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SUSTAINABILITY INITIATIVES AND PERSISTENT CHALLENGES IN MALAYSIA'S PALM OIL INDUSTRY: EVIDENCE OF A CREDIBILITY GAP

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Abstract:

The palm oil industry plays an important role in Malaysia's agricultural sector and the global vegetable oil supply chain. However, it continues to face increasing scrutiny over its environmental and social impacts. In response, the industry has introduced a range of sustainability initiatives designed to address its environmental, social, and governance (ESG) challenges. Existing research has largely focused on the adoption of sustainability practices, sustainability disclosure, and certification schemes. However, much less attention has been given to whether stakeholders consider these sustainability claims to be credible or whether they reflect actual organisational practices. This paper addresses that gap by examining the alignment between corporate sustainability claims and organisational practices, while also exploring how stakeholders perceive the credibility of those claims. Guided by Stakeholder Theory, the paper critically reviews the industry's sustainability mechanisms and discusses their limitations in addressing persistent ESG issues. The analysis is based on a critical narrative review that synthesises evidence from academic literature, NGO reports, and industry case studies. The findings highlight that, although sustainability certification and reporting standard improved corporate reporting, documented cases and empirical evidence continue to highlight environmental and social violations, selective disclosure, and concerns over greenwashing. This raises questions about the credibility

of sustainability claims and suggests a gap between reported sustainability commitment and firms' practices. As a result, stakeholders increasingly assess firms' sustainability claims based on measurable outcomes rather than disclosure alone. The review further suggests that sustainability mechanisms may strengthen disclosure practices without actual changes in operations. Building long-term stakeholder trust therefore requires not only sustainability reporting but also consistent implementation, operational changes and transparency.

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Sustainability, Palm Oil, Malaysia, Credibility Gap, Stakeholder Theory



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Introduction

The palm oil industry is a key contributor to the Malaysian economy, generating significant export revenue, contributing to the national GDP, creating millions of jobs, supporting rural livelihoods, and playing an important role in the global vegetable supply chain (Hafizuddin-Syah et al., 2018; Oosterveer, 2020). Despite these contributions, the industry continues to face intense scrutiny over its environmental and social impacts (Chong & Loh, 2023; Kannan et al., 2021; Murphy et al., 2021), making it widely recognised as an environmentally sensitive sector (Ahmad et al., 2022; Nor Ahmad et al., 2022). Maintaining stakeholders' trust and international legitimacy has therefore become essential for the industry's long-term viability. Environmental and social issues associated with the industry continue to attract attention from regulators, consumers, investors, non-governmental organisations (NGOs), and other stakeholders (Naidu et al., 2024; Nor Ahmad et al., 2022; Oosterveer, 2020; Zakaria et al., 2022). The growing attention increases expectations for companies to implement responsible practices and provide transparent and credible disclosures (Abdul Majid et al., 2021; Kannan et al., 2021).

In light of this rising pressure, the key players in the industry joined forces to introduce various ESG initiatives. These include certification schemes (e.g RSPO-Roundtable on Sustainable Palm Oil and MSPO-Malaysian Sustainable Palm Oil), commitments by companies to adhere to sustainability practices such as No Deforestation, No Peat, and No Exploitation (NDPE), and market initiatives. All these initiatives have been designed to improve the accountability and sustainability of the sector. (Abdul Majid et al., 2021; Leegwater & Van Duijn, 2012; Ruyschaert & Salles, 2014). However, ongoing environmental and social controversies prevent the above-mentioned initiatives from demonstrating their potential effectiveness despite widespread implementation. This suggests an inconsistency between publicly communicated sustainability commitments and organisational practices.

According to Stakeholder Theory, firms are expected to operate responsibly while meeting the expectations of the stakeholders in order to gain their legitimacy and long-term support (Buallay, 2022; Freeman & Reed, 1983; Khlifi et al., 2024; Ming et al., 2024). Sustainability performance not only improves firms' practices but also fulfils stakeholders' environmental and social expectations (Khlifi et al., 2024). However, if stakeholders identify inconsistency between sustainability claims and firms' actions, they may question the credibility of those claims, which leads to the emergence of a credibility gap. To examine the existence of a credibility gap, this study adopts a critical narrative review to synthesise evidence from academic literature, industry reports and relevant case studies on sustainability practices, ongoing challenges, and their limitations within the Malaysian palm oil industry. The review evaluates how far existing ESG mechanisms have addressed stakeholder concerns and identifies areas where a credibility gap may still exist. Drawing on Stakeholder theory, the study explains why the implementation of sustainable business practices does not necessarily translate into stakeholder trust. The findings also provide a basis for future research and offer directions for strengthening sustainability efforts in the industry.

Literature Review

This review consolidates existing studies across four domains: the industry's economic importance and development over time, sustainability challenges, institutional sustainability initiatives, and the limitations of these mechanisms that may create credibility gaps. By examining these domains, the study seeks to investigate the effectiveness of sustainability governance tools to mitigate ongoing environmental and social issues and foster the stakeholders' trust. These perspectives also provide opportunities to identify credibility gaps despite the increased adoption of sustainability initiatives. In general, this section is able to provide a foundation for understanding the background of the palm oil industry, its evolution, and the effectiveness of current sustainability initiatives while highlighting the factors that contribute to the persistence of credibility gaps.

Economic Importance and Development of the Malaysian Palm Oil Industry

Palm oil is one of the most consumed vegetable oils around the world and holds a one-third share of the total vegetable oil market (Anam et al., 2024; Murphy et al., 2021). Its relatively high productivity leads to lower production costs and higher profitability, consequently driving the global expansion of palm oil agriculture (Anam et al., 2024; Hafizuddin-Syah et al., 2018; Murphy, 2014; Oosterveer, 2020). The sector plays a critical role in Malaysia's economy (Anam et al., 2024; Zakaria et al., 2022). Malaysia is currently the second-largest producer and exporter of palm oil in the world, and together with Indonesia, it accounted for approximately 93% of the palm oil supplied globally in 2024 (US Department of Agriculture, Foreign Agricultural Service, 2024). Over the decade, the industry contributed between 2.7% and 5.1% to Malaysia's GDP (Department of Statistics Malaysia (DOSM), 2024; 2025) and generated export revenue between RM70-110 billion per year between 2020 and 2024 (Malaysian Palm Oil Board (MPOB), 2025; 2024; 2022). It is also responsible for creating approximately three million jobs in the country (Malaysian Palm Oil Council, 2020).

The Malaysian palm oil industry evolved from a small agricultural activity into one of the world's leading commodity sectors. Oil palm was introduced to Malaysia from West Africa in 1871 and was first cultivated at the Tenammaran Estate in Kuala Selangor in 1911 (Basiron & Weng, 2004; Murphy, 2014; Naidu et al., 2024; Teoh, 2010; Zakaria et al., 2022). The industry's

rapid expansion began in the 1960s. Government-led programmes played an important role in this growth. In particular, the Federal Land Development Authority (FELDA) and the Federal Land Consolidation and Rehabilitation Authority (FELCRA) encouraged large-scale plantation development (Aziz et al., 2021; Basiron & Weng, 2004; Naidu et al., 2024; Teoh, 2010). Other factors also contributed to this growth, including Malaysia's favourable tropical climate (Hafizuddin-Syah et al., 2018) and rising international demand for palm oil (Murphy, 2014; Naidu et al., 2024; Abdul Majid et al., 2021). Figure 1 shows the steady expansion of mature oil palm plantation areas worldwide between 1975 and 2024. This increase was accompanied by a sharp rise in global palm oil production, which grew more than ninefold between 1980 and 2009. Growing consumption in emerging economies, especially India and China, was one of the key drivers behind this increase (Afriyanti et al., 2016; Ivancic & Koh, 2016; Murphy, 2014; Teoh, 2010).

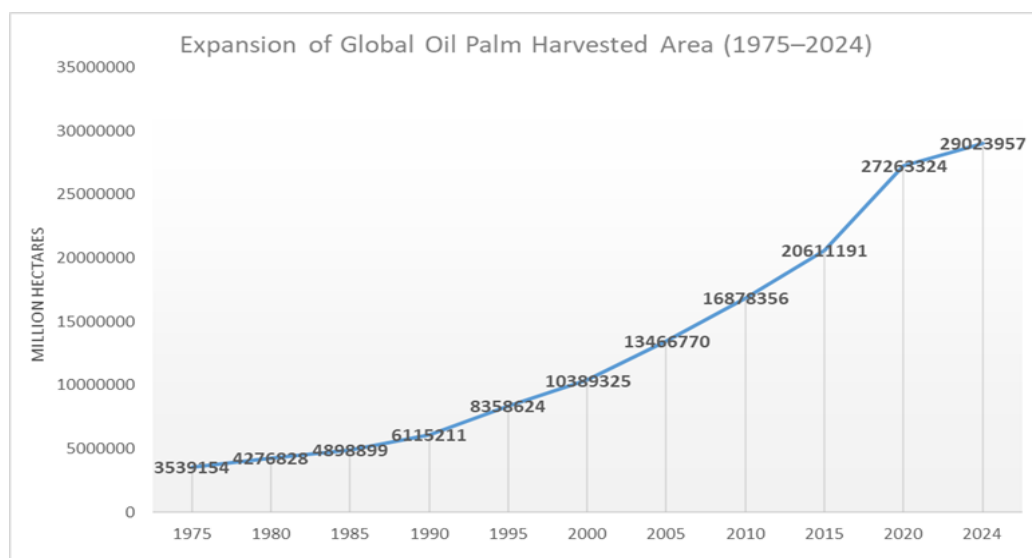


Figure 1: Estimated Global Oil Palm Harvested Area

Source: Food and Agriculture Organization (FAO), FAOSTAT database

Despite its economic success, the rapid expansion of the Malaysian palm oil industry has brought considerable environmental and social challenges (Ivancic & Koh, 2016). The conversion of forests into oil palm plantations has been linked to deforestation, biodiversity loss, peatland degradation, greenhouse gas (GHG) emissions, and labour-related issues, all of which have attracted growing attention from governments, consumers, investors, and non-governmental organisations (NGOs) (Abdullah et al., 2020; Nor Ahmad et al., 2022; Pye, 2019; Teoh, 2010). As these concerns became more prominent, stakeholders increasingly expected the industry to demonstrate greater accountability and improve its sustainability performance. This has led to the introduction of various sustainability mechanisms aimed at addressing these environmental and social issues.

Sustainability Challenges in the Palm Oil Industry

During the early stages of the commercialisation of palm oil, the industry was recognised for its contribution to the economic growth of the country (Basiron & Weng, 2004; Naidu et al., 2024). At this time, the industry was largely not under scrutiny for its impact on the environment and the communities in which these oil palm plantations were operated (Teoh, 2010). As global demand increased and plantation expansion accelerated, its environmental

and social impacts came under closer scrutiny (Worldwide Fund for Nature (WWF) International, 1997; Teoh, 2010). The economic gain that the company pursued led to practices that were sometimes in conflict with legal and ethical expectations (Hafizuddin- Syah et al., 2018). As a result, palm oil moved from being a driver of economic growth to one of the most scrutinised commodities in the agricultural sector. The increased scrutiny of palm oil has led to enhanced pressure on the industry to operate in a more sustainable way.

One of the most debated environmental issues associated with the palm oil industry is land use change. The conversion of forest and peatland into palm oil plantations has resulted in significant deforestation, loss of biodiversity, haze creation, emissions of GHG (Gatti, 2019; Murphy et al., 2021; Paterson & Lima, 2018), and the threat to native species like orangutans and tigers (Gaveau et al., 2014; Hobbs et al., 2022; May-Tobin et al., 2012; Oosterveer, 2020; Teoh, 2010). These issues have received criticism from various environmental organisations, as well as from the international community as a whole. The 1997 forest fires further intensified the criticism as the fires resulted in a significant level of haze pollution throughout Southeast Asia (Teoh, 2010; WWF International, 1997). The investigation into those fires determined that deforestation for the purpose of cultivating palm oil was one of the main causes of the fires (Rowell & Moore, 2020).

In addition to these environmental issues caused by deforestation, there are additional environmental concerns related to the production of palm oil. The process of producing palm oil results in the creation of biomass waste, including empty fruit bunches, palm kernel shells, and palm oil mill effluent (POME) (Oseghale et al., 2017; Nyawi, 2022). Ministry of Plantation and Commodities (2023) estimated that the industry generates around 90 million tonnes of dry biomass annually, making it the country's largest source of agricultural biomass. In addition, the industry also produces an estimated 50-75 million m³ of POME per year (Nyawi, 2022). The discharge of this waste into the environment has the potential to cause significant environmental pollution. These environmental issues indicate that the environmental concerns of the palm oil industry extend beyond land use change to include environmental pollution caused by waste discharge from palm oil production. This suggests the need for improved environmental governance regulations for the palm oil industry.

Social issues have also remained a persistent challenge for the palm oil industry. In Malaysia, plantation operations rely heavily on migrant workers because plantation work is labour-intensive and has attracted limited participation from the local workforce (Ismail et al., 2015). This dependence has long been associated with allegations of forced labour, debt bondage, excessive recruitment fees, and inadequate legal protection for workers (Teoh, 2010). The issue drew widespread international attention in 2020 when the U.S. Customs and Border Protection imposed import bans on Sime Darby and FGV Holdings over allegations of forced labour (Chong & Loh, 2023; Lee & Lawder, 2020). Concerns extend beyond labour practices to disputes over land rights. Teoh (2010) documented more than 150 land dispute cases, approximately 40 of which involved indigenous communities. Similar concerns continue to emerge in recent years. In Sarawak, for example, the Penan and Kenyah communities submitted a formal complaint alleging that MSPO standards had been breached through violations of customary land rights and land clearing activities (The Borneo Project, 2025). While labour rights and land rights involve different issues, both continue to raise concerns about the industry's social performance and its ability to safeguard the rights and welfare of affected communities.

Changes in market expectations and laws have further increased pressure on the industry. For example, in 2018, the Renewable Energy Directive (RED II) was established by the European Union (EU). The EU's use of biofuels is governed by this directive. Because of its connection to deforestation, the RED II designated palm oil as a "high-risk" crop. Due to this classification, palm-based biofuels were phased out gradually by 2030 (Murphy et al., 2021; Naidu et al., 2024; Oosterveer, 2020). The establishment of the European Union Deforestation Regulation (EUDR) followed this. The rule made it more difficult for palm oil goods to be sold in EU markets. Producers of palm oil are required by the EUDR to demonstrate that their goods are free of deforestation. Additionally, they have to abide by local regulations, including labour rights and environmental protection legislation. Furthermore, palm oil products need to be able to be tracked back to their source using geolocation data (European Forest Institute & MSPO, 2024). These rules demonstrate how palm oil's environmental problems can lead to regulatory challenges and limit its access to global markets.

Evolving consumer expectations add another layer of sustainability challenges to the industry. Numerous NGO campaigns have connected palm oil to health issues, habitat destruction, and deforestation (Chowdhury et al., 2014; Hobbs et al., 2020; Teoh, 2010). Customers' perceptions of palm oil have been damaged by these campaigns (Hobbs et al., Naidu et al., 2024; 2020; Teoh, 2010). This is especially noticeable in Western markets, where there is a growing demand for goods free of palm oil (Naidu et al., 2024; Oosterveer, 2020). Because of these unfavourable opinions, palm oil firms are under more pressure to handle sustainability concerns both inside and outside of their business. Overall, the regulations, trade restrictions, and reputational risks associated with palm oil have an impact on the way in which stakeholders perceived the responsible practices of the industry. The industry has established sustainable mechanisms in the palm oil sector in response to these issues. These actions are intended to strengthen responsible practices and increase accountability. The following section will discuss some of the sustainability measures that have been introduced to the industry so far.

Institutional Sustainability Mechanisms and Initiatives in the Palm Oil Industry

In response to the sustainability challenges associated with palm oil, various initiatives have been established to promote responsible practices within the industry. Given the sector's unique environmental and social challenges, general sustainability frameworks, such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD), are often insufficient to address the industry-specific issues. Therefore, various initiatives were introduced, including certification schemes, the NDPE pledge, and international policies such as the EUDR and the Amsterdam Declaration. At the corporate level, Wardhani and Rahadian (2021) observed that a number of palm oil companies have adopted sustainability strategies tailored to the industry's environmental and social challenges. Figure 2 summarises the evolution of these key initiatives.



Figure 2: Sustainability Initiatives in the Palm Oil Industry

The establishment of the RSPO in 2004 marked one of the earliest coordinated efforts to address sustainability concerns within the palm oil sector (Abdul Majid et al., 2021; Morgans et al., 2018; Ruysschaert & Salles, 2014). The RSPO developed a voluntary certification scheme aimed at promoting sustainable and responsible practices within the industry (Abdul Majid et al., 2021; Teoh, 2010). The scheme is based on the Principles and Criteria (P&C), which outline sustainable practices covering environmental protection, labour practices, transparency, and community rights (Morgans et al., 2018; RSPO, 2007; Teoh, 2010). Companies that meet these standards can obtain RSPO certification, allowing their palm oil to be sold as Certified Sustainable Palm Oil (CSPO) (Ivancic & Koh, 2016; Shahimi et al., 2023; Teoh, 2010), which can facilitate access to sustainability-sensitive markets (Kannan et al., 2021; Morgans et al., 2018; Shahimi et al., 2023). Recognising the need for certification standards that aligned with domestic regulatory and operational contexts, Malaysia and Indonesia introduced the MSPO and Indonesia Sustainable Palm Oil (ISPO) certification schemes, respectively. Unlike the RSPO, both schemes are mandatory for producers, including smallholders (Shahimi et al., 2023; Abdul Majid et al., 2021). The study focuses on the MSPO because it is specific to the Malaysian palm oil industry. The MSPO had successfully certified approximately 87% of Malaysia's oil palm plantation area by 2024 (European Forest Institute & MSPO, 2024).

Beyond certification, market-driven mechanisms have further strengthened sustainability governance. In 2015, several European countries signed the Amsterdam Declaration, committing to fully sustainable palm oil supply chains (Kannan et al., 2021). Around the same time, the RSPO introduced 'RSPO Next', a voluntary standard that extends beyond minimum certification requirements and complements the objective of the Amsterdam Declaration (Ivancic & Koh, 2016; RSPO, 2015). RSPO Next strengthened commitments relating to no deforestation, no fire, no planting on peat, respect for human rights, and transparency, reflecting sustainability principles similar to those promoted under the NDPE (RSPO, 2015). At the corporate level, Wilmar introduced the NDPE commitment, prohibiting deforestation, peatland development, and labour exploitation throughout its supply chain. The policy subsequently gained broad industry support, particularly from multinational buyers such as Nestlé, Marks &

Spencer, Ferrero and L'Oréal, that further intensify responsible expectations across the industry (Greenpeace Southeast Asia, 2018; Kannan et al., 2021; Perkins, 2021).

More recently, Regulation (EU) 2023/1115, officially known as the EUDR, introduced stricter sustainability requirements for palm oil entering the European Union market by requiring products to be deforestation-free, legally produced, and supported by a due diligence statement (European Parliament and Council of the European Union, 2023). In response, the MSPO has incorporated additional requirements relating to traceability, geolocation, and deforestation-free verification to facilitate alignment with the EUDR (MPOC, n.d.). These developments indicate a general trend towards improving transparency, traceability, and accountability of palm oil producers' supply chain worldwide. Together, the certification schemes, the EUDR, the Amsterdam Declaration and the commitment by major companies towards NDPE represent the main initiatives that have been established to address the ESG challenges of the palm oil industry. However, the effectiveness of these initiatives in addressing its environmental and social issues is still a question to be discussed in the following section of the paper.

Limitations of Sustainability Initiatives and the Persistence of Credibility Gaps in the Palm Oil Industry

Despite the increasing adoption of sustainability initiatives, questions remain regarding whether they have resulted in meaningful environmental and social improvements. Sustainability practices in the palm oil sector have evolved from largely informal to more structured practices, particularly following the introduction of the RSPO (Nor Ahmad et al., 2022). Early studies reported low levels of sustainability disclosure among plantation companies (Othman et al., 2010), whereas more recent evidence indicates significant improvement in disclosures, partly because of RSPO certification (Oppenheimer et al., 2021). However, improvements in disclosure do not necessarily indicate improvements in sustainability performance.

Several studies have questioned the effectiveness of certification to address the sustainability issues associated with the palm oil industry. While certification was implemented as a means of promoting responsible practices, these studies indicate that deforestation and fire incidents continue within certified plantations and concessions (Gatti et al., 2019; Greenpeace, 2019; Morgans et al., 2018). Das & Chu (2020) also reported that major corporations acknowledged their continued involvement in deforestation and other activities that harm the environment. Furthermore, past studies also raise concerns over Malaysia's certification system. For instance, satellite imagery identified that there were approximately 823 hectares of forest clearing within an MSPO-certified concession between the years of 2016 and 2024 (SD Guthrie International, 2026; The Borneo Project, 2025). Additionally, reports continued to show POME discharges into rivers in Malaysia (Fauzi, 2026; Murali, 2025) even though nearly 96% of all palm oil mills in the country are certified by the MSPO (Anam et al., 2024). These problems indicate that the certification does not ensure responsible practices among certified firms. Furthermore, the Environmental Investigation Agency (EIA) has also published reports that indicate weaknesses in auditing systems of the RSPO, as they found inadequate assessments, conflicts of interest, and failures to detect environmental and social violations (EIA, 2015). Thus, these findings challenge the assumption that certification consistently improves sustainability performance (Pye, 2019).

Beyond certification, scholars have also questioned the quality and credibility of sustainability disclosures. Most sustainability reports in Malaysia are prepared with an aim to satisfy regulatory requirements and are often seen as “tick-box” reporting (Othman & Ameer, 2010). Wahab (2020) found that Malaysian palm oil companies often report their commitment to human rights, but provide limited details on the actual risks and actions taken to address them. Wardhani and Rahadian (2021) also found that palm oil companies provided limited disclosure on how they implemented their sustainability commitments and stakeholder engagement, making their sustainability report less transparent. Tariq (2025) also noted that mandatory reporting may lead firms to increase their disclosure mainly to meet regulatory requirements without making real changes in their operations. Similarly, Nor Ahmad et al. (2022) also discovered that some palm oil companies use selective disclosure to shape stakeholders' perception. Furthermore, some studies suggest that sustainability disclosures may be used for greenwashing rather than showing real commitments to meeting stakeholders' expectations (Brooks & Oikonomou, 2018; Sampong et al., 2018). Greenwashing can create doubt and reduce the credibility of ESG disclosure (Ming et al., 2025).

Despite the industry's efforts to improve its sustainability practices, negative images of palm oil continue to remain in international markets. The existence of certification schemes fails to prevent the introduction of stricter regulations such as the EUDR and RED II, indicating the demand for stronger sustainability practices. These requirements, among other factors, have contributed to the decline in Malaysian palm oil exports to the EU market (see Figure 3) (Lekham, 2026; Radzi, 2024). Consumer perceptions display a similar pattern. For example, a consumer survey conducted in the United Kingdom revealed that 60% of respondents have avoided products that contain palm oil due to the industry's negative reputation regarding its impact on the environment (McGuire, 2025). Additionally, a study of online discussions about the palm oil industry found that most discussions had negative sentiments towards the industry, with consumers tending to avoid palm oil products because of their association with environmental damage (Teng et al., 2020). These findings suggest that current sustainability initiatives have not changed the negative image of the palm oil industry.

Corporate experiences reinforce these observations. The suspension of RSPO certification for IOI Corporation following environmental violations resulted in the withdrawal of multinational buyers, reputational damage, and a decline in its share price (Hafizuddin-Syah et al., 2018). Similarly, import bans imposed on Sime Darby and FGV Holdings over allegations of forced labour triggered negative market reactions and weakened stakeholders' trust (Lee & Lawder, 2020; Latiff & Ananthalakshmi, 2020). These cases demonstrate that sustainability reporting and participation in certification schemes have not been fully effective in preventing ESG issues. Overall, the literature indicates that although sustainability initiatives have strengthened sustainability disclosures, they do not necessarily reflect actual practices. Consequently, when organisational practices do not align with disclosed sustainability claims, stakeholders may question their credibility, contributing to the persistence of credibility gaps within the palm oil industry.

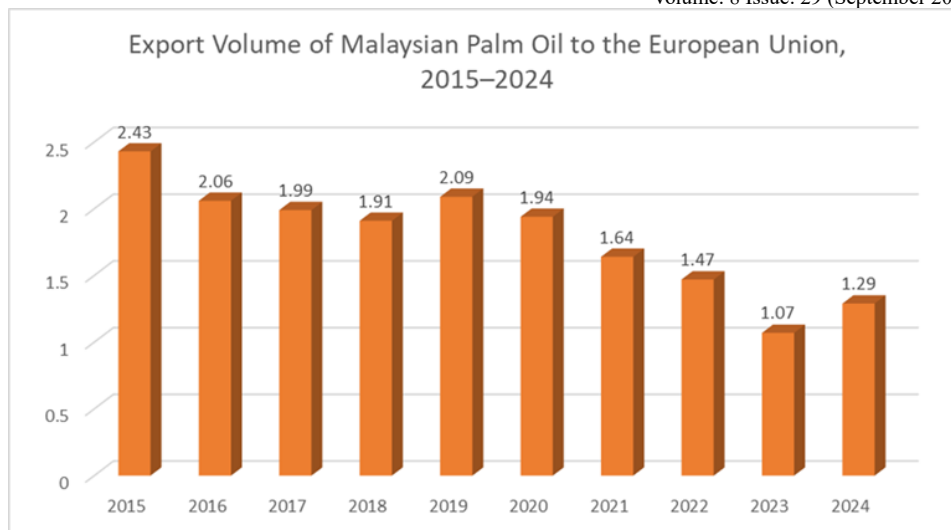


Figure 3: Total Malaysian Exports to the EU 2015-2024

Source: Malaysian Palm Oil Board (MPOB)

Discussion

The literature on the palm oil industry and its sustainability initiatives indicates that the industry has made considerable progress in adopting them. Sustainability initiatives were introduced in response to the environmental, labour, and other sustainability issues associated with palm oil production (Abdullah et al., 2020; Oppenheimer et al., 2021), contributing to improvements in sustainability disclosure (Oppenheimer et al., 2021; Othman et al., 2010). Despite these improvements, the controversies surrounding the palm oil industry indicate that there are still gaps between what is reported and actual practices. This may affect how stakeholders view the credibility of these claims. Thus, the issue for this industry is not the absence of sustainability initiatives, but stakeholder scepticism when ESG claims do not fully reflect actual business practices. In this review, the gap between reported sustainability commitment and actual business practices is referred to as the credibility gap.

Stakeholder theory provides a useful lens for explaining this phenomenon. According to Stakeholder theory, organisations depend on stakeholders' support for their survival (Freeman 1984; Freeman & Reed, 1983). To gain their support, organisations need to meet stakeholders' expectations and communicate their efforts to do so (Buallay, 2022; Khlifi et al., 2024). This support also depends on stakeholders' confidence in the organisations and their claims. Sustainability disclosure allows companies to communicate their commitments towards responsible business practices (De Villiers & Hsiao, 2017; Khlifi et al., 2024; Ming et al., 2024; Nygård, 2020). However, disclosure alone may not be enough to gain stakeholders' trust. Stakeholders may also assess whether the reported commitments are supported by actual actions and practices. When these do not match, stakeholders may question the credibility of the sustainability claims.

To gain the support and trust of stakeholders, consistent and honest interactions are essential (Bondi & Poppi, 2025). De Silva Lokuwaduge and De Silva (2022) noted that symbolic or inconsistent disclosures weaken trust between organisations and their stakeholders. Stakeholders expect disclosures to genuinely reflect organisational actions. However, in high-

scrutiny industries such as palm oil, stakeholders often question whether sustainability reports accurately reflect operational practices (Brinette et al., 2023; Milne & Gray, 2013; Gray, 2010; Simnett et al., 2009). Previous studies have questioned the credibility of sustainability disclosure due to selective disclosure, greenwashing, and companies' ability to control what they report (Gray, 2010; Milne & Gray, 2013; Nor Ahmad et al., 2022). Furthermore, sustainability disclosures may mainly be used to satisfy the demands and expectations of stakeholders (Nygård, 2020) and maintain firms' reputation (Andrew & Wickham, 2010), rather than show real changes in business practices. Consequently, stakeholders may remain sceptical of sustainability claims even when firms comply with reporting requirements and certification standards.

Stakeholders' scepticism is also reflected in international markets. Certification schemes such as the RSPO and MSPO, and sustainability reporting, are intended to represent responsible behaviour, transparency and accountability (Abdul Majid et al., 2021; Aziz et al., 2021; Suhardjo et al., 2024). However, NGOs and media outlets continue to report ESG controversies linked to palm oil companies. The reports involve palm oil companies with sustainability certification and those that routinely report on their sustainability activities. The controversies might fuel the stakeholders' distrust of the industry's sustainability claims, stimulating a demand for verifiable evidence that goes beyond certification and disclosure. For example, the EUDR has stipulations around geospatial data to verify the origin of palm oil products (European Forest Institute & MSPO, 2024). Wardhani and Rahadian (2021) offer a possible explanation for this issue. They found that most palm oil firms did not appear to incorporate sustainability strategies into their business models. Sustainability activities may be performed merely to meet the demands of external pressures. Consequently, sustainability remains separate from core operations and may have limited impact on the company's actual operations. Firms may therefore improve their disclosure practices without necessarily leading to actual organisational changes expected by stakeholders. This may partly contribute to the credibility gap identified in this review.

The credibility gap carries important practical implications. Palm oil companies involved in environmental and social issues face consequences, including reputational damage, reduced investor confidence, and weakened relationships with multinational buyers. These consequences can be seen in the cases of IOI, FGV, and Sime Darby. Current regulations and market access requirements increasingly require companies to provide credible and verifiable sustainability information, such as geospatial data, rather than relying on certification alone. Thus, maintaining stakeholder confidence requires not only sustainability disclosure and certification but also actual improvements in environmental and social performance. The findings of this review suggest the need for future research to investigate the credibility of the sustainability reporting of Malaysia's palm oil industry. Future research should focus not only on the disclosure but also on the accuracy of the sustainability disclosures made by the industry and how they can determine if those practices are genuine sustainability efforts or merely symbolic. Such research could provide a better understanding of how the industry can build stakeholder trust and narrow the credibility gap. More credible sustainability practices may also help firms gain stakeholder confidence, maintain their legitimacy in the market, and support the future of Malaysia's palm oil industry.

Conclusion

Due to the importance of the palm oil industry to Malaysia's economy and the global vegetable oil supply, managing sustainability issues is crucial. Sustainability issues can create further challenges and market barriers that can affect the growth and stability of the industry. This can be seen through stricter regulations and market entry requirements such as the EUDR and Amsterdam Declaration. In response to environmental and social concerns, the palm oil industry has introduced several sustainability initiatives. These initiatives have helped to improve sustainability practices and reporting in the industry (Oppenheimer et al., 2021; Wahab, 2020). However, these efforts have not fully addressed stakeholders' concerns. Negative perceptions of palm oil still exist, and stricter regulations continue to be introduced. Some companies have also faced consequences such as a drop in share price and cancellation of contracts by major buyers, even though companies regularly report their sustainability activities and efforts. This situation shows that stakeholders may still have doubts about the sustainability claims made by palm oil companies. The news and NGOs' reports further exacerbate stakeholder scepticism because persistent ESG violations reveal a gap between corporate reporting and actual operational practices. Thus, sustainability reports alone might not be enough to increase stakeholders' trust in sustainability activities implemented by palm oil firms. From a Stakeholder Theory perspective, sustainability reporting serves as an important signal of accountability; however, its effectiveness depends on whether stakeholders perceive that information as credible and supported by actual practices.

The review suggests that sustainability initiatives may improve ESG reporting among palm oil firms; however, this does not mean that the actual practices have changed in line with stakeholders' expectations. A credibility gap may develop when businesses do not ensure that their sustainability claims are consistent with their actions. This discrepancy may affect stakeholder confidence and limit the effectiveness of sustainability initiatives. The increasing attention from policymakers also highlights concerns over the credibility of sustainability reporting and greenwashing. For instance, the Securities Commission of Malaysia (SC) introduced the National Sustainability Reporting Framework (NSRF) to strengthen sustainability assurance and improve the reliability of ESG reporting, providing further support for the existence of a credibility gap in ESG reporting. Therefore, future study should focus more on the actual implementation of sustainability practices, transparency in reporting, and accountability processes. Future research should not be limited to the measurement of the amount and extent of disclosures but rather focus on their credibility and substantive quality, especially on the ways the companies integrate their sustainability commitment into organisational practices. Such efforts are important for strengthening stakeholder confidence and supporting the long-term sustainability and legitimacy of Malaysia's palm oil industry.

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