

# What Drives and Impede Change Towards Sustainable Palm Oil?

Saidatul Nurul Hidayah Jannatun Naim Nor Ahmad<sup>\*a</sup>, Azlan Amran<sup>b</sup>, Nabiha Abdul Khalid<sup>c</sup>, Rusniza Abdul Rahman<sup>d</sup>

<sup>a,d</sup>*Tunku Intan Safinaz School of Accountancy, Universiti Utara Malaysia, Malaysia*

<sup>b,c</sup>*Graduate School of Business, Universiti Sains Malaysia, Malaysia*

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## Abstract

The study explores the institutional pressure and motivation that drives Malaysian palm oil company to embark on sustainability practices and uncover the impediments of substantive change in producing truly sustainable palm oil. Case study methodology was employed, gathering primary and secondary data through semi-structured interview with the company's personnel and external stakeholders, informal conversation and group discussion with company's workers, document analyses, and observations. Neo-institutional and legitimacy theory were used as the lens to explain the study findings. The result indicates both external pressures and internal issues has forced the company to engage with sustainability practice – mainly through certification. Unlike the independent stakeholder pressure found in previous studies, a chain reaction of pressures was found from NGOs and competitors to the multinational buyers, whom in turn put pressure on the case company, jeopardising their financial bottom lines. The barrier to change towards sustainability was mainly caused by cost concern. The study findings shed light on the inner motive and barriers of change towards producing sustainable palm oil, understanding which is vital in driving more substantive changes in the palm oil industry towards sustainable development

**Keywords:** organisational change; drivers of change; impediments of change; neo-institutional theory; legitimacy theory; palm oil; sustainability practice

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## 1. INTRODUCTION

The production of lucrative cash crops such as palm oil in developing countries has offered potential opportunities to spur rural economic development and alleviate poverty (Gatto et al., 2017; McCarthy et al., 2012). Palm oil has been among the anchor to the economic development for major world exporters like Malaysia, where its agriculture sector contributed to 8.2 per cent or RM96 billion to the country's Gross Domestic Product (GDP) in 2017 alone, and palm oil takes up 46.6% or RM44.736 billion of the agriculture sector (DOSM, 2018). However, the production of palm oil raises significant environmental and social concerns. Palm oil has been identified as a significant contributor to deforestation and loss of biodiversity, causing severe haze situation in South East Asia and emit toxic greenhouse gases (Sundaraja et al., 2020), instigating land conflicts with indigenous communities and having child / force / undocumented / mistreated labour issues in its production, hence, it is the worlds' most socially and environmentally contested industry (Edwards, 2016). These issues raised the pressure for palm oil companies to transform towards producing sustainable palm oil.

The pressures, however, is intricate and complex, and there is a lack of empirical research that examined the pressures, the strong forces by the organization's specific influential stakeholders to uptake sustainability practices, as well as the specific factors that impede substantive change in the industry. Moreover, most of

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\*Corresponding author. Tel.: +60 189524228  
E-mail: saidatul@uum.edu.my

previous studies examining the motivation of companies to adopt sustainability practice were concentrating on corporations in developed countries (Mata et al., 2018). Thus there is great potential to expand the scope of problems into non-Western perspectives to open up the possibility of gaining a better understanding of cultural, political and institutional forces at play in developing solutions towards sustainable development (Adams et al., 2019).

Moreover, as pointed by Adams & McNicholas (2007), there is lack of research on reasons why companies fail to be accountable for some aspects of their sustainability performance and the specific settings causing this situation. Answers to these issues provide an understanding of the actual motives that drive organisations to engage in sustainability practices and what impede the changes, which would enable better prediction of corporate sustainability-based behaviours, hence change effort towards sustainability could be better directed. So, to address the abovementioned lacuna, through an engagement-based research, this study aims to 1) explore the drivers of change towards sustainability for the case company and 2) explain the impediments of change and how it arises, for policy recommendation in encouraging more substantive change towards sustainable production of palm oil for the world consumption.

## **2. LITERATURE REVIEW**

The investigation of the corporate motivation behind sustainability endeavour and practices is an important area in corporate sustainability/corporate social responsibility research (Adams, 2002; Deegan, 2002; O'Dwyer, 2002). This area of research has suggested multiple corporate motives ranging from the quest to manage stakeholders (Deegan & Blomquist, 2006; Tilt, 1994), secure legitimacy (Adams, 2002; Campbell, 2003; Deegan, 2002; O'Dwyer, 2002; Wæraas & Ihlen, 2009), manage risk to their reputation (Georgakopoulos and Thomson, 2008), and in the case of Malaysia and Australia, to enhance corporate reputation (Yusoff and Lehman, 2009). From a timeline perspective, the motivations for sustainability endeavour and its outcomes have evolved, which reflect the growing strategic importance of the practice (Higgins et al., 2015). In the early stage, corporation embark on sustainability to secure their legitimacy as they face social pressures (Deegan, 2002; Lindblom, 1994). Today's sustainability motivation also includes other strategic benefits (Morhardt, 2010). The motivation for sustainability includes the parameters of market, social, political and accountability. In the context of market, sustainability endeavour aims to improve competitive position, while in the social context it is to manage the stakeholders' challenges, and in the political context to reduce political pressure and further regulation, whereas in the accountability context it is to play their part in sustainability outcomes (Higgins and Coffey, 2016). These motivations show a widening of the business case that is beyond legitimacy to include other benefits of sustainability practices (Higgins et al., 2018).

The studies mentioned above have shown that sustainability practice motivations are being complex and multifarious. Rather than being driven by stakeholder management or securing legitimacy concern at whichever level of analysis, corporations appear to be embarking on sustainability journey 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 practice sustainability. Adams (2002) identified a multiplicity of corporate characteristics i.e size, age industry, profit, financial performance and etc. [(Adam, 2002; Baje et al., 2020)], contextual factors (country of origin and relative variety of social, political, and legal factors, social and political changes, economic cycles, cultural, specific events, media pressure, and stakeholders' power) and the role of individual champions (Arroyo, 2012; Gray, Walters, et al., 1995) have influence on managers' decisions to embark on sustainability endeavour.

In terms of impediments to organisational change, based on a study by Passetti et al. (2018), in the last 20 years, organisational change has attracted a vast amount of researchers attention, with mixed and inconclusive findings in terms of whether and how corporations change their processes, instruments, policies and interpretive schemes, and which factors drive or impede changes (Adams and McNicholas, 2007; Contrafatto and Burns, 2013; Larrinaga-González et al., 2001). Organisational change is not a linear path because changes are required in practice as well as in the ways of thinking (Bebbington and Fraser, 2014). While there is an extensive research on organisational change per se, there is a dearth of research investigating change towards sustainability (Narayanan and 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.

Transforming towards sustainability is much more critical for the corporation in 'sensitive industries' in the world quest towards sustainable development in which they have an important impact on the environment and society

where it operates. These industries are agriculture, automotive, aviation, chemical, construction, construction materials, energy, energy utilities, forest and paper products, logistics, metal products, mining, railroad, waste management, and water utilities (Fernandez-Feijoo et al., 2014). Categorised under the agricultural industries, palm oil is included as one of the sectors y dominating the landscape of Malaysia and Indonesia also falls under this category.

Research on palm oil has been increasing at a steady rate in recent years, where searching the ‘palm oil’ keyword on SCOPUS revealed that related journal articles had increased from 340 in 2009 to 989 in 2017. However, the majority of the 9245 articles returned address agricultural and biological sciences, chemistry and chemical engineering, while only a small number were related to social sciences (3.33% of the total) or business, management and accounting (2.51%) (Corciolani et al., 2018). Therefore, both Corciolani et al.(2018) and Hansen et al.(2015) suggest that more studies about non-residue topics, such as biodiversity and economic, social and environmental issues, could be particularly useful in analysing alternative aspects of palm oil production and consumption. This lack of research takes on special significance because of palm oil sector’s distinct environmental, social and economic influence over developing countries, especially for the main producer country namely Malaysia, who currently produces more than 50% of the world’s palm oil but accounts for approximately 80% of the world’s palm oil exports. So far, no known comprehensive study has been undertaken in profoundly understanding the motivation behind sustainability endeavour and impediments in changes of practices for palm oil corporation within the context of developing countries generally, and Malaysia particularly.

### **3. METHOD**

The study used a qualitative approach - specifically a single case study of a Malaysian palm oil company. Multiple data sources were collected for triangulation purposes, namely, 45 semi-structured interviews with internal and external stakeholders, one group discussion, eight informal interviews, ten types of internal documents, 16 years of annual reports and observation. Data gathered was analysed thematically. The researcher then followed iterative coding process by O’Dwyer (2004) and Miles, Huberman, & Saldana (2014) where they suggested the qualitative data analysis embraces three linked subprocess which is data reduction, data display, and conclusion drawing/verification, which O’Dwyer (2004) refers to as data interpretation. Transcribed data for all interviews, source documents (scanned) and field notes werw then uploaded into the Atlas.ti software to aid coding process.

The palm oil industry and focal company for this study were identified via several pre-defined criteria based on the literature where contextual factors, nature of industry, status of the company, and previous sustainability issues in relation to the companies within that industry were taken into consideration. The selection criteria allow a case to be chosen because it illustrates features and processes in which the study are interested in, as many qualitative researchers employ, where processes being studied are most likely to occur (Silverman, 2014). 11 listed companies in the palm oil industry in Malaysia were identified and letters were sent to the Chief Executive Officers/Managing Directors of the respective companies via all possible channels (emails, fax, and postage). Following ups, one company responded positively via the CEO’s secretary and they agreed to be the focal company for this case study.

The focal company for this study is IRIS Berhad (pseudo name of the company to protect their anonymity as promised in the early stage of this study). IRIS is incorporated in Malaysia and listed on the Bursa Malaysia Securities Berhad’s Main Market. Their core business activity is plantation (palm oil and rubber with 95:5 ratio of planted area respectively), having land bank spread across several countries. Since the 1990s, this more than a century-old company has diversified its operations into resource-based manufacturing (oleochemicals, derivatives and specialty chemicals) and vertically integrate its upstream and downstream business. Being among the biggest palm oil companies in the world, IRIS is also certified with various sustainability certification for palm oil growers such as RSPO, MSPO, ISPO and ISCC. However, IRIS also had several sustainability-related issues and violation in its operation in the past few years.

### **4. FINDINGS**

#### **4.1 Drivers of Change: External Pressures**

There are two main and distinct sources of pressure and motivation that pushes the case company to change towards sustainability, namely, external pressures from various stakeholders conflicting demands and mechanisms in exerting their powers, and internal motivation, where culture, ethics, awareness, and existing practice, as well as the shortages of labour in the focal organisation, plays an important role. Both elements work in tandem in

forming how the organisation responded towards pressure for transforming corporate activities to incorporate sustainability elements at all levels.

#### 4.1.1 Pressure from International Buyer and the Market Shift in Demand

The palm oil market consisting of buyers (especially the multinational corporations) and consumers are among the most prominent pressures that push the case company to change towards sustainability because it involves business survival. The pressure for sustainability practice being put on the case company by its international buyers is actually a chain reaction of pressure from palm oil competitors (the rapeseed producers) in the European Union and the NGOs, triggering product boycott from the end customers. Palm oil has garnered bad publicities over the years and often associated with environmental destruction and human rights violations in its production. With such a big risk to these multinationals' profit and reputation, pressuring the supply chain to change its practice and incorporate sustainability elements into its production is the only option to rectify the situations.

*“Generally, the negative perception by European consumer - that is a big factor. Because if they stop buying palm oil, of course, the demand goes down the price goes down [and] that is a very big effect. So, we have to rectify it.”*

[Chief Executive Officer, IRIS]

*“Our big buyers - they are actually at the end is pressured by the NGOs.”*

[Head of Internal Audit for Sustainability, IRIS]

On the grounds of rampant sustainability issues in the palm oil industry, the European Union is planning to ban palm oil for biodiesel from 2030 onwards. This protectionist and discriminatory move are against palm oil in favour to their locally produced vegetable oils that are having equally, or not worse, environmental impacts. In which this move also concur IRIS International Buyer.

*“We have been singled out among other vegetable oils, and we are in competition with soybean oil. But soybean, in fact, has been destroying massive land in Brazil. But we are more efficient and sustainable as we get more oil per hectare compared to other oil.”*

[Group Plantation Director, IRIS]

*“The issue with palm and other issues as well with other feedstocks is deforestation, social issues, feed management, conservation, all the other stuff keep picking up which is not unique to palm, which is also apparent for, say, soybean. But it's very funny in the way that this whole discussion is screwed into palm and not the other feedstock.”*

[International Buyer-Head of Sustainability]

On another perspective, the French Ambassador to Malaysia, Frederic Laplanche stresses that on behalf of France and the EU, palm oil is not an enemy to them a statement issued to quash the protectionist allegation made against them. He mentioned that the EU directives on palm oil are not a ban on palm oil altogether, as it only affects palm oil used for biodiesel mix. To sum up, France and EU are withdrawing the investment incentive as a results of carbon impact of palm oil for biodiesel. Although there is no ban, by withdrawing the fiscal incentives, palm oil will be more expensive than traditional fossil fuel, hence ill result in a reduction of usage of palm oil as biodiesel, depending on the prices of fossil fuel (Bernama, 2019).

The anti-palm oil lobbyist and NGOs pressure have created awareness in the society that sustainability issues in the palm oil industry can no longer be ignored. The market especially the international buyers, including the household brands like Nestle and Ferrero were influenced by this awareness and became a force of pressure on its own in making companies move towards sustainability in an effective manner and are threatening sanctions if producers fail to meet these expectations.

*“Therefore, to counter these allegations and secure their business interest, the international buyers pressured the company to comply with sustainability standards and being more accountable and transparent of their efforts towards sustainability. Our business is basically*

*very market-driven, that means it depends on what the market requirement is, so then we have to partner with the suppliers (such as the case company) as well to make sure that they understand and adapt to the kind of market requirements that we need.”*

[International Buyer-Head of Sustainability]

*“Because a lot of companies on the oleo side such as Unilever they say that ‘Oh, we want to buy your oil it must be RSPO, it must be traceable, and you must have sustainable source. Without sustainability we don’t buy from you.”*

[Chief Financial Officer, IRIS]

The Nestle and Ferrero for example also require the case company to produce certified sustainable palm oil (CSPO) to fulfil their pledges that their products are indeed sustainably produced.

*“The number one thing is actually market driven. . . and market driven by and led by market access. Without these (certification), you just cannot get the market access. Your oil cannot go through. By those specific, we are talking about like Ferrero and Nestle those company who needed this particular certified oil in order to promote their product.”*

[Head of Sustainability, IRIS]

As a result of responding to their prominent buyers, the case company has subjected itself to an increasing number of certification scheme apart from the RSPO and MSPO. They also add on to be certified under the International Sustainability and Carbon Certification (ISCC) for biodiesel customers in adhering to rigorous sustainability legal requirement for biofuels in the EU, North America and Canada. Clearly, after working with the, IRIS is forced to be certified by their requirement.

*“When we started working with IRIS, they were not certified, we ask them to be certified.”*

[International Buyer-Head of Sustainability]

#### **4.1.2 Pressures from Civil Societies**

The environmental and human rights NGOs have been pressuring palm oil producers, in the case of the focal company specifically via their consumer brand clients like Nestle and P&G, making it highly effective. NGOs are doing this through investigative measures by going into the operating centres and captures the real situation on the ground that was later publicized in the media and amplified through calling the company’s financiers and buyers into account as well. These attack through their buyers is effective because that is where the money is for the case company, hence, they have to respond.

*“So, they (the NGOs) come out to us and they pressure us mainly through the customers.”*

[Chief Executive Officer-IRIS]

The company’s client upon receiving the reports by NGOs will then start panicking and questioning the company on the incidents and the company’s action to rectify the matter. However, IRIS do not lose any clients, instead, they engage with the company on clarifying the real situation on the matters and continue doing business with the company when they are assured of the company’s action plan on the issues. This shows that there is a strong relationship between the case company and its buyers.

*“You need to realize that if we get attacked, we get attacked on something that we buy from IRIS . . . IRIS does this . . . and then NGOs attacks and mention our name in the hope that at the end we will take action because the NGOs attack the customer like us, which has a customer brand, right? So that is why it is more effective.”*

[International Buyer-Head of Sustainability]

The issue of sustainability in the production of palm oil has been there from the early 2000s, but for IRIS, the pressure from NGO on these issues is the most intense in the 2013-2015 period, after the findings by these NGOs on the abuse of human rights in IRIS overseas operation. Together, regardless on the accurateness of allegations, the move by anti-palm oil lobbyist and the NGOs attack on palm oil producers have force retaliation from the industry players generally, as well as the case company specifically as they were also having sustainability issues in their own operation, and the issues bring real reputational damage and risking their business survival. In response to these two powerful pressures, the main industry players have come up with a formation of multi-stakeholders sustainability certification scheme (RSPO) in 2004 where it binds the members to follow the principles set in order to be certified as sustainable.

*“We must know why the concept of RSPO is coming in. In 2004 after the whole industry is in tremendous pressure from the European Union and the NGOs and everything, then we come out with RSPO and everything.”*

[Head of Sustainability, IRIS]

On the other perspective, NGOs pressure has been argued that these NGOs were being paid to provide an unfavourable picture of palm oil in favour for its competitors which are also their donors i.e., soybean oil and rapeseed oil producer in order to derail the palm oil industry and halt its development. The specific NGOs interviewed for this study that has been involved in the publicising issues has refuted the argument that they are doing it in favour of other competitors, instead, they were actually looking at it from the perspective of impacts. Hence, they are not only scrutinizing palm oil but also other vegetable oils i.e., the soybean oil that has been recognized as major contributor to deforestation in the Amazon, and its activities have also garnered huge attention from the international campaign of these NGOs. Thus, such argument was a weak argument because palm oil does have an apparent human rights and environmental issues in its production hence the attention and pressure given by the NGOs.

*“I would say that it's inaccurate from a civil society perspective because none of our information is coming from the soybean oil industry. In terms of ourselves and other civil society actors, we are looking at impacts on human rights and forests, so that's where our primary source of information is coming from, looking at from an impact perspective. So, we and other NGOs who are in this space like Greenpeace and others are also looking at the impacts of soybean oil. Soy, for example, has been a huge contributor to deforestation in the Amazon and that has been a very big focus of international campaigns in the past and also currently as well. So, with regard to civil society, it doesn't have any bearing on us.”*

[International NGO-Agribusiness Campaign Director]

Indeed, these pressures have successfully put sustainability issues in palm oil production at priority and changed the company's way of doing things by changing their internal practices, culture and structures.

## **4.2 Drivers of Change: Internal Pressures / Motivation**

### **4.2.1 Battling the Labour Shortages**

The reason behind the case company strives to improve its sustainability performance especially on the social side especially on workers welfare is attributed to the fact that both case company and the overall Malaysian palm oil industry are experiencing labour shortages; hence the case company is putting more effort to take care of their workers better than before. In a labour-intensive sector like the palm oil industry, labour is a huge concern for the case company, so IRIS believes that in this period where there are shortages of labour, they do need to take care of their workers. This is not only a short-term concern. Most workers, especially the migrants, will only work in their plantation for a short period. For Indonesian, they were only allowed to stay here for two years, then they have to go back, and will be replaced by a new batch of workers. Workers from other countries could stay a little longer, but they will also go back to their home country after a few years. Changes undertaken to take care of the workers better in term of working and living condition were seen as essential to not only make the current ones stay with the company but to build a good reputation for future recruitments.

*“Labour is a very big issue for us, it is very difficult to get labour, I think it is important to take care of them. We don't want them to go back and at the end of the day 10 years later down the road 'it's because I did spray in this estate now, I'm having some problem'. We do not want that also.”*

[Head of Occupational Safety and Health, IRIS]

*“If we don't treat them well, they've plenty of choices. Malaysia has gotten three million foreign workers right so if we don't treat them well you think they will work with us? They might as well go and work in some other plantation, right? That's why there is a competition also among the plantation to keep the workers. So, you must treat them well, enable them to earn more you know decent living conditions. All these things must be there otherwise you can't even keep them.”*

[Chief Executive Officer, IRIS]

Harvesters coming into the country to work for plantation companies. based on how much they have to pay the agent in their hometown (where the agent charges different amount for different companies), and how much rules they have to follow when they are working compared to the salary offered. They do not mind paying more to the agent to work at IRIS because they know IRIS pays higher salary and demand the workers to follow fewer rules as compared to other companies like Sime Darby. This competitive situation for recruiting foreign labour are faced by the case company and its industry peers, force the company to take care of their workers and avoid giving them too many rules to follow. IRIS even goes too lenient to lighten the burden on their workers even when the workers are not giving 100% productivity in their job or making mistakes to retain them.

*“The current trend workers have not much problem because they don't want to give them problems. That is the reason why they need them. I'm a trade unionist I'm telling you this, at least the worker gives the productivity to the company even 50%, they just close one eye. That is because of the shortage of labour.... now the workers even if they make a mistake also the employers are not in the position to take action because they need workers.”*

[Trade Union-State Secretary 1]

#### **4.2.2 Internal Culture of Philanthropy**

Sustainability endeavour at IRIS was not only responding to external pressures alone, but also its internal culture, awareness, existing practices, and the corporate DNA. IRIS has been described as a caring organisation and welfare-oriented from the beginning. It is the family value that was passed down from the earlier generation of IRIS top management to help the community. Increasing and more formalised community initiatives then was directed by the CEO himself, so it begins internally as much as a response to external pressures.

*“We are doing a lot more than what they are asking for. But we are not here to go and tell the whole world it is our inside value it's our culture. Like our company give to a charitable organisation supporting education, supporting that philanthropy our top there telling us don't go and tell the whole world that we do this they don't want to be known. So, we have not.”*

[Head of Sustainability, IRIS]

Being a multi-billion-dollar company, IRIS has been making philanthropic activities since the early days from the first and second generation of the controlling family, activities which have been passed down to the current third generation of top management. It has become routinised for many years, the continuation and intensification of the company's CSR activities in the era of sustainability was a rather natural endeavour.

The awareness of helping the community has influenced their sourcing decision regarding smallholders supplying to their mills that are not yet certified as sustainable. Rather than cutting ties with these smallholders, the company

argued that they have a social responsibility in helping these smallholders to be certified so that the smallholders could also prosper together with the company, as shared by the Head of Sustainability. However, this is counterproductive in making sure their supply chain is indeed sustainable because the smallholders then would not be compelled to follow sustainability policy and commit to certification because they can still do business as usual with IRIS.

*“We can just with one stroke of the pen we just say that we exclude the smallholders. But that is very wrong socially. That is not the way that we do. Wherever we operate we want to actually prosper together with the community there.”*

[Head of Sustainability, IRIS]

As well as stated in their 2014 annual report:

*“We had signed a Memorandum of Understanding with Wild Asia on 11 July 2014 to collaborate on an independent smallholders’ project. This project aims to support traceable and sustainable, deforestation-free production of palm oil by smallholders. The first Smallholders’ Project kicked-off in October 2014 at our Bornean Palm Oil Mill.”*

[Annual Report 2014, IRIS]

Overall, there is an internal culture and awareness on the role of the company in terms of protecting the environment for the future generation as well as contributing towards societal development from the top management point of view.

From the findings on the pressures as discussed above, it is apparent that all three institutional isomorphic pressure (coercive, normative, mimetic) are present in shaping the company’s response to change towards sustainability and each relates to legitimacy. Firstly, the regulatory pillar is distinguished by the prominence of explicit regulatory processes which takes the form of rule-setting, monitoring and sanctioning activities where the primary control mechanism is coercion, and legitimate organisation are those operating in accordance to the relevant legal or quasi-legal requirements (DiMaggio and Powell, 1983; Scott, 2014). Coercive isomorphism occurs because organisations are motivated to avoid sanctions available to organisations on which they are dependent (Greenwood et al., 2008). In the case company, the international buyers, NGOs, local and foreign government, securities commission and certification bodies are putting coercive pressure on IRIS to embark on sustainability practices in order to repair and maintain its legitimacy.

Secondly, normative pressures pertain to what is widely considered a proper course of action, or even a moral duty (Suchman, 1995), such as when there are signals from the organisational environment that the adoption of a particular practice or structure is a correct moral choice. Normative isomorphism occurs because organisations are motivated to respect social obligations (Greenwood et al., 2008). Empirical indicators of the existence and pervasiveness of normative institutions include accreditations and certifications by standard-setting bodies such as professional associations (Casile and Davis-Blake, 2002; Ruef and Scott, 1998). In this regard, the widespread subscription of sustainability certification in the palm oil industry where a multi-stakeholder certification body like the RSPO sets the industry standards through its Principles and Criteria is the evidence of normative institution taking place.

Thirdly, mimetic isomorphism occurs because organisations are motivated by their interpretation of others’ successful behaviours (Greenwood et al., 2008). Compliance occurs in many situations, mainly because other types of behaviour are inconceivable. Routines are followed because they are taken for granted as “the way we do these things” (Scott, 2014). The prevailing logic employed to justify conformity is that of orthodoxy, which is the perceived correctness and soundness of the ideas underlying action. The affective dimension of this pillar is expressed in feelings from the positive effect of conviction and confidence versus the negative feelings of confusion or disorientation. Actors who align themselves with prevailing cultural beliefs are likely to feel competent and connected; those who are at odds are regarded as, at best, “clueless” or, at worst, “crazy” (Scott,

2014). The reasons behind IRIS embarking on sustainability reporting and practice are also to conform to the industry and business norms as it is established that sustainability endeavour is something the companies have to do especially in the palm oil industry where sustainability issues are a major concern. This mimetic pressure to follow the industry peers contributes to IRIS' undertaking the sustainability initiatives. Moreover, organisations also tend to model themselves after similar organisation in their field that they perceive to be more legitimate and successful (DiMaggio and Powell, 1983). For example, IRIS has been imitating its peers to engage with the supply chain and smallholder in a move to ensure their sustainability policies being followed throughout their supply chain as its peers in Malaysia (Sime Darby) and overseas (Wilmar and Golden Agri) all of which are among the largest palm oil companies with superior sustainability initiatives' profiles, so IRIS is also compelled to do the same. In summary, the changes towards sustainability for IRIS are mainly resulting from regulatory enforcement by powerful stakeholders that hold important resources for the company, putting the company under mostly coercive isomorphism-conforming to the regulations as deemed by their peers.

### **4.3 Impediments of Change**

#### **4.3.1 Cost Concern**

The largest impediment of change towards sustainability in the company and its supply chain is caused by cost concern. Cost concern is the reason why further improvements toward sustainability are not pursued if it does not have an economic justification. In the case company operation itself, the cost for each change towards better sustainability performance still determines the company's decision on the matter. Workers housing that was built in the 1980s that are not conforming to the labour law on workers housing 1990 were not demolished because it will incur a huge cost for the company. Same goes with the maintenance of these old houses, as well as the reason why IRIS opt for tube well water supply system in its estates that are not as clean as the water supplied by JBA (Water Supply Department) because to upgrade the whole estate piping system and building a reservoir for JBA water are of higher cost than the installation of tube well. Allocations requested prior to the audit to upgrade the line site/workers' housing were also quashed to cut cost and were given if auditors find the condition to be intolerable and gave non-conformance to the estate.

In mills, especially the old ones, there is a lack of safety measures making it a dangerous working condition because IRIS do not want to spend too much money upgrading these old mills. The visit to one of these old mills confirms the unsafe condition as even with safety boots on, its floor is too slippery and poses a significant risk for people working there to fell down. The smallholders supplying bunches to the mill also mostly concerned with the cost if they were to implement IRIS sustainability policy or undergo a sustainability certification process. It is admitted that changing these smallholder's mindset to change their practice and be certified is not an easy task as they always ask what is in it for them if they proceed.

There is also a technical barrier towards reducing the environmental impacts of the case company's activities. It is admitted that trying to reduce GHG value at this point is not easy, as changes would have to made from the most basic level of operation-how palm trees are planted and treated over the years. The company's R&D is currently focusing more on generating better palm trees that would produce higher oil yield per hectare. This warrant more R&D to be done on how to reduce the environmental impacts of the company throughout its production and supply chain.

## **5. DISCUSSION**

Overall, it is found that sustainability initiatives are a by-product of the case company's economic rationality (Schaltegger et al., 2012), and its concept was adopted from the perspective of IRIS's own business interest. Sustainability initiatives may have been portrayed by the case company as a way they fulfil their corporate responsibility, but, in reality, they are actually referring to 'business case for sustainability' concept, where the economic success of an organisation increases while working on social and environmental cause (Schaltegger et al., 2012). This created a 'glass ceiling effect', where sustainability initiatives are pursued as long as it brings economic benefit to the company, which hinders substantive change towards sustainability - similar to the concept

of second-order/morphogenetic change proposed by Laughlin (1991). The prominence of business case for sustainability found in IRIS is also parallel to the findings of Narayanan & Adams (2016) in their case study on financial institution. Business case for sustainability to a point could hinder substantive change from happening. The concept, which is also known as eco-efficiency, is indeed a valuable part of corporate strategy, but certainly insufficient on its own and only leads to relative improvements (Dyllick and Hockerts, 2002). If sustainable development were to be achieved, especially pertaining to Sustainable Development Goals 12 on responsible production and consumption, the palm oil industry needs to make substantive transformation beyond the current business case for sustainability.

In terms of stakeholder pressure, the findings show that international buyers have real powers to impart changes towards sustainability. So, buyers, together with corporate managers, should take greater responsibility for ensuring labour rights and environmental conservation are respected throughout the supply chain which needs a concerted effort by international buyers through market instruments to push for substantive sustainable business practice and for transparent reporting. Pressure from buyers also manifested in the form of more certification requirement for market access, making sustainability certification a matter of high importance to the case company. Hence, stakeholder should strive to use this in directing corporate changes towards better sustainability performance and reporting.

The study has also detailed the impediments of substantive level of change to sustainability practice and reporting, one of which, on the non-supportive business environment the company is facing for example lack of support from government, financiers and multinational buyers, parallel to the findings of Jia et al.(2020) in soy industry. In this regards, government and policy makers should rectify the loopholes in their policy and enforcement, lessen the bureaucracy that only delays changes towards better sustainability performance by corporations. Financiers and investors could really make an impact in supporting corporations' change towards sustainability through changing their financing and investment policy so as to include sustainability tenets in their evaluation criteria-rewarding and punishing companies not only based on their financial performance and outlook, but also on their social and environmental standpoint, of which was not yet the case in Malaysia.

The current study's findings are parallel to Kwakye et al. (2018) that both stakeholder pressure and availability of resources influence corporation to engage in sustainability reporting and practices. So, the essential way of promoting sustainability reporting and practice based on the study findings is that significant stakeholder must be aware of their responsibility and exert pressure on corporation to disclose on sustainability, and further facilitate in terms of resources availability and practice so that it would make an impact towards sustainable development goals.

## **6. CONCLUSION**

In this study, an attempt has been made to explore the barriers to organizational change for sustainability and drivers which support sustainable performance in the palm oil industry in Malaysia through the lens of institutional theory and legitimacy theory. In contrast to the theoretical explanation of sustainability reporting and practices from legitimacy theory that suggest sustainability reporting is deliberately and carefully planned by managers to meet (or shape) the expectation of powerful stakeholders, institutional theory downplays this rational and calculative managerial behaviour, and suggest that firms undertake this activity because their peers do so and it has become a norm in the context of the operation. In the current study, however, rather than being on the opposite side, both legitimacy and institutional theory complement each other in explaining why the case company commenced sustainability reporting and practices. Five external drivers of change have been identified - pressure from international buyers and civil societies, regulatory pressure from laws and securities commission requirement(coercive), pressure from the industry peer(mimetic) and the pressure to secure investment and financing facility. The study also identified two internal drivers of change - labour shortage issue and the internal culture of philanthropy of a family-based company.

Pertaining to the barriers of substantive change towards sustainability, the study found cost concern to be the prominent factors. Even though there are strong drive for the producer to produce sustainable palm oil, without addressing the barrier of change, sustainable palm oil would likely be a far-fetch ideals for the industry and could never be materialised. Furthermore, both drivers and barrier of change found has a strong association with the business case for sustainability approach of the case company, in which stakeholders should consider when devising ways for progressing towards sustainable development, especially with palm oil being a major economic contributor for the developing countries, especially Malaysia.

The study, however, has several limitations. It was restricted to a single case company, so, generalisation of the study findings onto another context should be done in a cautious manner. Future research may explore multiple cases in a comparative study, for example between certified and non-certified sustainable companies, government link companies with family-based firms, to further examine the applicability of empirical findings and theoretical explanation in different condition and context. The current study also focusses on listed company in palm oil industry. Future studies could explore companies in other sensitive industry to unearth the injustice, inequalities and impediments of change towards sustainability, in order to devise ways in countering them effectively.

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