Social Impact in Sustainable Finance: A Critical Review of Ethical Issues and Social Sustainability Challenges in the Malaysian Palm Oil Industry

Najihah Abdul Rahim, Joeaiza Juhari*, Norhaidah Ahmad, Khaizie Sazimah Ahmad, Nasiha Kamaruzaman, Siti Noraziana Azis

Faculty of Business and Management, Universiti Teknologi Mara, Alor Gajah, Melaka

***Corresponding Author**

DOI: https://doi.org/10.47772/IJRISS.2026.100700057

Received: 06 July 2026; Accepted: 11 July 2026; Published: 23 July 2026

ABSTRACT

Sustainable finance has become a major way of promoting responsible investment and long-term value creation by integrating Environmental, Social and Governance (ESG) factors into financial decision-making processes. From the three ESG dimension, the social dimension has attracted more attention considering the increasing concerns about labour rights, human rights, stakeholder welfare and corporate accountability. This report focuses on the social impact dimension of sustainable finance in the Malaysian palm oil sector. The study focuses on key ethical issues affecting social sustainability such as labour welfare issues, migrant worker management, stakeholder engagement, transparency in ESG reporting and profit maximisation versus social responsibility conflict. The report uses Stakeholder Theory, Corporate Social Responsibility (CSR) and the Triple Bottom Line framework as theoretical bases for analysis of ethical challenges for the industry. The findings indicate that the Malaysian palm oil industry has a vital role in creating employment, rural development, and national economic growth but still faces several social sustainability issues that impact stakeholder welfare and ESG performance. This report gives an industry-wide view on social sustainability challenges across the Malaysian palm oil plantation industry. The analysis addresses the ethical issues that plantation companies are generally faced with such as labour welfare, the use of migrant workers, stakeholder engagement, transparency in ESG reporting and the tension between profit maximisation and social responsibility. The analysis reveals that labour welfare, protection of human rights, transparency and stakeholder's engagement are important factors influencing the organisational sustainability and investor confidence. Based on the findings, a few recommendations are made including to strengthen labour protection, improve migrant worker welfare, enhance stakeholder engagement, increase transparency in ESG reporting, and conduct independent social audits. In addition, this study proposes an ethical framework based on human rights, stakeholder inclusiveness, transparency, social justice and long-term value creation. The report finds that social sustainability should be seen as a strategic part of sustainable finance, rather than a secondary business consideration. Organisations that can strike a balance between profitability and the welfare of the stakeholders are more likely to achieve long-term sustainability, maintain investor confidence and contribute positively to sustainable development.

Keywords: Sustainable Finance, Social Sustainability, Ethics, Social Impact, Environment Social and Governance (ESG)

INTRODUCTION

Sustainable finance is the integration of Environmental, Social and Governance (ESG) factors into financial decision making to encourage long-term economic growth while contributing to environmental protection and social wellbeing (European Commission, 2021). The social pillar of ESG dimensions has gained increasing attention among the ESG dimensions due to concerns related to labour rights, workplace safety, human rights, diversity and stakeholder welfare. Poor social performance may expose organisations to reputational, legal and regulatory risks. Thus, social sustainability is an important consideration for investors and businesses (GRI, 2021). The Malaysian palm oil industry provides a relevant context for the examination of social sustainability in sustainable finance. Being among the top global palm oil producers, the sector plays a crucial role in Malaysia's economy, job creation, and rural development (MPOB, 2024). However, it has also been criticised for labour welfare, migrant worker management, workplace safety, stakeholder engagement and transparency (ILO, 2022). These issues emphasise the need for companies to balance profitability with ethical responsibility and stakeholder wellbeing.

The Malaysian palm oil plantation sector comprises large plantation companies, government-linked companies, private companies and smallholders. Many industry players have taken up sustainability initiatives and ESG commitments, but labour governance, worker welfare, stakeholder engagement and transparency are still under the lens of regulators, investors and civil society organisations. Thus, the industry presents an appropriate background to explore the relationship between social impact, ethical business practices and sustainable finance. This report presents the key ethical and social sustainability issues in the Malaysian palm oil industry from a sustainable finance perspective. Labour welfare, management of migrant workers, stakeholder engagement, transparency and corporate social responsibility are included.

Problem Statement

The Malaysian palm oil industry contributes significantly to the national economic development in terms of employment generation, export earnings and rural economic development. Although the industry is economically important, it is still criticised for several social sustainability issues, particularly regarding labour welfare, migrant worker management, stakeholder engagement and transparency in sustainability reporting (Amnesty International, 2016; ILO, 2022). Many of these issues are ethical in nature, because they are a trade-off between the profitability of the business and the welfare of stakeholders. Even though plantation companies are trying to keep up productivity and competitiveness, questions have been raised about the treatment of workers, the protection of human rights and the adequacy of the social governance mechanisms. Such concerns can erode stakeholder trust and damage ESG performance.

From the perspective of sustainable finance, unethical practices lead to social risks which can affect investment decisions and long-term sustainability of an organisation. Increasingly, investors are factoring in labour practices, human rights performance and stakeholder management in their ESG risk assessments. Organisations that do not address issues of social sustainability may suffer damage to their reputation, face regulatory scrutiny and investor confidence may drop. Although the palm oil industry has received a lot of attention for its environmental sustainability issues, social sustainability issues have received comparatively less attention. Therefore, there is a need to critically evaluate the ethical issues related to the social impact of the Malaysian palm oil industry and explore how sustainable finance can facilitate more responsible business practices.

LITERATURE REVIEW

This chapter reviews the literature related to sustainable finance, social sustainability, ethical theories and social impact issues in Malaysian palm oil industry. The discussion provides the theoretical basis for the analysis of the implications and practices of unethical practices in the context of sustainable finance. Labour welfare, human rights, stakeholder engagement and social governance are given due importance as these are critical dimensions of social impact in the Environmental, Social and Governance (ESG) framework.

Sustainable Finance and the Social Dimension of ESG

Sustainable finance refers to the integration of Environmental, Social, and Governance (ESG) considerations into financial and investment decision-making processes to support long-term economic growth while addressing sustainability challenges (European Commission, 2021; UNDP, 2023). Unlike conventional finance, which focuses primarily on financial returns, sustainable finance seeks to balance economic performance with environmental protection and social well-being (UNEP FI, 2024). The growing importance of sustainable finance has been driven by increasing concerns regarding climate change, social inequality, labour rights, corporate accountability, and stakeholder welfare (World Economic Forum, 2024). Investors increasingly recognise that ESG factors influence organisational resilience, risk management, reputation, and long-term financial performance (IFC, 2023; ISSB, 2023). Consequently, ESG considerations have become important criteria in investment evaluations and corporate governance practices. Among the three ESG dimensions, the social pillar has gained significant attention due to increasing stakeholder expectations regarding employee welfare, human rights protection, diversity and inclusion, occupational health and safety, and community development (GRI, 2021; ISSB, 2023). Social sustainability focuses on how organisations manage relationships with employees, customers, suppliers, local communities, and society (UNDP, 2023).

Recent studies suggest that poor social performance may expose organisations to reputational damage, regulatory intervention, operational disruptions, labour disputes, and declining investor confidence (IFC, 2023; UNEP FI, 2024). Conversely, organisations that demonstrate strong social governance and stakeholder engagement are more likely to enhance organisational legitimacy, improve ESG ratings, and attract sustainability-focused investment (World Economic Forum, 2024). Therefore, the social dimension has become an increasingly important component of sustainable finance because investors now evaluate not only financial outcomes but also how organisations create value for stakeholders and contribute to broader social development objectives (European Commission, 2021; ISSB, 2023).

Social Impact in the Malaysian Palm Oil Industry

The Malaysian palm oil industry continues to be one of the country's major economic sectors, contributing significantly to export earnings, employment generation and rural economic development (MPOB, 2024). The industry also provides hundreds of thousands of workers and smallholders and is important for national economic growth and agricultural development (World Bank, 2023; MPOB, 2024). The industry produces a variety of positive outcomes from a social impact perspective. The employment generated by the production of palm oil increases household income, enhances local economic activities and reduces poverty in the rural communities (Euler et al., 2017; MPOB, 2024). Plantation companies often offer housing facilities, healthcare services, educational assistance, and community development programs that enhance social welfare and local living conditions (RSPO, 2024). These contributions notwithstanding, the industry continues to face serious social sustainability challenges. Concerns have been expressed by international organisations and sustainability bodies on labour welfare, treatment of migrant workers, safety in the workplace, recruitment practices, standards of accommodation, and protection of human rights (Amnesty International, 2016; ILO, 2022; World Bank, 2023). These issues have received increasing attention from regulators, investors and civil society organisations as they have a direct impact on stakeholder welfare and ESG performance.

The palm oil industry is heavily dependent on migrant workers and a large proportion of the workforce in plantation operations comprises migrant workers (Cramb & McCarthy, 2016). As a result, issues of worker vulnerability, labour governance, recruitment practices and social protection have come to the fore of sustainability conversations (ILO, 2022; RSPO, 2024). The growth of sustainable investing has also put more pressure on plantation companies to improve social governance systems and stakeholder engagement practices. Increasingly, labour practices, human rights performance and community relations are included in ESG assessments and sustainable finance evaluations (IFC, 2023; SD Guthrie, 2024). The social impact has thus become a key determinant of long-term organisational sustainability in the palm oil sector.

Underpinning Theory

1. Stakeholder Theory

Freeman (1984) introduced Stakeholder Theory, which argues that organisations should create value for all stakeholders, not just shareholders. Stakeholders are employees, customers, suppliers, communities, governments, investors, and society. The theory highlights that success of the organisation depends on the ability to manage stakeholder relationships well and balance the competing stakeholder interests. Recent stakeholder scholars have argued that organisations that prioritise stakeholder welfare tend to achieve higher levels of organisational resilience, improved reputation and superior long-term performance (Harrison et al., 2020; Jones et al., 2018). Proper stakeholder management can also mitigate social conflicts, enhance legitimacy, and improve sustainability outcomes (Freeman et al., 2020).

Stakeholder Theory is especially relevant in the context of sustainable finance, as investors are increasingly evaluating how organisations handle their relationships with employees, communities, regulators, and other stakeholder groups (World Economic Forum, 2024). Companies that do not protect stakeholder interests may suffer reputational damage, lower investor confidence, and greater ESG-related risks (ISSB, 2023). Stakeholder Theory is an important framework for analysing labour welfare, migrant worker rights, community well-being, and stakeholder engagement in the Malaysian palm oil industry because several stakeholder groups are directly affected by plantation operations (ILO, 2022; RSPO, 2024).

2. Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is the responsibility of organisations to act ethically and to contribute positively to society in ways that go beyond the requirements of the law (Carroll, 1991). According to Carroll's CSR framework, organisations have economic, legal, ethical and philanthropic responsibilities that together contribute to sustainable business conduct. The latest CSR literature emphasizes that social responsibility should be embedded into corporate strategy and not be a stand-alone philanthropic activity (Carroll, 2021). Organizations are increasingly expected to address stakeholder concerns, protect human rights, support community development and contribute to sustainable development goals (UN Global Compact, 2023).

Common CSR initiatives within the palm oil industry include employee welfare programmes, educational assistance, healthcare support, community development projects, and sustainability initiatives (RSPO, 2024; SD Guthrie, 2024). Such initiatives can enhance stakeholder trust, improve corporate reputation and enhance sustainability performance. From the sustainable finance point of view, CSR contributes to better ESG performance as investors increasingly recognise the importance of ethical governance, social responsibility and stakeholder welfare in determining long-term organisational value (IFC, 2023; UNEP FI, 2024).

3. Triple Bottom Line Framework

The Triple Bottom Line (TBL) framework was developed by Elkington (1997) as an alternative measure of organisational success. The framework suggests that businesses should create value in three dimensions: Profit, People, and Planet. The Profit dimension is about financial sustainability and economic performance. The People dimension stresses labour welfare, stakeholder well-being, social justice and protection of human rights. The Planet dimension refers to environmental sustainability and responsible resource management (Elkington, 1997). Eventually, Elkington (2018) argued that organisations should go for transformative approaches that balances economic growth with social and environmental sustainability.

This view is still very relevant in sustainable finance as investors are now more often judging organisational performance through ESG criteria than financial indicators (ISSB, 2023; UNDP, 2023). In the Malaysian palm oil industry, the TBL framework emphasizes the need to balance profitability with labour welfare, community development, and stakeholder interests. The excessive emphasis on financial performance may lead to an increase in the risk of labour exploitation, dissatisfaction of stakeholders, and social sustainability challenges (ILO, 2022; World Bank, 2023). Hence, organisations should have integrated sustainability strategies with both economic and social objectives.

Literature Gap

Environmental sustainability issues such as deforestation, biodiversity loss and climate change have been widely discussed in existing literature in the palm oil industry. Thus, the discourse of sustainability and responsible palm oil production tends to be centred on environmental concerns. However, there are relatively limited studies that specifically address the social sustainability and ethical challenges from the sustainable finance perspective in the Malaysian palm oil industry. Labour welfare, migrant worker management and stakeholder engagement are increasingly recognized concerns but are often discussed separately without integrating them into the lens of sustainable finance and ethical governance. Besides, there is still lack of research done in the context of Stakeholder Theory, Corporate Social Responsibility and Triple Bottom Line framework to analyse unethical practices and social impact issues in Malaysian plantation companies. Thus, this study aims to address this gap by studying social sustainability challenges, ethical issues and stakeholder impacts in the Malaysian palm oil industry through an industry-level analysis of plantation sector practices, ethical challenges and stakeholder impacts. The study contributes to a better understanding of the role of ethical business practices in sustainable finance outcomes and long-term organisational sustainability.

ETHICAL ISSUES IN THE MALAYSIAN PALM OIL INDUSTRY

The palm oil industry is one of the most important economic sectors in Malaysia, to which it makes a major contribution in terms of employment, export earnings, and rural development. Industry is an important contributor to the economy, but there are still some social sustainability issues with serious ethical dilemmas. These challenges have become increasingly a concern for regulators, investors, international organisations, and civil society groups (ILO, 2022), given their direct impact on stakeholder welfare and ESG performance. From a sustainable finance perspective, unethical practices have social risks that could jeopardize organization’s reputation, investor confidence, and long-term sustainability. Thus, the demand for ethical business practices among palm oil companies is gaining momentum as they are expected to strike a balance between profit and social responsibility. This chapter critically analyses the most common ethical issues in the Malaysian palm oil industry. These include issues such as labour welfare, migrant worker management, stakeholder engagement, transparency, and the clash between maximisation of profit and social responsibility.

Labour Welfare and Labour Exploitation

One of the major social sustainability issues in the Malaysian palm oil industry remains to be labour welfare. The plantation work is very labour intensive, and workers are often required to do physical demanding tasks under difficult environmental conditions. Workers are exposed to extreme weather conditions, heavy workload and occupational hazards related to plantation operations (ILO, 2022). Labour organisations and international agencies (Amnesty International, 2016) continue to debate issues relating to wages, workplace safety, working hours, and access to healthcare notwithstanding the fact that the industry offers employment to many workers. These concerns raise ethical issues on fairness and employee wellbeing. According to Stakeholder Theory, employees are important stakeholders whose interests need to be protected, in addition to shareholders (Freeman, 1984). Organisations have an ethical responsibility to provide fair working conditions, reasonable compensation, and safe working environments. When worker welfare is compromised in pursuit of operational efficiency and profitability, an ethical conflict arises between financial objectives and social responsibility. Furthermore, labour exploitation may undermine the principles of distributive justice because workers may not receive a fair share of the economic value generated by their contributions. Consequently, poor labour welfare practices may negatively affect employee morale, productivity, organisational reputation, and investor confidence.

Evidence of labour exploitation concerns within the palm oil industry has been documented by several international organisations. Amnesty International (2016) reported allegations involving excessive working hours, unrealistic productivity targets, inadequate protective equipment, and poor working conditions in certain plantation operations. The report further highlighted concerns that some workers were required to meet demanding harvesting quotas, creating pressure that could negatively affect their wellbeing and occupational safety. Similarly, the International Labour Organization (ILO, 2022) recognised that agricultural sectors, including palm oil plantations, face ongoing challenges relating to decent work standards, labour protection, and worker welfare. These concerns indicate that labour-related issues remain significant social sustainability challenges within the industry and require stronger governance mechanisms to ensure ethical treatment of workers.

Migrant Worker Welfare and Human Rights

The Malaysian palm oil industry’s heavy reliance on migrant workers has been driven by labour shortages and the need to sustain plantation productivity. Migrant workers are from Indonesia, Bangladesh, Nepal and other neighbouring countries (Cramb & McCarthy, 2016). Migrant labour is a huge part of the success of the industry but there have been ethical questions over recruitment methods, accommodation standards, access to healthcare and worker rights. Amnesty International (2016) and the International Labour Organization (2022) have raised issues of worker vulnerability and labour protection in the agricultural sectors. From a human rights point of view, all workers should be treated equally regardless of nationality, ethnicity or immigration status.

Organisation of work and ethical business conduct require respect for worker dignity and fair treatment, equal opportunity and adequate protections. The ethical dilemma comes when organisations try to keep labour costs to a minimum, and yet still be productive and profitable. Such approaches can improve the short-term financial performance but can also increase the risk of worker exploitation and social inequality.

Migrant worker welfare has become a key ESG consideration from a sustainable finance perspective, as labour disputes may result in reputational risks, regulatory issues and negative investor perceptions. Therefore, organisations need to strengthen labour governance mechanisms to meet ethical standards and stakeholder expectations. The Malaysian palm oil industry has been well documented to have concerns about the welfare of migrant workers. Amnesty International (2016) reported on debt related to recruitment, retention of personal documents, restrictions on worker mobility and poor access to grievance mechanisms. These practices place workers in a more vulnerable position and raise concerns on the protection of human rights and ethical labour management. These problems are inconsistent with the ethical principles of fairness, equality, and respect for human dignity. Sustainable finance frameworks are increasingly recognizing that human rights performance and labour governance are material ESG factors that affect an organization's reputation and investment attractiveness.

Community Welfare and Stakeholder Engagement

Beyond employee welfare, palm oil plantation companies also affect the wellbeing of local communities through employment opportunities, economic development, and social investment initiatives. Therefore, the engagement of stakeholders has become a main part of social sustainability in the industry. Stakeholder Theory states that organisations should generate value for all stakeholders, such as employees, communities, investors, governments and civil society organisations (Freeman, 1984). Effective stakeholder engagement allows organisations to understand stakeholder concerns, build trust and improve decision-making processes. Ethical issues are raised by ignoring stakeholder interests and poor communication with communities affected by projects. Limited stakeholder engagement may lead to misunderstanding, dissatisfaction and reduced public trust. Apart from making profits, the CSR principles highlight the need for community development and social contribution (Carroll, 1991). Hence, plantation companies need to be proactive in engaging stakeholders and supporting initiatives that are conducive to community wellbeing. From a sustainable finance perspective, strong stakeholder relationships increase the legitimacy of an organisation and reduce social risks. Increasingly, investors recognise stakeholder engagement as an important indicator of responsible business conduct and long-term sustainability performance.

Transparency and ESG Reporting

Transparency is one of the core principles of sustainable finance as investors need accurate information to evaluate organizational performance and sustainability risks. ESG reporting enables stakeholders to assess the companies' treatment of social, environmental, and governance issues (GRI, 2021). Sustainability reporting has gained more significance in the Malaysian palm oil industry, with the rising expectations of stakeholders towards accountability and responsible business practices. Investors, regulators, consumers and sustainability organisations expect companies to disclose transparent information on labour practices, worker welfare, human rights performance and stakeholder engagement initiatives. However, ethical issues are also likely to arise when organisations do not make full disclosures or communicate social sustainability challenges adequately. Lack of transparency may create information irregularity between organisations and stakeholders and limit the stakeholders' ability to make informed decisions. Ethically, transparency means honesty, integrity and accountability. Companies have an obligation to provide accurate and balanced information about both achievements and challenges. Reputable ESG reporting therefore builds stakeholder trust and adds credibility to sustainability commitments.

Profit Maximisation versus Social Responsibility

One of the major ethical issues in the palm oil industry in Malaysia is the issue of profit maximisation against social responsibility. Plantation companies are commercial companies. Their purpose is to earn money for shareholders, to compete in world markets. Nevertheless, sustainable finance stresses that enterprises should consider financial goals, stakeholders' well-being and social sustainability to create value in the longer term

(European Commission, 2021). Decisions that place profits over employee well-being, community health and openness can be ethical issues. These can be a loss of business legitimacy. Triple Bottom Line suggests that organisational success should be measured by Profit, People and Planet (Elkington, 1997). They should be concerned about the social impact of their actions and try to create value for different stakeholders, not only about profitability. Failure to balance financial performance and social responsibility can lead to reputational risk, regulatory intervention and loss of stakeholder trust. In this way sustainable finance encourages more responsible business practices by organisations, helping to drive economic performance and social wellbeing.

INDUSTRY ANALYSIS

Social Sustainability Challenges

This chapter examines Malaysian palm oil industry as a case study to analyse how social sustainability challenges and ethical issues affect corporate governance, stakeholder relationships, and sustainable finance outcomes within the Malaysian palm oil industry. The case study provides practical evidence of the ethical challenges discussed in the previous chapter and evaluates how organisations can respond to social sustainability concerns through governance reforms and stakeholder engagement.

Industry Overview

The Malaysian palm oil plantation sector is one of the largest contributors to the national economy and supports export earnings, job creation and rural development. The sector comprises large plantation companies, government linked corporations, private companies and independent smallholders. As global sustainability expectations continue to rise, plantation companies are under increasing pressure to demonstrate strong ESG performance, particularly on labour welfare, human rights protection, stakeholder engagement and transparency. Consequently, social sustainability has become a critical driver impacting investor confidence, regulatory compliance, and long-term organisational resilience in the sector.

Industry-Wide Social Sustainability Challenges

The Malaysian palm oil plantation sector faces several challenges in social sustainability. These include issues of labour welfare, management of migrant workers, standards of accommodation, recruitment practices, occupational safety and stakeholder expectations on protection of human rights. These issues have been under increasing scrutiny from international organisations, regulators and investors, given the direct implication they have on ESG performance and reputation of organisations. This dependence on migrant workers makes strong systems of labour governance and responsible employment practices even more crucial for the industry.

Ethical Analysis of Industry Practices

The Malaysian palm oil industry case can be analysed through the perspectives of Stakeholder Theory, Corporate Social Responsibility (CSR), and the Triple Bottom Line framework.

1. Stakeholder Theory Perspective

Stakeholder Theory claims that firms should produce value for all stakeholders, not just for shareholders (Freeman, 1984). The main stakeholders involved in the operation of the Malaysian palm oil industry are employees, migrant workers, local communities, investors, regulators, customers and sustainability organisations. Labour welfare and human rights protection are ethical responsibilities and not compliance obligations in this sense. Organisations have a duty to deal fairly with stakeholders and to avoid adverse impacts on stakeholder wellbeing as a result of business decisions. The challenges of social sustainability within plantation companies reflect the need to balance the interests of the various stakeholder groups. If stakeholder concerns are not addressed, then the organisation risks reputational damage, loss of investor confidence and weakening of the organisation's legitimacy. The theory of labour exploitation in plantation companies presents an ethical dilemma between efficient operations and stakeholder welfare.

The concerns raised here suggest that the wellbeing of migrant workers as an important stakeholder group in plantation operations may not have been sufficiently examined from the perspective of Stakeholder Theory. In the face of workers' wellbeing, organisations often breach ethical ideals of fairness, human dignity and social justice (Freeman, 1984). It also highlights the actual financial impact of unethical labour practices. International investors and stakeholders interested in sustainability have been examining the delay ordered by U.S. officials. This suggests that social sustainability is becoming more important for sustainable finance, since bad labour governance can directly impact investment decisions and value of an organisation.

2. Corporate Social Responsibility Perspective

Corporate Social Responsibility (CSR) is a concept that businesses should contribute positively to society and act ethically and responsibly (Carroll, 1991). As per CSR principles, organisations are supposed to do more than just profits by actively supporting employee welfare, community development and social wellbeing. Plantation companies engage in CSR initiatives such as sustainability programmes, worker welfare initiatives, stakeholder engagement activities and human rights commitments. These initiatives are attempts to implement ethical concerns into business practice and to achieve better social sustainability outcomes. However, the effectiveness of CSR depends on the practical improvements of organisational commitments that have positive impacts for stakeholders. Thus, there is a need for constant monitoring and evaluation to ensure that the commitments on sustainability are translated into actual social impact.

3. Triple Bottom Line Perspective

The Triple Bottom Line framework underscores the importance of balancing Profit, People and Planet in organisational decision-making (Elkington, 1997). Plantation companies need to be financially competitive, while at the same time protecting stakeholder welfare and supporting sustainability objectives. Organisations face ethical issues when they are forced to maximise profitability while faced with labour welfare, human rights issues and stakeholder expectations. The plantation companies demonstrate that to be sustainable successful organisations need to strike a balance between financial performance and social responsibility. Sustainable finance thus promotes companies to create value not only for shareholders but also for employees, communities and society.

Industry Responses and Improvement Initiatives

Plantation companies have also introduced various initiatives to improve social sustainability performance to keep pace with rising ESG expectations. Initiatives include strengthening labour governance systems, enhancing worker welfare programmes, implementing human rights policies, improving grievance mechanisms and increasing stakeholder engagement activities. Industry-wide certification schemes such as the Malaysian Sustainable Palm Oil (MSPO) and Roundtable on Sustainable Palm Oil (RSPO) standards have also incentivised companies to adopt more responsible labour and social governance practices.

Sustainable Finance Implications

The Malaysian palm oil plantation sector demonstrates how social sustainability issues can significantly influence investment decisions, stakeholder trust, and long-term organisational performance. Labour welfare concerns, stakeholder dissatisfaction, and human rights controversies may create reputational risks that affect investor confidence and market perception. Consequently, organisations that fail to manage social risks effectively may experience difficulties in maintaining stakeholder trust and attracting sustainability-focused investment. Conversely, organisations that demonstrate strong governance systems, transparent reporting practices, and commitment to stakeholder welfare may strengthen their ESG performance and enhance long-term sustainability. The case therefore illustrates the growing importance of integrating social sustainability considerations into financial decision-making processes. Sustainable finance encourages organisations to view stakeholder welfare not as a cost but as an investment in long-term resilience and value creation.

Lessons Learned from the Plantation Industry

There are several important lessons from the Malaysian palm oil plantation sector. Labour welfare and human rights protection are first and foremost important constituents of ESG performance and sustainable finance. Secondly, stakeholder engagement and transparent reporting are important to sustain organisational legitimacy and investor confidence. Third, successful and sustainable business requires a balance between profitability and social responsibility and stakeholder welfare. Finally, the industry must pursue long-term sustainability and competitiveness through continuous improvement in governance systems, labour practices and sustainability reporting.

RECOMMENDATIONS AND ETHICAL FRAMEWORK

The findings in the previous chapters demonstrate that social sustainability is still a vital aspect of sustainable finance in the Malaysian palm oil industry. While the industry has made a significant contribution to economic growth and job creation, several ethical challenges associated with labour welfare, management of migrant workers, stakeholder engagement and transparency continue to affect organisational sustainability and stakeholder trust. Finally, some recommendations are offered to plantation companies, investors, regulators, and other stakeholders on how to improve social sustainability and promote ethical business conduct.

Strengthening Labour Welfare and Protection

Labour welfare should become one of the essential elements of sustainable business. Plantation companies must provide their workers with fair pay, safe working conditions, adequate access to health care and sufficient occupational safety protections. Regular health and safety training programmes can prevent workplace accidents and improve the wellbeing of employees. In addition, organisations should put in place effective grievance mechanisms for workers to raise concerns without fear of retribution. Improving labour welfare is not only a moral imperative but also leads to higher productivity, better employee engagement and improved organisational reputation (ILO, 2022).

Enhancing Migrant Worker Welfare

As the industry relies on migrant labour, organisations should enhance governance mechanisms to safeguard the rights and welfare of migrant workers. Adoption of ethical recruitment practices will remove excessive recruitment fees, debt bondage risks and exploitative employment arrangements. Companies must respect migrant workers' right to transparent employment contracts, non-discriminatory treatment, adequate housing, healthcare and equal employment opportunities, regardless of nationality. Workers also must be able to control their personal documents and to have free access to grievance channels. These initiatives are aligned with international labour standards and human rights principles and facilitate sustainable finance goals through improved social governance and reduction of ESG-related risks (ILO, 2022; UN Global Compact, 2023).

Strengthening Stakeholder Engagement

Stakeholder engagement should be integrated into organisational decision-making processes. Companies should actively engage employees, local communities, investors, regulators, and civil society organisations to better understand stakeholder expectations and concerns. Regular stakeholder consultations, feedback mechanisms, and community engagement programmes can improve trust and strengthen organisational legitimacy. Effective stakeholder engagement is consistent with Stakeholder Theory, which emphasises the importance of creating value for all stakeholders (Freeman, 1984).

Improving Transparency and ESG Reporting

Transparency is a key requirement for sustainable finance. Investors need reliable information to assess the sustainability performance of organisations. Plantation companies are expected to improve their ESG disclosures by sharing granular data on labour welfare indicators, statistics on worker grievances, human rights performance, stakeholder engagement initiatives and social sustainability initiatives. The reporting should be in line with international recognised frameworks such as the Global Reporting Initiative (GRI) Standards and ISSB Sustainability Disclosure Standards. Increased transparency decreases information asymmetry between organisations and stakeholders and at the same time increases accountability and stakeholder trust. Moreover, transparent reporting demonstrates an organization's commitment to responsible business conduct and to ongoing improvement of social sustainability performance (GRI, 2021; ISSB, 2023).

Independent Social Audits and Monitoring

Companies should conduct regular independent social audits to assess compliance with labour standards, human rights principles, and stakeholder engagement requirements. Independent assessments can help identify weaknesses in governance systems and provide recommendations for continuous improvement. Regular monitoring also enhances accountability and demonstrates commitment to ethical business practices.

Integrating Social Considerations into Sustainable Finance

Investment opportunities in the palm oil sector should be assessed more thoroughly with respect to social sustainability indicators by investors and financial institutions. Assessments of investments should include labour practices, human rights performance, stakeholder engagement effectiveness, community impact, transparency and quality of governance. Inclusion of social criteria in investment decisions can provide incentives to organisations to improve social sustainability performance, improve stakeholder relationships and strengthen labour governance thus promoting sustainable finance. This encourages the creation of long-term value, acknowledging that the welfare of stakeholders and responsible business practices are important contributors to organisational resilience and financial sustainability (UNEP FI, 2024; World Economic Forum, 2024).

CONCLUSION

Sustainable finance is increasingly important for encouraging responsible business practices and creating long-term value. Sustainable finance, as opposed to traditional financial approaches that focus on profitability, stresses the importance of incorporating Environmental, Social and Governance (ESG) factors into business and investment decisions. This report investigated the social dimension of sustainable finance in the Malaysian palm oil industry. The study focused on major ethical issues and social sustainability challenges such as concerns over labour welfare, management of migrant workers, stakeholder engagement, transparency and the conflict between profit maximisation and social responsibility. The literature review shows that social sustainability is a critical ingredient of ESG performance and has a considerable impact on investor confidence and organisation resilience. The analysis also found that unethical practices can negatively affect workers, communities, investors and corporate reputation, while also posing long-term risks to sustainability.

The industry analysis provided practical insights into the ways social sustainability challenges impact governance practices, stakeholder relations and sustainable finance outcomes in the Malaysian palm oil plantation sector. The findings indicate that labour welfare, protection of human rights, transparency and engagement with stakeholders remain critical areas which require continuous improvement. The results indicated that labour welfare, protection of human rights, transparency and stakeholder engagement are still important areas for continuous improvement. At the same time, the case illustrated that organisations could improve their sustainability performance through governance reforms, responsible business practices and effective stakeholder management.

This study finds that social sustainability should not be considered a secondary concern, but a strategic component of sustainable finance. Companies in the Malaysian palm oil industry need to understand that long-term business success depends on the balance between profitability, ethical responsibilities and stakeholder welfare. Investors and financial institutions also have an important role in promoting responsible business conduct by integrating social sustainability criteria into investment decision-making processes. Better governance, enhanced transparency and more stakeholder engagement can help to create more ethical and socially responsible development in the Malaysian palm oil industry through sustainable finance. Ultimately for sustainable development organisations must create value for shareholders as well as employees, communities

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VII July 2026

and society. An ethical approach and stakeholder-centric approach can help plantation firms improve their ESG performance, maintain stakeholder confidence, and foster sustainable long-term growth.

REFERENCES

1. Amnesty International. (2016). The great palm oil scandal: Labour abuses behind big brand names. Amnesty International. https://www.amnesty.org
2. Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. Business Horizons, 34(4), 39–48. https://doi.org/10.1016/0007-6813(91)90005-G
3. Carroll, A. B. (2021). Corporate social responsibility: Perspectives on the CSR construct's development and future. Business & Society, 60(6), 1258–1278. https://doi.org/10.1177/00076503211001765
4. Cramb, R., & McCarthy, J. F. (2016). The oil palm complex: Smallholders, agribusiness and the state in Indonesia and Malaysia. NUS Press.
5. Elkington, J. (1997). Cannibals with forks: The triple bottom line of 21st century business. Capstone Publishing.
6. Elkington, J. (2018, June 25). 25 years ago I coined the phrase "Triple Bottom Line." Here's why it's time to rethink it. Harvard Business Review. https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it
7. Euler, M., Krishna, V., Schwarze, S., Siregar, H., & Qaim, M. (2017). Oil palm adoption, household welfare, and nutrition among smallholder farmers in Indonesia. World Development, 93, 219–235. https://doi.org/10.1016/j.worlddev.2016.12.019
8. European Commission. (2021). Strategy for financing the transition to a sustainable economy. European Commission. https://finance.ec.europa.eu
9. Freeman, R. E. (1984). Strategic management: A stakeholder approach. Pitman Publishing.
10. Freeman, R. E., Phillips, R., & Sisodia, R. (2020). Tensions in stakeholder theory. Business & Society, 59(2), 213–231. https://doi.org/10.1177/0007650318773750
11. Global Reporting Initiative. (2021). GRI universal standards 2021. Global Reporting Initiative. https://www.globalreporting.org
12. Harrison, J. S., Barney, J. B., Freeman, R. E., & Phillips, R. A. (2020). The Cambridge handbook of stakeholder theory. Cambridge University Press.
13. International Finance Corporation. (2023). Creating value through ESG integration. International Finance Corporation. https://www.ifc.org
14. International Labour Organization. (2022). Labour rights and decent work in agricultural supply chains. International Labour Organization. https://www.ilo.org
15. International Sustainability Standards Board. (2023). IFRS S1 general requirements for disclosure of sustainability-related financial information. IFRS Foundation. https://www.ifrs.org
16. Jones, T. M., Harrison, J. S., & Felps, W. (2018). How applying instrumental stakeholder theory can provide sustainable competitive advantage. Academy of Management Review, 43(3), 371–391. https://doi.org/10.5465/amr.2016.0111
17. Malaysian Palm Oil Board. (2024). Malaysian palm oil industry annual report 2024. Malaysian Palm Oil Board. https://www.mpob.gov.my
18. Roundtable on Sustainable Palm Oil. (2024). Impact report 2024. Roundtable on Sustainable Palm Oil. https://rspo.org
19. SD Guthrie Berhad. (2024). Sustainability report 2024. SD Guthrie Berhad. https://www.sdguthrie.com
20. United Nations Development Programme. (2023). Sustainable development goals report 2023.
21. United Nations Development Programme. https://www.undp.org
22. United Nations Global Compact. (2023). Communication on progress guidance. United Nations Global Compact. https://unglobalcompact.org
23. United Nations Environment Programme Finance Initiative. (2024). Principles for responsible banking: Progress report 2024. UNEP Finance Initiative. https://www.unepfi.org
24. U.S. Customs and Border Protection. (2020). CBP issues withhold release order on palm oil produced by Sime Darby Plantation Berhad due to forced labor indicators. U.S. Department of Homeland Security. https://www.cbp.gov

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VII July 2026

25. World Bank. (2023). Malaysia economic monitor: Leveraging sustainability for growth. World Bank. https://www.worldbank.org
26. World Economic Forum. (2024). The global risks report 2024 (19th ed.). World Economic Forum. https://www.weforum.org