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CORPORATE GOVERNANCE DYNAMICS AND SUSTAINABILITY PHASES IN INDONESIAN PALM OIL: A MULTI-PRINCIPAL AGENCY PERSPECTIVE

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Abstract

Background: Indonesia's palm oil industry boosts the economy and supports renewable energy, but its expansion has caused deforestation, biodiversity loss, and social conflict. Rising external pressure makes sustainability essential, yet practices remain fragmented. Stronger corporate governance is needed to balance profit with social and environmental responsibility, as traditional agency theory no longer fully applies.
Purpose: This study explores how different principal groups influence sustainability phase progression and how governance mechanisms evolve when companies face competing sustainability expectations in the agribusiness sector. This study extends agency theory beyond shareholder primacy and examines how firms navigate sustainability shifts under changing stakeholder power.
Design/methodology/approach: A qualitative single-case study was conducted on PALMO (a pseudonym), an Indonesian palm oil company with vertical integration. The company's trajectory from 1993 to 2023 was traced through interviews, focus group discussions, document reviews, and site visits. The analysis draws on the Sustainability Phase Model, extended agency theory, and the four pillars of corporate governance (ethical behavior, transparency, accountability, and sustainability).
Findings/Results: PALMO's sustainability trajectory was uneven. Progress accelerated when external pressure intensified or when internal coordination was effective, and slowed during periods of weak oversight or shifting priorities. Changes in the influence of principals (buyers, NGOs, regulators, and shareholders) either enabled movement across sustainability phases or created new constraints on the movement. Over time, governance has expanded from basic compliance to more adaptive practices, including cross-divisional sustainability teams, sustainability-linked loans, and ESG-based performance targets. These mechanisms provide ways to manage short-term business needs alongside longer-term sustainability goals.
Conclusion: Multi-principal dynamics shape both progress and setbacks in sustainability phases and inform the evolution of governance. Effective governance requires adaptive arrangements that integrate sustainability into incentives, targets, and coordination structures while maintaining strategic alignment amid ongoing tensions.
Originality/value: This study extends agency theory by framing governance as a negotiation among multiple principals rather than a simple alignment with shareholders. It also enriches the Sustainability Phase Model by showing that sustainability transformations can overlap, stall, or reverse, offering theoretical and practical insights into strengthening sustainability governance in emerging market agribusiness.

Keywords: corporate sustainability, extended agency theory, corporate governance, palm oil industry, sustainability transformation

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INTRODUCTION

The Indonesian palm oil industry plays a vital role in the global vegetable oil market and the national economy. Indonesia supplies approximately 58% of the global palm oil and nearly a quarter of the world's vegetable oil, generating USD 35,5 billion in foreign exchange by 2021 (ekon.go.id, 2021a; ekon.go.id, 2024). The industry has helped alleviate poverty and supported the national energy transition through the biodiesel program, which was estimated to reduce CO_2 emissions by 23,3 million tons in 2020 (Ekon.go.id, 2021b). However, its rapid expansion (approximately 650% from 2000 to 2023) has been linked to deforestation, biodiversity loss, and land disputes (Maksum et al. 2021; Statista, 2025). By early 2025, only approximately 2,2 million hectares had been certified as sustainable, which is much smaller than the total cultivated land (Statista, 2025).

The growing concerns of buyers, investors, NGOs, and regulators have made corporate sustainability (CS) a market expectation rather than a voluntary initiative. Initially focused on environmental issues, CS has expanded to include social and governance dimensions in line with the Triple Bottom Line (TBL) and the rise of Environmental, Social, and Governance (ESG) since 2004 (Abraham, 2024; Adwiyah et al. 2025; Burbano et al. 2024). Investor attention has shifted beyond financial indicators to include ethical considerations (Gunawan et al. 2021).

Despite this momentum, sustainability outcomes remain uneven. Many companies continue to adopt CS superficially, viewing it as mere compliance or a cost burden. Fragmented assessment systems reinforce this pattern: ESG ratings are inconsistent and disclosure-driven (Adwiyah et al. 2025; Angir & Weli, 2024), RSPO certification allows for incremental improvement, whereas buyer-led NDPE demands strict no-deforestation compliance. These mixed signals often encourage minimum compliance rather than substantive change, weakening an organization's ability to adapt, learn, and respond to emerging sustainability demands. Therefore, CS should not be viewed merely as a condition for market access but as a dynamic capability essential for long-term competitiveness and contributing to global sustainability (Bari et al. 2022; Derqui, 2020; Intan et al. 2022).

Corporate governance (CG) plays a critical role in enabling this integration. CG defines the processes and structures through which companies are directed and controlled (Chen, 2024) and mediates interactions among boards, managers, shareholders, and stakeholders (Dissanayake et al. 2024; Grabs & Garrett, 2023). However, balancing these interests often creates value tensions that shape the organizational strategy and identity (Olesson et al. 2023; Schaltegger et al. 2024; Van der Byl & Slawinski, 2015). Research on palm oil CG has largely focused on certification, regulation, or disclosure mechanisms (Brandão et al. 2021; J Grabs & Carodenuto, 2021; Macdonald, 2020; Oppenheimer et al. 2021), leaving a limited understanding of how internal governance adapts when companies confront competing accountability demands.

Addressing environmental and social issues is inherently challenging for companies because, according to Luhmann's social systems theory, the business sector tends to minimize external complexity by prioritizing profit as the primary guiding principle (Chaker et al. 2021; Valentinov et al. 2021). Classical agency theory reinforces this orientation by focusing on the relationship between shareholders and managers (Jensen & Meckling, 1976). To understand sustainability in sustainability-sensitive sectors, such as palm oil, this theory needs to be expanded to encompass normative tensions (Boatright, 1992) and multi-principal dynamics (Sjåfjell, 2025). According to Sjåfjell, there are four principal categories (board of directors, shareholders, internal and external contractual stakeholders, and socio-ecological actors), each with different and sometimes conflicting expectations. Recognizing this plurality reframes governance, not as a straightforward alignment, but as an ongoing negotiation across competing mandates. Building on this view, Aquilani et al. (2018) emphasized the temporal dimensions of value creation, suggesting that sustainability integration occurs unevenly over time and is often shaped by competing pressures.

Against this background, this study examines how multi-principal dynamics shape the CS transformation at PALMO (a pseudonym), a publicly listed Indonesian palm oil company. PALMO came under NGO scrutiny after major premium buyers adopted NDPE in 2013, and some suspended contracts in 2015 following the company's legally permitted but non-NDPE-compliant forest-clearing in Papua. Pressures intensified following Greenpeace's Final Countdown Report

(2018), which prompted governance reforms shaped by buyers, NGOs, financiers, regulators, and internal actors. This ongoing pressure, combined with internal restructuring, provides a rare lens through which to observe how changing principal configurations shape a company's responses.

This qualitative, single-case study traced PALMO's trajectory from the early 1990s to 2023 using interviews, focus group discussions (FGD), document analysis, and site visits. The coding drew on extended agency theory, the Sustainability Phase Model, and CG pillars. The longitudinal approach revealed several dynamics (reversals, overlaps, and co-evolving governance mechanisms) that cross-sectional studies are likely to miss.

This study aims to demonstrate how shifts in principal configurations influence a company's progress, stagnation, and regression across sustainability phases. It also anticipates that CG mechanisms will adapt accordingly, moving from compliance-oriented structures to more integrated and sustainability-aligned systems in the future. This raises two research questions: 1) How do multi-principal shifts influence progression across the CS phases? 2) How do these dynamics shape the CG mechanisms?.

Building on this foundation, this study contributes by extending the Sustainability Phase Model to better capture non-linear and contested trajectories, advancing agency theory beyond shareholder primacy through a multi-principal perspective, and providing empirical insights for companies and policymakers in sustainability-sensitive sectors through a rare longitudinal case of the Indonesian palm oil industry.

METHODS

This study employed a qualitative, exploratory, single-case design to examine how multi-principal dynamics shape CS transformation and CG evolution in the Indonesian palm oil sector. PALMO (a pseudonym), a publicly listed agribusiness company with core activities in plantation, processing, and renewable energy, was selected because of its strategic position, long operational history, and significant governance changes. These changes were triggered by the suspension of contracts by premium buyers in 2015, following non-NDPE forest clearing in Papua and the company's inclusion in Greenpeace's Final Countdown Report (Greenpeace International, 2018).

The company operates in Sumatra, Kalimantan, and Papua, representing both the established and early stages of Indonesia's palm oil expansion. Fieldwork was conducted between February and October 2023 and included a site visit to a plantation and processing facility in Sumatra. The site served as the main location for the direct observation of sustainability practices and was complemented by interviews and document analyses covering operations in other regions. This analysis traced PALMO's sustainability trajectory from the early 1990s to 2023, allowing for a longitudinal view of governance evolution and multi-principal dynamics over three decades.

Data were collected through semi-structured interviews, FGD, field observations, and document analysis to ensure triangulation. Twenty interviews were conducted with internal stakeholders (board members, senior managers, sustainability team members, and operational staff) and external stakeholders (former sustainability director, plasma farmers, independent smallholders, regulators, and representatives from international NGOs). The interviews lasted about an hour, were mostly conducted face-to-face (with one informant interviewed both online and in person), and were audio-recorded with consent. Several informants were interviewed multiple times. A two-hour face-to-face FGD with seven members of the Sustainability Reporting Team (SRT) provided additional insights across divisions. Participants were identified using purposive and snowball sampling to ensure relevance to governance and sustainability processes. A three-day field visit to a plantation and processing facility in Sumatra allowed for direct observation of sustainability implementation, which was documented through field notes. Document analysis was conducted on sustainability reports, internal memos, third-party assessment reports, NGO reports, media coverage, and national policies. Credibility and rigor were strengthened through methodological triangulation, member checking, reflexive note-taking, and maintaining a documented research process.

Data were analyzed in Dedoose using an abductive approach that combined inductive insights with theory-based coding. A codebook was developed in Dedoose, starting with initial codes derived from interviews and theoretical constructs related to sustainability phases and governance (e.g., conflicts of interest, principal–agent relations, and governance pillars). The analysis proceeded through three stages: 1) open coding to identify recurrent concepts, 2) axial coding to organize these concepts into broader categories, and 3) thematizing and pattern matching with extended agency theory (Boatright, 1992; Sjåfjell, 2025), Indonesia's corporate governance pillars (KNKG, 2021), and the Sustainability Phase Model (Benn et al. 2018). Narrative summaries were also generated to reconstruct the PALMO's longitudinal trajectory and to complement the code-based analysis.

This research framework integrates sustainability pressures in the palm oil industry with multi-principal dynamics, CG mechanisms, and CS phase progression (Figure 1). Sustainability pressures result in shifting principal influences among shareholders, boards, buyers, financiers, regulators, NGOs, and communities, captured through extended agency theory, which views governance as a negotiation among multiple, sometimes conflicting, principals (Boatright, 1992; Sjåfjell, 2025). These dynamics drive CG mechanisms, which were examined through Indonesian CG pillars (KNKG, 2021). Governance responses influence how a company moves across the six sustainability phases (Benn et al. 2018): rejection, where sustainability is resisted; non-responsiveness, characterized by low awareness; compliance, focused on regulatory compliance; efficiency, centered on operational improvement and efficiency; strategic proactivity, where sustainability becomes part of competitive strategies; and sustaining corporation, characterized by value-based systemic integration. The framework captures the progression, regression, overlap, and reversibility across phases, reflecting the nonlinear trajectory of CS transformation.

Key milestones (company establishment (1993), RSPO membership (2007), Initial Public Offering (IPO) (2013), NDPE-related suspension (2015), governance reforms (2016–2019), and strategic integration of sustainability into business strategy (2021)) provided temporal anchors to analyze how principal configurations and governance responses evolved over time. Collectively, these components shape the analytical logic of the study and explain how multi-principal influence interacts with governance and organizational phases to generate the observed patterns of sustainability transformation.

RESULTS

Multi-principal configuration and agency relationships

PALMO's sustainability transformation occurred within a governance setting shaped by diverse, often conflicting, principal–agent relationships. Four groups of principals were particularly influential: the company itself (board and executives), shareholders, contractual stakeholders (employees, suppliers, and financiers), and the wider socio-ecological context (communities, NGOs, and regulators). Four recurring configurations emerged from these domains: strategic agency, external normative pressure, shared implementation, and conflicted multi-agency (Table 1; Figure 2).

Strategic agency

Internal principals play an active role in redirecting sustainability strategies, often following external triggers. While the board of directors initially resisted global sustainability norms and prioritized short-term survival, contract suspensions and rising costs later prompted them to support sustainability initiatives such as composting and supply chain traceability. The values held by owners and commissioners were supportive of sustainability in principle, but formal implementation initially faced resistance when it was perceived as conflicting with economic priorities, and sustainability practices were limited to minimal legal compliance. Financiers influenced decisions through sustainability-linked loans, which PALMO reframed as governance levers rather than simply compliance tools. Similar shifts from resistance to strategic alignment as legitimacy pressures increase have been noted in previous studies (Glavas & Fitzgerald, 2020; Stoyanova & Stoyanov, 2024).

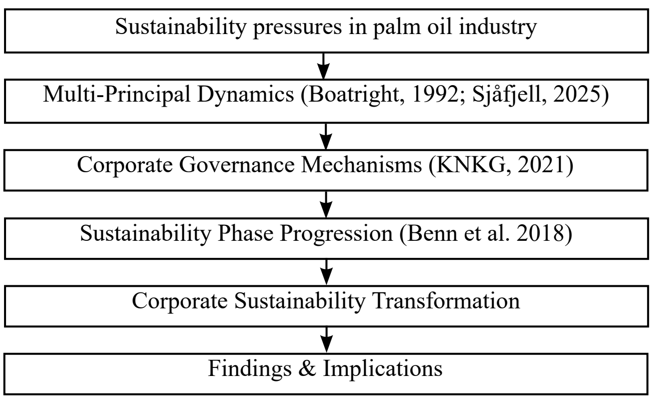

Figure 1. Framework of thought

Table 1. Multi-principal agency relations in PALMO (1993–2023)

Principal	Agent	Key Dynamics
Strategic Agency (internal governance) domain		
Global values	BODs	1993–2007: sustainability had low salience and skepticism; 2007–2023: RSPO membership signaled early influence of global sustainability values, although skepticism persisted
Shareholders & commissioners	Management	1993–2015: Leadership values endorsed sustainability but rejected environmental initiatives; the 2013 IPO strengthened governance; 2015–2023: Early resistance to formal implementation gradually shifted toward emerging synergies
Financiers	Company	2021–2023: PALMO adopted sustainability-linked loans to reinforce internal ESG commitments, positioning financiers as governance levers rather than constraints.
Headquarter	Operational units	1993–2023: operations centered on legal compliance, while sustainability directives faced uneven implementation; 2015–2023: gradual improvements emerged through capacity building and R&D-driven innovations.
External normative pressure domain		
Global values	NGOs	1993–2023: international NGOs voiced global sustainability values, championing forest protection, ecological integrity, and human rights.
Global values	Premium buyers	2013–2023: NDPE commitments drove premium buyers to ensure sustainable supply chains.
Premium buyers	PALMO	2015–2023: NDPE-driven suspension over Papua expansion pressured PALMO to undertake wide-ranging sustainability governance reforms;
Global values	Operational managers	2007–2023: sustainability values introduced through RSPO and audit exposure gradually shifted operational managers beyond efficiency-driven routines.
NGOs (watchdog)	PALMO	2013–2021: watchdog NGOs exerted reputational pressure as normative principals, prompting PALMO to enhance transparency and data robustness.
Auditors	PALMO	2007–2023: external auditors' rigid application of sustainability standards often clashed with PALMO's adaptive operational realities.
ESG raters	PALMO	2007–2023: sustainability standards—and, from 2021, ESG raters—raised transparency demands that led PALMO to upgrade its reporting systems and capacity.
Shared implementation domain		
Government	PALMO	1993–2023: regulatory mandates created a shared but asymmetric implementation setting, requiring PALMO to fill government capacity gaps and navigate governance asymmetries.
Local communities	PALMO	2007–2015: donation-based CSR; 2015–2023: community-as-principal approaches strengthened collaborative and participatory governance.
NGOs (collaborative)	PALMO	2015–2023: co-financed collaborations with civil-society organizations reflected shared agency but faced tensions over pace, expectations, and capacity, making aligned goals essential.
Sustainability units	operations	2007–2023: external pressures expanded sustainability functions into cross-functional governance, requiring tighter synchronization with operations.
SRT	management	2020–2023: the SRT managed reputational pressure and data asymmetries, prompting internal improvements and a shift toward more systematic reporting
Top management	employees	2018–2023: sustainability incentives strengthened value internalization as employees bridged organizational goals and local norms
Conflicted multi-agency domain		
State & global values	PALMO	2015–2021: national legality and global sustainability norms diverged, forcing PALMO to navigate dual compliance demands.
PALMO → Collectors	→ smallholders	2017–2023: delegated agency through collectors to limited-capacity smallholders required PALMO to blend controls with gradual support.
Plasma farmers	PALMO	2009–2023: operational control by the company and financial risk on farmers created double asymmetry, intensified by added sustainability costs
Top management	Sustainability units	2007–2023: sustainability units bore external mandates within an internal hierarchy, creating multi-agency tensions as operational management perceived sustainability as burdensome and oversight roles blurred.

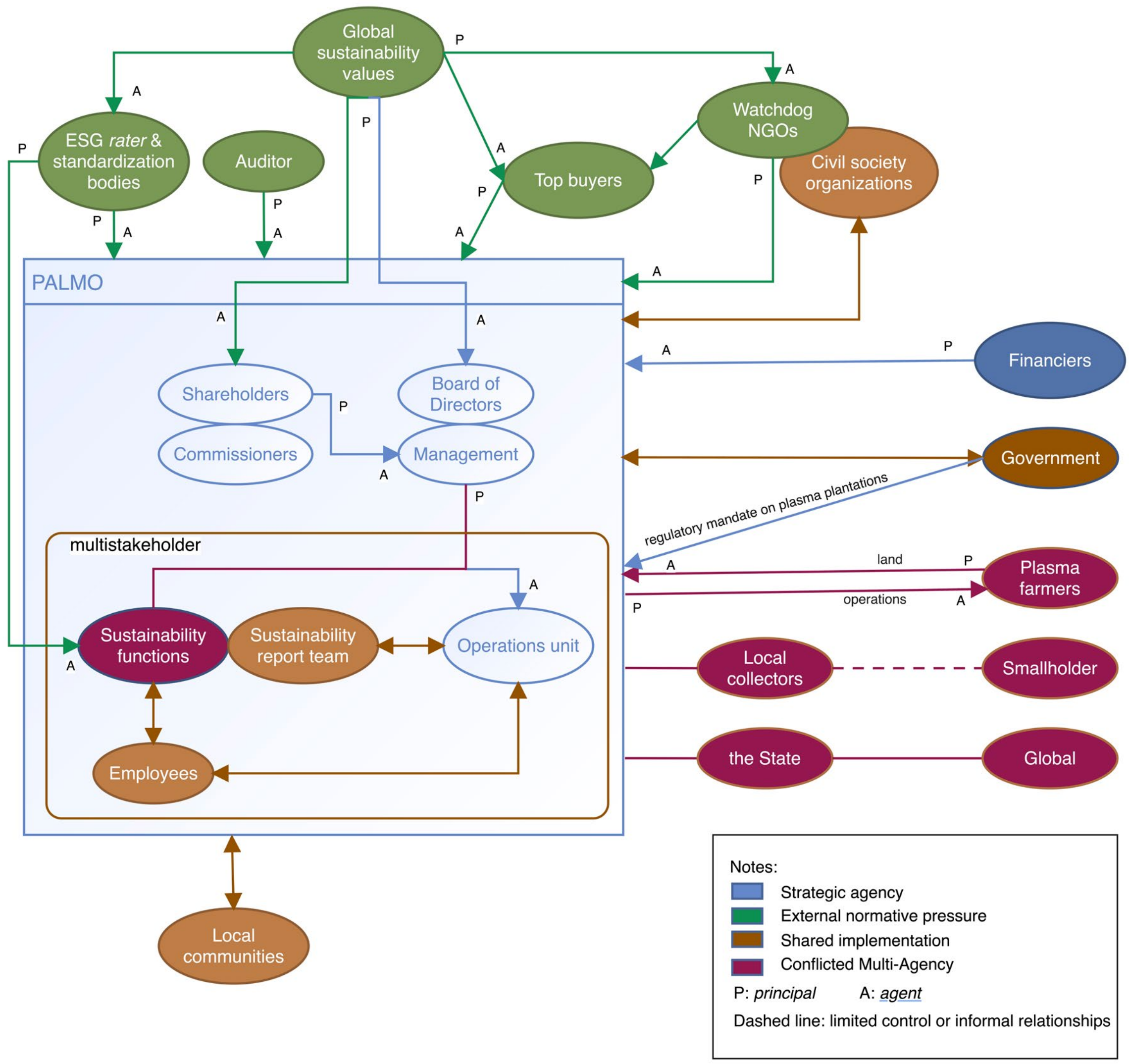

Figure 2. Multi-principal agency relationship in PALMO's governance system (The arrows represent dominant influence patterns across different periods (see Table 1 for time-based dynamics)).

External normative pressure

External normative pressure comes from NGOs, buyers, auditors, and ESG assessors, each of whom treats PALMO as an agent accountable to the global sustainability norms. NGOs invoked global forest protection values and questioned the credibility of the voluntary standards. Critics have long noted the shortcomings of the RSPO in preventing deforestation (Delabre & von Hellermann, 2023). PALMO's experience reflects these concerns: despite being certified, the company was still judged to be inadequate by buyers adopting stricter NDPE rules. These premium buyers enforced their commitments by suspending contracts in 2015 when PALMO's legally permitted expansion in Papua conflicted with no-deforestation principles. They later accompanied the company in implementing sustainability practices and resumed purchases four years later. Regular external audits also expose operational managers to broader sustainability concerns, while watchdog NGOs amplify reputational risks and demand greater disclosure from companies.

Shared implementation

At PALMO, various sustainability initiatives were jointly implemented with government agencies, local communities, and collaborative NGOs, as well as through cross-unit coordination within the company. These arrangements reflect forms of co-production, although collaboration is not always balanced. In some cases, the PALMO assumed responsibilities that were ordinarily assigned to the state, particularly in empowering communities and smallholders, while its internal capacities did not always align with the normative expectations of its partners. Within the organization, cooperation among sustainability teams, operational units, the SRT, and management improved as external pressures intensified and governance reforms advanced. This finding aligns with a previous study in which sustainability work often blurred conventional principal–agent boundaries as responsibilities shifted across actors (Hernández-Chea et al. 2021).

Conflicted multi-agencies

Conflicts arise when multiple actors have conflicting interests. PALMO faced “dual legitimacy,” as national law permitted expansion, while NDPE prohibited it, leading to contract termination. Its relationships with smallholders are mediated through collectors, limiting direct control. Therefore, PALMO combines control with gradual support to build compliance. In the plasma schemes, farmers owned land and capital, but operational control and financial risk rested with PALMO. Internally, operations viewed sustainability units as obstructive, while placing sustainability compliance under operational authority blurred oversight. This dynamic highlights that governance in contested environments requires managing ongoing and overlapping tensions rather than seeking harmony (Farias et al. 2024).

From a theoretical perspective, PALMO’s case illustrates the limitations of classical agency theory, which frames governance primarily as a means of mitigating agency problems between shareholders and managers (Homayoun & Homayoun, 2015). This dyadic view is inadequate for the palm oil sector. The multi-principal agency theory offers a broader lens: shareholders, buyers, NGOs, regulators, financiers, and communities serve as principals with distinct mandates, monitoring roles, and incentives (Farias et al. 2024; Karn et al. 2023; Sjåfjell, 2025). Consistent with Lin and Wen (2024), a key challenge is reconciling conflicting interests among diverse principals through governance mechanisms that align agents’ behaviors with broader collective goals. In PALMO, these tensions were visible when premium buyers enforced NDPE rules, regulators enforced national laws, and shareholders prioritized short-term profits, requiring adaptive governance to balance competing demands.

Non-linear sustainability phases and shifting principal influence

Table 1 summarizes the key dynamics of PALMO’s multi-principal agency relations of PALMO from 1993 to 2023, while Figure 2 visualizes how these principals and agents interact within the company’s governance system. Figures 3 and 4 extend this analysis by showing how shifting configurations of principals (buyers, NGOs, investors, regulators, and internal actors) created simultaneous pressures over time and how these pressures translated into the nonlinear movement of PALMO across sustainability phases, including overlaps, regressions, and accelerations.

At its founding, the company operated primarily in compliance with Indonesian regulations and plasma schemes to secure its legitimacy. Joining RSPO initiated a strategic proactivity phase in 2007, although its implementation was uneven. During the period surrounding its 2013 IPO, the company strengthened governance, pursued efficiency measures, and advanced its RSPO certification efforts; however, resistance to sustainability persisted. While the company introduced reporting improvements and cost-saving initiatives, management rejected an ecological assessment that concluded that only 20% of the concession land was suitable for planting, with the remainder classified as peatland. In 2015, contract termination by premium buyers exposed the limitations of RSPO certification, forcing efficiency-driven survival measures and triggering broader reforms, including a deforestation moratorium and full RSPO certification. By 2021, sustainability had been integrated into corporate strategy, with ESG targets incorporated into key performance indicators (KPIs) and linked to employee incentives. However, traces of non-responsiveness persisted among directors and minority shareholders.

This study extends the empirical application of the Sustainability Phase Model (Benn et al. 2018), previously used in hospital food services (Carino et al. 2022), precast concrete (Holton et al. 2010), construction, business education, social enterprises, and manufacturing (Starik et al. 2016). The model outlines six phases (rejection, non-responsiveness, compliance, efficiency, strategic proactivity, and sustaining corporation), whereas the PALMO case highlights simultaneity and reversibility.

Milestone (year) / Phase	Rejection Phase	Non-Responsiveness Phase	Compliance Phase	Efficiency Phase	Strategic Proactivity Phase	Sustaining Corporation Phase
2021 sustainability integrated into business strategy	N/A	Residual non-responsiveness in BODs' buy in to sustainability reporting	BODs anticipated ESG/ carbon rules in response to global sustainability values	Management, sustainability functions, employees, local communities drove efficiency, RD projects, citizen science	Financiers provided sustainability-linked loan; ESG raters required expanded disclosure	Global sustainability values, ESG raters, internal actors embedded ESG targets, KPIs, tracebility into business strategy
2015 contract terminated by top buyers, CPO price plummeted	N/A	Shareholders & BODs still not aligned on sustainability	Shareholders, BODs, government justified Papua concession through legal compliance	Management & sustainability team cut ineffective CSR, mobilised internal resources	Top buyers & watchdog NGOs demanded NDPE; triggered sustainability reporting & policy, convervation, RSPO expantion	Management with collaborative NGOs, farmers, employees reoriented CSR, introduced traceability, cross-unit audits
2013 IPO	Shareholders & BODs rejected scientific studies on Papua concession and resisted green initiatives	Shareholders & BODs maintained business-as-usual logic	Shareholders & BODs, government enforced IPO governance reforms	Management & operational units invested in composting and fertiliser efficiency	Certification bodies & top buyers continued to drive RSPO compliance	N/A
2007 joined RSPO	N/A	N/A	Shareholders & BODs maintained compliance with Indonesian regulations and governance requirements	N/A	Certification bodies & top buyers pushed RSPO membership; PALMO pursued certification to secure market access	N/A
1993 founded	N/A	N/A	Shareholders and BODs fulfilled basic legal obligations	N/A	N/A	N/A

Figure 3. Evolution of corporate sustainability phases and principal configurations at PALMO (Benn et al. 2018)

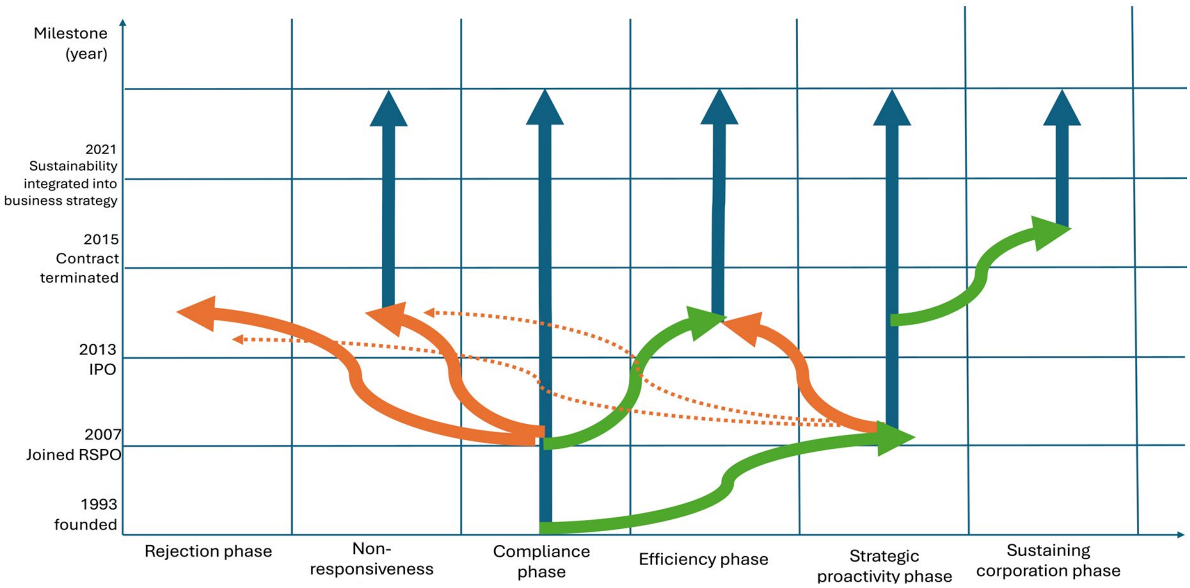

Figure 4. Corporate sustainability trajectory of PALMO across phases (Green arrows mark upward movement, orange arrows denote regressions (solid for direct and dotted for deeper), and blue vertical arrows indicate the constant availability of phases)(Benn et al. 2018)

In this trajectory, efficiency and strategic proactivity are particularly important. For PALMO, efficiency was crucial, given the palm oil sector's exposure to volatile global commodity prices, making cost reduction essential for its survival. In contrast, strategic proactivity reflects the pursuit of premium buyers through sustainability standards as a basis for differentiation, even when compliance costs are high. When suspensions by major buyers forced a temporary pivot to secondary markets, PALMO reinvested in sustainability practices to regain premium access, underscoring the strategic importance of sustainability in its market position.

This case also illustrates regression. After advancing toward strategic proactivity through RSPO membership, PALMO slipped into non-responsiveness and rejection by the mid-2010s, culminating in contract termination in 2015. As shown in Figure 4, the green arrows mark upward progress, the orange arrows depict regressions (solid for immediate reversals, dashed for deeper backsliding), and the vertical blue arrows indicate that all phases remain simultaneously available. This regression exposes governance fragility, as fragmented shareholder priorities and board-level resistance undermine sustainability once external pressure is weakened.

While Schaltegger et al. (2024) and Stoyanova and Stoyanov (2024) emphasize progression through initiating, scaling, and embedding sustainability without explicitly accounting for regression, other scholars argue that CS trajectories move not only forward but also backward, shaped by paradoxical tensions (Albertsen, 2024; Benn et al. 2018). Therefore, PALMO complements and extends these perspectives by demonstrating that CS transformation involves progression, regression, simultaneity, and contested movements across phases.

Building on this view, CS transitions can be seen as multistage, actor-driven, and tension-laden transitions (Hernández-Chea et al. 2021; Valentinov et al. 2021). The Benn model uniquely captures this nonlinearity, and by reframing it as a two-axis matrix, this study makes simultaneity and reversibility more visible. The trajectory of PALMO further demonstrates how competing principal expectations and supply chain complexity shape diverse sustainability pathways; yet, incremental improvements and collaboration make progress feasible (Cicerelli & Ravetti, 2024; Derqui, 2020; Glavas & Fitzgerald, 2020; Joseph et al. 2020).

Governance mechanisms across phases

As shifting principal pressures drove PALMO's movement across sustainability phases, these dynamics were gradually institutionalized through the evolving governance mechanisms. Table 2 shows how the company translated contested demands into formal structures and practices across Indonesia's four pillars of corporate governance framework.

Governance mechanisms have evolved along the four pillars of Indonesia's CG guidelines (KNKG, 2021): sustainability, ethical conduct, accountability, and transparency (Table 2), as follows: In the early phase, governance was compliance-driven, emphasizing legal obligations, the RSPO membership, and shareholder-dominated ethics. Crisis-driven reforms between 2015 and 2021 expanded cross-divisional committees, whistleblowing systems, certifications, and efficiency measures. In the advanced phase (2021–2023), governance became systemically embedded, with ESG goals linked to SBTi commitments, integrity pacts in supply chains, KPIs linked to SLLs, institutionalized transparency through quarterly internal reporting, and traceability extended to the plasma and smallholders.

Internally, commissioners representing the majority shareholders supported conservation, whereas minority shareholders prioritized short-term profits. Management selectively framed sustainability to reconcile these tensions, emphasizing cost savings for profit-oriented principals and traceability for sustainability-focused ones. Governance structures such as the Sustainability Committee, expanded SRT, and RD projects illustrate how contested demands were made governable, though often lagging behind external pressures. Thus, PALMO's governance acted as "negotiating devices" supporting the argument that transformation depends not on eliminating conflict but rather on institutionalizing mechanisms that make contested demands governable (Burbano et al. 2024; Olesson et al. 2023).

Table 2. Governance mechanism in PALMO's sustainability transformation across phases of multi-principal influence

Governance Pillar	Early Phase (1993 – 2015)	Middle Phase (2015 – 2021)	Advanced Phase (2021 – 2023)
	Compliance routines	Crisis-driven reforms	Systemic embedding
Sustainability	Legal compliance; RSPO membership (2007) not yet strategic	Multiple standards adopted (RSPO, ISCC, UNGC, GRI, CDP, SPOTT); Sustainability Policy (2017/2019)	Sustainability embedded into strategy; ESG goals aligned to SBTi, biodiversity, water, human rights, traceability
Ethical Conduct	Shareholder values dominant; Value Champion (2013)	Codified values; whistleblowing (2016); SOPs and KPI; CSR reframed to CID	Ethics as governance core; ESG tied to values; key land-use decision anchored in moral imperatives.
Accountability	Compliance-focused reporting; Conservation unit (2012), Sustainability unit (2015)	Cross-divisional committees, audits, certifications, KPIs (2017); efficiency through budget cuts and insourcing	ESG targets cascaded to KPIs, linked to SLLs; harmonised disclosures reinforced accountability
Transparency	Limited disclosure in Annual Reports (2010)	First Sustainability Report (2016); adoption of GRI, CDP, SPOTT; assurance introduced later	Institutionalised transparency via SRT, quarterly ESG data; traceability extended to plasma and smallholders.

More broadly, PALMO demonstrates that sustainability can be embedded across core business functions rather than limited to Corporate Social Responsibility (CSR), differentiating it from firms tied to shareholder primacy (Farias et al. 2024; van Zanten & van Tulder, 2021). By strengthening governance, the company regained its contracts with premium buyers after four years, demonstrating that conflicts and tensions when institutionalized can be transformed into mutually beneficial outcomes.

Sustaining such progress requires restructuring of control, incentives, and oversight within a dynamic and contested institutional field (Tapaninaho, 2024). It also demands the integration of governance and time-related dimensions (Aquilani et al. 2018), in alignment with investor expectations, which are now based not only on financial but also ethical considerations (Gunawan et al. 2021). This aligns with critiques of shareholder primacy as a "legal myth" (Sjåfjell, 2025) and with evidence that governance improves long-term sustainability performance (Dissanayake et al. 2024; Gardazi et al. 2023; Nguyen, 2022).

Managerial Implications

For managers, the findings highlight that governance in sustainability-sensitive sectors is a negotiation arena and not a compliance checklist. Companies must anticipate changing expectations from buyers, NGOs, regulators, financiers, and shareholders and build flexible internal systems to respond. Competitiveness requires embedding sustainability into KPIs and incentives supported by cross-functional teams for traceability, reporting, and engagement. Sustainability should be framed as both cost efficiency and long-term value to reconcile shareholder tension. The PALMO case also demonstrates that sustainability progress in the palm oil sector relies on premium market access and ongoing external monitoring, making proactive alignment with standards such as the NDPE essential for long-term resilience and competitiveness.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study investigated how multi-principal configurations shape the CS phase progression and how CG mechanisms adapt in response. Evidence from the PALMO case suggests that sustainability transformation is not linear but rather characterized by overlaps, reversibility, and contested movement across phases. Strategic proactivity and efficiency were especially salient, yet progress proved fragile when external pressure weakened or governance fragmented, leading to regression.

These findings extend the Sustainability Phase Model (Benn et al. 2018) by demonstrating that transformation involves both progression and regression, thus enriching its explanatory power. They also reinforce extended agency theory by highlighting that agency costs are not only financial but also normative (Boatright, 1992), and that governance is shaped by multiple principals (buyers, NGOs, financiers, regulators, shareholders, and communities) (Sjåfjell, 2025). Governance, in this case, functions more as a negotiation than as an alignment, requiring adaptive mechanisms that balance competing mandates.

Methodologically, the single-case design allowed in-depth tracing of PALMO's trajectory, although sector-specific dynamics limit its generalizability. Future comparative and mixed-methods studies could test whether similar nonlinear patterns occur in other contexts.

Recommendation

Companies should integrate sustainability into KPIs, incentives, and cross-divisional systems, framing it as both cost-efficient and long-term value. External levers (e.g., sustainability-linked financing, premium markets, and NGO collaboration) can reinforce resilience and innovation. At the policy level, the ISPO needs to be more closely aligned with the RSPO and NDPE to reduce legitimacy gaps. Regulators should pair law enforcement with supportive conditions, such as financial incentives, technical support, and credible monitoring, to prevent companies from assuming quasi-state roles. Future research could examine how configurations evolve across institutional contexts and how ESG investors and governance instruments mitigate agency costs. Quantitative research could examine the causal relationships between principal dynamics, governance mechanisms, and sustainability outcomes across sectors. Overall, sustaining CS progress requires continuous negotiation among principals and adaptive governance that balances short-term pressures with long-term responsibility, positioning sustainability as both a competitive necessity and foundation for contributing to global sustainability.

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