SUMMARY

BAMBANG ARIA WISENA. Sustainable Competitiveness Strategy Analysis of Oil Palm Industry. Supervised by ARIEF DARYANTO, BUSTANUL ARIFIN and RINA OKTAVIANI.

Indonesia is a major CPO producing country with the world's highest volume of 28 million tons per year. Indonesian palm oil industry has a variety of advantages, primarily due to a lower production costs and a very strategic position in the center of the world CPO industry in the peninsula of Malacca.

Various happening problems become obstacles and challenges in the development of oil palm industry in a sustainable manner, thus a clear and unequivocal policies on the restriction and management of oil palm plantations are necessary to avoid the presence of disadvantaged party. The step taken by the stakeholders in oil palm industry to harmonize community interests, maintain environmental sustainability and market demand which urges to produce palm oil in a sustainable manner is to form the Roundtable on Sustainable Palm Oil (RSPO). However, the formation of RSPO is also evoking controversy from several major NGOs in the world. Thus, with the formation of RSPO, it does not mean that oil palm industry has no challenges (RSPO 2009).

In addition, Indonesian government policies related to the oil palm industry and plantations are still questionable. Particularly those related to the law enforcement, bureaucracy and even EIA (Environmental Impact Assessment) are still low, thus Indonesia is yet to be ready and losing competitiveness to Malaysia. To date, Malaysia has been selling a variety of derivative products with higher added value, while Indonesia is still dominated by crude palm oil (CPO) export. Whereas it does not mean that Indonesia is unable to produce various palm oil derivative products, but it is yet to be supported by a conducive policies.

According to the aforementioned background, the aims of this study are to identify and explain the position of the competitiveness of Indonesian oil palm industry, determine the indicators and priorities in formulating sustainable development policies of oil palm industry in Indonesia, and policy strategies to achieve sustainable competitive advantage of Indonesian oil palm industry.

Within a research on the Sustainable Development Policy Strategies study towards Oil Palm Industry Competitiveness, method of analysis used in constructing a sustainable development model of oil palm industry is the gap analysis using competitiveness factors of the International Institute of Management Development (IMD) and 12 competitiveness pillars of the World Economic Forum (WEF), Strategic Assumption Surfacing and Testing (SAST), Analytic Network Process (ANP), and Interpretive Structural Modeling (ISM).

Gap analysis results showed that the biggest gap in the competitiveness analysis of IMD model was seen in the framework of institution, which included the stability of the exchange rate, interest rate, capital costs, transparency of government policy, bureaucracy, bribery, corruption, and others. Likewise in the competitiveness analysis of WEF model, the main problem was the institution, such as public institution (protection of Intellectual Property Rights (IPR), ethics and corruption, independent legal system, government efficiency, and security).
and private institution (corporate ethics and accountability). Both IMD and WEF did not make Sustainable Development as a factor/pillar of competitiveness. However, WEF currently analyze the two areas of sustainability – social and environmental – are treated as independent adjustment in Global Competitiveness Index. Meanwhile in SAST results, it was known that there were nine main indicators of strategic assumption that have the highest importance and certainty level from the point of view of stakeholders, i.e.: waste management, economic benefits flow, legal requirements fulfillment, compliance with laws and regulations, transparent legal process, following good plantation control, training and development, standard policy and code of ethics, independent, transparency and accountability.

According to ANP results, the mapping strategy demonstrated that Low Cost Advantage and Organizational Process showed the highest BOCR outcome value thus an appropriate strategy to improve the competitiveness of the industry based on the sustainable development policy was Strategy 1, Eco-Efficiency, whereas the ANP results of Benefits, Costs and Opportunities have shown that oil palm industry was still emphasizing on economic aspect, compared to the social and environmental pillars on Risks criterion that prioritized the social risks. Overall ISM results indicate that the policy that becomes a key factor of the improvement of sustainable oil palm industry competitiveness in the future must be oriented to the environmental and social aspects. ISM results also indicate that government policy is considered as the most influential factor for the competitiveness of sustainable oil palm industry both in terms of law enforcement (public protection and investments protection) and ISPO application (as a form of policies that emphasize legal aspect as well as social and environmental oriented). As the sustainable strategy is the combination of eco-efficiency and Sustainable Value Innovation, then we find that this proposed strategy is mostly inline with the big idea of Creating Shared Value (CSV). In this particular circumstances, it will provide the industry’s Sustainable Competitive Advantage (SCA)

The study results of the Sustainable Development Policy Strategy of Oil Palm Industry Competitiveness have several conclusions, i.e. Indonesia’s competitiveness is still high, not due to the higher productivity but rather relies on low cost advantage as a result of the low absolute operational cost derived from the Minimum Wages, general costs and low living cost. Although the regulations have been applied, the condition is still not thoroughly able to support the competitiveness of sustainable oil palm industry, especially the government efficiency (policy), law and regulation enforcement. The main sustainability indicators resulted in this research has a very strong relation to a basic principle of the implementation of good corporate governance.

Keywords: Creating Shared Value, Eco-Efficiency, Good Corporate Governance, Oil palm industry, Sustainable development, Sustainable Competitive Advantage, Sustainable Value Innovations