CORPORATE GOVERNANCE IN PALM OIL COMPANIES IN ACEH PROVINCE

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Abstract

Nowadays, companies are not only required to provide information on financial accountability but also about corporate performance related to social and environmental aspects in order to promote shareholder values and sustainable practices, which eventually lead to the concept of corporate governance. This study aims to discuss the implementation of corporate governance in palm oil companies in Aceh Province. A qualitative research method is applied with an empirical juridical approach. Data were collected by interviewing respondents and analyzing corporate reports. The result found that the implementation of corporate governance by the companies through the availability of code of good corporate governance (GCG) and code of conduct. Although it does not necessarily guarantee the implementation applied properly, but it can show company commitment to run a good business. Some companies also implement corporate social and environmental responsibility in a different approach. However, some of the activities are actually not in accordance with existing regulations, but is only limited to activities that have no direct impact on community.

Keywords:
Corporate Governance; Palm Oil Company; CSR.

I. INTRODUCTION

Palm oil is a strategic commodity that contributes to Indonesia's income. Aceh is one of the provinces where 30% of its economic growth is obtained from the palm oil industry. Data shows that palm oil plantation areas in 2017 reached 421,820 hectares consisting of community plantations covering 220,092 hectares (27.06%) and company-owned plantations of 201,728 hectares (10.46%). The plantation area has increased by 65,976 Ha (18.54%) in 2010, covering an area of 355,844 Ha of smallholder plantations, 173,217 Ha, and company-owned plantations of 182,627 Ha. The increase was due to the implementation of sustainable palm oil production programs and the high interest of the community in developing oil palm plants because it has high economic value. Data from Agriculture and Plantation Services, Aceh Province (Dinas Pertanian dan Perkebunan Propinsi Aceh) found that there are about 61 companies recorded, of which 39 are still operating, 8 are in the development stage and there are around 14 companies that are no longer operating.1

1 Rino Abonita, 2019, Prahara Sawit di Negeri Serambi Mekah, Retrived from https://www.liputan6.com/regional/read/4026883/prahara-sawit-di-negeri-serambi-makkah#:~:text=Adapun%20total%20luas%20lahan%20kelapa%20di%20provinsi%20itu.
However, the development of the palm oil industry does not affect community welfare. In Aceh Singkil district, for example, in 2015 there were 15 oil palm plantation companies, with total production reaching 355,366 tons per year. This condition does not have an impact on the increase in welfare of workers and also community living around the plantations. The existence of these plantations actually has positive and negative impacts on communities, such as problem relate to economy, social and the environment, including agrarian conflicts between communities and rights holders.\(^2\) This fact raises questions about the role of palm oil companies in providing benefits to communities and the environment.

Nowadays, companies are expected to balance between economic development, social responsibility and the environmental, and take a role in social and environmental protection with respect to the interests of stakeholders other than shareholders in running their business.\(^3\) This expectation eventually lead to the concept of corporate governance. Corporate governance is the principles that form the basis of company management with due observance of applicable regulations and business ethics. This concept has developed into a key strategy for company to have a good relationship among shareholders, board of directors and employees, and this concept will also incorporate many stakeholders in companies activities mainly dealing with social and the environmental issues.

As one of important commodities, palm oil industry in Aceh and their role which is expected to provide welfare to the community and to minimize environmental damage in running their business. It is interesting to further investigate the implementation of corporate governance in palm oil companies, relating to social and environmental protection performance. This study aims to discuss the implementation of good corporate governance, in palm oil companies in Aceh Province.

II. RESEARCH METHODS

This research is a qualitative research with an empirical juridical approach. The objects of study are palm oil companies operating in Aceh, namely PT PN I and PT. Mopoli Raya which is located in Aceh Tamiang district, PT, Sucofindo is located in Nagan Raya district, and PT. Asian Agri located in Aceh Singkil district. Data were collected by interviewing, including: director or manager of law and public relations related to the implementation of good corporate governance in the companies, an interview guide will be prepared, and by analyzing of company reports published on a company website. All data collected, both legal literature and field data, will be sorted based on the

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\(^2\) Walhi Aceh, Laporan investigasi, *Perkebunan Kelapa Sawit dan Kaitannya dengan Tingkat Kesejahteraan masyarakat Singkil*, 2015, hal 7.  
\(^3\) Font, X, Walmsley, A, Cogotti, S, McCombes, L & Hausler, N 2012, Corporate Social Responsibility: the disclosure-performance gap, *Tourism Management*, vol. 33, no. 6, pp. 1544-1553.
main problem or research question that will be answered, and will be interpreted, analyzed and presented qualitatively.

III. RESEARCH AND DISCUSSION RESULTS

3.1. The availability of Good Corporate Governance Guidance and Code of Conduct

In Indonesia, the concept of corporate governance was first introduced since the government established the National Committee on Corporate Governance (NCCG) in 1991. The committee has objectives, which are to codify corporate governance code of conduct and to develop an institutional framework to implement the code. In 2004, the government changed the NCCG to the National Committee on Governance (NCG); NCG then reviewed the previous code and set the Indonesian Code of Good Corporate Governance as a general standard for the application of corporate governance in Indonesia.4

Indonesia's Code of Corporate Governance document contains GCG principles consisting of transparency, accountability, responsibility, independency and fairness. Transparency is the provision of information about company activities through media that is easily accessible and understood by stakeholders in order to maintain objectivity in running a business. The company is also required to be accountable for its performance so that proper, measurable and sustainable company management is the company's obligation for the benefit of shareholders and stakeholders. The company is expected to take responsibility for the community and the environment in order to achieve corporate sustainability and to gain recognition as a good corporate citizen. In addition, independence is one of the important aspects in company management, the company must be managed independently where the company's organs carry out their duties and responsibilities according to their authority and do not dominate and intervene others. Last, the company applies the principles of fairness and equality in doing business for the benefit of shareholders and stakeholders.5

Indonesia's document's code of corporate governance is not a law; however the code can be a fundamental guideline for companies to achieve long-term goals in implementing good business ethics. The implementation of GCG principles and code of ethic require high integrity for every business actor in order to achieve corporate sustainability and to form a corporate culture as an identity of the company.

In 2011, the Ministry of BUMN regulates the Regulation of the Minister of BUMN (State-Owned Enterprises (SOEs)) Number PER-01/ MBU/2011 concerning the Implementation of Good Corporate Governance in SOEs. GCG is the principles that form the basis in the process and mechanism of company management based on regulations and business ethics. The ministerial

4 Miko Kamal, 2010, Corporate governance and state-owned enterprises: A study of Indonesian’s code of corporate governance, Jurnal of International Commercial Law and Technology, vol. 5, no. 4, pp. 206-224.
5 National Committee on Governance, 2006, Indonesia’s code of Good Corporate Governance.
regulation states that SOEs are required to implement GCG consistently and sustainably. The Board of Directors is obliged to compile a GCG manual which may consist of a board manual, a risk management manual, an internal control system, an internal control system, a reporting mechanism for suspected irregularities in the SOEs, information technology governance, and a code of conduct.

In addition, the Ministry of BUMN issued Decree of the Secretary of the Ministry of BUMN Number SK-16/S.MBU/2012 concerning Indicators/Parameters for Assessment and Evaluation of the Implementation of Good Corporate Governance in State-Owned Enterprises (BUMN). The degree regulates the indicators and parameters used to assess and evaluate the implementation of GCG in SOEs. One indicator that shows the company's commitment to implementing good and sustainable corporate governance is the availability of GCG guidelines and code of conduct. Furthermore, the company creates a conducive situation for implementing GCG guidelines and code of conduct. The company is also required to carry out an assessment of the implementation and periodically review the guidelines.

The study found that of the 4 companies studied, only 1 company, PT Mapoli Raya, do not have a Good Corporate Governance guideline (GCG Code). However, 3 other companies, PT PN 1, PT Sucofindo, and PT Asia Agri, had a good corporate management mechanism as a basis for all employees and corporate boards in carrying out corporate activities. PT PN 1 and PT Sucofindo are SOEs, and PT Asia Agri is a private company. Three companies are committed to implementing GCG and believe that GCG is very important for company development in order to achieve company targets.

For PT Sucofindo, the purpose of implementing GCG is to increase company value by taking into account the interests of stakeholders; to encourage professional, transparent, effective and efficient company management; to empower all company capabilities and increase the independence of the company's organs; to apply moral values and appropriateness in decision making by corporate organs; to realize corporate social and environmental responsibility; to increase the competitiveness of companies for sustainability. Moreover, the code of conduct is designed to be applicable to corporate daily operations, and to define guidelines on acceptable and unacceptable behaviour.

In 2017 Sucofindo received the title of "very good" with a score of 92,400 in the assessment of GCG implementation in 2017. The score increase of 1,396 points compared to 2016 of 91,004. The increase in score shows that there is consistency and systematic efforts to make improvements in the implementation of GCG. Guided by the Decree of the Secretary of the Ministry of BUMN, the

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6 PT. Sucofindo (Persero), Sustainable Report: Committed to A Sustainable Future, 2018, Retrieved from https://www.sucofindo.co.id/assets/file/report/29_20190702103438.pdf.
7 PT Asian Agri, Sustainability Report 2017-2018: Growing Sustainably Together with Smallholders, 2019, Retrieved from https://www.asianagri.com/images/pdf/2019/Asian%20Agri%20Sustainability%20Report%202017-2018.pdf.
8 PT Sucofindo (Persero), Op. cit.
assessment is consists of several indicators/parameters, including (1) commitment to the implementation of good and sustainable governance; (2) shareholders and capital owners; (3) the board of commissioners/supervisory boards; (4) directors; and (5) information disclosure and transparency. PT Sucofindo received a good score in implementing GCG with a score of 6,554 from weight 7. Moreover, there is no information was obtained in the research regarding assessments obtained by other companies.

Companies need to have a GCG guidance and a code of conduct which serves as a guideline for all elements of the company to do activities inside and outside the company. Although the existence of a code of ethics and GCG guidelines does not necessarily guarantee that the company will implement GCG and the company’s code of ethics properly. However, the availability of these guidelines will indirectly demonstrate the company’s commitment to managing the company in a more transparent, accountable, responsible, fair and independent manner. Moreover, the company's commitment to run business with due regard to governance principles cannot be seen if companies do not have the GCG code.

Guidelines for the principles of good corporate governance contain rules that apply internally that regulate the relationship between the organs in the company. Based on Law Number 40/2007 concerning Limited Liability Companies (Perseroan Terbatas (PT)), the main company bodies consists of the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors. The BUMN Ministerial Regulation regulates the obligations of the board of directors to implement corporate governance by compiling a GCG manual and code of conduct to be applied by all entities in the company. Moreover, the core organs of the company run their duties, functions and responsibilities in accordance with applicable regulations and apply the principle of independence, so that there is no intervention between one organ and another.

Companies need to form a committee that regulates and runs the GCG. A corporate governance committee is formed through a board of commissioners where committee members consist of members of the board of commissioners and professionals if needed. Further, the committee has function to assist the board of commissioners in reviewing GCG policies and monitoring the effectiveness of GCG activities, particularly related to business ethics and social responsibility. Meanwhile, the board of director has main duty in the areas of management, risk management, internal control, communication, and social responsibility. In term of social responsibility, the board of director should ensure the implementation of social dan environmental protection programs in

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9 John P. Kotter and James L. Heskett, 1992, Corporate Culture and Performance, The Free Press, retrieved from https://books.google.com/books?hl=en&lr=&id=pWudzigl0ucC&oi=fnd&pg=PR7&dq=corporate+culture+and+performance&ots=PKwzqssauq&sig=Ia5DVE5kRJou1bxrjqUn9LBA_rM.
order to preserving company’s sustainability. They need to set a clear and focused written planning of the activities.

The board of commissioners at PT Sucofindo, PTPN 1 and PT Asian Agri are the supervisory board whose job is to ensure that the company applies GCG principles in running the company with due regard to the interests of stakeholders. PT Sucofindo has a social and environmental responsibility management structure under the director of finance and strategic planning. In that section there is a partnership program and community development unit. The partnership and environmental development program is a program that is the obligation of BUMN which is regulated through Regulation of The Minister Of BUMN Per-02/MBU/04/2020 The Third Amendment to the Regulation of the Minister of BUMN PER-09/ MBU/07/2015 concerning Partnership and Community Development Program for State-Owned Enterprises. Meanwhile, PTPN 1 and PT Asian Agri do not have a special unit in the corporate organizational structure in charge of corporate social and environmental programs.

The effective of corporate governance framework can be achieved through “the introduction of inter-related pillars, which are the government as regulator, the business community as players, and public as users”. The code describes the role of each entity including the role of communities, especially local communities where company operates as a social control by communicating their opinions objectively and responsibly to the business community and the government.10

Corporate governance first invited attention when it appeared in the Cadbury Report, which defines corporate governance as "the system by which companies are directed and controlled". Further definitions view corporate governance as relationship among shareholders, management and the board of directors in deciding direction and corporate performance.11 Other scholar define corporate governance as the way in which power is arranged and shared between corporate entities.12 The Organization for Economic Co-operation and Development (OECD) defines corporate governance as procedures and processes to direct and controll companies. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making process, through the principles, which are trasparancy, accountability, fairness, and responsibility in corporating corporate governance into corporate activities.13 However, now, there is a wider concern to see the company’s role in the broader environment beyond the internal relationship between the board of directors, the manager and the

10 Miko Kamal, Op.Cit.
11 Monks, Robert and Minow, N. 1995, ‘Corporate Governance, Blackwell, UK, p. 1.
12 Clarke 2004, ‘Theories of corporate governance: The philosophical foundation of corporate governance’, Routledge, London, New York, p.26.
13 Organization for Economic Co-operation and Development (OECD) 2005, ‘Glossary of Statistical terms, www.oecd.org.
shareholders and that is the role of corporate governance. Furthermore, initially academic research into corporate governance has been directed to the protection of shareholder interests from self-interested of executive.\textsuperscript{14} In other words, the application of the principles of good corporate governance can create harmony between the entities within the company and the communities living around the company.

\textbf{3.2. The implementation of GCG Principles (transparency and responsibility principles)}

Public companies, such as limited liability companies and stated-owned company have the obligation to publish annual and sustainability reports. The research shows that there are 3 companies that publish their company reports on the company’s website, which are PT Sucofindo, PT PN 1, and PT Asian Agri. While PT Mapoli Raya does not have a company website to publish company activities.

The company annual and sustainability report is a form of company transparency towards stakeholders and policy makers who need information on company activities. This report shows the application of a transparency principle. According to Maignan and Ferrel “there is only embryonic marketing research on CSR communication through company reports”.\textsuperscript{15} This argument based on the fact that most of company reports on social and environmental activities that published on the company’s websites is a one-direct communication; and most of the reports without attempt to publish stakeholder’s response to the activities. Early research by Wiseman concluded there is a significant discrepancies between what have been written on the reports and the actual performance.\textsuperscript{16}

There is a shift of paradigm in corporate governance studies from a shareholder-based to stakeholder-based approach. This new approach emphasizes the idea that "short term accountability needs to be matched with long term sustainability"\textsuperscript{17}; this can be achieved through the good quality of relationship between stakeholders to achieve corporate sustainability.

Good corporate governance becomes the target of companies in order to achieve the expectations of shareholders and the interests of stakeholders and businesses need to be socially accepted so they can get the best results.\textsuperscript{18} The study conducted by Money about the relationship between corporate governance and CSR concluded that the widespread coverage of corporate

\textsuperscript{14} Daily, CM, Dalton, DR & Canella, AA 2003, ‘Corporate governance: decade of dialogue and data ’, \textit{Academy of Management Review}, vol. 28, no. 3 pp. 371-382.

\textsuperscript{15} Maignan, I & Ferrell, OC 2004, ‘Corporate social and responsibility and marketing: an integrating framework’, \textit{Journal of the Academy of Marketing Science}, vol. 32, no. 1, pp. 1-17.

\textsuperscript{16} Wiseman, J 1982, ‘An evaluation of environmental disclosures made in corporate annual reports’, \textit{Accounting, Organizations and Society}, vol. 7, no. 1, pp. 53-63.

\textsuperscript{17} Money, K. 2007, ‘Are CSR and corporate governance converging? A view from boardroom directors and company secretaries in FTSEI 100 companies in the UK’, Journal of General Management, vol. 33, no. 2, pp. 1-11.

\textsuperscript{18} Petrovic-Lazarevic, S 2010, ‘Good corporate citizenship in the Australia construction industry’, \textit{Corporate Governance}, vol. 10, no. 2, pp. 115-128.
governance is influenced by the awareness among corporations of the importance of CSR and corporate sustainability.

Corporate social and environmental responsibility is regulated through the Law No. 40 /2007 on Limited Liability Companies, the Law No. 19/2003 concerning State Owned Enterprises, the Law No. 25/2007 concerning Investment, and for the Province of Aceh, is also regulated in the Law on Governing Aceh (UUPA). Article 159 of the UUPA states that mining companies are required to provide community development funds, while Article 157 regulates the company's obligation to carry out reclamation and rehabilitation of land that is explored and exploited.

The four companies studied all implement an Environmental Impact Analysis (EIA/AMDAL) process, at the time of carrying out new land clearing and land expansion. AMDAL is a study to assess the impact caused by land clearing plans, both related to impacts on land cover, ecological impacts and social impacts on the community. The study was conducted by involving various parties, including the Forestry and Environment Agency, the Plantation Service, affected communities, NGOs, and the AMDAL Assessment team from academia as well as the technical team from the company. The AMDAL compilation performed by the 4 research object companies became the basis for the issuance of environmental and business permits. In addition, 3 plantation companies, namely PTPN I, PT. Sucofindo and PT. Asian Agri has an environmental management system, in the form of SOPs on new land clearing, and SOPs for waste management, although these SOPs are never regularly reviewed. Meanwhile, PT Mapoli Raya does not have a written environmental management system.

In addition to the AMDAL and in order to improve the effectiveness of environmental and social activities, the companies apply environmental management system which includes environmental management, environmental audit, and environmental performance evaluation that refer to ISO 26000 principles. ISO 26000 Guidance Standard on Social Responsibility establishes several principles that become an environmental management system, which includes: compliance with law; respect international instruments/bodies; respect for stakeholders and their interests; accountability and transparency; ethical behavior; take preventive measures; respect human rights.

The ISO 26000 standard which came into effect on November 1, 2010 has been agreed by 93% of the member countries of the International Organization for Standardization (ISO), including Indonesia, which agreed on the definition and scope of social responsibility. Social responsibility includes organizational responsibility relating to the impact of decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, public health and well-being; taking into account stakeholder expectations; in accordance with applicable law and consistent with international norms of behavior; and integrated throughout the organization and practiced in their relationships with third parties.
Commitment to the implementation of these standards is a form of the corporation to implement good corporate governance. The implementation of social and environmental responsibility forms a company's understanding that the company is part of society, the company is a business institution as well as a social institution, and besides having risks, business should also provide benefits to society.¹⁹

Generally all companies have CSR programs of different approach and scales. For BUMN, PT Sucofindo and PTPN 1, CSR obligations are not only what is contained in the Law about Limited liability company (PT) but also regulated in the BUMN Law, and its implementing regulations. Generally, BUMN runs the Partnership and Environmental Development Program (PKBL). Meanwhile, 2 other private companies, namely PT Asian Agri and PT Mapoli Raya, carry out CSR programs as required by the Company Law and its implementing regulations.

The companies have an internal and external policy in realizing social and environmental responsibilities activities. Internally, the company issues policies related to the fulfillment and protection of workers' rights and company management policies that pay attention to environmental interests. External policies, especially in the form of activities aimed at fulfilling the community rights and protection the environment.

The results of the study show that, the companies formulate their CSR programs through company activities that have various social and environmental development goals, such as environmental protection programs, worker welfare, community health, community development programs, and so on. In carrying out this obligation, 3 companies, namely PT Sucofindo, PTPN 1 and PT Asian Agri did not manage their CRS funds through the company's regional branches, but were managed by the company's head office. So that the obligation to carry out corporate social and environmental responsibility, especially to community living around the company area, does not run optimally. The activities carried out are generally still in the form of direct assistance to the community in the form of social assistance for people who have experienced death.

Furthermore, PT Sucofindo, PTPN 1 and PT Asian Agri are a regional branch offices; those companies do not have special department/staff that managed the CSR system and funds, and the companies had not fully carried out their mandate as stated in local laws and regulations. In addition, the company admits that the CSR program carried out by the company is actually not in accordance with existing regulations, but is only limited to activities that have no direct impact on community. Meanwhile, PT Mapoli Raya has not implemented any programs related to social (community) and the environment in which the company operates.

¹⁹ Sony Keraf, 2013, Tanggung Jawab Sosial Perusahaan Berbasis HAM in Abdul Hakim G. Nusantara, et. al, Tanggung Jawab Sosial Perusahaan Berdimensi HAM: Tinjauan Teori dan Prinsip-prinsip Universal dan Implementasinya di Indonesia, 2013, Komnas HAM, Jakarta.
Stakeholder theory is a theory focuses on the relationship between the shareholder-owners, the board of directors, and the managers as coordination and collaboration based on an agreement. This theory is a commonly mention when schoolars talk about CSR. Aras and Crowther links CSR and sustainability. This theory states that to achieve sustainability, the company does not only pay attention to the interests of shareholders but also pay attention to the interests of the community and the environment.

Sustainability defines as "meeting the needs of the present without compromising the ability of future generations to meet their own needs”; it is, generally, applied to the sustainable manner of the development/company. Sustainability is an approach to incorporate economic, ecological and social aspects in a business strategy. At this stage, CSR has brought a new dimension to the concept of corporate governance by placing the idea of sustainable development into corporate governance by applying the principles of natural resource management that takes into account the needs of future generations.

Social and environmental responsibility is a real action to create good corporate governance. This can be done by including the CSR program as part of the company unit and making the program part of the company culture. It is hoped that this program can run sustainably and in the end can be accepted by the community. In addition, companies must understand that they are operating in a society that has roles and values to follow. This understanding is essential for building social cohesion between companies, governments and communities and without it the company itself cannot be sustainable.

IV. CONCLUSION

Changing perception of company’s role became one of the causes of the emergence of corporate governance implementation. At first the company had only one purpose which was to seek maximum profit to shareholders known as shareholder theory. Furthermore, The advent of stakeholder theory focuses on the interests of the company other than the shareholder to form the governance system. This approach affects how the company is run, including how the relationship between companies and community to achieve corporate sustainability.

In term of governance system, three companies established a code of GCG and code of conduct as a guide for companies to interact between shareholders and stakeholders. Moreover, the companies also have activities that defines as corporate social and environmental responsibility.

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20 Aras, G. Crowther, D. 2008, ‘Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability’, Management Decision, vol. 46, no. 3, pp. 433-448.

21 Marsden, C 2000, ‘The new corporate citizenship of big business: part of the solution to sustainability’, Business and Society Review, vol. 105, no. 1, pp. 9-25.

22 Tricker, B 2009, Corporate governance: principles, policies, and practices, Oxford University Press, New York.
actions. Corporate social and environmental activities are the real action of realizing a corporate
governance. A good quality and consistency of GCG will support the improvement of company’s
performance; at last the corporate governance can ultimately be able enhance corporate values.
However, further research is needed to investigate the implementation of corporate governance in
others sectors in different systems, approaches, and methods.

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