

## GOOD CORPORATE GOVERNANCE ARRANGEMENTS IN STATE-OWNED PALM COMPANIES PRIVATE COMPANIES IN INDONESIA

By

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### ABSTRACT

The concept of GCG has long been known in developed countries, such as Europe and America, with the separation between capital owners and company managers. This concept became hot in America in the eighties when takeover scandals and share sale scandals to management buyouts emerged which worried shareholders. In this case, the company management who was mandated by shareholders did not manage the company well. There is abuse of authority by management for personal interests without considering the interests of shareholders. "Seeing these situations and conditions, activists and observers of corporate issues have begun to formulate a system so that company managers are accountable (accountable) to shareholders and parties related to company activities (stakeholders). The use of good governance principles in the business world is called Good Corporate Governance (GCG). In other words, the business world must also build and maintain GCG principles, namely: participation, laws and regulations, transparency, responsiveness, consensus orientation, justice and fairness, efficiency and effectiveness, accountability and strategic vision. BUMN is constitutionally recognized as playing a very important role in the national economy, alongside the private sector and cooperatives. In the national economic system, BUMN plays a role in producing the goods and services needed to realize the greatest prosperity of the people. The role of BUMN is felt to be increasingly important as pioneers or trailblazers in business sectors that are not yet of interest to the private business sector. BUMN also has a strategic role in implementing public services, balancing the power of the large private sector and helping to develop small businesses and cooperatives. BUMN is also a significant source of state revenue in the form of various types of taxes, dividends and privatization proceeds. The GCG principles that must be implemented by BUMN based on the BUMN Ministerial Decree, consist of the principles: Transparency, Independence, Accountability, Fairness. Other provinces that are classified as the largest national palm oil producers are Central Kalimantan, North Sumatra, West Kalimantan and South Sumatra. Then the smallest palm oil production is in Kep. Riau, North Maluku, Maluku Gorontalo, Banten and West Java. Meanwhile, provinces that do not have palm oil production are DKI Jakarta, Central Java, DI Yogyakarta, East Java, Bali, West Nusa Tenggara, East Nusa Tenggara and North Sulawesi, as shown in the graph. India will be the country with the highest export value in 2022, reaching US\$5.32 billion. The volume of exports to this country was also recorded as the largest, namely 4.99 million tons in the same period

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Email: [junaedi@unismuh.ac.id](mailto:junaedi@unismuh.ac.id)**1. INTRODUCTION**

In developed countries with relatively prosperous economies, good corporate governance (hereinafter referred to as GCG) has long been an issue. This problem is increasingly attracting the attention of the world community after a major crisis occurred. Such as the major crisis in the United States in 1929 and the banking crisis in England in 1970. In Indonesia, this problem has emerged since the major crisis which began in the third quarter of 1997<sup>1</sup>. In general, practitioners and academics agree that one of the causes of this major crisis is still low awareness and understanding of the importance of implementing GCG in companies in Indonesia<sup>2</sup>.

"Basically, the principle of implementing GCG is a reflection of the stability of a company. It contains information management in a clean, transparent and professional manner. Internally, this will help the company manage its assets and transactions effectively and efficiently. Thus, it can be said that the existence of GCG has now become a necessity for a company wishing to enter international business relations."<sup>3</sup>

GCG is an effort to maintain a balance between achieving economic goals and social goals, as well as between individual goals and community goals. The target of implementing GCG is to align personal interests, company interests and community interests. The challenge in implementing GCG is to find ways to maximize welfare creation in such a way that it does not impose inappropriate cost burdens on third parties or the wider community<sup>4</sup>.

The fundamental conditions of the macroeconomy in Indonesia cannot be separated from the role of the business world. Since the third quarter of 1997, the crisis experienced by Indonesia has resulted in the business world's performance declining drastically, especially for medium and large companies. This has a huge impact on the national economy. The fundamental weaknesses in the economy in Indonesia, especially at the micro (company) level, are caused by inefficient economic management in the industrial and business sectors, as well as a fragile banking system. The less efficient management of the business sector is related to the concentration of business ownership which tends to be monopolistic, resulting in management distortions in the allocation of resources, whether carried out by the private sector or the government. This is reinforced by the existence of rent-seeking behaviour to finance business activities.

The Government has taken various policy steps to restore economic activity, including through the Capital Markets - Financial Institutions Supervisory Agency (BAPEPAM - LK), including through several regulations that have been issued to increase transparency and consistency in the implementation of economic policies, increasing economic efficiency, both macro and micro, as well as encouraging the implementation of good corporate governance.

*"The concept of GCG has long been known in developed countries, such as Europe and America, with the separation between capital owners and company managers. This concept became hot in America in the eighties when takeover*

<sup>1</sup> A. Davies, A Strategic Approach to Corporate Governance, England: Gower Publishing Limited, (1999), p. 34-35. See also: Bone, Fandi La Ode., and Sahrul Ponto, "The Influence of Company and Regulatory Factors on the Quality of Corporate Governance Implementation", Future: Journal of Management and Accounting 4, No. 2, (2017): 178302, p. 235.

<sup>2</sup> In Asia, including Indonesia, corporate governance began to be widely discussed in mid-1997, when the economic crisis hit these countries. According to Black in 2001, he stated that in developing countries (such as in Asia) the implementation of corporate governance has large variations, which is different from the implementation of corporate governance in developed countries. The large variation in the implementation of corporate governance means that corporate governance is a factor that has a significant impact on increasing the value of company shares. See Wibowo, Edi., "Implementation of Good Corporate Governance in Indonesia", Journal of Economics and Entrepreneurship Vol. 10 No. 2, October 2010, p. 129-138.

<sup>3</sup> Ridwan Khairandy, Limited Liability Company Doctrine of Legislation and Jurisprudence, (Yogyakarta: Kreasi Total Media, 2009), p. 253.

<sup>4</sup> Elidio Dee Araujo, "The Influence of Strategic Leadership and Corporate Culture on Company Performance with Good Corporate Governance as an Intervening Variable (A Study of Managers' Perceptions in Member Companies of Camara Comercia Industria Timor Leste (CCI-TL)", Ph.D diss., Widya Mandala Catholic University of Surabaya, Surabaya, 2013.

scandals and share sale scandals to management buyouts emerged which worried shareholders. In this case, the company management who was mandated by shareholders did not manage the company well. There is abuse of authority by management for personal interests without considering the interests of shareholders. "Seeing these situations and conditions, activists and observers of corporate issues have begun to formulate a system so that company managers are accountable (accountable) to shareholders and parties related to company activities (stakeholders)."

### Formulation of the problem

Based on the background above, the problem formulation in this paper is: "Good Corporate Governance Arrangements In State-Owned Palm Palm Companies Private Companies In Indonesia"?

Data Collection Techniques using Online Data Search / Internet searching, browsing, surfing or downloading data, books, magazines, journals, theses, dissertations, online news, media, websites and sources from experts related to matters. matters relating to "Good Corporate Governance Arrangements In State-Owned Palm Palm Companies Private Companies In Indonesia".

## 2. DISCUSSION

The main principles underlying the implementation of good corporate governance (GCG) are transparency, accountability, responsibility and justice. These principles not only have to be implemented as a legal requirement, but also need to be made into habits within a company culture that is more professional, but at the same time humane. The approach, elaboration and development of a system for implementing these principles in a company is basically to develop a Guideline or Guide for Implementing Good Corporate Governance which includes elements, such as General Guidelines, Board Charter, Audit Charter, Code of Conduct (Guidelines). Behaviour), and other systems deemed necessary by management relating to the seriousness of management's determination and enthusiasm to realize these principles in the internalization of business operational activities within the company<sup>5</sup>.

All of these guidelines and manuals are generally related to legal-formal aspects and need to be socialized so that their implementation can be successful. The implementation of socialization is closely related to the development of a new culture, which still needs to be complemented by civilizing efforts from all legal and formal guidelines and guidelines, so that in the end what is expected in these various guidelines and guidelines will be implemented as a habit that reflects the culture. new company<sup>6</sup>.

### 1. Understanding Good Corporate Governance

As a concept, GCG does not have a single definition. The Cadbury Committee, for example, in 1992 - through what is known as the Cadbury Report - issued its definition of GCG. According to the Cadbury Committee, GCG is a principle that directs and controls a company to achieve a balance between the company's power and authority in providing accountability to shareholders in particular, and stakeholders in general. Of course, this is intended to regulate the authority of directors, managers, shareholders and other parties related to the development of the company in a certain environment<sup>7</sup>.

The Center for European Policy Studies (CEPS), has another formula. GCG, according to CEPS, is the entire system formed starting from rights, processes and controls, both inside and outside company management. For the record, the rights here are the rights of all stakeholders, not limited to shareholders only. Rights are various powers that individual stakeholders have to influence management. Process means the mechanism for these rights. Control is a mechanism that allows stakeholders to receive the necessary information regarding various company activities<sup>8</sup>.

Several countries also have their definitions of GCG. Several countries define it with a somewhat similar meaning, although there are slight differences in terms. The group of developed countries (Organization for Economic Co-operation and Development – OECD), for example, defines GCG as ways in which company management is responsible to its shareholders. Decision-makers in the company must be accountable, and these decisions can provide added value for other shareholders. Therefore, the main focus here is related to the company's decision-making process which contains the values of transparency, responsibility, accountability, and of course fairness<sup>9</sup>.

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<sup>5</sup> Ibid., p. 8.

<sup>6</sup> Ibid.

<sup>7</sup> Raharjo, Teguh Budi., "Good Corporate Governance (GCG) and its Understanding in the Business World", Permana 2, No. 1, (2010).

<sup>8</sup> Suherman Toha, et al., "Final Report: Research on Legal Issues Regarding the Implementation of Good Corporate Governance in the Business World", Center for Legal Research and Development, National Legal Development Agency, Department of Law and Human Rights of the Republic of Indonesia, Jakarta, 2015, p. 10.

<sup>9</sup> Ibid., p. 10-11.

Meanwhile, ADB (Asian Development Bank) explains that GCG contains 4 (four) main values, namely: Accountability, Transparency, Predictability, and Participation. Another understanding comes from the Finance Committee on Corporate Governance Malaysia. According to this institution, GCG is a process and structure used to direct and manage business and company affairs towards increasing business growth and company accountability. The ultimate goal is to increase share value in the long term but still pay attention to the various interests of other stakeholders<sup>10</sup>.

Then, "GCG" is defined as a pattern of relationships, systems and processes used by company organs (Board of Directors - BOD, Board of Commissioners - BOC, GMS) to provide added value to shareholders on an ongoing basis in the long term, by continues to pay attention to the interests of other stakeholders, based on applicable laws and regulations<sup>11</sup>.

Based on the definition above, it can be concluded that Good Corporate Governance is<sup>12</sup>:

- a. A structure that regulates the pattern of harmonious relationships regarding the roles of the board of commissioners, directors, shareholders and other stakeholders.
- b. A system of checking and balancing authority over company control that can limit the emergence of two opportunities: mismanagement and misuse of company assets.
- c. A transparent process for determining company goals, achievements, and performance measurement."

## 2. Benefits of good corporate governance

From the definition above, several important aspects of GCG need to be understood by various groups in the business world, namely<sup>13</sup>:

- a. "There is a balanced relationship between company organs, including the General Meeting of Shareholders (GMS), Commissioners and directors. This balance includes matters relating to the institutional structure and operational mechanisms of the three company organs (internal balance)
- b. Fulfillment of the company's responsibilities as a business entity in society to all stakeholders. This responsibility includes matters related to managing the relationship between the company and its stakeholders (external balance). These include the responsibilities of company administrators, management, supervision, and accountability to shareholders and other stakeholders.
- c. There are shareholders' rights to obtain accurate and timely information regarding the company. Then the right to participate in decision-making regarding strategic developments and fundamental changes to the company and to enjoy the profits obtained by the company in its growth.
- b. "There is equal treatment for shareholders, especially minority shareholders and foreign shareholders, through disclosure of material and relevant information and prohibiting the disclosure of information to one's own party that could benefit insiders (insider information for insider trading)."

Apart from the things mentioned above, in Daniri's opinion, GCG can also<sup>14</sup>:

- a. Reducing agency costs, namely costs that must be borne by shareholders as a result of delegating authority to management. These costs can be in the form of losses suffered by the company as a result of abuse of authority (wrong-doing), or in the form of monitoring costs incurred to prevent this from happening.
- b. Reducing the cost of capital, which is the impact of good company management, causes the interest rate on funds or resources borrowed by the company to become smaller as the company's risk level decreases.
- c. Increasing the value of company shares can also improve the company's image to the wider public in the long term.
- d. Creating support from stakeholders (interested parties) within the company regarding the existence and various strategies and policies pursued by the company, because generally, they receive a guarantee that they also get maximum benefits from all the company's actions and operations in creating prosperity and prosperity.

"The benefits of GCG are not only for now but also in the long term, it can become the main pillar supporting the company's growth and development as well as a pillar for winning in the era of global competition."

<sup>10</sup> Malaysian Finance Committee on Corporate Governance, February 1999 in Ibid., p. 11.

<sup>11</sup> Article 1 number 1 Decree of the Minister of State-Owned Enterprises No. KEP-117/M-MBU/2002 concerning the Implementation of Good Corporate Governance Practices in State-Owned Enterprises (BUMN).

Suherman Toha, et al., Op.cit., p. 12.

<sup>12</sup> Insan Thariq Alhamra and Hermiyetti, "Analysis of the Influence of Good Corporate Governance and Profitability Levels on Accounting Information Disclosure (Empirical Study of the Top 50 Issuers with the Highest CG Scores from IICD Results Using the ASEAN Corporate Governance Scorecard Approach for the 2012-2013 Period),

<sup>13</sup> Proceedings of the INDOCOMPAC National Seminar, University Bakrie, Jakarta, held 2-3 May 2016, p. 452-453.

<sup>14</sup> Ibid., p. 587-589.

.....  
A Corporate Governance Framework that is implemented effectively will be able to guarantee that management is fully responsible for the performance of State-Owned Enterprises (BUMN) and shareholders as owners can monitor management effectively and can protect the interests of other stakeholders<sup>15</sup>.

Successful implementation of GCG also has its prerequisites. In this case, 2 (two) factors play a role in determining the success of GCG implementation, namely: external and internal factors, as follows<sup>16</sup>:

**a. External Factors**

What is meant by external factors are several factors originating from outside the company which greatly influence the success of implementing GCG. Among them:

- 1) There is a good legal system that can guarantee consistent and effective legal supremacy.
- 2) Support for the implementation of GCG from the public sector/government institutions which is expected to also implement Good Governance and Clean Government towards true Good Government Governance.
- 3) There are examples of appropriate GCG implementation (best practices) which can become standards for effective and professional GCG implementation. In other words, a kind of benchmark (reference).
- 4) Establishment of a social values system that supports the implementation of GCG in society. This is important because through this system it is hoped that active participation will arise from various groups of society to support the application and socialization of GCG voluntarily.
- 5) Another thing that is no less important as a prerequisite for the successful implementation of GCG, especially in Indonesia, is the existence of an anti-corruption spirit that develops in the public environment where the company operates, accompanied by improvements in the quality of education and expansion of employment opportunities. It can even be said that improving the public environment greatly influences the quality and score of companies in implementing GCG.<sup>17"</sup>

**b. Internal factors**

The meaning of internal factors are the driving force for the successful implementation of GCG practices that originate from within the company. Some of these factors include:

- 1) "There is a corporate culture that supports the implementation of GCG in management mechanisms and work systems in the company.
- 2) Various regulations and policies issued by the company refer to the implementation of GCG values.
- 3) The company's risk control management is also based on standard GCG principles.
- 4) There is an effective audit (inspection) system in the company to avoid any irregularities that might occur.
- 5) There is open information for the public to be able to understand every movement and step of management within the company so that the public can understand and follow every step of the company's development and dynamics from time to time.<sup>18"</sup>

**3. Principles of good corporate governance**

The use of good governance principles in the business world is called Good Corporate Governance (GCG). In other words, the business world must also build and maintain GCG principles, namely: participation, laws and regulations, transparency, responsiveness, consensus orientation, justice and fairness, efficiency and effectiveness, accountability and strategic vision<sup>19</sup>.

The GCG concept clarifies and emphasizes the relationship mechanisms between stakeholders in the organization. The Organization for Economic Cooperation and Development (OECD) has also created the principles of good corporate governance with the hope that they can be used as international benchmarks for state companies, investors, companies and company stakeholders (including shareholders, both countries and OECD member countries and non-member countries)<sup>20</sup>.

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<sup>15</sup> I Nyoman Tjager, Corporate Governance Challenges and Opportunities for the Indonesian Business Community, Jakarta: Prenhallindo, 2003, p. 210.

<sup>16</sup> Arbaina, Endang Siti., "Implementation of Good Corporate Governance in Banking in Indonesia", AKUNESA Accounting Journal 1, No. 1, (2012).

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Saban Echdar and Maryadi, Business Ethics and Entrepreneurship, (Yogyakarta: Deepublish, 2019), p. 80.

<sup>20</sup> Ibid.



The OECD's hope of presenting this international reference material has brought results. In 2004, Donald J. Johnson, OECD Secretary-General stated that in the last few years entrepreneurs, governments and the business community in many countries have begun to realize that good corporate governance can make a significant contribution to the stability of capital market development, the investment climate and economic growth<sup>21</sup>.

The governance principles published by the OECD include the following<sup>22</sup>:

- a. The legal basis required to ensure the effective implementation of good corporate governance (ensuring the basis for an effective corporate governance framework);

According to the OECD, if the government of a country wants the principles of good corporate governance to be implemented effectively in their country, they are obliged to build a legal foundation that allows this to happen. Without a strong legal basis, one of the main objectives of good corporate governance, namely protecting the rights and interests of shareholders and other stakeholders, is difficult to implement<sup>23</sup>. The legal basis includes, among other things, the creation of<sup>24</sup>:

- 1) Limited Liability Company Law (corporate laws);
- 2) State-Owned Enterprises Law;
- 3) Employment Law;
- 4) Banking Law;
- 5) Provisions regarding Financial Accounting Standards and Audit Standards;
- 6) Terms and procedures for registering company shares on the stock exchange.

The OECD suggests that when drafting laws or other legal provisions related to the implementation of good corporate governance principles, the government should communicate and consult with local companies. In addition, governments of countries that apply the principles of good corporate governance are advised to monitor the implementation of these principles in their country's business world<sup>25</sup>.

- b. Shareholder rights and key ownership functions of the company (the rights of shareholders and key ownership function);

Shareholders have certain rights. The OECD suggests these rights are protected, both legally and by individual companies<sup>26</sup>.

- 1) Fair treatment of shareholders (the equitable treatment of shareholders);

Companies are obliged to ensure fair treatment of all company shareholders, including minority shareholders and foreign shareholders. Holders of the same type of shares (for example ordinary shares) must be guaranteed the same treatment. About fair treatment, before shares are traded on the stock exchange, every investor has the right to receive information about the rights and protection of the shares to be purchased<sup>27</sup>.

- 2) The role of stakeholders in corporate governance (the role of stakeholders in corporate governance);

The OECD also recommends protecting the rights and interests of non-shareholder stakeholder members. This is because the success of a company's business operations is determined by the results of cooperation between stakeholder members, including shareholders, employees, customer creditors, and suppliers of services, raw materials and supporting materials<sup>28</sup>.

- 3) Principles of transparent disclosure of information (disclosure and transparency);

Another principle of good corporate governance that the OECD has socialized to member countries and non-member countries is the transparent disclosure of company information. According to the OECD, a company's Board of Directors is obliged to report to shareholders accurately, transparently and on time, matters relating to financial condition, changes in ownership, business performance and other important matters that can affect the survival of the company<sup>29</sup>.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid., p. 80-82.

<sup>23</sup> Ibid., p. 80-81.

<sup>24</sup> Junaedi, A, Implementation of Good Corporate Governance (GCG) to Secure Company Assets, (DI Yogyakarta: Samudera Biru, 2020, p.45

<sup>25</sup> Ibid., p. 81.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid., p. 81.

<sup>29</sup> Ibid., p. 82.

4) Responsibilities of the Management Board (the responsibilities of the Board);

The responsibilities of the management board, management board organization or Board of Directors in many countries consist of 2 (two) layers. In Indonesia, the first layer is called the Board of Commissioners, while the second layer is called the directors. The first layer, the Board of Directors functions as a director and supervisor of the company's business operations and the performance of the directors. Meanwhile, the main function of the second layer of the Board of Directors is to manage the company's assets, debts and daily business activities. The Board of Directors is responsible for the compliance of the company they manage with applicable laws or legal provisions, including tax, labour, competition, credit and environmental laws. In more detail, the functions and responsibilities of the Board of Directors within the corporate governance framework<sup>30</sup>.

About BUMN governance, the State Minister for BUMN has also issued BUMN Ministerial Decree No. KEP-117/M-MBU/2002 concerning GCG Principles, including<sup>31</sup>:

- a. Fairness. Principles for managers to treat stakeholders fairly and equally, both primary stakeholders (suppliers, customers, employees and investors) and secondary (government, community and other parties). This principle gives rise to the concept of prioritizing the interests of stakeholders and not just shareholders.
- b. Transparency. Managers have an obligation to implement the principle of openness in the decision process and in conveying information. Furthermore, the information conveyed must be complete, correct and timely to all stakeholders, there must be no secret, hidden, covered or delayed disclosure of certain things.
- c. Accountability. Managers have an obligation to develop an effective accounting system and produce reliable and high-quality financial reports.
- d. Responsibility. It is the obligation of managers to provide accountability for all actions in managing the company to stakeholders as a manifestation of the trust and authority that has been given."

This responsibility includes at least several main dimensions, namely<sup>32</sup>:

- a. Economy. Manifested in the form of providing economic benefits for stakeholders.
- b. Law. Manifested in the form of compliance with applicable laws and regulations.
- c. Moral. Realized in the form of accountability, it can be felt comprehensively and fairly for all stakeholders.
- d. Social. Manifested in the form of Corporate Social Responsibility (CSR) as a form of concern for the welfare of society and environmental sustainability in the company environment.
- e. Spiritual. Manifested in the form of the extent to which management's actions have been able to realize self-actualization or have been felt as part of worship by the religious teachings they believe in.
- f. Independence. A situation where managers and decision-makers are professional, independent, independent and have conflicts of interest, free from pressure and influence from any party that is contrary to applicable laws and sound management principles."

Not only is the need for ethical governance good for a company's business, but recent changes to government regulations are changing expectations significantly. In an era of increasing supervision, where unethical behaviour can affect the achievement of overall company goals, a corporate governance system is urgently needed that provides appropriate rules and accountability for the interests of shareholders, directors and executives<sup>33</sup>.

With these criteria, the implementation of GCG in the BUMN environment is expected to achieve company goals, namely:

- a. "Maximizing the value of BUMN<sup>34</sup>;
- b. Encouraging professional management of BUMN;
- c. Encourage the decision-making process based on high moral values, compliance with applicable laws and regulations, social responsibility to all stakeholders, and environmental sustainability;
- d. Increasing the contribution of BUMN to the national economy;
- e. Increase national investment;
- f. Making the privatization program a success."

## **B. Legal Basis for the Implementation of Good Corporate Governance in State-Owned Palm Oil Plantation Business Entities with Limited Liability Companies and Private Companies**

<sup>30</sup> Ibid., p. 82.

<sup>31</sup> Ibid., p. 84-85.

<sup>32</sup> Ibid., p. 85-86.

<sup>33</sup> Ibid., p. 87.

<sup>34</sup> Ibid.

BUMN is constitutionally recognized as playing a very important role in the national economy, alongside the private sector and cooperatives. In the national economic system, BUMN plays a role in producing the goods and services needed to realize the greatest prosperity of the people. The role of BUMN is felt to be increasingly important as pioneers or trailblazers in business sectors that are not yet of interest to the private business sector. BUMN also has a strategic role in implementing public services, balancing the power of the large private sector and helping to develop small businesses and cooperatives. BUMN is also a significant source of state revenue in the form of various types of taxes, dividends and privatization proceeds.

There are at least 2 (two) factors that cause Corporate Governance problems in Indonesia to be more serious than other countries. First, the mechanism for monitoring companies by the market is still relatively weak for both BUMN and companies with strong connections. The development of strategies and competitive positions is not based on efficiency and financial performance but is based on a network of personal relationships with the power structure. Second, corruption in Indonesia is considered very acute. Corruption in government institutions, the legislature and the judiciary mean that law enforcers are almost unable to do much<sup>35</sup>.

However, the strategic role of BUMN has not been accompanied by good management performance. In reality, although BUMN has achieved its initial goal as a development agent and driver of the creation of corporations, this goal was achieved at very high costs. The performance of BUMN is considered inadequate, as can be seen from the low profits obtained compared to the capital invested<sup>36</sup>.

The prolonged economic crisis adds a heavy burden to BUMN plus external pressure in the form of globalization and internationalization of economic activities, as stated by Dorodjatun Kuncoro Djakti,

"The prolonged economic crisis, demands of global competition, and the need for capital require the government of the Republic of Indonesia to mobilize capital by launching various strategic initiatives, including banking sector restructuring, privatization programs and GCG reform. "Regarding GCG reform, the government essentially hopes that by implementing better GCG, investors' perceptions of Indonesian companies will strengthen<sup>37</sup>.

In optimizing the role of BUMN and its ability to maintain its existence in an increasingly open and competitive world economy, BUMN is obliged to foster corporate culture and professionalism, among other things, through improving its management and supervision. The management and supervision of BUMN must be carried out based on the principles of good corporate governance.

On July 31 2002, the Minister of State for BUMN issued a Decree of the Minister of State for BUMN No. Kep-117/M-MBU/2002 concerning the Implementation of Good Corporate Governance Practices in State-Owned Enterprises. Article 2 of the BUMN Ministerial Decree emphasizes the obligation of BUMN to implement good corporate governance consistently and/or make good corporate governance the basis of its operations. The GCG principles that must be implemented by BUMN based on the BUMN Ministerial Decree, consist of the principles:

1. "Transparency, namely openness in carrying out the decision-making process and openness in presenting material and relevant information regarding the company;
2. Independence, namely a situation where the company is managed professionally without conflicts of interest and influence/pressure from any party that is not by applicable laws and regulations and healthy corporate principles;
3. Accountability, namely clarity of function, implementation and accountability of the Organ so that company management is carried out effectively;
4. Accountability, namely compliance in company management with applicable laws and regulations and healthy corporate principles;
5. Fairness, namely justice and equality in fulfilling stakeholder rights arising based on agreements and applicable laws and regulations.<sup>38</sup>"

There are 6 (six) objectives to be achieved with the obligation to implement GCG practices in BUMN, namely:

1. "Maximizing the value of BUMN by increasing the principles of openness, accountability, trustworthiness, responsibility and fairness so that companies have strong competitiveness, both nationally and internationally;

<sup>35</sup> Ridwan Khairandy and Camelia Malik, Good Corporate Governance, Development of Thought and Its Implementation in Indonesia from a Legal Perspective, (Yogyakarta: Kreasi Total Media, 2007), p. 164.

<sup>36</sup> Watch further: General Explanation of Law No. 19 of 2003 concerning State-Owned Enterprises.

<sup>37</sup> Dorodjatun Kuncoro Djakti, Good Corporate Governance in Indonesia: Independent Commissioners Driving GCG Practices in Companies, (Jakarta: Index, 2004), p. 25.

<sup>38</sup> Article 3 Decree of the Minister of BUMN Number: KEP-117/M-MBU/2002 concerning the Implementation of Good Corporate Governance Practices in State-Owned Enterprises.



2. Encourage the management of BUMN in a professional, transparent and efficient manner, as well as empowering functions and increasing the independence of organs;
3. Encourage Organs to make decisions and carry out actions based on high moral values and compliance with applicable laws and regulations, as well as awareness of the BUMN's social responsibility towards stakeholders and environmental sustainability around the BUMN;
4. Increasing the contribution of BUMN to the national economy;
5. Improving the national investment climate;
6. Making the privatization program a success.<sup>39</sup>

A year after the enactment of BUMN Ministerial Decree No. KEP-117/M-MBU/2002, the Government promulgated Law No. 19 of 2003 concerning State-Owned Enterprises. The BUMN Law again provides quite strong confirmation of the obligations of BUMN to implement GCG. This is contained in Article 5 paragraph (3), which states:

"In carrying out their duties, members of the Board of Directors must comply with the BUMN's articles of association and statutory regulations and must implement the principles of professionalism, efficiency, transparency, independence, accountability, responsibility and fairness."

By the provisions of BUMN Ministerial Regulation No. PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises (BUMN), every BUMN is obliged to implement good corporate governance consistently and sustainably while still paying attention to applicable provisions and norms as well as the Budget. Company Policy. Likewise with BUMN subsidiaries, based on other provisions of Article 45 paragraphs (2) and (3); paragraph (2) "The provisions in this Ministerial Regulation, can also be applied to limited liability companies whose shares are partly owned by the State and its subsidiaries. state-owned company, as long as this is approved by the GMS of the limited company or subsidiary of the said state-owned company. Paragraph (3), that: "A subsidiary is a limited liability company whose shares are mostly owned by BUMN and/or a limited liability company controlled by BUMN".

Managing BUMN by adhering to GCG principles is not an option for BUMN but is an obligation and necessity. Sofyan A. Djalil emphasized that applying corporate principles is considered more effective than managing BUMN using a bureaucratic system carried out by the State Ministry of BUMN<sup>40</sup>. This is done as an effort to make BUMN healthy, highly competitive and have added value for the State, especially for the economy and people's welfare.

Still according to Sofyan Djalil, if BUMN in its management still uses bureaucratic principles, then BUMN will not be able to make a significant contribution to the country, especially in Indonesia's future economic growth. Moreover, the political process is involved in managing BUMN. Thus, BUMN must be managed to at least the same standards as privately owned companies<sup>41</sup>.

### **C. Setting Good Corporate Governance Principles in Palm Oil Companies, Both State-Owned and Privately-Owned, in the Context of Asset Safeguarding**

With the existence of BUMN Ministerial Regulation no. PER-01/MBU/2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises (BUMN) and the private sector, it is mandatory to implement Good Corporate Governance

The principles of good corporate governance are<sup>42</sup>:

1. Transparency is openness in carrying out the decision-making process and openness in presenting material and relevant information about the company.

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<sup>39</sup> Article 4 Decree of the Minister of BUMN Number: KEP-117/M-MBU/2002 concerning the Implementation of Good Corporate Governance Practices in State-Owned Enterprises.

<sup>40</sup> Statement from the Minister of National Development Planning (PPN)/Head of Bappenas, Sofyan Djalil on the Official Website Okezone.com., "Bappenas: BUMN Must Be Managed Using Corporate Principles", <https://economy.okezone.com/read/2016/04/14/320/1362771/bappenas-bumn-must-be-managed-with-corporate-principles>., accessed on Monday, 17 February 2020.

<sup>41</sup> Ibid.

<sup>42</sup> Chapter I number 1.2. Joint Decision of the Board of Commissioners and Directors of PT. Perkebunan Nusantara IV No. DK/18/KPTS/2016 and No. 04.03/02/KPTS/2016 concerning the Implementation of PT Good Corporate Governance Infrastructure. Perkebunan Nusantara IV (hereinafter referred to as "Joint Decision of the Board of Commissioners and Directors of PT. Perkebunan Nusantara IV concerning Implementation of PTPN IV GCG Infrastructure").

2. Accountability is clarity of function, implementation and accountability of organs so that company management is carried out effectively.
3. Responsibility is conformity in company management to statutory regulations and healthy corporate principles.
4. Independence is a situation where the company is managed professionally without conflicts of interest and influence/pressure from any party that is not by statutory regulations and healthy corporate principles.
5. Fairness is justice and equality in fulfilling the rights of Stakeholders that arise based on agreements and statutory regulations.

The objectives of implementing the GCG principles mentioned above are<sup>43</sup>:

1. Optimize company values so that they have strong competitiveness, both nationally and internationally, so that they can maintain their existence and live sustainably to achieve the company's goals and objectives.
2. Encourage company management in a professional, efficient and effective manner, as well as empowering the function and increasing the independence of company organs.
3. Encourage company organs to make decisions and carry out actions based on high moral values and compliance with laws and regulations, as well as awareness of the company's social responsibility towards stakeholders and environmental sustainability around the company.
4. Increase the company's contribution to the national economy.
5. Improving a conducive climate for the development of national investment."

#### D. State-Owned, Private Palm Oil Companies in Indonesia

##### 1. Area of Palm Oil (Palm Oil) Plantations in Indonesia (2017-2021)

The area of palm oil plantations in Indonesia during 2017 – 2021 experienced an increasing trend. The Ministry of Agriculture (Kementan) noted that the area of palm oil plantations will reach 15.08 million hectares (ha) in 2021.

The plantation area increased 1.5% compared to the previous year which was 1.48 million ha. Of the 15.08 million ha, the majority is owned by Large Private Plantations (PBS), namely 8.42 million ha (55.8%). Then, People's Plantations (PR) cover an area of 6.08 million ha (40.34%) and Large State Plantations (PBN) cover an area of 579.6 thousand ha (3.84%).

The Ministry of Agriculture also noted that national palm oil production will be 49.7 million tons in 2021. This figure is up 2.9% from the previous year which amounted to 48.3 million tons.

Oil palm plantation areas are spread across 26 provinces in Indonesia. Riau Province has the largest oil palm plantation area with 2.89 million ha in 2021 or 19.16% of the total area of oil palm plantations in this country.

Meanwhile, palm oil production in Riau will reach 10.27 million tonnes in 2021. This amount is the largest in Indonesia and contributes 20.66% to national palm oil production<sup>44</sup>.



## 2. Largest Palm Oil Producing Province

<sup>43</sup> Chapter I number 1.3. Joint Decision of the Board of Commissioners and Directors of PT. Perkebunan Nusantara IV regarding Implementation of PTPN IV GCG Infrastructure.

<sup>44</sup> <https://databoks.katadata.co.id/profile/monavia-ayu-rizaty>, National Palm Oil Plantation Area Reaches 15.08 Million Ha in 2021, accessed on December 6 2023, at 11.51 WIB.

According to data from the Ministry of Agriculture processed by the Central Statistics Agency (BPS), Indonesia's palm oil production volume in 2022 will reach 45.58 million tons<sup>45</sup>. The largest palm oil-producing province is Riau, with a production volume of around 8.9 million tons.

Other provinces that are classified as the largest national palm oil producers are Central Kalimantan, North Sumatra, West Kalimantan and South Sumatra. Then the smallest palm oil production is in Kep. Riau, North Maluku, Maluku Gorontalo, Banten and West Java. Meanwhile, provinces that do not have palm oil production are DKI Jakarta, Central Java, DI Yogyakarta, East Java, Bali, West Nusa Tenggara, East Nusa Tenggara and North Sulawesi, as shown in the graph.

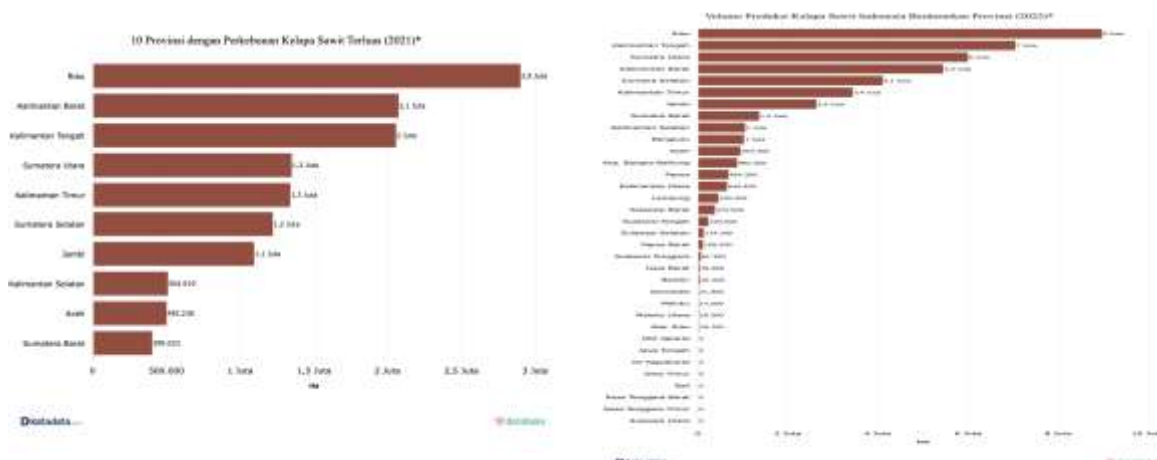
BPS also noted that in 2022 Indonesia will have oil palm plantations covering an area of 14.9 million hectares (ha). However, according to the Coordinating Minister for Maritime Affairs and Investment Luhut Pandjaitan, this figure is not completely accurate. Many oil palm lands have not been taxed.

It is reported that palm oil covers (an area of) 14.6 million hectares. "After we audited, I found out that only 7.3 million hectares were paying taxes," said Luhut, broadcast by JawaPos.com, Thursday (11/5/2023).

Based on an audit from BPKP. It turns out that there are 20.4 million hectares of palm oil permits. Meanwhile, 16.8 million hectares are planted. So, 9 million hectares of taxes have not been paid, now we are pursuing that.

According to Dwi Astuti, Director of Extension, Services and Public Relations, DJP, DJP is currently clarifying the differences in the area (oil palm land) (CNNIndonesia.com, Wednesday, 10/5/2023).

If the difference in area results in potential PPh (Income Tax) and VAT (Value Added Tax), then it will be followed up by statutory provisions.

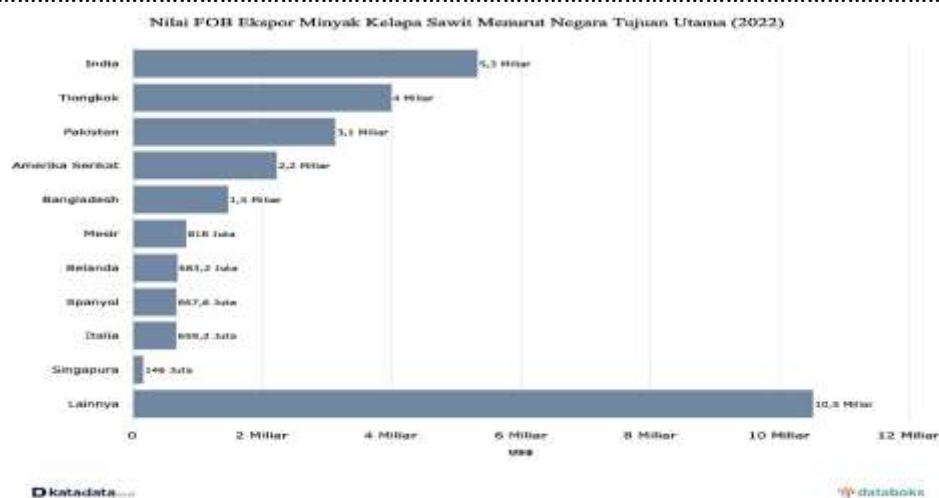


### 3. India and China, Countries with the Highest Value of Indonesian Palm Oil Exports in 2022

Indonesia consistently exports palm oil or crude palm oil (CPO) to several countries. The Central Statistics Agency (BPS) noted that there are at least 10 main export destination countries with the highest Free On Board (FOB) values throughout 2022<sup>46</sup>.

<sup>45</sup> <https://databoks.katadata.co.id/profile/adi-ahdiat>, This is the Largest Palm Oil Producing Province in 2022, accessed on December 6 2023, at 11.55 WIB

<sup>46</sup> <https://databoks.katadata.co.id/profile/erlina-f-santika>, India and China, Countries with the Highest Value of Indonesian Palm Oil Exports 2022, accessed on December 6 2023, at 10.49 WIB



India will be the country with the highest export value in 2022, reaching US\$5.32 billion. The volume of exports to this country was also recorded as the largest, namely 4.99 million tons in the same period.

The value of exports to India was recorded as the largest during the last decade. Previously, the value of palm oil exports to India reached US\$4.9 billion in 2017. The next largest is China, which will reach US\$3.99 billion in 2022. The volume of palm oil sent to the Bamboo Curtain country reached 3.8 million tons.

There is also Pakistan which is listed as the third largest export destination country, which pocketed a value of US\$ 3.12 billion. Export volume to Pakistan was recorded at 2.8 million tons in 2022.

The only export destination country in the ASEAN region that is included in the top 10 list is Singapore, amounting to US\$146 million in 2022. This places Singapore in the final ranking of the main destination countries for Indonesian palm oil exports.

In general, the value of Indonesian CPO exports will reach US\$29.62 billion in 2022. This figure is up 3.56% compared to the previous year (year-on-year/yoy) and is also the highest record in the last decade.

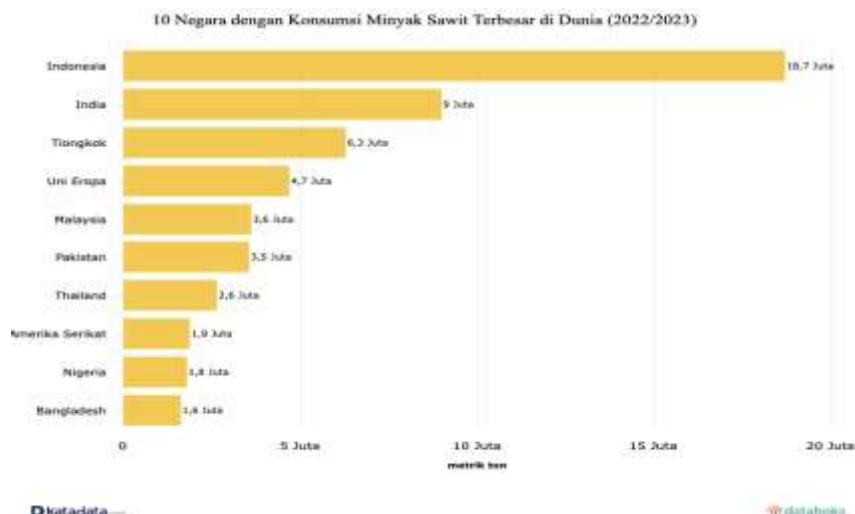
Indonesia is the country with the largest consumption of palm oil (CPO) in the world. According to data from the United States Department of Agriculture (USDA), domestic palm oil consumption in 2019 is estimated to reach 12.75 million tons or around 17% of total world consumption which reached 74.48 million tons. This amount increased by around 1% compared to the previous year of 12.63 million tons. The increasing consumption of cooking oil from the public as well as mandatory B20 (diesel fuel with a palm oil content of 20%) is driving an increase in national CPO consumption<sup>47</sup>.

#### 4. Indonesia's largest palm oil plantations in the world

Based on a United States Department of Agriculture (USDA) report, global palm oil production is projected to reach 244.5 million metric tons in 2022/2023<sup>48</sup>.

<sup>47</sup> <https://databoks.katadata.co.id/profile/tim-publikasi-katadata>, 10 Countries with the World's Largest Palm Oil Consumption, accessed on December 6 2023, at 13.01 WIB.

<sup>48</sup> <https://databoks.katadata.co.id/profile/nabilah-muhamad>, 10 Largest Palm Oil Consumer Countries in the World 2022/2023, Top Indonesia, accessed on December 6 2023, at 09.09 WIB

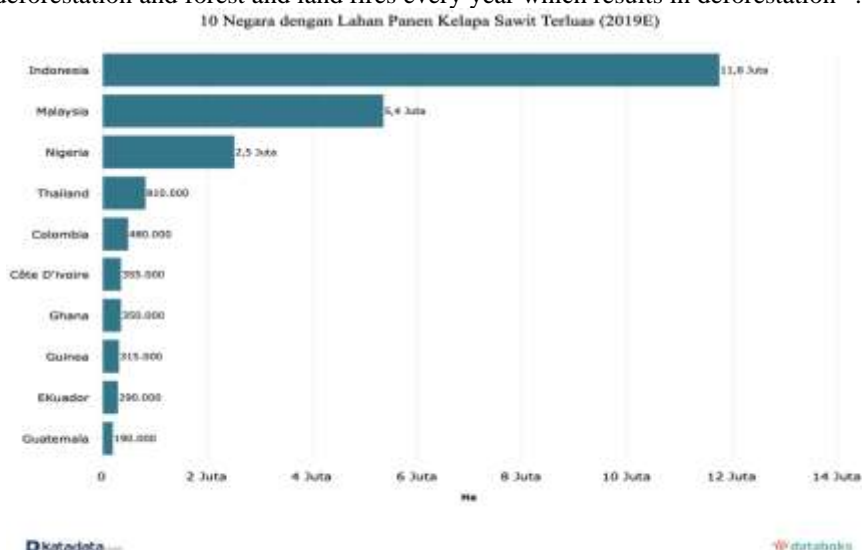


Meanwhile, global consumption of palm oil was recorded at 75.22 million metric tons. Total global consumption increased by around 7.93% compared to the previous period (year-on-year/yoy) which reached 72.96 million metric tons in 2021/2022.

Meanwhile, Indonesia will be the country with the largest consumption of palm oil in the world in 2022/2023, namely 18.69 million metric tons or the equivalent of 24.84% of total global palm oil consumption.

The volume of domestic palm oil consumption in Indonesia has also consistently been the largest over the previous three periods. Other countries with the largest consumption of palm oil in the world are China, the European Union, Malaysia, Pakistan, Thailand, the United States, Nigeria and Bangladesh, with details such as seen on the graph.

Indonesia is the country with the largest area of palm oil (CPO) harvest in the world. Based on data from the United States Department of Agriculture (USDA), Indonesia's mature oil palm plantation area is estimated to reach 11.75 million ha in 2019 or 49.5% of the world's total of 23.74 ha. Unfortunately, the vast area of oil palm land is also accompanied by deforestation and forest and land fires every year which results in deforestation<sup>49</sup>.



<sup>49</sup> <https://databoks.katadata.co.id/profile/tim-publikasi-katadata>, Largest Indonesian Palm Oil Planting Area in the World, accessed on December 6 2023, at 11.39 WIB.

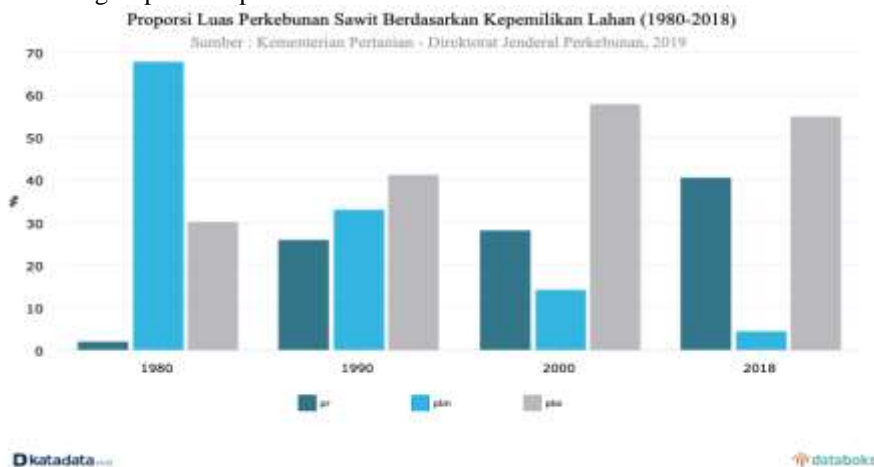


The area of land planted to produce palm oil in Indonesia is twice that of Malaysia which only has 5.3 million ha or around 23% of the world total. As is known, Malaysia's palm oil harvest area is the second largest after Indonesia, followed by Nigeria with an area of 2.5 million ha in third place.

Meanwhile, according to data from the Ministry of Agriculture, the total area of oil palm plantations in 2019 is estimated to reach 14.68 million ha with mature plantation area reaching 11.58 million ha. The production target is 42.87 million tons with a productivity of 3,702 kg per ha.

#### 5. The area of smallholder palm oil plantations is 40.6% of Indonesia's total palm oil plantations

Proportion of Oil Palm Plantation Area Based on Land Ownership (1980-2018) As of 2019, the area of oil palm plantations in Indonesia has reached 16.4 million ha, from only 295 thousand ha in 1980. The rapid development of the area of oil palm plantations cannot be separated from the role of oil palm plantations. people and this makes Indonesia the largest palm oil producer in the world<sup>50</sup>.



Since 1980, oil palm plantations have been dominated by large state plantations. However, since the start of partnerships between farmers and companies in the form of Community Core Plantations (PIR), smallholder oil palm plantations have continued to develop. The proportion of PIR area continues to increase, from previously only 2.1% of the total national oil palm plantations or 6,175 ha in 1980, it has reached 40.6% of the total or 5.8 million ha in 2018. Its area is in second place after plantations. large private sector.

The development of smallholder oil palm plantations has helped improve the economy of the local community, as well as reducing unemployment in the surrounding area. Through the smallholder palm oil rejuvenation (PSR) program, the government is trying to maximize the yield and productivity of these smallholder plantations.

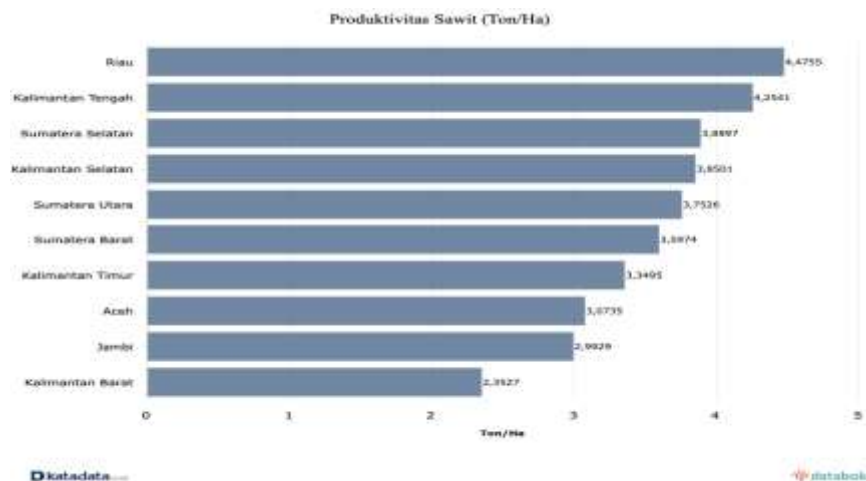
#### 6. Palm Oil Productivity in the Province with the Largest Palm Oil Land

Palm oil productivity does not only depend on the size of the land, but other factors can trigger palm oil productivity results. North Sumatra, for example. The province has the second largest area of oil palm land after Riau, now in 5th position in terms of productivity.

There is also West Kalimantan, which has the third largest land area, but in terms of productivity, it is ranked 10th when compared with the provinces that have the largest oil palm areas in Indonesia<sup>51</sup>.

<sup>50</sup> <https://databoks.katadata.co.id/profile/tim-publikasi-katadata>, Smallholder Palm Oil Plantation Area 40.6% of Total Indonesian Palm Oil Plantations, accessed on December 6 2023, at 11.29 WIB

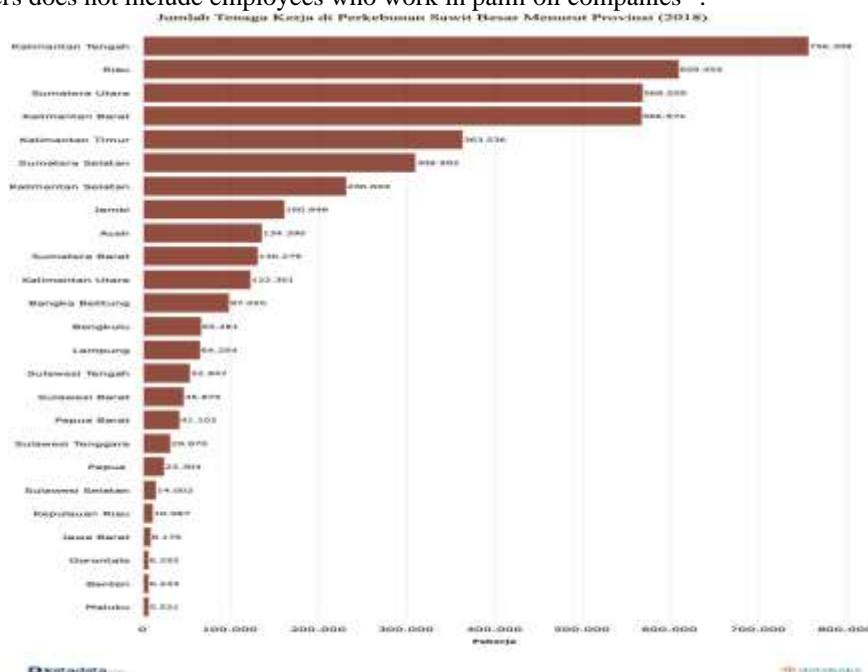
<sup>51</sup> <https://databoks.katadata.co.id/profile/tim-publikasi-katadata>, Palm Oil Productivity in 10 Provinces with the Largest Palm Oil Land, accessed on December 6 2023, at 11.33 WIB



## 7. Palm Oil Plantations Can Absorb Labour

Palm oil is one of the commodities that contributes the largest amount of foreign exchange to the country. Apart from that, the palm oil industry is also a labour-intensive industry that absorbs a lot of workers. Increasing production along with increasing land also encourages an increase in the number of workers in the palm oil plantation sector.

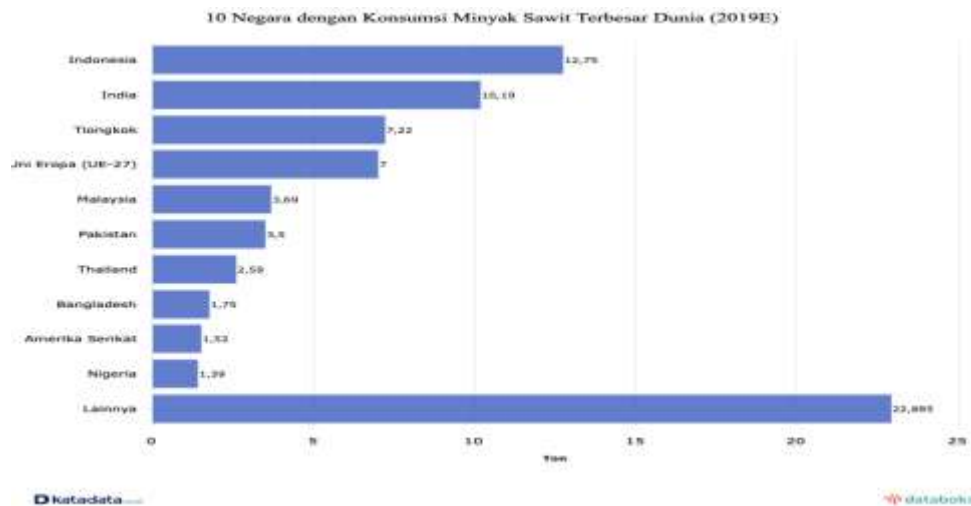
Based on data from the Ministry of Agriculture, the number of workers in large oil palm plantations, both private and state, reached 4.42 million workers (preliminary figure) in 2018. This number consists of 4.0 million (90.68%) who are workers in large private oil palm plantations. nationally, then 321 thousand (7.26%) workers on large state oil palm plantations, and 91 thousand (2.07%) workers on large foreign private oil palm plantations. The number of workers does not include employees who work in palm oil companies<sup>52</sup>.



Central Kalimantan is the province with the largest number of oil palm plantation workers, reaching 756 thousand people in 2018. This number beats Riau with 609 thousand workers and North Sumatra with 567

<sup>52</sup> <https://databoks.katadata.co.id/profile/tim-publikasi-katadata>, Palm Oil Plantations Capable of Absorbing 4.42 Million Workers, accessed on December 6 2023, at 11.47 WIB

thousand workers. For the record, this year Central Kalimantan recorded the largest forest and land fires, reaching 134 thousand ha.



Meanwhile, the country with the second largest consumption of palm oil is India, reaching 10.19 million tonnes or 13.68% of total world consumption. For information, India is also the country with the world's largest imports of palm oil, which is estimated to reach 10 million tons this year. Then, the country with the third largest imports of palm oil is China, amounting to 7.22 million tons or around 9.7% of the total.

As is known, Indonesia is the largest palm oil-producing country. Based on USDA data, Indonesia's CPO production reached 41.5 million tons in 2018 and is expected to increase to 43 million tons in 2019. This increase in production is in line with the increase in the area of oil palm plantations in the country to around 14 million ha in 2018 (preliminary figures). However, this increase in land is also accompanied by deforestation and frequent forest fires around oil palm plantations.

#### 8. RI Palm Oil Production Reaches 45.12 Million Tons in 2022, This is the Province with the Largest Production

The Covid-19 pandemic that has occurred since the beginning of 2020 is estimated to have caused a decrease in crude palm oil (CPO) production by 5.01 per cent compared to 2019 to 45.74 million tons. The Central Statistics Agency (BPS) reported that CPO production experienced a slight decline again to 45.12 million tons in 2021<sup>53</sup>.



<sup>53</sup> <https://databoks.katadata.co.id/profile/annissa-mutia, RI Palm Oil Production Reaches 45.12 Million Tons in 2022, This is the Province with the Largest Production>, accessed on December 6 2023, at 12.34 WIB

The largest production of palm oil (CPO) in 2021 is estimated to come from Riau Province with production of 8.96 million tons or around 19.55 percent of Indonesia's total production. The next largest production came from Central Kalimantan Province with production of 7.28 million tons or 12.47 percent.

Furthermore, BPS estimates that in 2021 the area of oil palm plantations will be 14.62 million hectares. Oil palm plantation areas are spread across 26 provinces, namely all provinces on the islands of Sumatra and Kalimantan, West Java Province, Banten, Central Sulawesi, South Sulawesi, Southeast Sulawesi, West Sulawesi, Gorontalo, Maluku, North Maluku, Papua and West Papua.

In 2021, Riau Province will still be the largest palm oil-producing province with an area of 2.86 million hectares or 19.55 percent of the total area of oil palm plantations in Indonesia. From this area, Riau Province produces 8.96 million tons of CPO.

Meanwhile, the area of oil palm plantations according to exploitation status in 2021 did not show any significant changes. As in previous years, control of oil palm plantation areas is still dominated by large private plantations.

8.04 million hectares or 55 per cent of oil palm plantations are controlled by private plantations; followed by smallholder plantations which control 6.03 million hectares or 41.24 per cent of oil palm plantations; and the remaining 0.55 million hectares or 3.76 per cent is controlled by large state plantations.

## 9. Palm Oil Production 2021-2022

The Indonesian Palm Oil Entrepreneurs Association (Gapki) recorded an increase in palm oil production in March 2022. This increase provides a breath of fresh air for the industry after experiencing production stagnation.

According to Gapki data, total domestic palm oil production in March 2022 was recorded at 4.15 million tons, up 8.2% from the previous month which was 3.83 million tons (month-to-month/m-to-m)<sup>54</sup>.

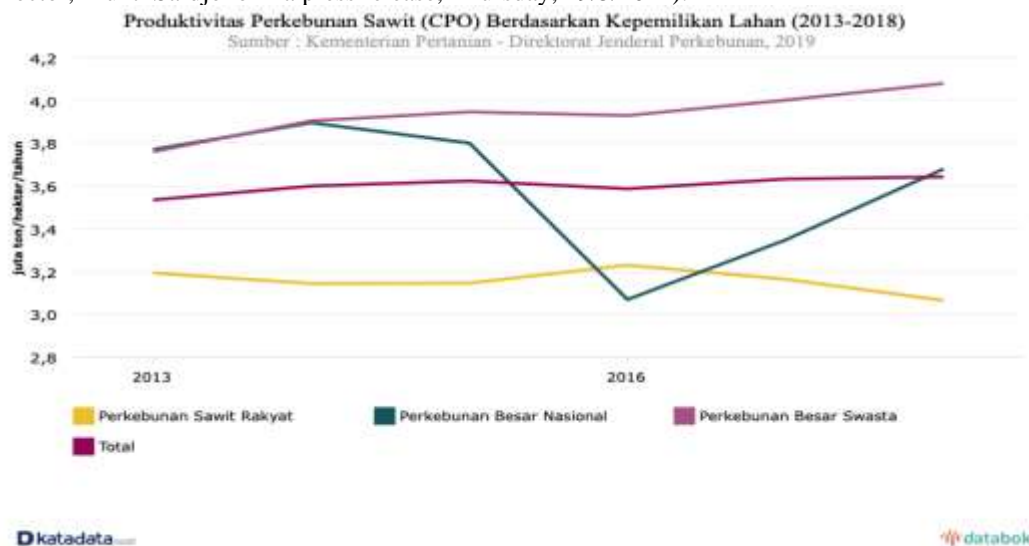
In detail, crude palm oil (CPO) production was 3.78 million tons in March 2022, up 7.9% (m-to-m). Then, crude palm kernel oil (CPKO) production amounted to 368 thousand tons, up 11.8% (m-to-m).

Throughout 2022, a significant increase occurred in March after sluggish production in January and February. Oil production in February 2022 fell 9.3% from the previous month.

The decline in production in February 2022 was recorded to be deeper than in January 2022 which was only 3% every month. This is due to seasonal factors.

Meanwhile, cumulatively during January-March 2022, total palm oil production was 12.2 million tons. In detail, CPO production in that period was 11.15 million tons and CPKO was 1.06 million tons. Total production in the first quarter of 2022 increased by 9.4% from the first quarter of 2021 which reached 11.15 million tons.

"The fairly high increase in production is a great relief after being stagnant for quite a long period," (Gapki Executive Director, Mukti Sardjono in a press release, Thursday, 19/5/2022).



<sup>54</sup> <https://databoks.katadata.co.id/profile/vika-azkiya-dihni>, Palm Oil Production (March 2021-March 2022), accessed on December 6 2023, at 12.39 WIB

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