

**A CASE STUDY ON PERFORMANCE
MANAGEMENT SYSTEM TO SUPPORT CSR
STRATEGIES**

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**A CASE STUDY ON PERFORMANCE
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STRATEGIES**

by

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TABLE OF CONTENTS

ACKNOWLEDGEMENT	ii
TABLE OF CONTENTS	iii
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x
LIST OF APPENDICES	xi
ABSTRAK	xxii
ABSTRACT	xiv
CHAPTER 1 INTRODUCTION	1
1.1 Introduction.....	1
1.2 Background of The Study	1
1.3 Case Company.....	9
1.3.1 Laws and Regulations.....	10
1.3.2 PurpleCom.....	11
1.4 Problem Statement.....	13
1.5 Research Objectives.....	17
1.6 Research Questions.....	17
1.7 Theoretical Framework.....	18
1.8 Research Methodology.....	20
1.9 Significant of The Study	21
1.9.1 Theoretical Contributions.....	22
1.9.2 Practical Contributions.....	22
1.10 Organizational of The Thesis.....	23

CHAPTER 2 LITERATURE REVIEW.....	24
2.1 Introduction.....	24
2.2 Corporate Social Responsibility (CSR).....	24
2.2.1 CSR and Sustainability Development Goals (SDGs).....	28
2.2.2 CSR in State Owned Oil and Gas Company in The Country.....	31
2.2.3 CSR's Strategies.....	41
2.2.4 Formulation of CSR's Strategies.....	44
2.3 Stakeholders.....	50
2.3.1 Stakeholder's Demands in CSR Practices.....	56
2.4 Stakeholder Theory Concept for Corporate Social Performance.....	59
2.4.1 Stakeholder Saliance Concept in CSR Practices.....	63
2.5 Performance Management Systems (PMS).....	67
2.5.1 PMS, CSR Strategies, Stakeholder's Demands for CSR Practices....	70
2.6 Summary.....	77
CHAPTER 3 THEORETICAL FRAMEWORK.....	79
3.1 Introduction.....	79
3.2 Socially Responsible Planning and Control Framework by Cresti	79
3.3 Ferreira and Otley's Performance Management System Framework.....	83
3.4 The Proposed Theoretical Framework.....	85
3.5 Summary.....	94
CHAPTER 4 METHODOLOGY.....	96
4.1 Introduction.....	96
4.2 Ethical Issues in This Study.....	98
4.3 Research Methodology.....	99
4.3.1 Type of Research.....	100

4.3.2	Research Paradigm.....	102
4.3.3	Ontology and Epistemology.....	107
4.3.4	Axiology, Logic, and Rhetoric.....	108
4.4	Qualitative Approach.....	109
4.4.1	The Case Study Method.....	111
4.4.2	Research Design.....	114
4.4.3	Getting Acces to The Company.....	115
4.4.4	Data Collection Method.....	116
	4.4.4(a) Designing The Interview Questions.....	117
	4.4.4(b) The Administrations of Interviews.....	119
	4.4.4(c) Other Sources of Data.....	123
4.4.5	Data Analysis.....	124
	4.4.5(a) Transcribing and Developing Explanations.....	129
4.5	Summary.....	130
	CHAPTER 5 FINDINGS.....	133
5.1	Introduction.....	133
5.2	The Case Company - PurpleCom.....	133
5.3	The Establishment of CSR Department at PurpleCom.....	135
5.4	Stakeholder's Involvement in CSR's Strategies Formulation.....	142
	5.4.1 The Involvement and Requirements from The Government.....	145
	5.4.2 The Involvement and Requirements from Local Communities.....	149
	5.4.2(a) The Result from Formulation of CSR's Strategies.....	152
5.5	The Use of PMS in Implementing CSR's Strategies.....	154
	5.5.1 The Integration of PurpleCom's Vision and Missions to CSR's Strategies (Identity Stage).....	156

5.4.2(a) The Result from Formulation of CSR's Strategies.....	152
5.5.2 Planning the CSR Programs and Adjustment of CSR Strategies Periodically (Planning Stage).....	163
5.5.3 The Execution of CSR Strategies and Programs (Managing Stage)..	173
5.5.4 Measuring The Achievement of CSR Programs (Measuring and Target Setting Stage).....	176
5.5.4(a) Setting The Targets.....	176
5.5.4(b) Measurement and Appraisal.....	179
5.5.5 Performance Evaluation and Reward System (Performance and Evaluation Stage).....	185
5.5.5(a) Monitoring and Evaluation.....	185
5.5.5(b) Reward System.....	187
5.5.6 Summary.....	191
CHAPTER 6 THEORETICAL ANALYSIS OF CASE FINDINGS	195
6.1 Introduction.....	195
6.2 Salient Stakeholders, CSR Strategies, and PMS.....	195
6.2.1 The Ministry of SOE.....	197
6.2.2 Local Communities.....	200
6.2.3 The Ministry of Environment and Forestry.....	202
6.3 Managerial Stakeholder Theory and The Influence of Stakeholders on CSR's Strategies.....	204
6.3.1 Command, Enforce Choice, and Proactive CSR's Strategies.....	206
6.3.2 Deliberate, Enforce Choice, and Proactive CSR's Strategies.....	211
6.4 Role of Salience Stakeholder in Implementation of CSR Strategies Through PMS.....	214
6.5 Summary.....	229
CHAPTER 7 CONTRIBUTIONS AND LIMITATIONS OF STUDY.....	230
7.1 Introduction.....	231

7.2	Recapitulation of Findings.....	231
7.3	Theoretical Contributions.....	234
7.4	Practical Contributions.....	238
7.5	Limitations and Suggestions for Future Research.....	241
	7.5.1 Limitations of Study.....	241
	7.5.2 Suggestions for Future Research.....	242

LIST OF TABLES

	Page
Table 1.1	The Disbursement of CSR Funds in PurpleCom 13
Table 2.1	National Definition of SOEs in Asia..... 32
Table 2.2	Stakeholder’s Groups and Issues and its Impact to The Company 53
Table 3.1	Ferreira and Otley’s (2009) PMS’s Framework: 12 Questions 84
Table 4.1	Summarized The Research Objectives and Research Questions 97
Table 4.2	The Four Paradigms of Research 103
Table 4.3	Summarization of Four Paradigms and Assumptions 106
Table 4.4	Interviews Designations Classified According to Hierarchical 121
Table 4.5	The List of Documents Reviews 123
Table 4.6	Research Questions, Data Sources, and Justifications 125
Table 5.1	The Result of CSR’s Strategies (Road Map 2011-2015)..... 153
Table 5.2	Performance Indicator 2016 and 2017 of PurpleCom 180

LIST OF FIGURES

	Page
Figure 2.1	An Overview of The Five State Ownership Models (OECD, 2016) 36
Figure 2.2	Stakeholder Map of A Large Organization Around Major Issues 55
Figure 3.1	The Proposed Framework of This Study 90
Figure 5.1	The Formulation of CSR's Strategies 152
Figure 5.2	The Proces of Translation from Vision and Missions To Work 160
Figure 5.3	Top-Down Approach for CSR Strategies 170
Figure 5.4	The Adjustment of CSR Strategies in 2018 173
Figure 5.5	Formulation of CSR Strategies, and The Way of PMS Used 190
Figure 6.1	The Development of CSR Strategies at CSR Department 210
Figure 6.2	The Demands from The Key Stakeholders in CSR's Practices 225
Figure 6.3	The Implementation of CSR's Stretegies Through PMS..... 227

LIST OF ABBREVIATIONS

CSR	Corporate Social Responsibility
BOC	Board of Commissioner
BOD	Board of Director
ESC	Expectation Setting Conversation
HDI	Human Development Index
IPC	Individual Performance Contract
KPI	Key Performance Indicator
MCS	Management Control System
MDGS	Millennium Development Goals
MOR	Marketing Operation Region
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
RU	Refinery Unit
PMS	Performance Management System
SOE	State Owned Enterprise
SDGS	Sustainability Development Goals
UN	United Nations

LIST OF APPENDICES

- APPENDIX A LIST OF INTERVIEWEES
- APPENDIX B LIST OF INTERVIEW'S QUESTIONS
- APPENDIX C CERTIFICATE OF PROOFREAD
- APPENDIX D LIST OF PUBLICATIONS

KAJIAN KES MENGENAI SISTEM PENGURUSAN PRESTASI UNTUK MENYOKONG STRATEGI CSR

ABSTRAK

Keperihatinan pihak berkepentingan yang semakin meningkat mengenai pengurusan aktiviti social dan persekitaran mempunyai implikasi penting terhadap amalan CSR. Penyisipan masalah sosial dan persekitaran ke dalam strategi syarikat dan penyebaran sistem pengurusan prestasi menjanjikan pelaksanaan prinsip keberlanjutan yang lebih efektif, terutama praktik CSR. Kajian ini bertujuan untuk memeriksa proses perumusan strategi CSR dan penggunaan PMS dalam menerapkan strategi CSR yang menampung kepentingan pihak berkepentingan. Objektif khusus kajian ini adalah untuk memeriksa: (i) siapa pemegang kepentingan utama, keperluan mereka berkaitan dengan aktiviti CSR dan bagaimana kepentingan mereka dipertimbangkan dalam perumusan strategi CSR, dan (ii) bagaimana Sistem Pengurusan Prestasi digunakan untuk melaksanakan strategi CSR. Kaedah kajian kes tunggal digunakan dalam penyelidikan ini. Syarikat yang dipilih, PurpleCom, adalah syarikat minyak dan gas nasional yang dimiliki sepenuhnya oleh pemerintah, dan dengan demikian keberadaannya dimaksudkan untuk membantu pemerintah memberikan sumbangan terhadap pembangunan ekonomi negara, termasuk untuk mendukung pencapaian SDGs pada tahun 2030. Data dikumpulkan melalui wawancara separa berstruktur, tinjauan dokumen, dan perbualan tidak rasmi. Kajian ini telah menggunakan cabang pengurusan teori pemangku kepentingan, kerangka perancangan dan kawalan Cresti (2009), dan kerangka sistem pengurusan prestasi Ferreira dan Otley (2009) untuk menganalisis data. Sebagai syarikat milik Negara, PurpleCom berkomitmen untuk melakukan aktiviti CSR yang meningkatkan

kesejahteraan masyarakat di negara ini, dengan memenuhi permintaan para pemangku kepentingan utamanya. Hasil kajian menunjukkan bahawa pihak berkepentingan utama PurpleCom adalah Kementerian Syarikat Milik Negara, masyarakat setempat, dan Kementerian Alam Sekitar dan Perhutanan, dan kepentingan mereka telah dipertimbangkan secara serius selama perumusan strategi CSR di PurpleCom melalui penglibatan berterusan. Kementerian Syarikat Milik Negara memiliki kekuatan yang paling padu, dengan undang-undang dan peraturannya yang mendorong PurpleCom untuk melaksanakan amalan CSR yang dianggap sebagai salah satu persembahan syarikat. Perkembangan strategi dan aktiviti CSR jabatan CSR di PurpleCom beralih dari reaktif (sebelumnya 2011) ke proaktif (pasca 2011) ketika perusahaan menanggapi permintaan yang semakin meningkat dari pihak berkepentingannya yang dicerminkan oleh keperluan undang-undang dan peraturan yang lebih tinggi. PMS digunakan dalam pelaksanaan strategi CSR di PurpleCom, dengan pertimbangan serius diberikan kepada permintaan pihak berkepentingan utama dalam setiap elemen PMS (identiti, perencanaan, pengurusan, pengukuran, dan maklum balas / peningkatan) di mana tujuan akhirnya adalah untuk mencapai sosial dan prestasi persekitaran.

A CASE STUDY ON PERFORMANCE MANAGEMENT SYSTEM TO SUPPORT CSR STRATEGIES

ABSTRACT

The increasing concern by stakeholders regarding the management of social and environmental activities has important implications on the practice of CSR. The embedment of social and environmental issues into the corporate strategy and the deployment of performance management system promises a more effective implementation of sustainability principles, particularly CSR practices. This study aims to explore on the formulation process of CSR strategies and the utilization of PMS in implementing CSR strategies that accommodate stakeholders' interests. The specific objectives of this study are to examine: (i) who are the key stakeholders, their requirements with regards to CSR activities and how their interests are being considered in the formulation of CSR strategies, and (ii) how the Performance Management System (PMS) is used to implement CSR strategies. A single case study method is used in this research. The company selected, PurpleCom, is a national oil and gas company wholly owned by the government, and thus its existence is intended to help the government to contribute to the development of the country's economy, included to support the achievement of SDGs in 2030. The data is collected through semi structured interviews, document reviews, and informal conversations. This study has employed the managerial branch of stakeholder theory, Cresti's (2009) planning and control framework, and Ferreira and Otley's (2009) performance management system framework to analyze the data. As an SOE, PurpleCom is committed to conduct CSR activities that improve the welfare of people in the country, by accommodating the demands of its key stakeholders. The findings reveal that the key stakeholders of

PurpleCom are the Ministry of SOE, local communities, and the Ministry of Environmental and Forestry, and their interests have been seriously considered during the formulation of CSR strategies in PurpleCom through continuous engagement. The Ministry of SOE has the most cohesive power, with its laws and regulations that push PurpleCom to implement CSR practices which is considered as one of the company's performances. The development of CSR strategies and activities of CSR department in PurpleCom moved from reactive (prior 2011) to proactive (post 2011) as the company responded to intensifying demands from its stakeholders reflected by higher requirements of laws and regulations. PMS is utilized in the implementation of CSR strategies in PurpleCom, with serious consideration given to the key stakeholders' demand in each of the PMS elements (identity, planning, management, measurement, and feedback/improvement) where the end goal is to achieve social and environmental performance.

CHAPTER 1

INTRODUCTION

1.1 Introduction

In this chapter the background of the study, problem statement, research objectives, research questions, significance of the study, theoretical framework, and research methodology are explained. The chapter begins with a brief background of the study and is followed with some background on the CSR in oil and gas companies in the country. The chapter ends with some brief explanations of the contributions and research methodology of this study

1.2 Background of The Study

United Nations (UN) in 2015, has launched The Sustainable Development Goals (SDGs) Agenda of 2030, and, this agenda, is become part of the business environment with 17 SDG's, the 169 specific targets and the thousands of indicators represent a long term political framework for business to contribute to sustainable development (SDG Compass, 2016; Business and Sustainable Development Commission, 2017; World Economic Forum, 2020; Pedersen, 2018; Claro and Esteves, 2020). Interrelated goals that aim to reduce poverty, protect the environment, and enhance prosperity for all, and adopted by 193 countries. UN asked the organizations (companies) all over the world to involve with SDGs for two main reasons. First, most companies generate negative result that must be avoided or minimized (Fukuda-Parr, 2016; Scheyvens et al., 2016; Toppo et al., 2017; World Economic Forum, 2020; Claro and Esteves, 2020). Second, companies can enhance business performance and their development, while help the people or communities by delivering solutions aligned with the SDGs. Thus, involving the SDGs in company's business strategy could be help to community's development

and companies' positive performance (Business and Sustainable Development Commission, 2017; Claro and Esteves, 2020). In another word, engaging the SDGs in 2015 showed a new paradigm in development through the support of businesses to assist to sustainable development together with governments for the communities (Fukuda-Parr and McNeill, 2015; Buhmann et al, 2019).

Since the signing of the goals in September 2015 the 193 countries as UN members stated begun to develop and implement SDGs plans at national level. In July 2016, the first 22 countries volunteered to present their plans. Then, in July 2017, 44 more countries, including two countries in South East Asia, presented their plans and the rest of the UN members states are due to follow in develop and implement SDG plans each year until 2030 (Pedersen, 2018). They outline exactly that long-term guideline for what will be needed, accepted and supported by societies in the coming decades and therefore, consequently, what will be demanded by the markets long term. According to Pedersen (2018), The SDGs implementation plans are set to guide and drive country specific focus areas, policies, regulations, financing, stimulus programs, awareness campaigns and many other activities aimed at delivering to the achievement of the SDGs at national level. Progress reporting and review of the national plans is set to take place at the UN over a 5 years cycles.

The business entity, needs to strategize themselves for achieving SDGs by 2030, through CSR's implementation. This implementation requires the innovation to create the CSR' programs that are capable and suitable to achieved SDGs. It is only through an active and holistically planned CSR program that an effective positive social impact can be created. National and multinational company can contribute towards these goals, by utilizing not just using their capital, but also their technology, research, knowledge and innovation (KPMG, 2017). The SDGs are tailored for companies looking to

integrate sustainability into their business plans, and its targets can be translated into a national context and framed to comply with national regulatory requirements while addressing sustainability specific to time (ElAlfy et al, 2020).

In order to support and commit to the SDGs, in 2017, government issued the President Decree to set the targets for the long-term national development of year 2015-2030 included in adjusted mid-term national development plan (period 2015-2019) which is in line with SDGs. These long term national development targets aim to maintain an increase in economic welfare society in a sustainable manner, maintain the sustainability social life of community, maintain the quality of environment, realization of capable governance to keep improving the quality of life from people's generations; The targets of this long-term national development is used as a guideline for (1) ministries or agencies to prepare, implement, monitor and evaluate each term of this targets, in accordance with their duties; (2) governors in every province to implement the activities in supporting the appropriate SDGs with regional development targets; (3) and reference for Non-Governmental Organizations (NGO), Philanthropy, Business actors, academics, and other stakeholders in arrange plans, implement, monitor, and evaluate the SDGs (President Decree No. 59, 2017)

The implementation of sustainable development needs the active engagement of both the public and the private sectors, that is why the importance of corporate social responsibility and responsible business practices, such as those promoted by the United Nations Global Compact, should be taken into account. Corporate sustainability reporting and continuous improvement of accountability and transparency should be promoted (United Nations General Assembly, 2012, p 9). As the public sector, State Owned Enterprises (SOEs) are large business entities in which all or a majority of its capital is owned by the state, and, they controlled by the Ministry of SOEs. SOEs in

the country are responsible for two main objectives that related to the SDGs, i.e. economic objectives and social objectives. For the first objective (economic objective), the SOEs are required to contribute to the development of the national economy through the profit that they earn. On the other hand, the second objective (social objective) ensures corporate social and environmental responsibility practices are carried out by the SOEs. Thus, SOEs in the country are not only in business for profitability but should also pay attention to the social and environmental aspects related to their operations. This is essential to avoid or reduce a negative impact caused by their activities in the communities.

Behringer and Szegedi (2016) states, CSR of the company is a business model which provides business contributions to sustainable development i.e, it creates to focus on triple bottom line; focus on economic interests, concern to environmental aspects, and social aspects by integrating the concept of Sustainable Development into the company's business strategy. CSR can be categorized to be an integral part of sustainable development (World Business Council for Sustainable Development, 2000). Other notion, said that corporate sustainability is the company version of sustainable development, while CSR is a voluntary managerial approach to sustainable development (Steurer et.al, 2005); therefore, according to United Nations Global Compact (2013), CSR and corporate sustainability can be used as synonyms.

As we know, today's organizations are under pressure to be more concerned and transparent in their management of social and environmental activities (Seger et al., 2000; Burnett and Hansen, 2008; O'Dwyer, 2002, 2005; Perego and Hartmann, 2009). Thus, many business organizations, especially SOEs, are faced with increasing pressure to manage their Corporate Social Responsibility (CSR) efficiently and effectively, to achieve the SDGs in 2030, as their main objective. Generally, CSR is the formal

integration of social and environmental concerns into business operations, including interactions with stakeholders. For now, CSR is something important for many large companies in the country, particularly those whose activities directly affect natural resources (The Ministry SOE regulation). For example, the activities from oil and gas company, can give the benefit to the economy of the country, although they can also give a negative impact on local environment and the society. This negative impacts have led to increased stakeholder pressure from people demonstrations, non-governmental organizations and community surrounding the area of company (Kapelus, 2002, Lindman et al, 2020).

The implementation of CSR programs and activities can bring social benefit and legitimacy for the company. One way of optimizing the implementation of CSR programs and activities is to follow up and consider the feedback of the stakeholders into managerial decision making and management processes (Baker and Schaltegger, 2015; Karen and Maas, 2016; Petkeviene, 2015). In order to the improvements in social and environmental performance to be translated into long-term shareholder value, organizations will need to ensure that their associated activities are fully integrated into their strategic processes (Adams and McNicholas, 2007; Perez et al., 2007).

Thus, the concerns and objectives of the stakeholders are important aspects that need to be considered when integrating CSR elements into business operations and activities (Gomez et al. 2010). Over the years, companies have been facing greater expectations from the society in terms of social and environmental issues. Such significant pressure on the aforementioned issues have driven organizations to find ways in optimizing their CSR activities (Petkeviene, 2015). The pressure from various stakeholder groups and the competitive conditions of the market provide the impetus for organizations to embark on their CSR practices. Many companies are now releasing

CSR reports to provide some understanding to their stakeholders, not only on their CSR performance, but also as to how this achievement is obtained (Abdala and Siti-Nabiha, 2015)

The Ministry of SOEs of the country evaluates the performance of the SOEs based on their financial and social target achievements. To achieve these two targets, SOEs need a Performance Management System (PMS) that integrates organizational strategy with the mandated financial and non-financial indicators, to achieve the SDGs as their targets . PMS is a tool that can facilitate the formulation and achievement of CSR strategies that can, in turn, support the attainment of company objectives (Gond et al., 2012; Perez et al., 2007). As such, a greater understanding of the internal processes through which CSR performance is being managed and linked to other business processes is imperative (Mundy, 2009). As stakeholders' demand and pressure for more information about CSR performance rise, companies will need to become more proactive and transparent in their management of social and environmental activities in achieving CSR's objective, i.e SDGs (Bartolomeo et al., 2000; Burnett and Hansen, 2008; O'Dwyer, 2002, 2005; Perego and Hartmann, 2009).

The issues of environmental sustainability, human rights, social equity, and community development cannot be ignored by the SOEs in the country in order to survive in the local and global markets. Given that CSR implementation is partly compliance towards the country's government regulations, CSR strategies must be put in place to enhance and maintain their 'reputational capital' (Mostardeiro, 2007). The CSR strategies are now a fundamental element of the SOEs business operation (Arjailes and Mundy, 2007), focusing on socially and environmentally responsible actions throughout CSR practices, with the aim to achieve their objective (Moon, 2007), in this case, is SDGs.

A well-designed PMS, with a focus on stakeholders' expectations or demand, can assist managers to formulate economic, social, and environmental objectives, as well as provide guidance as to how to achieve it (Cresti 2009). By embedding social and environmental issues into the corporate strategy and management control systems, social responsibility commitments can be moved beyond mere public relations, philanthropy, or marketing exercises. Accordingly, such effort is necessary for strategic, comprehensive, integrated, and effective implementation of sustainability principles, including CSR practices. Direct engagement with stakeholders is fundamental to identify the group that has the most influence based on their salience with the company's sustainability practices (Abdala and Siti-Nabiha, 2015).

Ideally, companies must implement sustainability principles effectively by aligning their strategy, structure, and management systems with the stakeholders' needs. This means incorporating social, environmental, and stakeholder concerns into corporate strategy, company management systems, business processes, and day-to-day decision making (Cresti, 2009). Lawrence and Weber (2002) also stated that if the company makes CSR as a part of the vision and mission of the company, then the company's business will have good reputation and the increase of the company's value and growth in the long term can be achieved. This opinion is also argued by Elkington (1997), who noted if the company wants to be sustainable, the company must integrate its business goals with social goals and ecological objectives. Therefore, the company has to build the CSR strategies that fit with the company business strategies, then implement it through a good PMS to achieve its CSR objective.

A PMS is used to describe the management and control of a company's performance holistically. A PMS includes all aspects of organizational control (including controls related to management control systems) and change from

conventional methods to segmented control in organizations (Ferreira and Otley, 2009, George et al., 2016). In this research, the term PMS is used interchangeably with management control system (MCS). The PMS covers a broad range of managerial activities, including supporting strategic processes that involve strategic formulation and strategic implementation (Mintzberg et al., 2003; Pearce and Robinson, 2007), emergent strategies through its learning and changes in facilitation roles (Mintzberg, 1978); and ongoing management activities (Ferreira and Otley, 2009). A good PMS is supported by a performance measurement system, which provides information that quantifies both the efficiency and effectiveness of organizational actions (George et al., 2016; Neely et al., 2005). PMS is able to link company objectives and strategies to the internal mechanism, thus it directs the organization towards sustainability (Langfield-Smith, 1997).

Companies must realize that CSR initiatives can create value in the long term. Thus, companies need to identify CSR projects and activities that would provide the greatest benefit for both the company and society (Epstein and Roy, 2003). CSR should no longer be perceived solely as the cost but must be appreciated as part of a company's investment. Such an understanding of the sustainability approach as a vital part of good business management, rather than an area that falls under the category of additional activity, would benefit both the company and society. Nevertheless, the challenge is to have integrated and well-balanced management in social and environmental aspects, while at the same time meeting the stakeholder's economic expectations.

For the reason above, it is proposed that a more systematic approach via PMS, which is integrated the expectations of the specific stakeholders, is essential in helping to translate the company's CSR strategy into action (Epstein, 2004). The sustainability approach should be part of good business management, rather than an area that falls

under the category of additional activity. The challenge is to have an integrated and well-balanced PMS in the social and environmental aspects, while at the same time meeting the stakeholder's economic expectations. The company should be able to accommodate all the different expectations, demands, and pressures from the most salient stakeholder. In other words, the PMS must be able to facilitate the management of the stakeholder's expectation that influences the sustainability practices of a company (Wall et al., 2016)

1.3 The Case Company

This study examined the PMS of a state-owned oil and gas enterprise in Asia that has promoted a strong stakeholder and social responsibility image, as reflected in its sustainability report. Unlike some of the large public corporations in the country, PurpleCom has strong visionary management and adopts a broader accounting focus, encompassing aspects such as social accounting and other related initiatives. This research was conducted in the CSR department of PurpleCom, this department also as the coordinator for CSR programs implementation in PurpleCom. CSR department plays a major role in supporting PurpleCom's existence as a national oil and gas company that carries sustainability agendas. In this section, some discussions are presented regarding the laws and regulations that must be abided by the SOEs on the country. These laws and regulations are relevant in supporting the country's sustainability agendas.

1.3.1 Laws and Regulations

According to law issued on year 2007, all corporations that have business activities related to natural resources or operate in the sector of natural resources, must

implement CSR, especially concerning environmental responsibility, known as Corporate Social and Environmental Responsibility (CSER). Hence, CSR is an obligatory commitment for the SOEs in the country. The CSR covers social and environmental aspects and focuses on both the local community and general society. Funding for the CSR programs is taken from the respective SOEs' budgets and calculated as their cost (Krisnawati, et al., 2015).

The aforementioned law covers the general rules, while further details are stated in government regulation on year 2012. The regulation explains that social and environmental responsibility should be aimed at realizing economic development, while continuing to improve the quality of life and environment of local communities. As mention according the President decree, the targets of this long-term national development is used as a guideline for (1) ministries or agencies to prepare, implement, monitor and evaluate each term of this targets, in accordance with their duties; including the Ministry of SOEs must set the SOEs targets based on SDGs. Then, the SDGs becomes the targets to CSR implementation in PurpleCom.

The CSR programs involve both internal and external stakeholders and should be put under the responsibility of a board of directors. These CSR programs must be discussed during the shareholders' general meeting and then reported in the company's annual report (Krisnawati, et al., 2015). The law of government regulation on year 2012 clearly states that a company has to submit reports on the implementation of social and environmental responsibility. The report can be a part of the annual report or statements made separately via a sustainability report. The introduction of the abovementioned law and regulation was part of a response toward serious environmental problems faced by the country, such as pollution, climate change, natural disasters (floods and earthquakes), and forest damage.

According to the Ministry of SOEs, in year 2019, there are 118 SOEs in the country, categorized into 13 subsectors i.e. Information and Communication; Professional, Scientific, Technical Service; Construction; Transportation and Warehousing; Trade and Retail; Agriculture, Forestry and Fishery; Oil and Gas Supply; Mining and Excavation; Financial and Insurance; Water Management, Raw Material and Waste; Provision of Accommodation; Real Estate; and Processing Industry. The oil and gas industry is one of the most important parts of the country's economy given that a large part of the country's revenue is supported by the revenue from oil and gas sectors.

1.3.2 PurpleCom

The company researched in this project, given its existence as an SOE that operates in the oil and gas supply sector, is an organization that implements CSR practice. It is the most profitable company among all the SOEs in the country and operates globally in various countries such as Vietnam, Malaysia, Sudan, Qatar and Libya. Oil, gas, and geothermal energy exploration and production in PurpleCom covers the upstream sector, whereas processing, marketing, trading, and shipping are covered by its downstream sector. By continuously conforming to the principles of environmentally sustainable development, PurpleCom appears to be committed to being responsible towards its corporate social and environmental obligations.

PurpleCom is the largest financial contributor to the government of the country with positive growth of net profit from 2012 (except in 2014) till 2018. In 2019, PurpleCom was in the list of the Fortune 500 world largest companies. PurpleCom is among the country's top industry leader due to its excellent performance as identified by the Ministry of SOE in 2017 through its annual assessment for SOEs in the country.

Since 2010, PurpleCom has received various awards as an oil and gas company with the best reputation in the country.

PurpleCom, as a parent company, has to implement CSR programs and activities throughout its seven refinery units (RUs), eight marketing operation regions (MORs), and seventeen subsidiaries. The implementation of CSR programs and activities in PurpleCom covers a very large area across the country, thus requiring proper planning and implementation, with the support of an effective PMS. The CSR activities focus on education, health, the environment, community empowerment, and assistance to victims of a disaster. The objectives of CSR in PurpleCom are divided into external and internal objectives. The external objective is to help the government improve the Human Development Index (HDI), through the implementation of CSR programs that help achieve its SDGs by 2030. The internal objectives are to build a harmonious relationship that is conducive to all stakeholders to support the achievement of corporate goals, especially in building corporate reputation.

The CSR strategies in PurpleCom are determined based on its business characteristics as an oil and gas company. These strategies are constantly adjusted in accordance with the welfare level or community requirement in PurpleCom's subsidiaries working areas. The strategies are embodied in several community sectors such as education, health, environment, infrastructure, economic empowerment, and disaster management. To fulfill the rights of its stakeholders, PurpleCom respects, protects, and attempts to meet with their demands. PurpleCom manages its stakeholders through two methods of communication where relevant and important information is exchanged in a transparent and timely manner. Meetings are held periodically between stakeholders and the company's representatives. PurpleCom determines the need of each stakeholder from the meetings and communications.

Despite all the above mentioned plus points, it is interesting to note that from 2014 until 2017, the disbursement of CSR's budget from PurpleCom was always below target (under 100%). The data of total disbursement (budgeted and realized) of CSR funds, according to the company's annual report are shown in Table 1.1. In 2015, the achievement of the fund's disbursement was only at 62%.

Table 1.1 The Disbursement of CSR Funds in PurpleCom

CSR Funds	Year			
	2014	2015	2016	2017
Total Budgeted	199,999,999,500	199,999,999,500	141,422,811,283	180,464,843,958
Total Realization	144,504,165,149	124,961,435,052	125,645,737,325	172,957,469,968
%	72%	62%	88.8%	96%

1.4 Problem Statement

Globally, the nature of the oil and gas industry gives rise to several negative environmental and social impacts. Examples of such impacts include land clearance, oil spills, wastewater production, solid and hazardous waste, and natural gas emissions (Abdala and Siti-Nabiha, 2015; Frynas, 2009; García-Rodríguez et al., 2013). To prevent those negative impacts, and as an SOE engaged in the exploration and production of oil and gas, PurpleCom must uphold an ethical business and have a sense of moral obligation towards both the environment and society. Since UN has launched the Agenda of Sustainable Development Goals (SDGs) in 2015 have become part of the business environment (SDG Compass, 2016; Fukuda-Parr, 2016; Scheyvens et al., 2016; Toppo et al., 2017; World Economic Forum, 2020), then, SDGs also become the long-term target of CSR practices in the country, including CSR's targets on PurpleCom.

PurpleCom's direct contribution to the empowerment and welfare of the citizens of the country are realized through its CSR activities, which is also a mandatory

obligation for all SOEs in the country. PurpleCom, under its corporate secretary purview, conducted its CSR practice for the first time in 2003. Generally, the CSR practice in PurpleCom aims to fulfill the company's moral obligation, as part of its ethical responsibility, in minimizing the negative impact of the company towards the surrounding communities of its operating units and subsidiaries. In the early years of its CSR, the aims of the CSR practice in PurpleCom were mainly about being charitable (CSR as philanthropy), as well as raising the company's image. In 2007, PurpleCom established a new department whose main objective was specifically focused on the social and environmental agendas of the company. This department, known as the CSR Department, is the coordinator for the implementation of CSR programs in PurpleCom.

Over the years of its operation, the CSR Department has assisted PurpleCom in achieving various awards related to its economic and social contribution to the country. Nevertheless, four main weaknesses related to the CSR practices in PurpleCom have been identified. First, there seems to be a lack of integration between the CSR programs implemented by PurpleCom with its business strategies. Second, despite the aim of the CSR programs to empower the selected local communities, a majority of these communities are still very much socially and economically dependent on PurpleCom, even in the CSR programs that have been implemented in the operating units' areas and subsidiaries. Third, to date, the implementation of CSR programs has yet to contribute significantly in improving the company's image. Fourth, after 2015, CSR programs have a new focus of destination, is to meet the aim of SDGs in their long-term targets. In response to these problems, CSR Department was then directed by PurpleCom to reorganize the implementation of the CSR programs. The reorganization involved the formulation of CSR strategies and themes, followed by CSR programs. Such reorganization was mainly to ensure that interaction between PurpleCom and its

surrounding communities and environment were going well and were in line with the company's business strategies.

The concern for sustainability is well addressed when there is substantial integration between CSR activities and business processes (Bebbington, et al., 2007). As PurpleCom is faced with increasing pressure by the Ministry of SOE to manage its social and environmental performance in the long run, a greater understanding of its internal processes, particularly as to how the company's management system includes CSR strategies as an important performance element, was deemed timely. This was due to the fact that a well-designed PMS can help managers to formulate economic, social and environmental objectives and to achieve a more comprehensive understanding of sustainability performance and its impact on stakeholders' expectations (Cresti, 2009), especially since 2015, the sustainability performance is focus in achieving the SDGs, that has to be achieved in 2030. In the case of PurpleCom, its stakeholders are diverse parties in society, including the Ministry of SOE as a regulator and owner of the company. Thus, the issue as to how far the formulation of CSR strategies in PurpleCom are actually accommodating the needs of its stakeholders would also need to be explored.

Speziale and Kloviene (2014) noted that there is not much literature that has investigated the relationship between PMS and CSR. Prior literature on PMS concentrated mainly on the core business of the companies, where CSR is normally viewed simply as a public relations exercise that is intended to enhance the organization's reputation and image with little evidence of a real commitment to social and environmental issue by the companies (Epstein, 2004). Furthermore, there is still a lack of studies that examine how companies utilize their PMS as a tool that links CSR strategies to related programs and activities, with serious consideration on stakeholders'

interests. Prior studies are mainly focusing on PMS and sustainability in general, such as the role of management control systems in supporting sustainability (Maas et al. 2016; Lueg & Radlach 2016), how management control system measures and control company's social responsibility (Druden, 2008; Riccaboni & Leone, 2010, Crutzen, 2017), and the barriers and enablers to sustainability integration in the management control system (George et al. 2016). Other studies exploring PMS and stakeholders demand, such as Klovienė, and Gimžauskien (2014) and Wall et al. (2016), have not examined on the role of strategies, while Arjalies and Mundy (2013), investigated the use of management control system (MCS) to facilitate CSR strategies, without exploring the concern of stakeholder demands. Considering the need for development in the area of performance management system's research, as well as the issues faced by PurpleCom, this research project sought to fill the gap by exploring the utilization of PMS in implementing CSR strategies that accommodate stakeholders' interests in achieving SDGs as the long-term objectives. This study contributes to the research area by providing some explanation as to how PurpleCom integrates sustainable development issues into its CSR strategies. Based on the managerial stakeholders' theory, this study adds to the existing PMS literature as it combines the concept of PMS suggested by Cresti (2009) and Ferreira and Otley (2009) when exploring the uses of PMS in on PurpleCom's CSR strategies implementation.

1.5 Research Objectives

The overall purpose of this research was to first discover who are the key stakeholders are and what their requirements are in CSR activities. The second purpose was to examine how CSR strategy is being formulated with stakeholder interest being considered. Third, this study examined how PMS is being used to manage and monitor

the implementation of CSR strategy in prioritizing the key interest of stakeholders, especially for the external stakeholder who has more power in the CSR department, and to identify any particular problems or issues associated with this.

1.6 Research Questions

The research questions for this study are as follows:

1. a. Who are the key stakeholders and what are their requirements with regards to CSR activities?
- b. How are their interests being considered in the formulation of CSR strategies?
2. How is a PMS used in the implementation of CSR strategies with the interest of the key stakeholders being accommodated?

1.7 Theoretical Framework

A number of studies about the factors that pushed for social and environmental activities and practices studies show various motives for CSR practices, such as to fulfil the stakeholders' expectations and needs, maintain legitimacy (which is achieved through complying with an established set of regulations, norms, and values), improve competitiveness and long-term profitability, and promote ecological responsibility, given the organisation's concerns with its social obligations and values (Bansal and Roth, 2000; Delmas and Toffel, 2004; Sharma and Henriques, 2005; Deegan, 2014; Abdala and Siti-Nabiha, 2015). It supposes that companies would not exist only to make a profit but also to have satisfy their stakeholders who share an interest with them (Freeman, 1984; Foster and Jonker, 2005).

In this research, the underlying theoretical position of this research is managerial stakeholder theory. It emphasizes that company needs to manage the powerful stakeholder groups that influence the business operation of companies, including the

CSR practices (Deegan, 2002). The reason for using this managerial branch of stakeholder theory as the underlying theory is because PurpleCom, particularly CSR department, has to manage its key stakeholder groups in PurpleCom's CSR practices. The pressures come from the powerful stakeholder groups, within their requirements have to be fulfilled. In managing its stakeholders, PurpleCom develops a two-way communication with its key stakeholder groups, as well as a transparent, accurate, and timely disclosure of relevant and important information. Periodically, meetings are held between stakeholders and PurpleCom's representatives are appointed based on applicable regulations. This determination of stakeholders is based on managerial stakeholder theory, which is proximity and urgency (Sustainability Report Purple Company, 2014)

The organizations that try to operate in a manner that is socially responsible generally admitted that they would do this to focus on stakeholders' needs. Following this position, it found that the business must have a PMS in place that reflects the focus of stakeholders. In other words, managers will need a PMS that allows them to regularly monitor whether a business is operating following social responsibility and stakeholder objectives. The role of a PMS focused in this way will strengthen that businesses struggle to operate in a socially responsible manner and be obligated to stakeholders' focus rather than simply engaging in image enhancement exercises (Durden, 2008).

According to Cresti (2009), the PMS becomes an important part to incorporate the economic, social, and environmental targets into company mission, strategies, and actions. A well-designed PMS can help managers to formulate economic, social, and environmental objectives and understand the way to achieve these objectives, with a focus on the stakeholders' expectations. Cresti's (2009) framework is the integration between the company's identity, strategy, structure, and management system of the

strategic approach for CSR implementation, or strategic implementation of sustainability concerns of the company.

The company should have a PMS that is suitable and specified for the implementation of CSR strategies and programs. This PMS must be aligned and accommodated to the stakeholder interests. The specific categories of stakeholders are being considered also to drive the company to conduct the CSR practice. This follows the principle of managerial stakeholder theory approach—that the managers should manage the business for the benefit of all stakeholders. The company should not be considered as a mechanism only for increasing the stockholders' financial returns, but as a tool for coordinating stakeholder interests, with management having a fiduciary relationship not only to the stockholders, but to all stakeholders (Hasnas, 1998, p. 26). From the explanation above, management should put a PMS in place that is responsive to and aligned with the shareholder's and stakeholders' interest.

As such, this study used Cresti's (2009) planning and control system, with the inclusion of Ferreira and Otley's (2009) PMS framework, as the proposed framework. This proposed framework, provides a tool to obtaining an overview of the structure of the PMS that is currently in use for a specific organization (PurpleCom as an oil and gas company), and how it accommodates the stakeholder's interest in the implementation of CSR practices. Moreover, this framework was used to ensure that CSR strategies and plans of PurpleCom, are effectively implemented. Using this proposed framework can be useful in examining the implementation of CSR strategies in CSR department, with stakeholders' interests being considered.

1.8 Research Methodology

Given the specific aims of this study and its implications for PMS in CSR practices, this study carried out the investigation based on the applied research methodology, in which factors or concepts being examined were derived from managerial stakeholder theory. In particular, the aims of this study were to understand the PMS in CSR practices, and to examine who are the most salience stakeholder, and to analyze the demands from key stakeholders in establishing and executing the CSR strategies on an oil and gas stated owned company (CSR Department). In addition, the lessons learned from this study would enrich the body of knowledge concerning stakeholder theory as well as performance management system in CSR practices. To understand the implementation of PMS in CSR strategies, this study adopted an explanatory case study method. An explanatory case study differs from a descriptive case study or an exploratory case study in terms of the way the case is written or explained. It consists of both an explanation of the findings together with the theory (Nor Aziah & Scapens, 2007). A theory or several theories are used to explain the phenomenon. A descriptive case study would have a detailed explanation, or a rather thick description, of what has happened in the case.

An interpretive approach is used in this study, and PMS in CSR practice is viewed as a social and organizational practice. The chosen case study is description, interpretation, and explanation. This type of research can effectively address questions such as "What?" and "How?" Hence, a case study is the most suitable method to provide answers for questions such as, "How are the stakeholder interests being considered during the formulation of CSR strategy?" By using an interpretive case study, this question could be analyzed contextually, historically, and as a process (Dawson, 1997;

Pettigrew, 1995). A study of stakeholder interest should be analyzed holistically to provide a complete analysis of the issues involved in the formulation of CSR strategies.

1.9 Significant of The Study

This study attempted to address existing gaps in the literature due the lack of empirical evidence in exploring the utilization of PMS in implementing CSR strategies that accommodate stakeholders' interests. The main contribution in this research (as mention on page 17, on sub chapter 1.4 problem statement) is to explains how is PurpleCom integrates the sustainable development issues into CSR strategies, that linked to managerial stakeholders' theory as a theoretical framework, and also provides relevant literature and presents the research findings with PMS concept which combined with Cresti (2009) planning and control system and Ferreira and Otley (2009) performance management system.

1.9.1 Theoretical Contributions

This study attempted to address existing gaps in the literature due the lack of empirical evidence in exploring the utilization of PMS in implementing CSR strategies that accommodate stakeholders' interests. The main contribution in this research (as mention on page 17, on sub chapter 1.4 problem statement) is to explains how is PurpleCom integrates the sustainable development issues into CSR strategies, that linked to managerial stakeholders' theory as a theoretical framework, and also provides relevant literature and presents the research findings with PMS concept which combined with Cresti (2009) planning and control system and Ferreira and Otley (2009) performance management system.

1.9.2 Practical Contributions

The major contributions of this study to the literature are: first, it contributes to the understanding of how organisation identified its key stakeholder groups based on the power, legitimacy, and urgency (the stakeholder salience) by Mitchell (1997). Second, examined and explained how organisation can accommodate the demands and requirements from its key stakeholders group based on the managerial branch of stakeholder theory (Deegan, 2002) in the formulation of its CSR strategies. The level of power, legitimacy, and urgency, are used in identification of stakeholder's salience. Third, is how to implement its CSR strategies through a proper PMS, explained by the inclusion of Cresti (2009) planning and control system framework and Ferreira and Otley (2009) performance management system framework, with the identification of each key stakeholder's demands were accommodated, based on the explanation managerial stakeholder theory (Deegan, 2002).

1.10 Organizational of The Thesis

The thesis is organized into seven chapters, which will be discussed next. The first chapter presents the background of the study, company selected for the case study, problem statement, research questions, research objectives, significance of the study, theoretical framework, and research method. The second chapter presents the relevant literature that motivates the research objectives and related research questions, explains the SDGs as the global aims in CSR practices, stakeholder and stakeholder's theory, performance management system, CSR strategies and CSR practices. The third chapter explores the theoretical framework propose using the stakeholder theory and the concept of planning and control systems from Cresti (2009), the PMS framework by Ferreira and Otley (2009), and the proposed PMS framework for this thesis.

The fourth chapter explains the methodology used for this research, which starts with the overview of ontological and epistemological assumptions of the research. It is then followed by an explanation of reasons why the interpretive case study method was chosen as the methodology for the research. Next, it continues with the process of getting access and obtaining data from the case organization. The chapter ends with an explanation of the research design, data collection, and data analysis. The fifth chapter discusses the findings of the study, which began with the explanation of the case company, followed by an explanation of influencing factors to adhere to CSR practices at the company. Specifically, this chapter illustrates how the involvement of stakeholder interests are being considered in formulating the CSR strategies, and the issues related to the design and the use of PMS to accommodate the need of main stakeholders and in translate the CSR strategies are also discussed in this chapter.

The sixth chapter explains the theoretical analysis of the case findings. The stakeholder theory and the proposed framework are used to explain the case findings. The managerial stakeholder theory focuses the discussion on how the CSR strategies are being formulated with the external stakeholder being accommodated and how CSR strategies are being implemented through PMS. The last chapter discusses the contributions and limitations of the study. Both theoretical and practical contributions are offered in this chapter. The thesis ends with some suggestions for future research to enrich the process of PMS.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter provides an explanation on the Corporate Social Responsibility (CSR) practices, for the first sections, the importance of company in implementing it, what its relations with Sustainability Development Goals (SDGs), and how the implementation of CSR at State Owned Company (especially on Oil and Gas Owned Company by the government. Then, second section is a brief explanation of CSR strategies, the importance of implementing CSR strategies in the company. Third, the description of stakeholders demands for CSR practices, and the explanation from Stakeholder's Theory views. And the last section, is discuss about PMS used and design when there are demands from the stakeholders are being considered in the process of implementation of CSR practices.

2.2 Corporate Social Responsibility (CSR)

The concept of Corporate Social Responsibility (CSR) firstly has been found since the year 1953, proposed by Bowen through his book which is entitled "Social Responsibility for Businessman". Corporate Social Responsibility (CSR) is a concept which requires that all activities of the business should be implemented following society's values and demands (Bowen, 1953). He denotes that the business of the companies must meet the desired objectives and values of surrounding society instead of only focusing on purposes of the economic. These ideas lead Bowen to become the "Father of Corporate Social Responsibility" (Carrol, 1999). Another explanation of CSR is the obligation of an organization to be accountable for its environment and its