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Sustainability Reporting and Certification: Evaluation of the ESG Criteria Used in the Palm Oil Industry in Malaysia

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Abstract

This paper aims to examine the environmental, social, and governance (ESG) criteria that are used by the Global Reporting Initiative (GRI) and Bursa Malaysia to assess the performance of oil palm plantation companies listed on Bursa Malaysia and to analyse the consistency with the level of disclosure of materiality in their sustainability reports. Additionally, the paper looked into the correlation with major non-conformities (NCs) found through the Roundtable on Sustainable Palm Oil (RSPO) audits, which serves as a verification of operational realities. Content analysis, using qualitative and quantitative methods, was conducted on the sustainability reports of five (05) Malaysian public listed oil palm companies in 2018, 2019, and 2020, all of which are RSPO members. ESG criteria as defined by GRI and Bursa Malaysia were analysed, and the study concludes that the 409 indicators of the GRI standards are largely aligned with the governance and economic, environmental, and social (EES) components representing the key stakeholders of the oil palm sector in Malaysia. Nonetheless, the study found poor disclosure of social indicators in general, with companies significantly omitting information in this regard despite notable violations of labour standards, as found by RSPO auditors, which interestingly were not discussed in any of the sustainability reports reviewed in this study. The findings should be of particular importance to Bursa Malaysia to scrutinise disclosure levels and consider verification mechanisms such as certification audits to enhance the reliability of sustainable reports.

Keywords: sustainability reporting, sustainability certification, ESG, palm oil, Malaysia, legitimacy theory, stakeholder theory, RSPO, GRI

Introduction

ESG criteria influence companies to adapt their activities to address ESG concerns but there are serious shortcomings in precisely assessing sustainability performance in business operations in pursuing targeted outcomes. Hence, more practical sustainability mechanisms and tools could be explored to assess the ESG commitment of companies, primarily to assess activities and measure outcomes. Whilst the ESG criteria used in Sustainability Reporting offers a yardstick of corporate sustainability performance, they give little understanding of what companies do, or how ESG is implemented on the ground.

Thus, this study aims to answer the research objectives as follows:

1. To identify the ESG criteria used by GRI and Bursa Malaysia on major oil palm plantation companies listed on Bursa Malaysia.
2. To assess the consistency between the ESG criteria used on the oil palm plantation companies and the ESG indicators disclosed in Sustainability Reports of the oil palm plantation companies.
3. To determine the correlation between the ESG criteria, ESG indicators in Sustainability Reports, and ESG standards of a sustainability certification scheme i.e. Roundtable on Sustainable Palm Oil (RSPO).

Research questions

Much needs to be explored in understanding the ESG criteria used in Sustainability Reporting and Sustainability Certification. Notably, most research studies in this area rely on content analysis using secondary data, which points to the overall reluctance of companies, investors, and rating agencies to divulge information that could cast doubt on their legitimacy (Boiral et al., 2021). Drempetic et al. (2019) raised fundamental questions on what exactly is being measured and what exactly needs to be measured to reach sustainable development goals, and the necessity to include the perspectives of other sustainability actors such as Sustainability Certification schemes.

This study looks at public-listed oil palm companies that use ESG criteria when they write their sustainability reports. In this way, this research unveils which ESG criteria are companies more likely to report on and looks at how these criteria are linked to operational realities through audit reports by sustainability certification. Unlike financial reporting, sustainability reporting focuses on the governance, economic, social, and environmental aspects, prompting companies to discuss sustainability challenges that they think are important. However, past studies do not look into whether the issues that companies say are important are really important, which this report unveils to some degree.

Findings

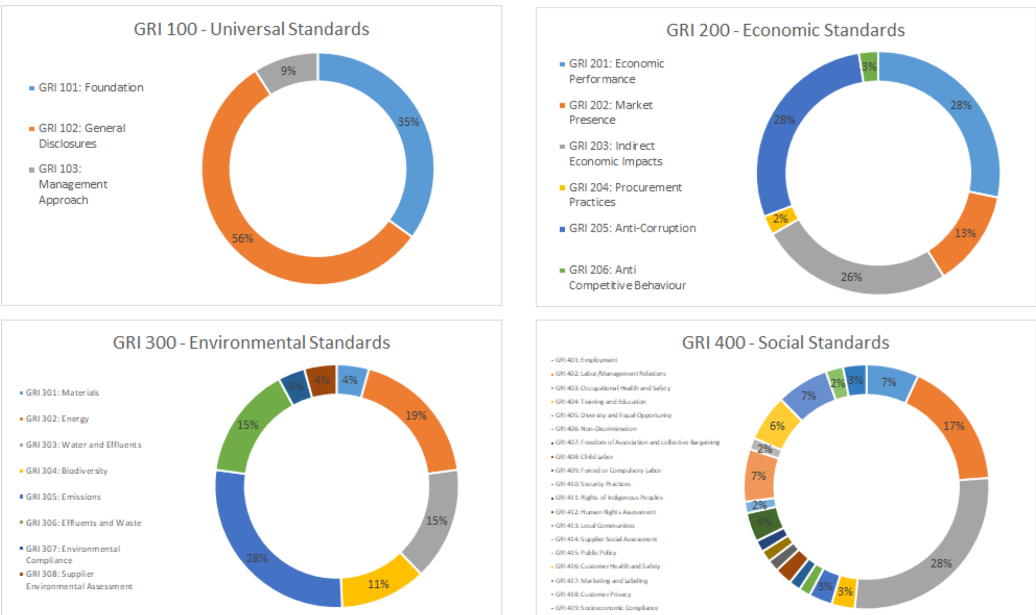
Discussion and Implications

Our empirical findings indicated a significant number of ESG criteria used by GRI and Bursa Malaysia to assess the sustainability performance of the five (05) oil palm plantation companies selected for this study. These ESG criteria were spread across 409 indicators within 4 key themes i.e. GRI 100 (universal), GRI 200 (economic), GRI 300 (environmental), and GRI 400 (social), and displayed a balanced disclosure of material non-financial information covering key stakeholders of the business. These findings corroborate the stakeholder theory, suggesting that sustainability reporting as mandated by Bursa Malaysia through GRI standards fairly assess a company's sustainability performance, with indicators that are relevant to the oil palm sector in Malaysia and enabling companies to report the sustainability performance in an acceptable manner that is fair to both shareholders and stakeholders. While sustainability reports have grown increasingly complicated, necessitating balanced reporting indicators among various stakeholder groups to reveal significant ESG issues (Ngu & Amran, 2018), which answers the first research question as seen in Figure 2.

Our findings also answered the second research question and showed significantly different levels of consistency among ESG criteria within the GRI standards with the ESG criteria used in the Sustainability Reports produced by these oil palm plantation companies. Overall, the consistency between elements disclosed in the sustainability reports and ESG criteria showed significantly higher scores for GRI 100 and 300, and significantly lower scores for GRI 200 and 400 (see Figure 3). GRI 100 and 300 represent universal and environmental standards, and higher scores may indicate that these companies assign higher importance to the stakeholders of these ESG criteria i.e. governance and environmental stakeholders.

Figure 2

GRI Standards and Key Indicators



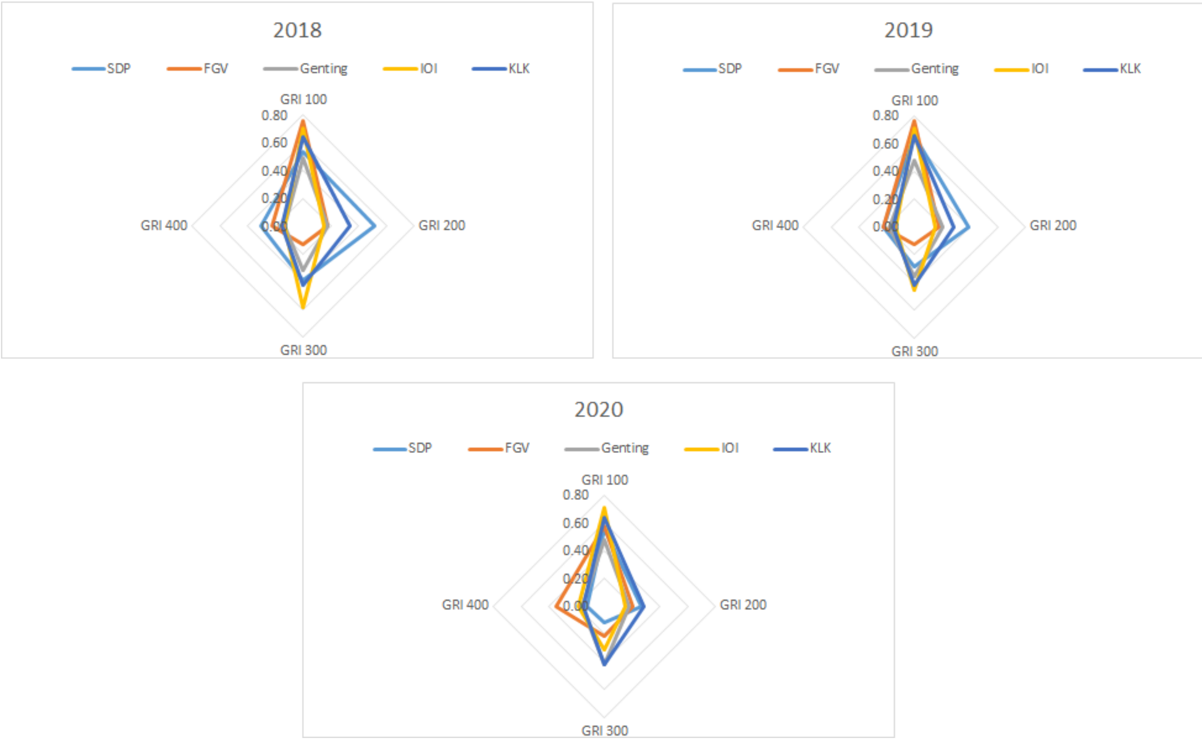
These would align with previous studies (Nishitani et al., 2021) that showed environmentally-sensitive industries, such as oil palm, to give more attention to environmental materialities to safeguard their reputation and legitimacy among these stakeholders, and are often under more pressure to be legitimised than companies in non-environmentally sensitive industries (Kouloukoui et al., 2019). This is an example of legitimacy theory at work. Hence, these results (see Figure 4) back up the legitimacy theory, with higher materiality disclosures for GRI 100 and 300 to close the legitimacy gap between the oil palm sector and these specific stakeholders. Nonetheless, the lower scores for GRI 200 and 400 also indicate that these companies may not act in the best interests of other stakeholders, namely the workforce and the community at large. This could be attributed to the lower degree of influence these groups of stakeholders have on the profitability and legitimacy of these companies, or the more complex reporting nuance that is required in sustainability reporting of these criteria (Ribeiro Cunha & Mariano Moneva, 2018). It is apparent, however, that despite the wide media coverage given recently to migrant labour issues (Low, 2021) to these companies, the disclosure of GRI 400 indicators showed the lowest score across the five (05) companies throughout 2018, 2019, and 2020.

Figure 3

Content Analysis Scores by Company

Figure 4

Content Analysis Scores by GRI Standards



Our findings also answered the third research question and showed a direct and significant link between the lowest score for GRI 400 in the sustainability reports and the highest major NCs in the RSPO audit reports of 4 of the 5 companies (see Figure 5).

The results show that the disproportionately high violations of social standards as uncovered by RSPO audits correlate to low disclosure of social indicators within their sustainability reports, and may well be materiality issues that these companies have trouble coming to terms with, and also possibly omit to maintain their legitimacy with their stakeholders. Hence, this finding illustrates that these companies disclose sufficient information for specific stakeholder groups i.e. governance and environmental, and somehow conceal labour and social issues in their disclosures but which are identified in the RSPO audit reports (see Figure 6).

Figure 5

Major Non-Conformities from RSPO Audits

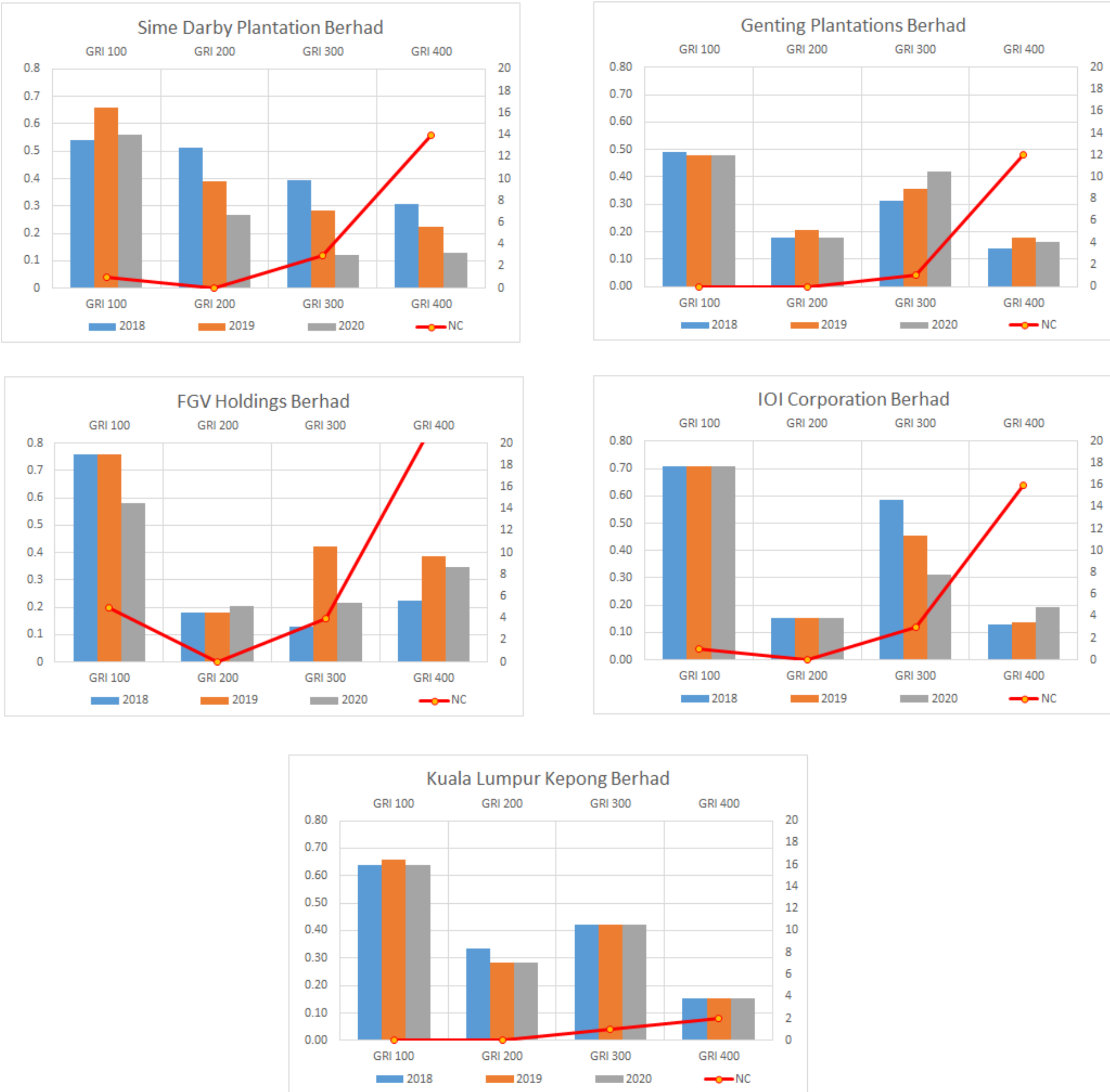
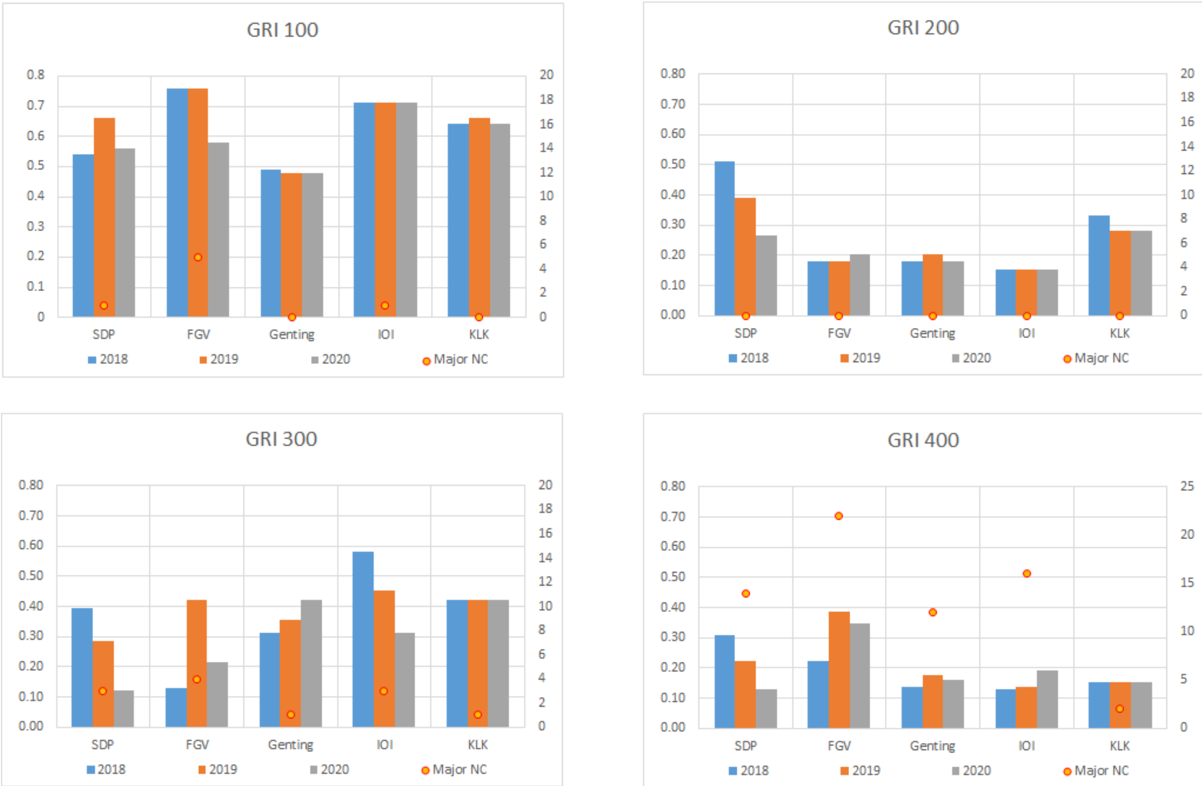


Figure 6

Major Non-Conformities by GRI Standards



Conclusion

The study examines the ESG criteria as defined by GRI and Bursa Malaysia and concludes that the 409 indicators within the GRI 100-400 sections are largely aligned with the governance and economic, environmental, and social (EES) components representing the key stakeholders of the oil palm sector in Malaysia. Nonetheless, among these ESG criteria, the study found that the 5 companies showed poor disclosure of GRI 400, or social indicators, in their sustainability reports from 2018-2020. This is despite the wide press coverage given to recent years' migrant labour issues rife within the Malaysian palm oil sector. Although this should have influenced the disclosure of social materiality in the sustainability reports, the companies significantly omitted information in this regard. Hence, the findings indicate that whereas governance and environmental stakeholders are considered significantly important to these oil palm giants, labour and local communities rank much lower as illustrated in their disclosures. And the findings also show notable violations of labour standards, as found by RSPO auditors, of these companies, which were not discussed in any of the sustainability reports reviewed in this study.

This study contributes two things. To begin, this study is a ground-breaking analysis of the ESG criteria and disclosure practises of significant Malaysian oil palm companies by combining stakeholder and legitimacy theories. In Malaysia, research on ESG criteria and materiality in sustainability reporting is still in its infancy. The purpose of this study is to provide light on the idea of

ESG criteria by examining the level of materiality disclosure in sustainability reporting. Second, this study has consequences for investors genuinely keen to promote sustainable investing. The findings should be of particular importance to Bursa Malaysia tasked with developing sustainability disclosure policies to increase materiality disclosure. Additionally, it highlights the oil palm sector in Malaysia on which ESG criteria to focus to boost the credibility of sustainability reports. By disclosing authentic problems, especially on social and labour issues, these companies can bolster the dependability of information supplied to stakeholders and corporate sustainability. Bursa Malaysia is urged to examine the importance of the sustainability reporting process and verification; otherwise, insufficient reporting may result in conflict with significant stakeholder groups that do not see the important concerns mentioned in sustainability reports.

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