

Sustainable Business of Indonesian Palm Oil Companies through Grand Design Corporate Social Responsibility Programs

Said Achmad Kabiru Rafiie

Lecturer at Management Department, Teuku Umar University, West Aceh, Indonesia (Corresponding Author).

Abstract

This study aims to focus on the design of corporate social responsibility programs for Indonesian palm oil companies. The Indonesian government has already imposed mandatory actions under the Indonesian Sustainable Palm Oil system or ISPO whereby Corporate Social Responsibility is a legal aspect of obtaining an ISPO certificate. To identify relevant Corporate Social Responsibility (CSR) programs, stakeholder theory approach was used. In-depth interviews were conducted with stakeholders of 10 palm oil companies and field observations were made in the plantations where the research was afocused. SWOT and PESTEL analyses were used to reaffirm which CSR programs are suitable to the industrial environment of palm oil companies. The research found that CSR programs for palm oil companies included those aimed at the economic empowerment of local people, educational assistance and health care services. This research provides a framework for palm oil managers to craft CSR programs for stakeholders of palm oil companies so as to ensure long-term business sustainability.

Keywords: Corporate Social Responsibility Program, Stakeholder Theory, Indonesian Sustainable Palm Oil (ISPO)

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1. Introduction

The long-term sustainability of the Indonesian palm oil business has been a major concern since last decade. Palm oil has contributed to Indonesian economic growth, creating jobs and helping to develop rural areas. However, palm oil companies have faced numerous challenges from environmental activists, land disputes with local people, as well as severe issues concerning pollution.

The growth of oil palm plantations Indonesia increased significantly. Indonesia and Malaysia are the two largest producer countries of Crude Palm Oil (CPO), contributing 83 % of total world production of CPO (Degn & Bentule, 2009). Indonesian CPO production has risen due to the increasing global consumption of CPO which reached 52 million tons in 2012 (Sime Darby Plantation 2013). Meanwhile, world consumption for palm oil is expected to continue increasing due to the growth of the world's population. Increased productivity of Indonesian palm oil is supported by the availability of land, the use of seeds and heightened investment in this sector over the last a decade.

The growth of oil palm plantations Indonesia has been very progressive. This is in response to the concerns of Non-Governmental Organizations (NGOs) that have claimed the expansion of new plantations causes environmental damage (Indonesian Palm Oil Association, 2013), the activities of oil palm plantations in tropical forests threaten diversity (Koh & Wilcove, 2008), and oil palm plantations are to blame for the loss of agricultural land and communal land as well as producing more smog that is harmful to public health.

To alleviate such concerns, it has been important to use a soft management approach to reduce conflicts between palm oil companies and communities. A company's CSR program is one way of fostering harmony with communities and society as a whole. Managers who are successful in identifying relevant stakeholders in this regard will bring long-term harmony to their business. Through Social Responsibility (CSR) programs, managers can create social value for stockholders (owners) as well as stakeholders. The study of CSR and its relation to corporate sustainability has been done by previous researchers. Worldwide Fund for Nature (WWF) (2021) has studied the sustainability of palm oil through the RSPO (Roundtable on Sustainable Palm Oil) which aims to involve seven stakeholders in the decision-making process in the palm oil industry. These stakeholders are as follows: 1). Palm oil producers 2) Processors or palm oil traders 3) Manufacturers of consumer goods 4) Retailers 5) Investors and Banks 6) Environmental protection NGOs and nature conservations 7) Social NGOs. Paoli et al (2011) have examined the decision-making process involving all stakeholders in the palm oil industry in Indonesia including government, local authorities and regulators, and concluded that the research on CSR stakeholders is relevant to sustainability themes.

In Addition, Basiron (2007), in his research on the sustainability of the palm oil industry in Malaysia found that for more than 50 years, the industry has managed to increase production effectiveness and cost efficiency through R&D. Therefore, the next step that must be taken by the major palm oil business players is to obtain certification to ensure environmentally-friendly production processes and also to ensure that local communities gain economic and social benefits. All this indicates that the business is going to have to be concerned with environmental sustainability in the long-term as well as the social benefits they provide to society.

Nevertheless, there are still a few researchers who have conducted studies on the application of Stakeholder Theory in relation to Corporate Social Responsibility within oil palm plantations in order to ensure sustainability. Previous research has been done extensively using a quantitative approach. This

study, meanwhile, uses a qualitative approach in specific locations in Aceh province which is home to the first international commercial palm oil plantation established in 1911.

2. Literature Review

Definitions of CSR vary depending on the viewpoint of management experts. McWilliams, Siegel and Wright (2005) define CSR as follows: 'CSR is a situation where the firm goes beyond its own interests that are required by law'. This means that CSR is one of the initiatives a company undertakes to carry out activities outside of its responsibilities as required by regulations. Meanwhile, Sprinkle & Maines (2010, p.446) define CSR as follows: 'CSR represents voluntary firm endeavors which benefit society'. This refers to the fact that companies must play a role in the provision of benefits to society.

The definition of CSR according to Holme & Watts (2000) is "CSR is the continuing commitment of a company that is run ethically and contributes to developing and improving the quality of life of its workers and their families, as well as the local community and the wider community". While the understanding of CSR according to Carroll (1999) is as follows: "CSR is about how companies manage their business processes to produce an overall positive impact on society". This definition departs from the traditional philosophy of how to manage a company well, to one that has a positive impact on both itself and its environment.

A broader definition of CSR by Mazurkiewicz (2003, p. 4) covers three aspects. This definition is more extensive and comprehensive because it involves stakeholders in a broader scope.

1. Companies doing business with responsible parties (internal stakeholders, including shareholders, employees, customers and suppliers).
2. The role of business in relation to the law at both the local and national level.
3. The performance of a business as a member of the community in which it operates and as part of the world community.

Furthermore, differing definitions of Corporate Social Responsibility (CSR) have been given by various experts and non-profit institutions. This has resulted in a lack of agreement on the definition of CSR. John Elkington (1997, 1998), for example, argues that the implementation of corporate social responsibility must take into account the Triple Bottom Line of a business which includes profit, people and planet, or better known as 3P. CSR has also been given other labels such as strategic philanthropy and corporate citizenship.

Stakeholder Theory

Stakeholder theory was developed by the contributions of R. Edward Freeman in his book *strategic Management: A Stakeholder Approach* (Freeman, 1984). Freeman states that 'The definition of stakeholder is any group or individual who can affect or is affected by the achievement of an organization's purpose' (Freeman, 1984, p. 53). In other words, a stakeholder is a group or individual who is influenced by the activity of the company in achieving its objectives (Carson, 1993). Thus, stakeholders include both internal and external parties, such as government, corporate competitors, local communities, international bodies, institutes outside of the company (NGOs and the like), environmental institutions, company workers, minorities and others whose existence is influenced or affected by a company.

Stakeholder theory was developed out of thinking about corporate crises and systems theory. Corporate crises brought about by changes in the external environment should be understood by managers while systems theory incorporates the external environment as part of unified approach in decision making. Stakeholder theory is a system that is explicitly based on the idea of an organization and its environment having both complex and dynamic interplay (Freeman, 1994). Furthermore, Freeman & McVea (2002) state that essentially, stakeholder theory is based on the following assumptions:

- 1) The stakeholder approach is intended to provide a single strategic framework. This means that stakeholder theory gives a full understanding to the manager about how to anticipate the changes that occur in scope of the internal and external environment
- 2) The stakeholder approach is part of strategic management. This indicates that stakeholder theory is not only part of strategic planning but also part of management strategies that provide policy direction to management.
- 3) The central concern of the stakeholder approach is the survival of the firm. The company's ability to survive in a competitive industry is very dependent on the ability of managers to maintain, integrate and balance the interests of outside with those of the company.
- 4) The stakeholder approach encourages management to develop strategies. This theory gives insight to management in developing strategies for various stakeholders to build core values.
- 5) The stakeholder approach is both prescriptive and descriptive. This means that the stakeholder theory approach combines the approaches of other disciplines, namely economics, politics and moral philosophy.
- 6) The stakeholder approach is about concrete 'names and faces' for stakeholders. This means that the stakeholder theory approach not only explains the role of each stakeholder but also gives an idea of who the stakeholders along with their characteristics.
- 7) Stakeholder management calls for an integrated approach to strategic decision making. In the stakeholder theory approach, decisions aimed at a win - win solution are advocated.

Stakeholder theory can be used to investigate the CSR in large firm (Russo & Perrini 2010). Sustainability of the corporations can be achieved by offering economic, social and environmental benefit to the stakeholder (Steurer, Langer, Konrad & Martinuzzi 2005). Moreover, Brown & Forster (2012) reaffirm CSR and stakeholder connection as stakeholder theory can be used to select an effective way of maximizing of CSR activities.

Indonesian Sustainable Palm Oil (ISPO)

The Indonesian Sustainable Palm Oil System (ISPO) is a set of procedures for palm oil companies to operate responsibly and accountably. The Indonesian Sustainable Palm Oil (ISPO) system is a policy adopted by the Ministry of Agriculture on behalf of the Government of Indonesia with the aim of improving the competitiveness of Indonesian palm oil in the global market and contributing to the objectives set by the President of the Republic of Indonesia of reducing greenhouse gas emissions and improving sustainability.

Under Law No. 18 of 2004 on Plantations, which was then and then set forth in in the Decree Number 26 /Permentan/ OT.140 / 2/2007 of the Minister of Agriculture, Article 1, Point 15 describes that the performance of plantation companies is based on management aspects, plantation cultivation, and management and marketing of the socio-economic environment of plantations within a certain time. Article 11, meanwhile, states that plantation companies which have IUP or IUPB shall build plantations for the use of the public of at least 20% (20/100) of the company's total plantation area. This is reinforced by Law Number 40 of 2007 on limited liability companies as well as Government Regulation Number 47 of 2012 on the social and environmental responsibility of limited liability companies (PP47 / 2012). Moreover, not only is corporate social responsibility regulated in Law No. 25 of 2007 on Investment, but it is further regulated in Law No. 32 of 2009 on the Protection and Management of the Environment. For Indonesia, the implementation of corporate social responsibility by state-owned enterprises (BUMN) is set forth in Ministerial Decree Number: PER-05 / MBU / 2007 of 2007 on state-owned enterprises which regulates a program for state-owned enterprises to partner with small businesses and community development programs. This rule was changed by Ministerial Regulation Number: PER-08 / MBU-2013 on state-owned enterprises. Meanwhile, the implementation of corporate social responsibility for oil palm plantations is also an obligation mandated by law.

The Indonesian Sustainable Palm Oil system (ISPO), for example, was implemented based on Regulation of the Minister of Agriculture Number: 19/Permentan/OT.140/3/2011 which stipulated the following three pillars for ISPO, namely:

1. Profits are to be used to generate economic benefits for industrial estates
2. The improvement of the well-being of people and improvement of human resources is to be prioritized
3. The planet and its environment is to be protected

While these three pillars underlie the implementation of ISPO in Indonesia, the ISPO system also embraces 7 principles, 41 criteria and 128 indicators that must be met by palm oil companies in order to obtain an ISPO certificate. The 7 principles are as follows:

1. Adopting a permit system and plantation management
2. Applying technical guidelines for the cultivation and processing of palm oil
3. Implementing environmental management and monitoring
4. Showing responsibility towards employees
5. Improving social and community responsibility
6. Empowering economic activities
7. Increasing sustainable business

This means that the implementation of CSR corresponds with the obligation of oil palm plantations to obtain an Indonesian Sustainable Palm Oil (ISPO) certificate.

3. Methodology

This research uses an exploratory method as well as qualitative research methods. The case study is used to address the problem in the research using an explanatory model (Yin, 2009). To justify the use of the case study, the research uses the following explanatory argument: A dynamic investigation into a contemporary issue is required. The design of Corporate Social Responsibility programs can be categorized as a contemporary issue due to the difficulty in carrying out surveys or experimental research because they involve many causal factors. Secondly, the design of CSR programs with the stakeholder approach encompasses grounded theory, also making it difficult to conduct surveys. As such, the use of interviews and observation is significant in reaching a conclusion.

The design of CSR programs is looked at by conducting interviews and observation for obtaining primary data. This is consistent with Carroll & Shabana (2010) who expound on the difficulty of using a case study involving contemporary and complex issues that require experimental survey methods such as CSR. Furthermore, Ghosh & Mukherjee (2006) argue for the use of case studies in qualitative research because they are able to produce crucial and important information.

3.1. Population and Samples

The research population is plantation companies in the province of Aceh, Indonesia where the first commercial palm oil company was established in 1911. Sampling techniques – A purposive matched sample is used for this study based on the 1. Type of firm, 2. Number of employees, 3. Ownership of ISPO certificates. 10 companies which met these criteria were chosen out of the total 86 palm oil companies.

3.2. Primary Data

The primary data in this study were obtained from interviews with palm oil stakeholders. The subjects included 10 palm oil company managers, 20 palm oil company employees, 10 heads of local district governments, 20 heads of villages in palm oil areas, 2 local NGOs, and 10 community leaders. These people all shared their perspectives on corporate social responsibility programs. Moreover, direct observations of 5 palm oil areas in Nagan Raya Regency and 5 in Aceh Barat Regency were carried out to monitor the CSR programs of palm oil companies in these areas.

3.3. Secondary Data

Secondary data was collected in several steps:

1. By using a database of scientific articles, such as Emerald, Wiley and EBSCO relating to Corporate Social Responsibility Program Design, Stakeholder Theory, and the Indonesian Sustainable Palm Oil system.
2. By using reports and previous studies from world institutions related to the palm oil industry.
3. By gaining online access to government agencies, palm oil associations and NGOs related to the palm oil industry.

3.4 Data Analysis

SWOT and PESTEL management tools were used

4. Results

The author conducted in-depth interviews, observations and study tours of the palm oil plantation which formed the subjects of the research. The list of interview questions and observations can be summarized as follows:

1. What are the main social issues facing by communities in palm oil company areas?
2. What aspects of CSR programs are the main priorities for stakeholders?
3. What should CSR programs focus on?

SWOT analysis model was used to map the internal strengths and weaknesses, as well as the opportunities and threats, arising from the external (Jupesta, Harayama & Parayil, 2011). SWOT is used to determine how such CSR programs should be fit into an organization's posture. The following SWOT analysis for CSR program design is based on in-depth interviews with 10 palm oil managers.

Strengths	Weaknesses
1. The palm oil company, as an institution, has already mentioned social concerns both in the company's mission as well as in the values of the company. 2. The leadership and management of the palm oil company support the fulfillment of their CSR programs. 3. CSR is positively perceived by the employees of the company. 4. Available funds are allocated for CSR program activities.	1. Lack of competency due to limited human resources in CSR programs. 2. The company has not incorporated CSR into its business strategy. 3. CSR programs have limited funds.
Opportunities	Threats
1. CSR can foster harmony with stakeholders in the long term. 2. CSR can foster a positive perception among the public towards the company. 3. CSR can reduce industrial conflict. 4. CSR can assist local governments in reducing poverty.	1. Lack of coordination in the preparation of CSR by external parties such as the community and government. 2. Difficulties in fulfilling stakeholder needs and desires. 3. Disputes and disagreements arising among stakeholders.

PESTEL Analysis

Field observations made to the plantations revealed comprehensive results on the situations in palm oil company areas.

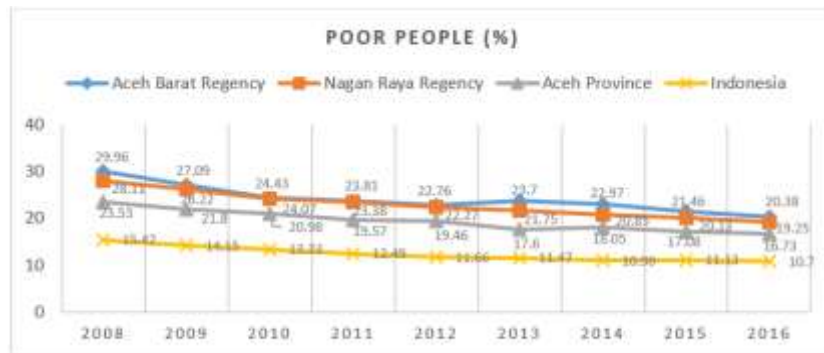
1. Political Aspects

Political aspects refer to the strength of political parties in proposing legislation concerning the implementation of CSR programs by palm oil companies in Aceh Barat and Nagan Raya agencies. This

bears in mind that regional autonomy provides huge authority to the heads of regions such as these to determine regional development policies.

2. Economic Aspects

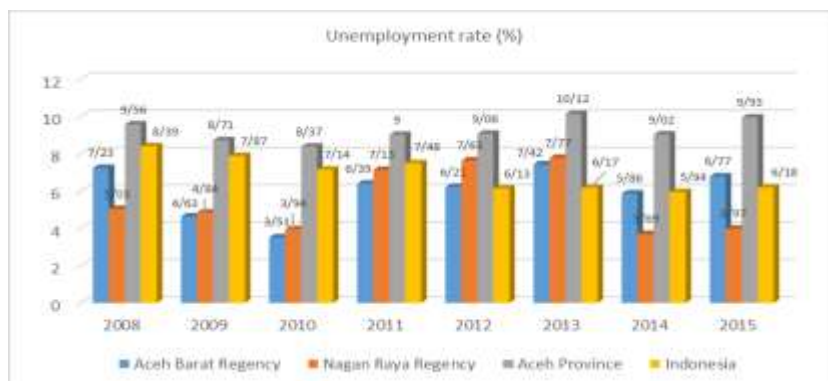
One of the concerns of managers in preparing CSR programs in Aceh Barat and Nagan Raya regencies in Aceh province is to reduce poverty. The following data shows the percentage of poor people in Aceh Barat and Nagan Raya regency for the period from 2008-2016.



As these charts show, the poverty rates in Aceh Barat and Nagan Raya regencies remain high. This should be a cause for concern, including for oil palm plantation companies, which can be addressed through CSR programs.

3. Social and Cultural Aspects

Social and cultural aspects include looking at the demography of the population in Aceh Barat and Nagan Raya regencies. This aims to determine the total population, education levels, labor force numbers and unemployment rates. It should also be noted that the demographic characteristics of villages that surround oil palm plantations help determine how CSR programs are prepared, in accordance with the expectations of society. Meanwhile, indicators of employment in Aceh Barat and Nagan Raya regencies can be seen as follows:



From the employment indicators in Aceh Barat and Nagan Raya regencies, it can be concluded that unemployment is a serious problem that should be a priority in the CSR programs of palm oil plantations in Aceh Barat and Nagan Raya regencies. It is imperative, therefore, that the preparation of a Grand Design for CSR programs for palm oil plantations in Aceh Barat and Nagan Raya regencies encompass the creation of jobs for the community.

4. Environmental Aspects

It is important for environmental aspects to be monitored by managers of oil palm plantations in view of the effects that their operations may have on the environment, including ground water, soil and peat. Furthermore, haze often results from the operations of such plantations. As such, plantation companies must pay serious attention to environmental aspects, in accordance with the standards set by the government. In this study, the researcher concluded that the level of attention paid by companies to environmental aspects remains low, especially with regard to the problems of waste and the use of peat. Therefore, companies must pay greater attention to the voices of stakeholders from environmental NGOs and the public when it comes to protecting the environment.

5. Technological Aspects

Media users have the power to shape the image of a company. Therefore, the management of companies need to manage their social media presence and image particularly well. Oil palm plantations in Aceh Barat and Nagan Raya regencies must pay greater attention to their operations in order to prevent negative publicity, especially on social media networks.

6. Legal Aspects

The implementation of CSR also involves law enforcement and investment. In fact, the implementation of CSR is a legal obligation in Indonesia. A company must carry out its business activities in accordance with the laws in force in Indonesia. Oil palm plantation companies should understand the laws that govern its activities, including land laws, laws on plantations, company laws, laws on investment, and other local regulations. The following table outlines the legal statutes underlying the implementation of CSR programs in Indonesia.

s	LEGAL BASIS OF CSR
1	The fifth principle of the Indonesian Ideology (PANCASILA) is Social Justice for the Indonesian People
2	Law No. 40 Year 2007 on Limited Liability Companies (" Company Law "), further stipulated in Government Regulation No. 47 Year 2012 on Social and Environmental Responsibility of Limited Liability Companies.
3	Law No. 25 of 2007 on Investment
4	Law No. 32 of 2009 on the Protection and Management of the Environment
5	Regulation of the State Minister for State-Owned Enterprises No. PER - 05 / MBU / 2007 about Partnership Programs with State Owned Small Businesses and Community Development Programs, as last amended by the Regulation by the Minister of State Owned Enterprises No .

	PER - 08 / MBU / 2013 Year 2013 about changes to the Regulation of the Minister of State Owned Enterprises No. PER - 05 / MBU / 2007 on Partnership Programs with State Owned Small Businesses and Community Development Programs.
6	Regulation of the Minister of Agriculture of the Republic of Indonesia Number 19 / Permentan / OT.140 / 3/2011 on Guidelines for Sustainable Oil Palm Plantations in Indonesia (Indonesian Sustainable Palm Oil / ISPO) .

Source: The Ministry of Justice and Human Rights 2011

The implementation of CSR programs by oil palm plantation companies in Indonesia has a historical foundation and a strong legal standing. In the context of this study, the CSR programs of palm oil companies in the province of Aceh are looked at in an integrated manner with the stakeholder theory approach on the implementation of Indonesian Sustainable Palm Oil (ISPO).

5. Discussion

Based on in-depth interviews and field observations of 10 palm oil companies, there are three priorities in terms of CSR programs in plantations, namely:

1. Education Programs
2. Economic Democracy Programs
3. Health Programs

One of the top priorities of these CSR programs derives from the focus of stakeholders on education. To expand on this, the table below lists the concerns of stakeholders with respect to CSR program design for palm oil companies in Aceh, with particular respect to education:

1. Education Programs:

No	Programs
1	Palm Oil Companies to support universities. Support for the development of educational facilities for universities and high schools in Aceh Barat regency. The support of plantation companies should be long term and help Indonesian people to access good quality education which is equitable for all.
2	Palm Oil Scholarships Scholarships for students who come from villages in the vicinity of plantations. In order to help create a smarter Indonesia, palm oil companies must pay reward outstanding students who come from villages in the vicinity of plantations.
3	English Programs by Palm Oil Companies In today's era of the ASEAN Economic Community (AEC), the English-speaking ability in Indonesia remains fairly low. Therefore, companies need to contribute to efforts to improve foreign language skills for youth and students in Aceh Barat regency, so that they can compete with young people from other ASEAN countries with a good level of English such as Malaysia, Singapore and the Philippines. In addition, the English language is a key condition for obtain scholarship opportunities abroad. This program would provide 100 students from Aceh Barat

	regency with the opportunity to continue studying abroad, especially in the fields of engineering, chemistry, management, and health.
4	Research Opportunities from Palm Oil Companies Palm oil companies should support research activities aimed at improving the productivity, efficiency and effectiveness of oil palm plantations. Oil palm plantation companies should assist research that seeks to maintain the sustainability of this industry in the long term, so that palm oil remains a leading commodity in the world.

1. Economic Aspects of CSR programs will provide benefits to stakeholders, as follows:

Economic Empowerment Programs

No	Programs
1	Establishment of village plantations The village/local government will provide the land and the company will provide the palm oil seeds and other necessary things, as well as operational assistance in the creation of palm oil plantations for villages. Village plantations are to be managed jointly by village officials and the company. The proceeds of the development of village plantations are to be used for activities in the village. It is expected that 10 hectares of oil palm plantations per village will be built and that the operational costs can be generated from the plantations.
2	Establishment of local markets around plantations. Companies must help to revitalize traditional markets in the vicinity of plantations. Companies must also promote such traditional markets by encouraging employees to shop at these traditional markets.
3	Provision of capital assistance for small and medium enterprises Companies must assist SMEs by providing them with capital. For example, there are many SMEs which produce handicrafts distinctive to Aceh Barat regency. Companies should help with the marketing of these SMEs to potential investors along with their marketing of CPO.

The final focus should be on health CSR program.

2. Health Care Programs

No	Programs
1	Health centers, integrated services posts (Posyandu) and primary health care clinics should be revitalized and integrated with the available human resources to provide a comprehensive means of health provision.
2	Village doctors Scholarships should be provided to the children of plantation employees to become doctors who are willing to serve in villages around plantations, so as to create a healthy society. The goal would be that in every village around the plantation, there is at least one doctor.

5. Conclusion

Corporate social responsibility programs are aimed at ensuring the sustainability of the Indonesian palm oil business. The stakeholder theory approach is used for enhancing CSR programs and making them suitable to the needs and desires of communities. For this study, SWOT and PESTEL analyses were performed to monitor the environment of palm oil companies to ensure that their CSR programs are aligned with the companies' visions and missions. CSR programs should focus on the 3 aspects of education, community economic development, and health improvement. Further studies on this issue can expand the research areas, comparing the situations in different countries and looking at more companies, using both quantitative and qualitative methods.

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