

Case study essay



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Agriculture is one of the most vital economic activities in most of the Asian countries. However, it is important to note that the general productivity levels have continued to decrease, mostly because of drastic climatic changes that have affected some countries like Indonesia among others. Despite the many challenges, this sector continues to fund most of the activities in these countries, hence, the need to ensure its sustainability. Asia Agri, specializing in production of palm oil, is one of the firms operating in Indonesia, which has significantly contributed to the improvement of lives of many Indonesians. The history of Asian Agri Group can be traced back to the 1960s, when Sukanto Tanoto, an Indonesia born and of a Chinese descent, set the firm after being offered a soft loan by the Indonesia in collaboration with the World Bank.

In 1989, the Asian Agri had almost 30, 000 hectares of plantations, small refinery and a mill aimed at processing CPO to a specialized type of oils. By 2000, the Asian Agri had expanded the areas where it was growing the palm oil and invested heavily in the notable areas, such as milling among others. There are several achievements, which have been made by Asia Agri, especially in enhancing sustainable development of palm oil in Indonesia. According to Sukanto Tanoto, the palm oil industry has a bright future, due to the increased demand for low fatty oil, biodiesel fuels, and enhanced investment in research and development. Generally, the firm alongside other affiliated companies should enhance sustainability of the business by protecting the environment, educating the locals as well as increasing its participation in social responsibilities. This way, the firms will maintain a well-managed growth, hence significantly conserving the available natural

resources. In my personal opinion, the Asia Agri should continuously invest in research and development, hence, raising the productivity levels.

For a long time, Asian countries have highly depended on agriculture for sustainable development of their respective economies. Kindred & Bell (2010, p. 2) argue that agriculture contributes over 56% of the annual Gross Domestic product of countries, such as Indonesia, Malaysia among others. Based on this fact, it has become extremely vital to protect and guard this coveted sector, through taking some proactive measures most of which are geared towards environmental conservation. In the last decade, the agricultural sector in this region has experienced numerous challenges that have erroneously reduced agricultural productivity, thus, reduced G. D. P in most of the economies.

For instance, due to the global economical crises that have faced most of the major economies like the European Union, United States among other notable global markets, the buying powers of customers have drastically decreased, thus, resulting to reduce demand for agricultural products from the Asian continent. The situation is further worsened by the changing weather patterns, such as frequent flooding, drought, and windy situations, all of which give rise to the reduced productivity. However, one of the agricultural products, whose productivity has continued to surge, despite all these difficult situations is palm oil. Drimmer (2007, p. 8) indicates that palm, coconut and palm kernel oil are edible oils from plants, all derived from fruit of the palm oil. This paper will critically evaluate the role played by the Asia Agri in palm oil production in Indonesia.

The history of Asian Agri Group can be traced back to the 1960s, when Sukanto Tanoto, an Indonesia born and of a Chinese descent, became one of the richest man in Indonesia, despite being forced to drop out of school as a teenager. In most of the ways, Tanoto's success paralleled that of the palm oil industry in Indonesia. During this time, the government of Indonesia collaborated with the World Bank, in order to develop rural regions in Indonesia. This was carried out by giving low-priced land for cultivation of palm oil to the private investors in these regions. As a result of this, Sukanto, who was inexperienced though highly visionary, took advantage of the opportunity, offered and founded the first Asian Agri plantations. The piece of land, which was located in Sumatra, was estimated to measure 10, 000 hectares and Tanoto clearly remembers the land as “ the wild, wild east”. Later, Tanoto acquired numerous small plantations, where he built mills for extracting CPO (Crude Palm Oil) as well as the palm kernels. In 1986, the Asian Agri started to participate in the programs organized by the government. These programs were aimed at integrating the smallholder farmers, holders of a maximum of two hectares of land, into the area of commercial agriculture.

The main agenda of this program was to empower the rural Sumatra, through offering the much-needed financial support to the deprived residents of Java, which is the most populous island in Indonesia. The participants from Java obtained soft loans from the government to enable them to acquire two hectares of land, along the perimeters of the commercial agricultural “ nucleus”. It is crucial to note that the cell-like configuration of these programs earned the whole project under the title “

plasma”. Kindred & Bell (2010, p. 2) indicate that by 1989, the Asian Agri had approximately 30, 000 hectares of plantations, small refinery and a mill aimed at processing CPO to a specialized type of oils. By 2000, the Asian Agri had expanded the areas where it was growing the palm oil and invested heavily in research and development.

The initiative for R&D focused on the notable aspects, such as fertilizer inputs for the various types of soils, husbandry practices, disease and pest controls among others. The firm also upgraded its refining capacities as well as constructed a plant for producing shortening and margarine. As a result of the booming demand for the palm oil in the international markets, its price surged from \$ 60 to \$130 per metric tonne below Soy (Drimmer 2007, p. 22). Exhibits 1& 2 indicate the production of palm oil in metric tonnes in Indonesian, Malaysian and the other part of the world between the years 1970-2009.

From the above background on the Asia Agri as well as the general information on palm oil, it is quite clear that the views held by Tanoto regarding the bright future of palm oil cannot be over emphasized. Despite the hard economical times in most parts of the world, especially in the developed countries, which constitute more than 45% of the global markets, the demand of the palm oil and its by products continues to rise. As compared to other cash crops, such as tea, coffee, flower among others that have continued to fetch lower prices in the international markets, the prices for palm oil continues to surge. There are various indicators that show that palm oil posses a brighter future as compared to the other notable cash crops (Reuters 2010, p. 1).

One of the main indicators that palm oil has a bright future is the high production level, which has been experienced in the recent past. Bruce (2010, p. 5) indicates that over the last three decades, the global production of palm oil has soared from approximately 430, 000 MT in 1970, to approximately 45 million metric tonnes in 2009. It is notable that much of this growth came from Indonesia, where land area that was harvested for the palm oil raised from 100, 000 ha to over 5 million hectares over the same duration. In 2009, more than 20 million metric tones of palm oil were produced in Indonesia, which represented 44. 44% of the global production. Of all the 20 million metric tones of palm oil produced in Indonesia, 80% of it was exported to the international markets, thus constituting approximately 50%, of all the global exports of palm oil to these markets.

Drimmer (2007, p. 10) candidly indicates that the production figure will continue to rise owing to the large lands that are available for expansion in some given countries. The table below indicates the potential for land or yield expansion for the key producers as well as countries with uncultivated lands.

The perception of the people towards the cultivation of palm oil in Indonesia among other notable countries has drastically changed. Previously, most of the farmers, did not value farming of palm oil, especially in the Asian countries. This can be attributed to the cultural perceptions and the low prices that the crop was fetching in the international markets. Despite the numerous challenges that are faced by farmers, palm oil continues to be viewed as a “ golden crop”, due to its low production costs, thus high annual yields. As a result, palm oil has become inexpensive and abundant source of

food to most of the fast increasing populations in the Asian countries (Bruce 2010, p. 5). The table below indicates the percentage of fat composition of the palm oil.

From the table above, one can clearly see that palm oil has the lowest fats contents that making it a favorite product, especially in the European markets, where it is estimated that 24% and 20% of women and men suffer from obesity related sicknesses (Drimmer 2007, p. 15). In the commercial food productions, the palm oil has exceptional benefit of being free of trans fats, a factor that makes it attractive substitute for edible fats that are available in the markets. The following table indicates the different edible oils that are available in the market and their percentage fats contents.

As the global focus shifts to the aspects of climate change, there has been a major focus on green forms of energy, which are more sustainable as compared to fossils fuel. The fossils fuels have highly contributed to global warming, especially in the developed economies, which continue to experience extreme weather conditions during the winter seasons. As a result of this, these developed economies have increased consumption of the vegetable oils in their bio-diesel productions, particularly the rapeseed oil used in Europe. All these factors have changed the perception of people towards the production palm oil, thus offering a bright future to all the stakeholders involved (Reuters 2010, p. 1). ;

Asia Agri, founded by Sukanto Tanoto, has been one of the most successful firms, dealing with production of palm oil in Indonesia among other notable Asian countries. In this regard, it is crucial for the firm to ensure that it

adopts policies that will enhance its success both in the domestic and international markets. Kindred & Bell (2010, p. 3) argue that during the 2008 economic crises that were mostly experienced in the developed countries, majority of the firms that had earlier failed to adopt the best practices in all their activities failed drastically. Some of them, especially those in financial sectors had to be bailed out by their respective governments, thus, preventing them from going under. As a result of this, it is extremely vital for any organization to adopt the best practices, regardless of the industry it operates. In this regard, Asia Agri should undertake particular activities all aimed at enhancing the participation of the firm both in the domestic and international markets (Drimmer 2007, p. 19).

One of the most vital aspects that the Asia Agri should undertake is to enhance sustainability of all its operations ranging from farming to exporting the final products to the international markets. For a long time, the firm has been criticized by the non-governmental organizations on several counts. Due to the firm's expansion programs, there has been a massive clearing of forests, which were initially rich in biodiversity as well as home to the endangered species, such as orangutans and tigers. Further, thee massive amounts of carbon are released to the atmosphere because of logging activities, thus, contributing to global warming in Indonesia. This is the main reason as to why Indonesia is ranked the third largest emitter of the green house gases after the United States and China (Djalalov 2006, p. 57).

It is notable that all these unsustainable aspects that have been adopted by the Asia Agri have made the firm to be accused of serious violation of environmental management, thus, lowering its brand value in both Indonesia

and international markets. To avert all this, it is crucial for the organization to undertake intensive review of its policies, especially those dealing with the communities it operates. For instance, there is a need to invest in social activities like planting trees, cleaning the environment, sponsoring bright students in Indonesia, educating the community on the need to consume healthy foods among other notable aspects.

Despite the enormous task mandated to the firm in areas of expansion, in order to increase palm oil production, it is important for the firm to ensure that the expansion rate is well managed. Instead of clearing forests for the expansion programs, the firm should enhance more resources to buy more land that is adjacent to its plantations. This way, the organization will be able to maintain well-controlled growth, hence, conserving the environment as well as reducing the firms operational cost (Djalalov 2006, p. 55).

For Asia Agri and its industry peers to succeed both in the short and long run, there is an urgent need to undertake more active roles in management of palm oil in Indonesia. First, there is a substantial need to invest in research and development, which is considered a vital pillar in encouraging inventions and innovations. For instance, the palm oil companies should invest at least 15% of their annual resources to R&D, to allow coming up with new and improved palm oil seedlings that are resistant to extreme weather conditions and having higher productivity per hectare. The other active role that should be adopted by these firms is to adopt contemporary marketing methods. The modern marketing methods are cheap, more effective, hence, improved sales figure both in Indonesia and abroad. For instance, the firms can advertise their products on the search engines like Yahoo and Google, as <https://assignbuster.com/case-study-essay/>

well as across the social media like Facebook, Twitter, and MySpace among others. By doing this, the sales figures will improve, hence raising the productivity levels. The other active role that can be adopted is enhancing sustainable management of the resources. For example, the firms should minimize the emission of carbon dioxide to the atmosphere, educating the local on the need of conserving environments among other areas (Drimmer 2007, p. 12).

From the above case study, it is clear that Asia Agri is one of the most successful firms in the 21st century. Despite the numerous challenges faced by Asia Agri, especially in the area of environmental management, it has adopted proactive measures all aimed at reducing the negatives. In my own opinion, Asia Agri should continuously invest in research and development, hence raising the productivity levels (Bruce 2010, p. 7).