

ANALYSIS ON INDONESIAN SUSTAINABLE PALM OIL (ISPO): A QUALITATIVE ASSESSMENT ON THE SUCCESS FACTORS FOR ISPO

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ABSTRACT

ISPO (Indonesian Sustainable Palm Oil) serves as the baseline of sustainability standards for palm oil industry and is expected to improve the competitive advantage of Indonesian palm oil industry. ISPO was introduced by the government in March 2011 and currently most of plantations are in process of applying ISPO. The objective of this research is to analyze success factors affecting implementation of ISPO. Using qualitative method of in-depth interview on 20 selected experts representing actors mapped in the value chain of palm oil industry. The results depicted that; very little companies apply sustainable principles hence ISPO is needed for industrial standards, success factors affecting ISPO implementation, and necessary conditions for ISPO implementation. SWOT technique resulting 8 recommended strategies to be applied for ISPO implementation. Acknowledging ISPO applies to upstream industry (plantations and mills) only, managerial implication for this research is the need to develop of a grand master plan for Indonesian palm oil Industry by developing integrated policies complementing ISPO aiming for sustainability, growing and developing downstream industry to add value to CPO product, and for upstream industry to be developed by farmers and cooperatives while big investors to develop mills and downstream industry.

Keywords: Palm Oil, ISPO, Sustainable Certification, Success Factors, Qualitative

ABSTRAK

ISPO (Indonesian Sustainable Palm Oil) adalah pedoman perkebunan kelapa sawit berkelanjutan Indonesia yang wajib dilakukan oleh industri kelapa sawit. ISPO resmi dikeluarkan pemerintah pada bulan Maret 2011 dan diharapkan dapat meningkatkan keunggulan kompetitif industri kelapa sawit. ISPO belum banyak diimplementasikan. Tujuan penelitian ini untuk mengidentifikasi dan menganalisis faktor-faktor sukses yang mempengaruhi implementasi ISPO. Penelitian ini menggunakan metoda kualitatif dengan melakukan wawancara mendalam terhadap 20 ahli dan pelaku industri terpilih sesuai dengan peran mereka yang teridentifikasi dalam rantai nilai industri kelapa sawit. Hasil penelitian menunjukkan masih sangat sedikit industri yang menerapkan prinsip berkelanjutan, kondisi yang diperlukan untuk penerapan ISPO. Selain itu juga dapat diidentifikasi kendala yang akan dihadapi dan mempengaruhi penerapan ISPO, dan 8 strategi penerapan ISPO berdasarkan hasil analisis kekuatan, kelemahan, peluang dan tantangan (SWOT analysis). Mengingat ISPO merupakan kebijakan untuk industri hulu, maka implikasi manajerial dari penelitian ini adalah perlunya Indonesia mempunyai rencana induk industri kelapa sawit yang mencakup keseluruhan mata rantai dari hulu ke hilir untuk meningkatkan keunggulan kompetitif industri kelapa sawit Indonesia melalui: pengembangan kebijakan-kebijakan lain yang mendukung kelapa sawit berkelanjutan yang saling terintegrasi, pengembangan industri hilir bagi para pemodal besar untuk mendapatkan nilai tambah melalui produk turunan minyak kelapa sawit, dan penguatan industri hulu bagi para petani melalui pengembangan koperasi.

Kata Kunci: Kelapa Sawit, ISPO, Sertifikasi Berkelanjutan, Faktor Sukses, Kualitatif Assesment

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INTRODUCTION

Background

Global demand on palm oil is growing as populations increase and standards of living improve, world consumption on vegetable oil is 145.1 million tons (Janurianto, 2010), concurrently, there is a growing awareness toward environmental stewardship and sustainable development, hence demand to obtain sustainable products are increasing. Indonesia's palm oil industry faced many issues related to this global sustainability challenge; from never-ending allegations by Non Governmental Organizations (NGOs), strict demands from the Roundtable on Sustainable Palm Oil (RSPO) to conditions imposed by the European Union (EU) through the EU Renewable Energy Directive (EU RED) 2001/77/EC and 2003/30/EC which has set criteria on the use of palm oil as feedstock for bio-fuel production (Suharto, 2010) wherein palm oil did not meet the required standards.

One effort set by the government to gain and to ensure sustainability of Indonesian palm oil industry is through a sustainable standardization called the Indonesian Sustainable Palm Oil (ISPO) which is expected to attend those allegations and shows government commitment towards sustainable palm oil development. The primary focus of ISPO is to ensure legal compliance according to the Indonesian laws and regulations which serve as the baseline of sustainability standards.

In 2004, sustainability effort for palm oil was started by the RSPO which then develop its sustainable certification. However, several companies found RSPO is complicated, hard to implement, and kept on changing (IPOC, 2010). The cost for certification is high, especially for small holders, auditing process is lengthy and it will take some time for widespread participation in Indonesia (Suharto, 2010).

GAPKI (Indonesian Palm Oil Association) fully supports the government plan on ISPO, however some discourage notions stated by environmentalist NGOs; such as, ISPO is duplication to RSPO, RSPO is acknowledged internationally, ISPO which employs Indonesian laws baseline is not enough to ensure sustainability and ISPO establishment is meaningful only with stakeholders participation. (Mongabay.com, 2010). In addition, the success of a certification schemes is depend in part on the ability to gain a premium price to off-set the costs.

ISPO, unlike the RSPO, is mandatory and has clear legal framework based on Indonesian regulations and concerns of several ministries; the Ministry of Agriculture, the State Ministry for the Environment, the Ministry of Forestry and the National Land Agency. Having a consistent and credible ISPO is what the government, especially, and other stakeholders of the palm oil industry must partner with to support ISPO achieves its objectives through standard development, standard implementation and establishment of institutional framework that can address the consistency and gaining credibility in the international market to enhance the competitive advantage of Indonesian palm oil.

The government has targeted by 2014 all auditing and certification process of ISPO for more than 2,000 palm oil companies, (with only 467 are member of GAPKI and only 74 are members of RSPO), would be completed. For this big project, to meet every stake holders' expectation and international market demand at the same time, definitely a strategic and thorough master plan on implementation, communication, evaluation and transparent criteria of ISPO are needed.

The sustainable business development management questions for this research are:

1. Why ISPO is needed for Indonesian palm oil industry?
2. How can ISPO enhance the competitive advantages of Indonesian palm oil in the global market?
3. What are the necessary conditions and obstacles for implementing ISPO?

Research Objectives

The objectives of this research are:

1. To identify fundamental situations of Indonesian palm oil industry
2. To identify the success factors of ISPO to be able to enhance Indonesian palm oil competitive advantage in the global market
3. To formulate strategic actions for ISPO implementation.

Contribution of Research

Specific potential contribution of the research is to add value to the implementation planning of ISPO, and in general, to contribute to policy formulation/design for sustainable development which involving complex multi-stake-holders

Scope and Limitation of the Research

1. Early stage of ISPO launching. Hence not all respondents were very familiar with ISPO's principles and criteria yet.
2. Not all identified actors in the expanded value chain were interviewed.
3. There are two certifications related to ISPO; ISPO Certification (mandatory) and ISPO Supply Chain Certification (voluntary). This research is focused on the mandatory certification.

LITERATURE REVIEW

Porter (1990) defined the competitive advantage of a nation as its capacity to entice firms (both local and foreign) to use the country as a platform from which to conduct business. In his Diamond Model, 'government' is the final element which is necessary to complete the picture. At all levels the government can improve or detract from national competitive advantage. Government policy will fail if it remains the only source of national competitive advantage. Successful policies work in those industries where underlying determinants of national advantage are present and where government reinforces them. Porter further stated that government's role in the model is to encourage companies to raise their performance, for example by enforcing strict product standards. Government's aim should be to create an environment in which firms can upgrade competitive advantages in established industries by introducing more sophisticated technology and methods and penetrating more advanced segments.

The term of sustainable development was started in the mid 1987 with the publication of Brundtland Report titled "Our Common Future". It gave rise to new thinking about the relationship between economic development, environmental health, and social prosperity. It set in motion sweeping changes to government policies and regulatory programs and embraced non-government partners in a common cause. The definition of sustainable development in the report is quite well known and often cited: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Sustainable value chains therefore have to meet certain principles, include an extensive quality control integrating the whole life cycle of a product and

eco-fair prices for the product. Furthermore, long term development perspectives should be provided, meaning collective development and learning processes of different stakeholders. Additionally, the use of frameworks for sustainability is needed in order to prevent value chains from crossing certain social and ecological thresholds (Geibler *et al.*, 2010)

To reduce or avoid non-sustainable impacts of value chains in general and of the palm oil economy in particular, one approach is the certification according to sustainability standards. Overall, standards are distinct quality characteristics that define the carrier of the characteristics (process, product), the quality (measuring specification) of the characteristics (criteria), and the requested performance of the characteristics (indicators) (Burger and Mayer 2003 in Geibler *et al.*, 2010). To substantiate and implement the sustainability principle a number of steps in the framework of standard setting are necessary. These are standard development, standard implementation and finally, the influence on the institutional framework.

Kaplinsky and Morris (2001) stated that one of the distinctive features of value chain analysis is its focus on governance, highlighting both power relations in the chain and the institutions which mould and wield this power as shown in Table 1. They further argued that the function of governance in the value chain is best understood through the lens of civic governance, with its analysis of different functions associated with the "regime of rule-making and rule-keeping" – that is, making the rules ("legislative governance"), implementing the rules ("executive governance") and enforcing the rules ("judicial governance")

While, Sexsmith & Potts (2009) analyzed the degree to which sustainability standards promote participatory governance. The conclusion, there were seven participatory value chain governance by the six standards bodies studied: representation, accountability, checks and balances, equity, subsidiarity, effectiveness and efficiency. Development of a certification schemes is an involved process. It requires an independent third party to assess quality based on a predetermined set of principles. Principles are usually established as general starting points that describe the objective of certification. These objectives are then translated into measurable requirements by criteria. Testing then utilizes indicators or verifiers which serve as quantitative or qualitative minimum requirements for certification (Zarrilly and Burnett, 2008).

Table 1: The Governance of Value Chain

| | Exercised by parties internal to chain | Exercised by parties external to chain |
|------------------------|---|---|
| Legislative governance | Setting standards for suppliers in relation to on-time deliveries, frequency of deliveries and quality | Environmental standards Child Labor Standards |
| Judicial governance | monitoring the performance of suppliers in meeting these standards | Monitoring of labor standards by NGOs Specialized firms monitoring conformance to ISO standards |
| Executive governance | supply chain management assisting suppliers to meet these standards Producer clusters/ clubs assisting member to meet these standards Representative agents assisting members to meet these standards | Specialized service providers Government industrial policy support Producer business associations assisting members to meet these standards |

Source: Kaplinsky & Morris (2001)

Zarrilli & Burnett (2008) stated certification schemes may play a positive role towards sustainability goals without having a disruptive impact on international trade, when they (a) are developed through a participatory process where producers from different countries and regions are effectively involved; (b) are based on scientific evidence; (c) are accompanied by support measures to encourage engagement in sustainable production and facilitate compliance, especially by smallholders in developing countries; (d) do not entail unnecessary costs and delays in international trade; (e) include criteria and indicators that can be evaluated in a quantitative fashion; (f) avoid reference to macro level concerns that would be difficult to evaluate with reference to a single product and better dealt with at another level.

Further Zarrilly and Burnett (2008) affirmed the aims of certification schemes are dependent on the interests of the actors who are spearheading their establishment; the formulation of the mission and sustainability definition for certification is usually developed by these actors. However, formulation of sustainability criteria and indicators necessitates analysis of local conditions and the involvement of relevant stakeholders who will be impacted by certification. Ideally, stakeholders are consulted and their input integrated into certification

schemes that take into account various local conditions. Once the criteria and indicators have been established, they must be tested to ensure that they are clear, appropriate and effective, as well as adequately understood and accepted by the users or stakeholders. These tests should be evaluated and used for modification and improvement of the scheme before the finalized criteria and indicators are implemented.

Corsin, *et al* (2007) assessing the advantages and disadvantages of different approach to quality assurance using qualitative assessment methodology. The result is on specific recommendations which are made for each stakeholders; i.e. standard setting organization, inspection and Controlling Bodies, Government, Retailers. However, McCarty & Zen (2010) mentioned that voluntary certification processes face a major limitation particularly to those supplying large developing markets where there is no consumer pressure for certified agro-industrial products.

CONCEPTUAL FRAMEWORK

The conceptual framework for this research is formulated as shown in the Figure 1. International customer demand on sustainable palm oil is the main driver for sustainable certification. The government plays its role as regulator by issuing mandatory certification policy for palm oil plantations and mills. ISPO, the certification, aims to increase the industry competitiveness in the international market. Porter's theory is used to describe government role on increasing competitiveness of an industry for the country. Value chain analysis is used to identify which experts are needed to be interviewed. Kaplinsky and Morris' model of extended value chain is used for expert identification to cover wider stakeholders within the value chain acknowledging the complexity of the issues related to the mandatory certification. Success factors, necessary conditions and obstacles which have impact on the implementation of ISPO will be extracted and identified from in-depth interview with the experts. Structure of the research questions, especially the ones related to the success factors are built using Geibler *et al.*, (2010) research model based on the phases of the standard setting; i.e. standard development, standard implementation and establishment of institutional framework. Explanation building on the success factors employs the sustainable development theory. All of the information both primer and secondary data on success factors, necessary conditions and obstacles are then developed as SWOT factors. SWOT Technique is

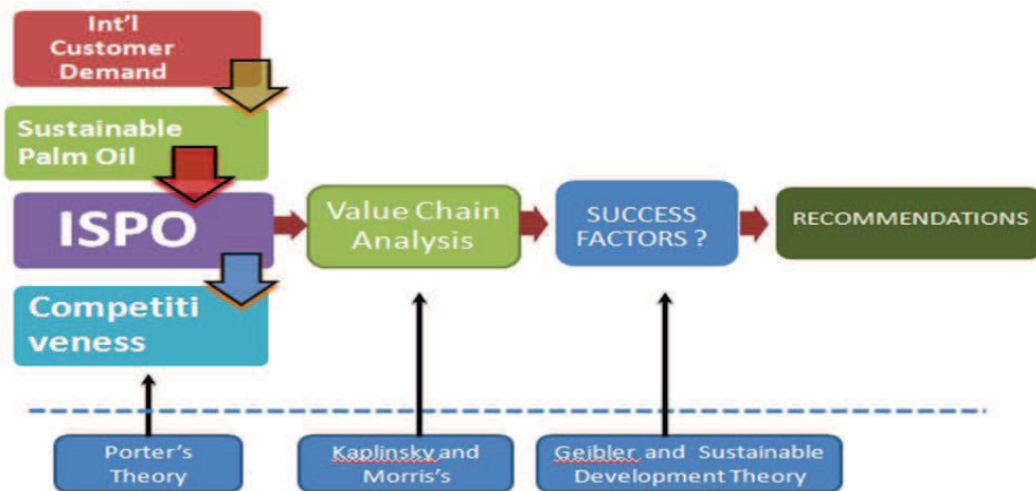


Figure 1. Conceptual Framework

employed to develop four strategies for implementation of ISPO which is aimed to enhance the competitive advantage of the industry. Finally, recommendations will be produced from the strategies.

RESEARCH METHODS

Time and Location

Mostly conducted in Jakarta and Bogor, with several interviews done by telephones and emails due to the diverse of geographical locations; to Riau, Kalimantan, and Rotterdam, from November 2010 to beginning April 2011.

Research Design & Data Collection

This is a descriptive case study using qualitative method including field and literature research. Purposive sampling method with attention to both quota and researcher's judgment. In-depth interview to 20 respondents of 11 roles in the value chain, both, individually or in groups, is the primary data collection technique to experts / actors identified in the expanded value chain as shown in the Figure 2. Boxes in darker shade represent interviewed actors.

Data triangulation to check on the validity of the 9 success factors was done by conducting online questioner with 5 Likert scale addressed to purposive respondents. The questioner was responded by 17 experts cum actors of 7 roles within 2 weeks. The result shows that all of the Standard Deviation is below 1 for each identified success factors.

RESULT AND DISCUSSION

ISPO is a set of guidance for Indonesian palm oil planters to produce sustainable palm oil according to Indonesian laws and regulations which economic, social and environmentally feasible. ISPO principles & criterias was developed based on Indonesian laws and regulations. In total ISPO consists of 7 Principles and 26 Criteria as stated in the attachment of the PERMENTAN no 19/2011.

ISPO certification mechanism is described in Figure 3 as follow:

1. Eligible plantations (Graded as I, II or III) submit request to certification body for ISPO certification.
2. Independent certification body which has been approved by ISPO Commission verifies the completeness of all related documents. If not within seven days to return for completion. Company with complete documents is processed for auditing, including field assessment, on its compliance on ISPO P&C.
3. Within three months, full compliance result of assessment is submitted to ISPO Commission for acknowledgement. For those with not completed or non compliance findings will be requested to improve/rectify.
4. ISPO Commission checks on the completeness of the documents within seven work days. Uncompleted documents will be returned back to Certification Body for completion.
5. ISPO Commission Assessment Team will verify all full compliance and completed documents within one month for decision.
6. Companies meet and apply ISPO P&C consistently are recommended for approval
7. ISPO Certificate issued to the approved companies within seven days by Certification Body and publicly announce through ISPO website.

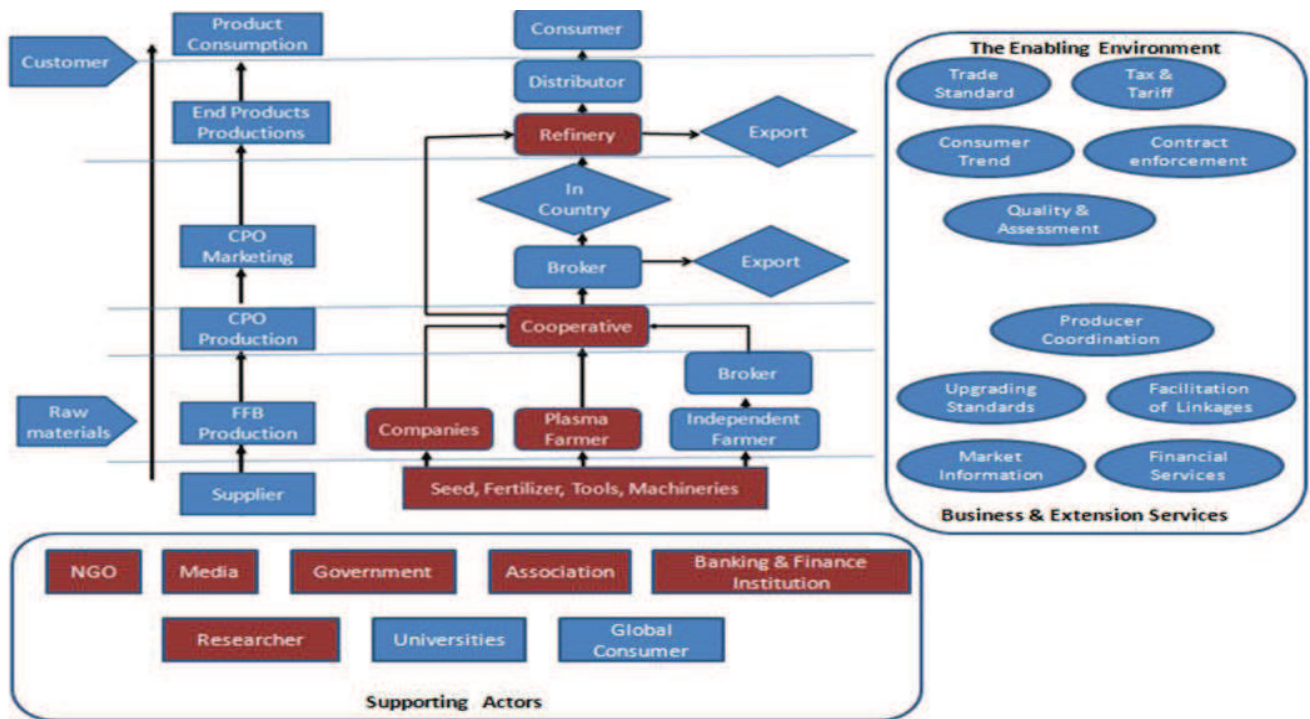


Figure 2. Expanded Palm Oil Value Chain

ISPO was not designed to compete with the RSPO, and vice versa; each has strong ground to form its existences. Both certification aims for sustainable palm oil. However there are some basic differences between these two schemes as described in Table 2. ISPO is mandatory, based on Indonesian legal framework, serves as industrial standardization and enforced by the government. Hence, there is sanction element should ISPO is not adhere to. ISPO has 7 principles and 26 criteria. RSPO in contrary is non mandatory or voluntary, as it was based on multi stakeholders consensus and applicable laws in the applied country. Hence, it has no sanction and serves as business requirement. RSPO has 8 principles and 38 criteria.

Indonesian Palm Oil Industry and Sustainability

Apart from the benefits, Indonesian palm oil industry has some long standing problems such as land tenure, social conflict, and small holders & farmers are the weakest actors within the value chain who need strong support from the government and other actors. On the sustainability, it was admitted that ISPO is needed as industrial standards and for sustainability certification for Indonesia to meet international demand on sustainable palm oil starting from 2015.

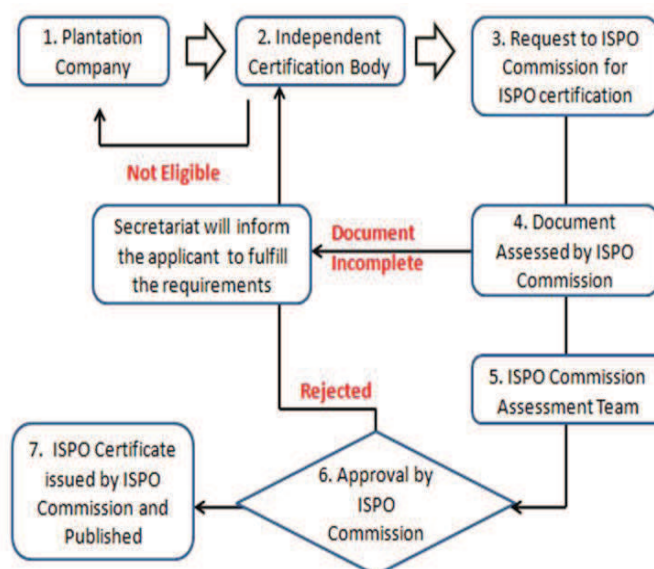


Figure 3: ISPO Mechanism (Source: Permentan19/2011)

Table 2: Comparison of ISPO versus RSPO

| ISPO | RSPO |
|---|---|
| Mandatory | Voluntary |
| Based on Indonesian Legal Framework (27 Laws and Regulations) | Multi-stakeholders consensus, and laws and regulations in the applied country |
| Industrial standardization | Business requirement |
| By Government | By Multi-stakeholders |
| Sanction and punishment is applied to plantations/mills which have non-conformity to the required laws and regulations. | No legal sanction for applicant which cannot meet the requirements, certificate is not issued |
| Eligible Plantations which uncertified by 2014 will be downgraded to plantation Grade 4. | |
| 7 Principles and 26 Criteria | 8 Principles and 39 Criteria (Generic) Indonesian Interpretation: > 120 Indicators |

Success Factors for ISPO

There are 9 identified Success Factors which discussed based on the standard setting phase developed by Geibler et al (2010), as described on Table 3. In summary these 9 success factors are divided into 3 phases of standard setting, in which 4 are considered to have impact on the success to ISPO on its standard development phase (inclusivity and transparency, affordable certification cost, quality of ISPO principles and criteria and acceptance & support from all stakeholders), 2 are considered for the standard implementation (law enforcement and transition & adjustment period) and another 3 for the establishment of institutional framework (acknowledgement on ISPO certification, guarantee on sustainability and premium price).

Upon reviewing each of these 9 success factors for ISPO implementation, apart from the phases of standard setting; by taking into account each of the success factors' importance, substance and magnitude to each other success factors; discussion during the in-depth interview with all experts, the researcher assigned 3 classifications on success factors based on its importance: critical success factors (inclusivity and transparency, quality of principles and criteria, law enforcement), supporting success factors (transition & adjustment period, guarantee on sustainability, affordable certification cost, acknowledgement on

ISPO certification and acceptance & support from stakeholders), and complimentary success factors (premium price).

Table 3: Success Factors based on Standard Setting Phase

| Phase of Standard Setting | Success Factors for ISPO |
|--|---|
| Standard Development | 1. Inclusivity and Transparency, 2. Affordable Certification Cost, 3. Quality of ISPO Principles & Criteria, 4. Acceptance and Support from All Stakeholders |
| Standard Development | 5. Law Enforcement 6. Transition and Adjustment Period |
| Establishment of Institutional Framework | 7. Acknowledgement on ISPO Certification 8. Guarantee on Sustainability 9. Premium Price |

Strategic Plan for ISPO

Identified necessary conditions for ISPO implementation are: institutional readiness and business infrastructure readiness. Institutional readiness is a complete set of system for the certification and standardization which are ready to use and has been tested and proven to be applicable on field, preparation for the certification. All related government officers should be fully knowledgeable on ISPO and credible certification bodies; which meet all required standards, presumably international standards. Not only institution of the certification bodies but also the assessors who will be doing the assessment.

Business Infrastructure Readiness is readiness and availability in the field of all industrial facilities for palm oil and its related agricultural activities which are required as stated by the laws and regulations.

Obstacles which might hinder the application of ISPO are categorized into three; primary obstacles (longstanding problems which are land tenure and social conflict; troubled partnership between plantation and plasma; preparation to be eligible for certification and involvement of small holders/farmers), regulatory

obstacles (effect of top down approach - not inclusive nor transparent; technical barrier-local terminologies) and moral obstacles (possible to open up corruption chances; green washing channel).

Having identified the need for Indonesian palm oil industry for industrial standardization in general, and ISPO success factors, necessary conditions, and obstacles; to build strategies resulting from qualitative findings, the researcher analyzes all of these findings using SWOT (Strengths-Weaknesses-Opportunities-Threats) Matrix which is an important matching tools in developing four types strategies (David, 2009);

Eight strategies come out from the SWOT Matrix which should be seen as an integrated strategy to support ISPO implementation. Each of the proposed strategies is complement to each others, therefore the application of the strategy should be done simultaneously to reach for maximum result. A closer look to these 8 strategies resulting into two category of strategies; 1) strategy for ISPO implementation (strategies which relate directly to the success implementation of ISPO) and 2) strategy for enhancing competitive advantage of Indonesian palm oil (strategies which are beyond ISPO implementation, and might result to enhance the palm oil industry competitive advantage in the international market).

Strategy 1: Gaining International Acknowledgement on ISPO

The government should develop a carefully planned and integrated promotion and communication strategy to introduce ISPO to international market. This strategy should be conducted by a communication and mitigation specialist team with special measured and targeted objectives; to improve the image of Indonesian palm oil to international consumer by introducing ISPO and getting market acknowledgement.

Strategy 2: Strong Approach and Promotion to obtain New Market and Investor

A strong approach and promotion program aiming to develop new market and getting new investor for Indonesian palm oil industry should be planned by the government to support the strategy number one. A Government-to-Government's agreements/ understandings should be acquired, to support and channel out the CSPO which will be produced by Indonesia. Efforts for attracting foreign direct investment (FDI) can be channeled for further

developing the downstream industry to add value to the CSPO produced in Indonesia.

Strategy 3: Develop Strong Cross Sector Partnerships; Public-Private-Society

Although ISPO is a government program, support from all palm oil stakeholders, undeniable is strongly needed. As stated by Nikoloyuk, *et al.* (2010) that partnered governance (also known as collaborative, or cooperative governance) refers to governance involving the cooperation of diverse social actors in regulation, in particular various private agents and sometimes, public agents. Increasingly, one observes partnerships involving companies and other agents in one or more sectors, for example, along a "supply chain".

Strategy 4: Solving and Managing Current Problems within the Industry

This is a big area of work for the government to focus on and it needs high attention and efforts from the government to start unravel the problems one by one. It involves improvement on local government capacity, better coordination between local and central government, infrastructure development and improvement for the industry, law enforcement to solve long standing problems on land tenure and social conflicts, small holders' skill, knowledge and practices improvement, etc.

Strategy 5: Collaborate with Malaysia for International Campaign on Sustainable Palm Oil

Considering that Indonesia and Malaysia together hold more than 85% of the total world production of palm oil, it is very logical to invite Malaysia to collaborate in holding green campaign on palm oil to international markets/consumers fighting international accusation on palm oil industry. By doing the campaign together, a faster, quicker and more targeted result can be achieved.

Strategy 6: Introduce ISPO as Complement to RSPO prior to develop ISPO as Independent Certification

ISPO as a newly develop standardization and certification needs certain time to be proven to achieve sustainability. RSPO on the other hand is highly regarded and already acknowledged internationally. While waiting for that proven result, ISPO can be introduced as a complement to RSPO certification,

ISPO is an independent and mandatory certification developed for Indonesian palm oil industry. Once facts based on proven research shown that ISPO achieved its objective on sustaining the industry, then ISPO can be promoted as an independent certification.

Strategy 7: ISPO to be elevated to Higher Authority Level

Considering the importance of palm oil industry which providing about 12 billion IDR to Indonesian GDP, elevate real economy activities at the suburban area, employ more than 3 million workers; and the fact that sustainability is related not only to agriculture but other ministries too; and referring to McCharty and Zen (2010) who concluded in their research that mixing policy tools and providing for continual improvement that involve integrating these approaches may move the Indonesian's government to enhance its capacity for improving policy and implementation over time; ISPO should not only be owned by the Agriculture Ministry, rather it should be elevated to a higher level. By elevating ISPO to higher authority, ISPO will get more attention and support hence ISPO will provide stronger impact, enforcement and faster accomplishment.

Strategy 8: Research and Development on ISPO Impact for Improvement

Once ISPO has been implemented, especially after the first round by the end of 2014, R&D should be conducted to find out how ISPO was implemented, its impacts to sustainability and impact to competitive advantage of the industry. The following are the possible R&D questions; is there any positive multiplier effect? How to improve and enhance that multiplier effects? Has ISPO causing problems? How to overcome those problems? Has ISPO improved agricultural practices? etc., and most importantly research on the question: Has ISPO achieve its main objective, the sustainability in the palm oil plantations/mills?. These are some of R&D questions which should be planned by the government in finding out the real impacts of ISPO, measure its effectiveness and aim for improvement on the policy.

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

Conclusions

The Indonesian government has played its role as a catalyst and challenger by developed and regulated ISPO as stringent industry standardization for sustainability assurance. ISPO as Indonesian palm oil industrial standardization is needed to ensure sustainability which demanded by international customers/processors. ISPO is issued at the right moment to ensure the sustainability of Indonesian palm oil to meet the year of 2015 when all big processors claim to start using only CSPO since then. ISPO is aimed for industrial standardization / guidelines (internally) and for market access (externally) on top of the main objective to achieve sustainability for Indonesian palm oil products therefore is expected to increase its competitive advantage. ISPO applicable to plantations and millers hence affects the downstream industry only and specific actors; growers, farmers, palm oil companies.

Managerial Implications

Indonesia's palm oil industry has the best comparative advantages to other countries in the world i.e.; the climate, human resources availability, and area for expansion; still, effort to improve competitive advantage should be done continuously. ISPO is one ways to increase Indonesian competitive advantage, and the government should always play its role as a catalyst to develop also the palm oil down-stream industry too, which add value to the CSPO. Hence the recommendation is to develop a grand master policy for palm oil industry, which consists of:

1. Develop integrated and interlinked policies; there are lots of areas for improvement in the Indonesian palm oil which needs to be developed in order to ensure achievement of sustainability which then will improve the competitive advantages. ISPO which ensures sustainability in the upstream industry needs to be linked to policy which ensuring sustainability for the downstream industry
2. Grow and develop downstream industry; All big players should be encouraged to invest and develop in the downstream industry.
3. The upstream industry, especially in plantation, in contrary, to be developed for and by small holders in line with the aim to alleviate poverty, provide jobs in the remotes area, grow the skill of the farmers, develop cooperative among the farmers.

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