INTEGRATION OF SUSTAINABILITY-ORIENTED PRACTICES IN THE OIL PALM COOPERATIVES

PERFORMANCE: PROPOSAL OF A CONCEPTUAL MODEL

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Abstract: This study aims to build a conceptual model of cooperative performance by elucidating the concept and phenomenon of sustainability-oriented practices (SOP) as well as its outcomes on performance. Cooperatives are widely recognised as a democratically controlled and voluntarily joint member-owned-and-governed business. However, cooperative sector performance in Malaysia, only recorded minimal growth in revenue as evidenced by Cooperatives Sector Statistics Report 2018. This alarming statistic has motivated this study to be undertaken and to affirm the relevance of the cooperative sector to the nation’s socio-economic development in the longer term. This study focuses on oil palm cooperatives due to the various sustainability issues linked to palm oil industry such as transboundary haze, deforestation, loss of biodiversity, and forced labour practices that negatively alleged upon the industry. This conceptual study, therefore, identifies past literature that describe on phenomena and outcomes of sustainability orientation in business as a basis for developing an applicable model which depicts the influence of SOP for more exceptional oil palm cooperatives performance.

Keywords: cooperatives performance, oil palm cooperatives, palm oil industry, and sustainability practices

1. Introduction

In today’s globalised world, the performance of businesses is becoming more complex that relies on subjective and objective foundations and measurement, compensate with a broad multi-dimensional of activities. Several researchers (Alexander, 2018; Bititci, 2015; Ghalem, Chafik, Chroqui, & Alami, 2016; Nolop, 2015) asserted that performance measurement involves multi-dimensional improvement in product quality, competitiveness, innovativeness, efficiency, effectiveness, productivity, engagement, morale as well as capabilities, will lead to sustainable profit growth. However, businesses including cooperatives are commonly struggling to enhance their performance which are more focusing on future prospects in order to sustain business growth in line with mounting stakeholder’s demands (Corrigan & Rixon, 2017; Epstein, Verbeeten, & Widener, 2016; Freeman, 2015).

Specifically in measuring cooperative performance, previous studies (such as Aini, Hafizah, & Zuraini, 2012, 2013; Aini et al., 2014) have frequently used standard financial dimension such as profit growth, sales growth, return on assets (ROA), return on investment (ROI),
return on sales (ROS) or productivity. Indeed, the financial dimension is crucial because it represents the status, health and performance of cooperative and consequently, assists the cooperators in achieving its dual-pronged social and economic goals.

In Malaysia, cooperative sector performance is paramount because it is being regarded as the third engine of economic growth after the private and public sector (SKM, 2011). Through self-help efforts, cooperative as argued by many (Altman, 2010; Cheney, Santa Cruz, Peredo, & Nazareno, 2014; Dale et al., 2013; ILO and ICA, 2015; UN, 2017) is able to generate employment, reduce poverty as well as foster social integration. However, the revenue of cooperative sector has depicted an inconsistent and sluggish trend which resulted in the minimal growth of 0.2% in 2018, and 1.5% in 2017 compared to the previous year which contrary on the increasing numbers of cooperatives as exhibited in Table 1. On average, the cooperative assets marked positive growth over the last seven years, although in 2018, the growth reduced to 2.3%, as compared to 6.8% in the previous year. This weak revenue growth led the cooperative sector to only contribute RM40.3 billion in revenue or less than 3% of Malaysia’s GDP value RM1.4 trillion at current prices, indicating difficulty in achieving the 10% policy target by 2020 (SKM, 2018, 2019). It is worth noting that the performance of the Malaysian cooperative sector in comparison to other countries is critical because in Singapore, the cooperative sector contributed more than 5% to its GDP, while in Vietnam it was 26% and 19% in Thailand (ICA, 2018; The Star, 2018). Thus, the sluggishness of cooperative sector performance in terms of numbers, memberships, total assets and revenue growth has received considerable attention from the government, media and the public because it reflects the efficiency of the regulatory agency as well as the relevance of this sector to Malaysia’s socio-economic development.

Table 1: Cooperatives Status and Growth from the Year 2011 till 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Numbers of cooperatives</th>
<th>Growth (%)</th>
<th>Memberships</th>
<th>Growth (%)</th>
<th>Total assets (RM million)</th>
<th>Growth (%)</th>
<th>Revenue (RM million)</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>9,074</td>
<td>-</td>
<td>7,040,309</td>
<td>-</td>
<td>92,801.04</td>
<td>-</td>
<td>23,088.25</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>10,087</td>
<td>11.2</td>
<td>7,028,715</td>
<td>-0.2</td>
<td>100,406.19</td>
<td>8.2</td>
<td>31,095.70</td>
<td>34.7</td>
</tr>
<tr>
<td>2013</td>
<td>10,914</td>
<td>8.2</td>
<td>7,609,204</td>
<td>8.3</td>
<td>107,898.89</td>
<td>7.5</td>
<td>32,972.42</td>
<td>6.0</td>
</tr>
<tr>
<td>2014</td>
<td>11,871</td>
<td>8.8</td>
<td>7,409,547</td>
<td>-2.6</td>
<td>116,787.69</td>
<td>8.2</td>
<td>34,950.96</td>
<td>6.0</td>
</tr>
<tr>
<td>2015</td>
<td>12,769</td>
<td>7.6</td>
<td>7,491,191</td>
<td>1.1</td>
<td>123,276.79</td>
<td>5.6</td>
<td>33,557.91</td>
<td>-4.0</td>
</tr>
<tr>
<td>2016</td>
<td>13,428</td>
<td>5.2</td>
<td>7,066,222</td>
<td>-5.7</td>
<td>130,740.68</td>
<td>6.1</td>
<td>39,664.63</td>
<td>18.2</td>
</tr>
<tr>
<td>2017</td>
<td>13,899</td>
<td>3.5</td>
<td>6,553,597</td>
<td>-7.3</td>
<td>139,676.17</td>
<td>6.8</td>
<td>40,241.61</td>
<td>1.5</td>
</tr>
<tr>
<td>2018</td>
<td>14,247</td>
<td>2.5</td>
<td>6,060,732</td>
<td>-7.5</td>
<td>142,858.88</td>
<td>2.3</td>
<td>40,318.14</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Malaysia Cooperative Statistics, SKM (2011-2018)

In September 2015, 193 member-countries of United Nations (UN) concurred the agenda for Sustainable Development Goals (SDGs) by 2030 which has explicitly recognised cooperative sector as a critical player to achieve this agenda that sets a path to end poverty, protect the planet and ensure prosperity (Abdul Aris et al., 2018; Esim, 2017; ILO and ICA, 2015; UN, 2017). The UN is right to put its hope in the cooperative as a critical player of sustainability agenda given that 12% of world population is the cooperators accounted of 3 million cooperatives establishment while providing more than 100 million jobs or 10% of the employed population globally, as evidenced by data from the World Cooperative Monitor (ICA, 2019). The sustainability agenda has compelled businesses, including cooperatives, to adopt practices that balance economic, social and environmental dimensions (Elkington, 1998, 2013). Many scholars (Awan, Kraslawski, & Huiskonen, 2017; Chong, Ong, & Tan,
2018; Eccles, Ioannou, & Serafeim, 2011; Lourenço, Branco, Curto, & Eugénio, 2012; Sebhatu, 2009; Suriyankietkaew & Avery, 2016; Göran Svensson & Wagner, 2015a) posited that sustainability practices should be embraced by all businesses through efficiency programs that not only lower costs but also reduces the extraction of natural resources, while safeguarding employees well-being and safeguarding the livelihood of society at large.

Thus, this conceptual study will shed some light in finding answers to the alarming statistics regarding cooperative performance in Malaysia. In addition, as argued earlier, Malaysia’s aim to increase the contribution of the cooperative sector revenue to the GDP has yet to be successful. In this connection, there is a need to examine the influence of sustainability-oriented practices (SOP) on cooperative performance. Indeed, it is crucial to explore the conceptualisations of SOP as well as their indicators that effect on cooperative performance (Abdul Aris et al., 2018). Building upon above-mentioned reasoning, the objective of this study is to build a model of cooperative performance by conceptualising the influence of SOP on cooperative performance. This study commences with a review of the literature on cooperative performance. The next section elucidates further SOP and its outcomes on performance relationship, conceptual model and the theory that underpins the model. This study concludes by considering the theoretical and practical implications of the conceptual model, future research is identified, and the conclusion can be drawn.

2. Literature Review

In discussing the linkages between SOP and business performance, especially in cooperatives, it is pertinent to deliberate broad and multidimensional construct of business performance based on empirical evidence and study conducted in this field. This is then followed by the development of the conceptual model of SOP on oil palm cooperatives performance.

2.1 Cooperative Performance

Performance is not epiphany in the 21st century since it has been discussed in the earliest management principles involving practices that have evolved and enhanced in response to the global trends (Alexander, 2018). As argued by several scholars (Bititci, 2015; David & David, 2017; Issen & Harriot, 2012; Nolop, 2015) performance includes all activities that plan, assess, measure, improve, tracking, benchmark and execution of critical business practices across the organisation. Grüning (2002) conceptualised performance as the ability of a business to achieve goals, meet its expectations, and is therefore influenced by results in the broader sense, but also by the corresponding goal setting. Bititci (2015) implied that all organisations need performance measurement with the selection of indicators to ensure that results when measured could help improve target goal. In other words, performance is the result of how management achieve its goals.

However, the conceptualisation of performance measurement is multidimensional that depend upon various indicators for sustainable business growth. Gama (2011) posited performance measurement remains a vital issue in all businesses, and if properly conducted, it can have a major positive impact on performance. Commonly, performance measurement is divided into two dimensions, financial performance and broader operational performance criteria. In one hand, performance is measured based on two financial metrics which are accounting-based performance namely return on assets (ROA), return on investment (ROI), return on sales (ROS), and return on equity (ROE) as an objective way to gauge their business health, performance, and value (Matt Matrisian, 2015). While, the second metric is
market-based performance namely stock price, dividend pay-out, and earnings per share (Venkatraman & Ramanujam, 1986). On the other hand, broader operational performance dimensions which refers to the strategic approach by which a business chooses to compete usually include market share, product quality, delivery, flexibility, inventory, customer satisfaction, and product development (Narasimhan & Das, 2001; Uraon & Gupta, 2019; Venkatraman & Ramanujam, 1986).

From the cooperative performance perspective, as argued by Arcas et al. (2011), Azmah et al. (2012) and Cai, Ma, and Su (2016), the membership size, membership participation, and heterogeneity of the members are commonly studied predictors of cooperative performance. Correspondingly, several studies (‘Aini et al., 2012, Aini et al., 2014; Grashuis & Su, 2019; Hammad Ahmad Khan et al., 2016) concurred that members’ participation influence cooperative performance. In line with theoretical expectation, the advantages associated with a greater membership size of the cooperative, including economies of scale, higher negotiating power and ease of access to different resources (financial, human, marketing and technological), resulting into superior performance and competitive advantages. However, Cai et al. (2016) argued that increasing member size would bring potential risks to the cooperative performance resulting from members heterogeneities. Similarly, in Austria Pennerstorfer and Weiss (2013) also revealed the inverse U-shaped relationship of membership size of wine cooperatives to product quality and revealed a free-rider problem due to the heterogeneous product quality provided to the cooperatives. Cooperative’s operation is unique where it is based on the mutual principles and values in meeting member’s demand. As such, cooperatives are required to sustain its performance in order to achieve their dual social and economic objectives with the reasonable member’s participation.

Cooperatives performance has been conceptualized by researchers in many perspectives such as revenue (Abdul Aris et al., 2018; Grashuis, 2018), productivity (Chagwiza, Muradian, & Ruben, 2016; Vandeplas, Minten, & Swinnen, 2013), product quality (Grashuis, 2017; Pennerstorfer & Weiss, 2013) and farm-gate price (Alho, 2015; Chagwiza et al., 2016). However, several scholars (Alho, 2015; Shamsuddin, Mahmood, Ghazali, Salleh, & Nawi, 2018) determined that the financial dimension is crucial to indicate cooperative performance in general. Hammad Ahmad Khan et al. (2016) conceptualizes cooperatives’ performance in terms of profit growth and sales growth perspectives which are based on its intangible assets. Shamsuddin et al.(2018) proposed that five ratios for measuring cooperative performance, namely, liquidity, net fixed asset revenue, dividend, investment and corporative size. Abdul Aris et al. (2018) affirmed cooperative able to sustain its performance based upon financial dimension that includes current ratio, gross profit, net profit, return on assets (ROA), return on sales (ROS), return on equity (ROE), and net tangible asset. Grashuis (2018) suggested the formation of agricultural cooperatives may improve its performance by optimising sales and operating costs accurately, enhancing on bargaining power, product differentiation, as well as economies of scale. However, Chagwiza et al. (2016) revealed contradictions in the findings that cooperative formation has not benefited the dairy producers in Ethiopia. This contradictory finding indicates that cooperatives need to adopt to the latest technology to improve cooperative’s performance in terms of profitability, productivity and product quality that ultimately benefit their members (Chagwiza et al., 2016; Grashuis & Su, 2019).

Revenue growth is crucial for cooperatives, given that the revenue will eventually come back to the member as continuous refunds and dividends. In the context of revenue, it is the most straightforward representation of cooperative performance and how it remains in business. In
the case of the cooperative sector in Malaysia, its mainly dominated (94%) by small and micro-sized cooperatives (SKM, 2018a), and currently, most of the oil palm cooperatives have not yet been involved in the international business and shareholders’ equity, tangible and intangible investments. Thus, several items of financial performances such as return on investment (ROI) and ROE are irrelevant to oil palm cooperatives. Presently, the smallholders agree to join cooperative and sell their oil palm fresh fruit bunches (FFB) through the cooperatives, the sale of FFB increased since the higher volume of FFB will enforce the bargaining power by the cooperative to the millers (Ador, Siwar, & Ghazali, 2016; Omar, Jaafar, & Mansor, 2012). Before joining the cooperatives, independent smallholders are usually affected by a low-price scale for their FFB at collection centres or weighbridges where they were paid lower by the middlemen or dealers, who will then transport and sell their FFB to the palm oil millers. Thus, the smallholders’ income will increase by removing the middlemen or the dealers, which will typically incur extra fees on the sale price of FFB from the smallholder to the miller. This is consistent with the theoretical expectation that higher bargaining power will be obtained by combining agricultural outputs together with the agricultural producers. For this study, oil palm cooperatives performance is weighted upon its revenue in terms of sales and profit growth because it is standardized, widely accepted and commonly used in evaluating business performance, that ultimately relate to the benefits that cooperative provides to its members with the intention of the cooperative remains in the business while meeting its social aims.

The simple interpretation of productivity is the ratio of output to input. Several studies (Chagwiza et al., 2016; Vandeplas et al., 2013) used productivity or yield interchangeably to measure cooperative performance, especially in the agricultural sector. In the context of agricultural cooperatives, Vandeplas, Minten, and Swinnen (2013) discovered that farmers who were supplying to hawkers are less efficient and earn lower profits per dairy animal than farmers who were supplying to the cooperative and the multinational sector. Chagwiza et al. (2016) implied that cooperatives could be efficient business institutions, particularly in technological facilitation and referred productivity measured by milk production, milk productivity, the price per litre of milk, the price per kg of butter and the share of milk production that is processed at the household level.

In the case of Malaysian palm oil sector, in 2018 the FFB yield is 17.16 tonnes per hectare while crude palm oil yield is 3.42 tonnes per hectare (MPI, 2019). Although Malaysia has difficulties in meeting the crude palm oil yield policy target of six tonnes per hectare by 2020 due to fundamental factors such as weather conditions and labour shortage, the yield is expected to be increased through the implementation of sustainability certification, by strengthening collaboration between the cooperatives and the agricultural extension officer (Ador et al., 2016; Omar et al., 2012). Thus, productivity or yield of oil palm plantation is crucial to be considered as one of the cooperative performance dimensions. The above deliberations and considerations elucidate how oil palm cooperatives performance dimensions namely revenue and productivity or yield are determinedly selected and conceptualised along these lines of reasoning. In this connection, the term “performance”, “business performance” and “corporative performance” will be used as synonyms in this study. Along the same line, this study thus propose that cooperative performance should reflect these two dimensions, namely revenue and productivity or yield.

2.2 Sustainability-oriented Practices (SOP) and Business Performance Relationship

The emergent attention and fundamental theory of the sustainability concept are not new. It began over the last three decades, during the high-level meeting of World Commission on
Environment and Development (WCED) in 1987, which defined sustainable development as development that meets the needs of the present generation while considers the future generations’ needs” (Brundtland, 1987). In the context of sustainability, John Elkington (1998) has coined conceptualisation of sustainability as the integration and the needs of long term balance between three dimensions, namely economic, social, and environment or “Triple Bottom Line” (TBL) or 3Ps (People, the Planet, and Profit) (Elkington, 1998, 2013). The similarities of aspirations between sustainability concept and the cooperative objectives are undisputable because both are generating long-term social and economic prosperity rather than just profit maximisation (Abdul Aris et al., 2018; Duguid et al., 2013; UN, 2017).

Majority of business organisations have embraced sustainability practices efforts in their reporting, that informed the stakeholders how actually sustainability practices lead to the improvement of business performance. In line with the Porter hypothesis, which indicates that practices related directly to sustainability and environmental protection decrease costs because business consequently reduces the inputs they use (Porter & Linde, 1995). Thus, as argued by Gutiérrez-Martínez and Duhamel (2019), and Schulz and Flanigan (2016) sustainability practices generate revenues from better products by optimising resources, and it provides positive influence through purchasing activities, workforce loyalty and public sentiments which foster competitive advantages. Building upon arguments by Boons et al. (2013), Cantele and Zardini (2018) and Lourenço et al. (2012), for the purpose of finding a long term competitiveness advantages, the business that vigorously involved in promoting SOP increasingly has a competitive advantage compared to their rivals through the improvement of sustainable reputation.

The importance of SOP for businesses is vital in achieving superior business performance, growth and survival because it will urge the business managers to innovate and compete among their rivals across the globe for limited natural resources. To date, the plethora of empirical studies have examined the positive and significant outcome of multi-dimensional SOP as predictors on various business performance, in terms of capital investment (Lourenço et al., 2012), stock market and accounting performance (Eccles et al., 2011), competitive advantages (Cantele & Zardini, 2018; Gutiérrez-Martínez & Duhamel, 2019; Remaud et al., 2012), financial performance (Beck, Frost, & Jones, 2018; Gadenne, Mia, Sands, Winata, & Hooi, 2012; Han, Kim, & Yu, 2016; Laskar, Chakraborty, & Maji, 2017; Stroufe & Gopalakrishna-Renami, 2018; Weber, 2017; Weber, Koellner, Habegger, Steffensen, & Ohnemus, 2008), economic performance (Tarmuji, Maelah, & Tarmuji, 2016), and business performance (Chong et al., 2018). However, many scholars (Anisul Huq, Stevenson, & Zorzini, 2014; Awan et al., 2017; Sajjad, Jillani, & Raziq, 2018; Tarmuji et al., 2016; Winnard, Adcroft, Lee, & Skipp, 2014; Xiao, Wang, van der Vaart, & van Donk, 2018) have argued that empirical studies on SOP beyond western countries appear to be virtually in dearth specifically in the context of cooperative sector.

Moreover, study on SOP adopted by the cooperative in Malaysia is underexplored; for example, the studies on cooperatives since 2007 till 2018, are explicitly focusing on the membership participation (‘Aini et al., 2012; Aini et al., 2014; Azmah et al., 2012; Yacob et al., 2018), laws and policy (Manap & Tehrani, 2014), cooperative performance (A. Othman, Mansor, & Kari, 2014; Sallehuddin et al., 2017; Shamsuddin et al., 2017, 2018) and governance issues (Bidin, 2007; Intan Waheedah, Maslinawati, & Azizah, 2013; Mohamad & Othman, 2013; A. Othman et al., 2014; I. W. Othman, Mohamad, & Abdullah, 2013). Thus far, one study by Abdul Aris, Madah Marzuki, Othman, Abdul Rahman, and Hj Ismail (2018) has designed holistic indicators aiming to assist cooperative in assessing its sustainability...
practices. Therefore, the lack of attention on sustainability practices in the context of cooperatives in Malaysia has provided an opportunity to examine and understand extensively on this matter.

In tandem with sustainability hypothetical, corporate social responsibility (CSR) is defined similarly as context-specific organizational actions and policies that take into account stakeholders’ interests to balance social, economic and environmental efforts (Aguinis & Glavas, 2012). Given the concept of SOP and CSR are involving similar multidimensional approaches, they have been normally considered interchangeably by both scholars and practitioners (Aguinis & Glavas, 2012; Fassin & Van Rossem, 2009). For the purpose of this study, SOP is conceptualised in terms of two dimensions, namely social and environmental, to improve overall performance of oil palm cooperatives. Thus, the terms “sustainability practices”, “CSR practices” and “SOP” are used interchangeably, but SOP is the main focus and used consistently in this study.

### 2.3 Towards a Conceptual Model of SOP on Oil Palm Cooperatives Performance

From the empirical studies as discussed in the previous section, it can be summarised that SOP is one of the possible ways to generate positive financial aims or improving the financial performance of all types of businesses including cooperative. Although SOP commonly consists of four dimensions, namely social, economic, environmental, and governance (GRI, 2015), this section attempts to focus and elucidate two dimensions of sustainability which are social and environmental that are more relevant in the context of oil palm cooperatives.

Firstly, the social dimension of SOP is weighted on the practices that create and equitably distribute value with fundamental rights, as well as improve societal condition among its members. In Malaysia oil palm smallholding scheme, Abazue, Er, Ferdous Alam, and Begum (2015) empirically examined the social dimension of SOP in terms of improvement of their social position, CSR implemented by the plantation management to improve the social lives of smallholders, the quality of life and health status, the quality of education incentives, and participation in decision making. Abazue et al. (2015) revealed 76% of respondents strongly agreed that CSR activities by plantation management help to improve their social lives. However, only 44% of respondents indicated that their social position had been enhanced after joining oil palm smallholding scheme. Abazue et al. (2015) concluded that oil palm plantation, which is managed effectively has the potential to address social issues related to high unemployment and poverty, especially in rural areas. For this conceptual study, items under the social dimension adapted from the work by Reverte, Gómez-Melero, and Cegarra-Navarro (2016) are modified to suit the oil palm cooperative’s social practices that treated both, its workforce and members interest together. Among these ten items under the social dimension of the SOP relevant to oil palm cooperatives as exhibited in Table 2.

Secondly, environmental dimensions of SOP consist of efforts undertaken by cooperative as exhibited in Table 2. The eight items to measure the environmental dimension of SOP are adapted from the study by Reverte et al. (2016). For the reason that oil palm plantation has been linked with the environmental issues, namely deforestation, the loss of biodiversity, wildlife protection, and unexpected hazards such as periodic haze due to forest fires, SOP that aimed to address these environmental issues are intrinsically considered under this dimension (A. S. A. Ferdous Alam, A. C. Er, and Halima Begum, 2015; Pye, 2018). At the moment, Malaysia has a constraint in terms of new arable land available for palm oil plantation. In 2017, it was estimated that oil palm had cultivated almost 52% of the total agricultural land (10.94 million hectares) throughout the country (Nambiappan et al., 2018). Given that arable
land available in Malaysia is near to the limit, Malaysia must stop expanding oil palm cultivation. In this regard, the government agreed to cap the oil palm plantations areas at about 6.5 million hectares by 2023 (Ayish Yusof, 2019). For what is worth, Malaysia needs to fully utilise all the arable land available, especially land owned by the smallholders with the highest yield.

Table 2: The SOP of Oil Palm Cooperatives based on Social and Environmental Dimensions

<table>
<thead>
<tr>
<th>Social</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) to what extent the cooperative supporting the employment of disabled people and people at risk of social exclusion.</td>
<td>a) minimisation of environmental impacts from its plantation.</td>
</tr>
<tr>
<td>b) professional development for the employees.</td>
<td>b) investment in sustainability programmes.</td>
</tr>
<tr>
<td>c) adherence with labour-related standards (risks, health, safety and hygiene programmes).</td>
<td>c) optimisation of oil palm by-products.</td>
</tr>
<tr>
<td>d) creation of employment opportunities.</td>
<td>d) participation in activities that are implemented to protect and improve the natural environment.</td>
</tr>
<tr>
<td>e) implementation of human resource policy in facilitating the employees’ work-life balance.</td>
<td>e) reductions in waste generated.</td>
</tr>
<tr>
<td>f) consideration feedbacks from employees and members in critical decision making.</td>
<td>f) improvement of recycling efforts.</td>
</tr>
<tr>
<td>g) commitment towards improving the wellbeing of the cooperative members and employees.</td>
<td>g) promotion and adoption of palm oil sustainability certification scheme (MSPO) and good agricultural practices (GAP).</td>
</tr>
<tr>
<td>h) participation in social projects to the cooperative members and the surrounding community (sponsorship, charity, and so forth).</td>
<td>h) the usage of modern agricultural technology which is environmentally friendly, as well as mechanisation and automation in its plantation.</td>
</tr>
<tr>
<td>i) improvement of the cohesiveness among its members.</td>
<td></td>
</tr>
<tr>
<td>j) provision of equal opportunities for all members and employees without discrimination.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher’s own compilation

Furthermore, the current market orientation of palm oil industry is shifting towards sustainability efforts because of the grave concern about the sustainability of palm oil production in many essential export markets, most notably in the European Union (EU) and United States (US). Due to the issues of sustainability, the tariff barriers are being erected against the palm oil-based products. Furthermore, the sustainability action is magnified in other continents when the market access is to be restricted due to the sustainability provision for biofuels in the EU region (Gan & Li, 2014; Nambiappan et al., 2018). However, the Malaysian government has instigated ongoing efforts to overcome the negative allegations on a sustainable issue associated with the palm oil industry including the mandatory compliance of the Malaysian Sustainable Palm Oil (MSPO) certification scheme by 2020 (Ahmad Kushairi, 2017). On this matter, the government should give priority on independent smallholders who lack the financial and technical capacity to comply with sustainability practices and obtain certification scheme to its oil palm plantation (Ador et al., 2016; Shaufique, 2017).

It is worthwhile to be noted that the social dimension of SOP is pivotal in the cooperative establishment because it wants to create a good reputation and image to influence its stakeholders - members, customers, clients, partners and competitors. Although it does not affect the cooperative financial performance immediately, it can still be to satisfy the interests and needs of the members in the long run. Indeed, the SOP will be well performed when it can reduce the cooperative’s exposure to uncertain risks, make it more resilient and increase its performance. Engaging in SOP is one of the primary mechanisms which a business may
foster stakeholder relationships. In tandem with stakeholder theory by Freeman (1984), it is conceptualised that the stakeholders’ influence and trust will accumulate, when a business engages in socially responsible practices regularly. Furthermore, the stakeholder view posited that when a business satisfies the social, and environmental needs of its key stakeholders, this will positively affect its financial performance, thus supporting the positive correlation on the relationship between social and environmental practices and financial performance (Donaldson & Preston, 1995). Thus, stakeholder theory is shedding some lights on the importance to consider the interests of all the stakeholders as business performance depends on the ability of the organisation to meet and strategically manage the needs of their stakeholders even when there exist contradictions. Given that businesses are urged by their stakeholders to position themselves ahead in sustainability agenda, it is therefore crucial to identify the SOP as the capable variables that will lead the businesses including cooperatives in pursuing exceptional performance.

Thus, this conceptual study formulates the following conceptual model: whether the effect of SOP is positively influencing the cooperative performance. Following these lines of reasoning and using the literature as earlier discussed, the conceptual model of cooperative performance by elucidating the concept and phenomenon of SOP as well as its outcomes on performance is developed as exhibited in Figure 1. The preceding discussions thus lead to the following hypotheses:

a) Hypothesis 1: There is a significant and positive relationship between the overall SOP (social and environmental dimensions) on cooperative performance.
b) Hypothesis 1a: There is a significant and positive relationship between the social dimension of SOP on cooperative performance.
c) Hypothesis 1b: There is a significant and positive relationship between the environmental dimension of SOP on cooperative performance.

![Figure 1: Conceptual Model of Oil Palm Cooperatives Performance](image)

3. Conclusion

The significant contribution of this conceptual study is to propose a relationship between outcomes of SOP and oil palm cooperatives performance. The proposed model represents a
conceptualization about these constructs linked together to influence cooperative performance. Furthermore, sustainable development issues (such as urbanisation, population ageing, political and technology disruption, climate change, desertification, natural resources and raw materials depletion, water scarcity, waste disposal, environmental degradation, and so forth) have driven all businesses including cooperative to address these issues through the concerted implementation of SOP. For researchers, this conceptual study provides an important avenue to consider a predictive model of cooperative performance based on existing theories and literature. Although it is not a panacea, this model moves the field closer to understanding the fact that sustainability practices may predict cooperative performance. In terms of theoretical contribution, this conceptual study will extend the cooperative performance, stakeholder theory and sustainability literature by understanding the relationship between SOP and cooperative performance.

This proposed conceptual model has two implications: The first implication is a desire to achieve a balance in all dimensions of SOP towards higher cooperative performance. Without a clear understanding to compensate for these dimensions, the implementation of SOP will lose focus and productivity. Achieving congruence between the dimensions of SOP that significantly affect cooperative performance, the board members of the cooperative should be engaged in shaping and governing the organisation to achieve its two-pronged economic and social objectives. This can be accomplished by ensuring that the cooperative receives full support from its members through practical and just decision-making, while ensuring the achievement of its various activities. Additionally, the cooperative should be ready and match up the sustainability challenges facing the cooperative movement and palm oil industry. Secondly, the oil palm cooperatives should be viewed as a sustainable entity that creates value for smallholders and rural communities. This value creation can be implemented with the help from agricultural extension services because they are intermediaries between government, research institution and smallholders in acquiring and to use the knowledge, skills and attitudes effectively in farming activities towards better productivity in agricultural sectors and livelihood of rural societies. In other words, agricultural extension services have been argued by Aderinto, Agbelemoge, and Dada (2017), Albore (2018), Ali (2013) and Ubochioma, Pascal, and Agu (2018) to play the crucial roles especially in Africa and Asia continent, in improving all types of agricultural production, productivity as well as sustainability practices towards socio-economic betterment of the smallholders or farmers. Thus, further study should consider the role of agricultural extension services and its effects on the cooperative performance model.

Moreover, future research on the topic needs to continue along these three critical paths. Firstly, the model needs empirical research to examine and affirm the relationship of the primary constructs and corresponding dimensions. Secondly, a comparative study is required to assess the key similarities and differences between cooperatives that operate in different industries such as credit/finance, housing, transportation, tourism, and services as well as other types of businesses that have dual objectives or similar operations like a cooperative. Thirdly, while this conceptual model has initiated a vital exploration and refinement of the primary constructs in the context of oil palm cooperatives, it is necessary to extend this model to include variable such as innovativeness that may be relevant to enhance cooperative performance.

References


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