ABSTRACT

Increasing concerns about the state of the climate and environment has led to many countries and global entities, such as the European Union, pushing tighter regulations for sustainability measures in business operations. Considering the deep interconnectedness between corporations embedded in the global supply chain, these sustainability measures have had a considerable impact on their operations. Not excluded from this is palm oil firms. As the natural oils industry is a highly extractive, often destructive industry, it should come as no surprise that its business operations and sustainability measures receive extra attention from lawmakers and legislators in the European Union. With the implementation of the European Union Deforestation Regulation's strict policies pushing for corporations worldwide to adhere to certain sustainability standards in everyday business operations, said corporations may potentially experience operational and financial setbacks. This study aims to investigate whether the implementation of the EU Deforestation Regulation negatively affects a palm oil firm's financial and operational performance.

Employing a time-panel, this study analyzes the effect on palm oil firms' financial performance and net export dynamics before and after the introduction of the EU Deforestation Regulation. The results were measured using a firm's financial metrics, operationalized using Net Profit Margin and Return on Assets, and a firm's export dynamics, operationalized using Total Net Exports. Data is collected from Indonesia's top five palm oil firms to represent actors in the palm oil industry in Indonesia.

As opposed to the expected outcome, a firm's compliance with the EU Deforestation Regulation does not increase its net profit margin. Meanwhile, as expected, adherence with sustainability regulations improves a firm's net export dynamics. Interestingly, through our study, it was found that firm size also does not positively moderate the relationship between a firm's implementation of sustainable measures and its financial performance. This study

answers the question regarding the effect that the EU Deforestation Regulation has had on Indonesian palm oil firms to an extent, but can be further improved using a more extensive dataset and time frame. These findings offer insights into the complexities of following global compliance regulations to remain within a successful line of business for firms acting within extractive industries, especially due to rising climate concerns.