OCCASIONAL PAPER

Risky business

Motivating uptake and implementation of sustainability standards in the Indonesian palm oil sector

Sophia M Gnych

Godwin Limberg

Gary Paoli

CIFOR

OCCASIONAL PAPER 139

Risky business

Motivating uptake and implementation of sustainability standards in the Indonesian palm oil sector

Sophia M Gnych
Center for International Forestry Research (CIFOR)

Godwin Limberg
Daemeter

Gary Paoli
Daemeter

Center for International Forestry Research (CIFOR)

Occasional Paper 139

ISBN 978-602-387-019-6
DOI: 10.17528/cifor/005748

Gnych SM, Limberg G and Paoli G. 2015. *Risky business: Motivating uptake and implementation of sustainability standards in the Indonesian palm oil sector.* Occasional Paper 139. Bogor, Indonesia: CIFOR.

Photo by Anna Finke/CIFOR
Oil palm fruits stacked on a pile.

CIFOR
Jl. CIFOR, Situ Gede
Bogor Barat 16115
Indonesia

T +62 (251) 8622-622
F +62 (251) 8622-100
E cifor@cgiar.org

cifor.org

We would like to thank all funding partners who supported this research through their contributions to the CGIAR Fund. For a full list of the 'CGIAR Fund' funding partners please see: http://www.cgiar.org/who-we-are/cgiar-fund/fund-donors-2/

Contents

List of figures, tables and boxes

Figures

Tables

Boxes

Abbreviations

CGM	consumer goods manufacturer
CPO	crude palm oil
CSP	corporate social performance
CSPO	certified sustainable palm oil
CSR	corporate social responsibility
FDI	foreign direct investment
FFB	fresh fruit bunches
FPIC	free, prior and informed consent
GAPKI	Indonesian Palm Oil Growers' Association
HCS	High Carbon Stock
HCV	High Conservation Value
IGOs	inter-governmental organizations
IPOP	Indonesian Palm Oil Pledge
ISCC	International Sustainability and Carbon Certification
ISPO	Indonesia Sustainable Palm Oil
KPI	key performance indicator
NGO	nongovernmental organization
NMSD	non-state, market driven
POIG	Palm Oil Innovations Group
RSPO	Roundtable on Sustainable Palm Oil
SOPs	standard operating procedures
SPOM	Sustainable Palm Oil Manifesto Group
TNC	transnational corporation

Acknowledgements

We would like to thank the United Kingdom's Department for International Development (DFID) KNOW-FOR programme for financially supporting this work.

We would also like to thank Piers Gillespie and Skye Glenday who acted as exceptional external reviewers, and Jacob Phelps, Jean-Marc Roda, and Kiran Asher for their invaluable support and critique of the work.

In addition, we would like to thank, CIFOR colleagues Pablo Pacheco, Krystof Obidzinski, Steve Lawry and Beni Okarda for their ideas and inputs.

Our thanks also goes to the companies and key stakeholders who agreed to be interviewed as part of this research, and the industry associations and government ministries who provided data.

Executive summary

Building sustainability in to the palm oil industry is critical. Evolving international sustainability norms demand greater environmental and social responsibility from business across global commodity chains — from countries of origin to countries of consumption. Conventional command-and-control regulation has had limited success in addressing negative environmental and social impacts. As a result, advocacy groups and nongovernmental organizations (NGOs) have championed a diversity of market-based and multi-stakeholder governance approaches aimed at shifting the private sector toward delivering more sustainable business models.

Multiple non-state, market driven (NSMD) social and environmental certification schemes have emerged for palm oil, such as the Roundtable on Sustainable Palm Oil (RSPO) and the International Sustainability and Carbon Certification (ISCC) standard. States have also adopted similar sustainability standards, including the Indonesian Sustainable Palm Oil (ISPO) standard and the Malaysian Sustainable Palm Oil (MSPO) standard. In addition, 2014 saw an increase in individual "No Deforestation, No Peat, No Exploitation" commitments from a number of vertically integrated companies such as Wilmar, Golden Agri-Resources (GAR), Cargill, Musim Mas and IOI Loders Croklaan. These companies set more stringent standards for environmentally and socially responsible business throughout their supply chains, including their third-party suppliers.

But oil palm growers are a diverse group, operating in a range of contexts; this means that current high profile signs of change by large multinational companies may not be representative of the entire sector. In addition, factors motivating the uptake of such commitments have yet to be analyzed in detail. Therefore, future trajectories remain unclear.

Through interviews with growers and key stakeholders, a review of documents and literature from sustainability standards, and participatory observation of multi-stakeholder meetings, this research sets out to ask: (i) what are the motivations affecting uptake of sustainability standards, for growers in Indonesia?; (ii) how are these motivations shaping corporate commitments in the sector?; (iii) what are the context-specific variables (internal and external) supporting and preventing implementation of sustainability standards?; and (iv) what model of "sustainable" oil palm agriculture is being built?

Findings are structured around two stages in the commitment process: motivations for adopting sustainable practices ("responsibility"); and factors or context-dependent variables that affect growers' ability to respond to these motivations ("response"). Motivations can be further sub-divided into three categories:

- **Instrumental motivations**: These are driven by self-interest and can be divided into:
  a. Risk: understood as motives associated with self-preservation.
  b. Benefit: understood as motives associated with profit or gain.
- **Relational motivations**: These are linked to relationships among groups or sector members.
- **Moral motivations**: These refer to decisions based on moral principles and ethical practices.

Five key themes emerged as influencing uptake of sustainability standards.

1. **Business risk drives change.**
   Our findings indicate that instrumental risks and stakeholder relationships are by far the strongest motivations for change in the palm oil sector. Business and financial risk, whatever the cause (e.g. community conflict or market risk from NGOs attacking corporate reputation) is the most effective motivator for changing practices. However, engrained cultural norms of weak governance and patronage politics within the Indonesian palm oil sector act as a barrier to the uptake of sustainability standards into business practices. Developing new

relationships with other industry stakeholders, such as through multi-stakeholder forums, may work toward shifting these norms and motivating uptake of sustainability standards.

2. **Shareholders (owners) are the key to corporate commitments.**
   Shareholder self-interest, whether associated with profit, risk aversion, social acceptance or moral well-being, is the key to commitments. Buy-in from shareholders and senior management determines the priority that sustainability gets within the firm (e.g. its budget, its integration into operations, its representation at the board level) and, importantly, whether it gets priority when trade-offs, particularly financial, must be made. Shareholders can effectively leverage change through shareholder motions and management tend to feel more comfortable if they know they have shareholder buy-in to sustainability. Support of sustainability commitments may depend on their expected time horizons for return on investment.
3. **Motivations and context-dependent variables interact to alter uptake.**
   Interactions between motivations, as well as between motivations and context- dependent variables, are complex. Understanding these interactions can provide valuable insights into the challenge of developing meaningful incentives for growers to adopt more sustainable practices. Key interactions include:
   a. Relationships between stakeholders (e.g. between companies and local government, companies and communities, or companies and companies) act to shape different forms of legal, reputational, community or market-based risk. Differential exposure to these risks affects uptake of social and environmental standards.
   b. Relational motivations also interact with ethical motivations, or cultural norms, with producers adopting similar structures and cultures to their peers, to enhance their legitimacy.
   c. Instrumental risks and instrumental benefits interact, particularly in relation to price or market demand. Instrumental (financial) benefits are often high in the palm oil industry, so any premium or efficiency benefits are relatively ineffective as a motivator. But if the price falls and remains low, as with the current market, this may change.
   d. Market demand, whether environmentally sensitive or not, can be an effective motivator of business behavior. But international markets currently vary in terms of their sustainability demands and access to markets varies with geographical location in Indonesia, meaning motivations for improved sustainability are inconsistent among growers.
   e. Social and economic objectives often do not align with environmental standards, as negative environmental impacts related to deforestation are difficult to reconcile with a business model built on expansion and social aspirations for rural development.

   Given the importance of risk and relationships in driving commitments to sustainability, progressive action is currently concentrated within the largest 20-30 vertically integrated palm oil companies. These companies have increased exposure to international sustainability norms and therefore reputational risks. They also have greater economies of scale and resource capacities to participate in international multi-stakeholder forums and implement costly certification standards.
4. **The diversity of the producer supply base in Indonesia presents a challenge for market-based, private and public standards.**
   Producers of different sizes, in different geographies, with different business models or with different sources of investment may respond differently to incentives and disincentives designed to drive uptake of sustainability standards. In particular, smallholders and small- and medium-sized enterprises (SMEs) may make decisions based on non-economic motivating factors (e.g. family, social pressures or securing tenure/ownership over land). Research also highlights that sustainability has yet to find its structure within many companies. There is a significant lack of capacity within the broader supply base to meet new sustainability standards and this raises concerns that the ongoing wave of supply chain commitments will marginalize and exclude smaller independent growers or segregate the market so that goals are not achieved at a net level. Problems are exacerbated by a fractured and complex landscape of social and environmental certification standards and the lack of a commonly accepted system for environmentally and socially responsible palm oil.
5. **Government will need to play a role in facilitating responsible investments and engaging in multi-stakeholder sustainability processes.**
   Currently, resources, capacity and, in some cases, willingness to move toward internationally accepted norms of sustainable agricultural development is

limited among government ministries. In order to capitalize on the momentum and resources becoming available for greening the palm oil sector, the Indonesian government will need to work with the private sector and civil society at all levels. This does not mean moving away from state authority or regulation, but rather transitioning toward a greater collective responsibility in terms of upgrading the industry. Achieving regulatory, legislative and policy change that supports voluntary standards will also require a united industry and civil society front, as well as a more inclusive mechanism to ensure more growers can participate. Although legislative and policy changes are underway, dialogue and collaboration between key stakeholders remain weak.

Moving forward

Market-based and private sustainability standards have begun to alter environmental and social standards among a select group of traders and growers operating in Indonesia. This change has demonstrated the importance of business risk or shareholder (owner) self-interest, and relationships in driving change. Given the diversity of the Indonesian palm oil supply base, however, a range of motivations and solutions will be needed to upgrade the supply chain as a whole.

- Buy in and support from government is essential to drive improved environmental and social standards among smaller growers.
- Multi-stakeholder groups must begin to include actors operating at all scales, especially sub-national stakeholders.
- Training in sustainability concepts and processes (free and prior informed consent, high conservation value and high conservation stock assessments, traceability, etc.) among a range of stakeholders (civil servants, investors, smallholders, etc.) is essential to shifting cultural and operational norms.
- Above all, there needs to be a greater distribution of the costs to downstream stakeholders. Retailers, consumer goods manufacturers and traders need to pay a fair price, or the true cost, for the quality of production now demanded.

1 Introduction

1.1 Overview

This report is broken down into four main sections: introduction, methods, results and discussion, and conclusions. Readers who already have a strong understanding of the global palm oil supply chain and associated sectors, as well as existing sustainability standards for palm oil, may wish to move straight to the methods, results and conclusions.

The introduction will provide useful background for those readers with little or no knowledge of palm oil. It sets the scene, providing context for the results and discussion. It is divided into the following:

- Tropical agriculture and climate change: The challenge of reducing agricultural GHG emissions.
  - Climate change and greenhouse gas (GHG) emissions from land-use change and agriculture
  - Governing for sustainable, low-carbon agricultural development
- History and governance of the Indonesian palm oil industry
- Expanded governance includes non-state actors
- Growth of the global palm oil industry
- Expansion and diversity of production
- Origins of investment
- Emerging standards to meet environmental and social impacts
- Defining sustainable

1.2 Tropical agriculture and climate change: The challenge

1.2.1 Climate change and GHG emissions from land-use change and agriculture

Climate change will have serious impacts across the world, but particularly for the poorest members of society. Roughly a third of the greenhouse gases (GHGs) that contribute to climate change originate from land-use change (LUC) and forestry (17%) and agriculture (14%) (GIZ 2014). LUC directly affects carbon stocks and the exchange of GHGs between terrestrial ecosystems and the atmosphere (Watson et al. 2000).

Middle-income developing countries release the largest share of GHG emissions related to agriculture and LUC (GIZ 2014). Rates and types of LUC vary depending on different factors and mechanisms and emissions from LUC vary based on above and below-ground biomass. However, low-latitude tropical belts, which include countries such as Indonesia, have been experiencing high rates of deforestation in recent decades (Margono et al, 2014); therefore, they raise concern about their GHG emission-generating potential.

Globally traded, mass produced, tropical, agricultural commodities such as palm oil, soy, pulp and paper and beef, have been identified as key drivers of land-use change and GHG emissions. Indonesia is the world's number one producer of palm oil (FAOSTAT 2015) and also contains some of the world's largest remaining areas of primary tropical forest and peat land (Koh and Wilcove 2008). CO_2 emissions from oil palm expansion in Indonesia's Riau province were estimated at roughly 5.2 million tCO_2 per year between 2000 and 2012, with 69.94% and 27.62% of the emissions coming from converted peat lands and converted forests, respectively (Ramdani and Hino 2013). The expansion of oil palm agriculture therefore presents a major concern for GHG emissions and climate change. Optimal palm growth is also achieved in climates with high sunlight and rainfall, conditions that coincide with some of the most biodiverse ecosystems on earth (Sayer et al. 2012; Rival and Levang 2014). Despite the popularity of oil palm among investors and government, the rapid expansion of oil palm has been implicated in human rights violations related to insecure community land tenure (Colchester et al. 2011; McCarthy et al. 2012).

1.2.2 Governing for sustainable, low-carbon agricultural development

The production and trade of tropical agricultural commodities is changing due to two factors. First, nongovernmental organizations (NGOs) and advocacy groups have lobbied for production methods to become more environmentally and socially sustainable[1] to mitigate climate change, biodiversity loss and human rights violations. Second, while in the past the private sector has lobbied for, and achieved, greater freedom from state regulation and protectionism in the global market, mounting pressure from advocacy groups and NGOs is forcing many large, high-profile firms to commit to voluntary improved environmental and social standards. These firms and NGOs are now pushing for broad application of these standards across the supply base for tropical commodities. For these firms, this offers an opportunity to transform the reputation and market for palm oil, while potentially improving their business position by gaining first-mover advantage.

Emerging voluntary, non-state, market driven[2] (NSMD) self and multi-stakeholder governance approaches, driven and shaped by NGOs and inter-governmental organizations (IGOs), as well as downstream and upstream private sector stakeholders, could influence the pace and ultimate extent of change within the agricultural sector. This is particularly evident in the oil palm industry.

Government policies and regulations have also emerged in an attempt to reduce the negative environmental and social impacts of agricultural commodities. These initiatives, however, often surface in parallel rather than in support of voluntary, market-based standards. For example, in the Indonesian palm oil sector, the presidential moratorium has prevented the issuance of any new plantation licenses since 2011; however, the moratorium fails to prevent conversion of primary forest within existing concessions.[3] These numerous and sometimes conflicting policies and regulations present a challenge and burden for growers who must then meet and reconcile criteria for multiple standards and regulations.

While some of the most ambitious NSMD commitments related to agriculture are being trialed in Indonesia, the impact and pace of change across the supply base remains unclear. Oil palm growers are an incredibly diverse group of actors operating in a range of contexts; this means current high profile signs of change by large multinational companies may not represent the entire sector. In addition, factors motivating greater responsibility and adoption of such commitments have yet to be analyzed in detail, and therefore future trajectories remain unclear.

This paper explores the role of NSMD standards and mechanisms in greening the Indonesian oil palm sector, asking:

1. What are the motivations, moral, instrumental and relational, affecting uptake of sustainability standards for growers in Indonesia?
2. How are these motivations shaping corporate commitments in the sector?
3. What are the context-specific variables (internal and external) supporting and preventing implementation of sustainability standards?
4. What model of "sustainable" oil palm agriculture is being built?

1.3 History and governance of the Indonesian palm oil industry

1.3.1 Expanded governance includes non-state actors

During the 1980s and 1990s, global economic integration and deregulation resulted in a progressive downsizing of the State and its acceptance of competitive pressures by many developing country

1 Sustainability, and sustainable palm oil, lack commonly accepted definitions. Within this paper they are used to indicate production undertaken according to specific environmental and social standards (e.g. RSPO, "No Deforestation") additional to those required by law.

2 Non-State, Market Driven: standards not constrained by state boundaries or mandated by a particular government. They are voluntary in nature (not government regulated) and use pressure from advocacy groups and consumer demand to leverage change among consumer goods manufacturers, traders and producers.

3 Many RSPO member companies have expressed concern that areas within their concession, designated as High Conservation Value (HCV) under the RSPO principles and criteria, can be categorized as idle land based on PP No.11/2011 (regulation regarding controlling and optimizing idle land). Agrarian law authorizes the government to issue three warning letters and then revoke the rights of concession holders if land is abandoned or the company fails to use in line with its allocation. Under the BPN Regulation No.4/2010, land is regarded idle if it is not being used for the purposes as defined in the right entitlement (Suryadi 2011).

governments toward transnational corporations (TNCs) and foreign direct investment (FDI). As capital became increasingly mobile, TNCs engaged in regulatory arbitrage[4] to generate competition between governments (Strange 1996; Singh and Zammit 2004; Jenkins 2005). At the same time, many multi- and bilateral processes enshrined corporate rights and free trade over government sovereignty (Zammit 2003; Bendell 2004). In addition, despite government efforts to redirect trade and investment through traditional regulatory or policy processes, many businesses were able to circumvent these laws and regulations due to the mobility of their people, capital and information.

This decline in the ability or readiness of the nation state to exert control over corporations led to the emergence of alternative "self" and "co-regulatory" approaches to managing corporate conduct (Utting 2005; Scherer and Pallazo 2011). Corporations have traditionally been perceived as self-centered, profit-maximizing entities that embody the central principles of capitalism and free market philosophies. Recent corporate scandals and failures, however, have redirected attention to issues of good governance, ethics, trust and accountability, heightening the debate on topics of corporate governance (Marsiglia and Falautano 2005; Gillespie 2012). This has reinforced the belief that a firm's decisions should also be aligned with the interests of different players, both within and outside the company (Freeman 1984).

As branding reputation and alliances became increasingly tied to corporate values, NGO and advocacy groups began to use consumer awareness campaigns and activism in the Global North to tackle issues such as labor rights and environmental management. NGOs pushed companies to acknowledge their responsibility for not only economic, but also social and environmental aspects of business performance: the 'triple bottom line' of people, planet and profit (Bendell 2004; Vogel 2006 Elkington 2006). NGOs, corporations and international development agencies have committed time and resources to clarify existing regulations, e.g. on community land rights in Indonesia. They have also filled regulatory gaps in key public good areas with mechanisms such as market-based certification that demands free prior and informed consent (FPIC) from communities (Bartley 2007 Haufler 2003; Scherer and Pallazo 2011).

In addition, corporate commitments to sustainable practices, whether individual or part of a wider multi-stakeholder standard, now form part of a broader discourse on the 'green economy'.[5]

1.3.2 Growth of the global palm oil industry

Palm oil is a prominent, internationally traded, tropical agricultural commodity, with derivatives found in 50% of the products on our supermarket shelves (Pierce 2008). In addition, it is emerging as a viable feedstock for biofuels. As consumers within emerging economies achieve a higher standard

4 Regulatory arbitrage is a practice whereby companies make use of loopholes or gaps in a regulatory system in order to avoid regulations that may be unfavorable to their business's ability to generate maximum profit. Regulatory arbitrage can be carried out by restructuring transactions or relocating to an area with more favorable regulations (e.g. lower minimum wage). This may encourage governments to minimize the number of regulations or restrictions on a particular sector to encourage foreign investment and increase job opportunities in a country.

5 The United Nations Environment Programme (UNEP) defines a green economy as one that "delivers improved human well-being and equity, reduced environmental risks and ecological scarcities, and aims for sustainable development without degrading the environment" (UNEP 2010). Green investments, market and economic instruments, and voluntary instruments such as certification and ratings are all proposed as mechanisms for achieving a greener economy.

The 2010-2014 Rencana Pembangunan Jangka Menengah Nasional (RPJMN) was Indonesia's national, medium-term development plan. It forms part of the longer-term 2005-2025 RPJPN national development strategy, developed by the government. The strategy was designed in consultation with stakeholders from civil society and the private sector and aims to deliver equitable creation of wealth at all levels of society, with a focus on equity, justice and diversity. It has a strong territorial dimension, placing emphasis on the development of regional capacities within an integrated national economy, and promotes the development of human resources, talents and skills through improved access to, and quality of, education, health, social protection and living conditions for the most vulnerable.

The private sector is viewed as playing an increasing role in delivering these objectives and those of the Green Growth Framework for Indonesia developed by BAPPENAS (Bagan Perencanaan Pengangunan Nasional – Ministry of Planning). In order to achieve the desired annual average global economic growth of 6.3%-6.8%, around USD 1.2 trillion of investments will be needed cumulatively over five years (Joint secrétariat GoI - GGGI, 2013). The government is expected to provide 18% of this figure, but both foreign and domestic direct private investment are also expected to play a large role (Joint secrétariat GoI - GGGI, 2013). Therefore, corporate governance and operating standards will play a fundamental role in the development of the country.

of living and greater access to luxury goods, demand for products containing vegetable oils is growing (Corley 2009). Oil palm has the highest productivity of any vegetable oil crop per hectare, producing up to 10 times more oil than soy, its nearest competitor (Paddison et al. 2014). This makes it not only efficient, but also less expensive to produce and highly profitable. As a perennial crop, it also has enormous poverty alleviation potential, providing yearlong employment and income to hundreds of thousands of farmers and laborers, as well as contributing to state revenues and the development of infrastructure in rural areas. However, these outcomes are highly variable and can be affected by, for example, significant loan and input costs, variation in local governance and organizational structures (McCarthy 2010; Rist et al. 2010; McCarthy et al. 2012, Rival and Levang 2014).

As demand for palm oil has risen, so too has supply. Indonesia is the leading producer of palm oil and the largest exporter of crude palm oil (CPO) in the world, as illustrated in Figure 1. By 2020, the Indonesian government aims to produce 40 million tons of CPO annually, through expansion and intensification (Boer et al. 2012). An increased focus on infrastructure development in rural areas, under the current government, will also encourage further investment in rural areas (Sulityowarno 2014).

Global vegetable oil markets, which include other plantation-based oils such as soybean, rapeseed and sunflower, directly affect the price of CPO. Prices have varied substantially over the past decade (See Figure 1) due to the cost of conventional crude oil and its impact on the biofuels market, economic and political conditions in key markets and production centers, climatic conditions affecting yields of palm oil and other vegetable oil crops. This volatility can seriously affect profit margins (Government of Malaysia 2010).

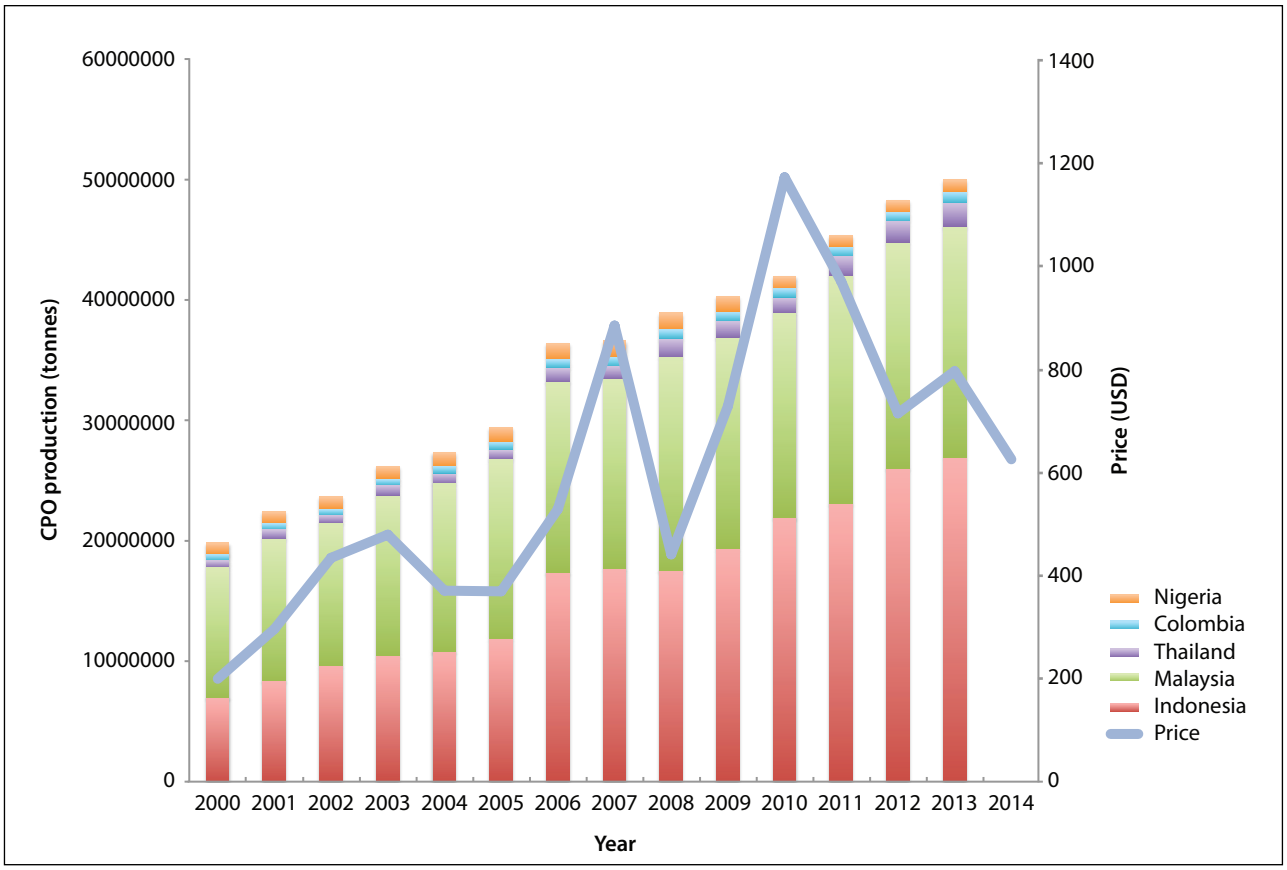

Figure 1. International palm oil price and production among the top five global producers.

Sources: Indexmundi (2015) and FAOSTAT (2015)

1.3.3 Expansion and diversity among producers

Growth in demand and a strong palm oil price during the 2000s encouraged widespread investment in the oil palm industry throughout Indonesia. The extent of development varies dramatically across the archipelago (see Figure 2). Frontier regions such as East Kalimantan are experiencing new investment and may provide the greatest deforestation threat.

Both companies and government perceive that one significant economic contribution of the oil palm industry is job creation (Pahan 2006). While the industry varies, in 2011, oil palm plantations were estimated to directly support 1.46 million households (BPS 2013). However, existing business models can range from highly profitable leasing structures for local communities to poorly constructed models that leave communities landless, or under oppressive levels of debt (McCarthy et al. 2012).

The Badan Pusat Statistik (BPS) Statistical Yearbook of Indonesia 2014 provides preliminary estimates that the planted area of oil palm reached 6,170,000 ha of private estates (managed by 1,605 large estate crop companies) and 4,415,000 ha of smallholders estates in 2013 (BPS 2014). In 2012, the Ministry of Agriculture estimated that 711,286 ha was managed by state companies, which have shown almost no growth in the past 10 years (ISPO 2012).

Comprehensive and reliable data on the composition and diversity of oil palm growers in Indonesia are lacking, however, especially concerning ownership, financing, plantation boundaries, and locations and yields. Smallholders account for 44.1% of the area in Indonesia, but only 34% of production (Potter 2015). The majority of the total area managed by smallholders in Indonesia is located in Sumatra (see Figure 3). This is in contrast to frontier regions such as East Kalimantan and Central Kalimantan, where large-scale firms dominate.

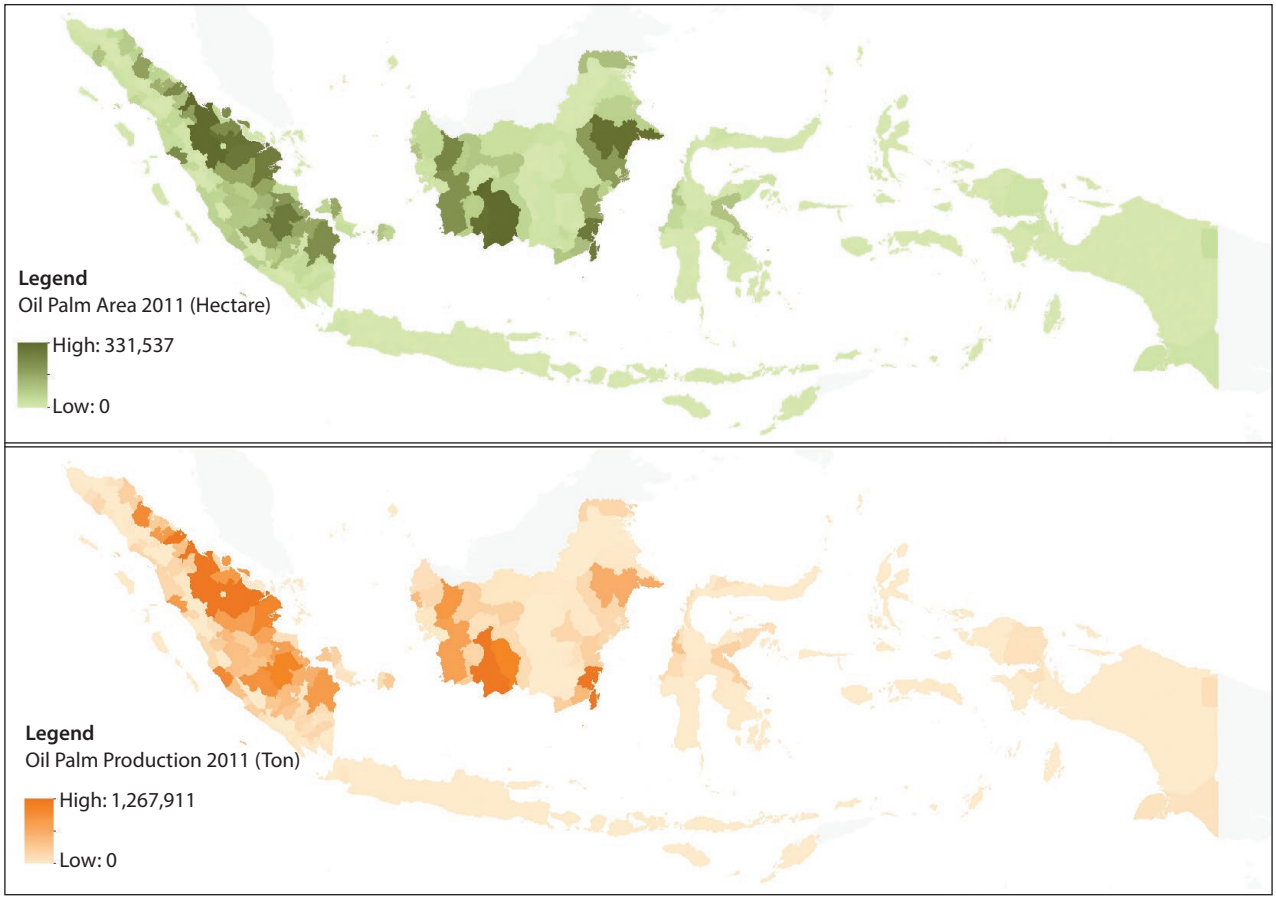

Figure 2. Oil palm designated area and oil palm production by district in Indonesia.

Source: Ministry of Agriculture (2003–2011)

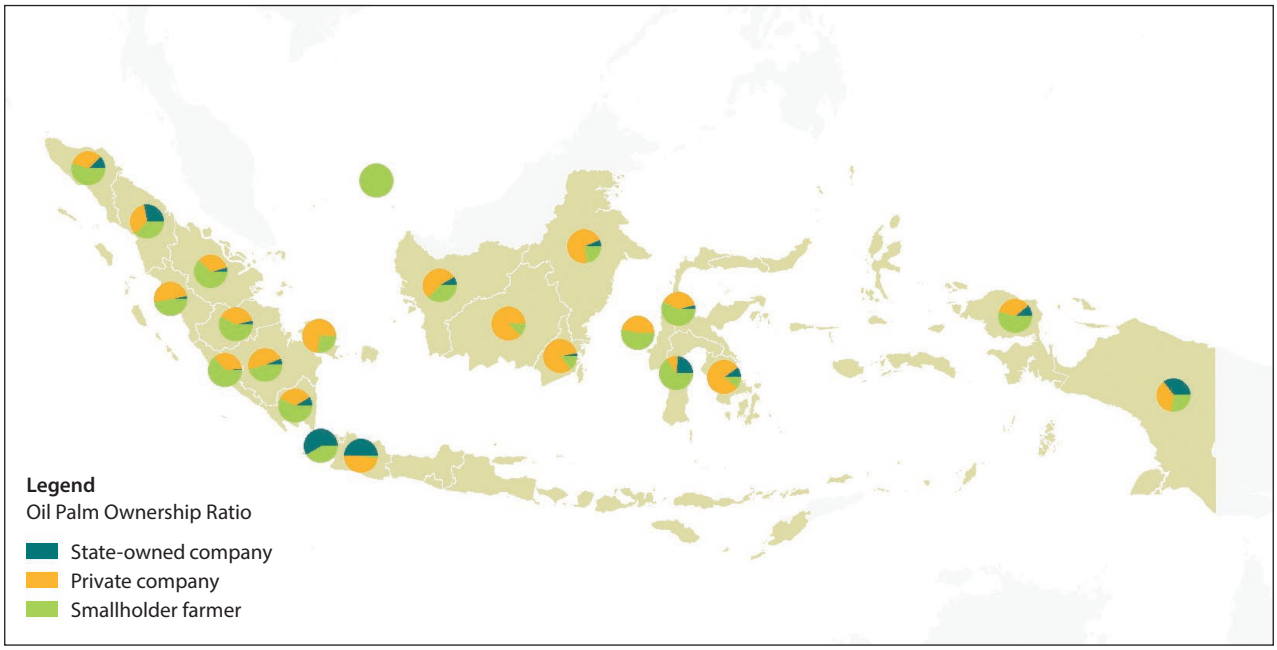

Figure 3. Oil palm ownership percentage by province in Indonesia.

Source: Ministry of Agriculture (2003–2011)

Increasing numbers of smallholders are gradually expanding their plantation assets from 2-3 ha (managed by one household) (Molenaar et al. 2013). In addition, the oil palm industry is becoming better established in frontier areas, and early innovators are demonstrating that significant profits can be made from oil palm. As a result, local and trans-migrant investors and absentee landlords flock to develop land, contributing to deforestation (Ekadinata et al. 2013; Lee et al. 2013; Potter 2015). These new and expanding investments lack transparency, often linked to their smaller size, rapid exchanges in ownership, absence of comprehensive and up to date spatial plans at the provincial level, and poor monitoring and reporting at the district level.

Despite the vast number of growers operating in Indonesia, international trade of palm oil and palm kernel oil is dominated by a handful of firms: the Singapore-based producer and trader Wilmar controls nearly 50%. This industry bottleneck means these selected multinationals retain much of the value added by processing and trade, but also enables significant market-based control over upstream producers. Most recently, advocacy groups have targeted actors at this key supply chain point in an attempt to impose improved sustainability standards across the entire supply base.

Figure 4 shows the share of palm oil traded on international markets that is now bound by zero-deforestation commitments, based on 2013 global consumption figures of 57 million metric tons, reflecting globally traded volume. Total global production volume is estimated at 63 metric tons, suggesting zero-deforestation commitments now cover 87% of palm oil traded. Company data may include some overlap due to inter-company trading (Finklestein 2014). Although traders have made these commitments, producers have yet to meet these standards on the ground. It remains to be seen whether they will meet them by the stated deadline.

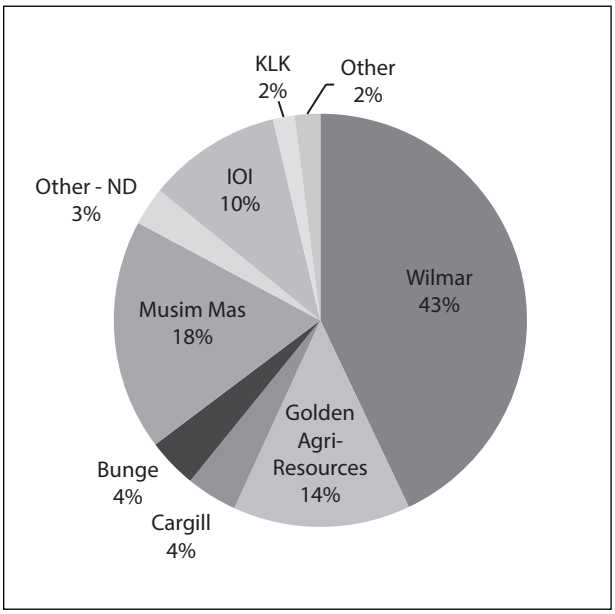

Figure 4. Percentage of globally traded palm oil covered by "No deforestation" commitments.

Source: Finklestein (2014)

1.3.4 The origins of investments

The geographical origin of investments is important because it may influence ethical norms, regulations, policies and relationships of companies operating in Indonesia. The Indonesia-Singapore-Malaysia investment triangle is recognized for its huge exchanges of capital and investment. These include overseas account holdings tied to land-based investments and resource extraction, as well as trade in raw materials (Walters 2010; van Gelder et al. 2013. This implies that private and public sustainability standards emerging in all three countries could have an important influence on greening the palm oil industry in Indonesia.

Malaysia is the world's second-largest palm oil producer, and palm oil (including downstream processing and manufacturing) is the fourth-largest contributor to the national economy (Government of Malaysia 2010). Therefore, the palm oil industry, and the Federal Land Development Agency[6] (FELDA), has significant influence with government. Malaysian companies currently hold an estimated 1.3 million ha of palm oil plantations abroad, including over 1 million ha in Indonesia (Government of Malaysia 2010). Despite these Malaysian statistics, independent analysis of oil palm companies in East Kalimantan alone suggest a land bank of 478,000 ha; this implies that actual Malaysian holdings in Indonesia could be much larger (estimate based on dataset of concessions in East Kalimantan, compiled from sources listed in Annex 1). It is predicted that by 2020 Malaysian plantation companies will have an additional 2 million ha in Indonesia, as well as other parts of Southeast Asia and Africa (Government of Malaysia 2010). These foreign investments will mean that Malaysian firms will play a significant role in the development of the sector and its corporate sustainability initiatives.

1.3.5 Emerging standards to mediate environmental and social impacts

In response to the negative social and environmental impacts of oil palm agriculture, the past decade has seen multiple private and public standards emerge for 'good' social and environmental practices. To a degree, these standards compete for legitimacy in the market place, drawing distinction based on details of how they address key issues, such as deforestation and peat land development.

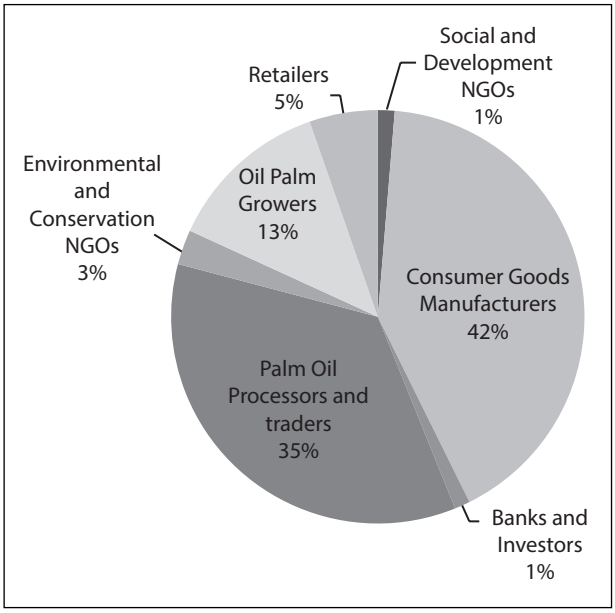

Figure 5. RSPO membership as of 30 June 2014.

Source: RSPO (2014)

The first standard to address the environmental externalities of oil palm agriculture was the Roundtable on Sustainable Palm Oil (RSPO), established in 2003. This multi-stakeholder body is seen as a "business to business" approach to address the environmental and social impacts of oil palm, informed by inputs from civil society and public interest groups. Today, the RSPO has more than 1,631 members worldwide and covered 18% of global production in 2014, expanding far more rapidly than other commodity-based standards (RSPO 2014). However, the RSPO still receives criticism for weak enforcement and implementation among some of its members[7] (Greenpeace 2013), and has been slow to gain traction among a broad range of Indonesian growers.[8]

6 The Federal Land Development Authority is a Malaysian government agency initially founded to handle the resettlement of rural poor into newly developed areas and to organize smallholder farms growing cash crops. It now engages in a diversified range of economic development and business activities.

7 As such, the Palm Oil Innovation Group (POIG) emerged as a coalition of oil palm companies and NGOs that seek to go above and beyond the RSPO by setting ambitious standards that "break the link between palm oil and negative environmental and social impacts".

8 RSPO's membership continues to grow, in particular with downstream stakeholders such as retailers and manufacturers (RSPO 2014), but some question whether this success is simply because the standard places limited financial demands on consumer goods manufacturers (CGMs) and retailers.

Other NSMD certification standards have also emerged for palm oil. These include the International Sustainability and Carbon Certification (ISCC) standard, a certification system used to demonstrate compliance with the European Union Renewable Energy Directive, and Rainforest Alliance, an NGO-led standard (Yaap and Paoli 2014). But these NSMD standards do not remain unchallenged. In 2011, Indonesia developed and launched the Indonesia Sustainable Palm Oil (ISPO) standard, a national oil palm sustainability standard based on existing Indonesian legislation, but third-party audited, and mandatory for all oil palm companies.[9] In January 2014, it was announced that 40 companies out of roughly 2,500 plantations had received ISPO certification, while 153 had applied for it (ISPO 2014). The Indonesian palm oil growers' association (GAPKI) recommended that the deadline for certification under ISPO be postponed (Grazella 2014). By September 2015, only 96 companies had become ISPO-certified, while 20 applications were being processed (ISPO 2015).

The uptake of ISPO has been slow and its credibility has been questioned. However, its modeling of RSPO structures, such as multi-stakeholder consultation and "principles and criteria", would seem to indicate a trend toward incorporation of private methodologies into state governance. Another government measure to advance sustainability in the Indonesian plantation sector and reduce GHG emissions is the 2011 moratorium on new licenses for the conversion of primary forest and deep peat. However, so far the moratorium is said to have had a minor impact on reducing emissions from oil palm development: large areas of secondary forest and shallow peat are still being converted in areas outside the moratorium, or where licenses were issued pre-2011[10] (Busch et al. 2015; USDA 2013).

Continued NGO pressure for rapid changes in the production of palm oil has driven many major CPO buyers (such as Nestle[11], Unilever [12] and Krispy Kreme[13]) and major oil palm growers (such as Wilmar[14], GAR[15] and Cargill[16]) to commit to "No Deforestation, No Peat, No Exploitation" policies, using the High Carbon Stock (HCS) approach pioneered by The Forest Trust, GAR and Greenpeace (Greenpeace 2014; Poynton 2014)[17]. In mid-September 2014, a large group of major palm oil producers — Sime Darby, Asian Agri, IOI Corporation, Kuala Lumpur Kepong (KLK) and Musim Mas — also announced a voluntary imposition of a moratorium on clearance of HCS areas while awaiting empirically valid and practical guidelines for HCS conservation (Butler 2014). As such, work on defining HCS has split into two factions: the private sector-led manifesto group and the NGO-led steering group. The Indonesian Chamber of Commerce (KADIN) and the government are now leading efforts to drive convergence between the two approaches (Salim 2014).

The proliferation of standards, both market-based and state-led, within the industry has led to much debate as to the effect and impact of these standards, and confusion about where they are taking the sector (Yaap and Paoli 2014).

1.3.6 Defining sustainable palm oil

The complexities and trade-offs involved in achieving social, environmental and economic sustainability grow more difficult in the field of agriculture and land-use change. Social NGOs may support the rights of smallholders and indigenous communities to assert tenure and use rights over their land, while environmental NGOs prioritize mechanisms that will halt rapid deforestation and protect endangered species in the most effective and efficient way possible. At the same time, government and private sector

9 *Peraturan Menteri Pertanian No. 19/Permentan/OT.140/3/2011 tentang Pedoman Perkebunan Kelapa Sawit Berkelanjutan Indonesia/Indonesian Sustainable Palm Oil*. Ministry of Agriculture. Jakarta, Indonesia.

10 Presidential Instruction No. 6 Year 2013 regarding moratorium on the issuance of new licenses and improvement of governance of primary forests and peatlands. Sekretariat Kabinet Republik Indonesia, Jakarta.

11 Nestle: http://www.nestle.com/csv/rural-development-responsible-sourcing/responsible-sourcing/deforestation

12 Unilever: http://www.unilever.com/Images/eliminating-deforestation-position-statement_tcm244-423148_1.pdf

13 Kremehttp://www.forestheroes.org/one_day_after_dunkin_krispy_kreme_commits_to_zero_deforestation_doughnuts

14 Wilmar: http://www.wilmar-international.com/wp-content/uploads/2012/11/No-Deforestation-No-Peat-No-Exploitation-Policy.pdf.

15 GAR: http://www.goldenagri.com.sg/pdfs/Sustainability/2013/09%20Supplier%20Relations.pdf.

16 Cargill: http://www.forestheroes.org/breaking_cargill_ceo_announces_major_forest_actions.

17 The approach is designed to break the link between deforestation and high-risk commodities, such as palm oil and pulp and paper, by delineating areas that are off limits based on their above-ground carbon stocks and biodiversity (Greenpeace 2014).

actors are under pressure to meet economic growth and development targets. Therefore, objectives and actions taken in pursuit of sustainability vary greatly depending on individual or organizational priorities.

As such, existing voluntary and mandatory standards for sustainable oil palm vary in their definition of "sustainability". Despite all standards covering a similar range of environmental and social topics, the level of detail and breadth in which they tackle these topics varies greatly, in particular regarding the specificity and severity of restrictions. This may reflect the organizations or initiatives driving each standard.[18]

This paper will not seek to define what sustainable oil palm agriculture looks like or resolve trade-offs of development vs conservation. Instead, it explores the motivations for adopting voluntary standards and mechanisms that profess to deliver environmentally and socially responsible palm oil. Where useful, however, the discussion that follows will draw attention to differences in sustainability definitions adopted by different standards and the problems this may cause for their target members. It may also highlight the challenges of simultaneously meeting environmental, social and economic standards, especially when relying on the voluntary adoption of standards to deliver the triple bottom line.

18 A summary table of the similarities and differences in principles and criteria between the four main palm oil standards can be found within the annex 2 of this paper. This table was developed by Daemeter as part of its report entitled "A comparison of leading palm oil certification standards applied in Indonesia: Towards defining emerging norms of good practice".

2 Methods

2.1 Interviews

2.1.1 Interviewee selection and methods

The findings of this paper are based principally on direct interviews with 15 oil palm growers or companies operating plantations in Indonesia: six large (over 100,000 ha), five medium (10,000–100,000 ha) and four small (under 10,000 ha) (See Table 1). In addition, for purposes of triangulation, we conducted purposive interviews with 17 key informants from financial service providers (3), NGOs (3), consultancies (6), government bodies (1) and industry associations (2) with expertise related to Indonesian oil palm (see Annex 3).

We focused interview efforts on large companies operating at the national/international level, and within East Kalimantan province, to ensure capture of medium and small actors, which often remain hidden at the national level. East Kalimantan is a priority region for study due to local government's commitment to expansion and increased domestic and foreign investment.[19] Palm oil accounted for a relatively limited amount of East Kalimantan's GDP (just over 1 trillion IDR) compared to oil and gas in 2008, according to the province's sustainable development strategy. However, it was acknowledged as one of the few highly profitable activities in rural areas, which brought jobs and income to rural people (DNPI and Government of East Kalimantan 2010). As such, its expansion was prioritized.

Respondents at the national level were identified principally through a participant referral method, recommended from existing industry contacts, sector associations and NGOs. This method was adopted because initial efforts to compile a comprehensive list of companies proved impractical: there is a lack of accurate, up to date and comprehensive data on the number of companies operating in different parts of Indonesia, and response rates were low. Moreover, referral methods are arguably more appropriate and effective in populations that are hidden or resistant to interview (Faugier and Sargeant 1997).

Respondents within East Kalimantan were identified in cooperation with the local plantation office in East Kalimantan/Dinas Perkebunan KalTim and GAPKI offices. This was used to ensure access to and inclusion of medium and small firms. Seven data sets of companies operating in the province were available, which varied considerably.[20] We amalgamated these lists and identified 324 separate estates listed in East Kalimantan. The main source to contact companies in East Kalimantan was the most updated GAPKI East Kalimantan list (June 2014). This list includes 142 concession names, owned by 64 different companies. Twenty-six companies (holding 48 concessions) were contacted in East Kalimantan (while others were contacted in Jakarta) during 2014.

We attempted to achieve an equal representation of small (<10,000 ha), medium (10,000–100,000 ha) and large companies (>100,000 ha), as well as certified and non-certified companies, foreign and Indonesian. Despite their importance, State-owned firms were not contacted in this study because they have seen little to no growth in the past two decades (Ministry of Agriculture 2003–2011) and therefore their potential for deforestation and land-use change was limited. However, their influence and importance in the sustainability discourse and improving production practices is not to be ignored.

Information regarding the growers interviewed can be found in Table 1. Due to limited success of achieving interviews with firms, a basic comparison

19 In the *Pemerintah Provinsi Kalimantan Timur, 2008: Peraturan Daerah Provinsi Kalimantan Timur nomor 15 Tahun 2008 tentang Rencana Pembangunan Jangka Panjang Daerah Provinsi Kalimantan Timur Tahun 2005– 2025* (East Kalimantan Local Regulation Number 15 / 2008 Long Term Development Plan of East Kalimantan 2005–2025)

20 Details of the data sets used can be found in Annex 1 of this paper.

Table 1. Characteristics of companies interviewed.

No	Planted ha	Number of estates (all regions)	Nationality	Market	Commitments/Certification			
					ISPO[1]	RSPO[2]	ISCC[3]	Zero deforestation / FCP[4]
1	272,994	-	Domestic	Mostly domestic	Yes	No	No	No
2	463,426	157	Foreign	Significant exports	Yes	Yes	Yes	Yes
3	126,000*	>6	Domestic	Domestic and India	Yes	Yes	Yes	Yes
4	186,623	44	Foreign	Export	Yes	Yes	Yes	Yes
5	Used to have plantations	-	Foreign	-	No	Yes	-	No
6	23,300 (with an unconfirmed additional 21,800)	>5	Foreign	-	Yes	Yes	No	No
7	181,104	6	Domestic	-	-	Yes	-	No
8	7,000	1	Domestic	Domestic	No	No	No	No
9	6,000 and 9,000 (of which 1,000 planted)	2	-	-	No	No	No	No
10	6,000	1	Foreign	Domestic	-	No	-	No
11	34,000	-	Foreign	Domestic	Yes	Yes	-	No
12	120,225	At least 7	Domestic	-	Yes	Yes	-	No
13	42,154	-	Foreign		Yes	Yes	Yes	No
14	2 ha (with additional undisclosed hectares)	-	Domestic	-	No	No	No	No
15	-	-	Domestic		No	No	No	No

- Interviewee chose not to respond or that information was not available.

* Estimates vary for this private company — RSPO communication lists 41,163 ha, while Greenpeace estimated 126,000 in 2006). For the purpose of this report, it is considered large.

1 Indonesian Sustainable Palm Oil standard

2 Roundtable on Sustainable Palm Oil standard

3 International sustainability and Carbon Certification

4 Forest Conservation Policy

Sources: company websites, annual reports and sustainability reports, personal communication and interviews.

of corporate commitments to private- and market-based sustainability standards of firms based in East Kalimantan, was also carried out, which can be found in table 4 of this paper.

Interviews were semi-structured, and explored respondents' perceptions and experiences with various dimensions of sustainability standards and corporate social performance. In particular, interviews focused on firms' corporate governance processes that influence their relationships with, and motivations behind, sustainability commitments and their accountability to stakeholders, as well as questions of response and ability related to current barriers and opportunities for change. Importantly, interviews did not focus on the definition of sustainability. To minimize interviewee discomfort and bias, we avoided difficult and controversial questions at the start of the interview and allowed interviewees to focus on topics they considered important. Difficult or potentially controversial questions were reserved to the end of the interview and interviewees were assured of their confidentiality and anonymity.

Interviews were recorded and transcribed, and then used to identify recurrent themes. Results were categorized following the Aguilera et al. (2007)

typology of CSR motivations, including moral, instrumental and relational motivations, as well as factors affecting "response". Importantly, recurring themes clearly emerged after 10-15 interviews, across all companies and stakeholder groups (particularly certified companies, small firms and large firms), suggesting relatively rapid saturation. These types of small sample sizes are often considered adequate for non-parametric, qualitative, thematic analysis (Guest et al. 2006). The results were further used to develop a framework for corporate social performance (CSP) in the Indonesian oil palm sector (Figure 6), and is supported by data on sector sustainability standards (e.g. RSPO).

2.1.2 Challenges and limitations

Interviewees, however, are not fully representative of the sector in Indonesia. Differences in company structures, origin, markets and sizes across the archipelago are likely to shape motivations and responses so we limit making comparisons and drawing conclusions across those variables. In addition, due to the political and reputational sensitivity surrounding the palm oil industry, our affiliation with an international forestry institute and the respondent selection approach, we faced several sources of bias. Our sample is likely biased toward larger firms and people who are most compliant with international standards. Overall, response rates from companies remained low, and representatives either claimed to be too busy to meet with interviewers or simply rejected requests. Therefore, our findings may in fact represent the best-case scenario. We were also aware of interviewer bias as many members are fearful of exposure. Cognizant of these biases and limitations, we sought to control this through interview methods, triangulation interviews and our analysis.

2.2 Secondary data, literature and participatory observation

A significant amount of secondary information is available on oil palm at national and sub-national levels in Indonesia. Research drew on existing literature, data from district and provincial ministries, company websites, trade statistics, certification schemes, NGO and consultancy reports, and participatory observation of multi-stakeholder processes (more information can be found in Annex 4).

These data helped to triangulate and illustrate findings from interviews. They provide context and, in some instances, support interview findings with quantitative data. In particular, they allowed more in-depth analysis of the diversity of the supply base and context-dependent variables affecting production at the local level.

In East Kalimantan, information was compiled and reviewed for a better contextual understanding of the history, diversity and behavior of growers in the province, such as media-reported conflicts and court records (See Annex 5 and 6, and Table 2). Although media-reported conflicts were used as a source of information, the interaction between companies and other industry stakeholders is increasingly used as a political tool and to pressure companies. Conscious of this potential bias, reports of conflicts are used simply as an indication of disputes between companies.

Sources of information regarding hectares allocated per company in East Kalimantan were also a problem. Where available, the stated HGU (permit that gives legal right to cultivate land that is under the State) or GAPKI (self-declared) information was used. The discrepancy between GAPKI information and that of the Ditjenbun (Directorate General of Plantations, Ministry of Agriculture) can be large, as the Ditjenbun figure is likely the Izin Lokasi (location permit) while the GAPKI figure is likely planted area. When no HGU or GAPKI data were available, the Ditjenbun information (in the range 5,000–20,000 ha) was used. The significance of these data discrepancies is discussed further in section 4.1.3.

3 Analytical framework

The study identified multiple factors that influence the adoption of corporate sustainability commitments (a summary of interview results can be found in Annex 7). The breadth and inter-relatedness of these factors highlight the need for a framework or structure that can organize important factors under thematic categories. Here, we use elements of frameworks from existing literature, on both corporate social responsibility (CSR) and CSP, to inform and analyze our findings.

Corporate social responsibility can be broadly defined as a firm's "considerations of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm, to accomplish social [and environmental] benefits along with the traditional economic gains" (Davis 1973). However, several critics argue that the focus on responsibility puts too much emphasis on accountability or obligations, and is too narrow to describe the complexity of corporate social and environmental efforts. Ackerman and Bauer (1976) argue that CSR places too much "emphasis on motivation rather than performance" and that responding to sustainability demands is much more than simply deciding what to do. As such, critics looked to develop multi-level theories for corporate social performance. Carroll (1979) disaggregated CSP into responsibility and response:

Box 1. CSP responsibility and response

Corporate responsibility refers to factors that motivate a company to perceive an issue as its responsibility. Our conceptual model sub-divides these into 1) moral; 2) instrumental, made up or risk and benefits; and 3) relational motivations.

Corporate response refers to a company's ability to respond, itself dependent on internal capacity and external ability to make changes.

Carroll also developed four sub-categories of responsibility: economic responsibility (e.g. profit generation and shareholder value), legal responsibility (e.g. compliance with legislations), ethical responsibility (e.g. corporate accountability and conformance to social and ethical norms) and discretionary/philanthropic responsibility (e.g. social enterprise, contributing to the development or benefit of others). He proffered that firms then responded to these responsibilities in one of four ways: reaction, defense, accommodation and pro-action.

Jamali and Mirshak (2007) integrated the conceptual model developed by Carroll (1979) with that of Wood (1991) to incorporate the principles behind responsibility, such as social legitimacy, public responsibility and management discretion, as well as processes of responsiveness, environmental assessment, stakeholder management and issues management. Aguilera et al. (2007) also developed a multi-level theoretical model to better understand why corporations were increasingly engaging in CSR. Their model integrates elements of corporate governance, capitalism and organizational justice to argue that firms are driven to engage with CSR by a variety of different actors, at the individual, organizational, national, international and corporate interest group/NGO level. In their model, these actors are driven by so-called instrumental, relational and moral motives.

Drawing on our results and the interview transcripts themselves, as well as CSR and CSP theory, we developed Figure 6 in order to visually illustrate factors that influence a firm's corporate social and environmental performance (Aguilera et al. 2007).

The study identified multiple factors that influence the adoption of corporate sustainability commitments (a summary of interview results

Box 2. Motivating corporate responsibility

1. **Instrumental**: These refer to a class of motivations driven by self-interest and can be sub-divided into **instrumental benefits** (motivated by profit) and instrumental risk (motivated by self-preservation).
2. **Relational motivations**: These are a class of motivations linked to relationships among groups or sector members. Organizations may adopt similar structures, cultures and outputs, in order to enhance their legitimacy.
3. **Moral**: These refer to decisions based on moral principles (prescribed right or wrong conduct, but are ultimately internal and individual, and can transcend cultural norms) and ethical practices (rules of conduct recognized in a particular group or culture or for a particular class of human action, often originating from an external social system).

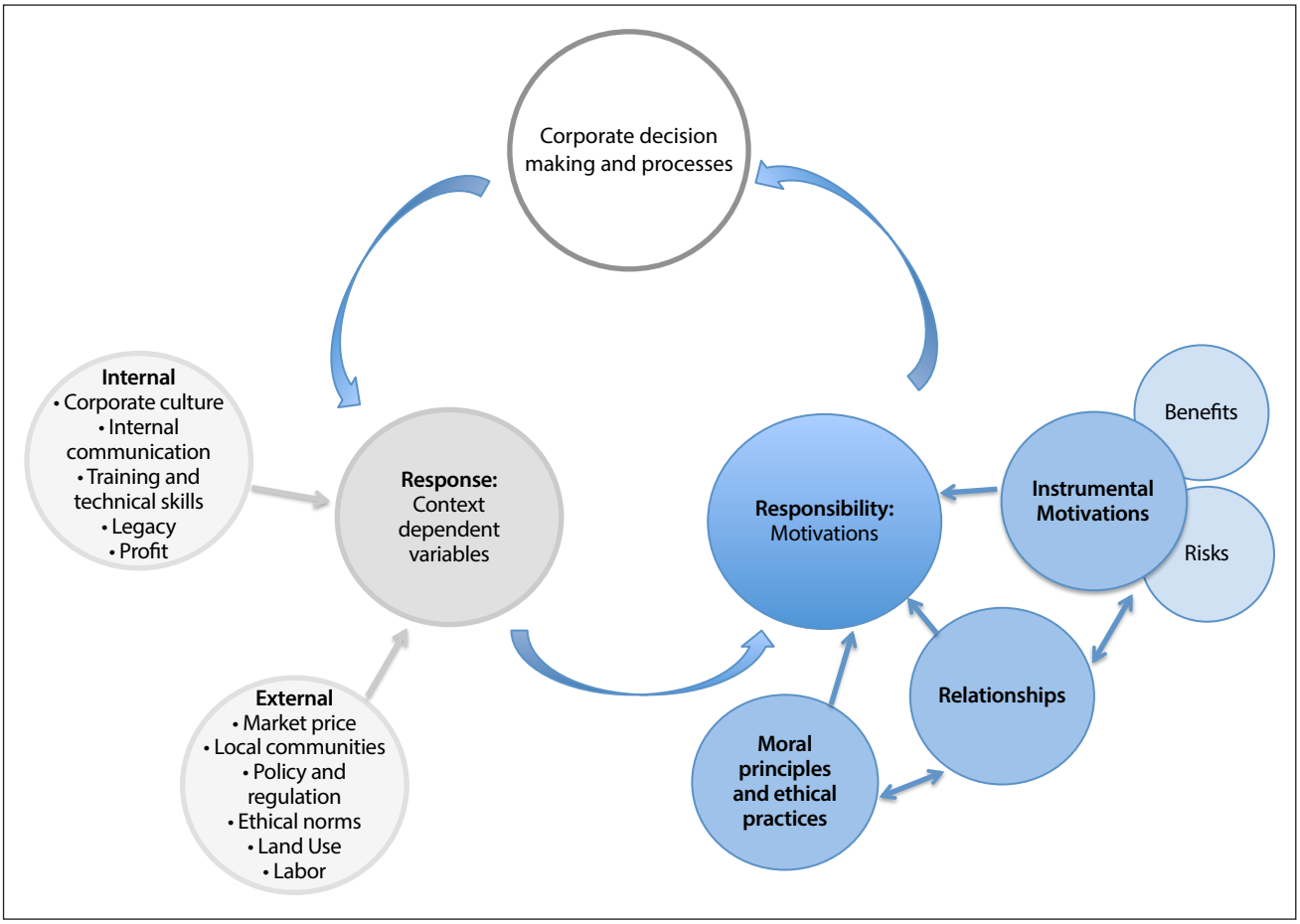

Figure 6. Corporate social and environmental performance framework.

can be found in Annex 7). The breadth and inter-relatedness of these factors highlight the need for a framework or structure that can organize important factors under thematic categories. The study used earlier theoretical models to structure factors influencing responsibility and response (Carroll 1979, and Jamali and Mirshak 2007), and distinguish between different motivations driving sustainability commitments Aguilera et al. 2007 (as seen in Figure 6). Results found that instrumental motivations (in the form of risks) and relational motivations were by far the strongest motivators reported for the adoption of sustainability standards, and significantly outweighed other motivations when trade-offs had to be made.

The study also found strong interactions between motivations, and between motivations and context-dependent variables e.g. the role of relationships in mitigating risks or of access to market and price in

the uptake of standards. A range of internal and external context-dependent variables (illustrated in Figure 6) affects growers' uptake of standards. Examples include profits, market price, regulation and policy, access to forested lands, training and education, internal communication and labor. These factors significantly influence a firm's ability to respond.

Earlier multi-level theoretical models of CSR and CSP are distinctly static, categorizing firms based on meeting certain criteria. However, our findings indicated a much more dynamic and iterative process (as illustrated by Figure 6) whereby motivations and context are constantly changing, with positive and negative feedbacks.

4 Results and discussion

4.1 Responsibility: Motivating sustainability commitments

In this section, we will explore the motivations behind corporate sustainability commitments, focusing on the dominant motivations, namely instrumental risk and relationships.

4.1.1 Instrumental: Risks

Risk-based motivations are driven by self-interest, but reflect steps taken for self-defense, as opposed to seeking additional benefits. Risk-based motivations, particularly where they have financial implications, were overwhelmingly reported as a driver for corporate sustainability commitments. These risks were experienced in a number of ways and varied depending on a grower's context and exposure. Critically, interviews consistently described responding to risks that ultimately translated into financial risk. For example, one interviewee said, "For managers, good agricultural practice is about maximizing yield and best management practice is about minimizing losses".

Risks or losses can come in many forms for a producer: pests and disease, market volatility, depreciation in value of raw material because of difficulty accessing processing facilities, changing government policies and regulations, etc. In order to minimize losses, management will identify and mitigate the greatest risks to their business, in whatever form they take.

Respondents highlighted several different categories of risk, including market or reputational risk, risks associated with communities living in and around concession areas, and finally risks associated with legal compliance. These three groups, and the ways they motivate firms, will be explored within the following sections.

Business risk — NGOs' target markets and financial services to threaten shareholder value

A number of NGOs, such as Greenpeace, Rainforest Action Network and Forest Heroes (Greenpeace 2010; WWF 2013; RAN 2015; Forest Heroes 2015) are working to change the oil palm sector. They have been looking to bind illegal and unethical social and environmental practices to risks that impact company profitability (as illustrated in Figure 7). None of the growers interviewed cited NGOs or buyers as a key stakeholder. However, they did cite shareholders as key stakeholders (four growers, particularly among larger firms, and two key informants) and profit as an essential baseline; seven growers extensively discussed the role of reputational and supply chain risks in decision-making: "Information to shareholders is always orientated in terms of how it will impact company profit". NGOs can, through campaigns and lobbying, play a fundamental role in the financial health and future of the business and therefore directly impact its ability to deliver a competitive annual dividend to shareholders. "Profit has to come first for a company. NGOs say you can't put profit first. Well, then you have to define a minimum standard".

As one financial service provider explained, "[a]t the time we released the [palm oil] policy, we considered that the main risk to the bank was from the growers". Reputational or business risk for banks and investors is increasingly associated with the unsustainable and unethical practices of their customers. Consequently, banks develop policies to cover themselves against these risks. However, these reputational and business risks affiliated with unsustainable practices are not yet associated with firms operating further along the supply chain, such as consumer goods manufacturers and retailers. Therefore, financers have yet to extend their policy to those downstream players, although they ultimately drive demand.

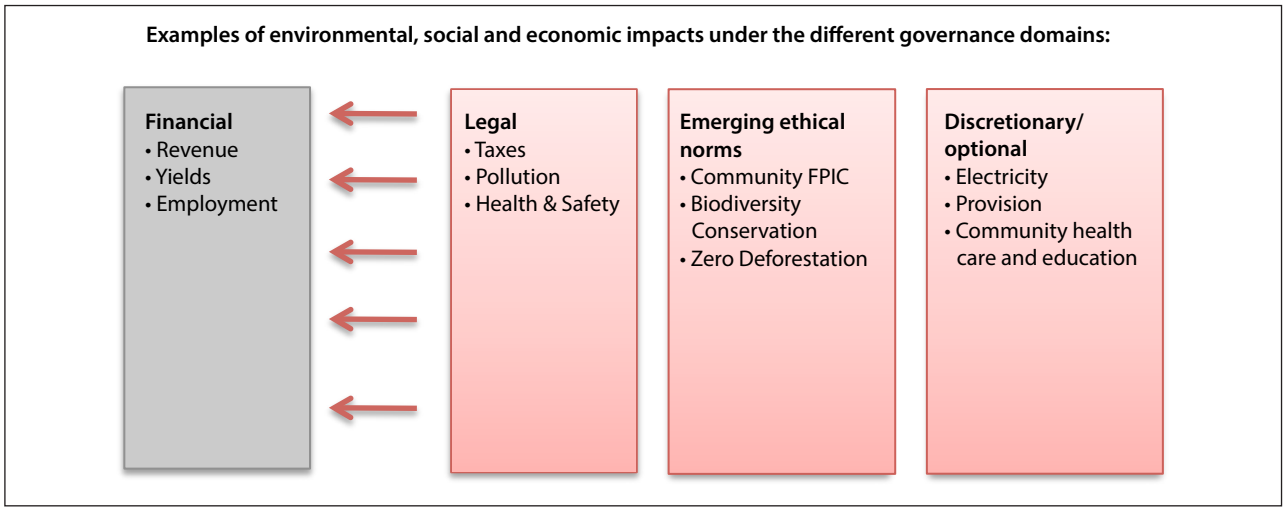

Figure 7. Translating risk.

Source: Based on Carroll (1979)

By focusing their efforts on a single ambitious commitment, attacking strategic pressure points (such as institutional investors and buyers in European and American markets) and targeting industry bottlenecks (CLUA 2014), NGOs build up the pressure so that producer companies have a financial imperative to respond. As Figure 7 shows, NGO, IGO and advocacy groups seek to shift impacts perceived to be under legal, ethical or discretionary governance domains into the financial domain of corporate social responsibility in order to leverage change

One civil society representative argued that risk "will be much more powerful at getting those guys [growers] to comply with existing regulations than anything government could do. It is very important in terms of leveraging change." The diversity and frequent non-transparency of the Indonesian palm oil supply base, combined with rapid expansion of small-scale local actors, may have previously insulated many producers from rising international sustainability standards and reputational risks. However, the nature of globalized supply chains for agricultural commodities places much of the control in the hands of the traders and refiners. At the same time, influence lies in the hands of consumer goods manufacturers because of their proximity and relationship to consumers and branding (Bair 2008). NGOs and advocacy groups have leveraged "No Deforestation" commitments from a handful of large firms, which have applied them to their own plantations, as well as those to third-party suppliers, pushing market risk further up the supply chain. On the ground implementation of these commitments remains to be seen, however!

The "No Deforestation" commitments of major traders such as Wilmar, GAR and Cargill are often described as a game changer in the palm oil industry due to their potential influence across the supply base. Wilmar expects all its operations, subsidiaries and third-party suppliers to be compliant by 31 December 2015 (Wilmar 2013). It promises to cease business with suppliers found to be in violation of the policy if they do not take remedial action immediately.

Many growers are restricted in terms of who they sell to, whether at the level of farm aggregator, mill, trader, refinery or manufacturer. These restrictions are based on the available facilities and infrastructure. In regions of more recent development, such as parts of East Kalimantan or Central Kalimantan, access to mills may be restricted and many firms are limited in relation to buyers they can access.

However, other growers are catering to rapidly growing import markets in China and India, which place much less focus on environmental and social principles, compared to western markets. (Maignan and Ralston 2002; Matten and Moon 2008; McCarthy and Zen 2010). In regions such as Sumatra with long-established oil palm sectors, the number of independent smallholder farmers is growing rapidly. These smallholders have access to an escalating number of independent mills, which offer competitive pricing opportunities. These mills rely heavily on fresh fruit bunches purchased on the open market and often do not have corporate purchasing policies or checks in place for legality and sustainability concerns (WWF 2013). These context-dependent variables may undermine market risks.

One medium-sized grower described the situation in his district: "there are about 10 or 11 mills as well as our own. It is a war out there just to get bunches [fresh fruit bunches harvested from the oil palm]. People will do anything to get bunches". Situations such as this increase the possibility that supply chains will bifurcate into 'green' and 'brown' supply chains. The development of alternative supply chains, which allow growers to avoid pressure from buyers to adopt certification or "No Deforestation" commitments, might increase further due to the growth of downstream processing facilities in Indonesia.

A falling CPO price, a new tax structure introduced by the Indonesian government in 2011 (reducing export tax on processed products from 25% to 10%) and an increase in biofuel mandate[21] may all encourage more investments in domestic processing facilities (Lubis 2013). The rising biofuel mandate, however, also presents a considerable threat to Indonesian forests as increasing demand provides the incentive to expand.

Social risks

Risk-based motivations are driven not only by international ethical norms, but also local considerations. A number of large- and medium-sized industry respondents (7) discussed their perceived responsibility toward local communities and smallholders. Notably, these responsibilities were strongly associated with concern over community conflicts, which had resulted in financial losses due to stalled operations. One medium-sized company representative stated, "Our license to operate is 100% dependent on our relationship with local communities. The community is that powerful."

In East Kalimantan, as in other frontier areas of expansion in Indonesia, the causes of conflicts between companies and communities (Table 4) are principally over land, one of the main production assets for both oil palm companies and local communities. This is particularly interesting given current developments in "No Deforestation" commitments that will increasingly shift oil palm development from forested to deforested lands, which often contain existing communities. Community conflicts may increase as a result (Colchester et al. 2014). Therefore, companies will have to weigh up and balance the need to avoid forest and peat land areas with avoiding community conflicts, both of which present a significant business risk.

In general, NGOs give environmental issues a profile (destruction of biodiversity, impacts on endangered species, inappropriate waste management), while communities respond to social issues. The difference in stakeholders reporting these conflicts may have an impact on company responses. NGOs may generate greater reputational risk and demand commitments to higher voluntary standards (with third-party audits), but communities can present serious immediate operational risks that can have equally severe financial consequences. The responses to these two risks may differ depending on community imperatives.

One interviewee explained that his company had not created a harmonious, long-term relationship with adjacent communities before 2011, despite having a CSR program. Following weeks of community protests that significantly impacted plantation income, the company integrated CSR and social sustainability issues into the frontline of its plantation operations. Another company, in the face of a rapidly expanding independent smallholder supply base, spoke of the pressure to process community-grown oil palm fresh fruit bunches (FFB) before their own, for the sake of good community relations.

Table 2. Media-reported conflicts involving oil palm companies in East Kalimantan.

Cause	Number of conflicts reported in local media
Land disputes	44
Environmental problems	14
Smallholder farmers	9
Labor problems	5
Permit (overlap)	2

Sources: Agro Asia News, Antara News, Balikpapan Pos, Berau Pos, DPRD Kutai, Kartanegara, EIA, Eksekutor Kaltim, ELSAM, Forest Watch Indonesia, Gerakan Aktif, Greenpeace, Jakarta Globe, Kaltim Post, Kejaksaan, Kompas, Koran Kaltim, Mahkamah Agung, Mongabay, Myzone, Okezone, Pos Kota Kaltim, Samarinda Pos, Sawit Kaltim Blog, Sinar Harapan, Skalanews, Suara Borneo, Suara Kaltim, Tribun News

21 By raising the biodiesel blending rate from 10%–15% in 2015, the government hopes to absorb rising supplies of palm oil, boost the market price, reduce imports of diesel and revive a flagging economy.

An NGO representative at one multi-stakeholder meeting offered this analogy used by a company: "a plantation is a city not just a crop". Representatives from small, medium and large companies indicated that local communities are their "social license to operate". In cases where the company had developed a good relationship with the community, they argued the community then acted like a 'fence' for the company, protecting the plantation against outside disturbance.

The view of company-community relations described above is a positive development, suggesting some shift in corporate policy toward investment in local relations. But a legacy of community conflict remains, linked to historical norms of poor practice during the Suharto era (McCarthy 2010), as well as more recent examples. Limited capacity, training and experience within firms to resolve conflicts when they occur often aggravates this situation. However, a few firms are moving slowly from the confrontational/command and control approach toward more innovative, participatory business models (Paoli et al. 2014). As one representative of a medium-sized company explained, "You treat local communities well and you have a longer and more profitable plantation". This is clear evidence of the risk that communities can present to business.

Legal risks

Ten growers discussed the role of government and legal risk, noting the lack of clarity and enforcement of boundaries (insecure operating permits and legal status of land tenure) as a disincentive to adopt sustainability standards, as uncertainty undermines commitment: "Regulations between different sectors are not always in harmony and there is overlap in policies and regulations. This results in a high-cost economy".

Many of the companies and industry stakeholders cited conflicting legislation between different levels and sectors of government, and procedural inefficiencies as an additional hurdle to more responsible and more efficient production. Said one: "There are too many layers of government. It is painful and expensive". In particular, one medium- sized grower talked about the difficulty and cost of obtaining a license to restore an area of land: "We also have an ecosystem restoration license. I do not understand why anybody would want to have that license. It is crazy to get it [difficult] and costs an arm and a leg".

However, the lack of clarity over government processes and highly variable enforcement in Indonesia can work to the benefit of some businesses and local decision makers. They interpret the rules and regulations to their advantage, providing political and rent-seeking opportunities. One medium-sized grower observed, "Central Government is a lot more friendly, in the sense that they won't help us, but at least they are more neutral".

Our evaluation of East Kalimantan showed the districts of Kutai Kartanegara and Kutai Timur contain a high number of plantation permits. But they are also easily accessible, suited to oil palm agriculture (flat to undulating terrain) and have large areas of heavily degraded vegetation. Kutai Barat, however, which is poorly accessible, has inappropriate undulating to mountainous terrain and lacks the necessary support infrastructure in many areas, has good quality forest cover but still contains large numbers of plantation licenses (see Annex 5). This implies limited strategic and landscape-level planning at the district and province level, and potentially local rent seeking.

One government official said it is rare that firms are prosecuted for illegal practices. Instead, many reported court cases in East Kalimantan occur between companies. The majority of these cases were in Kutai Kartanegara, Kutai Timur and Kutai Barat, districts that have the highest number of palm oil permits and coal mining permits, which may often overlap. This supports evidence from respondents that overlapping licenses are a regular and serious problem for many firms, presenting legal and financial risks.

In interviews one medium-sized grower stated that "the elephant in the room is tenure". Despite the problems with governance and legality at the local level, an interviewee stated, "if we are going to protect forests in the long term, we are going to need governments to enforce existing, and develop new, policies".

4.1.2 Instrumental: Benefits

Instrumental motivations are driven by self-interest (Aguilera et al. 2007). A number of high-profile efforts have focused on positively incentivizing sustainable practices within the palm oil industry.

For example, the RSPO has sought to create instrumental benefits through a premium that concerned consumers will pay to responsible growers through sustainability certification. However, for many growers, a financially significant premium is yet to materialize.

Supporters of sustainability standards also claim that sustainable business practices enable companies to increase efficiencies, and enhance their triple bottom line of people, planet and profit (WWF 2012). It is purported that multi-stakeholder platforms may, in addition, enable preferential access to some buyers, sustainability experts and NGOs that can provide mechanisms and methodologies to upgrade practices.

In theory, such standards also provide the benefits of legitimacy associated with a multi-stakeholder platform with fair representation, participation, neutrality and procedural standards, and some insulation from the negative campaigns of NGOs. In reality, for many firms this may just increase their public exposure and the potential for criticism.

Respondents highlighted the trade-offs associated with sustainability standards. As one manager explained in the context of health and safety, "there is always a conflict there. Do you put your full emphasis on safety or do you put your full emphasis on productivity?" Whether immediate, or future, trade-offs are key, particularly if financial benefits in the form of a premium, production efficiencies or increased yields are not apparent.

For many firms interviewed, negative environmental impacts related to deforestation are also often more difficult to reconcile with a firm's business model than social aspects because plantation companies aim to expand. Acquiring new land is very important at all business scales. As one representative said, "it is very engrained in the culture and frankly as private business it is very important" and forms part of internal targets: "If you are an estate manager in a new development, your first [key performance indicator] KPI is how much land can you acquire". Expanding the plantation base is a rapid way to increase production, whereas increased production through yield enhancement is slower and may not communicate growth of the business as effectively.

Respondents further highlighted problems in the way incentives are structured and distributed. Notably, the international market has failed to deliver any premium at the magnitude and pace required to create incentives for slowing current rates of deforestation. One large grower articulated this well when referring to the RSPO, arguing "anticipated gains for the producers, particularly in South-East Asia, have not been seen. And that is because many of the people in Europe are not willing to pay more. They are willing to make all these statements and promote a certain lifestyle or set of morals, but what they don't say is that they are not willing to pay a cent more. So the burden of cost is held on the farmer, whether it is small medium or large… So that is why a lot of uptake in Indonesia and Malaysia has slowed".

Market forces play a key role in the sustainability of supply chains. In the past, retailers and consumer goods manufacturers (CGMs) in Europe and the United States, have sought to purchase products for their customers at the lowest cost, and make the maximum profit for their shareholders with little concern for the sustainability of their sourcing. These same retailers and CGMs are now demanding higher standards, but have shown little willingness to sacrifice their own profits to pay for more sustainable production practices. These market imbalances are reflected in the high membership of retailers, manufacturers, refiners and traders in the RSPO and the relatively small numbers (13%) of grower members within the RSPO (RSPO 2014). Downstream supply-chain stakeholders must acknowledge this legacy of having financially benefited from weak environmental and social standards in countries of origin and begin to pay a fair price, or true cost, for upgrading the oil palm industry.

The focus on financial incentives as a promise of certification, yet failure of premiums to materialize, is widely seen as one leading cause for the limited uptake of the RSPO among growers. Many of the interviewees engaged in RSPO certification expected longer time horizons for returns on investments and maintained long-term contracts with buyers for certified sustainable palm oil (CSPO): "We tend to have at the very minimum, yearly contracts…. if you have these large companies as customers you can have long-term commitments and we can guarantee our income and that is good for us. Gives stability." This contrasts with the business model espoused by a number of uncertified small and medium-sized oil palm growers, who prefer short-term contracts with refineries, allowing them to shop for the best price. A medium-sized grower stated, "We prefer flexibility in selling our produce…. at most we would have three month delivery contracts".

Respondents highlighted the dependency of instrumental motivations on palm oil prices, with low prices potentially heightening interest in certification to secure an additional premium or access a reliable buyer: "When the palm oil price was high, who cared? So you have to look at that as an incredibly important factor in the environment that either encourages or discourages this behavior".

In a study by the World Agroforestry Centre, the potential profitability of 23 plantations sampled varied between IDR 44 million–IDR 295 million (c. USD 3,254 - 21,817 [the following conversions are based on an exchange rate of IDR 13,521 to USD 1]) per ha. Returns to land for independent smallholders varied between IDR 92 million–IDR 143 million (c. USD 6,804 - 10,576) per ha in a 25-year cycle, while for plasma plantations it varied between IDR 125 million–IDR 266 million (c. USD 9,244 - 19,673) (Budidarsono et al. 2012) In a sector such as palm oil where profits are substantial, minor financial gains from certification or from improving yields may be considered inefficient considering the investment in capacity building needed. In rural environments with limited access to good planting material, limited technology and a shortage of well-trained staff, improving yields may require too great an investment. When land is readily available, expansion becomes a more economically viable alternative.

For many growers, investment in land is more sensible than investment in productivity. Planting palm generates a profit, but also helps secure claims over land, especially forest-lands, which are often perceived as unclaimed and can be seized at limited costs. For small producers (ranging from 2 to 200 ha in size), it is not only a matter of economics, but also about what is best for the family. Small farmers tend to be focused on improved livelihoods and opportunities, with decisions based upon needs and desires of their families and neighbors. These decisions are made within a strong, local cultural context and may not be affected by distant, shifting norms in the marketplace. One respondent pointed out that "not everybody acts as a rational economist". Researchers and NGOs may often overlook these motivations because they are less visible and quantifiable, yet greater attention must be shown to understanding such choices.

The variation in premium between different standards was also reported as important in the uptake of sustainability commitments. One grower explained "the ISCC premium is worth having and we have a long-term contract to supply ISCC-certified oil… But for RSPO we have certification, but we don't sell it as RSPO-certified. We sell green palm certificates. But it's not like we have a buyer that says we won't take your oil unless it is certified. The RSPO premium for PKO is now worth having, but the premium for CPO is negligible." The RSPO, ISCC and Rainforest Alliance do not publish data on pricing and premiums apart from green palm certificates. While the dynamics are not clear, some anecdotal information is available, and some companies publish information in their annual reports (see Table 5).

Table 3. Estimates of price premiums for RSPO, ISCC, Rainforest Alliance and ISPO certification.

Standard (and trading mechanism)	Crude Palm Oil (CPO)	Palm Kernel Oil (PKO)
RSPO		
Green Palm	USD 0.7 per tonne (Dec. 2014), but prices have been steadily dropping	USD 81.58 per tonne (Dec. 2014)
Mass Balance	USD 10–25 per metric ton (between 1.0%–2.5%)	Not available
Segregated	RSPO segregated premiums vary between USD 15–50 per metric ton	Not available
ISCC		
	USD 13.6 per tonne (R.E.A Kaltim Annual report)	Not Available
Rainforest Alliance		
	Not available	Not available
ISPO		
	Not applicable (it is a legality standard)	Not applicable (it is a legality standard)

Sources: Green Palm Sustainability website, WWF (2012), R.E.A. Holdings PLC (2014)

For some NGOs, the RSPO's focus on delivering a benefit in the form of a premium meant they had failed to identify an appropriate instrumental motive and therefore, "[the RSPO] was just a lagging indicator of what its members are willing to do" with the right motivation. As such, instead of focusing on incentivizing change through instrumental benefits, NGOs and advocacy groups began to target palm oil markets and financial service providers to leverage change among companies on the ground.

4.1.3 Relationships (relational motivations)

Relational motivations refer to the influence of relationships among groups or sector members on behaviors. Organizations within the same space often feel pressure to conform to their peers, due to coercive (pressures from government or regulatory bodies), mimetic (pressures to copy other organizations' activities) and normative forces (pressures from professional communities)(Di Maggio and Powell 1983; Bartley 2007; Dingwerth and Pattberg 2009). Grower respondents reported the importance of relationships with communities (7 – discussed earlier in the chapter), government (9), and industry peers (7), as well as multi-stakeholder platforms (4), in incentivizing or dis-incentivizing sustainability commitments. Here we address three broad categories of relational motivations: inter-firm relations, relations with the state and multi-stakeholder platforms.

Inter-firm relations: Among producers and along the supply chain

New alliances around sustainability appear to be forming within the Indonesian palm oil sector. The inclusion of, and alliance with, stakeholders further down the supply chain has created new relationships among parties with a shared agenda, such as RSPO members, the Palm Oil Innovations Group (POIG), the Sustainable Palm Oil Manifesto group (SPOM), The Indonesian Palm Oil Pledge (IPOP) and diverse actors grouped under the "No Deforestation" banner.

These self-organized groupings create new lines of influence and possibilities for leveraging greater collective power. One large company interviewed stated, we "look to fit in with our peers. So we fit in with our own internal policies, but also international covenants for companies in our position". A useful illustration of how loyalties and divisions along the palm oil supply chain are forming and may affect decisions regarding sustainability is evident in voting records of the RSPO General Assembly. The growers' membership category has submitted 22 of the 61 motions within the General Assemblies since the RSPO was first implemented (Djama 2015). Members adopted only 9 of these motions (c 40%) in comparison to 7 of the 10 NGO motions (c 70%). NGOs have been effective in rallying the downstream industry to support their motions, and build a successful coalition. Growers, however, are a minority grouping and may fail to build alliances across national boundaries (Malaysia vs Indonesia) or along the supply chain (Djama 2015).

These alliances may be particularly significant because the majority of small and medium-sized producers are unable to access international dialogues and working groups. As such, these growers may remain marginalized from new standards and networks. In fact, the majority of motions submitted by the growers target the governance of RSPO, generally requesting better representation of their needs. Private sustainability standards, with their origins or leadership in Europe or America, may be perceived as a new manifestation of Western control, as reported by four of our key informants. The 'dominance' of foreign business and NGOs within the RSPO has, in the views of some, created a growing divergence between RSPO requirements and ambitions of the Indonesian government and the domestic palm oil industry.

One key informant argued that negative campaigns by American and European NGOs are simply a method to protect vegetable oil farmers in their own countries and believe that Indonesia should not give in to external pressure and pursue its own vision of developing the oil palm industry: "People cannot accept imposed concept of deforestation. [It] will only work if the government says no more plantations in forest areas".

Respondents also spoke of a prevailing sense of injustice associated with corporate commitments among downstream supply chain actors and certification standards. One key informant described what he saw as a "copy and paste phenomenon" among Western retailers and CGMs, who simply copy and paste the statements and commitments of their peer companies, without sufficient insights regarding how to meet these commitments or their impacts on upstream palm oil actors, including smallholders. As one key

informant exclaimed, "you have the companies beating their chests and saying this is us pushing the agenda forward. And it is, but the people ultimately paying for it are the producers, whether they are small, medium or large".

Some producers argue that the best national structure to engage with sustainability is GAPKI. A medium-sized grower claimed, "changes in practices need to come from the growers and the platform provided by GAPKI should serve well for the growers from the industry to deliberate these." However, others interviewed expressed concern that GAPKI only represents the opinions of a handful of companies, rather than best interests of the industry as a whole. In 2011, GAPKI walked out of the RSPO (Jakarta Post 2011) and one key informant felt that progressive firms were being excluded due to their decision to move toward certification and develop their own commitments. There is a "problem with engagement in the discourse, as policy development is not done properly, through discussion involving all relevant stakeholders". Table 6 shows estimates for the number of concessions in East Kalimantan, as well as membership in GAPKI, RSPO and certification under ISPO; a much higher number of growers are members of GAPKI (138) than of the RSPO (14), but even fewer have planned and implemented national ISPO certification. The potential for GAPKI to reach a wider range of producers is clear. Therefore, its attitude and approach to sustainability is fundamental to increasing uptake of standards both public and private.

The emergence of the State-led and legally recognized ISPO could be a significant step forward in the development of public-private regulatory tools for sustainable practices. Some perceive this move as a knee-jerk response to the RSPO and an effort to define an Indonesian version of certified sustainability. However, the adoption of multi-stakeholder working groups and other private governance structures within ISPO may signal a more inclusive approach to management of natural resources, and acknowledge the importance of relationships with a broader range of stakeholders.

Table 4. Estimated number of concessions in East Kalimantan and membership of different forums and certification standards.

Estimated total number of concessions in East Kalimantan	322
GAPKI members	138
ISPO audited (implemented and planned)	11
RSPO audited	7
RSPO member companies	14

Sources: see Annex 1

Relations with the state

Relational motivations are heavily shaped by firms' complex relationships to different state actors. Growers agreed that much time, energy and money is spent dealing with conflicting policies and legislation, weak governance and government licenses, permits and authorizations. As discussed previously in the legal risk section of this paper, when governance is unclear, implementation is variable and the environment uncertain, then business is insecure, time frames are shortened and willingness to make long-term investments in sustainable practices declines. One medium-sized grower explained: "As tends to happen in Indonesia it very much depends on the people. The bupati [head of an Indonesian Regency [Kabupaten]] changes and the head of services, and so the implementation of the regulations changes and brings a lot of uncertainty".

One key informant argued that the "five-year model for governing[22] is risky because it... pushes for popularity rather than long-term sustainability" while another medium-sized grower suggested that "smallholders can put large amounts of pressure on local government". This governance model can lead to political decisions being biased to powerful members of the local community, such as organized smallholders or influential businesses. Sustainability works on longer time horizons and therefore may be out of sink with local values and wishes, particularly in politically and economically uncertain environments.

There is a very clear interaction between risk and relationships. In order to mediate the legal risks associated with interacting with government at the district, provincial and national levels, investors interested in developing an oil palm plantation will often partner with local, well-connected shareholders to access the necessary permits. Once the permits and licenses have been secured, the original investors may buy out local shareholders. This arrangement often creates problems, however,

22 The heads of Indonesian Regencies (Kabupaten), known as Bupatis, are elected for a five-year term.

when local partners abuse their position, do not fully adhere to legal requirements and do not involve local communities as transparently as they could during consent negotiations. Currently, investors may benefit from the industries' lack of transparency, comprehensive documentation or consistent implementation of regulations. Maintaining percentage interests in a varied range of small to medium-sized firms ensures the opacity and diversification necessary in a region where the threat of land-based conflicts, governmental expropriation, ethnic discrimination[23] and civil society pressure regarding environmental and social impacts, is omnipresent.

This was highlighted when attempting to establish the number, size and ownership of concessions in East Kalimantan. The discrepancies and opacity in data between GAPKI (self declared), Ditjenbun (Directorate General of Plantations, Ministry of Agriculture) Izin Lokasi and the stated HGU allow for the licensing system to be abused for personal gain. The lack of comprehensive and reliable data also limits independent and informative analysis, which could be used in the development of sector reforms.

Varkkey (2012) identifies patronage politics as a common business culture in Southeast Asia and in particular in the oil palm industry of Indonesia. Earlier, Kurer (1996) identified that patrons and clients are predominately motivated by material gain. When this occurs, these actors may be even less likely to choose more environmentally or socially responsible practices over profit. For example, one medium-sized grower stated that patronage relationships presented problems when implementing bribery laws applied in their home country "because the way that business is done in Indonesia is not compatible". Patronage is so embedded within land-use systems that it makes it very difficult to operate outside of it.

In the Indonesian oil palm sector, the government's power comes from its ability to allocate land, whereas businesses use their financial power to further economic goals. Potter (2015) argues that government departments have generally designed regulations that assist the oil palm companies, and that ties between government and the palm oil lobby are significant, to the extent that "many conglomerates are rumored to be influential in setting national policies impacting the palm industry' (Accenture 2012). Gillespie (2010) and McCarthy et al. (2012) argue that political and bureaucratic interests lie with plantation expansion; the district and sub-districts' close relationships with plantations negatively influences the smallholder plantation relationship, as well as the government's oversight role more broadly.

Foreign firms seeking to enter into markets where patronage politics play an important role will often attempt to engage in similar practices as well (Enderwick 2005; Hamilton-Hart 2005). But patronage networks are more easily built across similar ethnic, cultural and linguistic boundaries (Terjesen and Elam 2009). Since Malaysian and Singaporean investors are familiar with such politics within their home countries, they may find it easier to immerse themselves in Indonesian networks, while Western firms may be subjected to additional scrutiny and accountability. The relationship between Indonesian culture, business relationships built on patronage and weak governance is incredibly complex, however. There may be clear links between these factors, but there are also important distinctions. One small company representative argued, "it is not always easy to work with foreign [Malaysian] companies because they do not understand the system in Indonesia". Despite similarities in patron client relationships, regulations, cultures and ways of interacting with others may be different. These dynamics are key when seeking to use risk and relational motivations to shift ethical and cultural norms regarding sustainability.

Foreign growers are facing increasing pressure to balance adherence to international social and environmental standards with respecting the laws and cultures of both their host, and home, country (e.g. Agreement on Trans-boundary Haze Pollution[24]) (ASEAN Secretariat 2014; Jakarta Post 2014).

23 In the decades since the fall of the new order in the 1990s, there has been an increase in the number of ethnic conflicts and violence in Indonesia (Bertrand 2004). There have also been numerous recorded cases of government expropriation of land, particularly from local people and communities lacking clear land tenure, for business (McCarthy and Cramb 2009).

24 International business and financing links are coming under particular attention due to dramatic and identifiable environmental feedbacks. A prominent example of this is land-based investments in Indonesia causing fires and haze that heavily impact Malaysia and Singapore (Shen 2014). The Agreement on Trans-boundary Haze Pollution proposes to prosecute Singapore-based companies responsible for haze-producing fires in Indonesia (Jakarta Post 2014) could affect both national agribusiness firms and financial institutions.

Relationships are particularly important when facing governance uncertainties, whether it is building strong relationships with a key figure in government or a member of the board of directors that can offer certain skills or contacts. A larger grower stated, "what we tend to do is identify the change maker within that organization who is going to help things happen." As such, companies choose to concentrate their operations in specific regions for efficiency and cost effectiveness with local officials.

Despite the complications associated with government regulation and enforcement, many interviewees agreed that when it works it can be very powerful; one of the main factors that "drives sustainable practices is government value". The standards established, although they may not be immediately translated into action, have a strong influence on establishing social expectations about responsible corporate behavior (McAdams and Nadler 2005). NGOs and advocacy groups driving commitments to "No Deforestation" suggest that by pressuring industry, industry groups will in turn lobby the government to develop and enforce regulations that provide a level playing field. However, to achieve change, a large and united industry and civil society front is needed, as well as an accessible and meaningful mechanism to ensure all growers can participate. Currently, neither exists.

Multi-stakeholder platforms: The new patronage politics

Private sustainability standards often involve methods of governance that mandate the participation, dialogue and deliberation of stakeholders beyond the value chain, but the legitimacy and representativeness of the multi-stakeholder forums are debatable (Cashore 2002; Nikoloyuk et al. 2010). However, many interviewees expressed their belief that engaging with experts from a range of disciplines to share skills was the most effective way to move forward with issues of sustainability. As one key informant argued, "we have seen in forestry issues that if regulation is just coming from the government it doesn't work. But if you get others involved, it becomes more valuable".

The transparency required for multi-stakeholder platforms may present a challenge in an industry that is historically very private and closed to outsiders. However, interviews suggested that a broader range of industry stakeholders are now cultivating similar patronage/dyadic relationships. Multi-stakeholder platforms provide credibility, legitimacy, access to information, key figures that can facilitate and streamline processes, and ultimately a shared responsibility. As one large company representative argued, "the industry group is not going to be credible without all of the NGOs". Without all the agendas and stakeholders at the table, oil palm agriculture will never be considered sustainable and reputational risks remain.

But standards must be conscious of elitism and excluding smaller industry stakeholders. One medium-sized company complained that working groups in the RSPO were not held in Indonesia (but Malaysia) and that English is often used, instead of Bahasa Indonesia. In addition, one of the larger firms often represents the interests of the growers, leaving other companies waiting to hear what has been decided without them. One RSPO member and key informant commented, "if you are a longstanding member of the RSPO we are already getting lost. I can't even imagine what it looks like for someone on the outside. Because the RSPO is so tight, it is everything or nothing. It is a big commitment".

Relationships play a key role in influencing social and ethical norms that may challenge instrumental motivations. As one large grower explained there is now a "global expectation for companies of our size!"

4.1.4 Moral motivations

Moral motivations are those concerned with moral principles and ethical practices[25] (Aguilera et al. 2007). Despite moral principles playing a role in individual decision making, research found they had less of an impact at the corporate level within oil palm companies in Indonesia.

Interviews provided some evidence of moral motivations, both internal (e.g. owner) and external (e.g. consumer), for adopting

25 Ethics and morality differ. Ethics is considered the rules of conduct recognized in a particular group or culture or for a particular class of human actions or (originating from an external social system, which tends to be part of a particular context). Morality, however, also prescribes right or wrong conduct, but is ultimately a personal compass of do's and don'ts (it is internal and individual, and can transcend cultural norms).

sustainability. They reflected that both corporate identity and markets were playing some role in shaping a company's overall business model. Some companies discussed their role in development as providing jobs, schools and health facilities for local communities. One medium-sized firm reported it did not want to be held responsible for leaving a negative impact, while another large company explained how its social responsibilities and investments were strongly influenced by the religious doctrine of the owners and senior management: "It can also be driven by religion and personal beliefs or moral obligations. This manifests as corporate value/customs and is a reference point for how the company operates".

In a study of 32 of the leading oil palm companies operating in Indonesia (both foreign and domestic), 25 produced an annual report, while 7 did not (see Annex 8). Within those 25 reports, community development was the most commonly covered sustainability topic (22), followed by health and safety (16) (see Table 5). Environmental topics and emission reduction were discussed much less frequently, appearing in 15 and 9 annual reports respectively. This indicates that social dimensions related to the provision of goods and services to local communities, rather than environmental sustainability aspects, are given priority. Given these topics featured in the annual reports of companies, this may also indicate the main interests of shareholders. It is interesting to note, then, that certification features high on this list as well; third-party certification may reassure shareholders about the firm's sustainable practices and reduced reputational risks.

Overall, interviews suggested that moral motivations were a comparatively weak factor in motivating sustainability. National and international ethical norms may eventually influence decision making, but evidence suggests it is their translation into instrumental and relational factors that deliver a behavioral change. For example, in reference to shareholders, one medium-sized company representative explained, "they have their heart and their money". This implies that shareholders' and owners' ethical or moral values are distinct from financial concerns; when there are trade-offs between the two, economic considerations will often prevail.

Table 5. Topics covered in the corporate annual reports of 25 leading palm oil companies.

CSR topics	
Community development	22
Health & safety	16
Certification	15
Education	15
Environment	14
BMP	12
Emission reduction	9

Interestingly, this sentiment was echoed by companies in relation to consumer choices and palm oil products, and the unwillingness of consumers to pay a premium for sustainably produced oil. This is reflected by the low premium generated for green palm certificates. As one key informant argued, "anyone who has a 2013 commitment could today buy green palm certificates and cover 100% of what they use today… It is a fraction, costs nothing…but yet none of them are doing it. Because there is no real commitment".

Evidence exists to counter these claims. For example, Unilever has purchased green palm certificates since 2012 to cover all its inputs of palm oil. However, the same cannot be said for all buyers. There continue to be issues with misinformation, poor transparency, and uneven uptake of standards and execution of commitments. Most importantly, many producers feel a sense of injustice and inequality, believing that others within the supply chain are not playing their part.

4.2 Response: The important role of context-dependent variables

Response depends on a firm's internal capacity and the context in which it operates. Interviews overwhelming suggested that, regardless of type or extent of instrumental, relational or moral motivations, a firm's ability to respond was fundamental in translating motivations into changed behaviors. This is illustrated in Figure 6 of this paper.

4.2.1 Internal factors

Senior level buy-in and multi-level socialization

Sustainable oil palm agriculture, as defined by many of the voluntary standards, requires a significant change in existing business models.

Box 3. Chapter summary: Responsibility

Instrumental risk-based motivations are driven by self-interest, but reflect steps taken for self-defense or self-preservation as opposed to seeking additional benefits. They were overwhelmingly reported as a driver for corporate sustainability commitments, particularly where they have financial implications. Reputational or market risk played a key role in driving sustainability commitments, as did local communities. However, government processes create different risks. Conflicting and weak state governance at the local level generates an atmosphere of uncertainty and limits transparency, acting against sustainability commitments.

Risk far outweighed **instrumental benefit** in terms of incentivizing/motivating corporate social performance among growers. This was mainly due to a limited realization of any financial benefits (premiums) and the relativity compared to global vegetable oil prices. This has important implications for developing industry incentives and disincentives for uptake.

Relationships between growers, other firms along the supply chain and industry stakeholders influences decision making. Organizations within a given industry/organizational group may choose to adopt the same structures or cultures within their group. Multi-stakeholder groups tied to initiatives such as the RSPO, the POIG or the HCS approach can therefore play a role in shifting cultural or operational norms.

However, established relationships and working cultures are difficult to change. Currently, growers' relationship with the State and other industry associations (e.g. GAPKI) remain strong and complex, often opposing internationally recognized sustainability standards.

Ethical motivations are entwined with cultural and social norms, and therefore relationships. Despite **moral principles** playing a role in individual decision making, research found they had less of an impact at the corporate level within oil palm companies in Indonesia.

Differential exposure to these motivations among oil palm producers will have implications for uptake of international sustainability standards.

Internal stakeholders would therefore have to buy-in to new concepts and operationalize them. Interviewees reinforced that this must start at the top in a hierarchical society such as Indonesia. One large firm argued, "our drive for certification is not market driven, it is investor driven". As one of the key stakeholders to which firms feel accountable, owners, shareholders or investors play an important part in deciding a company's principles in relation to a firm's financial, legal, ethical and discretionary performance (Carroll 1979). To achieve buy-in, it is therefore important to understand the psychology of the owner and the added value that they can see. As one medium-sized grower suggested, "I think for the senior guys, it is about maybe tackling it at the principle level as opposed to the criteria level".[26] This recognition has led to growing calls for greater focus on sustainability at the level where many top corporate strategies and values are determined — with shareholders (Roda et al. 2015).

Again, this may link closely to perceived risks. Both the company's identity and legacy can very much influence decision making. Past experiences may play a large part. One company representative described how the firm's experience in the timber sector persuaded them of the importance of sustainability in terms of the market and business longevity.[27] Supply chain integration also plays a role in a grower's and owner's exposure, understanding and buy-in to international sustainability norms, according to one interviewee. Growers with additional operations/investments further down the supply chain may have greater knowledge of market forces, whereas those with limited access to information on the dynamics or pressures developing further along the supply chain, can remain misinformed and marginalized. One large firm stated, "it was a realization after a while that if we didn't change as an industry the business would

26 This statement makes reference to the RSPO principles and criteria that define "legal, economically viable, environmentally appropriate and socially beneficial management and operations", whereby the principles outline the outcome whereas the criteria explain what is specifically required in order to achieve that outcome.

27 In the 1980s, the timber industry made significant profits, but these profits disappeared quite rapidly as standards changed and markets shifted. The company representative explained that although oil palm is currently profitable, profit margins are already decreasing. It is difficult to predict how other products might replace palm oil. The company has to consider investment in production technology/methods that may benefit long-term production, returns on investment and stakeholder value.

suffer going forward". This again reinforces the idea that business risk is the major driver of corporate sustainability commitments!

Despite an owner, or board of directors, publicly committing to improving environmental and social impacts[28], this commitment must also penetrate all layers of management and staff, as well as external contractors. This can prove challenging. As one medium-sized respondent explained, "sustainability is still finding its structure within the company". Companies operating in the plantation sector suffer from problems of decentralization, with plantations or regional offices a long way from head office. Strong communication, reporting and cross-checking systems are required. One medium-sized company active in improving practices discussed the importance of internal communication and monitoring: "There are monthly meetings on site and three monthly review meetings with plantation heads from all operations in Jakarta. The company stipulates participants to report on problems at hand (both agronomic and social) to resolve problems as soon as possible. The board members also regularly visit the operations (approx. once per two months) and observe and discuss technical and CSR issues".

Social and environmental responsibility can either involve activities within the firm (such as reducing environmental impacts or improving labor standards) or actions outside the firm (such as investing in infrastructure for local communities). Some firms may decouple CSR from business as usual to limit changes to their business model and operations. One small company respondent argued that activities such as "the hit and run approach… only reporting success stories… only doing charity work or resolving problems by giving money" are still prevalent within the Indonesian oil palm sector. As long as companies within the palm oil industry continue to believe these measures constitute sustainability or are sufficient, the industry will face criticism.

Control and management of production can vary dramatically. One interviewee argued that where a firm has a large degree of control over production, from farming to a refined product, the instigation of systems and managerial processes for reporting is relatively straightforward. But when and where you are one link in a very complex chain and not in charge of anything other than a sale or purchasing decision, getting engagement or access to the information and resources is a challenge.

Proactive commitments may be diluted if staff do not have the right support, incentives and knowledge. Changing practices is also a question of shifting KPIs and standard operating procedures (SOPs). As one grower representative explained, if you are an estate manager in a new development, your first KPI is normally how much land you can acquire. But this is in direct contradiction with many voluntary environmental regulations. As one medium-sized RSPO member explained, "in terms of land clearing we have big incentives for them to follow our SOPs because if they don't then we have to deal with the consequences".

But changing internal management systems and priorities is a complex, time-intensive and costly undertaking. As one key informant argued, "when you have 20,000 (employees) and they are rural workers, many of whom are illiterate, it is very difficult". The extensive use of contractors throughout the industry presents additional challenges in terms of incentivizing and monitoring. A company can include requirements for contractors to follow certain SOPs and standards at the most basic level or offer big incentives, but they have even less control than with employees. As one medium-sized firm explained, "we have contractors for land clearing. Getting them to adhere to sustainability requirements is definitely more challenging". In addition, placing too much responsibility on estate managers, who are ultimately responsible for practices on the ground, can also encourage them to not report issues when they do arise for fear of penalties.

According to one large grower, "to ensure our corporate values are adhered to you must get top level commitment to the agenda. You must socialize the code of conduct, ensure it occurs in any occasion. In lower levels, you have informal unions to communicate on issues". Understanding corporate processes, how values are attributed or weighed up against each other by different actors, is a complex, and relatively unexplored, area in this sector, but fundamental to how policy and regulatory processes work, whether public or private.

28 For example, Unilever's public and senior level commitment to sustainability and reducing its environmental impact through all its operations. http://www.unilever.com/sustainable-living/.

Human resources and training

The financial returns of the palm oil industry have generated a boom in both national, foreign, small- and large-scale investment in Indonesia. Many new investors to the industry come from other sectors, including timber, real estate and agribusiness. Interviewees expressed concern that new investors may have little experience in the plantation sector and the associated environmental and social issues. This lack of experience, as well as a limited number of staff trained in environmental or social disciplines (such as conservation, HCV assessments, FPIC, carbon stocks, etc.), presents serious capacity issues.

In contrast, there is a generation of oil palm growers and employees with a wealth of knowledge and expertise regarding plantation development. Such valuable knowledge can also be a source of resistance to change as many plantation managers and employees fail to see the problems associated with existing methods used to successfully run plantations for 2-3 cycles. As one large company employee explained, "they carry out agricultural practices the way they were taught to by their fathers, etc." Another employee explained, "because it is a long established company some things are harder because you are trying to change things".

One employee of a large company compared those firms still run by the first generation of owners to those inherited by their children. He emphasized the difference in discussing issues of sustainability with a younger generation: "Because it is a relatively young industry [in Indonesia] you are meeting the first generation of businessmen, those that tend to be averse to change", while their children are open to new concepts and looking to make their mark on the firm.

For smallholders, however, resistance to change may be related to practical issues rather than engrained behaviors. Many independent smaller firms do not have the capital or financial flexibility to make the investment required for certification, especially when CPO prices are low (around USD 600-700 per metric tonne). In a study in West Kalimantan, scheme smallholders lost 40% of their potential income to 'plantation costs' and 30% toward repayment of credit (until paid off), which left 30% as income, from an area of land that was on average below 2 ha (Gillespie 2010). In such circumstances, which are common, the additional costs of sustainable practices (training, improved technology, etc.) and certification audits are a serious financial burden, and thus an impediment to change.

A number of interviewees suggested that independent smallholders will suffer the most as norms shift. Companies buying from independent smallholders will not take responsibility for covering the costs of capacity building. As one respondent argued, "that is the spirit of most companies". Independent smallholders in Indonesia remain disorganized and the cooperative movement is weak, despite the work of some NGOs and development organizations to strengthen capacity, and improve coordination and service provision. A recent report argues "the ability to spread risks across cooperative members is an important advantage" (PILAR/CPI 2015).

A note of caution is needed when advocating cooperative structures in Indonesia. As land-use governance and administration sits predominantly with the district agencies, key relationships remain predominantly local — between the company, participating smallholder cooperatives and the district government. With districts competing to attract agribusiness investments, many concede to the most favorable policies for corporate investment. Current power structures mean that villagers may not always rely on government oversight of cooperatives. Yet they lack their own independent means and capacity to control the cooperative process, and importantly, the equal distribution of benefits. Together with the emergence of independent palm oil mills that purchase fresh fruit bunches, more and more smallholders have chosen to operate independently, avoiding the risks and relationships associated with government and large corporations (McCarthy et al. 2012).

One medium-sized grower summarized the smallholder situation thusly: "Smallholders will be our stumbling block. Who is going to pay, I have no idea. Who is going to want to pay, I have no idea. Who is going to manage them, I have no idea. The size of the task to get the bulk of Indonesian smallholders to a sustainable level — it is going to be absolutely massive". The risk that sustained low palm oil prices and rising sustainability demands will further marginalize smaller growers is very real.

4.2.2 External factors

Regulatory frameworks

Findings indicate that the current regulatory framework within which Indonesian growers operate is failing to deliver equitable rural development. Moreover, it is also restrictive in the context of voluntary sustainability commitments. Removing barriers to change and promoting supportive structures is essential. Government buy-in to new methods of valuation, approaches and restrictions to agricultural development is essential if these voluntary private standards are going to work.

In general, there is a perceived lack of commitment to conservation issues (motivated by the need to encourage rapid rural investment to meet development targets). Often, the weakest governance is in frontier regions where the greatest protection is needed. Perverse incentives for environmentally damaging practices and a lack of incentives for good agricultural practices, such as prioritizing yield increases, limit progress of private standards. The state reclamation of set-aside HCV areas for productive use or local tax revenues based on the area of land allocated to a firm[29] all ultimately act to incentivize environmentally and socially damaging practices.[30]

In the past, many governments felt they had to deregulate to encourage foreign investment. Current sustainability commitments from larger firms could eventually see governments matching regulations with international sustainability norms to ensure a level playing field for large investors. Oil palm companies can already benefit from putting in place regulations or SOPs supported by government regulations. As one grower stated, this provides companies with the "teeth" to implement their internal policies.

A number of interviewees expect a change in government processes. They believe the Ministry of Agriculture and Ministry of Forestry and Environment will have to adapt because pressures are building from different sides. Respondents agreed that market and private sector standards have had a significant impact in the short to medium term. But in the long term, governments need to provide greater security over tenure by resolving conflicting ownership and jurisdictions, as well as removing legislative barriers for those firms wishing to engage in sustainable practices, such as conserving HCV areas.

Market framework

The private sector commitments and market-based mechanisms that have emerged for oil palm are being built within an existing framework defined by globalized trade and sovereign governance structures. Although these frameworks may provide strength and leverage for change, they can also embed the industry in a system that isolates and disadvantages less powerful actors within global networks, in the name of sustainability.

Many large companies benefit from their position within the global supply chain and their economies of scale. Large multinational firms are able to boast of their CSR program to shareholders, while still drawing their competitive edge from gains made in the global market and a history of unsustainable practices. For example, consumer goods manufacturers source agricultural products through commodity markets, which effectively keep market prices low, and limits the potential for investments in sustainable practices on the ground. Despite some growers beginning to internalize and operationalize real commitments, there remains a gap between the relevant risks to a business and the environmental and social risks to society (Doane 2005).

---

29 PP No.11/2011 (Agrarian law authorizes the government to revoke the rights of concession holders if land is abandoned or the company fails to use in line with its allocation). Under the head of BPN Regulation No.4/2010, land is regarded idle if it is not being used for the purposes defined in the right entitlement (Suryadi 2011).

30 PP 60/2012 is specifically targeted at plantation companies operating in production forest (hutan produksi) areas, but also applies to other forest users, including logging and mining companies in relation to the provision of replacement land. The regulation changes the provisions relating to the replacement land, most notably removing the requirement that (for hutan produksi tetap and hutan produksi terbatas) it should be located adjacent to a forest. In relation to plantation companies operating in production forest (hutan produksi) areas, so as to bring the regulatory framework in line with the Spatial Planning Law, plantation companies holding pre-Spatial Planning Law are required to obtain "borrow to use" permits (izin pinjam pakai kawasan hutan) from the Minister of Forestry within six months of the issuance of the regulation (i.e. before 6 January 2013). They must provide replacement land, if so required (hutan produksi tetap and hutan produksi terbatas), within two years of such approval (Articles 51A and 51B).

In addition, political change can be rapid (a concentration of force and high pressure, as we have seen with the recent "No Deforestation" commitments). However, behavioral change, as one key informant described it, "tends to be a ratification or sanctioning of values and viewpoints that evolve over time". It is a question of generating both enough pressure to deliver political change and sustaining enough momentum to achieve behavioral change. However, once incremental changes begin in a particular direction, structures and processes become embedded and are difficult to alter.

Existing private and market-based sustainability standards seriously risk marginalizing smaller growers because of international market dynamics, a lack of investment and information at the supply base, limited government support through better land-use planning, poor enforcement of protected areas, and inequitable access to services in rural areas. Without tackling these problems, sustainability commitments risk dividing the industry to the detriment of both the environment and people.

Box 4. Chapter summary: Response

Corporate responses to environmental and social challenges are limited by both internal and external factors. **Internally**, senior level buy-in among owners or investors plays a large role in the adoption and multi-level socialization of these commitments. This is supported by Gillespie (2012) who argues there is a need for broad, sound corporate governance procedures that underpin a plantation's stakeholder relations and drive business improvements.

Providing the right technical training and creating the right internal incentives and disincentives for operational and management staff (KPIs and SOPs) will help ensure that commitments are met and are not simply words on paper, and that when trade-offs must be made, the sustainable choice is prioritized.

Externally, current government regulations, policies and capacity limit Indonesia's potential to shift to a more sustainable palm oil industry. Despite some growers' attempts to shift to a more sustainable business model, they consistently face legal challenges. In addition, both state- and market-based structures benefit big business and limit the ability of SMEs and smallholders to upgrade their practices. As well, market forces must support sustainable palm oil production by paying a fair price, or the true cost, for improved production standards.

Despite the potential to shift incentives and build capacity, behaviors are slow to change and human resources are limited. Financial, technical and government support will be needed. There are huge amounts of funding being channeled toward the palm oil industry from the donor and NGO community, as well as existing industry resources that could be fed into research and development, and support structures.

The opportunity and challenge now is to develop a new governance structure (multi-stakeholder) and a framework that provides the transparency, traceability and accountability to deliver targeted support to producers at the supply base, while delivering assurances to markets and NGOs.

5 Conclusions

5.1 Key findings and challenges

This research paints a picture of an industry adopted by a nation as a source of rural development, income generation and national pride. Rapid growth in demand for palm oil has led to rapid expansion. This expansion has been built, however, on a foundation of weak land rights and spatial planning, weak governance and weak technical capacity.

In addition, consumer markets have focused on purchasing products for their customers at the lowest cost in order to drive consumption, while making the maximum profit for their shareholders, with little concern for the sustainability of their sourcing. This has done little to drive or support higher standards. These same retailers and CGMs are now demanding higher standards, but have shown little willingness to sacrifice their own profits to pay for more sustainable production practices.

There is much scope for improved sustainability within the industry, but current incentives and disincentives for uptake of higher sustainability standards are not working. Motivations and capacity to green practices are weak among the supply base and firms that have committed to improved practices are those who have been exposed to serious business risk, and who have significant internal capacities and economies of scale.

Whether these firms will be able to meet their commitments, however, will depend greatly on their ability to leverage change among their employees and third-party suppliers. This report emerges with five key findings regarding responsibility and response in the Indonesian oil palm sector.

5.1.1 Drivers of change: Risk and relationships

Our findings indicate that instrumental risk and relationships are by far the strongest motivations for change in the palm oil sector. Business and financial risk, whatever the cause (e.g. community conflict or reputational risk from NGOs, etc.) is the most effective motivator for changes in practices and uptake of sustainability commitments.

However, engrained cultural norms (e.g. weak governance and patronage politics) within the Indonesian oil palm sector act as a barrier to change. Developing new relationships with other industry stakeholders, for example, through multi-stakeholder forums, may work toward shifting these norms.

5.1.2 Shareholders (owners) and management: The key to change

Buy-in from shareholders and senior management is key to sustainability commitments. Owners and managers help determine the priority of sustainability within the firm — for example, its budget, its integration into operations, its representation at board level, and most importantly, whether it gets priority in the face of financial trade-offs.

Shareholders can effectively leverage change through shareholder motions and management tends to feel more comfortable if it knows it has shareholder buy-in to sustainability. But time-horizons and profit motives matter, and therefore shareholder support of sustainability commitments may depend on their expected returns on investment and their own ethical norms and moral principles.

5.1.3 Interactions

One of the key findings of this research is the complex interactions among different motivations, and context-dependent variables. Understanding these interactions could prove valuable when developing incentives and disincentives for uptake of standards.

Risk and relational motivations jointly influence producer responses. We observed many instances where relationships between stakeholders (e.g. between companies and local government or between companies and communities) act to mediate different forms of legal, reputational, community or market-based risk. Relational motivations also interact with ethical motivations, or social norms, where producers adopt similar structures and business cultures to their peers, to enhance their legitimacy. Therefore, membership of groups and associations, such as the RSPO or GAPKI, may influence norms and play a role in the adoption of sustainability standards.

Instrumental risks and instrumental benefits have a complex relationship in relation to price or market demand, e.g. low prices potentially heighten interest in certification to secure an additional premium or access a reliable buyer. But market risk will be differentially experienced based on geographical location and access to alternative markets.

The multi-faceted interactions between motivations and factors affecting ability to respond present an even greater challenge for developing effective market or state- based incentives (and disincentives) for promoting sustainability.

5.1.4 Supply base diversity

Diversity of the producer supply base in Indonesia limits uptake of both NSMD standards and state regulations to drive change. Producers of different sizes, in different locations, or with different sources of investment may respond differently to incentives and disincentives designed to motivate behavioral change. In particular, smallholders and SMEs may experience different motivating factors (e.g. family or social pressures) and may be seriously limited in terms of capacity to respond (e.g. capital or training).

In the short term, smaller players may be able to fly under the radar of sustainability movements. However, as "No Deforestation" commitments spread among consumer goods manufacturers and traders, even smaller growers may be forced to comply. But there is concern among interviewees that "NGOs generalize" too much and fail to account for the diverse capacity of growers. These stringent, rapidly implemented obligations may then present a serious challenge for smallholders and SMEs, who have limited access to markets, training, financial services, etc. As such, it excludes them from an evolving industry or forces the development of unsustainable 'brown' supply chains.

The multi-layered structure of growers, brokers, agents and traders creates opaque supply chains that complicate identifying the location of specific producers, and tracing FFB back to source. On this topic, one interviewee argued, "it is the mills that it rests on. If the mills are serious enough, committed, it will work". Many interviewees agreed that better transparency and organization of the smallholder supply base, whether through mills or cooperative structures, will be essential to achieving industry-wide sustainability.

5.1.5 Government relations

In the late 1990s, the State withdrew from its role in providing direct assistance to small farmers, leaving it to plantation owners and the private sector (Gillespie 2012; McCarthy et al. 2012). This lack of state funding and support to small-scale farmers and local government resulted in large private sector actors gaining greater control, and in many places capturing and compromising district authorities. As such, current resources, capacity, and in some cases, willingness to move toward internationally accepted norms of sustainable agricultural development, is limited among government ministries.

However, recent government development plans place considerable emphasis on private investment, both domestic and foreign, as well as private sector standards and certification as tools to drive sustainable development. To capitalize on the momentum and burgeoning resources becoming available for greening the palm oil sector, the Indonesian government will need to work with the private sector and civil society at all levels. This does not mean moving away from state authority or regulation, but rather transitioning toward a greater collective responsibility. This is beginning in the multi-stakeholder platforms emerging in the state-led ISPO, but how far the multi-stakeholder model will penetrate conventional sovereign ideas of governance remains to be seen.

5.2 Concluding messages

In the past, many companies implemented the minimal environmental and social standards set by government. Today, producers and consumer goods manufacturers are facing mounting pressure from NGOs and consumers to adopt more stringent international standards. Companies must balance these demands with legal compliance, cultural expectations and the demands of both their host and home countries.

Civil society, the private sector and government agencies are increasingly buying into novel, market-driven, multi-stakeholder forms of governance. Yet such NSMD standards have failed to develop the correct incentives, disincentives and demand to support uptake of standards across the supply base. In addition, they encounter resistance from some influential members of industry and government, weakening coordination and impeding collective action. This has led to a fractured and complex landscape of social and environment standards.

The failure to deliver a meaningful price premium has limited producer responses to these initiatives. National and international ethical norms may eventually motivate uptake of sustainability standards, but current evidence suggests their translation into instrumental (financial) risk is more likely to instigate behavioral change. Current adoption of NSMD standards is motivated most strongly by reputational risk generated by NGO and media campaigns that organize consumers and target consumer-facing brands. This has meant that uptake of standards is concentrated within the largest 20–30 companies of the industry. These are companies with the greatest exposure to reputational/market risk, access to multi-stakeholder forums, internal capacities, financial resources and economies of scale that reduce the cost of sustainability.

Research highlights a significant lack of capacity within the broader industry to respond effectively to sustainability concerns. With roughly 40% of Indonesian palm oil produced by smallholders (BPS 2014), nearly half of all producers lack access to knowledge, technology and economies of scale. Incentives to meet legal requirements, let alone adopt best practice standards, are also misaligned with small and medium-sized growers' needs and wants. Voluntary standards are not delivering the premiums required to make the additional costs of certification financially viable or desirable, at a small scale. In addition, the relationships and forums responsible for developing the sustainable oil palm model (such as the RSPO and ISCC) have yet to reach smallholders and SMEs; this limits their ownership and understanding of such standards. This raises concern that the ongoing wave of stringent supply chain commitments will marginalize smaller growers. Without parallel efforts to improve capacity, many smallholders and SMEs will fail to meet the commitments demanded by the global market, presenting choices either to exit the industry (by selling to larger producers) or selling into smaller, less transparent, unsustainable supply chains.

NGOs and advocacy groups driving "No Deforestation" commitments suggest that by pressuring industry leaders, industry groups will in turn lobby the government to develop and enforce regulations that raise standards of all producers and create a level playing field. Building capacity to both implement and monitor higher standards and developing regulatory and policy structures that support change will require a united industry and civil society front, as well as a more inclusive mechanism to ensure more growers can participate. Currently, neither of these conditions is met.

5.3 Future research

If civil society and market forces are going to be used to transform the palm oil industry, we first need a deeper, more nuanced and multi-faceted understanding of the industry itself. We had five main findings revolving around 1) drivers – risk and relationships, 2) owner and shareholder buy-in, 3) interactions between motivations and context dependent variables, 4) diversity of supply base and 5) supportive role of government. Based on these findings, further research is needed into the following:

1. **Motivations and decision making at the local level.** The incentives and disincentives, financial trade-offs and dynamics of sustainability standards among smallholders and SMEs is relatively unexplored. In order to develop standards that can achieve industry-wide uptake and national ownership, and limit the possibility of parallel 'green' and 'brown' supply chains, we need a better understanding of context-specific value structures and perceptions to better understand how to incentivize change.

2. **Engrained cultures, patronage and weak governance in the palm oil industry — shifting norms, both in business and the government.** A greater understanding of the evolution of corporate philosophy and decision making within companies tackling sustainability issues is needed (e.g. business planning, shifting SOPs and KPIs). This will be needed to provide alternative incentive and disincentive structures, and relationships, in both companies and government.
3. **The role of capital and financial service providers in leveraging higher ESG commitments in forest-related commodities.** Investors and shareholders have played an important role in leveraging higher standards among some large firms (particularly in the palm oil industry). There is great potential for financial service providers to drive and support low-carbon development in the commodities sector, both through their ability to leverage higher environmental and social governance (ESG) standards, but also by providing supportive financial products to those companies or actors wishing to engage in more sustainable practices. The role of national and regional capital and financial service providers (FSPs) in driving land-use change (LUC) and deforestation lacks transparency, and additional research is needed.
4. **Ability to respond.** Building capacity and support for sustainability commitments, by exploring which industry organization and value chain integration models would best support sustainability goals. Looking at the role of local informal and formal trade dynamics along the supply chain of mills, traders, brokers and agents is particularly important.
5. **The role of government in supporting these changes.** More knowledge is needed on the potential for a jurisdictional approach e.g. laws and regulations that need to change. How will supervision, accountability and law enforcement processes need to adapt to facilitate this shift?

5.4 Policy recommendations

5.4.1 Government

- Evaluate and monitor the policies and commitments emerging from the private sector and use them to further their low-carbon and green development plans.
- Engage all jurisdictions in policy debate to create coherence in standards. Currently, the majority of discussions are held at the international and national level. Such discourses must begin to permeate downward to the provinces and districts. Their outputs must then travel back up to the national level and form one cohesive national discussion. Otherwise, discussions and activities may become fragmented, leading to further standard proliferation.
- Enforce the regulatory minimum standard in place (in the form of ISPO), which all companies must meet, and streamline the process for achieving legality and certification.
- Develop regulations and policies to support sustainability. Corporate commitments may provide the incentives (risks) for third-party suppliers to shift toward more sustainable practices, but the right government regulations and policies are required to support their implementation. Government should also focus on removing regulations and policies that inhibit or disincentivize sustainable practices. A recent Climate Policy Initiative report (Falconer et al. 2015) suggests alternatives in the current palm oil taxation system to incentivize more sustainable production:
  - Require palm oil supply chain players to meet specified sustainability criteria in order to be eligible for existing tax breaks or introduce penalties or increased tax rates for not adhering to specified sustainability criteria.
  - Increase land and buildings tax rates for plantations to encourage more intensive production and reduced licensing.
  - Tax production area rather than production volumes or profits to incentivize high productivity per hectare of land and minimize the problem of tax evasion.
- Strengthen role of decentralized governments in coordinating and enforcing existing regulations, shaping sub-national development strategies and spatial plans, and balancing environmental services with food security priorities and economic opportunities from cash crop development (such as the Ministries of Agriculture, Forestry and Environment). National government should concentrate resources on building capacity at the local level, while shifting incentives for government representatives:
  - Tie redistribution of tax revenues to sustainability performance indicators,

as suggested by Falconer et al. (2015). This will support local governments' progress on realizing sustainable palm oil production and protection of high ecosystem value areas in their province.
  - Increase the redistribution of national tax revenue to local governments so they have less need to license local land for production. Local governments could use increased local tax revenues to promote investment in improving the sustainability of the palm oil industry.
- Support development of mechanisms to channel reinvestment of palm sector revenue into local communities in line with green growth objectives.

5.4.2 Companies

- Strengthen focus of buy-in among investors, owners and senior management, who must integrate environmental and social best practice into their business model development and operational budgets. This will only happen if they see significant business risk in unsustainable practices. Therefore, greater efforts are needed to make unsustainable business financially risky. This is the job of business, as well as government and NGOs.
- Expand training in sustainability. Industry is seeing the benefit of a new generation of employees and managers that embrace the idea of sustainable business, willing to adapt and explore new practices.
- Increase peer-to-peer capacity building.
- Put more focus on adapting incentives internally. Changes in KPIs and SOPs are essential for motivating desired staff performance.
- Strengthen management, monitoring and communication between head office and field sites. A number of firms described upgrading their own internal monitoring and reporting as a key element to improving standards. Appropriate internal risk and relational incentive structures (SOPs, KPIs) will be needed to motivate employees to change.

5.4.3 NGOs and IGOs

- Support access of smallholders to support services to meet blanket, top down sustainability commitments by global traders. NGOs and IGOs must focus on solving this problem if they want to tackle sustainability issues of palm oil and prevent segmentation of the industry into 'green' and 'brown' supply chains, as we have seen in other sectors. They should continue focus on implementation of good agronomic practices to increase yields, including access to hybrid seedlings; replanting where necessary; proper fertilizer application; regular, more frequent harvesting; and better financial management of holdings.
- Work with the private sector to develop a business model that includes the above services and seek investment for pilot studies. Based on the profits growers earn, there is great potential for re-investment. Independent service providers could capitalize on this, providing access to materials, transportation and services to facilitate certification. Greater control over independent smallholders may be achieved through shorter, more formalized linkages between smallholders and mills.
- Promote themselves as mechanisms for tackling community risks. For those companies not yet engaging in sustainable practices, informing and empowering local communities of their rights can be very effective to leverage change in company practices at the local level. Community risk proved to be a powerful motivating factor and sustainability standards such as the RSPO and ISPO can be a powerful tool for resolving conflicts. The role of NGOs and IGOs will only be effective if pressure is placed on governments to enforce existing regulations that support and clarify community rights.
- Share the responsibility for comprehensively mapping smallholders with Government. This is a starting point to understand how smallholders are currently organized and how models could be adapted to include them in sustainable value chains.

6 References

Accenture. 2012. *Exploitative labour practices in the global palm oil industry*. Accessed 3 September 2015. http://humanityunited.org/pdfs/Modern_Slavery_in_the_Palm_Oil_Industry.pdf

Ackerman RW and Bauer RA. 1976. *Corporate Social Responsiveness*. Reston, Virginia: Reston Publishing.

Aguilera RV, Rupp DE, Williams CA and Ganapathi J. 2007. Putting the S back in corporate social responsibility: A multi level theory of social change in organizations. *Academy of Management Review*: 32(3): 836–863.

ASEAN Secretariat. 2014. Jakarta, Indonesia: ASEAN. Accessed 21 September 2015. http://haze.asean.org/?page_id=185

Bair J. 2008. *Frontiers of Commodity Chain Research*. Stanford: Stanford University Press.

Bartley T. 2007. How foundations shape social movements: The construction of an organizational field and the rise of forest certification. *Social Problems* 54(3):229–255.

Bendell J. 2004. *Barricades and boardrooms: A contemporary history of the corporate accountability movement.* Programme Paper TBS-13. Geneva: UNRISD. Accessed 21 September 2015. http://www.unrisd.org/80256B3C005BCCF9/search/504AF359BB33967FC1256EA9003CE20A?OpenDocument

Bertrand J. 2004. *Nationalism and Ethnic Conflict in Indonesia*. Cambridge: Cambridge University Press.

Boer R, Nurrochmat DR, Ardiansyah M, Hariyadi, Purwawangsa H and Ginting G. 2012. *Reducing agricultural expansion into forests in Central Kalimantan – Indonesia.* Center for Climate Risk and Opportunity Management. Bogor, Indonesia: Bogor Agricultural University.

[BPS] Badan Pusat Statistik. 2014. *Statistical yearbook of Indonesia 2014*. Accessed 21 September 2015. http://www.bps.go.id/index.php/publikasi/326

[BPS] Badan Pusat Statistik. 2013. *Agricultural census 2013, number of domestic enterprise plantations, by province and type of crop*. Accessed 4 June 2015. http://st2013.bps.go.id/dev2/index.php/site/tabel?tid=40&wid=0

Budidarsono S, Rahmanulloh A and Sofiyuddin M. (2012). *Economics assessment of palm oil production*. Technical Brief No. 26: Palm oil series. Bogor, Indonesia: World Agroforestry Centre - ICRAF, SEA Regional Office.

Buscha J, Ferretti-Gallona K, Engelmanna J, Wrightb M, Austin KG, Stolle F, Turubanovae S, Potapove PV, Margonoe B, Hansene MC, Baccini A. 2015 Reductions in emissions from deforestation from Indonesia's moratorium on new oil palm, timber, and logging concessions. Proceedings of the National Academy of Sciences of the United States of America 112(5):1328-1333

Butler R. 7 November 2014. *New Palm Oil Sustainability Manifesto met with criticism from environmentalists.* Mongabay. Accessed 25 November 2014. http://news.mongabay.com/2014/0711-sustainable-palm-oil-manifesto.html#sthash.0PhAvHn6.dpbs

Carroll AB. 1979. A three-dimensional conceptual model of corporate performance. *The Academy of Management Review* 4(4):497–505.

Cashore B. 2002. Legitimacy and the privatization of environmental governance: How non-state market driven (NSMD) governance systems gain rule-making authority. *Governance: An International Journal of Policy, Administration and Institutions* 14(4):503–529.

[CLUA] Climate and Land Use Alliance. 2014. *Disrupting the global commodity Business: How strange bedfellows are*

transforming a trillion-dollar industry to protect forests, benefit local communities and slow global warming. City: CLUA. http://www.climateandlandusealliance.org/uploads/PDFs/Disrupting_Global_Commodity.pdf

Colchester M, Chao S, Dallinger J, Sokhannaro HEP, Thai Dan V and Villanueva J. 2011. *Oil palm expansion in southeast Asia: Trends and implications for local communities*. http://www.forestpeoples.org/sites/fpp/files/publication/2011/11/oil-palm-expansion-southeast-asia-2011-low-res.pdf

Colchester M., Jiwan N and Kleden E. 2014. *Independent review of the social impacts of Golden Agri Resources' forest conservation policy in Kapuas Hulu District, West Kalimantan.* Moreton-in-Marsh: Forest Peoples Programme; Jakarta Selatan: Transformasi Untuk Keadilan. http://www.forestpeoples.org/topics/palm-oil-rspo/publication/2014/independent-review-social-impacts-golden-agri-resources-forest

Corley RHV. 2009. How much palm oil do we need*? Environmental Science and Policy* 12(2):134–139.

Davis K. 1973. The case for and against business assumption of social responsibilities. *Academy of Management Journal* 16:312–323.

Di Maggio P and Powell W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review* 48(2):147–160.

Dingwerth K and Pattberg, P. 2009. World politics and organizational fields: The case of transnational sustainability governance. *European Journal of International Relations* 15(4):707–743.

Djama M. 2015. *L'impact des normes privées de durabilité en Malaisie*. *In* Barjolle D, Coste J, Djama M, Doussan I, Guéneau S, Renard O and Selvaradj S, eds. *Quelle place pour les normes privées de durabilité dans les échanges commerciaux? Rapport pour le Ministère de l'agriculture.* Paris.

DNPI and Government of East Kalimantan. 2010 *East Kalimantan environmentally sustainable development strategy.* http://photos.mongabay.com/10/east_kalimantan_report_english_small.pdf

Doane D. 2005. Beyond corporate social responsibility: Minnows, mammoths and markets. *Futures* 37:215–229.

Ekadinata S, van Noordwijk M, Budidarsono S and Dewi S. 2013. *Hot spots in Riau, haze in Singapore: The June 2013 event analysed*. ASB Policybrief No 33. Nairobi: ASB Partnership for the Forest Margins.

Elkington J. 2006. Governance for sustainability. *Corporate Governance: An International Review* 14(6):522–29.

Enderwick P. 2005. What's bad about crony capitalism? *Asian Business and Management* 4:117–132.

Falconer A, Mafira T and Sutiyono G. 2015. *Taxation of the palm oil supply chain in Indonesia: A preliminary analysis of revenues, distribution and opportunities to incentivize sustainable land use and production*. A CPI Report. http://climatepolicyinitiative.org/our-work/publications/

FAOSTAT. 2015. *Production/Crops.* Accessed 3 March 2015. http://faostat3.fao.org/home/E Date

Faugier J and Sargeant M. 1997. Sampling hard to reach populations. *Journal of Advanced Nursing* 26(4):790–797.

Finkelstein JB. 2014. *The chain: 96% of global palm oil trade covered by zero-deforestation*. Accessed 11 March 2015. http://chainreactionresearch.com/2014/12/08/the-chain-musim-mas-no-deforestation-policy/

Forest Heroes. 2015. *The Green Tigers: Which Southeast Asian companies will prosper in the new age of forest conservation?* Accessed 21 September 2015. https://d3n8a8pro7vhmx.cloudfront.net/forestheroes/pages/131/attachments/original/1412641131/GreenTigerRpt_UPDATE_f.pdf?1412641131

Freeman RE. 1984. *Strategic management: A stakeholder approach*. Pitman Series in Business and Public Policy. London HarperCollins College Division.

Gillespie P. 2012. The challenges of corporate governance in Indonesian palm oil: Opportunities to move beyond legalism? *Asian Studies Review* 36:247–269.

Gillespie P. 2010. *Politics, power and participation: A political economy of oil palm in the Sanggau District of West Kalimantan* [Doctoral thesis]. Canberra: Australian National University.

[GIZ] Deutsche Gesellschaft für Internationale Zusammenarbeit. 2014. *Potentials for greenhouse gas emission mitigation in agriculture.* Bonn: GIZ. Accessed 21 September 2015. http://www.giz.de/fachexpertise/downloads/giz2014-en-potentials-greenhouse-gas-mitigation.pdf

Government of Malaysia. 2010. Palm oil. *In Economic Transformation Programme: A Roadmap for Malaysia.* 281–314. http://etp.pemandu.gov.my/download_centre.aspx

Grazella M. 3 March 2014. Thousands of palm oil firms to miss certification. *The Jakarta Post*. Accessed 11 March 2015. http://www.thejakartapost.com/news/2014/03/03/thousands-palm-oil-firms-miss-certification.html

Greenpalm 2015. Market volume and price charts. Accessed 21 September 2015 http://greenpalm.org/the-market/market-overview/market-volume-and-price-charts

Greenpeace. 2014. *The HCS approach: No deforestation in practice*. Accessed 21 September 2015. http://www.greenpeace.org/international/Global/international/briefings/forests/2014/HCS%20Approach_Breifer_March2014.pdf

Greenpeace. 2013. *A dirty business: How a leading RSPO palm oil producer is clearing peatland tiger habitat covered by Indonesia's moratorium on deforestation.* Accessed 11 March 2015. http://www.greenpeace.org/international/Global/international/publications/forests/2013/Dirty-Business.pdf

Greenpeace. 2010. *Ask Nestle to give rainforests a break.* Accessed 20 February 2015. http://www.greenpeace.org/international/en/campaigns/climate-change/kitkat/

Guest G, Bunce A and Johnson L. 2006. How many interviews are enough? An experiment with data saturation and variability. *Field Methods* 18:59–82.

Haufler V. 2003. New forms of governance: Certification regimes as social regulations of the global market. *In* Meidinger E, Elliott C and Oesten G, eds. Social and political dimensions of forest certification. Remagen: Verlag Kessel. 237–47. http://web2.law.buffalo.edu/faculty/meidinger/823/Haufler.pdf

Hamilton-Hart N. 2005. The regionalization of Southeast Asian business: Transnational networks in national contexts. *In* Pempel TJ, ed. *Remapping East Asia: The Construction of a Region.* Ithaca: Cornell University Press. 170-191

Indexmundi. 2015. *Crude palm oil futures end of the day settlement price*. Indexmundi. Accessed 8 March 2015. http://www.indexmundi.com/commodities/?commodity=palm-oil

[ISPO] Indonesian Sustainable Palm Oil Commission. 2014. *Matriks Perusahaan Perkebunan Berkelanjutan (Penerima Sertifikat ISPO s/d Jan 2014).* Jakarta ISPO. Accessed 18 October 2014. http://ispo-org.or.id/images/matriks_jan14.pdf.

[ISPO] Indonesian Sustainable Palm Oil Commission. 2015. Jakarta ISPO. Accessed 5th November 2015 http://www.ispo-org.or.id/index.php?option=com_content&view=article&id=114:sertifikasi&catid=10&Itemid=279&showall=&limitstart=8&lang= ina

[ISPO] Indonesian Sustainable Palm Oil Commission. 2012. *Indonesian Palm Oil Statistics 2012.* Jakarta: ISPO.

Jakarta Post. 21 February 2014. *S'pore, Indonesia experts say 'yes' to law on transboundary haze*. Accessed 2 February 2015. http://www.thejakartapost.com/news/2014/02/21/spore-indonesia-experts-say-yes-law-transboundary-haze.html

Jakarta Post. 5 October 2011. *GAPKI withdraws from RSPO to support ISPO.* Accessed 9 March 2015. http://www.thejakartapost.com/news/2011/10/05/gapki-withdraws-rspo-support-ispo.html

Jamali D and Mirshak R. 2007. Corporate social responsibility (CSR): Theory and practices in a developing country context. *Journal of Business Ethics* 72(3):243–262.

Jenkins R. 2005. Globalization, corporate social responsibility and poverty. *International Affairs* 81(3):525–540. http://www.ecrc.org.eg/Uploads/documents/Articles_Globalization,%20CSR%20%26%20poverty.pdf

[Joint Secretariat Goi - GGGI] BAPPENAS and Global Green Growth Institute. 2013. *Green Growth Programme. Prioritizing investments: Delivering Green Growth*. City: BAPPENAS and GGGI. http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/Prioritizing_Investments_Delivering_Green_Growth_GGGI.pdf

Koh LP and Wilcove DS. 2008. Is oil palm agriculture really destroying tropical biodiversity? *Conservation Letters* 1(2):60–64.

Kurer O. 1996. The political foundations of economic development policies. *Journal of Development Studies* 32(5):645–668.

Lee JSH, Abood S, Ghazoul J, Barus B, Obidzinski K and Koh LP. 2013. Environmental impacts of large-scale oil palm enterprises exceed that of smallholdings in Indonesia. *Conservation Letters* 7(1):25–33.

Lubis A. 2008. *Kelapa Sawit (Elaeis guineensis Jacq.) di Indonesia.* Edisi 2 Pusat. Medan, Indonesia: Penelitian Kelapa Sawit.

Maignan I and Ralston D. 2002. Corporate social responsibility in Europe and the U.S.: Insights from businesses self-presentations. *Journal of International Business Studies* 33:497–514.

Margono AB, Potapov PV, Turubanova S, Stolle F, Hansen MC. 2014. Primary forest cover loss in Indonesia over 2000–2012. Nature Climate Change 4:730–735

Marsiglia E and Falautano I. 2005. Corporate social responsibility and sustainability challenges for a Bancaassurance company. *The Geneva Papers* 30:485–497.

Matten D and Moon J. 2008. "Implicit" and "explicit" CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review* 33(2):404–424.

McAdams R and Nadler J. 2005. Testing the focal point theory of legal compliance: The effect of third-party expression in an experimental hawk/dove game. *Journal of Empirical Legal Studies* 2(1):87–123.

McCarthy J. 2010. Process of inclusion and adverse incorporation: Oil palm and agrarian change in Sumatra, Indonesia. *Journal of Peasant Studies* 37(4):821–850.

McCarthy J and Cramb RA. 2009. Policy narratives, landholder engagement and oil palm expansion on the Malaysian and Indonesian frontiers. *The Geographical Journal* 175(2):112–123.

McCarthy JF, Gillespie P and Zen Z. 2012. Swimming upstream: Local Indonesian production networks in "Globalized" palm oil production. *World Development* 40(3): 555–569.

McCarthy J and Zen Z. 2010. Regulating the oil palm boom: Assessing the effectiveness of environmental governance approaches to agro-industrial pollution in Indonesia. *Law and Policy* 32(1):153–179.

Ministry of Agriculture. (2003-2011). *Tree crop estate statistics of Indonesia for oil palm 2003-2011*. Jakarta, Indonesia: Directorate General of Estate.

Molenaar JW, Persch-Orth M, Lord S, Taylor C and Harms J. 2013. *Diagnostic Survey of Oil Palm Smallholders in Indonesia: Developing a Better Understanding of their Performance and Potential*. Aidenvironment, GSA and Triodas Facet, commissioned by IFC.

Nikoloyuk J, Burns TR and de Man R. 2010. The promise and limitations of partnered governance: The case of sustainable palm oil. *Corporate Governance* 10(1):59–72.

Paddison L, Purt J, Moulds J, Balch O, Riadi Y and Infansasti U. 2014. *From rainforest to your cupboard: The real story of palm oil – interactive*. The Guardian and Nice and Serious. Accessed 11 March 2015. http://www.theguardian.com/sustainable-business/ng-interactive/2014/nov/10/palm-oil-rainforest-cupboard-interactive

Pahan I. 2006. *Panduan Lengkap Kelapa Sawit: Manajemen Agribisnis dari Hulu hingga Hilir*. Jakarta, Indonesia: Penebar Swadaya.

Paoli G, Schweithelm J, Gillespie P, Kurniawan Y, Aurora L and Harjanthi R. 2014. *Best management practices in the Indonesian palm oil industry: Case studies*. Bogor, Indonesia: Daemeter Consulting. http://daemeter.org/en/publication/detail/20/best-management-practices-in-the-indonesian-palm-oil-industry-case-studies#.VdaupzCqqkp

[PILAR/CPI] Palangkaraya Institute for Land and Agricultural Research and Climate Policy Initiative. 2015. *Opportunities for increasing productivity & profitability of oil palm smallholder farmers in Central Kalimantan.* Palangkaraya: PILAR; Jakarta: CPI. http://climatepolicyinitiative.org/wp-content/uploads/2015/04/Opportunities-for-Increasing-Productivity-Profitability-of-Oil-Palm-Smallholder-Farmers-in-Central-Kalimantan-Full-Report1.pdf

Pierce F. 6 November 2008. The slippery business of palm oil. *The Guardian*. Accessed 25 November 2014. http://www.theguardian.com/environment/2008/nov/06/1

Potter L. 2015. *Managing palm oil in tropical landscapes: A seven-country survey of the modern palm oil industry in Southeast Asia, Latin America and West Africa.* Occasional Paper 122. Bogor, Indonesia: CIFOR.

Poynton S. 29 January 2014. Wilmar's "No deforestation" goal could revolutionize food production. *The Guardian*. Accessed 29 January 2015.

Ramdani F. and Hino M. 2013. Land use changes and GHG emissions from tropical forest conversion by oil palm plantations in Riau province, Indonesia. *PLoS ONE* 8(7): e70323. doi:10.1371/journal.pone.0070323

[RAN] Rainforest Action Network. 2015. *Rainforest Action Network: Take action/ learn*

more. Accessed 21 February 2015. http://www.ran.org/palm_oil

R.E.A Holdings PLC. 2014. *Annual Report and Accounts 2014* http://www.rea.co.uk/rea/uploads/reportsholdings/Annual_report_in_respect_of_2014.pdf

Rist L, Feintrenie L and Levang P. 2010. The livelihood impacts of oil palm: Smallholders in Indonesia. *Biodiversity Conservation* 19: 1009–1024.

Rival A and Levang P. 2014. *Palms of controversies: Oil palm and development challenges*. Bogor, Indonesia: Centre for International Forestry Research (CIFOR). http://www.cifor.org/library/4860/palms-of-controversies-oil-palm-and-development-challenges/

Roda J, Kamaruddin N and Tobias RP. 2015. Deciphering corporate governance and environmental commitments among South-East Asia transnationals: Uptake of sustainability certification. *Forests* 6(5):1454–1475. http://www.mdpi.com/1999-4907/6/5/1454

[RSPO] Roundtable on Sustainable Palm Oil. 2014. *Roundtable on sustainable palm oil impact report 2014.* Kuala Lumpur: RSPO.

Salim T. 13 December 2014. Big firms to urge local players to sign palm oil pledge. *The Jakarta Post*. Accessed 11 March 2015. http://www.thejakartapost.com/news/2014/12/13/big-firms-urge-local-players-sign-palm-oil-pledge.html

Sayer J, Ghazoul J, Nelson P and Klintuni A. 2012. Oil palm expansion transforms tropical landscapes and livelihoods. *Global Food Security* 1:114–119.

Scherer, AG and Palazzo G. 2011. The new political role of business in a globalized world: A review of a new perspective on CSR and its implications for the firm, governance and democracy. *Journal of Management Studies* 48(4):899-931.

Shen R. 21 May 2014. Singapore braces for word "haze" as Indonesia fails to halt slash-and-burn clearances. *Reuters*. http://in.reuters.com/article/2014/05/21/uk-singapore-haze-idINKBN0E10V720140521

Singh A and Zammit A. 2004. Labour standards and the 'race to the bottom': Rethinking globalization and workers' rights from developmental and solidaristic perspectives. *Oxford Review of Economic Policy* 20(1): 85–104.

Strange S. (1996) *The Retreat of the State: The Diffusion of Power in the World Economy.* Cambridge: Cambridge University Press.

Sulityowarno P. 9 December 2014. Infrastructure to combat income inequality. *The Jakarta Post*. Accessed 15 January 2015. http://www.thejakartapost.com/news/2014/12/09/infrastructure-combat-income-inequality.html

Suryadi S. 2011. *Legal and policy barriers for biodiversity conservation within oil palm plantations.* Wildlife Conservation Society. http://www.ifc.org/wps/wcm/connect/39a75c004a682fc18592fdf998895a12/BACP-ZSL.LegalPolicyBarriersforBiodiversity-in-OilPalmPlantationsReport.pdf?MOD=AJPERES

Terjesen S and Elam A. 2009. Transnational entrepreneurs' venture internationalization strategies: A practice theory approach. *Entrepreneurship Theory and Practice* 33(5): 1093–1116.

[UNEP] United Nations Environment Programme. 2010. *Green economy developing countries success stories*. Washington, DC: UNEP. http://www.unep.org/pdf/greeneconomy_successstories.pdf

[USDA] United States Department of Agriculture. 2013. *Indonesia: Palm oil expansion unaffected by forest moratorium*. Accessed xx August 2015. Washington, DC: USDA. http://www.pecad.fas.usda.gov/highlights/2013/06/indonesia/

Utting P. 2005. Corporate responsibility and the movement of business. *Development in Practice* 5(3&4):375–388. http://www.unrisd.org/80256B3C005BCCF9/(httpAuxPages)/67924234EC32460FC125705A002F5FC3/$file/MovBus.pdf

van Gelder JW, Kroes H, Spaargaren P, Verhoef K and De Wilde J. 2013. *Financing trends in the global palm oil sector.* Amsterdam, the Netherlands and Bogor, Indonesia: PROFUNDO and Center for International Forestry Research.

Varkkey H. 2012. Patronage politics as a driver of economic regionalization: The Indonesian oil palm sector and transboundary haze. *Asia Pacific Viewpoint* 53(3): 314–329.

Vogel D. 2006. *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility.* Washington, DC: Brookings Institution Press.

Walters J. 2010. *Following the proceeds of illegal logging in Indonesia.* Trends and Issues in Crime and Criminal Justice No. 391. Canberra: Government of Australia, Australian Institute of Criminology.

Watson RT, Noble, IR, Bolin B, Ravindranath NH, Verardo DJ and Dokken DJ, eds. 2000.

Land-Use, Land-Use Change and Forestry. Inter governmental Panel on Climate Change Cambridge: Cambridge University Press. Accessed 14 May 2015. http://www.ipcc.ch/ipccreports/sres/land_use/index.php?idp=33

Wilmar. 2013. *No deforestation, No peat, No exploitation policy*. City: Wilmar. Accessed 2 February 2015. http://www.wilmar-international.com/wp-content/uploads/2012/11/No-Deforestation-No-Peat-No-Exploitation-Policy.pdf

Wood DJ. 1991. Corporate social performance revisited. *The Academy of Management Review* 16(4):691–718.

[WWF] World Wildlife Fund. 2013. *Palming off a national park: Tracking illegal oil palm fruit in Riau, Sumatra.* Jakarta: WWF. http://wwf.panda.org/?209261/REPORT-Palming-off-a-National-Park-Tracking-Illegal-Palm-Oil-Fruit-in-Riau-Sumatra

[WWF] World Wildlife Fund. 2012. *Profitability and sustainability in palm oil production: Analysis of incremental financial costs and benefits of RSPO compliance*. Washington, DC: WWF-US, CDC and FMO. Accessed 21 September 2015. http://www.wwf.org.uk/wwf_articles.cfm?unewsid=5879

Yaap B and Paoli G. 2014. *A comparison of leading palm oil certification standards applied in Indonesia: Towards defining emerging norms of good practice*. Executive Summary. Bogor, Indonesia: Daemeter.

Zammit A. 2003. *Development at risk: Rethinking UN–business partnerships*. Geneva: The South Centre and UNRISD.

Annexes

Annex 1. Databases used to contact participants and calculate estimates of concessions located in East Kalimantan.

- Daftar perusahaan perkebunan penerima izin usaha perkebunan (IUP-B, IUP-P, dan IUP)
- GAPKI Members
- Daftar dan data perkebunan - Anggota GAPKI Kaltim per Januari 2013
- Daftar dan data perkebunan - Anggota GAPKI Kaltim per Juni 2014
- Daftar isian ANDAL, RKL & RPL telah disetujui/ditetapkan oleh Kabupaten Berau
- Alamat-alamat perusahaan perkebunan besar swasta di Kabupaten Kutai Kartanegara
- Data perkembangan perkebunan besar yang aktif berdasarkan data yang ada pada Dinas Perkebunan Propinsi Kaltim Posisi September 2014 (Kab. Kutai Kartanegara dan PPU)

Annex 2. Daemeter summary of different themes addressed in palm oil certification standard. Standards are scored as: (1) strong and clear requirements (green shading), (2) issue is addressed but requirements are less clear (yellow), and (3) issue is not directly addressed and/or requirements are not clearly defined or comparatively lenient (red).

Themes and procedures	RSPO	ISCC	SAN	ISPO
Environmental				
Environmental impact assessment (EIA)	1	3	1	2
High conservation value (HCV)	1	3	3	2
Biodiversity conservation (outside of HCV)	1	1	1	2
Greenhouse gases (GHGs)	1	1	1	1
Peatlands	2	1	1	2
Soil other than peatlands	1	1	1	1
Forest clearance	2	1	1	3
Riparian forests and buffers around water bodies	1	1	1	1
Agrochemicals	1	1	1	1
Water conservation	1	1	1	1
Waste management	1	1	1	1
Social				
Social impact assessment (SIA)	1	1	1	2
Community benefits	1	2	2	1

continued on next page

Annex 2. Continued

Themes and procedures	RSPO	ISCC	SAN	ISPO
Community consent and land acquisition				
A. Community consultation	1	2	2	2
B. Free, prior and informed consent (FPIC)	1	3	3	3
C. Land rights and acquisition	1	2	2	2
D. Compensation	1	1	2	1
E. Conflict resolution	1	1	1	1
Employment				
A. Contracts	1	1	1	3
B. Wages	1	1	1	1
C. Other conditions and benefits	2	2	2	3
D. Freedom of association and bargaining	1	1	1	1
E. OH & S	1	1	1	2
F. Living conditions	1	1	1	2
G. Human rights	1	1	2	2
H. Forced labor	1	1	1	3
I. Child labor	1	1	1	2
J. Child access to education	1	1	2	2
K. Discrimination	1	1	1	1
L. Women	1	3	3	3
M Indigenous people	1	3	3	1

Source: Yaap and Paoli (2014)

Annex 3. Stakeholders/key informants interviewed.

Sector	Domestic	Foreign
Industry consultant	3	3
NGO	-	3
Industry association	2	-
Research	-	2
Finance	1	2
Government	1	-

Annex 4. Participatory observation — List of meetings attended.

Event	Location	Date
GLF: The investment case	London	June 2015
Innovation forum: How business can tackle deforestation	Washington	April 2015
World Bank Conference on Land and Poverty	Washington	March 2015
Friends of the Forest meeting	Jakarta	Various
KADIN: "No Deforestation" meeting	Jakarta	Dec. 2014
GEF, UNDP discussion	Jakarta	2014
RSPO RT12	Kuala Lumpur	Nov. 2014
Roundtable on "No Deforestation" commitments in Liberia	London	Sept. 2014
WRI: Global Forests Watch Launch	Jakarta	June 2014
Daemeter meeting	Jakarta	May 2014
Forests Asia	Jakarta	May 2014
TFD Central Kalimantan	Palangkaraya	2014
GCP: Driving uptake of CSPO	Jakarta	2014
B4E	Jakarta	Nov. 2013
RSPO RT11	Medan	Nov. 2013
RSPO smallholder working group meeting	Jakarta	July 2013
IFC and Aidenvironment launch event	Jakarta	June 2013
RSPO Central Kalimantan	Palangkaraya	2013
TFA 2020	Jakarta	July 2013

Annex 5. Number of oil palm permits issued per district in East Kalimantan.

Permits per district	
Berau	30
Bulungan	22
Kutai Barat	37
Kuati Kartanegara	59
Kutai Timur	78
Mahakam Ulu	13
Malinau	5
Nunukan	15
Paser	36
PPU	13
Samarinda	1
Tana Tidung	7
Unknown	6
Total	**322**

(For sources see Annex 2)

Annex 6. Court cases related to land-use permits in East Kalimantan.

Court cases per district		
District	**# court cases**	**# companies involved**
Berau	0	0
Bulungan	2	2
Kutai Barat	3	2
Kuati Kartanegara	8	4
Kutai Timur	3	2
Mahakam Ulu	0	0
Malinau	0	0
Nunukan	0	0
Paser	2	2
PPU	0	0
Samarinda	0	0
Tana Tidung	2	2
Total	**20**	**14**

Source: Supreme Court verdicts (2008 - 2014), Direktori Putusan, Mahkamah agung Republik Indonesia. Accessed 3 March 2015. http://putusan.mahkamahagung.go.id/pengadilan/mahkamah-agung/

Annex 7. Frequency of themes discussed among growers and key informants.

Theme	Number of respondents	
	Growers	**Key informant (triangulation)**
Sector diversity	**1**	**1**
Responsibility (motivations that affect uptake of commitments)		
1 Moral or ethical motivations	4	
2 Instrumental motivations		
2.1. Benefits (financial and efficiency)	3	2
2.2. Risk		
Reputational risk	7	2
Market/supply chain risk	7	
Financial/investor risk	6	4
Social risks	11	1
Operational risk	3	
Legal risk	10	3
3 Relational motivations		
Government	9	4
Industry associations and peers	7	2

continued on next page

Annex 7. Continued

Theme	Number of respondents	
	Growers	Key informant (triangulation)
Local communities and smallholders	7	1
Multi stakeholder platforms	4	1
Shareholders	4	2
NGOs	3	
Family	1	1
Response (context dependent variables that affect ability to respond)		
Internal context		
Senior (BOD) Buy-in and hierarchy	7	3
Training SOPs and KPIs – decentralized staff/operations and contractors	8	5
Engrained behaviors/history	5	3
Lack of HR capacity, in both government and the private sector	8	6
Experience and knowledge up and down the supply chain and of other industries	4	2
Conflicts between sustainability and need to meet business targets	3	3
External context		
Compatible external regulatory frame work and perverse incentives	6	11
Overlapping concessions and licensing with other companies	4	1
Financial ability among smaller firms (minimum standard)	4	4
Challenge of converting independent smallholders	5	4
Incremental / Iterative process of change	2	2
Constantly changing and multiplying standards	3	2
NGO attacks and growing sector resentment – resulting in a divided industry	1	4
Other		
Long-term investment strategy	1	1
Transparency and Traceability (challenges and importance)	2	3
Lack of participation in sustainability discourse	2	1
Variability incentives and disincentives based on size and context (smallholders vs companies)	4	1
Disconnect between international processes and local realities/norms	2	1
Visibility/raising your head above the parapet	2	

Annex 8. Sustainability topics/issues covered in the annual reports: 32 major palm oil companies operating in Indonesia.

Company	AR year	Indo or For	BMP	Certif	Comm.	Conserv.	Culture	Ecomony	Edu.	Emission redu	Enviro	Health & Safety	Infrastructure & Housing	Market place	Philanthropy	Renewable energy	Stakeholder engagement
1	NO	Indo															
2	NO	Indo															
3	2013	Indo		1	1	1			1	1	1	1				1	
4	NO	Indo															
5	2012	Indo	1	1	1	1		1	1		1	1					
6	2012	Indo			1			1			1	1		1			
7	NO	Indo															
8	2013	Indo			1		1		1				1				
9	2012	For	1	1				1							1	1	
10	2013	For										1	1		1		
11	2013	For		1	1						1						
12	2012	For	1	1	1	1			1		1				1		
13	2012	For	1	1	1		1	1	1								
14	2011	For		1	1				1		1	1					
15	NO	For															
16	2013	For	1		1		1		1	1	1	1		1			1
17	2013	Indo	1	1	1			1	1	1	1	1		1			
18	2014	For	1	1	1				1	1				1	1		
19	2013	Indo	1				1	1	1	1		1					
20	2013	For	1	1	1	1			1	1		1		1	1		1
21	2013	Indo		1	1				1		1	1		1			
22	2013	For	1	1	1				1			1					
23	NO	For															
24	2013	For	1		1				1	1		1					
25	2012	Indo			1			1			1	1	1		1		
26	2012	For	1	1	1	1		1		1							
27	2013	For			1	1				1	1	1	1		1		
28	NO	Indo															
29	2012	Indo			1												
30	2013	For		1	1						1	1		1		1	
31	2012	Indo			1						1						
32	2012	For		1	1				1		1	1			1		
	7	17	12	15	22	6	4	8	15	9	14	16	4	7	8	3	2

Annex 9. Characteristics of companies interviewed.

Company	International planted ha	Number of estates (all regions)	Location	Nationality	Market D/E	Commitments/Membership/Certification					Publicly listed	Diversification
						ISPO	RSPO	ISCC	RAN SA	"No Deforestation" / FCP and The manifesto group		
1	272,994	N/A	Sumatra, Kalimantan, Sulawesi	Indonesian	Mostly domestic	Yes	No	No	No	No	Yes: Indonesian stock exchange	Automotive, financial services, agribusiness, logistics and transport, heavy machinery
2	463,426	157	Sumatra and Kalimantan	Foreign	Significant exports	Yes	Yes	Yes	No	Yes	Yes: Singapore	Trade
3	126,000*	>6	Sumatra, Riau and Central Kalimantan	Indonesian	Domestic and India	Yes	Yes	Yes	No	Yes	No	-
4	186,623#	44	West and Central Kalimantan and Sumatra	Foreign	Export	Yes	Yes	Yes	No	Yes	Yes: Singapore	Commodities trade
5	Used to have plantations	N/A	None currently	Foreign	-	No	Yes	-	No	No	No	Commodities trade
6	23,300 (+21,800)	>5	Sumatra, East Kalimantan and Bangka Island	Foreign	-	Yes	Yes	No	No	No	Yes: London	Cattle
7	181,104	6	East and West Kalimantan and Papua	Indonesian	-	-	Yes	-	No	No	Yes: IDX	Timber
8	7,000	1	East Kalimantan	Indonesian	Domestic	No	No	No	No	No	No	
9	6,000 and 9,000 (of which 1,000 are planted)	2	East Kalimantan	-	-	No	No	No	No	No	No	Hotels
10	6,000	1	East Kalimantan	Foreign	Domestic	-	No	-	No	No	No	Real estate

continued on next page

Annex 9. Continued

Company	International planted ha	Number of estates (all regions)	Location	Nationality	Market D/E	Commitments/Membership/Certification					Publicly listed	Diversification
						ISPO	RSPO	ISCC	RAN SA	"No Deforestation" / FCP and The manifesto group		
11	34,000	N/A	East Kalimantan	Foreign	Domestic	Yes	Yes	-	No	No	Yes: London	Mining
12	120,225	At least 7	South Sumatra, Riau, W. and C. Kalimantan	Indonesian	N/A	Yes	Yes	-	No	No	Yes: Indonesian	other crops (e.g. tobacco, sago and rubber)
13	42,154	-	Sumatra	Foreign	Foreign	Yes	Yes	Yes	No	No	Yes: NYSE – Euronext brussles	Rubber, tea, bananas
14	2 ha	1	East Kalimantan	Indonesian	-	No	No	No	No	No	No	-
15	-	-	East Kalimantan	Indonesian	-	No	No	No	No	No	No	Rubber

ISPO: Indonesian Sustainable Palm Oil standard

RSPO: Roundtable on Sustainable Palm Oil

ISCC: International Sustainability and Carbon Certification

FCP: Forest Conservation Policy

RAN: Rainforest Alliance RAN-SAN Standard

Where a - is found, the interviewee did not respond or that information was not uncovered.

* Estimates vary for this private company. RSPO communication lists 41,163 ha, while Greenpeace estimated 126,000 in 2006. For the purpose of this report it is considered large.

Likely an underestimate given the number of estates identified

Sources: Company websites, annual reports and sustainability reports, personal communication and interviews

Company names have been excluded for confidentiality purposes.

ISBN 978-602-387-019-6
DOI: 10.17528/cifor/005748

CIFOR Occasional Papers contain research results that are significant to tropical forest issues.
This content has been peer reviewed internally and externally.

Evolving international sustainability norms demand greater environmental and social responsibility from business across global commodity chains – from countries of origin to countries of consumption. Conventional command-and-control regulation has had limited success in addressing negative environmental and social impacts. As a result, advocacy groups and NGOs have championed a diversity of market-based and multi-stakeholder governance approaches aimed at shifting the private sector towards delivering more sustainable business models.

Multiple non-state, market-driven social and environmental standards have emerged for palm oil. Through interviews with growers and key stakeholders in the Indonesian palm oil industry this occasional paper explores the motivations driving the uptake of sustainability standards, as well as the factors supporting and preventing implementation of sustainability standards, and asks, what model of "sustainable" oil palm agriculture is ultimately being built?

Five key themes emerged:

- Business risk drives change, whether associated with access to market, operational risks associated with local communities or lack of clarity related to government regulations.
- Shareholder self-interest is the key to commitments and determines the priority that sustainability gets within the firm.
- Interactions between motivations, as well as between motivations and context-dependent variables, are complex, but understanding these interactions can help develop meaningful incentives and disincentives for growers to adopt sustainability standards.
- The diversity of the producer supply base in Indonesia presents a challenge for private and public standards as producers respond differently to incentives and disincentives.
- Government will need to play a role in facilitating uptake of sustainability standards and engage in multi-stakeholder sustainability processes. Currently capacity, and in some cases willingness, to move toward evolving norms of sustainable agriculture is limited among government ministries.

CGIAR RESEARCH PROGRAM ON Forests, Trees and Agroforestry

This research was carried out by CIFOR as part of the CGIAR Research Program on Forests, Trees and Agroforestry (CRP-FTA). This collaborative program aims to enhance the management and use of forests, agroforestry and tree genetic resources across the landscape from forests to farms. CIFOR leads CRP-FTA in partnership with Bioversity International, CATIE, CIRAD, the International Center for Tropical Agriculture and the World Agroforestry Centre.

cifor.org blog.cifor.org

CGIAR Fund

UKaid from the British people

Center for International Forestry Research (CIFOR)
CIFOR advances human well-being, environmental conservation and equity by conducting research to help shape policies and practices that affect forests in developing countries. CIFOR is a member of the CGIAR Consortium. Our headquarters are in Bogor, Indonesia, with offices in Asia, Africa and Latin America.