Change Management and Problems for Corporate Social Responsibility (CSR) Continuation Programs in an Oil and Gas Company

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ABSTRACT—— This case study examines the business of an oil and gas company, EMP, in a time of crisis: the management had to downsize operations to survive in an unpredictable situation. The management was implementing new internal policies that would have an impact on its corporate social responsibility (CSR) programs. However, the rules and beliefs of the institutional environment have the potential to influence the management change process at EMP. Aside from external rules and beliefs, the persistence of the social service ethos within the company, inherited from the past, explains the lack of management changes. An explanatory case study approach was adopted, mostly consisting of semi-structured interviews and document analysis. The research strategy borrows the institutional logic approach based on situational reasons for variation in organizational practices, which determine how multiple logics are addressed. In essence, EMP must resolve the tension between production demands and CSR efforts. As a result, management reform occurs in a research setting where social programs and production goals coexist.

Keywords—— Oil crisis, Oil and Gas Company, CSR, Case Study, Change Management
JEL Classification: L2, M41, R11

1. INTRODUCTION

For the past two decades, change management in oil and gas corporations has been a source of concern in Indonesia and in many other countries. Previous research (Coombs et al., 2015) investigated the oil and gas industry in a financial crisis dilemma, as well as the impact on management reform and corporate social responsibility (CSR) programs. However, the government believes that oil and gas businesses have professional strategy change management in place, in order to adjust to the current economic crisis.

This study seeks to understand how an Indonesian oil and gas company changes management, specifically in the context of company management as a government contractor, and the relationship between the company and management transition. To survive during the fall in oil prices, Indonesian oil and gas companies had to adapt quickly by changing management, through which most of them reduced the size of their company’s management. Change management is a set of procedures for ensuring that major changes can be implemented in a controlled and systematic manner, as well as for overcoming resistance to change in order to promote participation and meet organizational goals for an effective transformation. Change management focuses on the outcomes of the modifications that will be made and the new settings that will be implemented. Downsizing is a form of management change expected to ensure the company survival through operational efficiency and effectiveness.

Thus, management change could be explained by a rational perspective within its broader social and economic context, specifically in managerial accounting (Alsharari, 2019). A well-designed management accounting system can provide a
company with a competitive advantage by putting a new emphasis on efficiency, effectiveness, and cost savings. This paper addresses the fundamental research question: How does change in management affect the company, particularly in terms of CSR program strategy?

Early studies indicate that the financial crisis had a significant impact on CSR initiatives in many businesses because of the extreme pressures they faced in order to survive (Karaibrahimoglu, 2010; Klára, 2011; Giannarakis & Theotokas, 2011; Jacob, 2012). Organizations behave more conservatively and defensively in such a climate (Cheney et al., 1990), failing to balance the parties' standards expectations. As a result, some organizations’ perspectives may choose not to include CSR programs as part their change management programs. (Karaibrahimoglu, 2010).

Some recent research on management accounting and control is based on the belief (ontological dimension) that current social players can influence social practice and that reality emerges from a social construction process (Simoes & Rodrigues, 2011). For understanding how accounting operates in social situations, an interpretive research approach is used, as well as a strong, theoretically-based notion of what might constitute valid explanations. Accounting's role is investigated through the subjective perceptions and meanings of the organizational actors who created such a social reality (Rahmiyanti et al., 2020). The qualitative case study method is consistent with the research question in this study, which seeks to understand how and why accounting practices unfold in the context of organizational change management, in the sense of the complexity of the CSR programs.

The paper is organized as follows: the next section presents a brief review of change management in the oil and gas industry for CSR implementation and budgetary control concept from literature and previous research. Because of the limits of the management approach, the institutional perspective is applied to explain the accounting process and its adjustments to management. The subsequent sections are dedicated to the case study: the research method adopted, and its explanation. Finally, the main findings of the study and some limitations and conclusions are discussed.

2. THE OIL AND GAS COMPANY IN A CRISIS – MANAGEMENT REFORM AND THE IMPACT ON CSR PROGRAMS

Oil prices have been steadily falling since 2014. The oil and gas industry is going through a rough patch. Fuel price fluctuations have created an environment full of challenges and changes for industry participants. With economic conditions driving down global demand, soaring production volumes, and reduced fuel imports to the United States, and no sign of OPEC countries reducing production volumes to offset demand, this uncertainty appears to be endless (GE, 2015).

In response to this crisis, oil and gas companies decided to reorganize their corporate structures, change their policy and strategy, and began to cut jobs. The low oil prices and industry uncertainty have resulted in strict CAPEX (capital expenditures) cuts for oil and gas companies all over the world. Layoffs were common, much to the chagrin of the industry’s workforce. According to data compiled by Houston-based consulting firm Graves & Co., the total number of oil and gas employees laid off worldwide in 2017 was 441,371 (Jones, 2017).

CSR definition

The necessity for communities in fulfilling the resources, facilities, and commercial enterprises' mission for success and survival has driven the evolution of the definition of CSR over time. The definition and use of CSR in Indonesia are based on Pancasila (the foundational philosophical theory of Indonesia), which states, "Social justice for all Indonesians," and Indonesia's 1945 Constitution (Undang-Undang Dasar, 1945), which states, "...to regulate resources for the people's welfare." The Indonesian government defines CSR as corporate actions that provide philanthropic support in the form of materials (Hasan, 2014). The Indonesian government has made it a priority to maintain society justice, while pursuing national economic goals.

CSR plays a significant part in community development since it has an impact on the community's social, environmental, and economic well-being. In comparison to past development activities, community development is an activity targeted at building a community to better promote public access and create improved economic, social, and cultural conditions (Rudito & Budimanta, 2003). To put it another way, every community living in and around a company's working area is supposed to have a higher standard of life and welfare.

Community development, as part of an oil and gas company's CSR program, is a unique activity for local government and the community. As a developing country, Indonesia has put a lot of trust in such a program. In addition, oil and gas firms create significant additional revenue for the country. Prior research points to the fact that countries with more enterprises switching from profit orientation to strategic philanthropy (CSR penetration) gain access to new markets, new demand,
consumer premiums, and product and service innovation, all of which lead to increased revenue generation. Škare and Golja (2013) found that consumers choose the services and products from socially-responsible companies, providing a new growth platform for CSR firms and true product differentiation from the competition.

Dilemma and Change Management

Change is essential for a company's survival, as most businesses must adapt to changing conditions on a regular basis (Jalagat, 2016). Oil prices dropped below USD30 per barrel in 2014-2015. Since 2015, the price of a barrel of oil has never recovered to US$100. Oil prices are projected to remain low in the long run in the wake of the crisis. Demand for oil peaked at 97 million barrels per day, but has since dropped to 70 million barrels per day (Cunningham, 2020). Companies consider adjusting internal rules, downsizing tactics, managing efficiency, and tightening budget management in the event of a financial crisis. Downsizing is usually accomplished by restructuring, which entails lowering the number of personnel and, in certain cases, launching new businesses.

Indeed, downsizing is frequently associated with certain types of restructuring and reorganization, either as part of a downsizing strategy or as a byproduct of reshuffling. Since firms frequently lose large numbers of employees during downsizing, responsibilities and assignments are frequently reassigned. The goal of restructuring is to increase the scale of job output relative to the scale of job intake. As a result, downsizing frequently coincides with a need for a company to focus on core competencies or core businesses, which refers to a desire to concentrate on the organization’s revenue-generating features (Subrata & Thamrin, 2015).

Change management is a set of processes used to ensure that significant changes can be implemented in a controlled and systematic manner, in order to overcome resistance to change and achieve organizational goals for effective transformation. Change management is concerned with the outcomes of modifications that will be implemented and the new settings. It is critical to understand that process changes typically apply to tasks and/or structural changes, but they can also be additional, transformative, or situational (Aradea et al., 2010).

3. BUDGETARY CONTROL IN A TURBULENT SITUATION

In the perspective of a turbulent economic scenario, we examine the issue of managerial accounting for CSR budgeting control in oil and gas firms. However, as this section underlines, implementing management change involves a number of challenges. The ineffectiveness of directly changing management in internal policy, notably in CSR budgetary control methods, demonstrates that accounting's position as a technique for increasing accountability and performance cannot be taken for granted. The way in which organizational members socially build their accounting practices within the institutional contexts is explored. Management accounting is crucial in regulating financial results to survive.

The Indonesian government expects oil and gas companies to contribute to the national income and improve the welfare of the local community. The oil and gas company, also known as the Cooperation Contract Contractor (KKK), is a party with which the government of Indonesia holds Cooperation Contracts (SKK Migas). The corporation has management rights in a block or working area that has been granted permission to conduct oil and gas exploration and exploitation. Even though the company has reduced its management, updated its corporate status, and made necessary commercial reforms, the oil and gas industry is nevertheless subject to non-commercial constraints that set it apart from other industries (community development in CSR activities). Because the operational area is close to the community area, the local community may pose a threat to the enterprise. If oil and gas companies act like other businesses, the need of context in managing control change, particularly in CSR programs, is diminished.

In terms of management transferability, the internal policy to deal with the financial crisis has prompted companies to shift away from socially-responsible behavior since meeting stakeholders expectations is a costly process. Management reform advocates frequently misunderstand the nature and culture of the mining industry by failing to incorporate broader goals than sheer economic condition to survive. The company failed to consider that its black gold was residing within the community. Changes in internal policy, for example, as a result of increased efficiency in CSR programs, make it difficult for operational management to reconcile economic and social goals and reduce the conflict between profit-oriented management and corporate responsibility.

The budget and financial decisions were a major source of conflict and stress within the organization (Patz & Goetz, 2015). Among the challenges was the failure of the budget process and control to focus on long-term organizational objectives (Emmanuel, Merchant, & Otley, 2019). A lack of collaboration between the functions of CSR management and finance was discovered to have hampered the effectiveness of the budgetary process and control, resulting harming the organization's financial performance. Under economically-oriented managerialism, the focus of management was on cost, efficiency, output, and performance accountability, ignoring social responsibility. As a result, Giannarakis and Theotokas
(2011) suggest that the benefits that may be gained from implementing CSR strategies and initiatives are more crucial than ever for the survival of businesses. CSR's investment viewpoint can help firms differentiate themselves and re-establish confidence with their stakeholders (Thome, 2009; Giannarakis & Theotokas, 2011).

4. INSTITUTIONAL THEORY IN CHANGE MANAGEMENT

New Institutional Sociology (NIS) is a valuable concept for figuring out how an organization's changes take place. The process through which an institution adapts to its surroundings is known as institutionalization. In other words, institutionalization is the process by which an institution adapts to its surroundings. An adaptive system is influenced by social characteristics such as legitimacy, efficacy, and rationality, as well as diverse pressures imposed by the surrounding environment. NIS refers to the concept according to which an organization's structure is shaped by the social context in which it operates (Carruthers, 1995). An organization's formal structure usually consists of various logical procedures, processes, and regulations (Meyer & Rowan, 1977; Islamiyah & Sukoharsono, 2017).

Early NIS theorists classified an organization's external environment into two categories: "technical" and "institutional" (Meyer & Rowan, 1977). While market forces drive efficacy and performance in the technical environment, institutional settings are made up of laws, belief systems, and social networks that emerge in a larger society context (Scott, 1992). The technical and institutional models of the organization are conceptually diverse in terms of the requirements for and incentives associated with organizational effectiveness. Technical success is decided by an organization's ability to efficiently coordinate and regulate activities, but institutionalized success is determined by an organization's ability to acquire social legitimacy by complying with external normative, mimetic, and coercive demands. For professional organizations, financial benefits are more crucial than social acceptance, endorsement, and legitimacy. NIS perceives the world as if it exists in a mutually-incompatible condition with distinct survival criteria (Kasim, 2004).

Under the NIS hypothesis, every rule, technology, strategy, policy, and system were considered as an institution (Rahayu, 2015). An institutionalization process can be defined as the process of implementing new policies and regulations in a company. The stages of idea generation, diffusion, and legitimacy are all part of the process of establishing management accounting in the oil and gas industry. The 'idea' is the stage at which new institutions emerge in a certain area of the firm. Organizations encompass the rule, technology, policy, and new structure in this case, all of which will have an impact on the practice that the company should manage (Islamiyah & Sukoharsono, 2017).

Methods

The fundamental goal of this research methodology is to achieve consistency between the research question, theoretical assumption, and research procedure. The above-mentioned study approach is thought to be adequate for addressing the subject of how and why budgetary control is applied 'as is' in an oil and gas firm and institutional setting, as well as whether it is used appropriately. Internal and external analyses yielded insights, together with organizational and theoretical explanations for the development of the loose-coupling concept, which originated with the NIS. This study offers a more comprehensive knowledge and explanation of how EMP reacted to internal and external pressure for change, how the change was achieved, and what the repercussions of the shift were.

The current study involves a process that examines, investigates, and seeks to understand the significance of internal or external factors in the form of change management for CSR activities. Organizational actions reflect a pattern of doing things that has evolved over time and is supported by an organization and its environment (Pfeffer, 1982; Sofyani & Akbar, 2013). As a result, it is very possible to predict organizational practices based on perceptions of legitimate behavior derived from the industrial environment, organizational history, popular management traditions, and so on (Sofyani & Akbar, 2013). In relation to the research question, the researcher wanted to know how this company's case applied to policy changes and the institutional pressures that drive modification in CSR strategy. How the explanation of EMP’s new policies in accounting over CSR activities informs research and provides a foundation for adopting a processual approach. The paper addresses the broad question of how the company's internal policy changes affect CSR programs, particularly in budgetary control in an oil and gas company.

The decision to use the case study method was made early in the investigation to achieve the overall research goal of explaining the implementation of CSR budgetary control in its natural setting – the processes, strategies, uses of financial or non-financial information, the role of the controller, and changes. Budget accounting as a social activity has many notions and interpretations depending on the circumstance (Kasim, 2004). In-depth interview surveys assist the case study approach because they provide an understanding of social budget work (Deles et al., 2010).

According to Cooper and Morgan (2008), case study research "develops theory and expounds the practice of managerial accounting, specifically CSR budgetary control.” A case study concept allows for the investigation of practical and rational actions in a given situation. Blackstone (2012) explains why field research is preferred and includes the following
qualitative case studies to demonstrate his point. Field research is an excellent way to explain how their social environment influences people’s lives, experiences, and group interactions. A case study approach is used by researchers to analyze, explain, and describe complex dynamics. As previously discussed, changing the management system could have resulted in unexpected outcomes or complicated issues that were context dependent.

A single case study was used in this paper to gain a comprehensive understanding of change management practices in an Indonesian oil and gas company. This study primarily addresses the issue of how management changes affect the company, particularly in CSR program strategy. To answer this question, the researcher interviewed 17 people, including 11 EMP employees and six members of the local community. Some key concepts from NIS theory will be discussed to examine how external environmental pressures affect internal processes, particularly the continuation of EMP’s strategy in CSR programs.

5. OVERVIEW OF THE CASE

Since 2014, EMP transformed itself from a conglomerate to a survival company. EMP was granted the rights to explore, develop, and produce crude oil and natural gas across the Indonesian archipelago, as explained in the following sections. As an oil and gas company, EMP changed its strategy; the goal was efficiency to maintain the health of operational and financial performance. EMP’s history as a Cooperation Contract Contractor under the supervision of SKK Migas is important for understanding how the management change process is evolving.

Two years after the catastrophic drop in oil prices, the company was forced to lay off hundreds of employees, halt various CSR programs and facilities, close some oil well points, and provide employees with meager benefits. Employees and the company were at odds over the cost of severance pay, which was paid in installments by the company. During periods of economic stability, EMP engaged in debt structuring. It issued up to 15 billion new shares and up to 3.5 billion shares as a result of the exercise of warrants accompanying the pre-emptive rights (Pratomo, 2018). The funds were set aside for purchases, loan payments, and the development and exploration of new sources.

EMP was a well-established, large, geographically-dispersed company involved in CSR community development. According to the 2018 Annual Report, EMP operates in the local communities on Padang Island (42,118 residents) in a region covering approximately 1,109 km2. EMP operations, on the other hand, include six villages as the company’s primary areas for oil and gas exploration. From 2013 to 2019, EMP spent between 53 percent and 98 percent, or an average of 73 percent, on production costs. As the only oil and gas company on Padang Island, EMP’s operational performance and CSR programs have piqued the interest of the local community and other local businesses that rely on its assistance, as well as the local government.

EMP altered its strategy to improve efficiency. The company prioritized cost reduction by focusing on the most important costs, such as production costs and employee salaries. EMP, as an oil and gas company, still has a responsibility to the community (CSR). Although SKK Migas recovers costs for CSR programs, EMP maintains strict cost control.

One important goal of CSR cost recovery is to maximize people's well-being. In this context, 'people' refers to the local community. However, EMP had requirements or policies in place for CSR fund implementation if there were large oil projects in the area or if there was a demand from the local government. In a difficult situation, EMP prioritized short-term conditions over long-term business viability. In terms of finance, EMP benefited from lower funding costs while tightening efficiency through loan settlement and refinancing.

6. RESULTS

The researcher interviewed 17 people, including 11 EMP employees and six members of the local community. Some key concepts from NIS theory will be discussed to examine how external environmental pressures affect internal processes, particularly the continuation of EMP's strategy in CSR programs. Following is a section on the case study selection, which reveals how the company's EMP representatives internalize the external pressures imposed. Finally, the theoretical relationships between EMP and its change management are clarified in the discussion section.

Downsizing and change management

As described in the previous section, change management emerges at EMP as the company enters a downsizing phase. The local community felt the impact because CSR program support and facilities were scaled down.

"Because of the company's financial situation, the company's commitment has been reduced; the CSR program now only provides assistance, monitoring, and philanthropic support" (The CSR team).
As a government contractor in oil and gas exploration, EMP prepared itself to be a surviving and efficient company in the face of the financial crisis.

"In my opinion, EMP no longer has a CSR program. Previously, there were scholarships, buses, clean water, extra meals, and vitamins for children" (Local community).

EMP is an Indonesian oil and gas exploration and production company with a public stock exchange listing. Oil and gas extraction is a major production branch that is regulated by the government in order to meet the Constitution's mandate for the development of renewable and non-renewable natural resources for the people's prosperity.

EMP was able to alter the company's management and restructure the organization thanks to the company's new internal policy. The contract with SKK Migas was not changed by EMP's new management, but the government observed that EMP had improved its management as a result of the financial crisis. The financial crisis struck oil and gas firms all around the world, but SKK Migas believed in the industry's professional work. EMP continues to carry on oil and gas exploration as well as CSR operations aimed at improving the local community.

"We trust the company's professionals to handle the crisis," says SKK Migas, "However we continue to monitor the company's (KKKS) investment and production activities through a field development plan (Plan of Development), an annual program plan (WP&B), and the approval of Authorization for Expenditure (AFE)" (SKK Migas' CEO).

As a result of the internal policy reform, EMP was transformed from a decentralized to a centralized company with a high-efficiency aim. In terms of CSR activities, EMP will not activate the community development program (CSR) before all of the company's standards have been met.

"There would be CSR programs if the local government demanded it, or there would be CSR programs if oil output increased in the villages," stated the head financial controller.

7. DISCUSSION

EMP is subjected to stronger institutional environment pressures than its technical environment, according to the report, because it is an oil and gas company (Meyer & Scott, 1992). The restrictions do not preclude competition in the oil and gas industry. If the government had agreed to grant the company a license, this would have meant that other companies might provide EMP exploration services. The government chose to limit the entry of other enterprises within EMP's area of activity by only issuing the license to EMP.

The Oil and Gas Law Number 22 of 2001 regulates CSR requirements for oil and gas management businesses, as well as the development of the surrounding community and the protection of society's customary rights. EMP's status as an oil and gas corporation is inextricably linked to this regulation enforcement. This section contends that these reasons only give a partial picture of EMP's changing circumstances in maintaining its status as a government contractor during the organization’s restructuring.

From EMP's organizational area, institutional pressure identifies coercive and normative types of legitimacy (Scott, 2001), which motivates the corporation to continue its social responsibility commitment. Regulatory forces and social expectations both contribute to coercive isomorphism (DiMaggio & Powell, 1991). The requirement to achieve social standards of acceptable behavior – through regulatory and normative measures – to ensure EMP's legitimacy in its environmental and organizational relationships demonstrates EMP's continuing commitment to its social responsibility focus in its new management framework (Covaleski et al., 1996; Scott, 2001). In other words, EMP is legitimized by meeting the societal standards and expectations of its external and key components, which in EMP's instance are SKK Migas and the local government. To put it another way, EMP acquires legitimacy by conforming to the social norms and expectations of its important external and internal stakeholders.

The social aspect of EMP's service is a genuine concern since, if it were not factored into EMP's organizational structure, critical stakeholders would view EMP's activities as irrational and neglectful (Meyer & Rowan, 1977). As a result, EMP will be seen as a respectable organization if it continues to respond to socially-acceptable concerns of its constituents — SKK Migas and local government. For sociological reasons, EMP's commitment to institutional demands is not only a passive response to external demand (Oliver, 1991; Suchman, 1995). A favorable response could assist EMP in securing the resources and assistance it requires to manage its interdependent relationships with its stakeholders. EMP's conformance is strategic rather than passive in this aspect, as the corporation relies on the government, through SKK Migas,
for critical resources like the license and transferred assets and liabilities. SKK Migas’ legality is also related to EMP’s most prized resource — its operating license.

EMP’s CSR perspective is another example of where legitimacy may be portrayed as a valued resource rather than just perceptions and expectations. EMP focuses on production and change strategies in CSR activities to adapt the management reform for a variety of reasons, including minimizing local community complaints, boosting EMP’s image, lowering the possibility of a second license operator, decreasing interference from the SKK Migas, and avoiding negative media attention. Traditional NIS theorists would emphasize these reasons as imperatives for establishing legitimacy, but not so much for achieving efficiency. According to the findings at EMP, these grounds for retaining EMP’s social duty have validity and efficiency problems. These concerns are connected because keeping CSR activities is more than just impressing outsiders with EMP’s reform setting; EMP must ensure that the government’s evaluation report remains positive, no matter how difficult it is.

8. CONCLUSION

The rules and beliefs of the institutional environment have the potential to impact the management transformation process at EMP. Apart from the external regulations and ideas, the enduring nature of EMP’s inherited social-service ethos also explains the lack of managerial adjustments. A management perspective would not be beneficial in evaluating EMP’s findings due to its limited emphasis on the financial and technical components of organizations, as well as its neglect of the social and institutional elements of organizations.

In the context of EMP, NIS is a more useful theory because it can conceptualize the external world of EMP as consisting of symbolic characteristics such as norms, beliefs, and roles that are distinct from technical needs. Three fundamental concepts from NIS are institutional context, isomorphism, and legitimacy (Meyer & Rowan, 1977; DiMaggio & Powell, 1991; Scott, 1992). These principles should be used to explain the phenomenon of persistence, or lack of change, in relation to EMP’s continuing of the CSR program.

EMP must resolve the tension between production demands and CSR efforts. As a result, management reform occurs in a research setting where social programs and production goals coexist. These goals do not have to be mutually exclusive because EMP needs to handle both of them. The management change process at EMP is governed by ingrained social responsibility values and reinforced by regulatory constraints.

9. LIMITATION

This case study focuses on only one company and the researcher was constrained by time limitation. Subjective thinking is very influential in writing, as well.

10. REFERENCES


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