

# THE IMPLEMENTATION OF BUSINESS ETHICS IN THE PALM OIL INDUSTRY

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## *Abstract*

*Palm oil is the most produced vegetable oil in the world today—approximately 37 million metric tons, and is entirely GMO-free. Oil palm produces up to 10 times more oil per hectare than soybean, rapeseed or sunflower. Although oil palm is a more sustainable source of vegetable oil than other oil crops, there is concern that the growing demand of palm oil for food and bio fuel could lead to rapid and ill-managed expansion of palm oil production and result in serious environmental and social consequences. It is vital that the production and use of palm oil must be done in a sustainable manner based on economic, social and environmental viability. It becomes clear that these actions are beneficial on one hand, but, on the other hand, might be harmful in the long run. The palm oil industry may result in rapid economic growth. However, it could also degrade the environment, which in turn could lead to public health problems in the longer term, decrease the productivity and harm the economy.*

**Keywords:** *palm oil industry, business ethics, environment, economy.*

## **1. Introduction**

### **1.1. Background**

Nowadays, modern human daily life can not be separated from any palm oil products; ranging from margarine, cereals, crisps, sweets and baked goods, to soaps, shampoo, washing powders and cosmetics, it can also be used in animal feedstuffs and as a bio fuel ([www.greenpalm.org](http://www.greenpalm.org)). Oil palm can only be cultivated in tropical areas of Asia, Africa and South America; Indonesia and Malaysia are the world's largest producers of palm oil with a sizeable export trade. Collectively they account for about 87 percent of global output. In recent years, Indonesia has surpassed Malaysia as the largest producer ([www.worldgrowth.org](http://www.worldgrowth.org)).

Palm oil is today the most produced vegetable oil in the world – 37 million metric tons (Oil World, 2006), it is entirely GMO-free and produces up to 10 times more oil per hectare than soybean, rapeseed or sunflower. Although oil palm is a more sustainable source of vegetable oil than other oil crops, there is concern that the growing demand of palm oil for food and bio fuel could lead to rapid and ill-managed expansion of palm oil production and result in serious environmental and social consequences ([www.rspo.org](http://www.rspo.org)). It is vital that production and use of palm oil must be done in a sustainable manner based on economic, social and environmental

viability, as mentioned by Pruyt and Kwakkel (2007) it becomes clear that actions good on one dimension, but harmful on another dimension, might actually in the long run be harmful on the first dimension as well: suppose that a decision leads to rapid economic growth but degrades the environment, which reduces public health in the longer term, which decreases productivity, which harms the economy, et cetera.

Long-term business success (sustainable performance and profit) can only be considered in the broader sustainability context: by reducing the effects of our activities on the environment and conducting socially responsible business; or ethical business. Hence the Roundtable on Sustainable Palm Oil (RSPO) was formed in 2004 with the objective of promoting the growth and use of sustainable oil palm products through credible global sustainability standards developed through involvement of all stakeholders; which they call as RSPO Principles and Criteria; and applied as business ethics for all actors involved in the palm oil supply chain.

In a free market, it is only by serving customers well that the enterprise will survive and prosper over time, although the profit motive of business is understood and accepted, people do not accept it as an excuse for ignoring the basic norms, values, and standards of being a good citizen. Modern businesses are expected to be responsible guardian of community resources working toward the growth and success of both their companies and their communities. Businesses around the world are designing and implementing business ethics programs to address the legal, ethical, social responsibility, and environmental issues they face (US Department of Commerce, 2004)). By addressing these issues in a systematic way, enterprises can improve their own business performance, expand opportunities for sustainable growth, and contribute to the development of social capital in their markets.

## **1.2. Objective**

This research aims to understand closely on the entangled problem in the palm oil industry especially the one related to business ethics by reviewing real application of business ethics in the business setting situation through studying a real case study.

## **1.3. Scope and Limitation**

This paper is written based on available and limited information collected from online materials, references and lecture materials; a very little field study research was made at the Sinar Mas Group.

## **2. Literatures Review**

### **2.1. Ethics, Business Ethics and Business Ethics Theories**

Ethics is a broad and major branch of philosophy, and the word of 'ethics' means (1) different things depending on the ethical subfield considered. In general ethics is the study of values and customs instantiated in the lives of particular groups. Ethics can be used more specifically to refer to a subset of these values and customs. It also covers (2) the analysis of notions such as

good and evil, right and wrong, fair and unfair, guilt and shame, and virtue. Then ethics is (3) to refer to specific moral principles in the context of morality (Crisp 1998 in Pruyt and Kwakkel, 2007). As a result “Business Ethics” can be defined as the critical, structured examination of how people & institutions should behave in the world of commerce. In particular, it involves examining appropriate constraints on the pursuit of self-interest, or (for firms) profits, when the actions of individuals or firms affects other ([www.businessethics.ca](http://www.businessethics.ca)).

Currently, there are 3 leading normative theories of business ethics; the stockholder, stakeholder, and social contract theories. These theories present distinct and incompatible accounts of a business person’s ethical obligations, and hence, at most one of them can be correct. The stockholder theory is the oldest of the three, and it would be fair to characterize it as out of favor with many contemporary business ethicists. In recent years, however, the social contract theory has been cited with considerable approbation and might accurately be characterized as challenging the stakeholder theory for preeminence among normative theorists (Hasnas, J; 1998):

#### **a. The Stockholder Theory**

According to this theory, businesses are merely arrangements by which one group of people, the stockholders, advance capital to another group, the managers, to be used to realize specified ends and for which the stockholders receive an ownership interest in the venture. Under this view, managers act as agents for the stockholders. They are empowered to manage the money advanced by the stockholders, but are bound by their agency relationship to do so exclusively for the purposes delineated by their stockholder principals. The existence of this fiduciary relationship implies that managers cannot have an obligation to expend business resources in ways that have not been authorized by the stockholders regardless of any societal benefits that could be accrued by doing so. This implies that a business can have no social responsibilities.

#### **b. The Stakeholder Theory**

As an empirical theory of management, the stakeholder theory holds that effective management requires the balanced consideration of and attention to the legitimate interests of all stakeholders, defined as anyone who has “a stake in or claim on the firm”. This has been interpreted in both a wide sense that includes “any group or individual who can affect or is affected by the corporation,” and a more narrow sense that includes only “those groups who are vital to the survival and success of the corporation.” It is perhaps more familiar in its narrow sense in which the stakeholder groups are limited to stockholders, customers, employees, suppliers, management, and the local community. The stakeholder theory asserts that a business’s financial success can best be achieved by giving the interests of the business’s stockholders, customers, employees, suppliers, management, and local community proper consideration and adopting policies which produce the optimal balance among them.

The stakeholder theory asserts that, regardless of whether stakeholder management leads to improved financial performance, managers should manage the business for the benefit of all stakeholders. Hence, in its normative form, the stakeholder theory does imply that businesses have true social responsibilities. The stakeholder theory holds that management's fundamental obligation is not to maximize the firm's financial success, but to ensure its survival by balancing the conflicting claims of multiple stakeholders.

This obligation is to be met by acting in accordance with two principles of stakeholder management. The first, called the principle of corporate legitimacy, states that "the corporation should be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees, and the local communities. The rights of these groups must be ensured and, further, the groups must participate, in some sense, in decisions that substantially affect their welfare." The second, called the stakeholder fiduciary principle, states that "management bears a fiduciary relationship to stakeholders and to the corporation as an abstract entity. It must act in the interests of the stakeholders as their agent, and it must act in the interests of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group."

### **c. The Social Contract Theory**

The social contract theory asserts that all businesses are ethically obligated to enhance the welfare of society by satisfying consumer and employee interests without violating any of the general canons of justice. This theory is based on the traditional concept of a social contract, an implicit agreement between society and an artificial entity in which society recognizes the existence of the entity on the condition that it serves the interests of society in certain specified ways.

The normative social contract theory of business ethics takes much the same approach toward deriving the social responsibilities of businesses. It begins by imagining a society in which there are no complex business organizations, i.e., a state of "individual production," and proceeds by asking what conditions would have to be met for the members of such a society to agree to allow businesses to be formed. The ethical obligations of businesses toward the individual members of society are then derived from the terms of this agreement. Thus, the social contract theory posits an implicit contract between the members of society and businesses in which the members of society grant businesses the right to exist in return for certain specified benefits.

In general, then, the social contract theory holds that managers are ethically obligated to abide by both the social welfare and justice terms of the social contract. Clearly, when fully specified, these terms impose significant social responsibilities on the managers of business enterprises.

## **2.2. Benefits of Implementing Business Ethics**

Principal benefits coming to an enterprise that implements a business ethics program are ([www.trade.gov/good-governance](http://www.trade.gov/good-governance)):

**a. *Enhanced reputation and goodwill***

An enterprise's reputation for integrity is important for securing the loyalty of customers, for recruiting and retaining the most professional and honest employees, for becoming the business partner of choice, for winning local community acceptance, and for increasing access to capital and credit.

**b. *Reduced risks***

Every business, even if it strives to comply strictly with the law, is subject to risks such as these:

- a. Being exposed to criminal prosecution for bribing a government contracting officer
- b. Being debarred from government contracting or a strategic partnership for an inappropriate gift or gratuity
- c. Having to recall products for failure to follow quality standards and procedures
- d. Having to clean up spills of toxic waste
- e. Dealing with employee claims of sexual harassment
- f. Dealing with lost employee time for health and safety problems
- g. Being placed on a blacklist of international, national, or local organizations

**c. *Reduced costs***

By providing employees clear guidelines on how to conduct day-to-day business in compliance with laws and ethics through a business ethics program, the responsible business enterprise can reduce transaction costs. A business ethics program institutes procedures to detect and to prevent violations of the law and ethics. It provides employees with clear guidelines on a host of day-to-day transactions: how to conduct bids and tenders; how to conclude contracts; how to use confidential information; how to avoid conflicts of interest; and how to work with customers, suppliers, service providers, and competitors. The cost of bribery, kickbacks, and other forms of illegal or corrupt conduct is not only the amount paid. The full cost includes management effort to allocate time to work with officials, to maintain a second set of books, and to deal with the threat of extortion and blackmail. The real cost is the risk to reputation and pride in the enterprise and the reduced prospects for participating in a market economy.

**d. *Protection from unethical employees and agents***

It is not pleasant to contemplate, but the enterprise itself is often abused by its employees and agents. Embezzlement of enterprise funds is a major example. Cheating on time cards or carrying off supplies and tools, while relatively minor, add up to significant losses sustained every year by businesses—both large and small. It has been estimated that enterprises in the United States lose some 6 percent of their revenues annually to employee misconduct. A business ethics program is designed to establish standards and procedures to prevent and detect violations of the trust put in employees. Among these standards and procedures are processes to protect

enterprise assets. These specific processes may include establishing standards and procedures, monitoring and auditing systems, and reporting mechanisms.

**e. *Enhanced performance, productivity, and competitive position***

A responsible business enterprise increases effectiveness and efficiency by enabling all stakeholders to work together closely on the basis of respect, shared values, and mutual trust. Such efforts lead to what one author calls “invisible savings” by reducing employee conduct that is harmful to the enterprise but difficult to detect. After a business ethics program becomes a part of operations, many of the costs of monitoring and supervision can be reduced.

**f. *Expanded access to capital, credit, and foreign investment***

A business ethics program, including aggressive risk management processes, may increase a responsible business enterprise’s attractiveness to investors. Before making loans, international lending institutions and domestic banks perform due diligence on whether an enterprise is managed well. They look to see whether an enterprise has strong financial supervision and internal controls. A business ethics program is designed to prevent and detect illegal and unethical practices. Financial institutions may view management as a worthy credit risk and allow access to capital at lower rates. When entering new markets, foreign investors seek reliable partners who demonstrate integrity and operate on a transparent basis. A business ethics program reflecting global norms and values provides a common language between an enterprise and foreign investors. It creates opportunity to build partnerships that are based on respect, shared values, and mutual trust.

**g. *Increased profits and sustained long-term growth***

The discipline of responsible business conduct does not deliver instant results. However, a business ethics program—including infrastructure and processes for continuous monitoring of compliance with law and ethics— should help an enterprise be more reliable and stable over time. Once a responsible business enterprise has demonstrated its ability to detect and to prevent violations of the law and ethics, it tends to earn stakeholder confidence. This confidence leads to an increase in the value of shares; to wider access to capital and credit; to new clients, customers, and partners; and to further opportunities for expansion.

**h. *Increased international respect***

Adhering to the discipline of responsible business conduct can help enterprises gain access to international markets. It encourages compliance with laws and regulations that require a high level of transparency. When the generally accepted business practices of a community are based on sound standards and reasonable expectations, fair competition is the norm and the responsible business enterprise can operate on a level playing field. Fair competition may encourage trading partners to reduce trade barriers such as tariffs and quotas. Recent research

suggests that a business ethics program is particularly valuable in times of merger, acquisition, and restructuring. It is thought that the essential elements of a business ethics program may help members of often distinct organizational cultures manage their differences until they find common ground. These elements include core beliefs, standards, and procedures; high-level personnel responsible for the program; and dedicated resources to help employees seek advice. Enterprises undergoing privatization should also consider the advantages of a business ethics program as a means to reduce the risks associated with this transition process.

### **3.3. Business Ethics: Emerging Global Standards**

Particularly over the past two decades, a number of prominent business associations, NGOs, and international government institutions have developed a body of global standards for the responsible business. These emerging global standards are of four types:

- a. A stakeholder engagement standard (AA1000S)
- b. Substantive standards (such as SA8000, Caux Round Table's principles, Interfaith Declaration's principles, and the Basic Guidelines for Codes of Business Conduct)
- c. Management process standards (such as SA8000, the CERES Principles, and the U.S. Federal Sentencing Guidelines for Organizations)
- d. Reporting standards (such as the Global Reporting Initiative)

Source: [www.trade.gov/goodgovernance](http://www.trade.gov/goodgovernance)

These standards provide the foundation for establishing the outcomes that can be expected from a business ethics program. The major standards-setting institutions are of three major types: business associations, stakeholder groups, and international governmental organizations.

As the result of ongoing global dialogue between these institutions, a body of standards and expectations for responsible business has emerged. These standards address a number of areas of concern to responsible owners and managers:

- a. Business conduct, including fair competition
- b. Community relations, including political involvement
- c. Corporate governance
- d. Environmental protection
- e. Human rights
- f. Marketplace relations
- g. Workplace relations
- h. Accountability
- i. Reporting standards

## **3. Palm Oil Industry Analysis**

### **3.1. Get Closer to Palm Oil Industry and RSPO**

Palm oil and palm kernel oil is an important and versatile vegetable oil which is used as a raw material for both food and non-food industries. Oil palms are highly efficient oil producers, with each fruit containing about 50% oil. The trees can grow 20 meters tall with leaves up to 5

meters long. They bear clusters of fruit all year long, with each fully matured cluster weighing up to 50 kg. As a result they require ten times less land than other oil-producing crops (soy bean, rapeseed or sunflower). Vegetable oil production around the world totals over 144 million tons per year, of which over 47 million tons is palm oil. Along with soy oil, palm oil makes up 60% of world production. Palm oil and palm kernel oil are entirely GM (genetically modified) free. It contributes to the economic development of the producing countries and to the diets of millions of people around the world ([www.greenpalm.org](http://www.greenpalm.org)).

Although oil palm is a more sustainable source of vegetable oil than other oil crops, there is concern that the growing demand of palm oil for food and bio fuel could lead to rapid and ill-managed expansion of palm oil production and result in serious environmental and social consequences. In response to the urgent and pressing global call for sustainably produced palm oil, the Roundtable on Sustainable Palm Oil (RSPO) was formed in 2004 with the objective promoting the growth and use of sustainable oil palm products through credible global standards and engagement of stakeholders ([www.rspo.org](http://www.rspo.org)). RSPO unites stakeholders from seven sectors of the palm oil industry; oil palm producers, palm oil processors or traders, consumer goods manufacturers, retailers, banks and investors, environmental or nature conservation NGOs and social or developmental NGOs to develop and implement global standards for sustainable palm oil.

RSPO has developed a set of standards called the Principles & Criteria (P&C) that define the practices for sustainable palm oil production. These standards address the legal, economic, environmental and social requirements of producing sustainable palm oil. RSPO's Principles and Criteria (P&C) for sustainable palm oil production are based on these principles:

1. Commitment to transparency
2. Compliance with applicable laws and regulations
3. Commitment to long-term economic and financial viability
4. Use of appropriate best practices by growers and millers
5. Environmental responsibility and conservation of natural resources and biodiversity
6. Responsible consideration for employees and for individuals and communities affected by growers and mills
7. Responsible development of new plantings
8. Commitment to continuous improvement in key areas of activity

The Code of Conduct applies not only to the producers of palm oil but to all stakeholder groups, hence binding all members to its common objective. While producers are expected to implement the Principles & Criteria and obtain RSPO certification in their production of palm oil, non-producers are expected to implement equivalent standards in their procurement and use of palm oil. ([www.rspo.org](http://www.rspo.org))

### **3.2. The Case of PT. SMART Tbk. (PT. Sinar Mas Agro Resources and Technology Tbk)**

PT SMART Tbk is one of the largest, publicly-listed, integrated palm-based consumer companies in Indonesia which founded in 1962, SMART's palm plantations have a total



coverage area of approximately 136,400 hectares (including small holders). SMART also operates 15 mills, four kernel crushing plants and four refineries. SMART listed its shares on the Indonesia Stock Exchange in 1992. SMART's primary activities are cultivating and harvesting of palm trees, processing of fresh fruit bunches into crude palm oil (CPO) and palm kernel, and refining CPO into value-added products such as cooking oil, margarine and shortening. Besides bulk and industrial oil, SMART's refined products are also marketed under several brands such as "Filma" and "Kunci Mas". Today, these brands have been recognized and have significant market share in their respective segment in Indonesia. SMART is a subsidiary of Golden Agri-Resources Ltd ("GAR"), which is one of the largest palm-based companies in the world which is listed on the Singapore Exchange. SMART also manages all of GAR's oil palm plantations, which has a total planted area of 435,000 hectares (including small holders) in Indonesia, as at 30 September 2010. (Smart-tbk website, [www.smart-tbk.com](http://www.smart-tbk.com) )

"We aim to be the leader in sustainable palm oil production by adopting the best industry practices and standards, managing the environment responsibly and empowering the communities where we operate while delivering shareholders values" these words are written on SMART's website under the tab header "Sustainable Palm Oil", further more the following words can be read on that same web-page too "Our sustainability strategy is implementing the best practices holistically in all dimensions of sustainability (the environment, community, market place and work place), benchmarking our practices against the Roundtable on Sustainable Palm Oil ("RSPO") and the United Nations Global Compact ("UNGC"), and engaging stakeholders proactively". These words are in line with one of SMART's mission of "maintaining the highest level of sustainability and integrity" which creates impression that SMART is committed to sustainability practices and standards.

However, in December 2009, Greenpeace has reported differently than what was stated as SMART's mission, it was found out that SMART was clearing peat land and high conservation value forests (HCVF) which shelter endangered species such as orangutans and trap vast amounts of climate-warming gases. Greenpeace accused SMART engaged in land clearance without environmental impact assessments, land clearance without timber cutting permits, land clearance on deep peat. These activities are in breach of Indonesian law and the principles and criteria of the Roundtable on Sustainable Palm Oil (RSPO) of which SMART is a member since February 2005 (Greenpeace, December 2009).

Greenpeace not only attacking SMART alone, the Indonesian government was demanded to stop SMART activities and consider forest moratorium, and giant companies such as Nestle, Kraft, Procter & Gambler, Unilever which buy SMART's CPO were demanded to stop their purchases. In the first quarter of 2010, Unilever and Nestle announced that they stopped their purchasing contract with SMART (Food Navigator.com, December 2009) which then followed by Burger King in September 2010 (Xinhuanet.com, September 2010).

Interestingly, after the case was revealed by Greenpeace, each of these big companies sourcing palm oil from SMART, counter stated that they actually want and intend only to purchase certified sustainable palm oil:

- a. Unilever, one of the RSPO founders, has committed to buy 100% certified sustainable palm oil by 2015, regardless of any additional cost – which would not be passed on to consumers ([www.unilever.com](http://www.unilever.com)).
- b. Kraft stated to work with the World Wildlife Fund (WWF) to gain a better understanding of the issue and all options available and plans to start purchasing certified palm oil in 2010 ([Foodnavigator.com](http://Foodnavigator.com), December 2009).
- c. P&G commits to the sustainable sourcing of palm oil. By 2015, it intends to purchase and use palm oil that can be confirmed to have originated from responsible and sustainable sources. ([www.pg.com](http://www.pg.com))
- d. Nestle undertook a detailed review of its supply chain to establish the source of its palm oil supplies and has committed to using only certified sustainable palm oil by 2015 ([Foodnavigator.com](http://Foodnavigator.com), December 2009)

Unilever with annual purchases of 47,000 tons of palm oil worth 32 million USD from SMART, and Nestle with 4,000 tons of palm oil worth 3,2 million USD, dropped SMART as their supplier following Greenpeace reports in that mid December ([Palmoilhq.com](http://Palmoilhq.com), August 2010; [palmoilhq.com](http://palmoilhq.com), march 2010; [Asiasentinel.com](http://Asiasentinel.com), January 2010), while Cargill had threatened to do the same if the accusations proved correct in the audit SMART commissioned and paid for in response to Greenpeace claims ([Foodnavigator.com](http://Foodnavigator.com), December 2009). In April 2010, Burger King, the second largest US hamburger chain, followed other companies to stop its purchases from SMART (*The Jakarta Post*, 9 April 2010).

As the case was developed further, the Indonesian government mediated SMART and Greenpeace (*Antara news.com*, May 2010) for a meeting. It was subsequently agreed that an independent auditors will be appointed to verify the accusation from Greenpeace.

Control Union Certification and BSI group were then appointed as independent auditors accompanied by local experts from IPB (Institute Pertanian Bogor), were paid for by SMART, after being approved by the RSPO. The audit covered only 40 percent of SMART's total planted area of 430,000 hectares, not including its plantations in Papua. It used satellite images, land surveys, soil analysis and interviews with officials for the findings. "Planting on peat lands and deep peat were found but not as extensively as claimed," the audit said, adding such planting was mainly incidental but broke Indonesian law and SMART's own rules. SMART's share price was little changed after the audit, down 1.4 percent, though the stock has rallied 39 percent this year to beat strong gains in the Jakarta index, investors retain their confidence in the firm's outlook (*Reuters.com*, 10 August 2010).

SMART claimed that it had complied with all prevailing regulations in doing its business. It said that all the concession areas in Central and West Kalimantan were affected by earlier activities such as logging and slashing and burning by other parties, before the company won government permits to develop these areas. The verification by CUC and BSI group, however, found that the SMART had planted on peat land more than 3-meter deep on two estates, in breach of a presidential decree on deep peat land. SMART acknowledged the finding but claimed the planting was "unintentional". The verification also identified that 21 percent of the examined lands, or 37,698 hectares of the company's total 182,528 hectares, was opened before

an independent high environmental impact assessment (Amdal) was conducted (The Jakarta Post, 9 April 2010).

Later, SMART agreed to take improvement actions towards full compliance with the RSPO principles and criteria as stated in their press release dated 22 September 2010:

- a. With regard to RSPO's requirement to show "A sufficiently challenging and time-bound plan for the certification of all SMART's production units": SMART will share a detailed and time-bound plan for RSPO certification of all of SMART's production units with all its stakeholders.
- b. With regard to RSPO's requirement "Assurance that all of SMART's production units are currently applying the RSPO's New Plantings Procedure": SMART will continue to monitor the implementation of RSPO's New Plantings Procedure for all of SMART's production units.
- c. With regard to RSPO's requirement "Agreement to develop an acceptable package of measures related to the land cleared without HCV assessment" and "Evidence that the Standard Operating Procedures (specifically those on compliance with SEIA requirements, HCV assessments, peat conservation, community engagement about social impacts) have been adapted to address all failings identified in the IVEX (Independent Verification Exercise) report":
  - o In the case of land permits, moving forward, SMART will ensure that land permits are obtained before commencing land preparation.
  - o In the case of High Conservation Value (HCV) land, SMART has identified about 21,000 ha or 11.5% of the 11 concessions covered in the IVEX Report that contains HCV land and has conserved this. An acceptable package of measures related to land cleared without HCV assessment is presently being developed.
  - o In the case of peat conservation, where possible, SMART has since taken the necessary remedial actions including reinstating the land. Moving forward, SMART will be working with stakeholders on the overall management of peat including those areas that have been developed.
  - o In the case of community engagement and social impacts, SMART believes in treating local landowners and communities fairly and will be commissioning a separate research to study its social impact on the community.

### 3.3 Discussion on the SMART's Case

SMART is a member of RSPO, which knows exactly that it should produce palm oil sustainably as stated clearly on its values and mission. Unfortunately somehow SMART did not fully implement that sustainable palm oil principles and criteria, hence accusation from Greenpeace were proven by the findings of independent auditors, even though it was not as extensive as stated by Greenpeace; however, the facts which were disclosed to public showed that SMART did not follow the P & C of sustainable palm oil.

According to the code of conduct of RSPO, it applies not only to the producers of palm oil but to all stakeholder groups, including all players in the supply chain, as described in below formation of value chain of the RSPO. All actors in the chain are responsible to ensure the business ethics is implemented and applied correctly. In this case, including the buyer of SMART's production; Unilever, Nestle, Burger King, etc – they should have ensured that they source the CPO from sustainable producers; the traders; Cargill – which should have ensured to trade sustainable products, and even the investor/financial institution which lends money to SMART should have ensured to not provide financial supports to growers/producers applying unsustainable palm oil P&C.

Once each of the supply chain applies their own controls conscientiously for ensuring sustainable activities, it will enhance and support others within the supply chain to apply a sound business ethics. This case is one of the perfect examples which shows businesses NOT/ FAIL implementing the 'expected' business ethics will not be able to sustain their long term business path; they will be attacked thus will not be supported by their stakeholders let alone the end customers.

Source: [www.rspo.org](http://www.rspo.org)

SMART realized that their only option to recover is by planning their improvement actions; since in this case they had invaluable experience of financial loss (contract terminations, verification cost) and reputation damage (especially to international companies, consumer) which without doubt have impacts to their business. They did not meet the expectation of their stakeholders, as they could not provide benefits to all of their stakeholders as per the stakeholder theory of business ethics. This has also proven the emerging of global standards; especially on the area of concern: environmental protection is very strong.

#### 4. Summary

Business ethics is the applied ethics discipline that addresses the moral features of commercial activity. Enhanced reputation and goodwill, reduced risks, reduced costs, increased profits and sustained long term growth, increased international respects; are some of the benefits received by enterprises apply business ethics in their activities. Business ethics develops through 3 leading normative theories; the stockholder, stakeholder and social contract theories.

In the past two decades business ethics becomes emerging global standards from number of business associations, stakeholder groups, and international institutions. Similar situation happens in the palm oil industry. The whole supply chains of palm oil demanded a sustainably produced palm oil, hence the formulation of RSPO (Roundtable of Sustainable Palm Oil) in 2004 which then developed a set of standard called the Principles and Criteria for sustainable palm oil production as the business ethics for those involved in palm oil business, not only for the growers, but also for processors, traders, financial investors, buyers up to the end consumer.

Pressure on implementing business ethics in a sustainable palm oil industry has recently became stronger and globalized. As the number one producer and exporter of palm oil, Indonesia received lots of attention and critics from international media and parties, the case of

PT. SMART Tbk, recently is a real example of that situation; it was proven that SMART did not implement the RSPO principles and criteria fully, even though on the other hand, it was not as extensive as accused by Greenpeace.

Above all, applying business ethics is a must for all industry aiming for sustainable and prosperous business; business ethics guide companies to conduct business responsibly.

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