

## Implementation Of Good Corporate Governance (GCG) In Palm Oil Plantation Companies In Indonesia (Literature Review)

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### ABSTRACT

*Palm oil plantations are one of the important sectors in the Indonesian economy that remained strong during the global financial crisis and contributed greatly to the country's foreign exchange. The world's largest exporters of palm oil are Indonesia and Malaysia with the largest contributions of 26.60 million tons and 15.40 million tons respectively in 2022. Companies are trying to improve the implementation of Good Corporate Governance (GCG) to comply with regulations and improve the quality of management in a sustainable manner. The purpose of this study is to review the literature on the implementation of GCG in palm oil plantation companies, its impact on company performance, and obstacles in its implementation, using a qualitative literature study method. The results of the study indicate that the implementation of GCG in companies such as PT Bumitama Gunajaya Agro, PT. PP. London Sumatera Indonesia Tbk, and PT Agro Sinergi Nusantara has succeeded in meeting the principles of GCG and increasing Return on Assets (ROA). However, there are obstacles such as lack of management commitment, limited resources, unsupportive corporate culture, and external pressures and conflicts of interest. By overcoming these obstacles, it is hoped that companies in the palm oil plantation sub-sector can be more effective in implementing GCG, thereby improving their financial performance and business sustainability.*

**Keywords:** Palm Oil Plantation. GCG. ROA

### ABSTRAK

Perkebunan kelapa sawit merupakan salah satu sektor penting dalam perekonomian Indonesia yang tetap kuat selama krisis keuangan global dan berkontribusi besar terhadap devisa negara. Eksportir terbesar minyak kelapa sawit dunia adalah Indonesia dan Malaysia dengan kontribusi terbesar yaitu masing-masing sebesar 26,60 juta ton dan 15,40 juta ton pada tahun 2022. Perusahaan berupaya meningkatkan penerapan Good Corporate Governance (GCG) untuk mematuhi regulasi dan meningkatkan kualitas pengelolaan secara berkelanjutan. Tujuan penelitian ini meninjau literatur tentang penerapan GCG di perusahaan perkebunan kelapa sawit, pengaruhnya terhadap kinerja perusahaan, serta hambatan dalam implementasinya, menggunakan metode kualitatif studi pustaka. Hasil penelitian menunjukkan bahwa penerapan GCG di perusahaan seperti PT. Bumitama Gunajaya Agro, PT. PP. London Sumatera Indonesia Tbk, dan PT Agro Sinergi Nusantara berhasil memenuhi prinsip-prinsip GCG dan meningkatkan Return on Assets (ROA). Namun, terdapat hambatan seperti kurangnya komitmen manajemen, keterbatasan sumber daya, budaya perusahaan yang tidak mendukung, serta tekanan eksternal dan konflik kepentingan. Dengan mengatasi hambatan-hambatan tersebut diharapkan perusahaan-perusahaan di subsektor perkebunan kelapa sawit dapat lebih efektif dalam mengimplementasikan GCG, sehingga dapat meningkatkan kinerja keuangan dan keberlanjutan usaha mereka.

**Kata Kunci:** Perkebunan Kelapa Sawit, GCG, ROA

### 1. Introduction

Oil palm plantations are one of the sectors that have managed to survive the global financial crisis. In Indonesia, this sector continues to contribute to the country's foreign exchange earnings.

The palm oil commodity and its derivatives, such as crude palm oil (CPO), currently have good market prospects. This is due to its role as a vegetable oil, which can also be used as a substitute to produce biodiesel, lubricants, cosmetics, paint, as well as soap and margarine. The largest exporters of CPO in the world are Indonesia and Malaysia, with the largest contributions being 26.60 million tons and 15.40 million tons, respectively, in 2022. During this period, the total export volume reached 48.95 million tons (Oil World, 2023).

To ensure the continuity of the company's business, especially in the plantation sub-sector, it is essential to implement good corporate governance. One of the company's efforts to improve its quality is by implementing good corporate governance (GCG) practices (Wicaksono, 2014).

The company strives to enhance the quality of GCG practices, not only to comply with existing laws and regulations but also as part of an effort to innovate and improve management practices continuously, with the aim of increasing the application of GCG principles.

The implementation of Good Corporate Governance (GCG) in palm oil plantation companies, as demonstrated by studies on PT Bumitama Gunajaya Agro, PT PP London Sumatera Indonesia Tbk, and PT Agro Sinergi

Nusantara, has shown success in meeting the principles of GCG, including transparency, accountability, responsibility, independence, and fairness (Kusmiarti, 2020), (Ramadani et al., 2020), and (Sibuea & Hendrawan, 2017). The application of GCG has been proven to have a positive impact on the company's financial performance, particularly in Return on Assets (ROA) (Rahmawati & Kitrianti, 2021; Ramadani et al., 2020).

Therefore, this study will review the literature regarding the implementation of GCG (Good Corporate Governance) in palm oil plantation companies, whether GCG has an effect on company performance, and what the obstacles or challenges are in implementing GCG (Good Corporate Governance) in palm oil plantation companies.

## 2. Theoretical Framework

### Good Corporate Governance

(Djanegara, 2008) defines GCG as a set of rules that outlines the relationship between shareholders, managers, creditors, the government, employees, and other stakeholders, both internal and external, concerning their rights and responsibilities.

The term corporate governance was first introduced widely and officially in the Cadbury Report, titled "Financial Aspects of Corporate Governance", in 1992 in the United Kingdom. The Cadbury Report can be considered the first governance guideline in the world, later followed by several other countries (Zaenal & Prabantarikso, 2021). The phrase corporate governance consists of two words: corporate and governance. The word corporate is an adjective, referring to qualities related to corporations or companies. On the other hand, governance is a noun, meaning management or administration. In Indonesia, some literature translates corporate governance as tata kelola (management) while others use the term tata pamong (stewardship) (Warsono et al., 2009).

### Teori Keagenan

(Ismail et al., 2016) said that the explanation of the contractual relationship between agent and principal. The agent is the party who receives the mandate from the principal to carry out all activities on behalf of the principal, in this case the agent has the capacity as a decision maker.

Agency theory emphasizes the separation of ownership and control in the relationship between principal (owner) and agent (management). Its relevance in corporate governance is to ensure that management acts in accordance with the interests of shareholders through monitoring and incentive mechanisms. This is important to reduce the problems of moral hazard and conflicts of interest (Zaenal & Prabantarikso, 2021).

### Stakeholder Theory

(Sweeney and Coughlan, 2011) stated that the organization's responsibility is not only to all investors and owners but also extends to all stakeholders.

This theory broadens the focus from shareholders to all stakeholders including employees, customers, suppliers, and the community. The relevance is that the company must provide benefits to stakeholders, not just be an entity that only works to succeed in the interests of its entity without considering stakeholders. Therefore, stakeholders greatly influence the existence of a company, especially support from stakeholders for the company (Zaenal & Prabantarikso, 2021).

### Institutional Theory

(Lawrence, Suddaby, and Leca, 2011) that institutional theory describes why and how actors in organizations are motivated to make changes in their organizational systems.

Institutional theory consists of two categories, the first institutional theory is oriented towards political science and economics, where from this perspective it emphasizes formal rules in the form of constitutions, laws and property rights, and also consists of informal boundaries in the form of customs, traditions, sanctions, taboos and codes of ethics. The second is oriented towards sociology and organizational theory, where institutional theory emphasizes how organizational and individual behavior is guided by formal rules and regulations and more by social procedures. The relevance is that companies must adapt to applicable standards and regulations in order to be considered legitimate and survive in a competitive environment (Zaenal & Prabantarikso, 2021).

### Resource Dependence Theory

(Zaenal & Prabantarikso, 2021) This theory focuses on how companies manage dependence on important external resources. The relevance is that companies must develop strategies to secure access to vital resources through partnerships, alliances, and relationship management with suppliers and other parties.

### Stewardship Theory

(Zaenal & Prabantarikso, 2021) Stewardship theory argues that managers, when entrusted with great responsibility, will act as loyal guardians of shareholder interests. Its relevance is to build a culture of trust and commitment that can improve company performance by reducing the need for excessive supervision.

### Feminism Theory

(Zaenal & Prabantarikso, 2021) feminist theory in corporate governance emphasizes the importance of gender equality and inclusion. Its relevance is that gender diversity in boards and management can bring broader perspectives, improve decision-making, and create a fairer and more productive work environment.

## 3. Methodology

Use method qualitative through studies library. Literature study is one of the techniq in collecting data done with the procurement process studies or study has from journal, book or other relevant literature with Topic research (Primawanti et al., 2022).

**Data**

The type of data used is secondary data in the form of articles and journals scientific. Secondary data is the data collected not only for needs a research certain only (Hermawan & Amirullah, 2016). Data sourced from Scopus database (www.scopus.com), Google Scholar (www.scholar.google.com), books, and other sources theoretical other relevant with Topic study.

**Analysis Method**

Data analysis was performed with method descriptive qualitative for describe practice management carried out, namely: identification and evaluation company with use method qualitative through studies literature and analysis journal.

**Result and Discussion****Implementation of GCG**

From the literature studied (Kusmiarti, 2020) it shows that in the company Earth Gunajaya Agriculture Already implementing Corporate Governance good (GCG), with operate principle GCG principles, namely Transparency, Accountability, Responsibility, Independence and Fairness. Implementation principle GCG principles are stated in article Here, there are at least 13 principles. With thus all right the rights of shareholders and stakeholders have filled in a way precise and accurate, for example right for get information development operation company, information in the process of taking decision, information about the Board of Directors and authorities company organ devices. The following principles applied:

**Principle 1: The Board's Conduct of Affairs (Functions of the Board of Directors)**

- Formulate strategy company, finance goals and directions for the Groups;
- Ensure effectiveness management leadership from the highest quality and integrity;
- Give internal control of proper behavior from the Groups business;
- Supervise and/ evaluate emergence risk financial management reporting and process compliance, which is overseen by internal company Auditors.

For facilitate effective management and assist the Board of Directors in carry out not quite enough the answer is, functions certain has delegated by the Council to various The Board Committees are: Audit Committee (AC); Remuneration/Remuneration Committee (RC), Committee Nomination/Nominating Committee (NC) and the Nomination Committee Resolution Conflicts Resolution Committee (CRC), which operates under framework clear reference, which has been approved by the Board and its duties assist the Council.

**Principle 2: Board Composition & Guidance)**

The council consists of from six members and half from the Council is Director Independent. Element strong

independent from the Council to ensure that He can do evaluation objective and independent in matters companies and in transactions involving conflict interests and complexities other.

**Principle 3: Chairman and Chief Executive Officer (CEO)**

Chairman of the Board, Mr. Lim Gunawan Hariyanto, is also the CEO of the Company. Mr. Lim Gunawan English: play role important as CEO in (i) formulating policies and strategies business and company in a way overall from Group; (ii) manages overall business and operations Group; and (iii) supervise development business Group in a way as a whole. As Chairman of the Board, he carry not quite enough answer main For the work of the Council, with ensure effectiveness in all aspect his job including set the agenda for Board meeting and ensure that Board of Directors accept complete and adequate information.

**Principle 4: Board of Membership)**

Consisting of from three director, all three is Director Independent and meet every semester:

1. Mr. Lee Lap Wah George (chairman)
2. Mr. Tan Boon Hoo (director) Independent Leader)
3. Mr. Lim Hung Siang

Function Members of the Board, among others:

1. Review and recommend to the Council regarding structure and composition from the Board and the Board Committees.
2. Determine in the process of search, nomination, selection and appointment from member new Council.
3. Review and create recommendation to the Council about all appointment
4. The Council, including nomination Board of Directors For chosen back / lifted back, with consider contribution and performance Director
5. Determine every year whether a Director is independent
6. Determine capable or whether or not a Director in carry out his job
7. as Directors of the Company, in particular where the Directors concerned
8. own a number of board representation
9. Evaluate the contribution and performance of the Board and adopt the right steps for assess performance
10. Reviewing plan succession, especially the Chairman and CEO

**Principle 5: Board Performance)**

Committee the Nominating Committee has adopt evaluation annual about effectiveness performance from the Board and the Committee Board collective. The NC believes That is more appropriate for evaluate overall the performance of the Board, not evaluate from individual

Council, because every member from the Councils to give contribution in various method or can effective contribute.

#### **Principle 6: Access to Information (Access to Information) information)**

Convenience access information has provided in meeting with the Council, report or paper review about performance Group; position finances, and problems Major and significant issues, which must be submitted to the Council and in the period quarterly There is report performance rational with analysis/commentary short, thing this for ensure progress/achievement performance. The directors are also given information from every development or related events with Group. All The directors are also given update information results meeting of the Council meeting, letter Circular about related matters with, regulation / change regulation from SGX-ST, Companies Act, standards and/ or condition law others. The Board of Directors can also look for Sarah from independent professional.

#### **Principle 7: Disclosure Remuneration**

Remuneration policy from the Company to give package compensation at market level , providing attractive performance rewards , to retain nd motivate management key.

#### **Principle 8: Accountability**

The council promotes proper disclosure time and balance above all related materials with Group. Holder share updated regarding operation and position finance Group through announcement results quarterly and full year (in line with with Standard Reporting Finance pore Lion (International) as determined by the Standards Board Singapore Accounting) as well as announcement appropriate timeabout other matters as prescribed by the SGX - ST Registration Manual and rules and regulations related others. Summary from highlight operational Group which is prepared every quarterly also released through SGXNet.

#### **Principle 9: Management Risk and Internal Control**

The council acknowledges responsible answer For ensure that Management look after system healthy internal control For protect investment Holder Stocks and assets Group.

#### **Principle 10: Management Risk Enterp Rise (“ERM”)**

Management effective and wise risks is one of the factors in achieving objective control and target strategic Group. Group has to form framework systematic ERM work for identify, assess, monitor, manage, and evaluate risk Business significant issues faced Group. Below ERM framework, a risk register that identifies shared material risk with internal control for manage or mitigate risk the maintained. Committee Separate Management and Departments Company Risk is formed for oversee ERM and ensure that risk list reviewed, managed and updated in a way periodically.

#### **Principle 11: Internal Audit (IA)**

Dedicated internal audit (IA) team Ready for review, at least very every year, risk policies, procedures and activities Group. IA has free access to all from the Groups notes and documents and reports direct to in AC at every non- compliance materials and internal controls weakness.

In the literature others, according to Sibuea & Hendrawan (2017), Principles GCG implementation at PT. PP. London Sumatera Indonesia Tbk Garden Mountain Malay Estate is very come true Good That fairness transparency, accountability and responsibility.

#### **Fairness**

Based on calculation obtained percentage in a way overall 86.0%, so concluded that principle fairness very realized. Principle fairness demand all over stakeholders interest must own chance For get fair treatment from company. Enforcement principle this is in the company will forbid practices despicable and detrimental. Every member board of directors must do openness If find transactions containing clash interest.

#### **Transparency**

Based on calculation obtained percentage in a way overall 84.5%, so concluded that principle transparency very materialize. Form real principle transparency that is carried out has behave open and responsible to public around. This is done with firm steps in reduce regulations and procedures that hinder creativity society, giving chance to public for can play a role as well as in the process of being drafted regulation policy, implementation, supervision development, as well as done in a way real and fair in accordance aspirations and interests society. Principles transparency This No only relate with matters concerning finance, also included in matter openness in meetings, openness information, transparency procedures, register openness, openness accept role as well as public.

#### **Accountability**

Based on calculation obtained percentage in a way overall 85.62%, so concluded that principle accountability very realized. Principle accountability This load the authorities that must be owned by the board of commissioners and directors along with his obligations to holder shares and other stakeholders. Board of directors responsible answer on success management company in frame reach the goals that have been determined by the holder shares. Commissioner responsible answer on success supervision and mandatory give advice to board of directors on management company so that objective company can achieved. Holder share responsible answer on success coaching in frame management company.

#### **Responsibility**

Based on calculation obtained percentage in a way overall 87.03 %, so can concluded that principle accountability very realized. Principle accountability This demand leaders and managers company do his activities

in a way responsible answer as a manager company should avoided all cost potential transactions detrimental, such as implied in laws, regulations, contracts and also guidelines operational business company.

According to Ramadan et al., (2020), PT Agro Synergy Nusantara Garden Unit Palm oil Batee Moving White in cultivation plant coconut palm oil and CPO processing as company owned by state-owned enterprises is mandatory implement Good Corporate Governance (GCG) in every activity its operations The company stated until moment This his party still try apply The principles of GCG are: transparency, accountability, responsibility, independence and fairness in all matters aspect management even though moment This garden faced with obstacles unfinished production reach the target (not maximum).

### **Influence Implementation Good Corporate Governance (GCG) towards Performance Corporate Finance**

Companies that implement Good Corporate Governance (GCG) is based on provision Constitution in operate activity operational, generally give influence positive throughout field in the company. Phenomenon new This very interesting, because company will the more innovate in apply Good Corporate Governance (GCG). Implementation Good Corporate Governance (GCG) can influence a number of things, including is mark Return on Assets (ROA) obtained company on profit clean in term time certain. This ROA value show speed turnaround assets in the company measured from sales volume in the period certain.

From the results review from literature used Rahmawati & Kitrianti (2021), shows that Good Corporate Governance (Measurement) Audit Committe has influence significant to Performance Corporate Finance (ROA) with mark  $t_{count}$  is 2.194 and  $t_{table}$  is 2.016, for sig. 0.034. And the R Square value of Good Corporate Governance to Performance Corporate Finance is 10.1% while 89.9% is influenced by other variables that are not discussed in study this. Other studies show that implementation GCG principles include transparency, accountability, responsibility answers, independence and fairness influential in a way significant to performance company (Ramadani) et al., (2020).

### **Obstacle or Challenge in Implementation of GCG in Coconut Plantation Sub-Sector Companies Palm Oil**

Obstacle or challenge in Implementation of GCG in companies subsector plantation coconut palm oil covering a number of aspect following:

1. Commitment Management: Often, the lack of commitment from management peak in apply GCG principles become obstacle main. Management Possible see GCG as burden addition than as tool for increase performance and transparency company

2. Limitations Source Power: Implementation of GCG requires source significant power, including time, effort, and cost. Plantation companies coconut palm oil which has limitations source Power Possible difficulty in implementing GCG in a effective.
3. Company Culture: Culture organization that does not support transparency, accountability, and practice ethical can become barrier big in implementation of GCG. Changes culture company need consistent time and effort
4. Limitations Knowledge and Understanding: Lack understanding about the importance of GCG and how apply it with Correct Can become challenges. Adequate training and education for all levels of management and employees very important for overcome obstacle This
5. Regulation and Compliance: Although regulation about GCG already there is, implementation and compliance to regulation the often Still weak. The company may face challenge in fulfil all condition applicable laws and regulations.
6. Supervision and Control System weak supervision and control can hinder effective implementation of GC. Without strict supervision, GCG practices can with easy ignored or violated
7. Pressure External: Plantation companies coconut palm oil often face pressure from various party external such as NGOs, media, and communities local related issues environmental and social. Pressure This Can become obstacle in focus consistent implementation of GCG
8. Transparency Information: Difficulty in provide transparent and accurate information to stakeholders interest Can become challenge. This including openness in report financial, operational, and impact environment.
9. Conflict Interest: Existence conflict interests between holder shares, board of directors, and management can hinder GCG implementation. Interests personal or group certain more prioritized than interest companies and stakeholders interest other can bother effective implementation of GCG.

### **Conclusion**

Implementation Good Corporate Governance (GCG) in companies subsector plantation coconut palm oil, as shown by a study on PT Bumitama Gunajaya Agro, PT. PP. London Sumatera Indonesia Tbk, and PT Agro Synergy Nusantara has show success in fulfil GCG principles, including transparency, accountability,

responsibility responsibility, independence, and fairness. The implementatin of GCG proven own influence positive to performance finance company, especially on Return on Assets (ROA). However, there are obstacle in implementation of GCG, such as lack of commitment management, limitations source power, culture companies that do not support, and pressure external and conflict interest.

Based on results study found a number of problems, so that writer submit a number of recommendation among others as following:

1. **Improvement Commitment Management:** Management peak must more committed in apply GCG principles with see it as tool for increase performance and transparency company.
2. **Optimization Source Power:** The company must allocate source sufficient power for support GCG implementation, including training and education for all levels of management and employees.
3. **Change Company Culture:** Required consistent effort for change culture company to be more support transparency, accountability, and practice ethical.
4. **Compliance Regulation:** The company must ensure compliance to all applicable regulations and rules, with strengthen system internal supervision and control.
5. **Transparency Information:** Increase openness in provision information to stakeholders interests, including report financial, operational, and impact environment.
6. **Management Conflict Interest:** Develop clear policy For manage conflict interests between holder shares, board of directors, and management For ensure effective and sustainable implementation of GCG.

With overcome obstacles and implement it recommendation this, it is expected companies in the sub-sector plantation coconut palm oil can more effective in implementing GCG, so that can increase performance finance and sustainability business they.

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