



## Sustainability Strategies and Stakeholders' Influence In The Palm Oil Industry

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**Abstract:**

*This study aims to identify sustainability strategies and stakeholders' influence in the Indonesian palm oil industry based on sustainability reports. We find that 14 companies have already disclosed their environmental, social, and economic information in their annual reports, and 6 companies published stand-alone sustainability reports for 2015 to 2018. Our study focuses on environmental and social strategies and excludes economic performance. The first findings, sustainability strategies based on sustainability reports in the palm oil companies are as follows: 1) sustainability policy commitment, 2) conservation management, 3) forest/plantation fire prevention, 4) waste management, 5) traceability supply chain, 6) sustainability certifications, 7) community development, 8) grievance management. Second, key stakeholders influence various sustainability strategies.*



## Introduction

Palm oil products have become a highly demanded product in the international and domestic markets, occupying an important position in the GDP and being the main product of the country, such as Indonesia. However, there are debates among stakeholders (e.g., environmental NGOs, buyers, and government) regarding the process of the palm oil products from upstream to downstream to achieve sustainability. Due to this, the companies need to strategize their business plans for a better investment. The pressing situation forces the economic players to be more competitive and innovative in running their businesses. The company's sustainability strategy should be embedded in all operations from upstream to downstream operations because the stakeholders demand the companies conduct sustainable business throughout their supply chains. Therefore, the sustainability of the palm oil industry is urgently needed. Companies need to develop strategic sustainability management and report their sustainability activities in their sustainability report to inform stakeholders that companies did sustainability in their operations.

The implementation of sustainability strategies by adapting sustainability standards such as ISO 26000 can improve sustainability performance in companies, especially for companies that are beginners in corporate sustainability (Hahn, 2012). He suggested that the standards were helpful in the internal and external assessment and in serving as the starting point for implementing sustainability strategies. ISO 26000 would offer guidance on social responsibility for all organizations. He found that many companies lacked a strategic approach to obtain an understanding of corporate sustainability and social responsibility. Furthermore, Toppinen et al. (2015) found that ISO 26000 standard was not detailed enough to incorporate specific issues, such as those for forest industry companies. They suggested that context-specific issues were needed to integrate into strategic sustainability management, as the ISO 26000 standard is very broad rather than specific sustainability issues.

Several previous studies examined sustainability strategies in palm oil industries by following sustainability standards/certifications (Morgans et al., 2018; Cattau et al., 2016; Hutabarat et al., 2019; Brandi, 2016; Kadarusman and Herabadi, 2018; Orsatto et al., 2013). Morgans et al. (2018) found that the certifications have no significant differences in environmental and social sustainability impact, meanwhile, Cattau et al. (2016) found that fire activity is significantly lower than non-certified plantations only in wetter years from 2012 to 2015 in Kalimantan and Sumatera islands. The adoption of RSPO certification has the potential to help reduce fires, though it is only effective in wetter years. During dry years, especially the El Nino phase, efforts to extinguish fires are more needed. In light of the above discussions on previous studies in the field, literature on sustainability practice in the palm oil industry only focuses on sustainability certifications (such as RSPO, ISPO, ISO 14001, PROPER assessment) but it is pointed out that obtaining certifications do not seem to help improve the situation. Therefore, an

investigation of the current state and problems of sustainability practices in the palm oil industry is needed to improve the situation instead of focusing only on certifications.

The purpose of this study is to identify sustainability strategies based on companies' sustainability reports in the palm oil industry. In addition, to obtain an understanding of how companies carry out sustainability strategies that meet stakeholder expectations and towards sustainable development of palm oil. In this context, the research questions are: "what the main sustainability strategies are adopted by companies and how do stakeholders/companies affect sustainability?". In our study, we use the main topics in the sustainability reports as the sustainability strategy. Therefore, to answer these questions, we conduct a qualitative method by analyzing the sustainability reports for 2015-2018. The second question is to analyze the influence of key stakeholders in sustainability practices by analyzing what sustainability strategies are used to influence them. In line with the previous literature which focused on stakeholders' influence. However, those previous studies as discussed in the existing literature do not use rhetorical or published sustainability statements to explain stakeholder influence.

In the context of the palm oil industry, there are various stakeholders involved throughout the value chain and the relevant environmental issues have received increasing global attention. Many companies decide to engage in sustainability strategy because of getting pressure from stakeholders such as buyers/traders, bankers/investors, and/or NGOs, who want to achieve sustainable palm oil. Companies would make decisions on what sustainability strategies to use. However, the context of sustainability policies in each company may be different. For this reason, key stakeholders in sustainability practice need to be studied. Lack of understanding of the complex relationships between key stakeholders and companies in the palm oil industry such as the company, NGOs, government, buyers, bankers/investors, and smallholders results in repeated tensions between the expectations of sustainability and economic development (Yussof et al., 2019; Orsato, 2013).

### **Research Method**

This research method uses a qualitative method. A content analysis of sustainability reports is used to describe the nature and scope of sustainability practices in the palm oil industry. We discuss the main topic of sustainability based on sustainability reports by examining the environmental and social disclosures. It discusses sustainability issues and responses by companies to solve them.

We use the database from the Indonesia Stock Exchange (IDX) website in obtaining information about the companies in the palm oil industry. As a result, we obtain 18 companies in the agricultural sector. The companies are chosen based on the criteria of palm oil as the primary commodity, and there are 16 companies. The sustainability reports and annual reports of these companies are collected in June 2020 from the

companies' websites. As of June 2020, some companies have not published the sustainability report and/or annual report for 2019 yet. So, we examine the sustainability report and annual report for 2015 to 2018. Thus we obtain 14 companies, i.e., Agro Astra Lestari (AAL), Austindo Nusantara Jaya (ANJ), Bakrie Sumatera Plantation (BSP), Eagle High Plantations (EHP), London Sumatera Plantation (LSP), Sawit Sumbermas Sarana (SSS), Salim Ivomas Pratama (SIP), Provident Agro (PA), Sampoerna Agro (SA), Sinar Mas Agro Resources and Technology (SMA), Tunas Baru Lampung (TBL), Dharma Satya Nusantara (DSN), Gozco Plantation (GP) and Jaya Agra Wattie (JAW). We also use companies' websites to provide more information about sustainability.

### Results and Discussions

The Indonesian government has been formally regulating CSR practices and sustainability reporting by Law No. 40 of 2007, Government Regulation No. 47 of 2012 on Liability Company which states that a company having its business activities in the field of and/or related to natural resources shall be obliged to perform its social and environmental responsibility and must report its sustainability responsibility in the annual report.

We find that six of fourteen companies (AAL, ANJ, EHP, SMI, LSI, and SSS) listed in IDX in the agriculture sector adopted sustainability reporting based on GRI standards in 2018. A stand-alone sustainability report in Indonesia is adopted voluntarily. In 2017, the Financial Services Authority (Indonesian: OJK) launched the regulation<sup>1</sup> concerning the implementation of sustainability reporting for financial services institutions, issuers, and listed companies, which includes the palm oil industries. Financial services institutions, issuers, and listed companies have to prepare sustainability reports. Specifically for listed companies, a sustainability report must be submitted to the government through OJK for the year 2020 for the first time this regulation is applied. However, the government announced that its implementation was delayed because of the pandemic COVID-19 statement in 2020. The stand-alone sustainability report is applied for the fiscal year 2020 which will be submitted to OJK in 2021. So, one year is delayed for preparing a compulsory sustainability report.

#### A. The main topic of sustainability reports

Regarding the main topics of sustainability reports 2015-2018, this study found that the main topics of sustainability were 1) economic: economic performance; 2) environmental: sustainability policy, conservation management, forest/plantation fire prevention, waste management, greenhouse gas (GHG) emissions, pest, traceability supply chain, sustainability certification; 3) social: community development,

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<sup>1</sup> No. 51/POJK.03/2017 about Implementation of Sustainability Finance for Financial Services Institutions, Issuers, and Listed Companies.

occupational, health, and safety (OHS), grievance management. This study focuses on environmental and social sustainability, excluded economic performance. In particular, social sustainability focuses more on social sustainability strategies that have an impact on its companies' supply chain and engage with third parties. As result, we found the main topics relevant for our study were: 1) sustainability policy, 2) conservation management, 3) forest/plantation fire prevention, 4) waste management, 5) traceability supply chain, 6) sustainability certification, 7) community development and 8) grievance management. Not all companies explained sustainability activities in detail especially sustainability information in the annual reports.

#### 1. Sustainability Policy Commitments

According to our investigation, 12 companies (AAL, ANJ, EHP, SSS, BSP, SIP, LSI, PA, SA, SMA, DSN, and TBL) disclosed their sustainability policies as their commitment to sustainability to the public through annual reports, sustainability reports, or companies' website. Their sustainability policies are about no deforestation, no planting on peat-land, no exploitation of human rights or local communities, sustainability certifications, and transparency. Meanwhile, two companies (GP and JAW) did not clearly explain their sustainability policies in their companies' reports or websites. BSP stated its sustainability policies on its company website. Furthermore, AAL, ANJ, EHP, and SSS mentioned that they were collaborating with international NGOs and customers, who would provide advice with regard to sustainability policy, implementation, and monitor companies' sustainability activities.

The holding company also influences companies' sustainability policy. For example, SMA, LSI, and SIP followed the same sustainability policy as their holding companies. SMA disclosed a sustainability policy on its website based on its holding company. Similarly, SIP used a sustainability policy from its holding company, namely Indo Agri, which is a listed company in Singapore. Meanwhile, SIP is the holding company of LSI. Therefore, SIP and LSI have the same sustainability policies. RSPO is another stakeholder that would influence companies' sustainability policy. Some companies such as ANJ, SSS, EHP, and BSP declared that their sustainability policies were aligned with the Principles of RSPO. In their sustainability policies, it is stated that the sustainability policies issued were an effort to meet the principles and criteria of RSPO and to achieve RSPO certification.

#### 2. Conservation Management

AAL, ANJ, BSP, EHP, SSS, SIM, LSI, SMA, SA, and DSN (10 companies) disclosed information about their conservation areas in their concession of plantations. Other companies did not disclose conservation areas in their concession in annual reports, whether they had them or not. Those companies disclosed conservation information, managed conservation areas by their sustainability department, and collaborated with NGOs, local government, and local communities. For example, ANJ, EHP, SSS, SMA, and DSN collaborated with NGOs in conserving the survival of orangutans and wildlife. Ten

companies collaborated with local communities to monitor and patrol conservation areas regularly every month.

Before opening new land for plantations, companies (AAL, ANJ, EHP, SSS, BSP, SIM, LSI, SMA, SA, DSN) would assess the condition of the land first to find out whether the land had a high conservation value (HCV) or not. If it had HCV, those companies must conserve it and should not use it as plantation land. The assessment of HCV in existing land is the requirement from RSPO in implementing New Planting Procedure (NPP). HCV assessment is conducted by an independent assessor. If companies are RSPO members, HCV assessment is conducted by an independent assessor approved by RSPO. Although AAL is not a member of RSPO, AAL used an independent assessor to assess HCV. It shows that environmental NGOs influence companies in conservation management. The assessment of HCV is included in the criteria of RSPO certification. If companies are willing to achieve RSPO certification, companies should carry out this procedure (HCV assessment).

### 3. Forest/Plantation Fire Prevention

As one of the problems in the palm oil industry is forest/plantation fire, especially in the dry season, all companies manage forest/plantation fire by providing firefighting facilities, well-prepared personnel, technology for identifying the hotspot, the fire control equipment, the towers for monitoring, and training. AAL, ANJ, EHP, SSS, SIP, LSI, SA, SMA, TBL, and PA disclosed forest/plantations fire prevention and engaged with local government, local communities, and farmers in the prevention of fires. They also carried out joint activities, such as patrolling during the dry season and carried out fire control measures. Those companies collaborated with local communities and smallholders and established special teams to handle forest/plantation fires. This is also because the plantations of companies and farmers are close together and companies need to collaborate with communities in fire prevention.

In 2018, EHP disclosed fires on plantations under EHP due to low rainfall during the dry season, flammable peatlands, and negligence by local communities to light fires, or burn open fields for planting. For these reasons, the internal management of EHP collaborated with surrounding smallholders and communities to be actively involved in fire prevention, conducted awareness, and installed fire hazard signs in order to reduce hotspots. AAL disclosed three fire spots. The cause of fires was farming activities inside the farmers' plantations. ANJ, SSS disclosed hotspot fire in their subsidiaries. SA, TBL, and SMA disclosed that no fire occurred in their plantations, but SMA disclosed the incident fire occurred in its pilot project village. SIP, LSI, and PA did not disclose whether the fire occurred or not. GP and JAW did not disclose the fire prevention. Companies are concerned about forest/plantation fire prevention because of the regulation from the

government<sup>2</sup> to control forest/plantation fires.

#### 4. Waste Management

The waste of palm oil plantations can be utilized and added value in various ways, such as solid and liquid waste being recycled into fuel in steam boilers and organic fertilizers. All 14 companies explained that their solid waste (such as fibers and shells) was used as fuel in their steam boilers. ANJ, SSS, SA, and SMA utilized their liquid waste (palm oil mill effluent/POME) as biogas or renewable energy. The biogas plant will produce electricity. However, ANJ's subsidiary in the renewable power unit remains unprofitable. Among them, the electricity sold to the state electricity company (PLN) is still below the commercial price. This is a challenge for ANJ to maintain waste management in reducing emissions. The role of internal management has a significant influence on waste management to reduce emissions.

#### 5. Traceability Supply Chain

Companies (AAL, ANJ, EHP, SIP, LSI, SMA) disclosed the responsible sourcing of palm oil and fruit supply sources from nucleus plantations and third-party suppliers including smallholders. The aim is to ensure that its supply sources are traceable and its practices are consistent with the company's sustainability policy. Traceability is the ability to retrace, identify, and track the finished product to find out the origin of raw materials and the production personnel. The traceability supply chain is divided into two categories, namely traceability to a mill and traceability to a plantation. Traceability to mill aims to ensure that CPO & PKO supplied to the refinery or for shipment/export purposes can be traced to the mill. Traceability to the plantation is to ensure that raw materials supplied from the plantations to the CPO mill and up to the refineries or for shipment are traceable to the plantation. AAL and ANJ collaborate with NGOs on the traceability of their suppliers, especially smallholders. AAL and NGOs developed the tools for the environmental assessment of suppliers. It was established through traceability to the smallholder level. There is pressure from NGOs and buyers to improve the traceability and transparency of their concession boundaries.

#### 6. Sustainability Certifications

The Indonesian Sustainability Palm Oil (ISPO) certification is a mandatory requirement for all Indonesian palm oil companies and smallholders. The PROPER program assesses the environmental performance of companies. Meanwhile, RSPO certification and ISO 14001 are voluntary mechanisms. The government influences the company to conduct ISPO certificate and PROPER program. Although not all companies and their subsidiaries have ISPO certification yet, companies strive to gain ISPO certification for all their subsidiaries. Some companies (ANJ, EHP, BSP, SSS, SA, SMA, DSN, TBL) in our investigation have already obtained RSPO certification. SIP and LSI withdrew from RSPO members in 2019. ANJ, BSP, SSS, SLI, SIP, and SA gained ISO 14001

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<sup>2</sup> Presidential Instruction no 11 of 2015 concerning control of land and forest fire, Ministry of environment and forestry regulation no.P.32 of 2016.

certification, while ANJ, SSS, SA, and SMA obtained ISCC certification. Based on their sustainability reports, buyers and internal management would influence companies to use RSPO, ISO 14001, and ISCC certifications. In particular, internal management who are also involved as board members in RSPO would influence companies and their subsidiaries to conduct RSPO certification. Companies increase direct sales to buyers who require an RSPO certification to obtain the premium price.

#### 7. Community Development

Community development involves efforts in the participation of local communities, to gain an understanding of their needs, problems, and their potential availability. In their reports, AAL, ANJ, EHP, BSP, SMA, SSS, SIP, LSI, and SA describe the partnership between these companies and palm oil farmer communities through being the company's FFB supplier, which allows smallholder farmers to participate in their operations. Companies developed a partnership with smallholder farmers because the farmer's FFB is needed for raw material in companies' operations and the presence of the company brings benefits and economic growth to the local community. In community development, companies provide training to farmers in professional farming techniques and assist farmers to obtain sustainability certifications. This activity is also part of companies' CSR programs.

#### 8. Grievance Management

Companies (AAL, ANJ, EHP, BSP, SIM, LSI, SMA) disclosed information regarding the grievance management system, whether for the company or its third-party suppliers in their sustainability reports. Stakeholders can complain through the grievance channel provided by companies. At the subsidiary level, grievances can be made directly to the responsible person appointed by the subsidiary. The local communities can complain to the company's subsidiary, which is located close to their residence. In 2016, SIP received complaints from NGOs about labor violations in its subsidiary. The mediation process was carried out by RSPO from 2016-to 2018. SIP was disappointed with the way RSPO responded to the NGO and SIP's settlement. SIP considered that the results of auditors were inconsistent and NGOs could not provide sufficient evidence for these allegations, thus creating a conflicting relationship among SIP, NGOs, and the RSPO. The RSPO's unsatisfactory response in resolving NGO complaints against SIP led SIP and all of its subsidiaries to withdraw from the RSPO. This grievance process was communicated in SIP's sustainability report and website. Meanwhile, AAL and SSS communicate with NGOs periodically and if there is some negative activity against the company, it is verified by an independent investigation. It shows that the internal management has control and resolves grievances from other stakeholders. In other words, internal management influences grievance management to respond to stakeholders.

#### B. Stakeholders influence sustainability

The stakeholder power was found in the following cases: 1) shareholders and internal management, influence companies (AAL, SMA, SIP, LSI, BSP, ANJ, EHP) in their

sustainability policy, sustainability reports, grievance, sustainability certifications, and waste management; 2) NGOs influence companies (AAL, EHP, ANJ) in sustainability policy, grievance management, and management of conservation value; 3) government influences all companies (14 companies) on environmental performance (PROPER) and sustainability certification (ISPO); 4) buyers/customers influence companies (EHP, BSP, SA) in conservation management and RSPO certification, and 5) RSPO board members who are also as BoC/BoD in palm oil companies influence companies (SMA, EHP) in adopting the RSPO certificate.

In addition, shareholders and internal management influenced companies (AAL, SMA, SIP, LSI, BSP) in their sustainability policy and sustainability certifications. Shareholders and internal management play an important role to commit its sustainability. Internal management will make decisions on what sustainability strategies to use. However, the context of sustainability policies and sustainability certification in each company may be different. For example, shareholders and internal management who are also RSPO members tend to make sustainability policies the same as or in line with RSPO's sustainability policies. With regard to certificates, companies will strive to obtain RSPO certification for all of their subsidiaries. However, in a company that is not a member of RSPO (AAL), shareholders and internal management would have roles in defining sustainability policy. RSPO is a voluntary certification so that companies will consider whether or not to use it. In addition, buyers do not require companies to adopt the RSPO certification. Therefore, many companies did not use RSPO certification. Only 1.97 million hectares or 14% of palm oil companies conducted RSPO certification (RSPO, 2019).

NGOs influence companies (AAL, EHP, ANJ) in conservation management and grievance management. HCV and HCS assessments were encouraged by NGOs. Before opening new land for plantations, companies were required to assess the area/land. The HCV and HCS assessment aim to prevent the degradation of the forest or area that has high conservation value. HCV and HCS assessments are required by RSPO criteria. AAL is not a member of RSPO, but AAL uses an independent assessor to assess HCV in its concession. Regarding grievance management, SIP, LSI, and ANJ disclose complaints from external stakeholders and solutions to these problems. In other companies, disclosure is only made through channels provided by the companies. The grievance channel for stakeholders is one of the criteria in the RSPO, and the company strives to merely fulfill this requirement.

Companies establish cooperative relationships with NGOs, government, and local communities in forest/plantation fire prevention, and conservation. In forest fire prevention, most companies collaborate with local communities and farmers. This is because the farmers' plantations are surrounded by companies' plantations and fire in forest occurs almost every year. EHP, ANJ, AAL, and SSS revealed that plantation/forest fires occurred in their concessions. More information about the fire problem is needed

because it will help to tackle this problem further. More fire prevention techniques are also needed because every year there is a dry season, and every year there are land/forest fires.

Onkila (2011) suggests analyzing stakeholder relationships would affect environmental sustainability management practices. The stakeholder relationships vary, according to the issue, or interest. The sustainability strategy used is influenced by stakeholders and their relationships. For example, internal management influences sustainability practices through sustainability policies (as sustainability strategy). AAL establishes its sustainability policy based on its parent company. In addition, EHP and SMA also establish sustainability policies based on their parent companies. However, some of the internal management of EHP and SMA are board members at the RSPO. These companies established sustainability policies that are in line with the RSPO principles. Moreover, in their sustainability policies, it is stated that obtaining RSPO certification for all its subsidiaries is vital. Thus, the stakeholders' influence and relationships influence the sustainability strategy. The sustainability strategy used is the same (as a sustainability policy) but the implementation or outcomes of sustainability practices are different.

## Conclusion

This study finds that 14 companies have already disclosed their environmental, social, and economic information in their annual reports. It shows that companies comply with the regulation from OJK. Sustainability reporting based on GRI standards or the government requirements is intended to provide transparent information as good corporate governance, especially for listed companies. Only 6 companies published stand-alone sustainability reports for 2015 to 2018.

Our study focuses on environmental and social strategies that would impact its supply chain. We find the main topics of sustainability reports in the palm oil companies as follows: 1) sustainability policy commitment, 2) conservation management, 3) forest/plantation fire prevention, 4) waste management, 5) traceability supply chain, 6) sustainability certification, 7) community development, 8) grievance management. These main topics are used by palm oil companies as sustainability strategies.

This study also finds that key stakeholders influence sustainability strategies. The key stakeholders find in the following cases: 1) shareholders and internal management, influence companies in their sustainability policy, sustainability reports, grievance, sustainability certifications, and waste management; 2) NGOs influence companies in sustainability policy, grievance management, and management of conservation value; 3) government influences all companies (14 companies) on environmental performance (PROPER) and sustainability certification (ISPO); 4) buyers/customers influence companies in conservation management and RSPO certification, and 5) RSPO board members who are also as BoC/BoD in palm oil companies influence companies in

adopting the RSPO certificate.

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