A CASE OF SUSTAINABILITY REPORTING AND ORGANISATIONAL CHANGE IN PRACTICE OF MALAYSIAN PALM OIL COMPANY: BEYOND THE SYMBOLIC AND SUBSTANTIVE DICHOTOMY

SAIDATUL NURUL HIDAYAH JANNATUN NAIM BINTI NOR AHMAD

UNIVERSITI SAINS MALAYSIA

2020

A CASE OF SUSTAINABILITY REPORTING AND ORGANISATIONAL CHANGE IN PRACTICE OF MALAYSIAN PALM OIL COMPANY: BEYOND THE SYMBOLIC AND SUBSTANTIVE DICHOTOMY

by

SAIDATUL NURUL HIDAYAH JANNATUN NAIM BINTI NOR AHMAD

Thesis submitted in fulfilment of the requirements
for the degree of
Doctor of Philosophy

January 2020

ACKNOWLEDGEMENT

Thanks to Allah The Al-Mighty, The Most Merciful, for His blessings, guidance and sustenance throughout my PhD journey.

This thesis would not have been complete without the support and assistance of many people to whom I would like to express my gratitude.

My most heartfelt gratitude goes to both of my supervisors; Prof Dr. Azlan Amran and Prof Dr. Siti Nabiha Abdul Khalid for their utmost support and guidance throughout this journey. I couldn't tell how grateful I am to have them as a supervisor as not only they are the experts in this field that has helped a lot in shaping this research endeavour and has done so in the most patient way a supervisee could ever wish for, they also always make the time for our meeting despite their busy schedule.

I was also lucky enough to gain the full support from the people that I love throughout this PhD journey. My husband, Fitri Bin Mahamad Aziz is one of them. He supported me in the most ISTJ-kind of way, where his words before leaving to the office was always 'don't forget to write your thesis honey' and when he came back home, he always asks 'how's your progress?' or 'how many pages have you written today?', every single day. As annoying as it may sound, this has actually kept me in check, so I thank him for that. I'm also grateful for the support, love, prayers, motivation, and guidance of my mother-Puan Hajjah Rohani Abd Rahman, and my late father Haji Mohktar Bin Hashim who has passed away in October 2017, a few months after I started this PhD study. Saddened by his death indeed, but I realized that it is his dream and my mother's to see their daughter finish her PhD and as one of my life goals is to make my parents happy, I brace the sadness and carried on. I also am grateful for the support, love, prayers and understanding of my parents in law-Puan Hajjah Raubah Binti Othman and Haji Mahamad Aziz bin Ahmad throughout this journey.

I would also like to thank all the respondents involved in the data collection process for their willingness and full cooperation in participating in this study. Without them the study would not have been possible.

Special thanks go to my friends that has also played a big role in pushing me from the start to finish. Dr. Atikah and Dr. Malvin especially has been great supportive friends, and great sparring partners, being my benchmark that keep me on track. I've also gained tremendous helps from my mentors; Professor Dr. Zaleha Othman, Dr. Fariza Hanim, Dr. Anis, Dr Ani Munirah, and Dr. Nurul Fadly on research methodology and academic writing.

I am also grateful to my employer and sponsors; Universiti Utara Malaysia and Ministry of Education Malaysia for granting me a 3 years study leave and fully funded my Master and PhD study. For this, I can't wait to go back and serve the university and the country that has given me so much.

TABLE OF CONTENTS

ACKNOWLEDGEMENT ..... **ii**

TABLE OF CONTENTS ..... **iii**

LIST OF TABLES ..... **x**

LIST OF FIGURES ..... **xi**

LIST OF ABBREVIATIONS ..... **xiii**

ABSTRAK ..... **xiv**

ABSTRACT ..... **xvi**

CHAPTER 1 INTRODUCTION **1**

1.1 Introduction 1

1.2 Research Background 1

1.3 Research Problem 6

1.4 Research Objectives and Research Questions 13

1.5 Significance of Study 14

1.6 Scope of The Study 18

1.7 Organisation of the Thesis 19

CHAPTER 2 OVERVIEW OF MALAYSIA'S PALM OIL INDUSTRY **20**

2.1 Introduction 20

2.2 Socio-Economic Profile of Malaysia 20

2.3 Background of Malaysian palm oil industry 28

2.4 The Governance of Palm Oil 36

2.4.1 Ministry of Primary Industries 37

2.4.2 Malaysian Palm Oil Board (MPOB) 38

2.4.3 Malaysian Palm Oil Council (MPOC) 39

2.4.4 Roundtable of Sustainable Palm Oil (RSPO) 39

2.5 Palm Oil Major Issues of Concern 42

2.5.1 Deforestation 42
2.5.2 Haze from Slash and Burn Activities 45
2.5.3 Plantation on Peat Areas 49
2.5.4 Indigenous People, Communities and Land Rights 51
2.5.5 Child and Forced Labour 53
2.6 Chapter Summary 54
CHAPTER 3 LITERATURE REVIEW 55
3.1 Introduction 55
3.2 The Concept of Sustainable Development or Sustainability 55
3.2.1 'Weak' and 'Strong' Sustainability 61
3.2.2 Sustainability Accounting and Reporting 66
3.3 Overview of Social and Environmental Accounting Research 71
3.3.1 Reporting on negative events 80
3.3.2 Research within Developing Countries and Malaysia 83
3.3.3 Research on Sensitive Industries and Palm oil 92
3.3.4 Sustainability Reporting, Practice, and Organisational Change 95
3.4 Gaps in the Literature and Proposed Contributions of this study 98
3.4.1 Engagement Based Study/Qualitative Case Study Approach 98
3.4.2 Developing Countries Context and The Palm Oil Sector 101
3.4.3 Under-theorisation in SEA Research 104
3.5 Chapter Summary 107
CHAPTER 4 THEORETHICAL FRAMEWORK 108
4.1 Introduction 108
4.2 Impression Management Theory 109
4.3 Neo-Institutional Theory 116
4.3.1 Mechanism of Institutionalization 119
4.3.1(a) Coercive/Regulative Institutional Isomorphic Change Mechanism 120

4.3.1(b) Cognitive/mimetic institutional isomorphic change mechanisms 121

4.3.1(c) Normative Institutional Isomorphic Change Mechanism 123

4.3.2 Decoupling 125

4.4 Legitimacy theory 126

4.4.1 Legitimation 128

4.5 Symbolic and Substantive Management 129

4.5.1 Approaches to Sustainability Accounting and Reporting: Symbolic and Substantive..... 132

4.6 Connecting Institutional Pressures, Adoption/Response Patterns (Symbolic and Substantive) and Approaches to Reporting (Inside-Out/Outside-In/Isolated/Twin-Track) 138

4.7 Justification of Why There is Need for Juxtaposition of Theories to Explain Sustainability Reporting and Practice of Organisation 145

4.8 Chapter Summary..... 152

CHAPTER 5 RESEARCH METHODOLOGY 153

5.1 Introduction 153

5.2 Research Design..... 153

5.2.1 Philosophical Position 155

5.2.2 Research Approach-Qualitative..... 159

5.2.3 Research Strategy 161

5.2.3(a) Case Study Method..... 162

5.2.3(b) Selection of Case 164

5.2.3(c) Research Access Negotiation 167

5.2.3(d) Background of Case Company..... 169

5.2.4 Research Stages and Qualitative Research Methods..... 170

5.2.4(a) Semi-Structured Interview..... 173

5.2.4(b) Interview Procedure..... 174

5.2.4(c) Selection of Interviewees 175

5.2.4(d) Focus Group Discussion 178

5.2.4(e) Observation and Informal Interview 179

5.2.4(f) Transcriptions of Interviews 181

5.2.5 Review of Documents 182

5.2.5(a) Data Analysis Technique: Qualitative-Thematic Analysis (Field Data) 183

5.2.5(b) Quantitative and Qualitative Content Analysis on Extent and Quality of Reporting and Disclosure on Negative Incidents 185

5.3 Validity and Reliability 193

5.4 Ethical Consideration 195

5.5 Chapter Summary 196

CHAPTER 6 PRESSURE/MOTIVATION FOR SUSTAINABILITY ENDEAVOUR AND CHANGES IN SUSTAINABILITY REPORTING 198

6.1 Introduction 198

6.2 External Pressures 198

6.2.1 Pressure from International Buyer and the Market Shift in Demand 199

6.2.1(a) The Chain of Pressure from Palm Oil Competitors and NGOs On International Buyers 199

6.2.1(b) Dismissive Argument by Case Company, Industry Player and Malaysian Government on Sustainability Issues in Palm Oil 200

6.2.1(c) The Reaction 205

6.2.2 Pressure from Civil Societies 209

6.2.3 Regulatory Pressure-Laws and Security Commission's Listings Requirements 216

6.2.4 The pressure to Conform to The Industry/Business Norms 220

6.2.5 The pressure to get Foreign Government Support 222

6.2.6 The pressure to Secure Investment and Financing Facilities 223

6.3 Internal Pressures/Motivation 227

6.3.1 Battling the Labour Shortages 227

6.3.2 Branding and Reputation 230

6.3.3 Internal Culture of Philanthropy 231

6.3.4 The Business Case for Sustainability 235

6.4 IRIS BHD Reporting Practice-Reporting Process, Report Extent, Quality and Transparency Based on Disclosure of Negative Events Over the Years 237

6.4.1 IRIS Approach to Reporting 240

6.4.2 Sustainability Reporting Trends 243

6.4.2(a) Disclosure Category: Overall/Others 244

6.4.2(b) Disclosure Category: Environment 246

6.4.2(c) Disclosure Category: Energy 248

6.4.2(d) Disclosure Category: Human Resource 249

6.4.2(e) Disclosure Category: Stakeholder Engagement 252

6.4.2(f) Disclosure Category: Products 254

6.4.2(g) Disclosure Category: Community Involvement/Social Impacts and Investments 255

6.4.3 Sustainability Disclosure of Negative Events 257

6.4.3(a) Child Labour, 3rd Party Contractors and Forest Fires 257

6.4.3(b) Conflict with Indigenous Community 259

6.4.3(c) Traceability 260

6.4.3(d) Slavery-Like Working Condition 261

6.5 Chapter Summary 263

CHAPTER 7 CHANGES IN ORGANISATIONAL PRACTICES IN EMBEDDING SUSTAINABILITY 265

7.1 Introduction 265

7.2 Internal Practice change in Pre and Post RSPO Certification 265

7.3 Structural Change 266

7.3.1 New Department/Committees and Staff 266

7.3.2 New Sustainability Standard Operating Procedure 270

7.3.3 Integration of Sustainability into Performance Appraisal 273

7.4 Organisational Strategy Change 274

7.4.1 Changes in Decision Making 275

7.4.2 Changes in Stakeholder Engagement Approach and Intensity 277

7.4.3 Supply Chain Management-Traceability 281

7.4.4 Changes in Environmental Initiatives and Performance 284

7.4.5 Changes in Social Initiatives and Performance 288

7.5 The Meaning of Sustainability and Changes in Organisational Culture 296

7.6 Impediments of Change 301

7.6.1(a) Cost Concern 302

7.6.1(b) Technical Difficulties of Reducing Environmental Impacts 303

7.6.1(c) Difficulty in Changing Workers Mindset due to Educational Level, Turnover, and Language Barrier 303

7.6.1(d) Unsupportive External Ecosystem 304

7.6.1(e) Impracticalities of PPE's Design for Field Workers 308

7.7 Chapter Summary 310

CHAPTER 8 THEORETICAL ANALYSIS OF THE CASE FINDINGS 312

8.1 Introduction 312

8.2 The Pressure for IRIS to Change towards Sustainability in Reporting and Practices 312

8.2.1 Coercive Pressure 313

8.2.2 Normative Pressure 320

8.2.3 Cognitive/Mimetic Pressure 322

8.2.4 Internal Drivers 326

8.3 Sustainability Reporting and Internal Practice Change in Response to Institutional Pressure 332

8.3.1 IRIS Approach to Sustainability Reporting 333

8.3.2 Reporting Change-Disclosure Extent and Quality Trend 334

8.3.3 Reporting Change-Disclosure of Negative Events 335

8.3.3(a) Denial 337

8.3.3(b) Evasion of Responsibility 339

8.3.3(c) Reducing offensiveness of the event 340

8.3.3(d) Corrective Action 341

8.3.4 Practice Change 345

8.4 Interlinkages Between Institutional Pressure, Adoption Pattern and Sustainability Reporting Approach 357

8.5 Chapter Summary 362

CHAPTER 9 CONCLUSION AND FUTURE RECOMMENDATIONS 364

9.1 Introduction 364

9.2 Contribution to Theory and Extant Literature 364

9.3 Methodological Contribution 367

9.4 Practical Contribution-Implication of Findings for Corporation 368

9.5 Practical Contribution-Implication of Findings for Stakeholders 369

9.6 Limitation of the Study and Direction for Future Research 372

9.7 Chapter Summary 374

REFERENCES 375

APPENDICES

LIST OF TABLES

Page

Table 2.1 Malaysia: Planted Area under Oil Palm (Hectares) 31

Table 3.1 Summary of 'Weak' and 'Strong' Sustainability. Source: Gray et al. (2014, p. 226) 64

Table 3.2 Definition of Social Accounting. Source: Islam (2015) 67

Table 4.1 Research Perspective and Conceptualization of Impression Management. Adopted from Brennan & Merkl-davies (2013). The coloured area depicts the focus of this study. 111

Table 4.2 Sustainability reporting approaches Sustainability reporting approaches adopted from Schaltegger (2012) 138

Table 4.3 Linkages between institutional pressure, adoption patterns and sustainability reporting adopted from González-González & Zamora-Ramírez (2016) 139

Table 5.2 Sample of category 1 - RQ1 - (Pressure/Motivation) analysis 185

Table 5.1 Disclosure Strategies on Negative Incidents: Adapted from Benoit (1997) and Lindblom (1994) 189

Table 6.1 Timeline of Events for IRIS Berhad 2004-2017 238

Table 8.1 Negative Incidents Reporting 345

Table 8.2 Changes in practice (and lack of) 356

Table 8.3 Linkages between institutional pressure, adoption patterns and sustainability reporting adopted from González-González & Zamora-Ramírez (2016) 357

LIST OF FIGURES

Page

Figure 2.1 Palm Oil Contribution to GDP by Percentage. Source: (DOSM, 2018b) 32

Figure 2.2 Countries Importing Malaysia's Palm Oil 33

Figure 2.3 Haze History in Malaysia 48

Figure 2.4 Satellite Image During Haze Episode 48

Figure 4.1 Impression Management from a Sociological Perspective. Visualized from Brennan & Merkl-davies (2013) 115

Figure 4.2 Theoretical framework for analysis of findings 151

Figure 5.1 The research onion. Source: Saunders, Lewis, & Thornhill (2016: 164) 154

Figure 5.2 An outline of the main steps of qualitative research from (Bryman, 2012) 161

Figure 5.3 Transcription Process 182

Figure 5.4 Data Analysis Process 192

Figure 6.1 Extent of Sustainability Disclosure of IRIS Berhad in Annual Report 2003-2018 243

Figure 6.2 Quality of Sustainability Disclosure of IRIS Berhad in Annual Report 2003-2018 244

Figure 6.3 Extent of Sustainability Disclosure in Overall/Others Category 2003-2018 244

Figure 6.4 Quality of Sustainability Disclosure in Overall/Others Category 2003-2018 245

Figure 6.5 Extent of Sustainability Disclosure in Environment Category 2003-2018 246

Figure 6.6 Quality of Sustainability Disclosure in Environment Category 2003-2018 246

Figure 6.7 Extent of Sustainability Disclosure in Energy Category 2003-2018 248

Figure 6.8 Quality of Sustainability Disclosure in Energy Category 2003-2018..... 248

Figure 6.9 Extent of Sustainability Disclosure in Human Resource Category 2003-2018 249

Figure 6.10 Quality of Sustainability Disclosure in Human Resource Category 2003-2018 250

Figure 6.11 Extent of Sustainability Disclosure in Stakeholder Engagement Category 2003-2018..... 252

Figure 6.12 Quality of Sustainability Disclosure in Stakeholder Engagement Category 2003-2018..... 252

Figure 6.13 Extent of Sustainability Disclosure in Product Category 2003-2018 254

Figure 6.14 Quality of Sustainability Disclosure in Product Category 2003-2018..... 254

Figure 6.15 Extent of Sustainability Disclosure in Community Involvement/Social Impacts and Investment Category 2003-2018 255

Figure 6.16 Quality of Sustainability Disclosure in Community Involvement/Social Impacts and Investment Category 2003-2018 256

Figure 7.1 Impediments of change 309

Figure 8.1 External and internal pressure/motivation 313

LIST OF ABBREVIATIONS

ACCA	Association of Charted Certified Accountants
CSPO	Certified Sustainable Palm Oil
CSR	Corporate Social Responsibility
EU	European Union
FPIC	Free Prior and Informed Consent
HCS	High Carbon Stock
HQ	Head Quarters
ISCC	International Sustainability & Carbon Certification
ISPO	Indonesian Sustainable Palm Oil
MPOA	Malaysian Palm Oil Association
MPOB	Malaysian Palm Oil Board
MPOC	Malaysian Palm Oil Council
MSPO	Malaysian Sustainable Palm Oil Certificate
NCR	Native Customary Rights
NGO	Non-Governmental Organisation
OC	Operating Center
PPE	Personal Protective Equipment
RSPO	Roundtable of Sustainable Palm Oil
RSPO P&C	Roundtable of Sustainable Palm Oil Principles and Criteria
SCC	Sustainability
SEA	Social and Environmental Accounting
SWC	Sustainability Working Committee
UK	United Kingdom
US	United States of America

SEBUAH KES PELAPORAN KELESTARIAN DAN PERUBAHAN PRAKTIS ORGANISASI OLEH SYARIKAT KELAPA SAWIT MALAYSIA: MELANGKAUI DIKOTOMI SIMBOLIK DAN SUBSTANTIF

ABSTRAK

Konsep amalan perniagaan dan pelaporan lestari telah menjadi perkara utama dalam rantaian bekalan produk dan sumber pengguna global. Kajian ini dilakukan bagi meneroka tekanan institusi dan perubahan dari segi laporan dan praktis sebagai tindak balas atas tekanan tersebut oleh syarikat senarai awam Malaysia dalam sektor kelapa sawit yang telah dikritik atas isu-isu kemapanan dari aktiviti perniagaan mereka. Metodologi kajian kes digunakan dengan mengumpul data primer dan sekunder melalui temubual separa berstuktur, pemerhatian, perbualan tidak formal, diskusi berkumpulan terfokus, dan analisis kandungan. Sosiologi institusi baharu, keabsahan, dan pengurusan tanggapan adalah lensa teori yang digunakan bagi menerangkan dapatan kajian ini. Dapatan menunjukkan terdapat kedua-dua tekanan/motivasi dalaman dan luaran yang mendorong syarikat memulakan pelaporan dan praktis kemapanan. Dari luaran, tekanan dari pemegang taruh datangnya dari NGO dan pesaing yang menekan pembeli, pelabur dan pembiaya, yang kemudiannya memberi tekanan kepada syarikat, menjadikan ia sangat efektif, kerana ia memberi risiko kepada kedudukan kewangan syarikat. Tekanan peraturan, norma industri, dan mencari sokongan kerajaan asing menambah kepada tekanan dari luar. Masalah reputasi, kekurangan buruh, kes perniagaan untuk kelestarian, dan resam dermawan yang berakar pada sebuah syarikat keluarga adalah motivasi dalaman di sebalik usaha ini. Ini menolak kajian-kajian lepas yang menyatakan syarikat hanya bertindak balas kepada tekanan luar semata-mata, kerana terbukti bahawa pertimbangan aspek

dalaman kecekapan teknikal/kos juga memacu pengambilan mereka. Kuantiti pelaporan kemapanan ternyata meningkat, tetapi lebih kepada penyataan berbentuk naratif, maka ia berkualiti rendah. Pelaporan mengenai insiden negatif kebanyakannya berbentuk simbolik pada awalnya, tetapi ia berubah kepada pernyataan berbentuk tindakan pembetulan mulai tahun 2016 dan tahun berikutnya, memberi petunjuk substantif, tetapi terdapat isu-isu yang tidak dilaporkan seperti kes gangguan seksual dan pertikaian gaji. Ini adalah bukti nyata bahawa terdapat pelaporan terpilih terjadi. Dalam praktis sebenar, secara strukturnya, syarikat sememangnya berubah secara substantif dengan mewujudkan jabatan baharu, prosedur baharu, dan jawatankuasa baharu berkaitan kemapanan. Namun, terdapat jurang polisi-implementasi dalam perubahan ini. Dari segi strategi, syarikat berubah pada beberapa aspek seperti pada dasar pengembangan, namun syarikat tidak berubah pada aspek yang lain seperti dalam isu kebolehlihatan. Dari segi budaya, walaupun terdapat peningkatan kesedaran berkenaan kemapanan, pertimbangan keuntungan dan kos/kecekapan masih menjadi perhatian, menghidari perubahan substantif dari berlaku. Secara keseluruhan, terdapat kedua-dua perubahan iaitu simbolik dan substantif, namun lebih menjurus kepada simbolik. Kajian ini membuktikan bahawa simbolik-substantif merupakan suatu kontinum, bukanlah dikotomi seperti anggapan kebanyakan kajian lepas, dan syarikat menggunapakai campuran kedua-duanya bergantung kepada keparahan sesuatu isu, tahap pengawasan, dan pertimbagan kos/kecekapan. Kajian juga mendapati pelaporan kemapanan bukan ejen perubahan. Sebaliknya, proses pensijilan merupakan ejen perubahan yang mempengaruhi proses pelaporan. Kajian ini menambah kepada bukti-bukti dimana motif keabsahan syarikat, dominasi tekanan paksaan (menunjukan bahawa industri masih belum matang dari aspek kelestarian) dan kelangsungan ketiadaklestarian perniagaan masih wujud dalam konteks negara membangun.

A CASE OF SUSTAINABILITY REPORTING AND ORGANISATIONAL CHANGE IN PRACTICE OF MALAYSIAN PALM OIL COMPANY: BEYOND THE SYMBOLIC AND SUBSTANTIVE DICHOTOMY

ABSTRACT

The concept of sustainable business practice and reporting have taken centre stage in the global consumer products supply chain and sourcing decision specifically with the widespread prevalence of environmental and social violations in the palm oil industry. The purpose of this study is to explore the institutional pressures and changes in sustainability reporting and practice made in respond to these pressures by a Malaysian public listed company in the palm oil sector. Case study methodology was employed, gathering primary and secondary data through semi-structured interview, observation, informal conversation, focus group discussion and content analysis. Neo-institutional, legitimacy and impression management theory were used as the lens to explain the study findings. The findings show there are both external and internal pressures/motivation for company to embark on sustainability reporting and practices. Externally, stakeholder pressure mainly came from the NGOs and competitors that puts pressure on the multinational buyers, investors and financiers whom in turn place pressure on the case company, making it highly effective, as it risked the company's financial bottom lines. Regulatory pressures, conforming to industry norms, and seeking support of foreign government also increases the external pressures. Reputational problems and labour shortages, business case for sustainability and philanthropic nature of family-owned firm are the internal motivation behind the endeavour. This refutes earlier literature proposing that corporations are only

responding to external pressure for sustainability, as it is proven that internal technical/cost efficiency concern also drives their uptake. Sustainability reporting extent did increase over the years, but mostly in narrative forms, hence of low quality. Reporting of negative incidents were mostly in symbolic nature at first, but it moves towards more corrective action statement in 2016 onwards, which hints substance, but there are issues that was not reported at all such as sexual harassment case and salary disputes. This is an apparent evidence of selective disclosure taking place. In actual practice, structurally, the company did change by creating new department, new procedures, and new committees in regard to sustainability. However, there are policy-implementation gaps in these changes. In term of strategy, the company did change in some respects such as in expansion policy but did not change substantively in other aspects such as in traceability issues. In terms of culture, although there is an increasing awareness on sustainability, profit and cost/efficiency consideration still takes prominence, hindering substantive change to happen. Overall, the study found both symbolic and substantive change towards sustainability, but much more inclined towards symbolic. The study provides evidence of symbolic-substantive to be a continuum instead of a dichotomy which mostly assumed in previous literature, and company adopt a mixture of these depending on the severity of issues, level of scrutiny, and cost/efficiency consideration. The study also found that sustainability reporting was not the changing agent towards better sustainability practices and performance. Instead, we found certification process as the agent of change in the case company that influence the reporting process, breadth and depth of information disclosed. This study also adds to the evidence of corporate legitimacy motive, dominance of coercive pressure (showing the industry has yet to mature in sustainability aspects), and continued business unsustainability still prevail in the context of developing country.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter provides a summarized version and explanation of the entire research. This chapter begins with the introduction, followed by the background of this thesis and research problems, research questions, and contribution of the research. This chapter will conclude with the overall structure of this thesis. The context of this research is further explained in the next chapter.

1.2 Research Background

The prevalence of environmental degradation, human rights infringement and intensified stakeholder's criticism has led the issue of sustainability to be the forefront of discussion amongst the global key performers in the palm oil industry. Against the backdrop of increasing pressure from the global community especially from European Union and the threats of the ban on palm oil suppliers, pressures have grown on palm oil companies to become more transparent and accountable for the negative consequence of their business practices. Proponents to the anti-palm oil campaign have argued that the social and ecological costs of palm oil cultivation have been high. Land grabs by privileged corporate interest have displaced rural communities, and the rising value of land has also fuelled dispossession and social polarisation in the countries where palm oil was grown (White, Borras Jr., Hall, Scoones, & Wolford, 2012)

Palm oil is a highly controversial commodity (Hamilton-Hart, 2015). It is the world's most consumed vegetable oils-omnipresent in everyday products where it is used as raw material in thousands of consumer's products including food, drinks, soaps, cosmetic, as well as a renewable biofuel. Palm oil is also one of the worlds'

most socially and environmentally contested industry (Edwards, 2016), as it has been identified as a major cause of deforestation and loss of biodiversity in Southeast Asia. For example, the Island of Borneo was entirely covered by the tropical forest until the 1970s, but in the past decades, agriculture, logging and mining activities have resulted in massive deforestation. These series of deforestation have resulted in the massive destruction to the habitats of the orang-utan, pygmy elephant, clouded leopard, Sumatran rhino and other lesser-known animals, as well as thousands of species of plant, which may disappear in 20 years if these activities continue (Orsato, Clegg, & Falcão, 2013).

Furthermore, it is established in the media that palm oil has been linked to deforestation due to a series of haze engulfing Malaysia, Indonesia and Singapore from fires that had been set to clear land for palm oil, which caused respiratory and other health problem in these regions, spurring an international public outcry. Environmental activist and non-governmental organisations (NGOs) that have been campaigning against deforestation have used this issue to intensify the campaign against large organisation involved in the global value chain of palm oil-including palm oil cultivators in Malaysia and Indonesia as well as their multinational buyers. The industry retaliates to the occurrences and public uneasiness by organizing a multi-stakeholder allegiance led by the largest players in the sector and formed the Roundtable on Sustainable Palm Oil (Orsato et al., 2013).

Large corporations around the globe are indeed extremely powerful in their capacity with respect to financial resources and scale of operation, but also, in return, have a large capacity to impose social and environmental harm. The latter years of the 20th century have witnessed a number of environmental catastrophes such as Chernobyl nuclear power plant accidents (1986), Bhopal union Carbide poisonous gas

leak (1984), Exxon Valdez (1989), and Erika oil spills (1999). Corporate-induced social and environmental calamities continued well into the 21st century such as haze that engulfed Southeast Asia as a result of land clearing for palm oil in 2015, BP Gulf of Mexico Oil spill in 2010, and the famous Volkswagen 'Diesel gate' scandal in 2015. These highly publicized, and destructive events from corporate activities as well as the impact to the society and environment have resulted in public uneasiness and fuel uncertainty over large for-profit organisation (Friedman & Miles, 2004)-that placed a significant pressure on companies, especially those in 'controversial' industries whose activities inherently harmed the natural environment and society (Cho & Roberts, 2010). As a result, there is an increase in demand for corporations to be more transparent and accountable on their social and environmental impacts, especially those being under the umbrella of 'environmental or socially sensitive' companies.

In response to this demand, more companies around the globe are now reporting their social and environmental performance, especially large corporations. Sustainability reporting has become an increasingly common practice in companies' attempts to respond to expectations, pressures and criticisms from stakeholders who want to be better informed about the social and environmental impacts of business activities (Boiral, 2013). According to the Survey on Corporate Responsibility Reporting by KPMG (2015), 90% of G250 is now disclosing CSR information, and embedding it in annual reports has become a global norm. The above disclosure is also consistent with Junior, Best, and Cotter's (2014) analysis of G500 companies that the practices of issuing sustainability reports and having them assured have become a worldwide phenomenon, which occurred in developed, and emerging economies around the world. The proponents of social and environmental reporting view the practice as a medium to provide substantive information to stakeholders, thereby have

the potential to improve corporate transparency and aids stakeholders in understanding and assessing corporate social and environmental impacts (Bebbington, Unerman, & O'Dwyer, 2014).

The need to engage stakeholders through social and environmental activities is even stronger for companies in a controversial industry whereby the environmental and social behaviour of organisations, and the impacts from its business activities are regarded as doubtful, unethical, and harmful, thus making them exposed to public debate (Vollero, Conte, Siano, & Covucci, 2018). Corporate negligence, environmental disasters, CSR scandals, such as the Volkswagen Diesel gate case and the Exxon Mobil activities that are indirectly related to the climate change have captured the media's attention and damaged the public trust in these organisations and their social accountability. Hence, these companies faced serious challenges for being accountable for their conducts in order to boost the sustainability's credibility against an increasing level of stakeholder's scepticism (Vollero et al., 2018).

Alas, the provision of these voluntary disclosures and its increasing trend does not necessarily mean companies have become more transparent and accountable in disclosing the impact of their activities on social and natural environment, whereby an increase in the quantity of disclosure does not equal to improved accountability (Adams, 2004). At the heart of social and environmental accounting (SEA) research endeavour, researchers in the area anticipate that social and environmental reports reflect social and environmental performance-which hints a genuine attempt to be accountable to stakeholders, and complete in the material sustainability aspects affecting the specific company as well as the industry the company is operating, and to see social and environmental reporting processes that lead to improvement in social and environmental performance (Adams & Larrinaga-Gonzalez, 2007).

However, this may not yet be the case. The levels of organisational CSR communication are shown to increase, however, the examples of corporate irresponsibility still continue, resulting in opposing interpretation of CSR reports by scholars as a mere marketing instruments, tools for social legitimation (see, for example, Aggarwal & Kadyan, 2014; Cho & Patten, 2007; Deegan, 2002; Deegan, Rankin, Deegan, & Rankin, 1996), a part of impression management strategies (see, for example, Beelitz & Merkl-Davies, 2012; Cho, Roberts, & Patten, 2010a; Merkl-davies & Brennan, 2014), or a form of simulacra (Boiral, 2013). These reports were supposedly used for informing stakeholders that the disclosed information is as transparent as possible and reflects the corporation's actual performance and consequences. In the absence of such transparency, sustainability report tends to resemble marketing tools aimed at primarily improving the corporation's image and social legitimacy (Cho & Patten, 2007).

The optimistic rhetoric used in these reports, the questionable reliability of the disclosed information as well as the control of information by senior management undermine the transparency of the report itself and have been widely criticised (Adams, 2004; Cho, Roberts, & Patten, 2010b; O'Dwyer, 2005). In this critical perspective, sustainability reporting could potentially lead to simulacrum - an artificial and idealized representation which is disconnected from reality (Boiral, 2013) to some extent, rather than a tool to enhance corporate transparency and accountability that provide reliable information for stakeholders (Diouf & Boiral, 2017), and act as a catalyst towards improved sustainability. The contributions supporting this argument maintain that social and environmental reporting can be used for opposite purposes to those perceived, and becoming an element legitimising the status-quo as well as acting as a barrier to change. Without deep institutional changes conferring relevance to this

form of accounting practices, the struggle will not reap any benefit (Moneva, Archel, & Correa, 2006).

1.3 Research Problem

The sustainability report is a report published by a company or organisation about the economic, environmental, and social impacts caused by its everyday activities, in terms of both positive and negative. Sustainability reporting is largely seen as desirable. It is viewed as a proxy for a company's engagement with sustainability, reflects the commitment to improve social and environmental performance by corporation, and as a way to bring about change in corporate behaviour (Higgins, Stubbs, & Milne, 2018). Nevertheless, the main issue here is that what exactly compels companies embarking on sustainability journey, and changes in company's reporting (frontstage) as well as practice (backstage) caused by the embarkment and the level of change. Does this have the possibility of improving sustainability performance of company (lessening their social and environmental impacts) or is this just another evidence of 'business as usual' and continued unsustainability of large for-profit organisation? In the social and environmental accounting (SEA) research area, the first issue pertains to the motivation behind sustainability reporting and practice, while the latter regards to organisational change towards sustainability, where problems in researching each issue from empirical and theoretical standpoint are discussed in the following paragraphs.

Firstly, pertaining to researching the motive behind sustainability reporting and practice, the motivation to understand and theorise company reporting has been in part to uncover what might encourage others to report, because, if organisational characteristics that drive reporting can be identified, it may be possible to predict and encourage reporting behaviour (Adams, 2002; Higgins et al., 2018). Thus far, research

in the SEA area has found a multitude of factors that drive reporting and practice for sustainability. For example, reporting was attributed to corporate characteristics such as size, industry, profit, or financial performance and contextual factors such as country of origin and relative variety of social, political, and legal factors, social and political change, economic cycles, cultural, specific events, strategic posture towards sustainability, media pressure, and stakeholders' power (Adams, 2002; Fifka, 2013), and the role of individual champions (Arroyo, 2012; R. Gray, Walters, Bebbington, & Thompson, 1995) in the reporting process. While some firms are motivated to influence powerful stakeholder with improved corporate image (Belal & Owen, 2007), others seek a symbol of their competitive differentiation as a 'responsible/sustainable' organisation (Bebbington, Higgins, & Frame, 2009).

The studies mentioned above have shown that sustainability reporting motivations to be complicated and multifarious. Rather than being driven by stakeholder management or securing legitimacy concern at any level of analysis, corporations appear to be reporting on environmental and social issues for a variety of reasons and in ways which may not be consistent across different organisations. This is because other than the external factors mentioned above; internal factors also play role in determining how and why corporate sustainability reporting is produced. Hence, corporate motivation to report and the factors influencing the form of the report are understood to be complex and variegated (Spence, Husillos, & Correa-Ruiz, 2010). The way these factors converge and influence the choice and process of sustainability reporting and practices remain unexplored and unclear (Baldarelli, Baldo, & Nesheva-Kiosseva, 2014), which warrants further examination.

Moreover, prior studies have investigated potential reasons behind corporate engagement with sustainability reporting, as well as the purview and the content

accuracy of these reports (e.g. Bozzolan, Cho, & Michelon, 2015; Dhaliwal, Li, Tsang, & Yang, 2011; Patten, 1992). Nevertheless, most of these research focus on the external reports of the firms, without engaging with the report preparers to understand how, why and by whom the reported information has been collected, analysed and communicated (except for few studies like Adams, 2002; Adams & Mcnicholas, 2007). In most cases, assumption was made about corporate motives and process relying on examinations of corporate disclosure alone, which can be seen with the dominance of content analysis research in SEA (Mata, Fialho, & Eugénio, 2018), without exploring the broader social, political and economic context in which those disclosures are made (Adams & Frost, 2008), making the findings highly speculative. A different, more engaging approach is needed to provide the empirical evidence that explains corporate motive in a 'closer to reality' manner.

Secondly, in regards to researching organisational change towards sustainability, while there is an extensive research on organisational change per se, there is a dearth of research investigating change towards sustainability (Narayanan & Adams, 2016), and only a few studies have examined the process of organisational change to embed sustainability practices in organisations (see Adams & McNicholas, 2007; Gray, Walters, et al., 1995; Larrinaga-González & Bebbington, 2001). More recently, Bebbington and Fraser (2014) have also emphasised the importance of focussing on processes of organisational change. Most previous studies have adopted case studies that do provide an in-depth analysis of one particular dimension, but not an extensive and concomitant analysis of internal sustainability management and sustainability disclosure.

These underlying empirical reasons indicate that the activities, characteristics and patterns of organisational change for sustainability deserve further investigation

(Passetti, Cinquini, & Tenucci, 2018). This is because, by extending the understanding of complex and dynamic nature of change towards integrating sustainability considerations into business decision making processes at the organisational level, change efforts towards sustainability could be better directed and targeted (Narayanan & Adams, 2016). Furthermore, as pointed by Adams and McNicholas (2007), there is lack of research on reasons companies fail to be accountable for some aspects of their sustainability performance and the specific settings that causes this situation. Thus, Adams & McNicholas (2007) suggested that engagement-based research with organisations need to be done to examine the process of sustainability accounting and accountability, and the manner in which these processes, data collected, and subsequent reporting have an impact on organisation's sustainability performance.

Plus, evaluating change by differentiating symbolic and substantive sustainability endeavour has been described as complicated and challenging by both researchers in conventional and critical perspectives (Bowen, 2010). As corporation shows their social and environmental awareness through sustainability reports, eco-labels, industry pledges, green technology, when are these symbols wasteful corporate spin and when do they signal authentic social and environmental improvements? Dismissing the symbolic aspects of corporate social and environmental actions as deliberate greenwashing tells only part of the story. There are increasingly more sophisticated-sounding technologies, programmes, management processes, industry associations and labelling schemes to reassure stakeholders that firms are socially and environmentally sound. Some of these symbols are greenwashing – a deliberate attempts to communicate positive sustainability information not matched by improved social and environmental impacts. However, some are more than 'merely symbolic' and actually signify social and environmental improvements.

Activist and academics have embraced the challenge to expose and analysed the gap between rhetoric around firms' activities and the reality of environmental and social damage they are causing (Bowen, 2010). However, separating symbols and substance (in a meaningful way) is not a straightforward task. For conventional researchers, this is a practical, empirical problem. For example, in evaluating the environmental initiative, Berrone, Gelabert, & Fosfuri (2009) considered environmental trademarks to be symbolic but environmental patents to be substantive green solutions, without really explaining why. Similarly, Walker & Wan (2012) operationalised both symbolic and substantive green solutions by evaluating company websites. For them, backward-looking statements on past accomplishments were labelled 'substantive' whereas forward-looking statements on company plans and commitments were labelled 'symbolic'. Neither of these operationalisations would be acceptable to critical theorists who emphasise that all green solutions have a symbolic dimension (Bowen, 2010). Hence, a tool has to be developed to identify which sustainability-related changes and solutions that are 'merely symbolic' in the sense that they do not lead to any improvements in social and environmental impact, and those that could lead to such improvements - a tool that would allow a more nuanced explanation of corporate change towards sustainability.

Furthermore, previous research in the SEA area has considered different approaches employed by companies to disclose sustainability information (Burritt & Schaltegger, 2010; Schaltegger, 2012), and analysed pattern of adoption of business practices-mainly differentiating from symbolic and substantive adoption based on the existence of conviction and commitment to business practice (Furrer, Hamprecht, & Hoffmann, 2012; Hess & Warren, 2008; Hyatt & Berente, 2017; María González-González & Zamora-Ramírez, 2013). However, approaches to reporting and adoption

patterns have been considered independently (González-González & Zamora-Ramírez, 2016). Scarce attention has also been paid to the components of the institutional context that may influence the approach to reporting used by organisations to share their sustainability information (Larrinaga-Gonzalez, 2007). Although SEA research has expanded into several geographical areas, the studies focus on Anglo-Saxon countries, such as the United States, the United Kingdom and Australia. Studies on developing countries, such as the Ecuador, Nigeria, Sri Lanka, and Bangladesh shows the evidence of vulnerability and exploitation of the local communities in these countries, there is a need for more studies that expose these situations which allow an improvement of social and environmental accounting research (SEAR) (Abdalla & Siti-Nabiha, 2015; Mata et al., 2018).

As the issues of human rights abuse and environmental degradation are still lingering in developing countries, including Malaysia, and with the problems on sustainability reporting transparency and accountability are indicated by the previous literature, it is important that SEA research play its role in helping to solve the problem by incorporating a more holistic, system approach to thinking, and by bringing to the fore aspects of corporate behaviour that may need to change, as well as highlighting performance that promotes sustainable practice. Stakeholders are able to gain the relevant knowledge to make informed choices through transparency and accounting does provide the mechanism for enhancing laws, policy and guidelines, but in order to improve the environment in developing nations, a thorough understanding of the nuanced context of developing countries' environment is necessary, which needs an interdisciplinary work that would help to solve SEA issues in different context rather than just examining them (Tilt, 2018). Therefore, this study aims to bridge these gaps by means of theoretical framework that links institutional context, adoption patterns

and reporting approaches used by organisation related to addressing their sustainability issues in practice and reporting.

Lastly, traditionally polluting and contested industry has been seen as leading the way in sustainability reporting around the world, being among the most extensive disclosers compared to other sectors (KPMG, 2015, 2017). However, a closer look at their report would reveal a different reality. For example, a study on America's Toxic 100 by Cho and Roberts (2010) found that corporations use reporting to project a more socially acceptable environmental management approach to public stakeholders, and this disclosure activity is often decoupled from their actual environmental performance-where worse environmental performers provide more extensive content and presentation than their better-performing counterparts, similar to the findings of Talbot and Boiral (2015b) on the energy sector. It would be insightful to probe whether or not the institutional pressure put on these companies have resulted in deep-seated change in sustainability practice or have just impacted change on the surface, and when paired with the weak coercive enforcement familiar in the developing country context where much of the pollution and injustice is happening-the research in this area is highly pivotal. The Malaysian palm oil industry, for example, has faced severe backlash for its social and environmental impacts, risking possible ban from the EU. SEA research so far have only focused on the palm oil industry players' environmental disclosures in evaluating its usefulness for stakeholder engagement (Othman & Ameer, 2010). Nonetheless, there is still much to explore on the awareness and visibility of the business' ethics and social and environmental responsibility issues faced by palm oil companies in Malaysia.

1.4 Research Objectives and Research Questions

Based on the research problems highlighted above, this study is formulated to answer the following research objectives and research questions:

Research Objectives

1. To explore the institutional pressure on the case company to improve their sustainability reporting and practice.
2. To evaluate the changes in sustainability reporting of the case company in respond to these pressures in terms of quality, quantity, and negative incidents reporting.
3. To evaluate the changes in sustainability practice in response to these pressures in terms of structure, practice, and culture.
4. To explain the reason behind lack or no changes in sustainability reporting and practice.

Research Questions

1. What are the institutional pressures exerted on companies in the palm oil sector and to the focal company and the underlying motivating factors for the case company to improve their sustainability practice and reporting?
2. How does sustainability reporting of the focal company throughout the years changes to adapt to these pressures, in terms of disclosure extent and quality as well as on the disclosure on negative events, is it symbolic/substantive change in reporting?
3. How organisational structure, practice and culture of the focal company changes in response to these pressures (symbolic/substantive change in practice)?
4. Why do the company fail to change in certain areas or what impedes its transformation towards sustainability?

1.5 Significance of Study

Thomson (2014) asserts that sustainability accounting and reporting research should contribute to sustainable transformation and reducing societies' negative sustainability impact globally. Accounting-sustainability research should produce and communicate knowledge that points the way to a sustainable future. Accounting-sustainability research should critically confront the unsustainable way the world is; create new accounting knowledge, processes and practices; and problematize, disrupt and engage constructively with transformation processes. The 'so-what' question for accounting sustainability research should be on the reason how research help with the resolution of the urgent problems faced by society. By unearthing the performance-portrayal gap of the company in a controversial industry, the research aims to identify the why and how the company decides to change towards sustainability and ascertain the impeding factors hindering company in the industry.

This endeavour is important in several ways. Firstly, bringing about change towards sustainability requires an understanding of what happens within organisations, of the complexity and interdependency of organisational processes and structures as well as organisational participants. Thus, engagement research in social and environmental accounting is needed to impart significant changes, as from the engagement process, it could help to explain the driving or impeding factors towards improved sustainability and accountability performance (Adams & Larrinaga-Gonzalez, 2007). This will then point out the changes needed in policy, enforcement, and corporate implementation for real, substantive change to takes place. Hence, the current study took the approach advocated by (for example, Abdalla & Siti-Nabiha, 2015; Adams & Larrinaga-Gonzalez, 2007; Narayanan & Adams, 2016) involving interviews and content analysis of sustainability reports or essentially an engagement

based research, to explore the unsustainability of corporate activities so that further actions could be taken to change the situation. Without exposure, business will continue as usual, till the damage done to the environment and society is beyond repairable.

Moreover, not only that the engagement research undertaken in this study aims to unearth corporate unsustainability, it also aims to highlight a glimpse of hope for changes towards sustainability by corporation. In recent years, there has been a shift in corporate understanding of value and how it is created and vice versa. Companies have been seen as seeking to align their approach to social impact with their value creation process (Adams, Potter, Singh, & York, 2016). Whilst a decade ago the possibilities of companies contributing to Sustainable Development Goals (SDG) and sustainable development would not have been possible, research such as mentioned above provides evidence that this is happening (Adams, Larrinaga-Gonzalez, & Larrinaga, 2019). Without engagement research, this trend would remain uncovered. However, the evidence gathered is based on the western countries' context, and different context may provide a different trend. This leads to the next point of why engagement research in a developing country context is important.

Secondly, the study was at first motivated to answer the call for more engagement research in SEA by Adams & Larrinaga-Gonzalez (2007) as it has the potential to enrich theorizing and improve practice and the sustainability performance of organizations. The development of this call for engagement research through Adams et al. (2019) was then reviewed, and found that there is an increase in engagement work, and marked increase in volume and complexity of data collected over the decade since the 2007 publication. However, context has become more significant, and currently most of the research on social and environmental accounting focuses on the

Western part of the world, so there is a great potential to bring to light non-Western perspectives (Sinkovics, Hoque, & Sinkovics, 2016). Such an approach opens up the possibility of expanding the scope of problems considered and to gain a better understanding of cultural, political and institutional forces in developing solutions (Adams et al., 2019). This concur to another review of Sustainability Accounting Management and Policy Journal's contribution to SEA research by Patten & Shin (2019), where they continue to encourage research on sustainability disclosure, its practice, and the impacts in developing countries. This is because, more careful attention is needed to the contextual factors that likely differ in such locales as the majority of world's population lives in developing countries that have unique social, political and environmental problems (Tilt, 2016, 2018), and understanding how factors such as corruption issue (Tilt, 2018) impact or impede more transparent sustainability disclosure and substantive implementation of practice can help advance reporting and practice in areas that are vitally important in the worldwide fight against unsustainability (Patten & Shin, 2019).

In that regards, as a developing country aiming towards the developed high-income nation, Malaysia has set forth several pillars of development. The Malaysia Plan is a comprehensive 5-year blueprint detailing the country's economic growth and national budget allocation for all economic sectors in the country. The 5-year plan has been introduced by the government since 1955. Results have shown that this plan has facilitated the recovery of Malaysia's economy from a few recession periods. The plan covers the future planning for Malaysia in all aspects (Taha, Colombage, & Maslyuk, 2009). Currently, Malaysia is on the 11th Malaysia Plan (RMK 11), which is developed from the year 2016 to 2020 charts a path toward advanced economy status and greater inclusion, which put increasing productivity and encouraging more

innovations to be the core objectives of the plan. However, increasing productivity could also spell danger for the environment and society. In order to achieve a well-balanced economic development with environmental and societal sustainability, the 11th Malaysia Plan vouch on six strategic pillars that focus on a range of development issues-including equity, inclusiveness, environmental sustainability, human capital development, and infrastructure. The three last pillars of development will be jeopardised if industry players' practice and activities especially those in the environmentally and socially sensitive industries like the palm oil was not aligned with the nation's strategic vision and mission as well as to the bigger agenda of SDG 17 United Nation for sustainable development. It is essential for research to be established on how corporation's in these risky sectors have responded towards pressure for improved environmental and societal sustainability in the Malaysian context.

Thirdly, the study is significant as it brings together important topics in CSR/sustainability/social and environmental reporting from across the literature, which includes reporting levels as well as its characteristics and disclosure strategies, internal CSR system, motivation and attitudes towards reporting, the use of third-party CSR assurance, as well as stakeholder engagement. Moreover, the study also reveals underlying reasons of corporate motives that is specifically observe at an environmentally sensitive company in a developing country-in which could yield differing findings with studies in other industrial sectors/countries. Triangulation strategies used in this research also enables to tap into the perception of various corporate stakeholders regarding corporate motivation of adopting sustainability reporting which also could lead to different outcomes than research reporting only on the perception of top management (Brønn & Vidaver-Cohen, 2009), or deduced from their corporate reporting alone. Also, this study aims to reply to Maas, Schaltegger,

and Crutzen's (2016) call for insights, empirically examining through a case study, how a company implements integrated management systems, practices and tools to tackle sustainability issues. Thus, the current study is an important endeavour in providing the evidence of corporate changes (and lack off) in the Malaysian palm oil industry context through engagement study with comprehensive coverage of areas so that problems towards achieving sustainable development could be highlighted and tackled - together.

Lastly, this study is important because sustainability reporting is seen as a way for companies to meet their social and ethical responsibilities toward the environment and the communities in which the companies function (Bebbington, 2001; Owen, 2008). However, new insights are needed to encourage more companies to report in ways that lead to meaningful change.

1.6 Scope of The Study

This study will focus on exploring the motivation and pressures for change towards sustainability by a Malaysian palm oil company (IRIS Bhd) and evaluate how their reporting and actual practice changed as a response towards these pressures. The study also focusses on explaining the factors that leads to the lack of change towards sustainability experienced by the case company. In doing so, the study utilizes both primary and secondary data such as interviews with internal and external stakeholders, observation, focus group discussion with workers, content analysis of annual reports (2003-2018) and document analysis of internal documents. The study utilizes neo-institutional theory, legitimacy theory and impression management theory conceptualized as symbolic and substantive management to explain the study findings.

The study mainly covers IRIS operation in Malaysia, but also interviewed NGOs and former workers that has dealt with IRIS overseas operation.

1.7 Organisation of the Thesis

This thesis is organized into nine chapters. Following this introductory chapter, chapter 2 'sets the scene' for this research by discussing the contextual elements central to this study, which is on Malaysian palm oil sector, starting with the history of Malaysia, how palm oil was imported into the country and became the main GDP contributor and a means to alleviate poverty, as well as social and environmental issues surrounding the industry. This is then followed by chapter 3, which discusses previous literature regarding social and environmental accounting that will enlighten the gap to be filled by the current study. Chapter 4 then focuses on the theoretical framework to be used as a lens in interpreting the result of this study. In chapter 5, the paradigms of this research are formed, and subsequent research methodology used to gather and analyse the data are discussed. In chapter 6 and 7, the findings of the study are discussed followed by a theoretical analysis of the study findings in chapter 8. Principal conclusions of the study are brought together in chapter 9. This chapter also identifies the limitations of the study and offers a number of avenues for further research with some policy recommendations.

CHAPTER 2

OVERVIEW OF MALAYSIA'S PALM OIL INDUSTRY

2.1 Introduction

This chapter provides an overview of the focus of this research: a major industry in a developing country, in this case, the palm oil industry in Malaysia. To give contextual 'flavour' to this study, the socio-economic profile of Malaysia as a country will be introduced, followed with an overview on the palm oil sector, and the major social and environmental issues and challenges in the sector. This section is the frame of reference within which adoption and implementation of sustainability reporting and practice of the case company will be ascertained. The case company is a Malaysian Public Listed company (referred to as IRIS Berhad or simply IRIS-a pseudonym to preserve its anonymity throughout the thesis). It is a palm oil grower and exporter, having buyers from all over the world and a strong presence in the global vegetable oil supply chain.

2.2 Socio-Economic Profile of Malaysia

Malaysia is a Southeast Asian country located between 2º and 7º north of the Equator. It consists of eleven states and two federal territories collectively known as Peninsular Malaysia, which is separated from another two states of Sabah and Sarawak and a federal territory of Labuan (collectively called Borneo) by the South China Sea. To the north of Peninsular Malaysia is Thailand while its southern neighbour is Singapore. Sabah and Sarawak are north of Indonesia in Borneo, while Sarawak also shares a border with Brunei. Malaysia is 329,758 sq. km in size, with the current population of 32.5 million as at 3rd quarter of 2018 (DOSM, 2018a). Malaysia is governed by a parliamentary democracy with a bicameral legislative system where the

head of State is the King (Yang Di-Pertuan Agong), which is awarded to different State Monarch every 5 years, and the head of the Government is the Prime Minister elected through electoral democracy held once in every 5 years. Malaysia gained its independence on 31st August 1957. Openness to trade and investment have been instrumental in employment creation and income growth, with about 40 per cent of jobs in Malaysia linked to export activities. After the Asian financial crisis of 1997-1998, Malaysia's economy has been on an upward trajectory, averaging a growth of 5.4 per cent since 2010. In the past 30 years, Malaysia has successfully curtailed high poverty rates and reduced income inequalities. Its goal is to attain a high-income status nation by 2020 while ensuring that growth is sustainable (The World Bank, 2018).

While Malaysia's impressive economic achievement has advanced social development and reduced poverty, the impact of rapid environmental change raises doubts as to its sustainability and inter-generational equity. The case study on Malaysia presents an alternative focus to the more thoroughly analysed developed countries, which dominate the literature (Hezri & Hasan, 2006). Being one of the last British colonies to achieve independence, Malaysia has been developed by its leaders as a model of rapid modernisation. From an earlier image as a romantic tropical backwater, it is now a self-conscious, rapidly developing, hi-tech nation-state stretching from Thailand to the sea boundaries of the Philippines. However, the past remains a crucial part of Malaysia's present. The rise and fall of key economic sectors and major changes in politics, demography, and strategy in the past makes the country's economic history nothing short of being dramatic. Now, Malaysia and the rest of the world is on the verge of another major transformation-towards sustainable development. Below is the panoramic view of Malaysia's economic history and development from the start of 20th century to its current modern state and future agenda of transformation towards

sustainable development and its challenges, depicted by H.R.H Sultan Nazrin Shah from his scholarly investigation compiled in his new book: Charting the Economy: Early 20th Century Malaya and Contemporary Malaysian Contrast (2017), which assesses the course of Malaya's commodity-dependent economy during the first 40 years of the 20th century under British colonial control, contrasting it with economic growth and development in contemporary Malaysia. The transformation of Malaysia since 1900 could be divided into four key periods: 1900-1945, 1946-1969, 1970-2000, 2000-present. These dates would help to delineate the country's economic transformation and highlight the role of politics and the world market in guiding the structural changes within Malaysia's economy and society.

The modern economic development of Malaysia is closely interwoven with the industrial history of the western nations, particularly Britain and the United States. The development of every major industry in Malaysia can be traced back to significant development in the industrialisation of North America and North Western Europe at the time. This causal relation shows that the evolution of the economic interdependence between the industrialisation of the western nation that requires raw materials and the underdeveloped tropical countries capable of providing as well as absorbing some of the manufactured products made by these countries. Hence, the rise of the tinplate and rubber industries in Britain and the US led to the development of the modern tin and rubber industry in Malaysia. The improvement in the standard of living caused by industrialisation has stimulated the growth of the coconut and later the palm oil industry as a source of vegetable food and for the production of soap, bringing as well the pineapple planting and canning industries as a source of food for the western palate (Ken, 1965).

Malaysia in the 20th century to the end of World War II was the era of Colonial-led, resource-based growth. Colonialism facilitated the control of lands, institutions, and peoples, as well as the exploitation of natural resources. Malaysia was a model group of colonies of the British Empire, and it developed rapidly under the Imperial institution. Malaysia benefitted from three geographical factors, namely; tropical climate, ample natural resources, and its proximity to the major trade route between Europe and East Asia - which gave huge profit to British private institutions who invested in the rubber and tin sector-the two main export of the time to accommodate to the demand of the Western world undergoing industrialization period. The British imperial institutions enforced imperial laissez-faire for British private interests, while exercising sovereign decisions over foreign policy, commercial law, and the in-migration of workers, especially from China that is mainly related to tin, and India, which is mainly related to rubber (H.R.H Sultan Nazrin Shah, 2017).

This was a policy made by the imperial power. Consequently, the Gross Domestic Product proliferated, roughly 3.7% per year between 1900 and 1939. However, national income and consumption of the native Malays grew at a much slower pace where domestic consumption rising around 1% per year during the same period. This large difference between output and consumption reflects the huge profit earned by the British private interests as they secured the economic rights to develop and export Malaysia's tin and rubber with only small revenue collection given back to the public services for the local population. As late as the 1970s, around 60% of the capital in limited liability companies was still foreign owned. In addition to that, rather than allowing the Malay wages to be increased with the expansion of tin and rubber industries, the British imperials with supports of Malay Sultans facilitated the in-migration of low-wage workers from China and India to ensure wage growth remains

low so that the returns to British investments would be maximised. The ethnic Malay population declined from around 62.8% of the population in 1901 to less than half or 49.5% in 1947 (H.R.H Sultan Nazrin Shah, 2017).

The imperial rulings over Malaysia meet an end with the end of World War II in 1945, but nearly two decades is needed to build today's Malaysia. The period 1946-1970, therefore, constitute the year of political, social, and economic change. In 1946, the Malayan Union was established with limited sovereignty, followed by Malaya gaining independence in 1957, and the political formation of today's Malaysia was achieved in 1969. This period entails massive economic change, real nation building, and increased investment in infrastructure such as railroads, power and ports as well as in human capital such as on health and education, which saw a significant increase in standard of living and the decline in poverty that also includes the still-poor mainly rural ethnic Malay of the 1940s (H.R.H Sultan Nazrin Shah, 2017).

The year 1969 marked another turning point for Malaysia, with racial unrest on the 13th of Mei and the introduction and adoption of New Economic Policy, which aimed for inclusivity in the nation's development and to level the playing field for Malay population in catching up to the more urban and prosperous Chinese population. One of the principles of the NEP was to achieve economic diversification. Around 1970s, the tin and rubber industry were in a shifting mode towards hydrocarbons (oil and gas) and oil palm. After 1970, this shift continued but was significantly augmented by the rise of labour intensive export-oriented manufacturers mainly in the labour intensive electronics assembly export industry that is tightly interconnected with US multinational companies (H.R.H Sultan Nazrin Shah, 2017).