

BENEFITS OF REGULATORY AND VOLUNTARY SUSTAINABILITY STANDARDS COMPLIANCE: A REVIEW ON MALAYSIAN PALM OIL

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ABSTRACT: Compliance to regulatory and voluntary standard is one of the most important elements of sustainability in palm oil production. This paper assessed key regulatory and voluntary standards as references in relation to sustainability in Malaysian palm oil. It also analysed benefits of regulatory and voluntary standards compliance based on literature reviews. The findings showed that the compliance to regulatory and voluntary standards for the Malaysian palm oil production could improve main elements of sustainability like environmental, social, and economic performance. Besides, the goal of economic performance could also be achieved by increasing social and environmental performance.

KEYWORDS: *Sustainability, Regulatory, Voluntary standard certification, Palm oil production.*

1.0 INTRODUCTION

Sustainability issues in the palm oil production concerning the environmental impacts as well as major efforts for enhancing sustainability have been addressed extensively by many researchers [1]–[3]. Sustainability, defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs”, has gained an extensive attention globally since the release of Brutland Commission report [4]. It seeks to achieve a balance between equitable performances economically, socially and environmentally and has been growing in importance due to

increasing public awareness of the relationships between environmental issues, socio-economic factors and concerns about the future [5], [6].

Initiatives of multiple stakeholders and internal improvement on sustainability of organisations are submitted to regulatory policies i.e., established laws, requiring organisations to be concerned on the state of the environment and its social impacts. However, an implementation for governments and legal institutions may take a longer time to be effective. Voluntary or informal methods may be useful in providing a degree of regulation to a certain extent. Besides, policymakers are experimenting progressively with voluntary standards which are confined to a conventional command-and-control environmental regulation, often performed poorly in developing countries [7]. In the context of Malaysian palm oil industry, the government has worked closely with private sectors and other stakeholders since the industrialization of the palm sector, . The moves to encourage sustainability practices include, offering insights into the key leadership role that government plays in implementing policies and fostering relationships and networks with members of the private sectors and research communities [8]. This study reviewed stakeholders' interest in palm oil and analyzed benefits of compliance for both regulatory and voluntary standards, focusing on Malaysia.

2.0 STAKEHOLDERS' INTEREST FOR SUSTAINABILITY

Stakeholders play a significant role in organisations' sustainability efforts, because, they can offer valuable assistance and resources beyond simply exerting pressures on companies [9], [10]. This pressure could be stemming from both primary and secondary stakeholder groups and they use various methods to enforce the uptake of environmental practices. NGOs may use media to organise boycotts of firms and pursue negative media campaigns on polluting firms [11]. Table 1 shows the main stakeholders and their interest in a certification for palm oil production sustainability.

Table 1: Stakeholder's interest in regulatory and voluntary standards of palm oil production sustainability

Stakeholders	Interests in certification
Government Agencies [12]	<ul style="list-style-type: none"> ♦ Implement policies and development programmes to ensure the viability of the oil palm industry of Malaysia. ♦ Conduct and promote research and development activities relating to the oil palm industry. ♦ Regulate, register, co-ordinate and promote all activities relating to the oil palm industry. ♦ Develop, promote and commercialise research findings as well as provide technical, advisory and consultancy services to the oil palm industry. ♦ Develop and maintain markets for oil palm products as well as promote efficient marketing. ♦ Liaise and co-ordinate with other organisations inside or outside Malaysia to further enhance the oil palm industry of Malaysia. ♦ Plan and implement training programmes and human resource development in line with the needs of the oil palm industry.
Environmental and social Non-Governmental Organization [13]	<ul style="list-style-type: none"> ♦ Strengthening implementation of best environmental management practices including enforcement of pollution regulations, building capacity for smallholder verification and best practices, supporting community-based organisations largely made up of indigenous people to engage with the industry on their own terms, and mainstreaming awareness on human wildlife conflict. ♦ write and share practical guidance on sustainable palm oil process
Industry and trade organisation [14]	<ul style="list-style-type: none"> ♦ Spearheading the promotional and marketing activities of Malaysian palm oil in the effort to make it the leading oil in the world. To promote the market expansion of Malaysian palm oil and its products by enhancing the image of palm oil and creating better acceptance of palm oil through awareness of various technological and economic advantages (techno-economic advantages) and environmental sustainability. ♦ Enhance trade opportunities in the market place by identifying and meeting the latest opportunities in the market. ♦ Uphold the good name of Malaysian palm oil by closing the gap between the issues of perception, allegations and the realities of palm oil. ♦ Keeping members informed on relevant new legislations, amendments to existing ones, and various government and international regulations affecting the palm oil trade. ♦ Providing guidance to members on the implementation and solving problems arising from government regulations and procedures.
Bank and Investors [15]	<ul style="list-style-type: none"> ♦ Emphasize that companies that integrate sustainability into their core strategy and operations are better able to mitigate risks and exploit opportunities, resulting in better investment performance. They must let investee companies know that if they ignore sustainability principles, they will find it harder to access capital in the future significant influence on the supply chain through their shareholding in plantation and processing companies. ♦ To increase the share of the Bumiputra (indigenous) community in the Malaysian companies
Consumers [16]	<ul style="list-style-type: none"> ♦ Provides information on the impact of product purchase ♦ Improve confidence in product ♦ Provides information on the product quality or technical standard

3.0 BENEFITS OF REGULATORY AND VOLUNTARY STANDARD COMPLIANCE

Benefits of regulatory and voluntary standards compliance are noted in extant literature. As for Malaysia, the benefits for sustainable palm mills are presented in Figure 2. From the figure, the relationship of regulatory and voluntary standard compliance and the benefits gained by the organisation in terms of sustainability elements (i.e. environment, social and economic performance) is discussed. Stakeholders play a significant role in organisations’ sustainability efforts, because, a good management can offer valuable assistance and resources beyond simply exerting pressures on companies [9], [10].

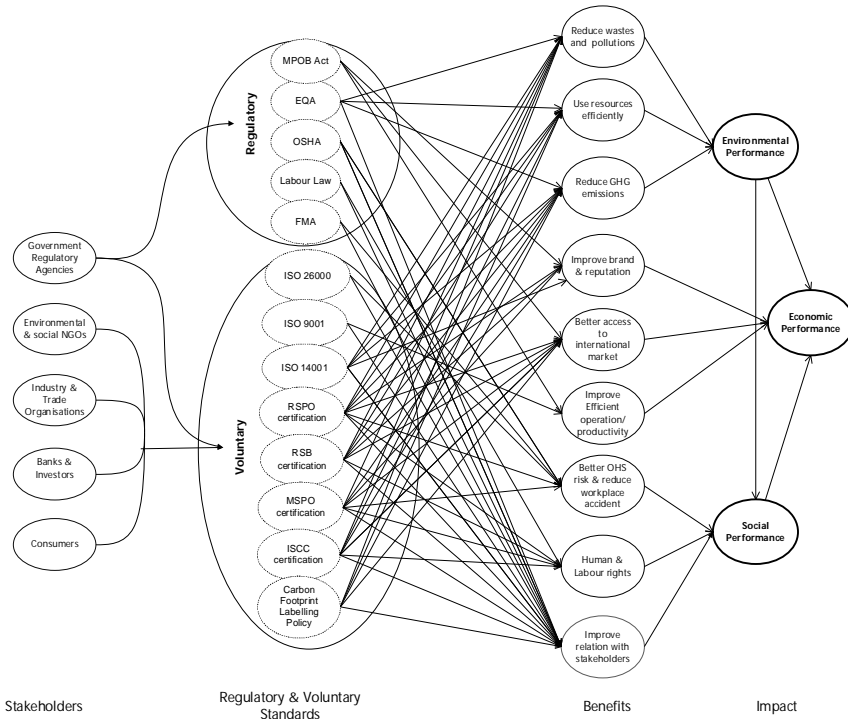


Figure 2: Relationship of environmental, social, and economic benefits for regulatory and voluntary standards

In terms of environmental performance for palm oil sustainability, compliance to the regulatory and voluntary standard could guide the organisation to reduce wastes and pollutions, use resource efficiently and reduce greenhouse gasses (GHG) emissions. Improvement in brand and reputation, a better access to international market and an increase in productivity can be achieved for economic performance. In terms of social performance, compliance to regulatory and voluntary standard could guide the organisation for a

better occupational safety and health (OSH) and reduce work place accident, increase employee awareness of environmental protection and improve relation between organisations and stakeholders.

4.1 Environmental Performance

Compliance of environment regulation is mainly driven by external impetus such as legal enforcement incentive programmes from government [17]. Pollution is controlled through the mechanism of licences issued by the Department of Environment. Environmental Quality Act (EQA) 1974 [18] is a legislation in preventing, abating and controlling pollution, enhancing the environment, and for other related purposes. Some of the EQA for palm oil includes Environmental Quality (Prescribed Premises) (Crude Palm Oil) Regulations, 1977, and (Amendment) 1982, Environmental Quality (Clean Air) Regulations, 1978, and Environmental Quality (Scheduled Wastes) Regulations, 1989.

Voluntary environmental management foster individual commitments by private or public entity, consumer or citizen and sector engagements (e.g. branch agreements). For private companies, the reference to sustainable development, and especially its three-pillar version, was largely viewed more favourably than a reference to environmental protection [19]. The pressure from secondary stakeholders, such as NGOs and industry watch dogs, forces firms to pursue reputational benefits without committing significant efforts and resources to the internalization of the standard. However, pursuing normative legitimacy makes firms abandon the genuine intent and benefits of the adopted standardisation [11]. The RSPO for example, has become a central node in the global palm oil industry, connecting environmentally-relevant information flows between growers, processors and NGOs and programming sustainable palm oil and the required roles of different actors therein. By January and February 2011, the market uptake of certified sustainable palm oil, for which a price premium is paid, rose to about 50% of total certified sustainable palm oil supply [20].

The commercial use of palm biodiesel has been limited by regulation of the US and EU markets [21]. The European demand for biofuels as well as the sustainability criteria, which are integrated into the European Renewable Energy Directive (EURED), ISCC is applied to meet legal requirements in the bioenergy markets as well as to demonstrate the sustainability and traceability of feedstock in the food, feed and chemical industries. It endeavours to regulate biofuels based on GHG emission profiles relative to fossil fuels. Under both

policies, palm biodiesel does not meet the minimum GHG emission saving requirement for qualifying biofuels. This is mainly attributed to the replacement of primary forests or peat swamps with oil palm plantations, which results in the release of additional carbon emissions that counter emission saving benefits from biofuel usage [22]. Another EU-RED standard, RSB promotes the use of areas with the lowest possible risk of impacts to people and environment, and strives to use ecosystems through sustainable management practices without converting them or losing their conservation values over the long term [23].

Companies which embed the requirements of certifications in their daily operations, gain improvements in their pollution and other environmental performance measures but also business benefits such as an increased demand through strengthened customer loyalty and enhanced firm image, and productivity improvement through process innovation and the stimulation of staff morale [11]. The adoption of voluntary standard such as ISO 14000 is expected to play an important role in reducing environmental impacts, supplementing direct regulation through a command and control approach and indirect regulation, such as deposit refund systems, charges and taxes, emissions trading, and financial assistance [9]. ISO 26000 also focuses on decisions and activities of a business enterprise which have an impact on the environment regardless of where the enterprise is located. To reduce environmental impacts, business companies should adopt an integrated approach which takes into account direct and indirect economic, social, health and environmental implications of industry's decisions and activities. Environmental responsibility, a precondition for human survival and prosperity, is an important aspect of social responsibility [24].

4.2 Social Performance

Social performance focuses on employees' satisfaction in which a better Occupational Health and Safety (OSH) risk could reduce accidents in the workplace. OHS management is a vital component of business sustainability, besides environmental management. However, OHS management has often received much lesser attention compared to environmental management [25]. Malaysian Government is also taking a number of measures to maintain and improve OSH management. Government and regulatory agencies have been playing different roles including different labour related acts, rules, and regulations, to ensure that mechanism is properly developed and organizations are working in accordance with the rules and regulations. These mechanisms promote safety and health

awareness and establish effective safety organisation and performance through self-regulation schemes designed to suit the particular industry or organisation. The long-term goal of the Act is to create a healthy and safe working culture among all Malaysian employees and employers [26].

ISO 26000, integral to OHS, is a prevention of health hazards and other protections for employees, as well as adapting a workplace to its workers' capabilities and not vice versa [27]. Implementing the OSH Management System, based on the domestic regulations and voluntary standards, increases the importance of human resource in organizing, and decreasing the costs deriving from accidents or work-related illnesses, aiming to create comfortable conditions for all workers in their physical and psychological safety. The core of the system quality, environmental as well as occupational health and safety management, is the fact that these systems are part of the general management system, the one based on the conception of the constant improvement [28].

The Employment Act 1955 [29] is a principal legislation governing employment practice in Malaysia. It provides minimum terms and conditions (monetary value, working hours, holidays, leaves, retirement, etc.) to certain category of workers. Protection of child and female labour as well as foreign workers, and employees under probation including artisans and apprentices. Factories and Machinery Act (FMA) 1967 [30] is to provide for the control of factories on matters relating to the safety, health and welfare of persons, and the registration and inspection of machinery. Some high risk machinery such as boilers, unfired pressure vessels, passenger lifts and other lifting equipment such as mobile cranes, tower cranes, passenger hoists, overhead traveling cranes and gondolas, must be certified and inspected by DOSH. All factories and general machinery must be registered with DOSH before they can be installed and operated in Malaysia.

According to Castka et al. [31] ISO initiative is likely to make a major impact on corporate social responsibility standardization. The likelihood of this impact is due to indisputable influence that ISO as a standard body has among businesses globally. There is a set of key elements that could conceivably form the requirements of the corporate social responsibility including compliance with all rules and regulations of the jurisdiction in question and relevant international norms pertaining to the environmental, consumer, fair labour standards, human rights, and health and safety protection, as agreed upon through a meaningful stakeholder engagement process;

processes for meaningful stakeholder engagement; development, implementation, and communication of corporate responsibility and corporate ethics policies, including those pertaining to anti-bribery and corruption; training for socially responsible governance; relations with communities, philanthropy, outreach and involvement; and measurement and regular reporting to the full range of stakeholders and the general public. Additionally, the ISO 9000 quality management standard is focused predominantly on the customer and meeting the customer's requirements. Social responsibility, in contrast, considers stakeholders ranging from customers to society at large [32].

Benefits of compliance to the regulatory and voluntary OSH management are for both employees and employers. Employees trust that the presence of OSH management makes employees feel safe, relatively well satisfied and able to grow and thus can develop as human beings. Key international conventions such as the International Labour Organisations core labour conventions and the United Nation Declaration on Human Rights have to form the basis for voluntary standards principle i.e. RSB, ISCC, MSPO ,RSPO, etc. This could enhance the dignity through job satisfaction and humanizing work by assigning meaningful jobs, ensuring job security, making provisions for adequate pay and benefits, providing safe and healthy working conditions, giving opportunities to develop human capacity, ensuring growth and security, social integration, constitutionalism, getting freedom to self-expression and thus help to increase individual productivity that supports to achieve organizational effectiveness [33].

4.3 Economic Performance

It is not just the environment and society that stand to gain from sustainable palm oil practices. Adopting these practices can increase palm oil companies' access to global markets, provide commercial opportunities and enhance brand reputation. Joining the RSPO can enhance palm oil growers' access to large US and European buyers, who are increasingly moving toward sustainable proprietary supply chains to have control and certainty over source materials. Gaining trust from markets and governments can also mean local or international expansion opportunities for growers as a preferred supplier [34]. Many industry stakeholders are realizing the importance of incorporating sustainability into their business models and are developing their own set of private standards that are incorporated into their brand image. ISCC has been gaining ground: downstream experts assert that there is a better market take-up

(higher demand), plus the premium for ISCC certified palm biodiesel worth between US\$20 to US \$30 per tonne [14].

MPOB Act is the regulatory and licensing functions and research and development works on palm Oil in Malaysia [35]. Fair and widespread competition stimulates innovation and efficiency, reduces the costs of products and services, ensures all companies have equal opportunities, encourages the development of new or improved products or processes and, in the long-run, enhances economic growth and living standards. When a business enterprise refuses to engage in anti-competitive behaviour, it helps to build a climate in which such anti-social behaviour is not tolerated, and this competitive behaviour benefits every stakeholders [24]. ISO 14000 maintaining good public and community relations, satisfies investor criteria and improves access to capital, obtaining insurance at reasonable cost, enhancing image and market share, improving cost control, reducing incidents that result in liability, conserving input materials and energy [36].

Implementation of the Quality Management System, based on the requirements stated by the MS ISO 9001 standard, apart from the assurance of trust that the requirements concerning the quality of the products and services will be fulfilled, mainly the result should improve of the processes accordingly to the described procedures of the interior structural system together with clearly stated aims of the company as well as with the range of responsibilities and the entitlements. It should also decrease costs of defective products, which include costs of repairs, warranty, customer service and financial fines, increase of the turnover and the shares on the market due to the increase of the customer's satisfaction, and increase of the productivity due to the work-force motivation [28]. The search for efficiency has motivated organizations to adopt adequate processes of environmental management to their productive and economic intentions, through a proactive position in the improvement of their processes [17].

5.0 CONCLUSION

The study aimed to assess the main regulatory and voluntary standards of Malaysian palm oil mill governed and to evaluate the benefits of compliance in the context of environmental, social and economic performance. The compliance to these standards should make organisations more responsive to the needs of local communities and improve the provision of services, including to those communities impacted by pollution. Supporting state

regulatory rules, voluntary regulatory standards incorporate the principles and criteria, palm oil production can achieve a greater performance in environmental, social, and economic realms. Guidelines and criteria could be used in which the organisations concern about the reputation to further exert pressure to comply with environmental and social standards.

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