Corporate governance in realizing sustainable plantation in Indonesia

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Abstract. Oil palm plantations have significant revenue for Indonesia where most of the palm plantation are State-Owned Enterprises (SOEs). Good Corporate Governance (GCG) principle in plantation business management is sought to create added value for stakeholders, especially for the environment. The problem discussed in this paper is how corporate governance achieves sustainable plantation. This is normative juridical research supported by a literature review. The results show that palm plantation management cannot be separated from the situation and responsibility to the environment. The application of GCG principles as a guideline in management of SOE plantation has been regulated to create a sustainable business. Furthermore, in balancing the influence of business, the social and environmental responsibilities, there is a management regulation concerning its roles for the community which is known as Corporate Social Responsibility (CSR). Ideally, plantation companies should not only reach the maximum profit in exploiting and marketing natural resources. They should also consider the best interests of society and the environmental impact of their business activities. In conclusion, Plantation SOEs must strive to minimize the impact on the environment. The internalization of GCG in environmentally oriented plantation SOEs creates sustainable plantation businesses.

1. Introduction
The plantation sector is an SOE field of work which plays an important role in supporting the Indonesian economic system. This can be seen through its contributions in national income, employment opportunities, export revenues, and tax revenues. Throughout its development, this sector is inseparable from various national and global environmental dynamics. It is implied that plantation management should be aimed at sustainable plantation development. The development of the plantation sector should solve various problems and answer the challenges of globalization. Countries that are engaging in economic globalization and free trade must standardize the law in their economic activities; [1] their legal standing is part of a system that houses increasingly globalized economic activities.

Plantation SOEs are managed according to Law No. 19 of 2003 concerning SOEs and Law No. 40 of 2007 concerning Limited Liability Companies (LLC). This regulation aims at forming a management system enabling to adapt to rapid economic and business development, both nationally and internationally. Along with the positive impact of oil palm plantation management in Indonesia, negative impacts on the environment are frequently being highlighted. This includes the change in air quality and the occurrence of natural disasters such as fire, landslides, floods, and drought due to climate change [2]. Because of this, international institutions, markets, and the public demand that
palm oil production practices are carried out in a sustainable manner. The environment is a stakeholder that requires further attention in Plantation SOE management; corporate governance is part of the organizational system that does not solely prioritize profits in running its business. To achieve a balanced state, the Ministry of SOEs has determined the format of SOE management based on the Implementation of Good Corporate Governance (GCG).

GCG is aimed at increasing business prosperity and corporate accountability with the main objective of increasing shareholder value in the long term, while also providing for other stakeholders [3]. It contains the principle of company management that takes into account the balance of company authority, shareholder, and stakeholder interests. Through the principles of GCG, the balance of authority among directors, commissioners, and shareholders is designed in such a way so that the mechanism and structure of company institutions can run in accordance with the interests of all stakeholders, including the environment and the public. Company management that is based on stakeholder interests emphasizes the importance of CSR implementation.

2. Methods
This research employs a normative legal approach by analyzing legal materials [4] and conducting literature studies to be used as secondary data covering official documents, library books, rules and regulations, scientific papers, articles, and documents related to the research. All subsequent data are then analyzed using theories to answers the problems in this research.

3. Results and discussion

3.1. Application of GCG on plantation SOEs
Jeremy Bentham with the theory of utilitarianism believes in "the greatest happiness for the greatest number". This confirms that ethical decisions should be based on consideration of the greatest benefits for the people or maximizing profits to advance the prosperity, welfare, and happiness of the community [5]. In carrying out business activities, companies must take part in considering the best interests, progress, and welfare of the community by carrying out various useful activities for the community [6].

The demands of business dynamics and an extremely competitive business climate require all companies to continuously improve their performance. On the other hand, the demands of shareholders, investors, the public, and other stakeholders towards competent company management are prerequisites that cannot be avoided. Businessmen should consider applying GCG principles in order to maintain their existence. GCG requires that corporate performance must be felt by all of its stakeholders, for they have interests, are affiliated, and are involved in business activities of the company. Therefore, business activities must be carried out in such a way that the rights and interests of all parties concerned are guaranteed, cared for, and respected [7].

Plantation SOEs as state companies face various challenges and obstacles in implementing good governance: First, there are too many contradicting governmental interests, making it difficult for management to determine the company objective. Second, there is a strong political influence in appointing the directors, making it difficult to construct objective decisions. Third, management is awarded the unattractive incentive system which hinders performance [8].

Facing these obstacles, management is pressured to apply the GCG principles. Currently, the regulation of GCG implementation in SOEs is regulated in SOE Ministerial Decree No: PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in SOEs as amended by SOE State Minister Decree No: PER-09/MBU/2012. There are five GCG principles referred to in the regulations governing the application of GCG practices in SOEs. First, the principle of transparency, namely the transparency in the decision-making process and in the disclosure of material and relevant information concerning the company. Second, the principle of accountability, namely the clarity of functions and the implementation and accountability of organs to ensure company management is carried out effectively. Third, the principle of responsibility, which is the suitability of company
management towards the laws and regulations and the healthy principles of a corporation. Fourth, the principle of independence, which is a condition in which a company is managed professionally without conflict of interest and influence/pressure from any party that is not in accordance with the laws and regulations and healthy corporate principles. Fifth, the principle of fairness, namely justice and equality in fulfilling the rights of stakeholders arising from agreements and legislation.

The purpose of these principles is to create competitive SOE managements. The implementation of GCG principles also aims at raising awareness on the social responsibilities of SOE management towards stakeholders and to ensure the environmental sustainability of areas surrounding company premises. This also encourages SOEs to make decisions and take actions that are based on high moral values and in compliance with laws and regulations.

3.2. GCG implementation as the realization of sustainable plantation

The international community, especially in the future, faces a triple-crisis that may be worse than before. They are the food, energy and environmental crisis, which are interrelated and if not globally managed, can become a trade-off. These crises have the potential to easily transform into a global economic, social and security crisis [9].

Plantation SOEs, as pioneers of the palm oil business in Indonesia, are strived to be part of a global solution to natural and environmental problems. In the Indonesian economy, oil palm plantations have the greatest distribution power compared to other plantation sectors [10]. The oil palm plantation sector is able to enhance other sectors of the economy. The development of oil palm plantations in Sumatra, Kalimantan, and Sulawesi does not only benefit itself, but also triggers economic growth in Java, Bali, and other regions throughout Indonesia [11].

The success of Indonesia in becoming the largest palm oil producer and its benefits that are felt by both Indonesia and the international community is one of many success stories of the synergy between the Indonesian government, the private business world, SOEs, farmers, and the World Bank [12]. In the Indonesian economy, oil palm plantations have become a part of developmental solutions. A further contribution is possible, though environmental issues must be taken into account in the management of these plantations. To preserve the environment, internalization of the GCG concept in Plantation SOE management should be performed.

Business problems cannot be separated from public and environmental responsibilities. Therefore, the GCG principle, which is seen as a necessity to overhaul the business system for the better, is needed. In its purest form, GCG is a device regulating the relationship among all parties involved in a corporate organization [13].

Corporate governance is a system that directs and controls a company and aims at achieving a balance between the level of authority needed by the company to ensure its continued existence and its accountability to stakeholders [14]. In other words, the implementation of Corporate Governance is the key to form a healthy company.

In general, GCG emphasizes the protection of stakeholder interests rather than those of shareholders. The stakeholder theory perceives the company as a social institution in which the interests of shareholders do not take the first priority in management [15]. Therefore, collective awareness must be prioritized in company management. In the concept of collective awareness, it is believed that the company will not be able to prosper (maximize profit) if not all stakeholders are prosperous. In other words, companies must be able to fulfill the needs of all stakeholders [16].

With the tendency of companies in adapting the stakeholder theory, CSR has become a compelling topic to study. Business ethics are also involved, which covers the moral responsibilities of the company towards society and the environment. If Plantation SOEs are required to determine their moral qualities, then the best choice is to implement the principles of GCG and CSR. The reason for this is that these principles aim at forming Plantation SOEs that are environmentally oriented, given the environmental issues that have risen and become a serious debate among various parties.

Initially, CSR was implemented in Indonesia as a business ethic. Over time, CSR has developed into legal positivism through various laws and regulations. In the development of recent business
ethics, extensive ideas regarding the scope of CSR have emerged. The importance of CSR is shown through the results of a study conducted by Business for Social Responsibility in 1999 involving 25,000 respondents in 23 countries, which produced the following conclusions [17].

| POPULATION (23 Countries) | PERCENTAGE | RESPONDENT OPINION |
|----------------------------|------------|--------------------|
| 25,000                     | 90%        | Every company should also consider implementing CSR aside from generating profit |
|                            | 60%        | A prosperous company is based on CSR perceptions |
|                            | 40%        | A company that does not implement CSR is viewed in a negative manner |
|                            | 17%        | It is best to avoid companies that do not fulfill their social and environmental responsibilities |

The results indicate that there are many benefits for companies that successfully implement CSR. Companies will still make a profit while fulfilling their social and environmental obligations. The internalization of GCG through collective awareness will also benefit stakeholders in achieving balance. The implementation of CSR is a concrete form of realizing an environment-oriented plantation business. Many companies have successfully implemented CSR and utilized it to obtain profits; these companies no longer see CSR as merely an obligation.

4. Conclusions
Plantation SOEs may very well exploit natural resources in vulnerable and fragile landscapes; this occurs if they perceive nature solely as objects. Profitability is one of the goals of any company, including state enterprises. However, environmental balance is also something that cannot be ruled out in realizing a sustainable plantation sector. Moreover, the profits of SOEs should benefit every citizen of Indonesia.

The implementation of GCG principles in Plantation SOEs is considered a rational step. Unethical practices due to the absence of business ethics standards may create an unfavorable business environment. Business management with ethical standards and transparency, independence, accountability, responsibility, and fairness needs to be encouraged so that the development of Plantation SOEs will always have elements of GCG practices. The results of this study can be used as a reference for implementing CSR in a scalable manner in Plantation SOEs to achieve sustainable plantation management.

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