

# Winning Public Trust in Multi-Actor Bargaining

## A Case Study of PT SMART Strategy in Facing Allegation of Environmental Destruction through RSPO

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**Abstract**—Winning public trust is an important element supporting the continuity of a firm or corporations, as public acceptance could guarantee profit to come in. Hence the loss of public trust is a serious threat for a corporation. For corporations, many factors could end up in the loss of public trust, and one issue that could lead to this situation is allegations of environmental destruction by corporations in their business operation. In facing this situation, corporations have to take various strategies in winning-back public trust. Taking one of the largest, publicly-listed, integrated palm-based consumer companies in Indonesia widely known as PT Sinar Mas Agrobusiness and Technology (hereafter SMART) as a case study, this paper reveals strategies that have been employed by SMART in order to winning-back public acceptance. The paper finds that through a process of multi-actor bargaining in the mechanism facilitated by Roundtable on Sustainable Palm Oil (RSPO), SMART has been able to gaining-back public acceptance and successfully defending its position from allegations of environmental destruction.

**Keywords:** *corporations, multi-actor bargaining, public trust, RSPO, SMART*

### I. INTRODUCTION

Corporate reputation and trust are company's most important assets. It has been accepted widely that for corporations especially for large corporations operating globally, public trust is critical to ensuring legitimacy and continuing survival [i]. Globalization has brought forth a new set of challenges for the large corporations, and notably the multinational corporations, to be cognizant of the broader societal impact of their operations. As such, therefore, corporate reputation and trust should be handled carefully, especially in today's tumultuous global business environment, where stakeholders have been well-informed, thanks to the latest stage of the digital revolution [ii]. Winning public trust means that business actors should deal with non-business actors such as Non-Governmental Organizations (NGO), local actors, host country government, and global communities, and therefore, it is used in the long term as mechanism to increase profits for business and industry sustainability [iii].

Under current complex global business environment, where corporations have to face with various types of stakeholders, strategy for maintaining public trust matters a lot for any corporations. It is even more challenging when

corporations need to apply for obtaining global standard and international certification regulated by private actors, that have commonly consist of multi-actors representing many interests such as NGO, states, firm, consumer, and other actors. The form of collaboration that involves these actors is named as Multi-Stakeholders Initiatives (MSI). Therefore, strategies employed by any corporations should deal with and against MSI [iv].

SMART, established in 1962, has been since producing palm oil based products such as Crude Palm Oil (CPO), cooking oil, fat, and managing Indonesian palm plantations under its holding company in Singapore known as Golden Agri Industries (GAR). With markets covering Indonesia and overseas, the orientation of SMART is practically fulfilling global needs for palm oil, where it has covered markets of China, India, Pakistan, European Union member states, Middle East, Africa as well as supplied for the needs of other Multi National Corporations (MNCs) such as Unilever, Nestle, Danone, Burger King, and others. As global demand for palm oil increases, SMART has expanded its plantation massively from 125.190 hectares in 2007 to 139.300 in 2015 [v].

However, at the time SMART was expanding massively, local and international society began to notice the effects of this on environment. Various NGOs such as Greenpeace, World Wild Fund (WWF) and RSPO alleged that SMART had conducted all this at the cost of environmental degradation [vi], and then negative campaigns were directed against SMART [vii].

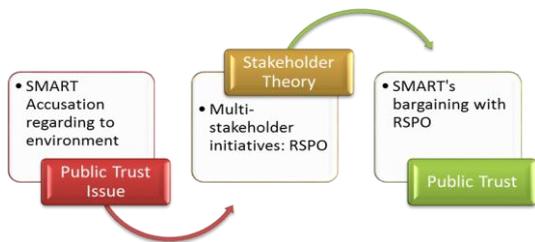
The negative campaigns caused the loss of public trust, causing the termination of purchasing contract by other MNCs. In April 2010, Unilever changed its palm oil supplier to other producers, a decision followed by similar actions taken by Nestle, Danone, and Kraft. These were adopted on the bases of SMART's failure to meet the highest possible standard of environmental sustainability [viii]. Equally, Hongkong and Shanghai Banking Corporation (HSBC) suspended its shares and investments to SMART [ix]. RSPO publicly censured it, accusing of "serious non-compliance" with the industry body's environmental guidelines [x].

How has SMART dealt with the situation? This paper reveals strategies that have been employed by SMART

through a multi-actor bargaining process between 2010 and 2016.

**II. APPROACH AND METHOD**

This paper approaches the above question by building a logical framework based on the propositions from the following theories. First, stakeholder theory stipulating about the importance of every actors associated with the company or corporations. The theory stresses that corporations cannot ignore non-business actors as they can influence public opinion. Therefore, actors such as Civil Society Organizations (CSOs) are important parties in maintaining reputation and performance of the corporations [xi]. Second, with stakeholder proposition in mind, it is imperative therefore for the corporations to widen the scope of collaboration involving business and non-business sectors, and this would ease the corporations to develop and gain public trust [xii]. Thus, there are two important components in gaining public trust, namely engaging with multi stakeholder and adopting global standard. This is a common strategy that is being used in a multi-actor bargaining process, widely known as Multi-Stakeholder Initiative (MSI). The following chart shows the logical framework employed in this paper.



As for the method for data collection, the paper used the combination of primary and secondary data. While primary data were compiled from interviews, secondary data were collected from publications; annual reports, sustainability reports, journals, and others from various internet platforms. Using the logical framework developed above as an approach, this paper argues that since RSPO is the ideal form of MSI, SMART has utilized RSPO as a forum where it has employed strategies to winning-back public trust after it was alleged of non-compliance with global sustainability standard.

**III. RESULT AND DISCUSSION**

RSPO is a non-profit organization which consists of multi-stakeholders. The actors are from various background including producers, traders, consumers, retailer, bank or investor, and NGOs. The NGOs involved in RSPO are separated into two categories which are environmental organizations and social and development organizations. RSPO was initiated by WWF, Unilever, the Malaysian Palm Oil Association, Migros, and United Uk Ltd in 2003. It has Principle and Criteria (P&C) as guidelines in palm oil supply chain. RSPO applies international standardization through certifications such as Supply Chain Certification Systems and Certified Sustainable Palm Oil. Thus RSPO is the ideal

form of MSI to overcome global issues on palm oil processing.

SMART has been a member of RSPO since 2005, but its holding company, GAR, joined as a member of RSPO since 2011. GAR has specific structure to handle RSPO certification named RSPO certification steering committee. The committee is headed by president director of SMART.

Confronted with allegations explained previously, SMART responded by deciding to continue collaborate with RSPO as a certification body. As stated earlier, RSPO is a forum where various actors with diverse interests involved. Therefore, in terms of pursuing SMART's interests on responding to allegations of environmental degradation, this is the best forum to carry multi-actor bargaining strategy.

In 2010, SMART started to conduct a dialog with RSPO Grievance Panel on the issue of code of conduct. The dialog contented of preparation of GAR membership and certifications, social research, standard operating procedures assessment, High Conservation Value (HCV) assessment, and peat restoration project. A year later (2011), these dialogs gained positive result indicated by the acceptance of GAR as a member of RSPO. Furthermore, assessments and audits from third party (chosen by RSPO) were taken place in 2012 where the result stated that SMART's operation had been verified and complied with environmental guidelines.

In 2011, to prove consistence as a member of RSPO, SMART took out several policies on issues regarding forest and social problems. Forest Conservation Policy (FCP) was the first policy adopted to minimize social and environment effects under protected forest. FCP regulates plantation development with HCV concerns. FCP was created to prove commitment and adopt international standard released by RSPO. FCP was then followed by several policies; Social and Community Engagement Policy (SCEP) in November 2011, Yield Improvement Policy (YIP) in February 2012, Zero Tolerance Policy (ZTP) in June 2012. SCEP was created to have a good relationship between company and surrounded society. YIP was regulated for balancing between increasing production and decreasing environmental impacts. ZTP regulates plantation without disturbing habitats.

Another issue that was also tarnishing SMART's reputation on environmental issue was SMART's subsidiary conflict with a local community at a village called Desa Biru Maju in Kalimantan. The conflict was about land ownership and plantation procedure. In order to solve the problem, a task force consisting of representation from SMART, The Forest Trust (TFT), *Lingkar Komunitas Sawit Indonesia* (NGO), and government. The solution proposed by the task force was rejected by the local community. SMART then once again worked through the RSPO mechanism where the RSPO set down Dispute Settlement Facility to create mechanism to finalize the problem.

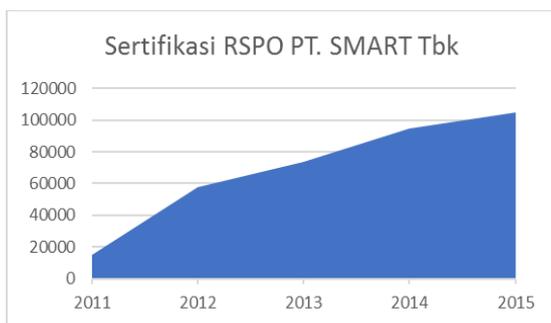
In 2013, SMART collaborated with TFT, Greenpeace, the Indonesian Government, and other actors. Collaboration was aimed to determine and implement strategies in maintaining high carbon stock forest. The involvement of

this project included identifying area, determining law, and conserving forest. The project called High Carbon Stock Forest Conservation Pilot Project, aimed to obey P&C of RSPO. Since May 2013, GAR adjusted a new system called scorecard, which was designed to optimize RSPO certification. Scorecard launching and operation are assisted by TFT.

In 2014, GAR's subsidiary had an allegation about violating P&C of RSPO. To clarify the allegation, GAR created an action plan to have intensive cooperation with RSPO and third-party bodies. Answering the problem of HCV, GAR collaborated with TFT and RSPO's third-party consultant to control area which contained of HCV.

Analyzing PT. SMART's strategy to win public trust is not only determined by direct contact between company and external parties but also can be determined by commitment of company to international standard and regulation. Confirming this statement, herewith the summary of SMART's commitment in getting RSPO certifications:

FIGURE 1. CERTIFIED AREA OF SMART TBK 2011-2015



SMART regularly attended and involved in RSPO annual meetings. In Annual Rountable Meeting on Sustainable Palm Oil, it always contributed as a speaker or as a sponsor. During the meetings, it discussed common issues related to palm oil processing and distribution. It was a form of commitment by company as a member of global regime of palm oil industry.

Steps that had been taken by SMART in responding to the allegations of environmental degradation clearly indicates SMART effort to regain reputation and public trust. It is a strategy that involves bargaining process with diverse actors (multi-actor bargaining), each have relative power, and dynamic process. The multi-actor bargaining was represented by various actors involved in every case and project since 2010. Because there were various actors, there were many interests and power and SMART faced those kind of powers to make people believe the company's integrity in conserving environment. Relative powers might have a special model of bargaining which created bargaining process dynamics. It needed long time to resolve problem because there were many possibility to have renegotiation.

This multi-actor bargaining strategy was proven succesful. Since then, SMART slowly began regaining public acceptance. It has been proven by transparency,

innovation, consumer acknowledgment, and increased profit. Publications are a form of transparency. SMART and GAR had annual sustainability report to make public easily access the improvement of company's commitment to environment. Unilever, Nestle, and other MNCs had already repurchased CPO from SMART because of successful investigation and commitment to RSPO's P&C. However, it is hard to measure profit increment by strategies toward RSPO.

IV. CONCLUSION

It can be concluded that to have a public trust company has to deal with external parties especially non-business actors within national or international communities. SMART did it toward RSPO because it is the relevant organization for image branding. SMART's strategies toward RSPO met the models provided by Levy and Prakash in the concept of new bargaining.

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