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Profitability and Strategy of Palm Oil Partnership: Case Study in PT ABC

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ABSTRACT

Research on the problems of nucleus-plasma partnerships from the perspective of oil palm companies is still limited, so it needs to be done. This study aims to find the root cause of partnership problems carried out by Company ABC as well as to provide a business strategy to generate sustainable and mutually beneficial partnerships. The research was conducted by looking for the root causes of the low profitability of partnerships conducted with farmers, then looking for solutions to each of the root causes and at the same time strengthening the variables that affect farmer commitment and trust in partnerships. This study using institutional logic theory to evaluate Company ABC's oil palm program partnerships and key mediating variables models from commitment and trust theory to develop strategy. The results of this study include seven points of the root causes within the partnership and three points of the root causes outside the partnership as well as nine points of strategic advice that are expected to increase partnership profitability for ABC companies.

1. INTRODUCTION

Since 2015, palm oil has become the most consumed vegetable oil in the world (The International Institute for Sustainable Development, 2020). Palm oil production was dominated by Indonesia and Malaysia, covering 85% - 90% of total global production in 2016 (The International Institute for Sustainable Development, 2020). This is because

Indonesia and Malaysia have favorable agroecological conditions with abundant land and labor (Euler et al., 2017).

Oil palm plantations in Indonesia are mostly managed by large private plantations (Perkebunan Besar Swasta atau PBS) of 54.94% (7.9 million hectares), followed by smallholders (Perkebunan Rakyat atau PR) of 40.79% (5.9 million hectares) and the remaining 4 .27% (617 thousand hectares) cultivated by the government through large state plantations (Perkebunan Besar Negara) (Directorate General of Plantation Indonesia, 2020). Even though smallholder plantations cultivated 40.79% of the land in 2019, CPO production that year was only 31.67% of Indonesia's total production.

Smallholders participate in cultivated land either independently without external assistance or through cooperation contracts with companies (Euler et al., 2016). Cooperation between the commercial plantation company and smallholders was encouraged by the Indonesian government to take advantage of palm oil opportunities due to the increasing demand for vegetable oil (Feintrenie et al., 2010). The collaboration program was initially initiated by the Government of Indonesia, starting from PIR (Perkebunan Inti Rakyat), NES (Nucleus Estate & Smallholders) to KKPA (Primary Credit Cooperative Members) and then continued cooperation driven by the private sector (Molenaar et al., 2013).

However, implementation of cooperatives programs has many conflicts between companies and farmers. These conflicts include land conflicts, discrepancies between results and company promises to farmers and injustice in profit sharing (Rokhim et al., 2021). In various media, the unfair treatment carried out by palm oil companies towards farmer partners is often in the spotlight. Several indicators show poor cooperative governance, including the absence of policy transparency and decision-making by nucleus companies that influence farmers, the absence of problem resolution mechanisms, the absence of informal long-term agreements made, and the absence of a counterbalance to corporate strengths in cooperation such as farmer unions (Dwi et al., 2021).

While Palm oil partnerships for commercial companies are not free from obstacles and challenges. Several large-scale palm oil companies in Indonesia demonstrated the challenges they face in building oil palm partnerships. In the annual report of PT Salim Ivomas Pratama Tbk from 2017 to 2021, it states that the company faces a credit default

risk from the loans to plasma farmers. The amount of PT Salim Ivomas Pratama Tbk's plasma receivables at the end of 2021 will reach IDR 1.3 trillion or around 94% of the company's Comprehensive Profit in 2021. Meanwhile, for palm oil companies with a larger scale, such as Golden Agri Resources, the amount of plasma advances to reach $13.7 million by the end of 2021 or approximately 2% of the Company's Comprehensive Profit in 2021. In this case almost all palm oil companies need additional working capital to fund smallholders and directly bear the credit default risks for plasma receivables.

Previous research on partnerships between companies and oil palm smallholders, showed that cooperation benefited the participating smallholders, as well as the communities around the oil palm plantations, and the initial phase partnerships initiated by the government proved to be more profitable than newer partnerships which tended to be market oriented (Gatto et al., 2017). Meanwhile, Cahyadi and Waibel (2013) found that plasma farmers use better production inputs resulting in better production, and overall partnerships in Indonesia have a positive impact on plasma farmer household income. These studies analyze the impact and success of cooperation contracts for smallholders, while research on cooperation contracts from the perspective of oil palm companies is still limited. So, it is necessary to conduct research on the opportunities and difficulties faced by oil palm companies in implementing cooperation contracts with smallholders to produce a cooperation that is fair and profitable for both smallholders and for oil palm companies.

Company ABC was chosen as research object, because Company ABC has built partnership since 1990 until now. Company ABC has a lot of experience in building partnerships with farmers through various types of partnership programs, so it is expected that ABC company will provide a complete picture of the problems and challenges faced by commercial companies in building partnerships with farmers.

2. LITERATURE REVIEW AND HYPOTHESIS

This research uses two theories, Institutional Logic Theory and Trust Commitment Theory of Relationship Marketing.

Institutional Logic Theory

Institutional logic refers to social layers, beliefs, and regulations that govern the mindset and behavior of individuals and organizations (Ren et al., 2017). At the beginning of research on institutional logic, the research focus was more on how the dominant logic governs actors in the field (Gisch et al., 2021). Nonetheless several studies show that the field of organization is the subject of many institutional logics. The existence of multiple logics in organizations is common (Besharov & Smith, 2014) and occurs in various fields including social enterprises (Dacin et al., 2011), health (Dunn & Jones, 2010), or other industries.

The relationship between institutional logics within an organization is shown in several previous studies. Several studies have shown steady competition between logics (Greenwood et al., 2011). Meanwhile, a constellation relationship is found in the institutional logics of professional pharmacy work. The constellation concept shows that even though an institutional logic is no longer dominant, this logic is still reflected in the organization. The institutional logics that exist in the work of pharmaceutical professionals show both competitive and cooperative relationships (Goodrick & Reay, 2011).

Three strategies for managing different institutional logics and influencing an organization according to research (Battilana & Dorado, 2010) in (Heeks et al., 2020) include: (1) combining logics (combining logics); (2) compromising logics, and (3) decoupling logics.

In this study, in the context of building oil palm partnerships, palm oil companies are faced with two different institutional logics. First, profit maximization logic according to the company's goals in maximizing profit and regulation logic because the company's obligation to comply with applicable regulations related to partnerships, in this case UU 39 Tahun 2014, Permentan 98 Tahun 2013 dan PP 26 tahun 2021. This research will explain the relationship between the institutional logic that the firm faces and how that logic creates partnership problems.

Commitment-Trust Theory of Relationship Marketing

Trust-commitment theory focuses on explaining the long-term relationship development of the party making the exchange (Wang et al., 2016). The implication of the commitment-trust theory introduced by Morgant & Hunt (1994) is called the key mediating variable (KMV) model of relationship marketing. Commitment and trust are the main

constructs that are placed as intermediary variables between the five preceding variables, namely relationship termination costs, relationship benefits, shared values, communication, and opportunistic behavior) with five outcomes namely, acquisition, propensity to leave, cooperation, functional conflict, and decision-making uncertainty.

Dyer and Singh (2018) state that commitment is identified as a driver of successful inter-organizational relationships. Commitment refers to the belief that a relationship is so important that it requires maximum effort to maintain it (Morgan & Hunt, 1994). Commitment acts as an important intermediary in managing positive behavior between community members (Hashim & Tan, 2015). In addition, commitment is also seen as an important intermediary factor for the durability of a relationship (Goo & Huang, 2008).

On the other hand, trust is defined as a willingness to depend on an exchange partner one trusts (Morgan & Hunt, 1994). Trust is important in shaping reliable and socially acceptable behavior when there are no or no related regulations (Hashim & Tan, 2015). According to Deutsch (1960) in Wu et al (2012), trust is an essential factor in the early stages of cooperation and good cooperative relationships are built on mutual trust. Partners will be more willing to put resources into cooperation, if there is high trust (McQuiston, 2001).

In developing strategies this research not only focus on improving the financial performance of Company ABC from the partnership program for the short term (short term) but also encourages the creation of partnerships that are successful, sustainable in the long term and can ultimately encourage the palm oil industry in Indonesia. The strategy formulated is not only solving root causes, but also developing farmers' commitment and trust in the ABC Company program with reference to the theory of commitment and trust.

3. RESEARCH METHOD

This study uses a descriptive qualitative method to explore and understand deeper information related to the partnership carried out by Company ABC with plasma farmers and how the problems faced by Company ABC in building this partnership. This study uses primary data obtained from interviews with three key informants who are responsible for implementing the ABC Company partnership program in Regional 1.

Interview began by exploring the partnership objectives for the company to obtain an overview of the main institutional logics that influence the decision of Company ABC to start a partnership. Conflicting institutional logics explain the emergence of partnership problems for ABC Company. Then the next interview process aims to find the root cause of the problem in the partnership program using the 5 Why Problem-Solving Techniques from Sakichi Toyoda (Asian Development Bank, 2009). At the end, the interview aims to gather information on the strategies the company has implemented to solve the problems of the partnership program.

This study uses The McKinsey Problem-Solving Methodology to analyze the results of the interviews. The first stage is to determine the problem or prepare a problem statement, followed by looking for alleged root causes, selecting alleged root causes, compiling the root causes in the form of an issue tree, and finally proposing solutions for the root causes (Chia, 2018). The solutions proposed to target the root causes of the problem and structured to increase farmer commitment and trust in partnerships according to the commitment-trust theory.

4. RESULTS AND DISCUSSIONS

Partnership Problems

The partnership problems experienced by ABC Company consist of partnership problems of on-going partnership that has been carried out since the PIR-TRANS program to the revitalization program and problems that arise in develop new partnership through PSR program. In exploring the problems by the interview, it starts with questions regarding the achievement of the main objectives of Company ABC in maximizing profits through partnerships. The answers from informants C1 and C2 are as follows:

"For the old program, it is difficult for KKPA and PIR to be positive, there are also those who, even though they get profits, there are those who break away even though they still have billions in debt to the company. For the PSR program, we are still trying to get partners, because there is assistance of 30 million per hectare, so the burden on farmers is low and the potential for bailouts is much smaller." (Informant C1)

"There is a very small margin from plasma, there is even a minus. Let's look at the data later. There are lots of bailouts. We lose interest costs or there are opportunity costs. The problem is that we don't charge interest to the cooperative. (Informant C2)

From these answers, the two main components that become problems or problem statements for partnerships with farmers are the low profitability of partnership programs with farmers. Meanwhile, through further interviews, the two executive assessment indicators of the partnership program are the net profit from the partnership program and the amount of working capital used to fund the partnership. These two indicators will be further described through data and information obtained from Company ABC.

ABC Company suffered losses from almost all koperasi in 2021. Meanwhile, year to date September 2022, some koperasi produce profits to Company, except for Koperasi D and Koperasi E. The biggest loss contributed by koperasi E was Rp 6 billion or 13% of the sales value in 2021 and Rp 813 million or 11% of the sales value for the period ending September 30, 2022. One thing that can be seen in Koperasi E is that the plasma costs are borne by the nucleus which is relatively high when compared to other koperasi.

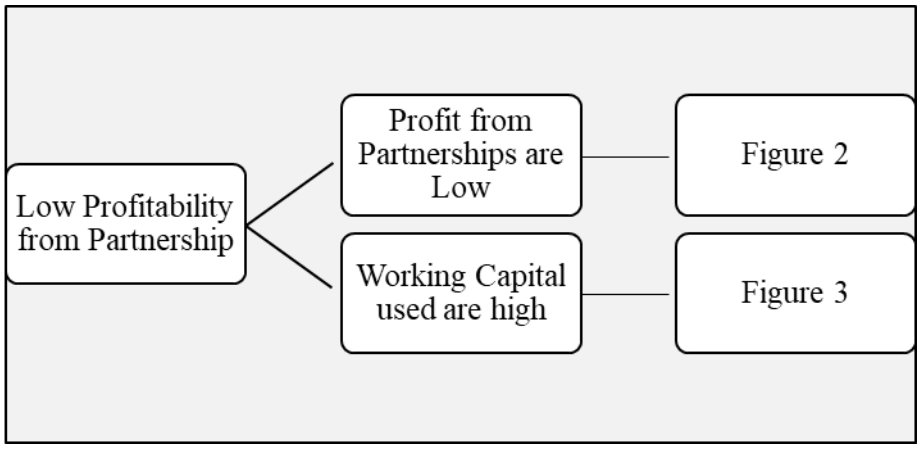
Beside the profit from partnerships, executive performance is also measured by the average weighted capital used, including the capital used in partnerships. The capital used is mainly recorded in Company's accounts receivable or plasma receivables. Plasma receivables are formed through company financing of plasma operational costs which will later be repaid after the sale of FFB, but there are also plasma receivables that arise because farmers fail to fulfill their financial obligations to the bank on the due date, so the company must pay these financial obligations in advance.

Root of The Problem

Figure 1 shows the problem statement "low profitability of partnership programs" divided into two main problems, namely "low profits from partnership programs" and "high working capital to fund partnerships. From the answers obtained from the three informants, the answers were classified into three categories that are factors originating internally from Company, factors originating from farmers, and third-party factors outside the partnership. Although root of the problem sometimes is not only solely influenced by Company or farmer but comes from interactions or negotiations between the two parties. Factors originating from farmers are colored red, factors originating from internal companies are colored green and factors originating from third parties outside the partnership are colored dark blue. Meanwhile, the boxes and dotted connecting lines are the alleged root causes of problems that have arisen before and affect other symptoms or problems of the partnership.

This assumption is to inform the reader that several alleged root causes can affect several aspects of the problem. Meanwhile, to prevent the alleged root causes in the issue tree that is displayed does not overlap, the alleged root causes in the dotted box can be ignored.

Figure 1. Issue Tree I



The alleged root of the problem obtained through the interview process can be seen in table 4. The next process is to confirm the alleged root cause with the data or facts that have occurred, so that the root cause is obtained which really causes the low profitability of the partnership program. In this process H1, H5 and H8 are considered to have no effect or cannot be proven to cause partnership problems in this study.

H1 or the problem in manufacturing process was excluded from the study and was considered to have no effect on partnership problems because the processing process at Company's mills was not studied in more depth due to limited data on mills operations and limited criteria needed to assess the effectiveness of the mills processing. Whereas H5 or the cost of processing and maintaining the factory is not efficient. In table 5 it appears that the value of the processing and maintenance costs is around 4% in 2021 and 2022. Meanwhile the value of the k-index in Jambi Province for the same period, it ranges 90% to 95%, in other words the percentage of operational costs ranges from 10% to 5% of the sales value. Thus, the processing and maintenance costs of Company are relatively lower than the operational costs that are considered in the regulated price calculation, so it can be said that the processing and maintenance costs for Company ABC do not cause a negative contribution margin or H5 is rejected. On the other hand, H8 is considered not to affect the profitability of the partnership program, because the price of FFB will increase as CPO and

PK prices increase. Even though with an increase in CPO and PK prices, farmers' income will certainly increase and reduce the risk of default on debt to the Company, however, CPO and PK prices are unaffected by the actions of Company or farmers (uncontrollable factor).

Table 4. List of Alleged Root Causes

Problem Indicator	Root Causes	Code
Profit from Partnerships are Low	Problems in Manufacturing Process	**(H1)**
	NGO Intervention	**(H2)**
	Weaknesses in the calculation of the k-index	**(H3)**
	All plasma overhead costs are borne by the nucleus	**(H4)**
	Mill processing & maintenance cost are not efficient	**(H5)**
	Management and administration standards for plasma plantations that are the same as the nucleus plantations	**(H6)**
	Many activities related to organizing partnerships	**(H7)**
	Declining price of CPO & PK	**(H8)**
Working Capital used are high	Highly dependence on partnership income	**(H9)**
	Banks giving loan not according to the farmers' abilities.	**(H10)**
Both Problem	Intervention by management of koperasi	**(H11)**
	Location and land conditions are not favorable	**(H12)**
	Management is more focused on the nucleus plantations	**(H13)**

Source: Company's data processed by the author (2022)

Thus, there final root causes that cause partnership problems in this study as follows in table 5. The formulation of strategies to resolve the root causes in table 5 uses the commitment-trust theory of relationship marketing in describing the variables that need to be improved by Company. The implications of this theory are often referred to as the key moderating variable (KMV) model of relationship marketing placing relationship commitment and trust as the main constructs and becoming intermediary variables between the five predecessor variables (relationship termination costs, relationship benefits, shared

values, communication, and opportunistic behavior). with five outcomes (acquiescence, propensity to leave, cooperation, functional conflict, decision-making uncertainty) (Morgan & Hunt, 1994).

Table 5. List of the Root Causes

Root Cause Classification	Root Causes	Code
Internal Factor - Company	All overhead costs borne to Company	**(I1)**
	Management and administration standards for plasma plantations that are the same as the nucleus plantations	**(I2)**
	Many activities related to organizing partnerships	**(I3)**
	Management is more focused on the nucleus plantations	**(I4)**
Internal Factor - Farmers	Intervention by management of koperasi	**(P1)**
	Location and land conditions are not favorable	**(P2)**
	Highly dependence on partnership income	**(P3)**
3rd Party Factor	NGO intervention	**(E1)**
	Weaknesses in the calculation of the k-index	**(E2)**
	Banks giving loan not according to the farmers' abilities	**(E3)**

Source: Company's data processed by the author (2022)

Strategies for Resolving Partnership Problems

Overhead Costs Fully by ABC Company

Root cause I1 and root cause I2 are closely related with high amount of plasma overhead borne by the nucleus. Following the commitment-trust theory, I1 provides benefits for farmers by bearing plasma overhead costs should have a positive effect on trust and finally affect the five results of the KMV model of relationship marketing. However, the amount of overhead costs borne by the core exceeds the income from management fee obtained by ABC Company. Before considering that overhead costs sometimes contain costs that are not related to business activities, the management and administration standards for smallholders are similar with the nucleus plantations standards (root problem I2) also directly cause the high overhead costs. Informant C2 stated that nucleus overhead

costs are around 20% of the total plantation costs in 2022, to carry out similar standards, Company ABC needs to bear plasma overhead costs close to 20% of the total plasma plantation costs. If this is fully implemented, the nucleus will bear around 15% of the total plasma plantation costs because the compensation from management fee is only 5% of the total plasma plantation costs.

Even though the direct sharing of overhead costs by the nucleus will reduce the financial burden on the plasma farmers, ABC Company needs to ensure that the koperasi or farmers understand these benefits. Management fee of 5% that collected by ABC Company, koperasi often feel that companies are getting excess profits from farmers (Informant P3). Even though based on the data that has been obtained and presented in this study, this is not true. In this case, if farmers or Koperasi Managers do not understand or experience these benefits, ABC Company needs to try other mechanisms for these overhead costs.

With no overhead costs borne by the nucleus, the benefits for farmers will certainly be reduced, Company ABC needs to replace them with other benefits that are expected and can be felt by farmers and not greater than the previous overhead costs borne by nucleus. In the end, the benefits provided can increase trust and produce mutually beneficial partnerships without burdening ABC Company excessively.

The Standards for Management and Administration of Plasma Plantations are similar with the Nusclear Standards

The management standards for plasma plantations that resemble the nucleus plantations are intended so that the plasma produces FFB as well as the nucleus plantations owned by Company. However, administrative standards, including needs related to recording transactions, reporting, activity management, budgeting, asset management, need to be reviewed periodically to remain efficient. The administrative needs of plasma plantations should be much smaller than those of nucleus estates, bearing in mind that nucleus estates require high reporting standards for external parties, while plasma does not (Informant C2).

Number of Activities related to Partnership

The number of activities related to partnerships (I3) is one of the root problems in this research. Regarding root cause I3, the costs incurred are costs at the head office of Company, in contrast to the overhead costs incurred in the plasma unit or plantation area of Company. The large number of activities at the head office in connection with holding partnerships results in high head office costs.

Similar with overhead costs for administrative activities need to be reviewed, as well as activities related to partnerships at the head office. These activities need to be analyzed whether they provide added value for farmers or companies. Beside value added analysis, activities that contribute to trust and relationship commitment such as communication, activities to synergize values, or prevent opportunistic behavior must still be maintained. On the other hand, activities that do not add value and do not strengthen trust or commitment should be reduced and eliminated so that the head office costs associated with the partnership are lower.

More Focus on Core Land

The poor quality of plasma FFB does not necessarily harm the plasma farmers if the amount of FFB production remains high. This happens because the plasma FFB purchased by the company is considered to have the same quality with the plasma FFB in one province at the same plant age, as well as being priced at the same price. So that the income of plasma farmers is not affected even though the quality of their FFB is poor, in contrast to companies that will experience losses if the quality of plasma FFB purchased is below the average plasma FFB in one province. So, the management of plasma plantations which is secondary is something that has a negative impact on ABC Company itself.

Based on the interviews, the poor quality of plasma FFB was caused by both internal company factors, namely plantation management which focused more on the nucleus plantations and farmer factors, namely the intervention of Koperasi Managers who did not prioritize the use of funds for plasma plantation management. Good management is one of the keys to the productivity of oil palm land and ultimately determines the success of an oil palm company. Meanwhile, the impact of plasma land productivity according to informant C1 is as follows:

"If the plasma production is good, the farmers will definitely be prosperous, but the effect on the company is not too significant and not necessarily in line, yes indeed a lot of FFB goes into the factory, so our factory is utilized and there is no need to look for foreign fruit anymore, but the plasma FFB margin is small because the price has been set, yes there is a profit but it is very small when compared to the profit from the nucleus estate for every kilogram of FFB that we process, that is also if the quality is good alias the yield is in accordance with the Dinas Perkebunan, if it is lower we will lose."

Based on the explanation from informant C1, assuming that the quality of the plasma FFB is good, the productivity of the plasma land has little effect on the financial performance of Company ABC. However, one of the reasons for the high value of plasma receivables is the poor productivity of plasma land. So it can be concluded that good maintenance of plasma plantations does not necessarily increase the profit of ABC Company, but good land productivity because of good maintenance can reduce the risk of high plasma receivables or even uncollectible plasma receivables for Company.

Intervention from Koperasi Managers

The intervention from koperasi managers in figure 2 and figure 3 is the most common root cause and causes the most problems in this study. The intervention of the Koperasi Managers mentioned in the interview is not intervention or negotiations by the management for the sustainability of farmer's land or the welfare of farmers in general. Management intervention related to expenses that are not related to business activities, labor inefficiency, payment of profit sharing that is not in accordance with the performance of plasma plantations which ultimately worsens the performance of plasma plantations and the company's financial performance through the high balance of plasma receivables and purchases of plasma FFB that are not in accordance quality.

One form of intervention by Koperasi Managers that causes sub-optimal maintenance and fertilization of plasma plantations is the refusal of Koperasi Managers to use the funds for fertilizing and road maintenance needs. However, on the contrary, it often forces the sharing of business results whose value exceeds the actual business results of the plasma plantations. Acquiesce is the result of relationship commitment and trust. So the strategy that needs to be implemented by ABC Company in general is through the precursor

variables of relationship commitment and trust. In this strategy, ABC Company needs to increase or improve communication with Koperasi Managers and farmers.

Communication is the sharing of useful and timely information both formally and informally (Anderson & Narus, 1990). Communication is useful for fostering trust by helping resolve disputes and aligning perceptions and expectations (Etgar, 1979). Important information that needs to be conveyed by Company ABC according to P3 sources includes information on the performance of partnership land, information on operational costs, information on bank loans, information on debt to the core and information on work plans.

In addition, information regarding costs is often not conveyed in detail to koperasi managers and farmers. This is because there are costs that are not related to business activities or costs related to obtaining partnership land certificates. Informatn P3 explained that obtaining partnership land certificates is a long process and is often constrained by the completeness of farmer documents, while the cost of obtaining land certificates is increasingly expensive from time to time, causing these costs to exceed the budgeted funds. Both costs that are not related to business activities and the costs of obtaining partnership land certificates are often not notified to the management of the cooperative, on the grounds of avoiding disputes or refusal of these costs. Meanwhile, the company's management is not willing to bear these costs because it does not provide direct benefits to ABC Company but is in the interests of the Koperasi Managers or farmers.

ABC Company needs to ensure that important information is conveyed regularly, in a timely manner and understandable. The work plan needs to be submitted regularly to provide farmers with an understanding of the management and efforts made by Company for the partnership land. In addition, the work plan will explain how the works on the partnership land generate operational costs.

Apart from information disclosure, another aspect that needs to be improved by companies is the intensity of physical meetings. According to informant P1, the number of physical meetings held with Koperasi Managers was limited to deliver major information that had an impact on partnerships. Thus, the farmers have a negative perception of the invitation to the meeting conducted by ABC Company. On the other hand, if physical meetings are held regularly, negative perceptions can be eliminated as well as a medium for maintaining the same perception of how partnerships should be carried out. With openness

and the same perception regarding priorities in the management of partnership lands, it is expected that in the end it will increase the trust of Koperasi Managers and farmers to Company, resulting in an attitude of agreement with Company ABC's policies.

Intervention by koperasi managers in other forms, such as using vendors who are related parties or privately owned by Koperasi Managers or forcing the recruitment of workers who are not needed can be seen as opportunistic actions by Koperasi Managers. These actions are solely carried out for the sake of obtaining personal benefits or obtaining the support of koperasi members to maintain their position as koperasi leaders. The opportunistic actions taken by Koperasi Managers as intermediaries between farmers and ABC Company had a negative impact on and farmers' trust in the partnership program in general due to poor performance.

What companies can do is participate in selecting Koperasi Managers, such as conducting fit & proper tests on candidates for koperasi managers and providing training or education regarding ethics and financial literacy. In addition, companies need to determine and include in partnership agreements with farmers, regarding mechanisms for resolving disputes or disagreements over business decisions made on partnership land.

Location and Land Conditions are Not Favorable

Based on informant C1, several plasma lands in Jambi Province are not favorable causing inefficiencies and ultimately resulting poor financial performance.

"Several plasma lands in Jambi, such as in Sarolangun, are not favorable, some are located far from the factory, more than a hundred km, so transportation is expensive, there are also areas where the land is spread in a region, so maintenance cannot be done all at once, supervision is also difficult, more supervisors are needed, to make sure the fruit is not stolen" (Interviewer C1)

The land condition which is far from the ABC company's palm oil mill reduces the benefits generated from the cooperation. If there are palm oil mills that are closer to the plasma plantations than the company ABC's palm oil mills to the plasma plantations, then the synergies or benefits of cooperation between the plasma smallholders and other parties' palm oil mills is bigger than the benefits of cooperation with ABC Company. The existence of other mills that are closer also causes the costs of terminating the partnership with ABC

to be lower because by switching to another mills the farmers obtain lower transportation costs. Low relationship benefits and low partnership termination costs can lead to low farmer commitment to the partnership with ABC Company.

One of the company's current strategies is to subsidize transport costs, even though this creates additional costs for the company, this strategy still needs to be implemented, so that the benefits of the partnership between plasma smallholders and ABC Company are not competed with the benefits offered by other palm oil mills. However, regarding the decision to add partnerships or new partnerships through the PSR program, ABC Company needs to be more conservative in partnering. Land that is not favorable, needs to be considered not to become a partner of Company, including land located far from the company's palm oil mills.

Highly Dependence on Partnership Income

Although scheme plasma managed carried out by the company, the power to manage the plasma plantations and the management of profit-sharing funds should be determined by Company, but Company cannot freely determine the amount of the profits to be distributed to farmers. The management of the koperasi refused the profit distributed portions that were not in accordance with their expectations, even though the amount of profit distributed proposed by ABC Company was the actual results from the performance of the partnership land. This is partly because farmers are too dependent on partnership income.

On a plasma managed type of partnership, profit distribution is income that is obtained by plasma farmers without making any effort so that is a passive income. Farmers should still be able to use their time to earn their main income through work. Thus, the dependence of plasma farmers on the results of the partnership with ABC Company can be reduced.

In this case, there are at least two things that Company can do, the first is to give plasma farmers the opportunity or priority to work on plasma land and get a salary for their work. Thus, besides providing partnership benefits to plasma farmers which will then increase commitment in the partnership, this also aims to reduce the dependence of plasma farmers on partnership income.

While the second thing that can be done by the company is to equate perceptions through communication. Company ABC needs to continuously provide literacy regarding managing funds in plantation businesses and managing money in households. The management of funds in the plantation business is intended to provide an example of how companies prioritize the use of funds in the plantation business to achieve a sustainable business, not just sharing short-term business results. Meanwhile, literacy on managing household money is aimed at reducing dependence on income from partnerships.

Non-Governmental Organization (NGO) Intervention

NGO intervention in this matter has resulted in the Jambi Province regulated FFB price is not being calculated correctly in accordance with Minister of Agriculture Regulation 1 of 2018. The indirect operational cost component (BOTL) in calculating the regulated price for Jambi Province is not included. Even though the component that adds value to the k-index, namely shell income, is also not included, the BOTL amount is far greater than shell revenue for Company or FFB buyer.

In this case, Company ABC needs to discuss how BOTL is treated in calculating the k-index, given the high value of the k-index in Jambi Province. With the agreement between palm oil companies in Jambi Province and the justification of Minister of Agriculture 1 of 2018, there should be no reason for NGOs to reject the calculation of the k-index with BOTL and shell components.

Weaknesses of Calculation of Index-k

The price of plasma FFB or partnership FFB is determined by the Jambi Province FFB pricing committee and approved by the Governor. Basically, the regulated price helps farmers to sell FFB at a reasonable price due to the low bargaining power under normal conditions without any regulated price. However, in this study, prices were found to be too high, resulting in low profit margins and even losses for ABC Company, especially in Jambi Province. The regulated price of FFB refers to the k-Index which is calculated for each month using data from oil palm companies in Jambi Province, especially oil palm companies that enter partnerships with smallholders.

As explained in the previous section, the k-index shows the value paid to farmers for the FFB from the partnership. Basically, the weakness of the k-index explained by

informant is pricing mechanism that uses variable from whole Jambi Province, while the variability of FFB quality differ significantly from one plasma to another. Thus, oil palm companies buy plasma FFB using the same price in one province for FFB from oil palm trees of the same age.

Most of the plasma FFB purchased by ABC Company uses class price of P10-P20 according to the age of the related plant. This class of price is the highest price in the classification as well as indicating the highest yield level in the life span of the oil palm plant. However, the plasma FFB purchased by ABC Company shows that the extraction rate or CPO and PK produced is lower than the extraction rate used in calculating the regulated price. In other words, the extraction rate of plasma FFB at Company ABC is lower than the average extraction rate of plasma FFB in Jambi Province.

The second weakness of the k-index is does not consider profits for FFB processing companies. Although at ABC Company the incremental costs for processing FFB are smaller than the processing costs calculated in the k-index formula due to fixed costs that do not increase even though there is additional processing of plasma FFB. However, this cannot be applied to all palm oil processing companies, especially to palm oil mills established with the main supply from plasma FFB, so that the fixed costs of the factory are naturally borne also to the plasma FFB.

Banks Give Loan Not According to Capacity

The company's limited flexibility in managing farmers' finances is not only caused by the root cause of the P3 problem (highly dependence on partnership income) but also due to farmers' financial obligations to banks. This causes farmers to always refuse to reduce profit distribution or force profit distribution with a certain amount.

In this regard, researchers provide recommendations to banks to be more conservative in giving loan to plasma farmers. At least two main reasons that need to be considered for not giving loan to plasma smallholders include the nature of the profit distribution whose amount depends on the performance of the plasma land and the price of FFB, so that the amount tends to fluctuate. The second reason is that plasma farmers generally have significant financial obligations in the form of investment loan related to the development of plasma plantations or in certain cases have debts to the nucleus company.

So that in this case banks need to communicate or seek approval from the nucleus company before giving loan to plasma farmers.

Implementation of Strategy in KMV Model of Relationship Marketing

The strategy formulated for each root cause has been described in the previous section, while this section will describe how the strategy relates to the preceding variables of Commitment-Trust Theory:

Table 6. Summary of Strategy related Preceding Variable and Root Causes

Preceding Variable	Recommendation	Related Root Causes
Partnership Termination Cost	(S1): Refuse to partner with farmers located far from the mill to prevent low partnership termination costs.	**(P2)**
Relationship Benefits	(S2): Changing the overhead cost assistance borne by ABC Company, into assistance in other forms that appear physically or in accordance with the expectations of farmers, so that the benefits of the partnership can be felt by farmers at a lower cost. Elimination of collection of management fees if the core overhead costs are re-charged at a higher value.	**(I1)**
	(S3): Conduct a review of costs related to the administration of plasma plantations and head office costs related to the implementation of partnerships. Ensuring that all activities that occur have added value or strengthen farmers' trust and commitment in partnering with ABC Company.	**(I2; I3)**
	(S4): Ensuring that the management of the plasma plantations is as good as Company ABC's nucleus estates by developing a sense of urgency to the operational team, as well as setting out the KPI and internal audit agenda for the implementation of the plasma plantation management.	**(I4)**
Shared Values	(S5): Continuous communication of partnership goals with farmers or management of koperasi to equalize expectations for the partnerships that are built.	**(P1)**
	(S6): Provide education and training related to ethics and financial literacy to management of	**(P1; P3)**

Preceding Variable	Recommendation	Related Root Causes
	koperasi and farmers.	
Communication	(S7): ABC Company needs to ensure that important information including land performance, detailed costs, farmer debt information and work plans is reported regularly and in a timely manner and can be properly understood by farmers.	**(P1)**
	(S8): Increase the number of physical meetings to reduce negative perceptions of meeting invitations from companies.	**(P1)**
Opportunistic Behavior	(S9): Doing assessment or Fit & proper test prior to the appointment of Koperasi Managers, and ensure that the selection management must first obtain company approval.	**(P1)**

5. CONCLUSIONS AND SUGGESTIONS

This research begins with the existence of credit risk for oil palm companies that carry out partnerships with smallholders and the limited research on oil palm partnerships from the perspective of oil palm companies. This study analyzes what are the problems of ABC Company in building partnerships with farmers in Region 1 and what strategies should be implemented by Company in building partnerships that are mutually beneficial.

Problems arise when the profitability from the partnership program is low, while on the other hand, Company must comply with applicable regulations. So that in this situation there are two opposing logics. Company's data shows low profitability that reflected in low contribution margin and big amount of working capital due to partnership program. The next stage in this research is to find the root cause of the low profitability of ABC Company's partnership program. After 5 Why analysis carried out, ten root causes were obtained which were classified into three parts. They are four root causes related to internal factors of Company ABC, three root causes related to farmers, and four root causes related to external factors outside the partnership.

In formulating a strategy to overcome the root of the problem, an analysis is carried out using commitments-trust theory as a framework. Strategies were formulated to address

the root of the problem as well as overcome deficiencies in each preceding variable which caused low farmer commitment and trust in the partnership. The nine strategic points that have been formulated are simultaneously carried out to avoid low partnership termination costs from farmers, increase partnership benefits for farmers, strengthen shared values between farmers and Company, improve communication of Company to farmers and finally prevent opportunistic behavior by koperasi managers.Strengthening the predecessor variables in the model is not only aimed to overcoming the partnership problems found in this study, but also for maintaining mutually beneficial partnerships in the long run.

While recommendations to external parties include recommendations to the Jambi Provincial Plantation Service, the Directorate General of Plantations and Banking Companies. Recommendations to the Jambi Provincial Plantation Service regarding the enforcement of Minister of Agriculture Regulation 1 of 2018 so that the calculation of the k-index and the selling price of FFB for plasma farmers as a whole is determined according to the Minister of Agriculture. Currently, indirect operating costs as a component that can reduce the value of the k-index are not included.

Recommendation to the Directorate General of Plantations in the form of a proposed change in the formula for calculating the k-index in order to eliminate the difference between the extraction rates contained in the price of plantations and the resulting extraction rates for the plasma FFB. The proposal includes the division of price classes by involving additional components other than the age of the plant such as land conditions, types of seeds and other factors that are expected to affect the extraction rate of FFB. Another suggestion is the calculation of the k-index at a lower level than the provincial level, for example at the district level or at the lowest level, namely the palm oil mill level. Although this proposal requires monitoring to ensure the extraction rates reported by mills are the actual extraction rates of the plasma FFB processed.

Recommendations to banking companies regarding the provision of loan to plasma farmers. Banking companies need to consider the variability of plasma smallholder income from plasma plantations in relation to dependency on the FFB production of the land and the price of FFB. In addition, Banking Companies need to coordinate with Nucleus Companies regarding the possibility of plasma receivables from Banks for plantation development costs as well as to nucleus companies.

This research still has many shortcomings and need to be improved. Some of the limitations of this research include:

1. In the process of selecting the hypothesis to be the root of the problem, there is the hypothesis "problem in the manufacturing process", due to limited information and criteria for evaluating the effectiveness of the palm oil processing process, this hypothesis is ignored and is considered not the root of the problem.
2. The research was conducted with ABC Company as the object of research, with the management of ABC Company as a resource person, but did not involve farmers who are partners with ABC Company. So this research is not equipped with a perspective from the farmer's side.

Suggestions for further research as follows:

1. This research can be used as a reference for similar research with the theory of commitment and trust, but using the perspective of farmers and partner farmers as resource persons.
2. This research can be used as a reference for similar research with research objects in provinces other than Jambi Province.

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