

# Sustainability reporting of Malaysian listed palm oil companies

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## Abstract

**Purpose:** Sustainability reporting has emerged as a critical area of focus for businesses worldwide. Similar to financial reporting, sustainability reporting aims to communicate both qualitative and quantitative impacts of business operations, particularly in three key areas: environmental, social responsibility, and governance (ESG). Previous studies have highlighted that developing economies often lag behind developed nations in adopting best practices for sustainability reporting. Over the past decade, the palm oil industry has actively addressed sustainability challenges through practices such as the Malaysian Sustainable Palm Oil (MSPO) and the Roundtable on Sustainable Palm Oil (RSPO) standards. This research investigates the sustainability-related disclosures made by oil palm companies within their sustainability reports.

**Design/methodology/approach:** Utilizing content analysis, this study examines information from sustainability reports of listed oil palm companies to identify recurring themes. A total of 125 sustainability reports, spanning the years 2020 to 2022, were analyzed. Additionally, this research highlights the most significant sustainability topics addressed by these companies.

**Findings:** The findings reveal that the key themes communicated by oil palm companies include Sustainability, Employees, and Biodiversity. Additionally, two other industry-specific themes, Energy and RSPO, are closely linked to environmental concerns and international certifications. The results suggest that the environmental (E) and social (S) pillars of sustainable development have been the primary focus areas for Malaysian oil palm companies, while the economic (E) pillar receives comparatively less attention.

**Research limitations/implications:** Since the study focuses on the sustainability reporting practices of a specific sector, its findings may not apply to other industries.

**Practical implications:** From a managerial perspective, these findings can guide companies in enhancing the quality of their sustainability reporting to better align with global standards. For regulators, policymakers, and international investors, this research offers insights into evaluating the sustainability performance of listed companies in developing economies, providing a benchmark for broader goals like the UN SDGs.

**Originality/value:** This research provides a detailed examination of sustainability disclosure practices among Malaysia's listed oil palm companies. By focusing on industry-specific sustainability indicators, it addresses a gap in the literature and sheds light on potential discrepancies in reporting when compared to global standards. The findings aim to support standard setters, managers, and decision-makers in prioritizing sustainability initiatives based on the impact and relevance of specific issues.

**Keywords:** Sustainability reporting, ESG, Sustainable palm oil

**Introduction**

The concept of sustainability has experienced a significant and widespread embrace in recent years, driven by a confluence of factors including environmental concerns, social awareness, stakeholder pressures, and shifting consumer preferences. Businesses have increasingly stepped up their sustainability efforts and strategically embraced the practice of mandatory corporate reporting as a way to communicate their commitment to environmental, social, and governance (ESG) principles. Several key factors have contributed to the growing awareness of benefits associated with sustainable practices and the recognition that these practices become integral to long-term business strategy. Many countries and market authorities have introduced regulations mandating companies to report non-financial information on the way they operate and manage environmental and social impacts and governance issues. For instance, the European Union has implemented the Non-Financial Reporting Directive, requiring companies to disclose non-financial information, including ESG data (Muserra et al., 2020). In September 2022, Bursa Malaysia introduced a phased plan to implement improved sustainability requirements for listed companies, starting with financial year-end 2023. These updated disclosure standards aim to encourage Malaysian public-listed companies to embrace and share their sustainability initiatives, thereby enhancing their ability to attract capital and support the shift towards a low-carbon economy. Institutional investors and asset managers are increasingly considering ESG-information into their investment decisions and rely on sustainability reports produced by companies to assess their risk profiles and long-term sustainability (Velte, 2023). Consumers are also becoming more environmentally and socially conscious and they tend to purchase products and services that align to their values and businesses report their sustainability initiatives to meet these expectations and help companies maintain a positive brand image (Battacharya & Sen, 2004; Becker-Olsen et al., 2006). Businesses can also identify and mitigate ESG-related risks, thus help them avoiding potential regulatory penalties, reputational damage, and operational disruptions (Hubel & Scholz, 2020; Chen et al., 2022). Businesses recognize-that addressing sustainability issues is not just about compliance but also ensuring the resilience and agility of their business models in an evolving global corporate landscape by fostering a culture of sustainable innovation and continuous improvement (Niehoff, 2022). Driven by a growing awareness of global challenges such as climate change, social inequality, ethical business practices, companies are increasingly acknowledging the importance of transparent and comprehensive sustainability reporting. This practice extends beyond conventional financial reporting to encompass metrics such as carbon emissions, diversity and inclusion, resource management, and community engagement (Ibanez-Fores et al., 2022).

Sectoral sustainability reporting has recently emerged as a vital framework for addressing environmental and social challenges and opportunities faced by specific industries, such as agriculture and construction. Sectoral reporting allows companies to disclose information that is directly relevant to their sectors, thus offering stakeholder a clearer understanding of the industry-specific risks and impacts. For instance, in the agricultural sector where concerns about environmental degradation, food security, labor welfare, and sustainable agriculture practises are paramount, sustainability reporting takes on a special focus on these concerns (Buallay, 2022). Sectoral reporting also enables companies to benchmark their sustainability performance against their industry peers and this helps their stakeholders to identify leaders and laggards within a sector. Further, sectoral sustainability reporting can help industries enhance legitimacy for companies and build trust by demonstrating their commitment to addressing sector-specific sustainability issues and supporting responsible business practices (Nishitani et al., 2021; Haack & Rasche, 2021).

Previous studies suggest that sustainability reporting in developing economies falls short compared to the best practices observed in developed economies (Correa-Garcia et al., 2020). Ali et al. (2017) find that social reporting in developing countries is not as comprehensive as those in the developed countries. Despite low level of reporting quality, sustainability reporting has gained its traction with market regulators and investors in recent years have demanded more relevant information, particularly on climate and other sustainability-related issues disclosed by companies (Khan et al., 2020). In Malaysia, environmental reporting is still inadequately addressed as a majority of companies tend to focus their disclosure practices on human resource issues and philanthropic activities (Shwairef et al., 2021). In line with Malaysia's national policy and 12th Malaysia Plan 2021-2025, all public listed companies play an important role in ensuring the sustainability of three key pillars of sustainable development namely economic, social and environmental pillars. Further, businesses are expected to drive decarbonization efforts and facilitate the transition to a net-zero emissions economy. Previous studies mainly focus on environmental and social sustainability disclosure of a sector of economy such as property companies, construction, and REITs (Zahid & Ghazali, 2015; Rahman et al., 2022).

Palm oil production, particularly cultivating and milling operations, has become highly controversial because it a number of environmental and social problems such as deforestation, climate change, and threats of livelihoods (Ivancic & Koh, 2016; Cisneros et al., 2021). The palm oil industry has also been linked to greenhouse gas emissions (Wicke et al., 2008), biodiversity loss (Teoh, 2010), water pollution and soil erosion (Szulczyk & Khan, 2018). The oil palm covers about 5.9 million hectares or 18 percent of total land area in Malaysia, producing about 20 million tons of palm oil. The palm oil industry, being the fourth largest contributor to the Malaysian economy, contributed approximately 137.89 billion Malaysian ringgit of export value of palm oil and palm-based products in 2022, an increase compared to around 108.52 billion Malaysian ringgits in 2021 (DOSM, 2023). Malaysia is the second leading producer of palm oil worldwide behind Indonesia, accounting for 25.8 percent and 34.3 percent of the world's palm oil production and export respectively (MPOC, 2023). There are 43 plantation-related companies that are listed on Bursa Malaysia in 2023. These companies involve in upstream and downstream business activities producing raw crops and refining these crops into higher-value products and selling them to consumers. This study explores a sector-specific sustainability information disclosed by palm oil plantation companies listed on the Bursa Malaysia. The study attempts to identify sustainability-related dimensions that are more material to the palm oil industry. The study also highlights potential gaps in sustainability disclosure compared to other global sustainability reporting standards. The results of this study can assist standard setters, managers, and other decision-makers in focusing their sustainability efforts by considering the significance of various sustainability issues.

The structure of this study is as follows: Section 2 examines the sustainability challenges associated with palm oil production. Section 3 details the research methodology. Section 4 focuses on presenting and discussing the findings, and Section 5 concludes with the key insights derived from the research.

## **Literature Review**

### ***Sustainability Issues of the Palm Oil Industry***

Oil palm is the second largest source of edible oil after soybean. According to the United States Department of Agriculture (USDA), the palm oil and palm kernel oil represent 35 percent of the global vegetable oil production in 2020/2021 (USDA, 2023). Palm oil is a versatile and important raw material for the manufacturing of both food and non-food products such as cooking oil, margarine, confectionary fats, biodiesel, and cosmetics. Despite the extensive use

of palm oil, its cultivation and production have been a source of controversy and global concern. As the palm oil industry expanded, conservationists and environmental organizations as well as nations have started to raise their concerns and demand producing countries to cultivate and produce palm oil sustainably. A backlash against palm oil has developed in recent years. For instance, Iceland, a major supermarket in the United Kingdom has removed palm oil from all its own-brand foods, in a bid to stop the deforestation. In 2020, Norway adopted a resolution to ban biofuel imports containing palm oil. Several sustainability issues associated with the palm oil cultivation and production include deforestation, biodiversity and habitat loss, and peatland destruction.

In Malaysia, state governments regulate land use policies and palm oil plantations are mostly located on state forest lands (Padfield et al., 2016). Deforestation happens when forested areas are converted to other purposes such as agricultural activities and housing development. Palm oil cultivation activities involve clearing forested areas and land to make way for palm oil plantations which can cause soil erosion and threaten water quality (Obidzinski et al., 2012). Deforestation for palm oil cultivation also threatens the survival of many native species, including tigers, Sumatran rhinos, Asian elephants, and orangutans (Clements et al., 2010). Such clearing and degrading of forests and natural vegetation results in the loss of both plants and animal biodiversity as well as various ecosystem functions, these native species will have to relocate to a less suitable location (Ayompe et al., 2021). Further, the destruction of rainforests through open vegetation burning is also major source of greenhouse gas emissions (Reijnders & Huijbregts, 2008).

Southeast Asia region is estimated to have about 27 million hectares of peatlands or 6 percent of total peatlands in the world, with Indonesia alone has 22.5 million hectares (Kiely et al., 2021). Peatlands are not attractive for agricultural activities. However, when deeply drained and prepared they are suitable for palm oil cultivation. High demand for palm oil products and biofuels has led to extensive peatland conversion, especially in Indonesia, for palm oil plantation expansion (Miettinen et al., 2012). While in Borneo, Malaysian states of Sarawak and Sabah had about 50 percent and 35 percent of peatlands covered by palm oil respectively in 2015 (Miettinen et al., 2017). Oil palm plantations on tropical peatlands causes negative environmental impacts such as increased greenhouse gas emissions, ecological damage, air and water pollutions (Wijedasa et al., 2017).

## Methods

The study employs content analysis on sustainability information disclosed in the annual reports of plantation companies listed on the Bursa Malaysia from 2020 to 2022. Content analysis is a research technique employed to interpret textual data by organizing disclosed information into relevant themes (Krippendorff, 2004). This method can be applied using either qualitative or quantitative approaches. This study uses qualitative content analysis with the assistance of Leximancer, a text mining software. Leximancer applies advanced natural language processing techniques grounded in Bayesian theory to analyze texts (Watson et al., 2005). It facilitates conceptual analysis by identifying frequently occurring concepts, offering insights into the text's conceptual and thematic organization. Further, it also formulates a conceptual map that concludes the key concepts extracted from the text and clusters the concepts into themes. Many studies in social science areas have used Leximancer for content analysis due to its benefits. In addition to ease of use, the software helps enhancing the trustworthiness and credibility of quantitative research (Terblanche et al., 2008; Elo & Kyngas, 2008).

Annual reports of 43 listed plantation companies are collected and downloaded from Bursa Malaysia website (<https://www.bursamalaysia.com/>) from 2020 to 2022. Due to missing

annual reports, 2 companies are excluded from the analysis. From these annual reports, sustainability reports are extracted from the main reports for further analysis. The total number of sustainability reports obtained from annual reports of these companies is 125 reports. Out of these 125 sustainability reports, 42 are from 2020 and 2021 annual reports respectively, while 41 remaining reports are from 2022 annual reports.

These 125 sustainability reports are then uploaded onto Leximancer application. Leximancer generates concept maps that illustrate the relative co-occurrence of concepts, which can be explored through the map's visual representation. Words extracted from sustainability reports are identified as concepts, while clusters of related concepts are grouped into themes. These themes are depicted as colored circles, with brighter or warmer colors representing more prominent themes, while cooler colors signify less significant ones. Within the themes, concepts are marked as dots, and the size of each dot reflects its level of connectivity within the map.

### Findings

Figure 1 below shows a concept map, with five major themes namely sustainability (light red color circle), employees (light brown color circle), energy (light green color circle), biodiversity (light blue color circle), and RSPO (light purple color circle). From the 125 sustainability reports processed by Leximancer, these five themes dominate sustainability information disclosed by the oil palm plantation companies in Malaysia. Themes sustainability, employees, and biodiversity appear to be the prevailing topics in the sustainability disclosures communicated in the annual reports of these companies. Themes energy and RSPO are closely linked to environmental and international certification issues addressed by these companies.

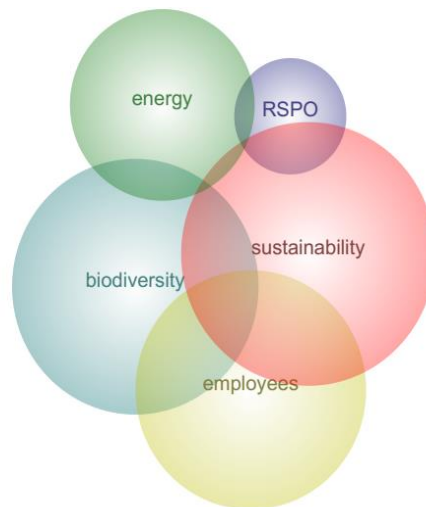


Figure 1. Five major themes without concept details



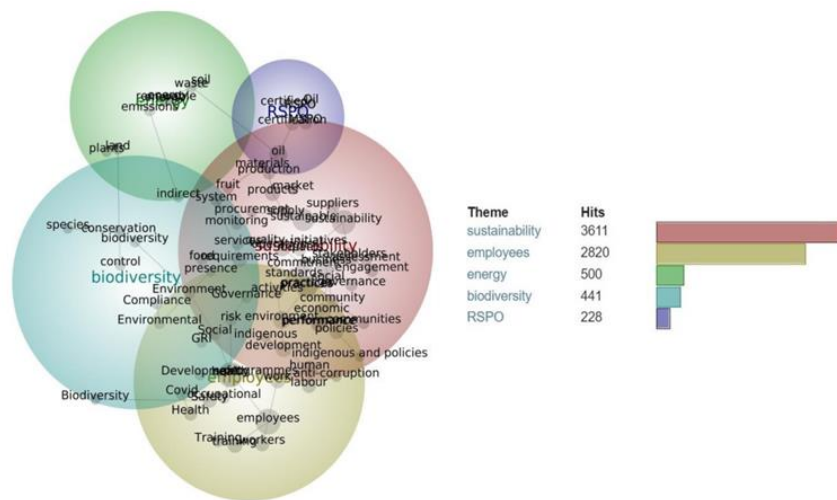


Figure 2. Five major themes with concept details

Figure 2 presents a concept map, with five major themes and concept details. As shown in Figure 2, sustainability theme has the most hits (3611 hits), followed by theme employees (2820 hits) and the remaining themes of energy, biodiversity, and RSPO have 500, 441, and 228 hits respectively. As indicated in Table 1, approximately 85 concepts have been generated from sustainability reports, with sustainability and employees being the themes with the highest number of concepts. Concepts such as standards, products, sustainable, business, practices, community, impacts, performance, certification, and quality are grouped under sustainability theme. Concepts that fall within employee theme include training, health, occupational safety, and labor practices. Concepts such as conservation, species protection, and environmental compliance are associated with the biodiversity theme. Included within the energy and RSPO themes are concepts related to both MSPO (Malaysia Sustainable Palm Oil) and RSPO (Roundtable on Sustainable Palm Oil), renewable energy, gas emissions, waste management, and adherence to GRI (Global Reporting Initiative) reporting standards. Overall, the results show that the highest number of texts in the sustainability reports are associated with social, environment, and economic (SEE) categories respectively.

The concept map shows that the most important themes for the oil palm industry are social and environmental performance. Listed companies are not only encouraged to comply with local sustainability reporting standards, they are also encouraged to align their reporting practices with those of international sustainability reporting standards such as Global Reporting Initiative (GRI) as these enhance their sustainability performance to their export markets. Listed companies, in particular, are not only urged to adhere to local sustainability reporting standards, they are also encouraged to harmonize their reporting practices with international sustainability reporting standards such as the Global Reporting Initiative (GRI). This alignment enhances their sustainability performance, especially in relation to their export markets. Palm oil companies disclose more social and environmental information by palm oil companies may be due to mandatory reporting requirements by certification bodies such as MSPO and RSPO. Both certifications allow oil palm producers to market high-quality palm oil products while adhering to sustainable farming and eco-friendly practices. Since 2020, it has been a requirement for all palm oil products produced in Malaysia to be MSPO certified. The RSPO, founded in 2004, is a global certification in the palm oil industry that encourages sustainable development and production methods, although adherence to this standard remains voluntary.

From the standpoint of stakeholder theory, one way for oil palm companies to align and satisfy stakeholder expectations is by disseminating sustainability reports and communicating their social and environmental initiatives to these stakeholders (Horisch et al., 2014; Torelli, 2021). Further, companies that are in controversial industries, such as those in palm oil industry, disclose sustainability-related information as one of legitimization strategies at gaining and maintaining their legitimacy and existence (Deegan, 2002; Lai et al., 2016). Sustainability information disclosure also improves transparency and reduces the information asymmetries, thus reduce the agency problem (Fuhrmann et al., 2017; Hamad et al., 2020).

Presently, listed companies in Bursa Malaysia are mandated to disclose narrative statements of the management of material economic, environmental and social risks and opportunities in their annual reports (PricewaterhouseCooper, 2022). Bursa Malaysia issued Sustainability Reporting Guide in 2018 to assist listed companies embed sustainability in their disclosure requirement. Compliance with the guide is still voluntary, thus reporting quality remains a challenge particularly in the areas of materiality and consistency of sustainability reporting (Safari & Areeb, 2020). Although this study does delve into material sustainability reporting, with the imminent implementation of the enhanced sustainability disclosures, it is imperative for listed companies to conduct materiality assessments so that they can enhance the credibility of disclosed sustainability information. Material sustainability reporting involves the identification and disclosure of the most significant and relevant issues that can affect a company's long-term success as well as its contribution to a sustainable future.

Table 1. Concept, concept counts and relevance

Concept	Count	Relevance%	Concept	Count	Relevance%
Covid*	199	22	Quality***	192	21
Health*	187	21	Certification***	182	20
Safety*	179	20	Social***	175	19
MSPO**	163	18	Performance***	169	19
Social*	143	16	Performance***	169	19
RSPO**	118	13	Initiatives***	161	18
Environment*	117	13	Emissions***	157	17
Development*	85	9	Community***	149	16
Compliance*	80	9	Engagement***	137	15
Training*	75	8	Communities***	136	15
Environmental*	70	8	Waste***	134	15
Governance*	68	7	Energy***	119	13
GRI**	66	7	Energy***	119	13
Biodiversity*	54	6	Renewable***	119	13
Oil*	11	1	Services***	113	12
Employees***	909	100	System***	109	12
Sustainability***	643	71	Certified***	108	12
Health***	534	59	Production***	105	12
Safety***	531	58	Risk***	105	12
Business***	502	55	Programmes***	104	11
Stakeholders***	423	47	Governance***	102	11
Sustainable***	379	42	Assessment***	100	11
Practices***	368	40	Impacts***	92	10

Practices***	368	40	Food***	87	10
Oil***	362	40	Biodiversity***	76	8
Operations***	356	39	Control***	76	8
Workers***	336	37	Monitoring***	75	8
Training***	320	35	Conservation***	73	8
Environment***	316	35	Fruit***	68	7
Work***	295	32	Land***	63	7
Human***	285	31	Occupational***	59	6
Commitment***	277	30	Species***	57	6
Development***	275	30	Market***	51	6
Supply***	234	26	Materials***	51	6
Economic***	231	25	Plants***	38	4
Standards***	231	25	Soil***	35	4
Policies***	228	25	Presence***	27	3
Suppliers***	211	23	Anti-corruption***	25	3
Products***	210	23	Procurement***	15	2
Activities***	210	23	Indigenous***	14	2
Labour***	207	23	Indirect***	14	2
Requirements***	206	23	Indigenous and policies***	2	0

\*Name General; \*\*Name Acronym; \*\*\*Words;

### ***Analysis of Material Topics***

Materiality assessments are crucial in guiding companies to identify the environmental, social, and governance (ESG) issues to include in their sustainability reports. As sustainability reporting becomes an increasingly essential part of global disclosure requirements, new standards have been developed to ensure the accuracy and quality of sustainability information. Standard-setting organizations emphasize the need for companies to produce clear and comprehensive sustainability reports that cover ESG topics relevant to their operations. One of the major challenges for companies is determining the materiality of sustainability issues across various industries (Beske et al., 2020; Farooq et al., 2021). In 2013, the Global Reporting Initiative (GRI) launched G4 guidelines to improve and harmonize the standardization of sustainability reporting. The G4 guideline emphasizes the importance of materiality and ensures sustainability reports are relevant to the information needs of stakeholders (Global Reporting Initiative, 2021). The GRI describes materiality needs to reflect a company's significant economic, environmental and social impacts which substantially influence the assessments and decisions of stakeholders. In 2022, Bursa Malaysia released a toolkit to help listed companies identify, prioritize and manage material sustainability matters and to better serve the needs and expectations of stakeholders (Bursa Malaysia, 2022). In addition to analyzing sustainability information disclosed by Malaysian listed oil palm companies, this paper also explores the most material sustainability topics reported by the oil palm companies in 2022. Figure 3 presents a summary of the material topics identified by the 41 listed oil palm companies in their 2022 sustainability reports. In the context of economic pillar of sustainability, sustainability certifications appear to be important for oil palm companies to help them meet certain sustainability standards which can help improve their business performance and business continuity. Given the nature of the industry, oil palm companies also focus on environmental sustainability and majority of these companies indicate that air, water, waste and effluent management have become their priority. In terms of social pillar of



sustainability, Malaysian listed oil palm companies pay greater attention to labor law compliance, workforce management, and community investment and CSR activities. Finally, these companies also emphasize the importance of good governance and are committed to enhance business ethics and integrity and responsible sourcing and traceability in the supply chain.



Figure 3. Summary of the material topics disclosed

## Conclusion

This study addresses the need for industry specific sustainability reporting for the cash crop agricultural sector. Developing industry-specific sustainability indicators is vital for tailoring sustainability efforts to unique characteristics of each industry and identifying material topics and assessing materiality and associated risks. It also helps accuracy and relevance in assessing and improving sustainability performance of the industry, leading to better regulatory compliance, investor confidence, and long-term industry success. The large-scale monoculture plantations often associated with oil palm has been linked to deforestation, habitat and biodiversity loss, soil erosion, and water pollution. Moreover, the industry has faced scrutiny for its social impacts, including labor rights violations and displacements of indigenous communities. Addressing these sustainability challenges has become imperative for stakeholders of the industry, thus prompting efforts to promote sustainable and responsible practices within the oil palm industry.

This research seeks to analyze the sustainability-related disclosures made by Malaysian oil palm companies. The results reveal that the environmental and social dimensions of sustainable development are the primary focus in these companies' sustainability efforts, whereas the

economic aspect receives relatively less attention in their reports. This suggests that Malaysian oil palm companies place greater importance on tackling environmental and social challenges linked to the impacts of their operations. For example, they emphasize efforts to reduce environmental and social harm by implementing occupational safety and health initiatives, participating in community engagement through corporate social responsibility (CSR) activities, and adopting measures for environmental protection and conservation. The oil palm companies also communicate to their stakeholders their efforts to address climate change, particularly, on the use of renewable energy in their operations. MSPO has been made mandatory for plantation companies, independent and organized smallholdings as well as palm oil processing facilities to be certified sustainable. Therefore, companies address the critical issues on deforestation, biodiversity loss, and conservation of high biodiversity value areas, issues relating to climate change, greenhouse gases, employment and work conditions, native land and ownership rights as well as health issues. While MSPO is a national certification standard, RSPO is an international and multi stakeholder requirements and it is the standard and certification scheme that has the capacity to supply certified sustainable palm oil to the global market. Compliance with the RSPO standards is voluntary and the RSPO certification adoption by the oil palm industry players is still very low, particularly among smallholders. Overall, the study reveals that oil palm companies do not consistently follow the GRI (Global Reporting Initiative) standards in their sustainability reporting. This is primarily due to the fact that sustainability reporting is voluntary, rather than mandatory, for these companies. While some companies align their reporting with GRI standards, certain GRI indicators are not commonly used within the oil palm sector, as these standards are not specifically designed for the industry. Consequently, our findings help to identify and explore sustainability indicators that are more relevant to the oil palm industry context.

### ***Practical and Social Implications***

From a managerial perspective, these findings can guide companies in enhancing the quality of their sustainability reporting to better align with global standards. For regulators, policymakers, and international investors, this research offers insights into evaluating the sustainability performance of listed companies in developing economies, providing a benchmark for broader goals like the UN SDGs.

### ***Limitations and Suggestions for Future Research***

Since the study focuses on the sustainability reporting practices of a specific sector, its findings may not apply to other industries.

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