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# Small farmers and sustainability: Institutional barriers to investment and innovation in the Malaysian palm oil industry in Sabah<sup>☆</sup>



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## ABSTRACT

The Malaysian palm oil industry is well known for the social, environmental and sustainability challenges associated with its rapid growth over the past ten years. Technologies exist to reduce the conflict between national development aims of economic uplift for the rural poor, on the one hand, and ecological conservation, on the other hand, by raising yields and incomes from areas already under cultivation. But the uptake of these technologies has been slow, particularly in the smallholder sector.

In this paper we explore the societal and institutional challenges that influence the investment and innovation decisions of micro and small enterprise (MSE) palm oil smallholders in Sabah, Malaysia. Based on interviews with 38 smallholders, we identify a number of factors that reduce the smallholders' propensity to invest in more sustainable practices. We discuss why more effective practices and innovations are not being adopted using the concepts of, firstly, institutional logics to explore the internal dynamics of smallholder production systems, including attitudes to sustainability and innovation; and, secondly, institutional context to explore the pressures the smallholders face, including problems of access to land, labour, capital, knowledge and technical resources. These factors include limited access to global market information, corruption and uncertainties of legal title, weak economic status and social exclusion. In discussing these factors we seek to contribute to wider theoretical debates about the factors that block innovation and investment in business improvements in marginal regions and in marginalised groups.

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## 1. Introduction

In this paper we seek to contribute to wider theoretical debates (Danse and Vellema, 2005; Jackson et al., 2006; McCarthy et al., 2012; Terluin, 2003) about the socio-political and economic factors that block innovation and investment in business improvements by marginalized groups including smallholders participating in long global commodity chains. By comparison with large multinational corporations embedded in productivist systems, smallholders have the potential to develop alternative models of agro-ecological innovation, using minimal chemical inputs and

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including elements of land-sharing, for example intercropping and the deliberate preservation of certain rainforest trees (Dawson et al., 2014; Kitchen and Marsden, 2009; Marsden, 2013). Alternatively, smallholders may choose to engage in productivist patterns of land-sparing sustainable intensification for example through the adoption of high-yielding planting materials and chemical fertilisers (Tschardt et al., 2012; Vermeulen and Cotula, 2010). However, an increasing number of studies from various locations show that smallholders are engaging neither in the agro-ecological nor in the sustainable intensification pattern and instead are following different paths (Kamu et al., 2014; Feintrenie et al., 2010; Jerneck and Olsson, 2013; Otsuki, 2013; Pfund et al., 2011; Ruf, 2011). In this paper we are using neo-institutional theory to explore and interpret a specific example of 'different paths'.

In the case of Malaysian palm oil, current pressures from Western NGOs and consumers to improve the social and environmental sustainability of the industry are generating fresh

definitions of business improvements linked to both the agro-ecological and sustainable intensification paradigms of innovation (Greenpeace, 2007; Teoh, 2010). Within this discourse, there is an acknowledgement by both NGOs and Malaysian policy-makers of the social justice imperative to protect the land rights and support the economic and social development of communities of independent smallholders (Cooke, 2006, 2012; Mahmud et al., 2010; Norwana et al., 2011; PACOS Trust, 2008; Pye and Bhattacharya, 2013), while at the same time these communities have been criticized for their low engagement with productivist initiatives such as subsidised fertiliser use and oil palm replanting schemes (Baskett et al., 2008; Rahman et al., 2008; Teoh, 2010; Vermeulen and Goad, 2006).

In contrast to the various characterizations of smallholder behaviour found in the policy discourses, we explore the lived perspectives of a specific group of smallholders, oil palm cultivators in Sabah. We apply neo-institutional theory (Delmestri, 2012; Hodgson, 2006; North, 1994; Powell and DiMaggio, 1991) to support an integrated, interdisciplinary exploration of the ways in which individual actors' perceptions, priorities and behaviour are influenced by their embeddedness (or lack of it) in local ecosystems, social and political networks, and by their engagement with other participants in the palm oil commodity chain. Through semi-structured interviews and qualitative data analysis we generate fresh insights into what these smallholders do, what their priorities are, how they engage with other actors within the commodity chain, and what influences their strategies of investment and innovation across the full range of their economic activities (Haberberg et al., 2010). We reconceptualise the smallholders as micro and small enterprises (MSEs), allowing for a clearer view of their own agency within the wider institutional context, a theme which until recently has been neglected within neo-institutional theory (Casper, 2010; Jackson, 2010).

### 1.1. Sustainability concerns in the palm oil supply chain

The debate about how to improve the social and ecological sustainability of Malaysia's palm oil industry is one of a number of politically-shaped agendas for change in developing regions that are often driven by western consumers and food manufacturers and the organizations that supply them. Like coffee, tea, cocoa and many others, palm oil is a commodity with a global customer base that is linked by a long commodity chain to a wide range of primary producers located in developing countries with often poorly developed institutional and regulatory environments.

Recently the global palm oil industry has become a particular focus for criticism from some quarters. NGOs have raised concerns about rainforest clearance and the destruction of the orang-utan's habitat, as well as about workforce conditions and the threat to local communities from the appropriation of land by large corporations (Greenpeace, 2007; McMorrow and Talip, 2001; Pye and Bhattacharya, 2013; Wicke et al., 2011). While transnational environmental and social activists focus mainly on critiquing Indonesia's corporate plantations sector, Malaysian policy-makers are equally concerned about their independent smallholder sector which is currently the fastest-growing part of the industry (Norwana et al., 2011; Teoh, 2010). Borneo (the island on which Sabah is located) is a key, and growing, region for palm oil production (see section below on the palm oil industry in Sabah for more detail) and is therefore a focal location for policy initiatives. These are aimed at raising independent smallholder incomes in an industry where government support has traditionally been focused on state-run organised smallholder resettlement schemes and the corporate sector. They are also aimed at improving the environmental sustainability of production systems, through subsidised

fertiliser distribution and agro-ecological initiatives such as live-stock and crop integration schemes (Pemandu, 2012). However, officers responsible for implementing these initiatives (from the Malaysian Palm Oil Board for example) report that rural producers seem indifferent to their activities (Jalani et al., 2002; Rahman et al., 2008). They are continuing to engage in rainforest clearance and appear unwilling to invest in the improved planting materials, fertilisers and labour-intensive cultivation practices that would help them to maximise the yields from the land they have cleared (Abas et al., 2010; Mahmud et al., 2010; McCarthy and Cramb, 2009; Wicke et al., 2011). They also show little sign of generating alternative strategies to support sustainable income growth through, for example, agro-ecological 'land sharing' initiatives as have been recommended elsewhere by those operating within agro-ecological and sustainable paradigms of innovation (Greenpeace, 2007; Baskett et al., 2008; Cooke, 2012; Teoh, 2010; Vermeulen and Goad, 2006).

Very little research has been undertaken on understanding the attitudes of Sabahan smallholders towards sustainability or into the factors influencing their patterns of investment and innovation, whether in palm oil production or in other activities within their working and family lives. Our paper presents an attempt to understand smallholder behaviour and their own lived experiences and perceptions, and in so doing help to explain why the issues identified by policy-makers and NGOs appear to be meeting with such resistance.

The next section of the paper explains why neo-institutional theory offers an appropriate framework to support such an inquiry.

### 1.2. The guiding analytical framework: neo-institutional theory

Neo-institutional theory (Delmestri, 2012; Hodgson, 2006; North, 1994; Powell and DiMaggio, 1991) offers a powerful analytical approach that can surface the historical and socio-political influences on current economic and agronomic behaviour, supporting an integrated exploration of the ways in which individual actors' perceptions, priorities and behaviour are influenced by their embeddedness (or lack of it) in local ecosystems, social and political networks, and by their engagement with other participants in a long global commodity chain. In applying concepts from this body of theory to fresh empirical data, we hope to provide an insightful analysis of the factors that interplay in the lives of micro-sized palm oil producers in a remote rural environment.

Neo-institutional theory (Powell and DiMaggio, 1991; Selznick, 1996; Scott, 1987, 2008; Tolbert and Zucker, 1996) provides a useful framework for understanding the factors affecting rural Malaysian palm oil producers as it focuses attention on both economic and political factors as well as directing attention to institutional logics such as those that arise from culture or language and linguistic schema (Bourdieu, 1991; Delmestri, 2012). It is a theoretical lens that encourages a focus on local issues, specific to time and place; and on the path that has led to present structures, that is, to the prevalence within a given organizational field (for example, an industry in a region) of specific social rules which structure interactions (Hodgson, 2006). Practices such as sustainable intensification may in themselves become institutions if they are internalized as norms by actors within the field, and/or codified and prescribed as a condition of membership of a group such as the Roundtable for Sustainable Palm Oil. The behavioural rules which constitute institutions may be written or unwritten, explicit or implicit, simple or complex, and supported by moral or instrumental rewards and sanctions, as illustrated in taxonomies such as Kasozi's (2008).

Over the past 15 years the neo-institutional lens has become increasingly popular among strategic management scholars,

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