company's business. In this capacity, there should be a minimum standard for it. This is a criterion for directors with good and bad intentions.

Minimum standards of good faith can be measured. First, the company's loss was not his fault or his negligence. Second, he has handled prudently for the interests, aims and objectives of the company. Third, there is no conflict of interest, directly or indirectly, for actions that result in company losses. Fourth, it has taken action to prevent further losses.

It's about the Business Judgment Rule for protecting good faith directors from liability and lawsuits for business decisions he made. This looks at the standards of behavior of the directors in a reasonable situation, have no personal interests, good faith, honest, and it is rational that his actions were carried out solely for the benefit of the company [13].

Good faith is related to spiritual and moral responsibility [14]. Good faith is related to spiritual and moral responsibility. It is difficult to measure this standard because it is a relationship individual with his God. It is not sufficient for good faith to be based solely on the minimum standards above.

The limit of common practice in a company must also be considered. This relates to similar businesses in the same sector. The prevalence of a plantation business is not the same as a bank. However, it has the same prevalence between plantation companies.

Apart from that, good faith can also be seen from the violation of the company's SOP. Because, it is the lowest regulation. Court judges usually see the error based on the SOP. If he is proven to have violated the SOP, then it is considered to violate good faith.

The standard measure of good faith is a measure of prudence. It is in practice based on the custom by ordinary people in the same position and conditions [15]. Directors only act in the interests of the company, for and on behalf of the company, as widely as possible, avoiding conflicts of interest, carry out management functions properly, take risks and business opportunities in the future, comply with applicable regulations, and be loyal to the company [16].

In accordance with its position as a trustee, requires that the directors must not act carelessly in carrying out their duties [17]. He cannot take advantage for himself but must be loyal to the company [18]. He must take full responsibility, obliged to devote energy, mind and full attention to the company
Good faith is required so that directors, commissioners, staff, officers and employees who violate this can be subject to sanctions. Protecting the public interest in order to create a sustainable climate for oil palm plantations.

4. Conclusions

Sustainable oil palm plantations as a form of standard production management at Plantation SOEs based on good faith are the top priority to prevent fraud, corporate losses and state losses. The management does not yet have a strong commitment to carry out this good faith. Therefore, the good faith standard is relevant to the obligation to implement the Articles of Association, SOP, and the precedence of similar businesses. This is necessary so that management who violates good faith can be subject to sanctions and legal responsibility to protect stakeholders. It is expected that this good faith standard is not only a commitment to prevent fraud and losses, but must be an obligation based on law, articles of association, SOP, and business practice. This applies to all internal company stakeholders.

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