

# Explaining differences in the success of roundtables: behavioural versus institutional factors

*Greetje Schouten, Jordan Nikoloyuk and Pieter Glasbergen*

Copernicus Institute of Sustainable Development, Utrecht University, The Netherlands

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## ABSTRACT

In recent decades private actors have become increasingly important in the way sustainability challenges are dealt with and agricultural sectors are regulated. The so-called roundtables are examples of this private governance trend. A roundtable is a private arrangement with the aim to improve the sustainability of a specific global commodity chain. It is partnership where only private actors - businesses and non-governmental organizations - have decision-making power.

In the literature two major perspectives towards the study of partnerships can be observed. Actor approaches explain the success (or failure) of partnerships in terms of managerial factors, while institutional approaches point to the societal context for explaining their success or failure. However, little is known about the relative importance of these (clusters) of factors that facilitate or hinder the development of partnerships or their ability to change global commodity chains.

This paper combines an institutional with a behavioural approach by looking at behavioural (building trust; creating collaborative advantages; constituting a rule system; and changing a market) and institutional (the structure of the commodity chain; domestic drivers; the role of lead firms; product visibility to consumers; and NGO pressure) factors. The relative importance of these (clusters of) factors and their connections are established through a comparison of the development of two roundtables: the Roundtable on Sustainable Palm Oil and the Round Table on Responsible Soy. The outcome of the paper is a new model that helps to explain the development of private governance initiatives and their ability to change commodity chains.

## 1. INTRODUCTION

Recent decades have seen vast changes in the regulation of agricultural sectors and have witnessed the rise of private governance. Partnerships between public and private actors emerged, but also partnerships among solely private actors developed. The so-called 'roundtables' are an example of such private-private partnerships. A roundtable is a private arrangement with the aim to improve the sustainability of a specific global commodity chain. It is a multi-stakeholder platform in which only private parties - businesses and non-governmental organizations (NGOs) - have decision-making power (Schouten and Glasbergen, 2009).

Huijstee et al. (2007) observe two major perspectives in the study of partnerships. Actor approaches explain the success (or failure) of partnerships in terms of managerial factors, while more institutional approaches point to the societal context for explaining their success or failure. Actor-oriented approaches that try to explain the progression of a private governance initiative, often fail to explicitly account for the potential influence of institutional factors and vice versa.

As these approaches developed more or less independently, little is known about the *relative importance* of the behavioural and institutional factors that facilitate or hinder the development of partnerships. This paper aims to explore the connections

between and the relative importance of these factors by comparing two very similar private governance initiatives: the Roundtable on Sustainable Palm Oil (RSPO) and the Roundtable on Responsible Soy (RTRS). Palm oil and soybean are largely planted as export driven large scale monocultures and belong to the fastest expanding crops in the tropics (Carrere, 2006). The RSPO is generally regarded as the first roundtable and was established in 2002. The RTRS was modeled on the RSPO, and it was thought that some lessons could be learned that could make the new initiative even more productive than the first (by, for example, running working groups simultaneously rather than in sequence). The RSPO and RTRS are partly driven by the same actors and the architecture of the two roundtables is very similar. Both roundtables try to govern an agricultural commodity chain and both palm oil and soy are used on a global scale for food oil, animal feed and bio fuel. The palm oil as well as the soy chain, face major sustainability challenges, mostly relating to deforestation of (virgin) rainforests.

Despite these similarities the two roundtables differ a great deal in terms of their success, which we define in terms of (1) their problem solving capacities, (2) commitments of stakeholders to the process, and (3) their adaptive capacities. The RSPO is in these respects more successful than the RTRS (Hospes et al., 2009; Nikoloyuk et al., 2010). First, in terms of their problem solving capacities the RSPO performed better than the RTRS. The RSPO needed less time to come to principles and criteria for a sustainable product based on consensus. Compared to the RSPO, the development of the standard for responsible soy saw many more critical moments in which it was very difficult to reach a compromise. Second, some of the compromises were reason for key members to leave the soy roundtable (e.g. AproSoja and Abiove), while the RSPO has managed to keep all the important stakeholders in throughout the process (RTRS, 2009; Lovatelli, 2010). This shows that there is more commitment of stakeholders in the palm oil roundtable than there is in the soy roundtable and at the same time it shows that the RSPO is better able to adapt to new circumstances and to cope with novel situations without losing future opportunities. The development of the RSPO is not characterized by continuous conflicts between businesses and NGOs, whereas the RTRS process has led to two distinct configurations (business and NGOs) which communicate badly (Hospes et al., 2009).

This paper is based on desk research of RSPO and RTRS documents and minutes; documentation of stakeholders; over 30 semi-structured interviews with members of the two roundtables, executive board members, and NGOs working on palm oil and soy issues; and observations during executive board meetings (2009) and the 2009 roundtable conference on soy in Campinas, Brazil. The outline of the paper is as follows: After explaining our theoretical framework, we analyze the RSPO and the RTRS accordingly, by both looking at behavioural and institutional factors. We conclude the article with a discussion on the relative importance of these factors for the ability of roundtables and private governance initiatives in general to make a commodity more sustainable.

## 2. THEORETICAL FRAMEWORK

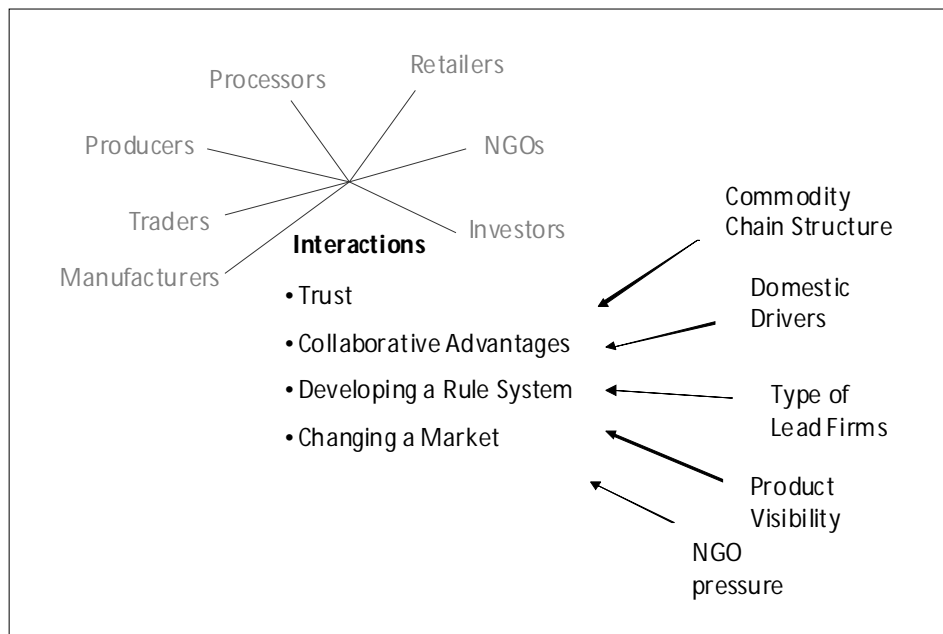
Authors using an actor approach, take interactions between partners as their key unit of analysis and focus for example on how partners exchange information and influence each other (Visseren-Hamakers and Glasbergen, 2007). They frame partnerships as strategic instruments for the goal achievement and problem solving of individual actors (Huijstee et al., 2007). Authors using an institutional approach typically start by painting the societal context in which partnerships emerge, frame partnerships as new arrangements in the governance regime, and focus on factors that provide opportunities for partnerships to function (Huijstee et al., 2007; Bitzer and Glasbergen, forthcoming). However, behavioural factors are not detached from institutional factors. Institutional factors can produce positive as well as negative incentives for actors to behave in specific ways (Hodgson, 2006). Actors are not entirely constraint by contextual elements; they may disregard an established institution: "When individuals and groups comply with an existing institution they reinforce it; when they disregard it they begin to weaken or undermine it" (Vermeulen et al., 2008, p. 33).

The behavioural factors we use in this paper come from an actor approach to partnerships presented by Glasbergen (forthcoming). He introduces the ladder of partnership activity, which represents an idealized form of a partnering process and provides a heuristic tool to look at partnerships. The ladder comprises five levels of activity: building trust; creating collaborative advantages; constituting a rule system; changing a market; and changing the political order. For this research we scrutinize the first four levels. The first step, building trust, is an exploratory endeavour in which different attitudes are reconciled towards building a partnership. The second step occurs as organizations look for synergistic activities that combine the market orientation of the business with the moral authority or specialized resources of an NGO. The third step involves contractual agreements that formalize the obligations of each partner. At this step, the costs of the partnership to each organization are clearly laid out, and the expected benefits and sanctions of non-compliance agreed on. The fourth step refers to implementation of the rule system. In this step, the partnership's focus shifts from the internal dynamics of the first three steps and towards the external interactions that the partnership's provisions have with other actors.

From an extensive literature study we found five main institutional factors that influence governance initiatives in global commodity chains: the structure of the commodity chain; domestic drivers; the role of lead firms; product visibility to consumers; and NGO pressure. The first institutional factor is the structure of a commodity chain. The more vertical or horizontal integrated a chain is, the easier it is for a governance initiative to be successful. Vertical integration means that one firm is in control of multiple processes along the chain, while horizontal integration means that fewer firms are involved at each stage along the chain (Vermeulen et al., 2008). Moreover, the more diffused the set of suppliers is, the more difficult it is to have a successful governance initiative (Roberts, 2003). The more diffused the supply base is, the larger the number of supply routes is, reducing interest in certification amongst manufacturers and retailers (Roberts, 2003). The second

institutional factor consists of domestic drivers, such as taxation policies, national regulations and trade policies (Altenburg, 2006; Vermeulen et al., 2008). The third institutional factor is the type of lead firms in the chain. The actor or organization that is in the position to set the parameters under which other actors in the chain operate can be considered a 'lead firm' (Humphrey and Schmitz, 2001). Depending on how vulnerable a lead firm is towards critical consumerism, they may be more or less committed to different standards, and may use different combinations of pressure and support to enforce a standard, throughout their supply chain (Altenburg, 2006). The fourth factor is product visibility to consumers. The demands and specifications of customers help to shape the processes within the commodity chain (Coe et al., 2008). The more visible a commodity is to a consumer, the stronger their demands will be and the more they shape the process of governance within the value chain. The fifth institutional factor is NGO pressure. "Pressures from NGOs undoubtedly exert a considerable influence on firms to engage in more socially responsible behaviour" (Coe et al., 2008, p. 18). NGO campaigns and media attention lead to much greater concerns about social and environmental issues along the commodity chain (Vermeulen et al., 2008).

The behavioural factors (trust, collaborative advantages, developing a rules system, and changing a market) determine the outcome of the interactions within a roundtable. These behavioural factors and the interactions are in turn influenced by institutional factors that form the context in which a roundtable operates. Figure 1 below visualizes the analytical perspective this paper takes on roundtables.



**Figure 1: Analytical perspective on roundtables**

This paper scrutinizes the influence of two clusters of factors (behavioural and institutional) by means of a functional analysis. We speak of influence if the operation of a factor (1) has a certain degree of permanency (2) is to a large degree direct.

### **3. THE RSPO AND RTRS FROM AN ACTOR PERSPECTIVE**

#### **3.1 Introduction**

The Roundtable on Sustainable Palm Oil (RSPO) was initiated in 2002 and evolved into a process to address sustainability concerns in palm oil production by engaging actors from all levels of the commodity chain along with environmental and social NGOs. Sustainability challenges connected to the production of palm oil are related to social (rights and interests of local communities and labour conditions) and environmental issues (mainly deforestation, loss of biodiversity and climate issues). WWF and Unilever led the foundation of the organization, but it currently has over 400 members, representing approximately 40% of global palm oil production and the majority of upstream food manufacturers in the supply chain. Through a series of multi-stakeholder working groups, the roundtable spent several years designing principles and criteria for sustainable palm oil production, a verification and certification process, and mechanisms for supply chain traceability and tradable credits. Certified palm oil entered the market in November 2008 and so far, 83 plantation units have been certified.

The negotiations that led to the formation of the Round Table on Responsible Soy Association began in 2004, when a decision was made at WWF to expand the model of the RSPO to address similar issues of deforestation in soy production. As part of the WWF 'Strategic Action on Palm Oil and Soy,' expanding the RSPO model had been planned if results were positive<sup>1</sup>. The first meeting was held in London in May 2004, when WWF invited 25 potential stakeholders that it had contacted in previous initiatives to discuss the idea of addressing sustainability issues in mainstream soy production through a multi-stakeholder process (RTRS, 2010a). The RTRS completed a definition of the principles and criteria for responsible soy production and an accompanying verification system summer 2009<sup>2</sup>.

#### **3.2 Trust**

Trust is generally understood as something that exists between individuals rather than organizations, but definitions do exist that encapsulate the meaning of trust in partnerships. One of the most comprehensive conceptualizations of trust is presented by Zaheer et al. (1998). They conceptualize trust as "the expectation that an actor 1) can be relied on to fulfil obligations, 2) will behave in a predictable manner, and 3) will act and negotiate fairly when the possibility for opportunism is present" (Zaheer et al., 1998, p. 143). Therefore, this paper examines trust in terms of three main characteristics: reliability, predictability, and fairness. Both the RSPO and RTRS have been in development for many years and levels of trust fluctuated during this period. Following the RSPO, the RTRS organizing committee made several agreements in the first meetings to enforce trust. In both roundtables the need for transparency (to ensure reliability) and the need not to communicate any decision without the agreement of all participants (to ensure predictability) were highlighted already in the beginning of the process (RSPO, 2002; RTRS, 2010b).

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<sup>1</sup> Interview data

<sup>2</sup> Field testing of these criteria is currently underway, as is the possible development of a compensation mechanism for producers who follow the standard, and likely are required to preserve forested land for non-agricultural use.

One of the key differences between the RSPO and RTRS that influenced trust considerably relates to the reliability of partners in the early stages of the initiatives. The RSPO developed from a small (European) group of stakeholders that laid out the direction for the organization before it was open to other stakeholders. Before the first roundtable conference the main principles of the organisation were already discussed and agreed upon (RSPO, 2002). In case of the RTRS, by contrast, no early commitments were made; participants simply agreed that exploring collaboration was worthwhile. The group's primary goal was to host a conference and expand membership, rather than having a small group work at defining the direction of the initiative before opening up to more stakeholders. Furthermore, for the RSPO an external consultant was hired by WWF at the beginning of the process. His approach in the early stages of collaboration involved reaching an understanding of the different priorities of each participant. The fact that a consultant, rather than WWF, approached stakeholders, gave every stakeholder the opportunity to shape the process, as no concrete decisions had been made at WWF about the shape of the initiative.

The second key difference between the levels of trust in RSPO and RTRS is also related to the reliability of partners and in particular the reliability of WWF. Between the three key actors of the RSPO, Unilever, WWF and the Malaysian Palm Oil Association (MPOA), already some trust existed, because of previous activities, reputations, and connections. WWF had already collaborated with the MPOA before and MPOA perceived WWF as a very reliable partner. If an NGO other than WWF, which had not proved to Unilever and the MPOA that it based its activities on empirical data and measurable goals, industry participation would probably have been limited<sup>3</sup>. In case of RTRS the role of WWF has been more contested. WWF<sup>4</sup> has been a member of the Dutch Soy Coalition, which has in the past made the argument that the large-scale monoculture model of soy production is inherently problematic, and the only way to be responsible is to consume less soy (Dutch Soy Coalition, 2006). Soy producers have trouble believing that this position has been entirely set aside to participate in the RTRS. The events that have taken place before the start of the roundtable process influences trust within the roundtable.

The third key difference in the development of trust in the two roundtables is related to the predictability of the process. At the first roundtable conference the RSPO hosted, there was consensus among participants that a common code of conduct and practice had to be developed, agreed upon and implemented and that it should cover, in particular, management criteria for plantations, forest conversion, and land tenure in the establishment of new plantations, as well as procurement methods and verification processes (RSPO, 2003). At the first roundtable conference hosted by the RTRS some very general agreements were made, but the problems of soy production were discussed in very unstructured and general terms<sup>5</sup>. The discussions resulted in long lists of issues that provided little direction for the future.

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<sup>3</sup> Interview data

<sup>4</sup> Solidaridad, another important member of the soy coalition, is also a member of this Dutch Soy Coalition. The current president of the RTRS is a representative of Solidaridad.

<sup>5</sup> Interview data

What was intended to clarify and focus the important issues became a messy, politicized event<sup>6</sup>. This particularly influenced the predictability of the process, in the sense that next steps were not clear in case of the RTRS. Therefore, the RTRS decided to organize a technical workshop, because it was argued to be better able to examine the problems of soy production than to discuss them in an open multi-stakeholder process. The technical workshop eventually produced (in 2006) a list of key environmental and social impacts.

The fourth difference relates to the perceived fairness of the process in the two roundtables. Trust levels in the RSPO were quite high during the development of the standard for sustainable palm oil. Working together in this process and the consensus principle made members become increasingly convinced of the fairness of the process<sup>7</sup>. This differs from the RTRS, where the development of the standard for responsible soy was much more difficult and the negotiations were even reason for some key stakeholders to leave the process. Some producers, mainly the ones from Brazil, felt that most of the impact of the standard would be on them. The perceived fairness of the two roundtable processes will be explained in more detail in the next section on collaborative advantages.

After the standard for palm oil had been developed trust levels within the RSPO dropped. When the results of field testing projects had been presented, producers began to feel as though the standard was being imposed on them (RSPO, 2006). The RSPO then decided to focus the field-testing to develop a better understanding of how the standard could be met by producers. This preference for empirical evidence in decision-making has allowed trust level to rise again.

### **3.3 Collaborative advantages**

With the wide range of organizations that are members of each roundtable, there are different motivations for each stakeholder to participate or to withhold themselves from participation. Collaborative advantages must be clear to each of the participants and some sense of fairness about the proposed distribution of benefits should be instilled. Perceived advantages must be higher than possible disadvantages for stakeholders to participate in the roundtable.

The fundamental interests of the parties at the first meeting of the RSPO were all explicitly stated. The primary concern of WWF was deforestation, while Unilever was ultimately concerned about the security of their supply of raw materials (RSPO, 2002). Retailers' main concern was to lower reputational risks. WWF's original idea of the RSPO was that it would be a European demand-side initiative. Mainly as a result of Unilever's strong position in the negotiations, palm oil interests became much more dominant than in the original group conceived of by WWF. At the time, this position was taken to minimize the risks that Unilever might face when attempting to impose standards on its suppliers<sup>8</sup>. All participants of the RSPO

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<sup>6</sup> Interview data

<sup>7</sup> Interview data

<sup>8</sup> WWF's interests could potentially have been harmed by such a decision. However the actual implications of this have been to compromise the stringency of the standards for increased producer acceptance. While WWF was reluctant to make this compromise, it has now become an accepted part of their methodology of engagement and collaboration (Interview data)

acknowledged that the problems of sustainability in palm oil production were pressing and could not be addressed on a small-scale. The compromises that they have made regarding the speed of development and potential stringency of a standard are uniformly acknowledged as necessary to ensure that it is taken up at the largest possible scale.

For producers, the primary interest in the RSPO has always been in countering the negative claims about palm oil coming from European NGOs and North American competitors (soybean growers). Many producers originally became involved in the RSPO expecting it to be a campaigning organization primarily oriented towards public relations. Over time, this expectation of producers has changed significantly. Most now realize that if they want the organization to counter negative claims they must be able to provide evidence that they are untrue, such as certification audits<sup>9</sup>. Other advantages for producers include (possible) price premiums, market access and preferential purchasing policies.

In the RTRS case producers are much more sceptical about any significant benefits for them by becoming certified. For some organizations, participation in the RTRS has even been associated with significant reputational risk. This is especially true for European NGOs, such as WWF and Solidaridad, which have been subject to significant pressure from other NGOs to withdraw from the process. Some of the retailers in the RTRS have also identified various risks in their participation in the roundtable because of the association with large agribusiness companies that have negative images. A similar situation has not arisen in the RSPO, since the companies involved in the palm oil chain do not have the negative reputations in Europe like Syngenta or Monsanto might<sup>10</sup>.

It is apparent that, for the most part, producers do not expect to see a significant benefit from the RTRS and businesses and NGOs have been careful about the strength of their commitment. The primary issue has been the distribution of costs and benefits, and the most significant cost is the obligation to keep part of one's property free from agricultural use to halt deforestation. The distribution issue is not solely a problem amongst the supply chain since environmental legislation and circumstances vary considerably from country to country. Brazilian producers are the only ones required to preserve significant parts of their native vegetation. Without an economic compensation mechanism, this could potentially harm their industries<sup>11</sup>. So far American producers have been very reluctant to become involved in the RTRS. They mostly produce soy for domestic consumption, and do not see a demand for the RTRS in the United States<sup>12</sup>.

Producers of soy are not as accepting of the argument that sustainability standards may provide market access benefits in the long run as are producers of palm oil. Palm oil producers, for example, have seen damages from campaigns about the environmental impacts of palm oil production as well as negative campaigns about

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<sup>9</sup> Interview data

<sup>10</sup> Interview data RTRS and RSPO EB members

<sup>11</sup> Interview data

<sup>12</sup> Interview data



the health effects of consuming it. Soy growers have had no similar experience and the fragmented route that soybeans take through processing plants and to manufacturers means that producers have very little exposure to consumer pressures (which is an external factor that influences the possible or perceived collaborative advantages and makes them lower for soy than for palm oil). Moreover, they have seen from the RSPO experience that price premiums on this type of certification will (likely) not compensate for the costs. In response to these challenges the RTRS has worked to connect producers with donors willing to fund specific projects and is helping to provide these funds and incentives. However, the RTRS cannot currently address the much larger issue of compensation for avoided deforestation.

Although the sustainability problems in soy production are addressed by a mainstream, collaborative initiative, there is a relative lack of potential 'synergy' among the participants in the RTRS. Producers do not expect to benefit or secure market access, NGOs fear harm to their reputations, and supply chain members not only wish to avoid increasing their own costs, but are also wary about being too closely associated with a 'greenwashing' initiative. These issues are further complicated by the ongoing arguments about fairness in the division of costs and benefits.

In the RSPO, benefits to Indonesian producers have not been clearly seen. The deforestation provisions in the RSPO standard mainly target Indonesia. We see that of the plantations that have been certified under the RSPO standard, few are Indonesian and none are newly developed. The scale of the problems present in palm oil production and the desire for producers to maintain market position originally provided a significant potential collaborative advantage that allowed for the RSPO to develop as far as it has. However, the early expectations on collaborative advantages have not all been met.

### **3.4 Developing a rule system**

Often, the first concrete output of a partnership, once partners have been persuaded to join based on trust and clear collaborative advantages, is a formalized contract that specifies common problem definitions and sets of rules. Rule systems comprise both internal aspects, in which the mutual obligations of partners are defined, and external ones related to how the partnership will interact with other organizations.

The RSPO has, at different stages in its development, produced several documents that play the role of contracts. Because of the multi-stakeholder character and gradual development of the initiative, these different contracts have specified increasing levels of commitment throughout the process. The RSPO as well as the RTRS have two distinct rule systems. The first deals with internal aspects of the initiative, and is mainly written in the Code of Conduct, which outlines the obligations of roundtable members and secures the legality of both roundtables. The other rule system is the certification system, defined by the Principles and Criteria for Sustainable Palm Oil Production and the Principles and Criteria for Responsible

Soy Production and the verification and auditing requirements that accompany it. This system deals with the external rules of the partnership and how it will act in the marketplace.

The internal rule systems of both roundtables are very similar. The major difference lies in the way the general assembly is organized. The General Assembly is the highest decision-making body in both roundtables. Within the RTRS, decisions are made through the vote of participating members that are equally represented in the three constituencies (producers; industry, finance and trade; and NGOs). Each constituency has a voting power of one third of the total votes. In the RSPO there are no separate constituencies; every member just has one vote and decision-making is by majority rule. Most of RSPO members are from the industry and therefore the RSPO is sometimes accused of being dominated by the industry (Laurance et al., 2010). The three constituencies of the RTRS prevent this from happening. Another difference between the internal rule systems of the two roundtables lies in the way seats of the executive board are divided. In RSPOs executive board, producers have four seats, while the other membership groups each have two seats (processors and traders; consumer good manufacturers; retailers; banks; environmental NGOs; and development NGOs). In the RTRS each constituency has 5 seats on the executive board.

The key difference in the certification system is that the RTRS decided to be technologically neutral, meaning they allow genetically modified (GM) soy under the certification scheme. When WWF and the other NGOs in the process made the agreement for the RTRS to be 'technology neutral,' they did so with the recognition that the only way to impact mainstream soy production was to attempt to influence the majority of producers, who generally grow GM-soy. However, this decision has caused a significant amount of resistance of NGOs and other organizations to the RTRS. Because there is currently no GM-palm oil available, this has not been an issue for the RSPO. Another difference is the process that led to the formulation of the principles and criteria in the roundtables. In general the process for the RSPO was much more easy and harmonious than it was for the RTRS. In the RTRS there were many more controversies, which were cause for some key members to leave the process<sup>13</sup>.

### **3.5 Changing a market**

A strong standard and rule system alone cannot guarantee a major market impact; legitimacy of the standard therefore needs to be realized. With the Roundtable on Sustainable Palm Oil and the Roundtable on Responsible Soy, the primary goal is to raise the standard of mainstream production by strategically identifying key impacts that can be minimized by 'raising the floor' of regular practices. This depends on the acceptance of their standards by significant portions of the commodity chain, and also on external acceptance of the standard's validity. A distinction can be made

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<sup>13</sup> When the Principles and Criteria were adopted in 2009, APROSOJA left the RTRS. The decision to leave the RTRS was ostensibly based on the Executive Board's addition of criterion 4.4 on deforestation. Some individual members of APROSOJA, such as Grupo Maggi, remain members of the RTRS. However, the loss of APROSOJA is very significant, as it represented the only large group of producers active in areas where deforestation is an on-going issue.

between internal and external legitimacy (Human and Provan, 2000; Provan and Kenis, 2007). On the one hand, a governance system must develop internal legitimacy among participating stakeholders, who are normally competing on the market. Without this internal legitimacy the network of participants is likely to exist in name only, without real commitments of each of the participants (Provan and Kenis, 2007). On the other hand, external legitimacy must be realized. "Outside groups must view the network of participants as an entity in its own right and not simply as a group of organizations that occasionally get together to discuss common concerns"(Provan and Kenis, 2007, p. 243).

The RSPO currently has over 350 ordinary and around 80 affiliate members. These members account for approximately 40% of global production. By June 2009, an annual production of 1.5 million tonnes of palm oil had been certified, meaning over 100,000 tonnes is available on a monthly basis<sup>14</sup>. The global demand for palm oil in 2007/2008 was approximately 40 million tonnes. Although certified sustainable palm oil is only a small portion of this (4%), it is nevertheless significant. Currently, the RTRS has about 120 regular voting members: 30 producers, 16 civil society organizations, and about 80 from the 'industry, trade and finance' group. Participation among producers and civil society groups has been quite low despite the efforts of the RTRS to increase membership. Most active members are from Brazil or the Netherlands, and the representation of the entire supply chain is low.

In terms of external legitimacy the RSPO could have been more successful. Despite the participation of several high-profile NGOs in the RSPO, criticism of palm oil production has continued. This has been caused, in part, by the very factors that have contributed to the internal legitimacy of the process: a very technical focus with technically-oriented participants has made most actors comfortable with the process. However, this technical orientation has neglected the public marketing and promotion of the RSPO, as well as any constructive engagement with external NGOs<sup>15</sup>. The only way to combat negative campaigns is by demonstrating that they are factually inaccurate, which requires further refinement of the RSPO certification scheme<sup>16</sup>.

Compared to the RSPO, external support for the RTRS is much lower. There are two primary reasons for the relatively low support of NGOs for the process. The first, about which opponents seems most vocal, is the inclusion of GM-soy as potentially 'responsible'. The second reason is the large-scale, mechanized productions model of soy that dominates in North and South America. Although the RTRS has had some success expanding its membership outside of South America, with three Indian producers and three Indian NGOs joining in mid-2009, it is very difficult to see the RTRS as a mainstream organization. Levels of external legitimacy remained low throughout the process and thus far, its market impact has been negligible.

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<sup>14</sup> Interview data

<sup>15</sup> Interview data

<sup>16</sup> Interview data

### **3.6 Conclusion on behavioural factors**

Apart from some details, internal processes in the RSPO and RTRS look very similar. Nevertheless we see that levels of trust were generally lower in the RTRS compared to the RSPO. Collaborative advantages were less visible to participants of the RTRS than to participants of the RSPO. The fact that the RTRS decided to include GM-soy in the rule system (in the definition of responsible soy) has affected the process and decreased external legitimacy, and thereby market impact tremendously. In the analysis of behavioural factors already becomes visible that these factors were influenced by institutional factors. Collaborative advantages, for example, are less visible to participants of the RTRS, because of the differences in composition of the commodity chain and the type of lead firms in that chain.

## **4. THE RSPO AND RTRS FROM AN INSTITUTIONAL PERSPECTIVE**

### **4.1 Commodity chain structure**

The more vertical or horizontal integrated a chain is, the easier it is for a governance initiative to be successful. Moreover, the more diffused the set of suppliers is, the more difficult it is to have a successful governance initiative (Roberts, 2003). The palm oil and soy commodity chains differ in terms of diffuseness of supply and horizontal and vertical integration. Before explaining differences with respect to both aspects, an overview of main exporters and importers of both soy and palm oil is given.

The oil palm is primarily grown in Malaysia and Indonesia. Indonesia produces approximately 44%, and Malaysia 41%, of the world's palm oil; smallholders may account for up to a third of oil palm production in Indonesia and Malaysia (Carrere, 2006). The European Union was traditionally the largest importer of palm oil and 15-20% of global exports are still directed to the EU. In recent years, India, China, and Pakistan have reduced the significance of the European market. China imports 18%, India 13%, and Pakistan 6%, of the world's global trade in palm oil, which is approximately 40,000,000 tonnes (Aidenvironment, 2008). The global production of palm oil has grown from under 10 million tonnes at the beginning of the 1990s, to 40 million tonnes in 2008. It has recently overtaken soy oil as the most common vegetable oil in the world, and demand is expected to double by 2020.

Whereas palm oil is mainly grown in Asia, soy production mainly takes place in the Americas. The US is the biggest producer (38% of world production in 2003), followed by Brazil (26%), Argentina, Paraguay and Bolivia (18%, 2%, and 1% respectively). Producing countries from Asia include China and India (8% and 2% respectively) (Carrere, 2006). In 2008, China's soy imports accounted for 53% of the world total. The EU-27 imported 17% of global soybean imports. Imports for Japan and Mexico were each about 4% of the world total (USDA, 2010).

When compared to palm oil the production of soy is much more diffused and the soy commodity chain is less integrated than the palm oil chain. The production and trade of oil palm and its products is fairly concentrated. About fifty large plantation groups account for 75% of global production. The refining and trading segments of

the chain are even more concentrated: 15 business groups control 75% of the global market (Aidenvironment, 2008). Furthermore, in some industries, such as detergents, cosmetics, snacks and margarines, a few multinational companies control vast market shares, though for confectionery products there is less concentration (Aidenvironment, 2008). The integration in the commodity chain is also reflected by the increasing vertical integration of groups; American companies have recently invested in upstream operations, while Malaysian plantation companies have made investments in processing and trading. This vertical integration connects the producers to consumers in ways not seen in other commodity chains, and has increased the interest these 'producers' have in sustainability initiatives (Aidenvironment, 2008).

The soy value chain has an hourglass structure in which a very broad number of actors are present at the top and bottom, with much greater concentration in the middle (Aidenvironment, 2008). There are many soy producers (tens of thousands), from many different countries, which sell soy to a very small number of large trading companies. The 'ABCD' of Archer Daniels Midland, Bunge, Cargill, and Dreyfuss controls around 80% of the processing and trading chain (Carrere, 2006). Their customers are processors and food manufacturers as well as feed companies, farmers, and meat/dairy processors. These companies sell to a small number of retailers, who in turn link to large numbers of consumers. The market fragmentation contributes to problems of traceability as well.

The impact of the hourglass structure in the soy value chain has been significant. Changing production practices ultimately means connecting with farmers; however, there are so many different types of farmers active in soy production that it is very difficult to meaningfully engage with a significant representation. The wide regional variance in the situations of producers has also complicated the situation by making Brazilian producers from the centre-west of country feel that most of the impact of the standard would be on them<sup>17</sup>.

## 4.2 Domestic drivers

There are many domestic drivers that may influence the behaviour of firms and their attitude towards sustainability initiatives, such as taxation policies; national regulations; trade policies; and regulations on property rights (Altenburg, 2006; Vermeulen et al., 2008). According to Nepstad (2008), for example, compliance with Brazilian law alone could stand for large reductions in sustainability problems caused by the production of soy. "Brazilian law requires that 35% of individual farms in the Cerrado woodland and 80% of individual farms in the forest biome of the Amazon be maintained in natural vegetation; it also requires permanent reserves along the margins of streams and lakes, and on steep slopes" (Nepstad and Stickler, 2008, p. 49).

The key difference in domestic drivers between RSPO and RTRS lies in taxation policies in the various producing countries. Subsidies and taxation policies influence

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<sup>17</sup> Interview data

the price of commodities and thereby determine the structure of the market for an important part. The tax system may benefit or hinder supply chain relations and is highly relevant for the sourcing behaviour of firms (Altenburg, 2006).

Palm oil is grown in countries that do not have a system of agricultural subsidies, but rather tax the export of agricultural products<sup>18</sup>. For the soy industry this is totally different. Soy is one of the most heavily subsidized crops in the U.S. commodity programs (Wise, 2005), while the soy industry in for example Brazil is taxed. The existing tensions in the WTO negotiations between these countries (the two biggest soy producing countries) about agriculture and export subsidies for agricultural products directly translate into the roundtable discussions<sup>19</sup>. These tensions lead to a lack of trust among producers. Furthermore, because American producers are subsidized, they have less of an incentive to connect to new markets, because their competitiveness is guaranteed. Tensions like this have never been a problem in the discussions on sustainable palm oil, resulting in totally different roundtable dynamics.

### **4.3 Types of lead firms in the chain**

According to the literature, the type of lead firms in a commodity chain is important for the commitment of actors towards a sustainability initiative in a specific chain. Roberts (2003), for example, argues that the reputational vulnerability of stakeholders in the commodity chain affects the propensity to introduce an ethical sourcing code of conduct and consequently; powerful firms should have an interest in implementing an ethical code. The collaborative advantage of participating in a sustainability initiative is much lower for a trader than for a consumer-facing company. Because lead firms in the soy chain are not consumer-facing companies, as they are in the palm oil chain, the firms that have the ability to set the parameters under which other actors in the chain operate do not have the incentive to do so.

The palm oil chain is an example of a buyer-driven commodity chain. Buyer-driven commodity chains refer to “those industries in which large retailers, marketers, and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in the third world” (Gereffi, 1999, p. 1). Since Unilever is the world’s largest purchaser of palm oil, buying 4% of global production annually, it has a very powerful position in the commodity supply chain (Unilever, 2008). Its previous ownership of plantations also gave it influence when attempting to introduce new standards for producers. Unilever’s position in the palm oil chain helped producers demonstrate that the RSPO was meant as a progressive, but mainstream and business-friendly initiative. The relationship with the Malaysian Palm Oil Association, which represents the majority of palm oil production in Malaysia, allowed the RSPO’s membership to rapidly expand. Convincing individual companies of the importance of this same concern – future market access for the entire industry – would have been much more challenging. Unilever and other consumer-facing companies in the palm oil

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<sup>18</sup> Interview data

<sup>19</sup> Interview data

commodity chain have inclinations to address sustainability, because there are marketing benefits that can be had by using the standard.

In the case of soy the distribution of power and potential influence along the supply chain places those companies that are presumably most interested in sustainability, the consumer-facing organizations, in a less dominant position. There are many soy producers (tens of thousands), which sell soy to a very small number of large trading companies. The 'ABCD' of Archer Daniels Midland, Bunge, Cargill, and Dreyfuss controls most of the processing and trading chain. Their customers are processors and food manufacturers as well as feed companies, farmers, and meat/dairy processors. Since they offer producers inputs and credit and occupy such powerful positions, they play the role of lead firms in the soy commodity chain. More importantly, the companies in the chain best positioned to engage with producers are not the consumer-facing food manufacturers and retailers. The size of processors and trading companies makes it difficult for downstream companies to significantly influence their activities. The processors and trading companies are engaged in the business of commodity trading, and are accustomed to bulk products, global markets, and pricing based on measurable product qualities rather than issues like sustainability. Their power also means that it is difficult for downstream companies to significantly influence their activities.

#### **4.4 Product Visibility**

Consumer awareness and preferences influence the shape of the production process (Coe et al., 2008). For consumers to develop awareness on a particular product it has to be visible to them. Although the products of the oil palm are used in approximately 50% of products in European supermarkets (WWF, 2009), palm oil is not very visible to European consumers. Palm oil is used as an ingredient in a variety of products, but on the ingredient clarification in the EU oftentimes it just says 'vegetable oils' and does not specify which specific oil is used (Schouten and Glasbergen, 2009). The same is true for soy oil. Therefore, it seems plausible that most consumers do not know exactly which products they buy, contain palm or soy oil.

Although soybean oil is an important ingredient in many food products, soybean demand is largely driven by the feed industry. These two very different products (oil and feed) of the soy plant reach the consumer in different ways. Soy is used in large quantities as animal feed to produce meat or dairy products, but is not an ingredient in those products. As such, retailers, manufacturers, and meat processors have less of a commercial incentive to strongly push for changes upstream. The fragmented route that soybeans take through processing plants and to manufacturers causes soy producers to have less exposure to consumer pressures. Products that are made of soy (and sold in Europe) in which soy beans are more recognizable, like soy drinks or tofu, seem to have different types of certification or other means of guaranteeing that the soy used is not contributing to sustainability problems<sup>20</sup>. This might not only

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<sup>20</sup> Alpro Soja states they don't use soy from the Amazon and some of their products are labelled organic. Al products of Provamel (another brand of Alpro Soja) are made from organically certified soy beans.

be related to the visibility of soy in these products, but also to the type of consumers that buys these products.

#### 4.5 NGO pressure

Like consumer awareness, NGO pressure influences the chain towards sustainability in a commodity chain (Coe et al., 2008). NGO campaigns and media attention can lead to much greater concerns about social and environmental issues along the commodity chain (Vermeulen et al., 2008). Huijstee and Glasbergen (2010) propose that an effective collaborative NGO strategy and a confrontational NGO strategy will reinforce each other in creating change. The confrontational strategy deinstitutionalizes the status quo and provides the sector with an incentive for change, while the collaborative NGO strategy will guide the process of reinstitutionalization.

Both the palm oil and the soy industry have been subject to many NGO campaigns, but also the roundtables themselves have been subject to NGO pressure. The main difference concerning NGO pressure between the two roundtables is that for the RSPO internal and external NGOs seem to strengthen and reinforce each other, while in the soy case they seem to frustrate each other. Hospes et al. (2009) conclude that the relations between business and NGOs in the case of the RTRS have been a threat to the process, while similar relations in case of the RSPO have pushed the process forward.

An example of an NGO campaign directed at the palm oil industry includes the publication of a report by Greenpeace in 2007 called *Palm Oil: Cooking the Climate* in which the role of RSPO is described in a very negative way (Greenpeace, 2007). The negative role of oil palm plantations in destroying biodiversity and the climate was highlighted. Prior to the founding of the RSPO, NGO campaigns focused on deforestation and forest burning. As discussed above, many of the producers who joined the RSPO did so with the expectation that at least some of this negative publicity would be addressed. These producers now see the front-running companies being specifically targeted for anti-palm oil ads<sup>21</sup>. The RTRS has also been subject to continuing negative campaigns of external NGOs. Internal NGOs have been subject to significant pressure to withdraw from the process by external NGOs. There have been many vocal critics of WWF's participation and use of their logo to legitimize mainstream soy production. In 2009, 80 organizations signed and published a letter calling for the internal NGOs to abandon the RTRS (Ban GM-food, 2009).

There are two primary reasons for the relatively low support of NGOs for the RTRS process. The first source of opposition to the RTRS process is based on the large-scale, mechanized production model that dominates in North and South America. The Friends of the Earth position states: "Certification provides a façade of sustainability for multinationals and agribusinesses which control the production, finance, trade, processing and marketing of soy products as well as for major oil and

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<sup>21</sup> Interview data



agrofuel companies such as Shell and British Petroleum”(Friends of the Earth International, 2008, p. 1). The big companies, like ADM, Bunge, Cargill and Dryfus, are negatively viewed by external NGOs, because they are responsible for a rapid change towards large-scale agriculture in Latin-America, in an industry that used to be dominated by smallholders. The second source of opposition, about which opponents seem most vocal is the inclusion of genetically modified (GM) soy as potentially ‘responsible.’ The critics of the process include many large organizations, such as Friends of the Earth, as well as a large number of single-issue organizations, such as ‘Toxic Soy’ and ASEED Europe.

Internal NGOs are also able to exert pressure on participating companies of the roundtable. Most of all, they are able to exert pressure within the framework of the roundtables by playing an important legitimizing role for the initiatives, but also outside of this framework. In May 2009, WWF announced the introduction of a ‘Palm Oil Buyer’s Scorecard,’ through which companies will be scored on a variety of criteria relating to their commitments to, and actions on, sustainable palm oil (WWF, 2009). By publishing the performance of RSPO members outside of the Roundtable reporting mechanisms, WWF hopes to expose members to criticism for not supporting the process by actually buying the certified product. Many RSPO members, even those who have yet to move towards purchasing certified sustainable palm oil themselves, see this as a positive development. The increasing pressure may drive supply up and lower prices. So far, NGO members of the RSPO have largely confined themselves to the RSPO process, leaving campaigning NGOs like Greenpeace to drive and shape public perceptions<sup>22</sup>.

Some campaigns by external NGOs are not taken up by the RSPO itself, but lead to actions outside of the roundtable framework. In December 2009, Unilever announced it was suspending future purchases from palm oil supplier PT SMART, part of the Sinar Mas group (Unilever, 2009). This act followed the publication of two reports by Greenpeace, making allegations that the Indonesian company’s plantations are responsible for destructing high conservation value forests and expanding onto deep peat lands. Unilever decided to take action outside of the RSPO framework, while PT SMART is an active member of the RSPO, participating in several working groups.

#### **4.6 Institutional factors compared**

Many of the external factors are negatively affecting the RTRS’s potential impact, while for the RSPO this plays out much more positive. The palm oil chain is less diffused than the soy chain. Concentration in the supply chain has allowed a relatively small and homogenous group of producers and processors to be strategically targeted. An important difference between the two roundtables is the type of lead firms in the commodity chain. The palm oil chain is demand-driven and lead firms are consumer-facing companies. In the soy chain lead firms are not consumer-facing and therefore have less interest in sustainability issues. Domestic drivers in the form of subsidies and taxes have influenced the RTRS in a negative way

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<sup>22</sup> Interview data

by hampering trust between American and Brazilian producers. Both products are rather invisible to consumers, but a large part of soy is used in the meat industry as animal feed and is therefore even less visible. NGO pressure in the case of the RSPO drives the roundtable process, while for the RTRS external and internal NGOs seem to frustrate each other.

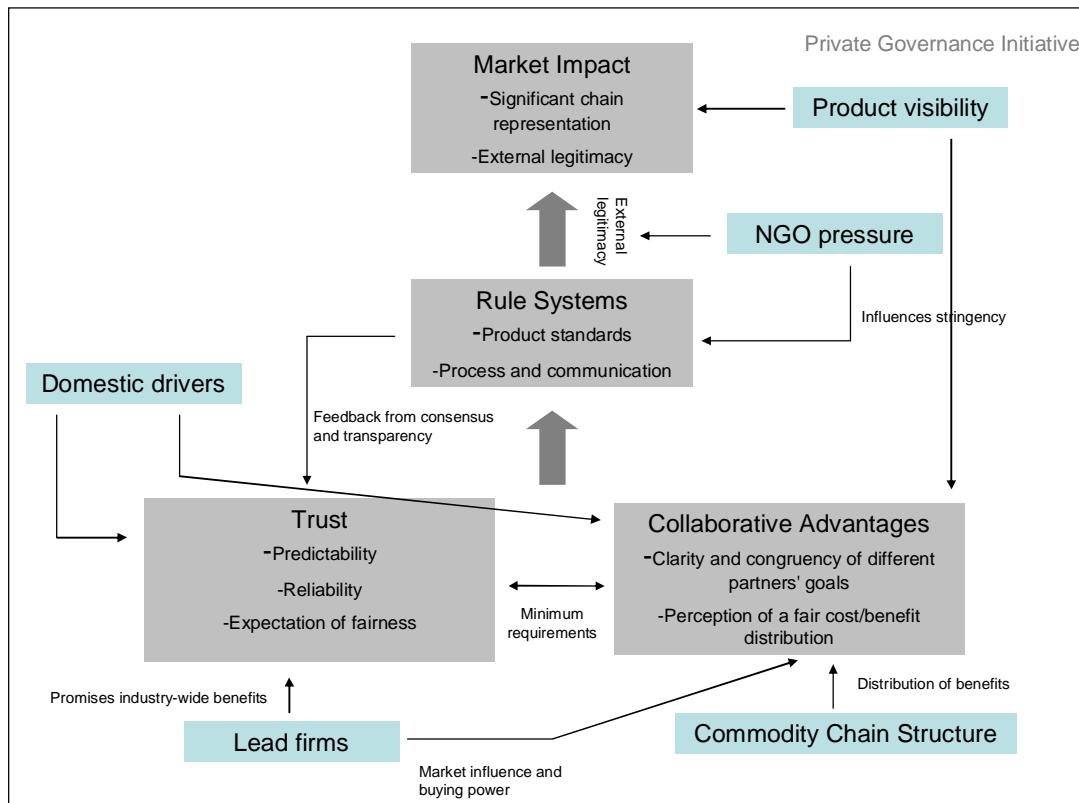
## **5. DISCUSSION AND CONCLUSION**

This paper analysed the development of two similar private governance initiatives from a behavioural and an institutional point of view. The actor approach provides an inside look into roundtables and highlights their abilities to create meaningful new management practices. The institutional approach focuses on external factors that constrain or create opportunities for actors to develop the new management practice. The analysis of the two roundtables shows that both the behavioural and institutional approach deliver part of the explanation why differences in success occur and complement each other.

Since the internal processes of the two initiatives are so similar, it seems that institutional factors have had a significant impact causing differences in success. Soy generally reaches consumers through a much more fragmented route than palm oil does, and the distribution of power and potential influence along the supply chain places those companies that are presumably most interested in sustainability, the consumer-facing organizations, in a less dominant position. Although the consumer-facing organizations see a long-term responsibility to address the sustainability problems in soy production, the product is largely invisible to consumers. The same is true for palm oil; however, soy partly reaches the consumer indirect as it is used for the production of meat (soy as animal feed). As such, the retailers, manufacturers, and meat processors may have less of a commercial incentive to strongly push for changes upstream. Another difference can be found in the interactions between the roundtables and external NGOs. External NGOs in the soy case seem to frustrate the RTRS process, while external NGOs in the palm oil case act as drivers. Domestic drivers, in this case subsidies and taxes, lead to tensions in the soy case, that are absent in the palm oil industry. Our analysis shows that institutional factors largely determine the context in which roundtables operate and create opportunities and constraints for the interactions within roundtables.

Furthermore, our analysis shows that behavioural and institutional factors are connected to each other in several ways. The behavioural factors themselves can be placed in a specific order and the influence of the institutional factors can be placed at specific places in the actor framework. That is why we suggest a new theoretical model to analyse the development of private governance initiatives, such as roundtables.

Figure 2 below visualizes our new theoretical model. The grey blocks represent behavioural factors, while the blue blocks represent institutional factors.



**Figure 2: new theoretical model on behavioural and institutional factors hindering or facilitating private governance initiatives**

The arrows in Figure 2 depict the key relationships between factors. Behavioural factors are not independent of each other, but build on, relate to and influence each other. In the first place, trust and collaborative advantages are basic conditions in the process of a private governance initiative to make a commodity chain more sustainable. Secondly, these two behavioural factors together might lead to the establishment of a rule system. Thirdly, the establishment of an internal rule system reinforces trust by formalizing predictability, reliability and fairness. And last, the establishment and implementation of a rule system, such as a certification system, can realize a market impact. To have a market impact, external legitimacy of the rule system has to be realized; a rule system alone is not enough.

Because our analysis showed that institutional factors influence the behaviour of and the interactions between stakeholders, key relations between institutions and behaviour are also include in the new framework. For many companies, taking part in private governance initiatives, such as roundtables, is a strategy to avert NGO campaigns against their business. Therefore external NGO pressure is likely have an impact on the formulation of criteria for the sustainable production of a commodity. This relationship works the other way around too; the strength of the rule system also influences the degree of opposition by campaigning NGOs. Furthermore, NGO pressure can diminish or enforce external legitimacy of a roundtable, thereby de- or increasing the market impact of the initiative. The related factor of product visibility can be an incentive for consumers to buy products containing sustainable commodities, thereby increasing demand and market impact of the governance initiative. Product visibility therefore also influences possible collaborative

advantages for stakeholders. Furthermore, our analysis shows that the type of lead firms will influence trust and collaborative advantages. Participation of lead firms in the commodity chain in the governance initiative allows other partners to conclude that the initiative will address the large-scale needs of the industry, which makes the process more predictable. The collaborative advantage of participating in a sustainability initiative is much lower for a trader than for a consumer-facing company. Firms that have the ability to set the parameters under which other actors in the chain operate must have an incentive to do so. We have seen that the structure of the commodity chain also partly determines the collaborative advantages participants receive. A largely fragmented chain is expected to make it difficult for benefits of a certification or standard-setting process to flow to producers, who presumably bear most of the costs of compliance and in this way impacts on collaborative advantages. The last relation in the model between institutional and behavioural factors relates to domestic drivers that are influencing the commodity chain. We assume domestic drivers to be most influential on the rule system and collaborative advantages. Subsidies and tax systems can lead to tensions and to less collaborative advantages for subsidized producers.

Our theoretical model explains that institutional and behavioural factors relate to each other in specific ways. Institutional factors are specifically influential on the ability to create collaborative advantages for all stakeholders in the partnership. NGO pressure has an influence in shaping the rule system, but this relationship is reciprocal. The fact that the RTRS decided to include GM-soy in their standard for responsible soy has increased the opposition by external NGOs. This shows that behavioural and institutional factors are truly interrelated. Behaviour of actors and their interactions in roundtables can only be understood in relation to the institutional context.

The outcomes of this research are relevant to practitioners and at the same time provide implications for further research. Because institutional factors are relatively more important than behavioural factors, governance models, such as roundtables, can not just be copied into a different industry or commodity chain. It is important for practitioners to first make an institutional analysis of the context in which a governance initiative will operate and adjust the governance strategy accordingly. This paper only looked at the relative importance of clusters of factors. Further research should scrutinize what the relative importance of the factors within these clusters is. It will be interesting to know if, for example, the structure of the commodity chain is more important than product visibility for the success of a governance initiative.

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