

OPEN ACCESS



International Food and Agribusiness Management Review
Volume 28, Issue 1, 2025; DOI: 10.22434/IFAMR.1218

Received: 30 September 2024 / Accepted: 7 March 2025

Harmonizing sustainability certification standards: the Indonesian palm oil case

RESEARCH ARTICLE

Iwan Suhardjo^a and Meiliana Suparman^b

*^aPhD Candidate, Department of Accounting and Information Systems, University of Canterbury,
Private Bag 4800, Christchurch, 8041, New Zealand*

*^bSenior Lecturer, Department of Accounting, Faculty of Management and Business,
Universitas Internasional Batam, Jl. Gajahmada, Baloi-Sei Ladi, Batam, Tiban Indah, Kec. Sekupang,
Kota Batam-Kepulauan Riau, 29426, Indonesia*

Abstract

The Indonesian palm oil industry, a global leader, faces growing pressure for sustainability. Roundtable on Sustainable Palm Oil (RSPO) and Indonesian Sustainable Palm Oil (ISPO), while aiming for sustainable palm oil industry, have distinct differences that can hinder efforts to promote sustainability. To address these challenges, this study explores the potential benefits and challenges of harmonizing RSPO and ISPO to be a sustainability certification standard for sustainable palm oil industry. We employ a qualitative thematic analysis to delve into stakeholder perceptions of RSPO's effectiveness and its potential for harmonization with ISPO. Through in-depth interviews with companies, lenders, and investors, and analyzing sustainability reports, we examine how these stakeholders view RSPO's ability to promote sustainability and its potential for harmonization. By incorporating stakeholder and institutional theory, we acknowledge the complex interplay of interests and pressures shaping sustainability development in the Indonesian palm oil industry. Dual certification, RSPO and ISPO, complicates the industry. Some companies avoid RSPO due to its complexity. Harmonization is crucial for promoting sustainable palm oil industry and sustainability in Indonesia. RSPO could focus on large companies, while ISPO could concentrate on smallholders. Official collaboration is essential to reduce complexity and improve smallholders' livelihoods. Both should strengthen its governance.

Keywords: harmonization, institutional theory, stakeholder analysis, sustainability certification, sustainable palm oil

JEL codes: O13, Q02, Q13, Q18, Q56

[Ⓔ]Corresponding author: iwan.suhardjo@pg.canterbury.ac.nz; iwans.study@gmail.com

1. Introduction

Indonesia, a global leader in palm oil production, faces increasing pressure to ensure sustainability in its industry. The country's sustainability development journey is intertwined with its economic growth, as palm oil is a significant contributor to its economy (Arifin *et al.*, 2024). However, the industry has faced criticism for its environmental, such as deforestation, air pollution and land-use conflicts (Abdullah *et al.*, 2020; Tapia *et al.*, 2021), and social impacts, such as smallholder farmers struggle to implement sustainable methods, further complicating the picture (Hutabarat *et al.*, 2018), highlighting the need for sustainable practices.

Palm oil plays a crucial role in Indonesia's economic development, providing livelihoods for millions of people, particularly smallholders (Arifin *et al.*, 2024). To address sustainability concerns, various certification schemes have emerged, with the Roundtable on Sustainable Palm Oil (RSPO) and the Indonesian Sustainable Palm Oil (ISPO) standards being prominent examples. These certifications aim to promote sustainable palm oil industry by setting standards for environmental protection, social responsibility, and economic viability.

RSPO has established itself as a leading indicator of sustainability in the palm oil sector, its regional focus and industry specificity raise questions about its broader applicability as a sustainability performance indicator. A crucial knowledge gap remains in the specific effectiveness of these indicators for different stakeholder groups (Corciolani *et al.*, 2019; Guadalupe *et al.*, 2019), and the question of whether the RSPO can serve as a primary sustainability performance indicator for palm oil remains open (Tey *et al.*, 2020; Tey and Brindal, 2021). In the other hand, Indonesia Sustainable Palm Oil (ISPO), a national sustainability certification scheme emerged in 2014, introduced a layer of complexity and competition, leading to questions about the RSPO's continued dominance and influence (Choiruzzad *et al.*, 2021).

The rise of environmental, social, and governance (ESG) investing and the growing power of ESG rating agencies (Avramov *et al.*, 2022; Billio *et al.*, 2021) brought renewed focus to the RSPO (Tey *et al.*, 2020; Tey and Brindal, 2021) and long-term value creation on agribusiness (Detre and Gunderson, 2011). Its established footprint and rigorous standards propelled it back to the forefront, becoming a key sustainability indicator for the palm oil industry (Luan *et al.*, 2016). This resonated deeply with institutional investors (Coin, 2022) and financial institutions (OJK, 2019, 2022), particularly banks facing regulatory pressure to incorporate sustainability factors into their lending decisions.

Despite the efforts of RSPO and ISPO, the Indonesian palm oil industry continues to face significant challenges. These include deforestation, land conflicts, negative impacts on biodiversity, and social injustice (Abdullah *et al.*, 2020; Hutabarat *et al.*, 2018; Tapia *et al.*, 2021). Addressing these challenges requires a comprehensive and collaborative approach that involves all stakeholders, from producers to consumers. Previous research has explored the individual effectiveness of RSPO and ISPO, but limited attention has been given to the potential synergies and challenges of combining them. Studies have examined consumer perception of palm oil in the food industry (Guadalupe *et al.*, 2019), the importance, challenges, and benefits of sustainability certification for smallholders (Brandi *et al.*, 2013; Hutabarat *et al.*, 2018), and the specific challenges and benefits associated with RSPO and ISPO (Arifin *et al.*, 2024; Choiruzzad *et al.*, 2021; Tey *et al.*, 2020; Tey and Brindal, 2021). However, these studies often focus on individual certification schemes and do not fully explore the potential benefits and challenges of harmonization.

By examining the combined impact of RSPO and ISPO, this study aims to bridge a research gap of examining the potential benefits and challenges of harmonizing RSPO and ISPO. By drawing upon stakeholder theory and institutional theory, this study seeks to understand the complex interplay of interests and pressures shaping sustainability development in the Indonesian palm oil industry. Stakeholder theory emphasizes the importance of considering the needs and expectations of a diverse range of stakeholders (Freudenreich *et al.*, 2020), while institutional theory focuses on the influence of institutional pressures (Dyck *et al.*, 2019) and regulations on organizational practices (Ioannou and Serafeim, 2019).

To achieve these objectives, this study addresses the following research questions:

- (1) How do companies, lenders, and investors view the reliability of RSPO and ISPO as sustainability certification standards?
- (2) What are the benefits and challenges of harmonizing RSPO and ISPO as sustainability certification standards for the Indonesian palm oil industry?

This study contributes to the growing literature on sustainable palm oil development by offering new insights into the factors influencing sustainability in the Indonesian palm oil industry. By examining stakeholder perspectives and the potential benefits and challenges of harmonizing RSPO and ISPO, this study provides a more comprehensive understanding of the complex issues surrounding sustainability in this industry.

This finding complements the research by Arifin *et al.* (2024), Choiruzzad *et al.* (2021), Tey *et al.* (2020), and Tey and Brindal (2021). Given that dual certification with RSPO and ISPO complicates the industry, harmonizing these certification standards could offer several benefits for the Indonesian palm oil industry. By reducing complexity and streamlining the certification process, harmonization can benefit companies by reducing costs and improving efficiency. For smallholders, harmonization can provide access to new markets and improve their livelihoods. These findings complement the previous research by Arifin *et al.* (2024), Brandi *et al.* (2013), Hutabarat *et al.* (2018), and Tey and Brindal (2021).

From a broader perspective, harmonization can contribute to the Indonesia's sustainability development. By promoting sustainable palm oil industry, harmonization can help to reduce deforestation, protect biodiversity, and improve social welfare. This finding complements the previous research by Abdullah *et al.* (2020), Hutabarat *et al.* (2018), and Tapia *et al.* (2021). Institutional pressure from the Indonesian government through Green Taxonomy (OJK, 2022), international pressure from the EU on deforestation regulations (Caputo *et al.*, 2021), and the significant role of palm oil as a major economic driver for Indonesia (Suhardjo *et al.*, 2024a) are critical drivers for harmonizing RSPO and ISPO certification standards.

However, this harmonization is not without its challenges. Stakeholders with vested interests in maintaining the status quo may resist change, and institutional factors, such as the governance structures of RSPO and ISPO, can influence the feasibility and effectiveness of this harmonization effort. To overcome these challenges and promote a sustainable palm oil industry, it is essential for stakeholders to engage in constructive dialogue and collaborate to find common ground.

Managers and policymakers must recognize the practical implications of this harmonization effort. They should actively support initiatives that align with both national and international sustainability goals, fostering a collaborative environment that drives meaningful progress in the Indonesian palm oil sector.

In the next section, this study provides a comprehensive overview of the theoretical frameworks and existing research on sustainability performance, ESG rating agencies, and sustainability certification. Section 3 presents our research design, including data collection and analysis. Section 4 presents the findings and discussion. Finally, section 5 presents conclusions, limitations, and future research direction.

2. Theoretical framework and literature review

2.1 Stakeholder theory

This study explores the potential benefits and challenges of harmonizing RSPO and ISPO to be a sustainability certification standard for sustainable palm oil industry grounded in stakeholder theory (Freudenreich *et al.*, 2020). The palm oil industry is classified as environmental sensitive industry with multi-faced stakeholders from regulators, producers, and consumers (Suhardjo *et al.*, 2024a).

Stakeholder theory acknowledges the tensions inherent in sustainability goals across different groups (Freeman and Reed, 1983). Understanding these diverse perspectives is crucial for crafting policies that incentivize sustainable practices. By comparing RSPO and ISPO through the lens of stakeholder theory, we can assess their relative reliability as sustainability indicators and explore harmonization challenges across all stakeholders. This analysis reveals potential gaps in either standard based on the specific concerns of each stakeholder group. For example, banks might prioritize ISPO's mandatory nature for risk mitigation, while investors might favor the RSPO's global recognition and brand value.

Identifying these discrepancies can inform future standardization efforts (Schaltegger *et al.*, 2019). Stakeholder theory emphasizes the importance of the policy environment in shaping the effectiveness of sustainability certification standards like RSPO and ISPO. By analyzing how policies address stakeholder interests (Brandi *et al.*, 2013; Hutabarat *et al.*, 2018; Watts *et al.*, 2021), this study contributes to a deeper understanding of the factors influencing the perception and adoption of these standards in Indonesia.

2.2 Institutional theory

Institutional theory posits that organizations strive to conform to societal expectations and standards to maintain legitimacy and social acceptance (Corciolani *et al.*, 2019). This study explores the potential benefits and challenges of harmonizing RSPO and ISPO to be a sustainability certification standard for sustainable palm oil industry from selected key stakeholders such as companies, banks, and institutional investors.

By comparing RSPO and ISPO through the lens of legitimacy theory, we can assess their relative effectiveness in achieving legitimacy for companies (Brønn and Vidaver-Cohen, 2009). Understanding the influence of government policies on the effectiveness of the RSPO is crucial from a legitimacy perspective (Corciolani *et al.*, 2019). Policies that incentivize or mandate RSPO certification can strengthen its legitimacy by signaling government endorsement of the standard. Analyzing how policies influence stakeholder perceptions and actions regarding RSPO certification is vital for understanding its overall legitimacy in Indonesia (PwC, 2023).

2.3 Sustainability performance

Understanding sustainability performance in the palm oil industry necessitates acknowledging the limitations of purely quantitative analysis. While frameworks like GRI offer valuable reporting and disclosure tools, real-world impact necessitates a deeper dive into stakeholder perceptions (Suhardjo *et al.*, 2024b) and the effectiveness of existing sustainability standards.

Several studies have examined the role of the RSPO in driving sustainable palm oil industry, highlighting its contribution to shareholder value (Tey and Brindal, 2021). However, concerns remain such as the limited impact on smallholder integration (Hutabarat *et al.*, 2018; Watts *et al.*, 2021).

Furthermore, comparing the reliability of the RSPO and ISPO as palm oil sustainability indicators is crucial for understanding the nuances of the Indonesian landscape (McInnes, 2017). Finally, analyzing the regulatory and policy environment becomes critical in understanding the adoption and effectiveness of any sustainability standard (Eccles *et al.*, 2012). Previous research has explored the complex dynamics of policy frameworks and incentives shaping RSPO adoption in various contexts (Tey *et al.*, 2020; Tey and Brindal, 2021) including sustainability performance through its reporting and disclosure in the Indonesian palm oil industry (Abdullah *et al.*, 2020; Choiruzzad *et al.*, 2021).

2.4 ESG rating agencies

The ever-growing wave of ESG investing presents a challenge: assessing a company's sustainability without a single, global reporting standard (Avramov *et al.*, 2022). ESG rating agencies like Sustainability Policy

Transparency Toolkit (SPOTT) and Sustainalytics have emerged to address this gap, offering independent evaluations of sustainability practices (Berg *et al.*, 2022).

SPOTT, established in 2015, specializes in high-impact sectors like palm oil and timber. This deep industry knowledge makes SPOTT a valuable resource, particularly for investors in Indonesia where palm oil plays a major role (Suhardjo *et al.*, 2024a). Founded in 2009, Sustainalytics offers broader coverage, encompassing over 20,000 companies across industries. This comprehensive approach, using both objective and qualitative data, has solidified Sustainalytics' position as a leading ESG rating provider (Filbeck *et al.*, 2019).

2.5 Roundtable on Sustainable Palm Oil (RSPO)

A pioneer in sustainability for the palm oil industry, RSPO emerged in 2004, well before 'sustainability' and 'ESG' became mainstream (Tey *et al.*, 2020; Tey and Brindal, 2021). Their 'Principles and Criteria' (P&C) established a framework for responsible practices across the entire palm oil supply chain (RSPO, 2020a). Recognizing consumer power, RSPO launched a labeling scheme in 2008, allowing consumers to identify sustainable palm oil products (RSPO, 2024). RSPO certification covers over 20% of global production and boasts certified producers in over 20 countries, demonstrating global demand for sustainable palm oil (RSPO, 2020b).

While challenges remain, particularly in scaling up participation from smallholder producers and ensuring robust traceability systems, RSPO's multi-stakeholder approach, comprehensive standards, and commitment to continuous improvement solidify its position as a leader in sustainable palm oil production (RSPO, 2023).

2.6 Indonesian Sustainable Palm Oil (ISPO)

Indonesia, the world's leading palm oil producer and exporter (Arifin *et al.*, 2024), has had its own certification scheme, ISPO, since 2014. This government-driven initiative emphasizes adherence to Indonesian regulations and social considerations like land rights and community development. Unlike the multi-stakeholder approach of the RSPO, ISPO operates under a government framework (Choiruzzad *et al.*, 2021) and has mandated certification for all Indonesian producers of palm oil since 2018. While ISPO covers nearly 40% of global production, it faces criticism for having potentially weaker standards compared to the RSPO. The government's strong role raises concerns about transparency and the stringency of its standards in addressing environmental and social issues (McInnes, 2017).

In contrast, the RSPO boasts a longer history, broader global reach, and a multi-stakeholder approach that incorporates environmental NGOs, producers, consumers, and investors (McInnes, 2017). Understanding the strengths and weaknesses of each system is crucial for navigating the complexities of sustainable palm oil industry in Indonesia, particularly for producers and consumers seeking to make informed choices (Arifin *et al.*, 2024; Brandi *et al.*, 2013).

3. Methodology

This qualitative inquiry (de Villiers *et al.*, 2019) explores the evaluation of RSPO and ISPO harmonization to promote sustainable palm oil in Indonesia. To achieve this, the study employs a robust methodological framework that combines in-depth interviews (Fritz and Vandermause, 2018), content analysis (Brunzel, 2021; Torelli *et al.*, 2020), and a dual theoretical lens of stakeholder and institutional theory (Ching and Gerab, 2017).

3.1 Data collection

This qualitative study adopts a two-phase approach, integrating semi-structured interviews (Fritz and Vandermause, 2018), and content analysis (Brunzel, 2021; Torelli *et al.*, 2020)

Phase 1: Semi-structured interviews: we conducted in-depth, semi-structured interviews with 21 respondents representing key stakeholders in Indonesia's palm oil industry and facilitated an in-depth exploration of these topics. The respondents were selected to ensure diversity in perspectives, encompassing various ownership structures and company sizes. The sample includes 11 respondents from three listed companies, seven respondents from two listed banks, and three respondents from two institutional investors.

This convenience sampling approach was employed to capture a broad range of insights specific to the Indonesian palm oil industry. The listed companies, banks, and institutional investors were chosen due to their significant involvement and impact on the industry, ensuring a comprehensive understanding of stakeholder views (Freudenreich *et al.*, 2020).

For the interview protocols, we asked the respondents about their experiences with RSPO and ISPO certification processes, focusing on the challenges and benefits associated with each certification. Additionally, the respondents shared their opinions on the potential harmonization of both certifications, discussing the perceived advantages and challenges.

The following tables summarize the sample composition to provide a clearer picture of the companies and banks (Table 1) and institutional investors as member of Principles for Responsible Investment (PRI) (Table 2) involved.

By engaging in direct discussions with these pivotal actors, the study aims to examine the evaluation of harmonizing RSPO and ISPO. All interviews were carried out in November and December 2023. Some participants opted to provide written feedback (Fritz and Vandermause, 2018; Meho, 2006) due to their busy schedules towards year end.

Table 1. Company selection and respondent profiles

Company code	Industry	Ownership structure	Company size (Market Cap 2023) ^a	Respondents**)
AGRIA	Palm oil plantation	Multinational	Leading company (0.9B USD)	2 SMA, 1 SMR
AGRIB	Palm oil plantation	Family-owned	Leading company (0.4B USD)	1 CFO, 2 SMA, 1 SMR
AGRIC	Palm oil plantation	Family-owned	Leading company (0.7B USD)	2 SMA, 1 CSO, 1 SMR
BANKA	Banking	State-owned enterprise	Top 50 Big Cap 2019–2023 (36.7B USD)	2 SMR
BANKB	Banking	Multinational	Leading bank (2.8B USD)	2 SMR, 3 OPR

CFO, Chief Financial Officer; CSO, Chief Sustainability Officer; OPR, Operational; SMA, Senior Management Accountant; SMR, Sustainability Management Representative.

^aSources: IDX and respective companies' annual report.

Table 2. Institutional investor selection and respondent profiles

Company	ESG/Sustainability product	Respondents
AMGTA	2 sustainability fund products	1 Researcher 1 Analyst
AMGTB	1 sustainability fund product	1 CEO

Source: Own work

Phase 2: Content analysis

To strengthen our interview findings, we conducted content analysis on various sources such as (1) sustainability reports and annual reports of three Indonesian companies (2) methodologies used by both SPOTT and Sustainalytics with an additional five Malaysian (United, Sime Darby, IOI Corp, Genting, and KLK) and three Indonesian companies (ANJT, SSMS and TBLA) (see Tables 3 and 4), and (3) OJK regulations on the palm oil industry (OJK, 2019, 2022, 2024).

This triangulation of data confirms the prevalence of themes identified in the interviews. Ethical guidelines for informed consent, anonymity, and data security were strictly followed throughout the research process.

3.2 Data analysis

This study employs a multi-pronged approach to capture stakeholder perspectives on sustainable palm oil. Thematic analysis investigates interview data, identifying recurring themes in stakeholder voices (Byrne, 2022). Additionally, content analysis examines sustainability reports, annual reports, and company websites of selected companies, incorporating data from additional Malaysian and Indonesian companies. We also analyze methodologies of ESG rating agencies both SPOTT and Sustainalytics and the OJK banking report (OJK, 2019, 2022) to gain a broader industry lens and insights from the financial sector.

Table 3. List of respondents by stakeholder type, role, position, interview duration or volume of written feedback

No.	Stakeholder	Respondent	Role	Position	Interview duration (min)	Written feedback (pages)
1	Bank	BANKA1CC	SMR	Corporate Communication	51	
2	Bank	BANKA2CC	SMR	Corporate Communication	42	
3	Bank	BANKBOP	OPR	Operational	32	
4	Bank	BANKBOP	OPR	Operational	43	
5	Bank	BANKB3SR	SMR	Sustainability Management	39	
6	Bank	BANKB4SR	SMR	Sustainability Management	35	
7	Bank	BANKB5OP	OPR	Operational	21	
8	Company	AGRIA1SR	SMR	Sustainability Management		6
9	Company	AGRIA2IR	SMA	Investor Relation		4
10	Company	AGRIA3AC	SMA	Accounting and Reporting		2
11	Company	AGRIB1CFO	CFO	Chief Financial Officer		8
12	Company	AGRIB2AC	SMA	Accounting and Reporting		5
13	Company	AGRIB3CS	SMA	Corporate Secretary		6
14	Company	AGRIB4SR	SMR	Sustainability Management	64	
15	Company	AGRIC1CS	SMA	Corporate Secretary	42	
16	Company	AGRIC2CSO	CSO	Chief Sustainability Officer	25	
17	Company	AGRIC3SR	SMR	Sustainability Management	44	
18	Company	AGRIC3AC	SMA	Accounting and Reporting	22	
19	Investor	AMGTA1RS	RSE	Research	45	
20	Investor	AMGTA2AL	ANL	Analyst	52	
21	Investor	AMGTB1CEO	CEO	Chief Executive Officer		6

Source: Own work.

Table 4. Selected Indonesian and Malaysian palm oil companies, SPOTT and Sustainability

Country	Code	Landbank (× 1000 ha)	Market cap/landback (× 1000 USD/ha)	SPOTT rank	SPOTT ESG score Nov 2023	RSPO		ISPO (%)	MSPO (%)	RSPO (%)		Sustainability 2024	
						Y/N	Year			Landbank	Score	Rating	Last update
ID	ANJT	154.7	1.00	5	93.3	Y	2011	100.00	N/A	82,72	15.5	Low	27 April 2024
ID	AGRIB	138.9	2.97	10	90.4	Y	2013	75.00	N/A	46,77	34.6	High	27 April 2024
ID	AGRIC	154.2	5.54	18	82.3	Y	2014	50.00	N/A	19,16	29.3	Medium	27 April 2024
ID	SSMS	157.8	5.72	42	63.0	Y	2013	50.00	N/A	87.78	30.8	High	27 April 2024
ID	AGRIA	287.0	3.61	49	50.7	N	N/A	50.00	N/A	–	45.6	Severe	27 April 2024
ID	TBLA	79.8	3.10	71	16.0	N	N/A	75.00	N/A	–	47.3	Severe	3 May-2024
MY	United	58.0	23.10	3	95.2	Y	2008	100.00	100.00	84.84	26.6	Medium	27 April 2024
MY	Sime Darby	669.0	10.03	4	93.4	Y	2008	100.00	100.00	99.38	24.4	Medium	27 April 2024
MY	IOI Corp	207.1	26.28	14	85.3	Y	2009	N/A	100.00	94.89	24.7	Medium	27 April 2024
MY	Genting	243.2	5.23	24	78.3	Y	2015	75.00	100.00	38.43	36.9	High	27 April 2024
MY	KLK	355.5	13.92	30	74.8	Y	2009	85.00	100.00	78.34	36.5	High	27 April 2024
Total		2505.2											

Sources: SPOTT and Sustainability websites

Underpinning this approach is a dual theoretical framework of stakeholder theory and institutional theory, which illuminates the interplay between stakeholder interests and institutional pressures shaping sustainability in the Indonesian palm oil industry.

4. Results and discussion

The findings from this three stakeholders' investigation shed light on the evaluation of RSPO and ISPO harmonization to promote sustainable palm oil in Indonesia. Companies, banks, and institutional investors all act as stakeholders with a vested interest in the industry's sustainability (Freeman and Reed, 1983; Freudenreich *et al.*, 2020).

4.1 Reliability of RSPO and ISPO as sustainability certification standards

All companies demonstrate a growing commitment to sustainability (Suhardjo *et al.*, 2024a), focusing on sustainability certification, transparency, and financing.

All companies emphasize adherence to certifications like ISPO. Only AGRIB and AGRIC continue their focus on the RSPO certification which is similar to Malaysian companies as studied by Tey *et al.* (2020).

“Reaching this harmony will support [Group] in achieving its 100% RSPO certification target”
(AGRIB1CFO)

“We are included in the RSPO ... towards certification. For ISPO, we are almost at 100 percent”
(AGRIC1CS)

RSPO was often perceived as more reliable due to its stricter enforcement mechanisms and independent audits:

“... RSPO certification under SPOTT rating agency is classified under governance initiative although ... covers environmental and social initiative as well.” (AGRIC3SR)

AGRIB highlighted the significance of RSPO certification for securing sustainability/green financing from international investors.

“My first encounter with the ESG initiative was in 2020 when [Group] obtained the first-ever green loan for the oil palm industry ...” (AGRIB1CFO).

The RSPO is perceived to be useful as a reference in SPOTT for sustainability performance measurement:

“... it is simple, i.e., if we comply with RSPO, hence, we shall have a good ESG performance scoring.” (AGRIC2CSO).

“For SPOTT, they are very aligned with RSPO.” (AGRIC3SR).

Companies increasingly prioritize sustainability, aligning with industry standards like ISPO and RSPO to address stakeholder concerns (Suhardjo *et al.*, 2024a). Transparency initiatives and participation in ESG assessments (see Table 4) demonstrate their commitment to environmental and social responsibility. This shift reflects the growing expectations of investors and consumers seeking sustainable investments and products (Ng, 2018).

Both banks require their borrowers to obtain certification both RSPO and ISPO is as a minimum:

“... this is palm oil, we also said ISPO, they didn't accept it, they wanted RSPO ...” (BANKB2CC)

“With us, they must have ISPO as a minimum.” (BANKB5OP)

BANKB highlighted the difficulty of engaging with smaller palm oil players who often neglect ISPO certification and hesitate to discuss sustainability (Brandi *et al.*, 2013; Hutabarat *et al.*, 2018). This highlights a potential gap in awareness or capacity among these companies:

“... they don’t have pressure to do that. This is different from larger corporations, such as palm oil ...” (BANKB1OP)

Sustainability reports from both banks align with interview findings, demonstrating their commitment to sustainable palm oil financing (Suhardjo and Suparman, 2024). BANKA’s credit policy likely reflects sustainability criteria, while BANKB complies with OJK disclosure mandates (OJK, 2022).

Interviews with representatives of institutional investors (AMGTA and AMGTB) revealed they rely on the PRI’s palm oil investment policy (PRI, 2024) which emphasizes NDPE and RSPO implementation:

“... clearly articulating your company’s ESG journey, including progress, setbacks, and plans for the future.” (AMGTB1CEO)

This is consistent with the interviewees from AMGTA:

“What we check first [is] whether all mandatory required reporting’s ...” (AMGTA2AL)
 “We try as much as possible to meet with the companies, maybe also meet with their competitors ...” (AMGTA1RS)

Institutional investors rely on standardized policies like the PRI initiative where RSPO is the acceptable sustainability certification for palm oil industry, exhibiting a form of institutional isomorphism (Coin, 2022; Pirovska *et al.*, 2022; PRI, 2024). This highlights a potential limitation in terms of industry-specific expertise among some investors (Martínez-Ferrero and García-Sánchez, 2017).

All companies demonstrate a strong commitment to sustainability, focusing on certifications, transparency, and financing (Suhardjo *et al.*, 2024a). However, perspectives on certification standards such as ISPO and RSPO vary among stakeholders. Companies prioritize RSPO for its stricter standards and aligning with stakeholder expectations (Guadalupe *et al.*, 2019; Ng, 2018; Schaltegger *et al.*, 2019; Torelli *et al.*, 2020). Companies like AGRIB and AGRIC pursue RSPO certification for its global recognition and ability to secure green financing, while ISPO focuses on local compliance.

Banks require both RSPO and ISPO certifications as a minimum for borrowers. This institutional pressure ensures compliance but poses challenges for smaller palm oil players who lack awareness and capacity to meet these standards (OJK, 2022; 2024; Suhardjo and Suparman, 2024). Engagement with smaller players remains difficult, highlighting the need for capacity-building initiatives. Institutional investors prioritize RSPO certification (PRI, 2024), aligning with PRI initiatives that emphasize NDPE (No Deforestation, No Peat, No Exploitation) and transparent sustainability journeys.

The commitment to sustainability is evident, however, dual certification complicates the industry, as one selected company finds ISPO is sufficient and costly for small players. Additionally, the varying perceptions and challenges across companies, banks, and investors highlight the need for an integrated approach. This finding complements the research by Arifin *et al.* (2024), Brandi *et al.* (2013), Hutabarat *et al.* (2018) and Tey and Brindal (2021), and highlights the complex interplay of stakeholder and institutional factors in the palm oil industry. By fostering collaboration and addressing capacity gaps, stakeholders can drive meaningful progress in the Indonesian palm oil industry’s sustainability journey.

4.2 Evaluation RSPO and ISPO harmonization as sustainability certification standards

Companies value the effectiveness and international recognition of RSPO but acknowledge certification challenges. Banks view ISPO as a baseline requirement with potential for stricter standards. While both RSPO and ISPO are important, companies and banks also focus on NDPE policies as a key sustainability indicator.

All companies prioritize responsible land management practices particularly NDPE commitments (Caputo *et al.*, 2021):

“... has three priority areas (forest, climate and communities) with three core principles (NDPE, Preservation and Circularity).” (AGRIB2AC)

“On the environmental aspect, we are committed to no deforesting, no exploiting land, and not planting on peatlands ... is NDPE.” (AGRIC1CS)

While a strong commitment to the NDPE policy by both banks signifies the positive influence of government regulations, stricter internal bank requirements and the Indonesian Green Taxonomy create a stronger push for adoption of the RSPO (OJK, 2022; 2024), exceeding baseline government standards:

“... if it's palm oil, it is deforestation, or child labor is the issue ...” (BANKA2CC)

“... even if there is existing peat, that's okay. But we must phase out within 10 years.” (BANKB5OP)

BANKB highlighted the difficulty of engaging with smaller palm oil players who often neglect ISPO certification and hesitate to discuss sustainability (Brandi *et al.*, 2013; Hutabarat *et al.*, 2018). This highlights a potential gap in awareness or capacity among these companies:

“... they don't have pressure to do that. This is different from larger corporations, such as palm oil ...” (BANKB1OP)

All stakeholders—companies, banks, and investors—acknowledge the importance of these certifications, albeit with different actions and initiatives. Companies value RSPO for its international recognition, banks enforce ISPO as a baseline requirement and recognize the benefits of RSPO for sustainable financing (Suhardjo and Suparman, 2024), and investors implement a stricter policy on RSPO. Due to its complexity of dual certifications, all stakeholders prioritize NDPE policies as a key sustainability indicator (OJK, 2024), reflecting a unified commitment to sustainable palm oil practice.

Learning from Malaysia's experience, where 100% of the landbank is certified under MSPO and RSPO certification rates are high. This led to improved sustainability performance, as demonstrated by Malaysia's superior SPOTT and Sustainalytics ratings as research by Tey *et al.* (2020) (see Table 4). The positive correlation observed between high SPOTT ESG scores and low/medium ESG risk ratings from Sustainalytics suggests a link between the influence of RSPO and improved sustainability performance (see Figure 1).

Exploring an official RSPO-ISPO collaboration could be a significant step forward (PwC, 2023), with the adoption of NDPE as a sustainability indicator signaling this move. Learning from Malaysia's success in harmonizing RSPO and MSPO, which led to enhanced sustainability performance, can offer valuable insights for Indonesia. Malaysia's experience (Tey *et al.*, 2020) highlighted the benefits of streamlined certification processes.

Indonesia is well-positioned to achieve similar success with the support of the Indonesia Green Taxonomy, which provides a baseline framework for sustainability (OJK, 2024). Strengthening governance through official collaboration between RSPO and ISPO could streamline certification processes, enhance credibility, and offer targeted support to SMEs and smallholders. RSPO can focus on large companies, while ISPO



Figure 1. SPOTT total vs Sustainalytics ESG risk rating

can cater to smallholders, reducing complexity and improving efficiency. Additionally, the collaboration is essential to improve smallholders' livelihoods and overall palm oil industry sustainability.

These findings complement previous research by Arifin *et al.* (2024), Brandi *et al.* (2013), Hutabarat *et al.* (2018) and Tey and Brindal (2021), highlighting the critical need for an integrated approach to harmonization. By drawing on Malaysia's success story and leveraging the Indonesia Green Taxonomy, stakeholders can work together towards a sustainable palm oil industry in Indonesia.

5. Conclusion, limitation, and future research direction

This study examines the harmonization of RSPO and ISPO as sustainability certification standards in the Indonesian palm oil industry. Our analysis reveals that while both RSPO and ISPO are valued for their contribution to sustainability and recognized as credible sustainability certification standards, there are differing perspectives among stakeholders regarding their effectiveness and applicability.

RSPO is often viewed as more rigorous and globally recognized, whereas ISPO is valued for its focus on the local context due to its mandatory scheme. Despite being recognized as credible sustainability certification standards, the stakeholders' perceptions of RSPO and ISPO vary, reflecting the balance between global standards and local relevance.

This study examines the perspectives of companies, lenders, and investors on sustainability certification standards in the palm oil industry. While RSPO is often preferred for its stricter standards and international recognition, ISPO is valued as a baseline requirement, reflecting institutional pressures. Both companies and banks increasingly prioritize NDPE policies as a key sustainability indicator. However, smaller players may face challenges in adopting sustainability certification standard due to limited resources and capacity.

Harmonization of RSPO and ISPO could offer several benefits, including reducing complexity for companies, improving efficiency, and enhancing the credibility of sustainability certification. Learning from Malaysia's

experience, where 100% of the landbank is certified under MSPO and RSPO certification rates are high, Indonesia can benefit from early integration with RSPO.

To achieve sustainable palm oil industry in Indonesia, a multi-pronged approach is necessary. The Indonesia Green Taxonomy (OJK, 2024) can serve as a foundational framework, while collaboration between RSPO and ISPO is crucial to streamline certification processes. By having RSPO target large companies and ISPO focus on smallholders, the certification landscape can be simplified. Official collaboration is vital to reduce complexity, enhance efficiency, and significantly improve the livelihoods of smallholders.

By addressing these factors and implementing effective harmonization strategies, Indonesia can position itself as a leader in sustainable palm oil production. This study provides a foundational understanding of the harmonization of sustainability certification standards as a sustainability performance indicator in the palm oil industry. However, it has certain limitations and suggests areas for future research.

This study only examines the perspective of companies, lenders, and institutional investors. Future research should include other stakeholders like regulators, SMEs, smallholders, and consumers for a more comprehensive understanding of the harmonization of sustainability certification standards.

This study only focuses on Indonesia's policy environment. Future research could explore how policies in major importing regions like the EU and China influence sustainability certification harmonization adoption in Indonesia, providing a more global perspective on palm oil sustainability.

References

- Abdullah, M., N. Hamzah, M.H. Ali, M.L. Tseng and M. Brander. 2020. The Southeast Asian haze: The quality of environmental disclosures and firm performance. *Journal of Cleaner Production* 246: 118958. <https://doi.org/10.1016/j.jclepro.2019.118958>.
- Afolabi, H., R. Ram and G. Rimmel. 2023. Influence and behaviour of the new standard setters in the sustainability reporting arena: implications for the Global Reporting Initiative's current position. *Sustainability Accounting, Management and Policy Journal* 14(4): 743–775. <https://doi.org/10.1108/SAMPJ-01-2022-0052>.
- Ahmad, Z. and Z. Mahmood. 2024. Corporate governance regulation in regulatory space of a developing country: Actors, strategies and outcomes. *Journal of Accounting in Emerging Economies* 14(1): 99–124. <https://doi.org/10.1108/JAEE-11-2021-0362>.
- Arifin, A.R., H.H. Peterson and S.J. Sommers. 2024. Palm oil, sustainability and global trade: A focus on Indonesia. *University of Minnesota Twin Cities*. <https://hdl.handle.net/11299/265281>.
- Avramov, D., S. Cheng, A. Lioui and A. Tarelli. 2022. Sustainable investing with ESG rating uncertainty. *Journal of Financial Economics* 145(2): 642–664. <https://doi.org/10.1016/j.jfineco.2021.09.009>.
- Berg, F., J.F. Kölbl and R. Rigobon. 2022. Aggregate confusion: the divergence of ESG ratings. *Review of Finance* 26(6): 1315–1344. <https://doi.org/10.1093/rof/rfac033>.
- Billio, M., M. Costola, I. Hristova, C. Latino and L. Pelizzon. 2021. Inside the ESG ratings: (Dis)agreement and performance. *Corporate Social Responsibility and Environmental Management* 28(5): 1426–1445. <https://doi.org/10.1002/csr.2177>.
- Brandi, C., T. Cabani, C. Hosang, S. Schirmbeck, L. Westermann and H. Wiese. 2013. *Sustainability certification in the Indonesian palm oil sector: Benefits and challenges for smallholders*. Studies 74. Deutsches Institut Für Entwicklungspolitik (DIE), Bonn.
- Brønn, P. S. and D. Vidaver-Cohen. 2009. Corporate motives for social Initiative: Legitimacy, sustainability, or the bottom line? *Journal of Business Ethics* 87(S1): 91–109. <https://doi.org/10.1007/s10551-008-9795-z>.

- Brunzel, J. 2021. Making use of quantitative content analysis: Insights from academia and business practice. *Business Horizons* 64(4): 453–464. <https://doi.org/10.1016/j.bushor.2021.02.010>.
- Byrne, D. 2022. A worked example of Braun and Clarke's approach to reflexive thematic analysis. *Quality and Quantity* 56(3): 1391–1412. <https://doi.org/10.1007/s11135-021-01182-y>.
- Caputo, F., S. Pizzi, L. Ligorio and R. Leopizzi. 2021. Enhancing environmental information transparency through corporate social responsibility reporting regulation. *Business Strategy and the Environment* 30(8): 3470–3484. <https://doi.org/10.1002/bse.2814>.
- Ching, H. Y. and F. Gerab. 2017. Sustainability reports in Brazil through the lens of signaling, legitimacy and stakeholder theories. *Social Responsibility Journal* 13(1): 95–110. <https://doi.org/10.1108/SRJ-10-2015-0147>.
- Choiruzzad, S. A. B., A. Tyson and H. Varkkey. 2021. The ambiguities of Indonesian Sustainable Palm Oil certification: Internal incoherence, governance rescaling and state transformation. *Asia Europe Journal* 19(2): 189–208. <https://doi.org/10.1007/s10308-020-00593-0>.
- Coin, I. 2022. *Investor working group on sustainable palm oil: Engagement results. Principles for Responsible Investment (PRI)*. United Nations Environment Programme Finance Initiative (UNEP FI) and United Nations Global Impact, New York, NY.
- Corciolani, M., G. Gistri and S. Pace. 2019. Legitimacy struggles in palm oil controversies: An institutional perspective. *Journal of Cleaner Production* 212: 1117–1131. <https://doi.org/10.1016/j.jclepro.2018.12.103>.
- de Villiers, C., J. Dumay and W. Maroun. 2019. Qualitative accounting research: Dispelling myths and developing a new research agenda. *Accounting and Finance* 59(3): 1459–1487. <https://doi.org/10.1111/acfi.12487>.
- Detre, J. D. and M.A. Gunderson. (2011). The triple bottom line: What is the impact on the returns to agribusiness? *International Food and Agribusiness Management Review* 14(4): 165–178. <https://doi.org/10.22004/ag.econ.117608>.
- Dyck, A., K.V. Lins, L. Roth and H.F. Wagner. 2019. Do institutional investors drive corporate social responsibility? International evidence. *Journal of Financial Economics* 131(3): 693–714. <https://doi.org/10.1016/j.jfineco.2018.08.013>.
- Eccles, R.G., M.P. Krzus, J. Rogers and G. Serafeim. 2012. The need for sector-specific materiality and sustainability reporting standards. *Journal of Applied Corporate Finance* 24(2): 65–71. <https://doi.org/10.1111/j.1745-6622.2012.00380.x>.
- Filbeck, A., G. Filbeck and X. Zhao. 2019. Performance assessment of firms following Sustainability ESG principles. *The Journal of Investing* 28(2): 7–20. <https://doi.org/10.3905/joi.2019.28.2.007>.
- Freeman, R.E. and D.L. Reed. 1983. Stockholders and stakeholders: a new perspective on corporate governance. *California Management Review* 25(3): 88–106. <https://doi.org/10.2307/41165018>.
- Freudenreich, B., F. Lüdeke-Freund and S. Schaltegger. 2020. A stakeholder theory perspective on business models: value creation for sustainability. *Journal of Business Ethics* 166(1): 3–18. <https://doi.org/10.1007/s10551-019-04112-z>.
- Fritz, R.L. and R. Vandermause. 2018. Data collection via in-depth email interviewing: lessons from the field. *Qualitative Health Research* 28(10): 1640–1649. <https://doi.org/10.1177/1049732316689067>.
- Guadalupe, G.A., M.J. Lerma-García, A. Fuentes, J.M. Barat, M.D.C.Bas and I. Fernández-Segovia. 2019. Presence of palm oil in foodstuffs: Consumers' perception. *British Food Journal* 121(9): 2148–2162. <https://doi.org/10.1108/BFJ-09-2018-0608>.
- Hutabarat, S., M. Slingerland, P. Rietberg and L. Dries. 2018. Costs and benefits of certification of independent oil palm smallholders in Indonesia. *International Food and Agribusiness Management Review* 21(6): 681–700. <https://doi.org/10.22434/IFAMR2016.0162>.
- Ioannou, I. and G. Serafeim. 2019. The consequences of mandatory corporate sustainability reporting', in A. McWilliams and others (eds). *The Oxford Handbook of Corporate Social Responsibility: Psychological and Organizational Perspectives*, Oxford Handbooks. Oxford University Press, Oxford. <https://doi.org/10.1093/oxfordhb/9780198802280.013.20>.

- Luan, C.-J., C. Tien and W.-l. Chen. 2016. Which “green” is better? An empirical study of the impact of green activities on firm performance. *Asia Pacific Management Review* 21: 102–110. <http://dx.doi.org/10.1016/j.apmr.2015.12.001>.
- Martínez-Ferrero, J. and I.M. García-Sánchez. 2017. Coercive, normative and mimetic isomorphism as determinants of the voluntary assurance of sustainability reports. *International Business Review* 26(1): 102–118. <https://doi.org/10.1016/j.ibusrev.2016.05.009>.
- McInnes, A. 2017. *A comparison of leading palm oil certification standards*. Forest Peoples Programme, Moreton-in-Marsh. Available online at <https://www.forestpeoples.org/en/responsible-finance-palm-oil-rspo/report/2017/comparison-leading-palm-oil-certification-standards>.
- Meho, L.I. 2006. E-mail interviewing in qualitative research: a methodological discussion. *Journal of the American Society for Information Science and Technology* 57(10): 1284–1295. <https://doi.org/10.1002/asi.20416>.
- Ng, A.W. 2018. From sustainability accounting to a green financing system: Institutional legitimacy and market heterogeneity in a global financial centre. *Journal of Cleaner Production* 195: 585–592. <https://doi.org/10.1016/j.jclepro.2018.05.250>.
- OJK. 2019. *Sustainable banking book: Financing for agriculture and palm oil industry*. Otoritas Jasa Keuangan Indonesia, Departemen Penelitian dan Pengaturan Perbankan (Indonesian Financial Services Authority, Research and Bank Regulation Department), Jakarta. Available online at <https://ojk.go.id/sustainable-finance/id/publikasi/panduan/Documents/Buku%20Kredit%20Pembiayaan%20Perkebunan%20dan%20Industri%20Kelapa%20Sawit.pdf>.
- OJK. 2022. *Indonesia Green Taxonomy*, Edition 1.0. Otoritas Jasa Keuangan Indonesia, Departemen Penelitian dan Pengaturan Perbankan (Indonesian Financial Services Authority, Research and Bank Regulation Department), Jakarta. Available online at https://www.ojk.go.id/keuanganberkelanjutan/BE/uploads/siaranpers/files/file_679f4b79-d7fe-4fb7-a815-a95e3086c0e5-19022024180226.pdf.
- OJK. 2024. *Indonesia taxonomy for sustainable finance*. Otoritas Jasa Keuangan Indonesia, Departemen Penelitian dan Pengaturan Perbankan (Indonesian Financial Services Authority, Research and Bank Regulation Department), Jakarta. Available online at https://www.ojk.go.id/keuanganberkelanjutan/BE/uploads/siaranpers/files/file_8ef04400-9a1b-430a-ba66-88f11a126877-27032024132325.pdf.
- Pirovska, M., H. Ransome and R. Sullivan. 2022. *A sustainable finance policy engagement handbook*. Principles for Responsible Investment (PRI), United Nations Environment Programme Finance Initiative (UNEP FI) and United Nations Global Impact, New York, NY. Available online at <https://www.unpri.org/policy/global-policy/policy-engagement-handbook>.
- PRI. 2024. PRI Investor Working Group on Sustainable Palm Oil. *Principle for Responsible Investment*. Principles for Responsible Investment (PRI), United Nations Environment Programme Finance Initiative (UNEP FI) and United Nations Global Impact, New York, NY Available online at <https://www.unpri.org/nature/pri-investor-working-group-on-sustainable-palm-oil/5873.article>.
- PwC. 2023. *Plantation Indonesia needs to push ISPO and RSPO harmonization*. Plantation News Highlight April 2023, PwC Indonesia, Jakarta. Available online at <https://www.pwc.com/id/en/pwc-publications/industries-publications/consumer-and-industrial-products-and-services/plantation-highlights/april-2023/indonesia-needs-to-push-for-ispo-and-rspo-harmonisation.html>.
- Schaltegger, S., J. Hörisch and R.E. Freeman. 2019. Business cases for sustainability: a stakeholder theory perspective. *Organization and Environment* 32(3): 191–212. <https://doi.org/10.1177/1086026617722882>.
- Schmidt, J. and M. De Rosa. 2020. Certified palm oil reduces greenhouse gas emissions compared to non-certified. *Journal of Cleaner Production* 277: 124045. <https://doi.org/10.1016/j.jclepro.2020.124045>.
- Suhardjo, I and M. Suparman. 2024. Employee engagement and green finance: An analysis of Indonesian banking sustainability reports. *Journal of Risk and Financial Management* 17(12): 575. <https://doi.org/10.3390/jrfm17120575>.
- Suhardjo, I., C. Akroyd and M. Suparman. 2024a. Unpacking environmental, social and governance score disparity: A study of Indonesian palm oil companies. *Journal of Risk and Financial Management* 17(7): 296. <https://doi.org/10.3390/jrfm17070296>.

- Suhardjo, I., C. Akroyd and M. Suparman. 2024b. Beyond sustainability reporting: A theoretical framework for ethical sustainability governance. *Corporate Governance and Sustainability Review* 8(3): 8–20. <https://doi.org/10.22495/cgsrv8i3p1>.
- Tapia, J.F.D., S.S. Doliente and S. Samsatli. 2021. How much land is available for sustainable palm oil? *Land Use Policy* 102: 105187. <https://doi.org/10.1016/j.landusepol.2020.105187>.
- Teng, S., K.W. Khong and N. Che Ha. 2020. Palm oil and its environmental impacts: A big data analytics study. *Journal of Cleaner Production* 274: 122901. <https://doi.org/10.1016/j.jclepro.2020.122901>.
- Tey, Y. S. and M. Brindal. 2021. Sustainability stewardship: Does roundtable on sustainable palm oil certification create shareholder value? *Corporate Social Responsibility and Environmental Management* 28(2): 786–795. <https://doi.org/10.1002/csr.2088>.
- Tey, Y. S., M. Brindal, S. Darham, S.F.A. Sidique and M. Djama. 2020. Early mover advantage in Roundtable on Sustainable Palm Oil certification: A panel evidence of plantation companies. *Journal of Cleaner Production* 252: 119775. <https://doi.org/10.1016/j.jclepro.2019.119775>.
- Torelli, R., F. Balluchi and K. Furlotti. 2020. The materiality assessment and stakeholder engagement: A content analysis of sustainability reports. *Corporate Social Responsibility and Environmental Management* 27(2): 470–484. <https://doi.org/10.1002/csr.1813>.
- Watts, J. D., K. Pasaribu, S. Irawan, L. Tacconi, H. Martanila, C.G.W. Wiratama, F.K. Musthofa, B.S. Sugiarto and U.P. Manvi. 2021. Challenges faced by smallholders in achieving sustainable palm oil certification in Indonesia. *World Development* 146: 105565. <https://doi.org/10.1016/j.worlddev.2021.105565>.