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## THE ROLE OF FOUR LEVERS OF CONTROLS IN PT ABC IN ACHIEVING SUSTAINABLE DEVELOPMENT GOALS

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# THE ROLE OF FOUR LEVERS OF CONTROLS IN PT ABC IN ACHIEVING SUSTAINABLE DEVELOPMENT GOALS

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## ABSTRACT

The recent rise in popularity and pressure from investors to apply sustainable business practices have compelled companies to incorporate sustainability into their strategy. One of the most popular practices is to align and measure a company's impact against the Sustainable Development Goals (SDGs). Most companies, however, have only treated sustainability as an appendage rather than as something innate to their strategic objectives. This research discusses the four levers of controls implemented in PT ABC in achieving the SDGs, to assess the compatibility of their strategies with the SDGs concerning its characteristics as a State-Owned-Enterprise, and to understand how they built awareness of sustainability and how employees perceived it. The research methodology is qualitative analysis of primary data collected from interviews with their employees and secondary data review of the company's and publicly available information. Based on the research, PT ABC has not formally documented its strategies and targets to explicitly show its compatibility with SDGs, although their business operations have contributed to SDGs achievements. PT ABC may formulate comprehensive sustainability strategies and KPIs so that SDGs achievements are measured, and the Ministry of SOE shall enforce the formulation of strategies and KPIs related to SDGs achievements, in order to achieve SDGs targets by 2030.

**Keywords:** Four levers of controls; State Owned Enterprise; Strategy; Sustainable Development Goals

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## 1. INTRODUCTION

The increasing trend of sustainability disclosures by companies nowadays has been driven by the increasing pressure from investors, Non-Governmental Organizations (NGOs), and other stakeholders that demand to see the impact of company operations on the environment and the surrounding communities. Nowadays, stakeholders seek companies that not only maximize profits but also care for their Environmental, Social, and Governance (ESG) aspects. As such, companies that report their Sustainability Report and contribute positively to the environment are regarded as having a competitive advantage.

The government, through Otoritas Jasa Keuangan (“OJK”) in OJK Circular Letter No.16/SEOJK.04/2021, regulates the obligation for listed companies to disclose their sustainability report. SE OJK No.16/SEOJK.04/2021 stipulates the format and contents that are required to be included in companies’ sustainability report, as was previously regulated in OJK Regulation No.51/POJK.03/2017 regarding the application of sustainable finance to financial services institutions, issuers, and publicly listed companies.

Sustainable Development Goals (“SDGs”) are 17 goals that all United Nations members have agreed to work towards achieving by 2030. SDGs consist of goals and targets that are set with a vision of a world free from poverty, hunger, and disease. Indonesia is one of the countries that declares its participation in SDGs.

In the current Indonesian government era, infrastructure is one of the sectors that is prioritized. Infrastructure, particularly toll roads, have the important role in development and welfare improvement through its role as a transportation medium for people and goods. Good maintenance and proper operational performance of toll roads will lead to the optimal fulfillment of logistical and supply chain needs, which is also related to the UN SDGs, which are SDGs 8- Decent work and economic growth, SDGs 9-Industry, innovation, and infrastructure, and SDGs 11-Sustainable cities and communities.

One of the biggest toll road operator companies in Indonesia is PT ABC. PT ABC is a State-Owned Enterprise (“SOE”), whose main businesses are

planning, constructing, operating, and maintaining toll roads and its supporting facilities to ensure that toll roads can provide value-added to its users compared to non-toll public roads.

As an SOE, it is only appropriate that PT ABC contributes to the achievement of SDGs in Indonesia. Especially considering that the industry in which PT ABC operates, which is infrastructure, is closely related to SDGs 8, 9 and 11. However, as a company that also has the main objective to maximize its stakeholders' returns, PT ABC already has its own strategic goals. This will be the main objective in this research. The research aims to know whether the strategies that are formulated, implemented, and evaluated by PT ABC through its levers of controls have already included the sustainability aspects and whether the strategies are compatible with the SDGs targets that Indonesia aims to achieve.

As an SOE, PT ABC has already conducted "PKBL" (Program Kemitraan dan Bina Lingkungan), which is required under the Minister of SOE's regulation, so PT ABC is obligated to integrate sustainability aspects into the strategy or strategic initiatives that it devises. As such, the research questions are as follows: 1.) How does PT ABC identify its stakeholders? 2.) How are the implementations of four levers of controls in PT ABC in ensuring the attainment of strategic objectives related to sustainability and the compatibility of PT ABC's strategic initiatives with the SDGs in relation with its characteristics as SOE, 3.) How has PT ABC built awareness on sustainability aspects in its operations and how the employees perceived it? and 4.) How is the benchmarking for sustainability objectives and targets that are established by Abertis Infraestructuras, S.A. and subsidiaries (Abertis), in formalizing PT ABC's strategic objectives and targets related with sustainability aspects?

Regarding the research questions, the research aims to 1.) Understand how PT ABC identifies its stakeholders, 2.) Understand the implementations of four levers of controls in PT ABC in ensuring the attainment of strategic objectives related to sustainability and the compatibility of PT ABC's strategic initiatives to the SDGs in relation with its characteristics as SOE, 3.) Understand how PT

ABC built awareness on sustainability aspects in its operations and how the employees perceived it, and 4.) Understand the benchmarking results of sustainability objectives and targets that are established by Abertis Infraestructuras, S.A. and subsidiaries (“Abertis”), in formalizing PT ABC’s strategic objectives and targets related with sustainability aspects.

Seeing the increasing importance of sustainability aspects nowadays, it is hoped that the research will bring valuable insights and benefits for the company’s management, regulators, and all other company stakeholders. For management, it is hoped that this research can become a guideline and provide insights for the company to formulate strategies that are in line with UN SDGs, provide a guideline regarding KPIs that can be implemented to achieve the goals of the strategy, and be a framework for measuring the impact on societies and measuring the contributions of company operations to UN SDGs. For the Ministry of SOE and OJK as regulators, this research can provide insights regarding the regulations for company strategies to incorporate sustainability aspects and the suggested methodologies that may be used to measure impact.

In seeking to address the research question, this research sets PT ABC as the research object. The research will also analyze the PKBL activities conducted by PT ABC for the period 2015-2020, to analyze PT ABC’s efforts regarding the sustainability aspects in relation with its characteristics as an SOE. This research will combine methodologies such as primary data and secondary data review, from which the qualitative analysis will be based on. The primary data will be collected from interviews with PT ABC’s employees, which will be conducted with senior management, middle management, and sustainability team, whereas the secondary data will be analyzed from publicly available information (e.g., Annual Report, Sustainability Report, etc.) and data from PT ABC.

## **2. LITERATURE REVIEW**

### **2.1. STAKEHOLDERS THEORY**

Stakeholder theory is a concept in which companies shall give returns to their stakeholders and involve stakeholders in their decision-making processes (Carroll, Brown, and Buccholtz, 2018). Further, there is also a dependency of a company on the support of its stakeholders, which is later known as the concept of stakeholder symbiosis, in which all stakeholders and companies depend on each other in ensuring good financial conditions and the achievement of objectives.

According to Miller (2020), Triple Bottom Line is a concept in which companies shall measure the social and environmental impacts from their operations, rather than just measuring their financial profits. Triple bottom line consists of profit, which is financial profits, people which are the social impact that the Company gave to its society and value creation for all its stakeholders, and planet which is the impact of the company's operations to the environment.

### **2.2 SUSTAINABLE DEVELOPMENT GOALS (“SDGs”)**

Sustainable Development Goals (“SDGs”) consist of 17 goals and 169 targets that all United Nations members have agreed to work towards achieving by 2030. SDGs aim to end poverty, reduce inequality, and protect the environment (INFID, 2017).

SDGs 8-Decent work and economic growth, SDGs 9-Industry, innovation, and infrastructure, and SDGs 11-Sustainable cities and communities are the goals that are related to PT ABC's operations as an infrastructure company. SDGs 8 has the main objective to encourage inclusive economic growth and sustainable, and equal working opportunities for all. SDGs 9 has the main goal to build strong infrastructure, increasing inclusive and sustainable industries and encouraging innovation. SDGs 11 has the main goal to turn cities and communities into inclusive, safe, strong, and sustainable (National Secretariat of SDGs, 2021).

### **2.3 THE FOUR LEVERS OF CONTROLS**

Strategic management is a set of activities that consists of strategy formulation, implementation, and evaluation of strategies that are being used by the company, in order to achieve their objectives. When formulating a strategy, companies establish their vision and mission, determine their long-term objectives, and determine the action plans. The strategy is then implemented, and in the evaluation phase, companies measure and evaluate their performance (David, 2017).

Simons (2014) developed a model that integrates performance measurement and management control systems, which is known as the four levers of controls. It comprised belief systems, diagnostic control systems, and interactive control systems. These four levers are integrated and implemented to help companies achieve their objectives.

Belief systems are the vision, mission, and core values that are implemented, which are established with the objectives so that employees are committed to the core values and grand purposes set by the company. Boundary systems are implemented to prevent business risks from happening through the existence of guidelines and signs, such as company codes of conduct, and many others. The third lever, diagnostic control system, is a set of management tools used to monitor strategy realization and to assist management in measuring and comparing results with its initial objectives. And lastly, interactive control system is a formal system implemented by top management in order to involve themselves regularly and personally in the decision-making activities of their subordinates (Simons, 2014).

Arjalies & Mundy (2013) stated that management control systems can help contribute to society's broader sustainability agenda through processes that enable innovation, communication, reporting, and the identification of threats and opportunities. Feder & Weisenberger (2021) stated that by integrating corporate social responsibility ("CSR") related aspects into their management control systems, which comprise both formal and informal controls, companies can direct their CSR-related actions and achieve positive performance effects.

Furthermore, Gond, et al. (2012), describe an “ideal-type” of configuration with a high degree of integration of the management control system and sustainability control system and an interactive use of these systems that supports an integrated sustainability strategy.

Beusch et al. (2021) explain the components of management control systems that integrate sustainability aspects, which include 1.) intensive dialogues among managers at different organizational levels and in different organizational functions mitigate challenges to the technical and organizational integration of sustainability along a firm’s value chain; 2.) the degree to which the firm’s strategic-level managers focus on external sustainability drivers influences how well the firm develops and markets sustainability-related products and services; and 3.) a committed CEO and strategic-level management can avoid marginalizing sustainability by communicating their beliefs about it through intensive dialogues across management levels. Further, Ghosh, Herzig, and Mangena (2019) also explain that in an entity control system that is integrated with sustainability aspects, KPI regarding sustainability aspects can be added to the company’s controls, where a proper KPI should not only be related to external reporting purposes but also regarding internal decision making, to internalize the importance of achieving sustainability.

#### **2.4 RELATED REGULATIONS REGARDING SUSTAINABILITY AND PERFORMANCE MEASUREMENT FOR SOES**

Some of the related regulations are 1.) OJK Regulation No.51/POJK.03/2017 Application of Sustainable Finance to Financial Services Institutions, Issuers, and Publicly Listed Companies, 2.) SOE Ministerial Regulation No.PER-05/MBU/04/2021 regarding Corporate Social and Environmental Responsibility Program for SOEs, and 3.) SOE Ministerial Regulation No.PER-11/MBU/11/2020 regarding Management Contract and Annual Management Contract for SOE Directors.



### **3. RESEARCH METHODS**

To gain empirical evidence on the compatibility of PT ABC's strategies with SDGs achievements, to analyze PT ABC's role on achieving SDGs, and to know the management control systems implemented by PT ABC in achieving its strategic goals regarding sustainability, this research will combine methodologies such as primary data review and secondary data review from which the qualitative analysis will be based on. The primary data will be collected from interviews with PT ABC's employees, which will be conducted with three categories of interviewees, consisting of senior management, middle management, and the sustainability team. These three categories are chosen to give a comprehensive overview, including the top-down implementation of PT ABC's strategies and its compatibility with SDGs. The secondary data will be analyzed from publicly available information about PT ABC (e.g., Annual Report, Sustainability Report, etc.) and also data from PT ABC.

Analysis of PT ABC's four levers of controls was conducted using Simmons (2014) framework of four levers of controls which were compared with PT ABC's implementation, based on the analysis of primary and secondary data. Analysis on benchmarking with Abertis Infraestructuras, S.A. and subsidiaries ("Abertis") was conducted by comparing the strategic objectives and targets set by Abertis in their 2021 Sustainability Report with what should have been implemented formally by PT ABC. The benchmarking analysis also considers the compatibility of PT ABC's strategic objectives and targets with the goals as stated in Indonesia's *Rencana Pembangunan Jangka Menengah Pembangunan Nasional (RPJMN) 2020-2024* listed in the Technical Guide of Action Plan Formulation for Sustainable Development Goals (SDGs) and Indonesia's Metadata Indicator of Sustainable Development Goals (SDGs).

## **4. RESULT AND DISCUSSION**

### **4.1 ORGANIZATIONAL PROFILE**

PT ABC is a state-owned enterprise (SOE) that was established in 1978. PT ABC is one of the companies that provides toll road services in Indonesia. They

plan, construct, operate, and manage toll roads along with their supporting facilities, ensuring that the toll roads in Indonesia will give more value compared to the regular roads. PT ABC currently manages more than 50% of the toll roads in Indonesia. PT ABC is also a public company whose shares have been listed in Indonesia Stock Exchange since 2007.

As a state-owned enterprise, PT ABC upholds “AKHLAK” as its company value, which comprises Amanah, Kompeten, Loyal, Adaptif, and Kolaboratif. In conducting its operations, PT ABC has the main vision of “Becoming the Biggest, Most Trusted, and Sustainable National Toll Road Company”. It also has five missions, which are: 1.) Leading Toll Road Businesses throughout the value chains in a professional and sustainable way to strengthen National Connectivity, 2.) Optimizing the Development of Regions for Community Advancement, 3.) Increasing the Value for Shareholders, 4.) Increasing Customer Satisfaction through Service of Excellent, and 5.) Encouraging the Development and Improvement of Employee Performance in a Harmonious Environment.

In PT ABC’s operations, there are three main categories of its products and services, which are toll road operating business, toll road concession business, and prospective business. PT ABC also has more than 8,000 employees in total. In PT ABC, the department that is responsible for the implementation of sustainability in the company is Corporate Communication and Community Development Group. The department is under the responsibility of the Corporate Strategy and Chief Administration Officer. The company structure of PT ABC can be seen in figure 1 below.

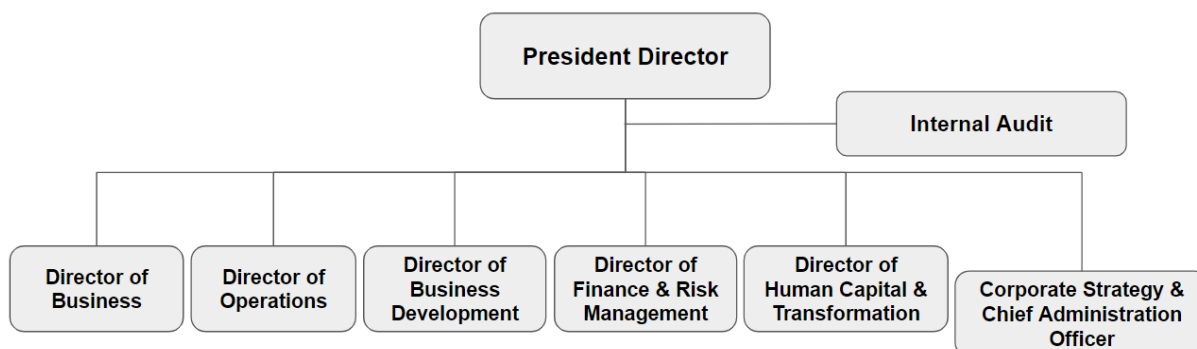


Figure 1. Organizational Structure of PT ABC

Source: PT ABC, further processed

#### 4.2 PT ABC'S CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY (TJSL)

PT ABC has also conducted a Corporate Social and Environmental Responsibility program (*Tanggung Jawab Sosial dan Lingkungan*, abbreviated as "TJSL"), where they not only focus on the company's profit but also take into account the welfare of the general public ("People") and environmental sustainability ("Planet"). This is in line with the concept of Triple Bottom Line.

Regarding its profit (economic performance), PT ABC's success in achieving its performance targets will give contributions to the country through taxes and dividends that are paid to the government, which will then be used to fund public programs. As an SOE, PT ABC acts as an agent of development, where its toll roads will increase Indonesia's connectivity and therefore its public welfare. The summary of PT ABC's economic performance can be seen in Table 1 below.

Table 1. Summary of PT ABC's Economic Performance, 2015 - 2020

Description	2020	2019	2018	2017	2016	2015
Revenue from tolls and other businesses (in billion Rupiah)	9.588	10.984	9.785	8.921	8.832	7.631
Net profit attributable to parent entity (in billion Rupiah)	501	2.207	2.203	1.910	1.889	1.466
Length of operating toll roads (km)	1.191	1.162	1.000	681	593	590
Toll road concession rights (km)	1.603	1.527	1.527	1.527	593	590
Dividend payments (in billion Rupiah)	110	330	440	567	293	491
Tax payments (in billion Rupiah)	1.277	1.815	1.327	911	1.111	1.015

Source: PT ABC, further processed

For the "People" aspect, PT ABC conducts their *Program Kemitraan dengan Usaha Kecil* and *Program Bina Lingkungan* as their way to play a role in developing sustainable economies and to increase the general public's quality of life, particularly for the communities surrounding PT ABC's business. The summary of results can be seen in Table 2 below.

Table 2. Results of PT ABC's *Program Kemitraan & Bina Lingkungan*, 2015 - 2020

Description	2020	2019	2018	2017	2016	2015
Number of <i>mitra binaan</i>	28.652	27.455	26.010	24.948	23.850	22.828
Distribution of loan to <i>mitra binaan</i> (in billion Rupiah)	51	53	54	52	17	15
Distribution of <i>dana bina lingkungan</i> (in billion Rupiah)	15	29	7	21	17	9

Source: PT ABC, further processed

Table 3 below represents detailed information related to the distribution of *dana kemitraan* categorized by sector:

Table 3. Information on *Program Kemitraan* PT ABC (in million Rupiah)

Description	2020	2019	2018	2017	2016	2015
Industry	1.410	2.490	2.602	2.040	3.079	2.180
Trade	7.778	12.075	12.279	12.810	10.168	10.325
Agriculture	60	145	466	135	165	165
Plantation	40.020	35.015	35.030	35.000	30	35
Farm	330	342	455	90	95	120
Fishery	95	350	100	120	415	-
Services	1.345	3.460	3.145	2.615	3.475	2.215
Training fund	509	1.186	1.039	847	-	-
Total	51.547	55.064	55.116	53.692	17.427	15.040

Source: PT ABC, further processed

Table 4 below represents information on the program kemitraan's assets and provision for loss on loan receivable (in billions of Rupiah):

Table 4. Information on *Program Kemitraan* Assets of PT ABC (in billions of Rupiah)

Description	2020	2019	2018	2017	2016	2015
Cash	2	4	6	7	52	62
Loans receivable	130	126	123	121	62	62
Provision for loss on loans receivable	(56)	(52)	(63)	(42)	(6)	(16)
Percentage to loans receivable	43%	41%	51%	35%	10%	26%
Administration fee receivable - net	2	2	2	2	2	2
Total assets	77	80	68	89	110	110

Source: PT ABC, further processed

As noted above, most of PT ABC's loan receivables are provided to the plantation sector. In the future, PT ABC may consider distributing the fund to business sectors that are located near their toll business area. PT ABC needs to improve the process of selection, evaluating, and monitoring of the distribution of the loans.

As for PT ABC's "Planet" aspects, PT ABC needs to comply with the rules regarding environmental aspects and toll road operations for the whole process, which comprises the planning phase until the operation of toll roads. PT ABC has also made efforts to minimize the negative effects its operations may have on the environment by planting trees on the sides of their toll roads, building drainage, and many more.

#### **4.3 ANALYSIS ON STAKEHOLDERS**

PT ABC has identified its stakeholders and the objectives of its stakeholders. The identified stakeholders are also in line with the theory according to Carroll, Brown, and Buccholtz (2018), which states that the stakeholders are categorized into five categories, namely government, employees, community, owners, and consumers. Government stakeholders of PT ABC consist of legislators and regulators. Employees consist of PT ABC's employees. Community consists of the public, NGOs, Rest Area Tenants, *Mitra Kerjasama Usaha Patungan*, and mass media. Owners consist of shareholders, and lastly, consumers consist of PT ABC's consumers and suppliers.

#### **4.4 ANALYSIS ON PT ABC'S FOUR LEVERS OF CONTROLS**

Simons (2014) explains the process of strategy formulation and implementation, which starts with creating vision and mission, intended strategy, goals and plans, performance measures, and actions.

PT ABC has developed its strategy with vision and mission as its starting point, which were already explained in the previous section regarding the organization profile. Those visions and missions were then further developed into the intended strategy in the form of company objectives. PT ABC has

formulated its annual Work Program and Budget/*Rencana Kerja dan Anggaran Perusahaan* (“RKAP”), along with its Key Performance Indicators (“KPI”), where the RKAP refers to the company’s Long-Term Plan/*Rencana Jangka Panjang Perusahaan* (“RJPP”).

PT ABC has also formulated strategic objectives for its continuous company transformation program, which consists of 7 (seven) aspects as follows: fixing fundamentals, core business expansion, related business expansion, financing and asset recycling, organization, human resources and capabilities, and technology.

Regarding the evaluation process of PT ABC’s implemented strategy, this process is conducted regularly (monthly, quarterly, semiannually, and annually), with departments as its starting point up to directorate level. The evaluation results are then used as an input for performance achievements and refinements for future strategies.

PT ABC has implemented all the four levers of controls, which consist of belief systems, boundary systems, diagnostic control systems, and interactive control systems. Table 5 below summarizes the analysis of PT ABC’s belief systems and its compatibility with SDGs achievements in Indonesia.

Table 5. Summary of Analysis on PT ABC’s Belief Systems

Theory / Framework	PT ABC’s Implementation	Analysis on the compatibility with SDGs achievements in Indonesia
Belief systems are the vision, mission, and core values that are implemented, which are set with the objectives so that employees may commit to the core values and grand purposes set by the Company (Simmons, 2014)	Vision, Mission, and core values of PT ABC	PT ABC’s vision is similar to Abertis (an international company that operates in the toll road industry), and Unilever, which is one of the companies that supports SDGs achievements.  As for PT ABC’s mission, - Mission No. 2 is related to SDG 11: Sustainable Cities and Communities, - Mission No. 4 has an indirect relationship with SDGs 13: Climate Action - Mission No. 5 is related to SDG 8: Decent Work and Economic Growth.

PT ABC has also implemented boundary systems in the form of business conduct boundaries. Table 6 below summarizes the analysis of PT ABC's boundary systems and its compatibility with SDGs achievements in Indonesia.

Table 6. Summary of Analysis on PT ABC's Boundary Systems

Theory / Framework	PT ABC's Implementation	Analysis on the compatibility with SDGs achievements in Indonesia
Boundary systems are implemented to prevent risks from happening, through the existence of guidelines in conducting business and signs to avoid occurrences of fraud in the Company. (Simmons, 2014)	Code of Corporate Governance, Code of Conduct, <i>Pedoman Benturan Kepentingan</i> , <i>Pedoman Penanganan Gratifikasi</i> , Whistleblowing System (WBS), and employee policies which are established and implemented by PT ABC	Policies and procedures established by PT ABC to prevent the risks of fraud, corruption, and bribery from occurring are aligned with SDG 16: Peace, Justice, and Strong Institutions. Moreover, employee policies established by PT ABC are aligned with SDG 5: Gender Equality and SDG 10: Reduced Inequality.

Regarding the diagnostic control systems, PT ABC has also implemented a work program and budget based on its company's Long Term Plans, along with KPIs that are established based on its strategies. For its KPI, PT ABC reviews performance based on these aspects: 1.) Social and economic values for Indonesia, 2.) Business model innovation, 3.) Technological leadership, 4.) Investment increases, and 5.) Talent development. Table 7 below summarizes the analysis of PT ABC's diagnostic control systems and their compatibility with SDGs achievements in Indonesia.

Table 7. Summary of Analysis on PT ABC's Diagnostic Control Systems

Theory / Framework	PT ABC's Implementation	Analysis on the compatibility with SDGs achievements in Indonesia
- Diagnostic control system is a set of management tools used to monitor strategy realization and to assist management in measuring and comparing results with its initial objectives	<p><b>Strategic Objectives:</b>                      "Balancing growth and financial sustainability to build resilience"</p> <p><b>Strategic Initiatives:</b>                      1. Business fundamental                      2. Core business expansion                      3. <i>Related business</i></p>	<p>- Strategic objectives and KPIs in PT ABC that are directly and specifically related to SDGs achievements are not yet completely set and formally and explicitly documented.</p> <p>- There are already some KPIs that are indirectly related to SDGs, such as: length of operating toll road, customer satisfaction index, progress on toll road projects, and others. As such, it may be</p>



<p>(Simons, 2014)                  - The Ministry of SOE Regulation No. PER-11/MBU/11/2020: Management Contract and Annual Management Contract of SOE's BODs</p>	<p>expansion                  4. Financing and assets recycling                  5. Organization, human resources, and capabilities                  6. Technology</p> <p>Certain KPIs as stated in the management contracts:                  1. KPI related to financials amount and ratios.                  2. Length of operating toll road,                  3. Customer satisfaction index,                  4. Progress on toll road projects                  5. Score GCG                  6. Fulfillment of minimal standard toll road maintenance (SPM)                  7. Employee's productivity</p>	<p>concluded that PT ABC's KPIs are indirectly related to SDG achievements, although they were not communicated formally and specifically by PT ABC.</p> <p>- PT ABC's KPI are in accordance with regulations set by the Ministry of SOE, in which in the regulation itself there are no KPIs that refer directly to UN SDGs achievements.</p>
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The Corporate Communication and Community Development Group department, which is the department responsible for conducting sustainability efforts in the company, is under the responsibility of Corporate Strategy and Chief Administration Officer, which is not included in the Company's Board of Directors. Therefore, its KPIs are not bound by the Management Contract with the Ministry of SOE.

Lastly, analysis of the interactive control systems implemented by PT ABC is summarized in Table 8 below.

Table 8. Summary of Analysis on PT ABC's Interactive Control Systems

Theory / Framework	PT ABC's Implementation	Analysis on the compatibility with SDGs achievements in Indonesia
<p>Interactive control system is a formal system implemented by top management in order to involve themselves regularly and personally to the decision-making activities of their subordinates (Simons, 2014)</p>	<p>Implemented through BOD meetings, BOD and BOC meetings, and other coordination meetings which are held regularly.</p>	<p>As the strategic objectives and KPIs which are formally and specifically related with the achievements of SDGs were not yet established formally and explicitly, the interactive control systems were not implemented optimally.</p>

#### **4.4.1 ANALYSIS ON PT ABC'S STRATEGIES' ALIGNMENT WITH UN SDGs 8, 9, AND 11**

The following section discusses the analysis of KPI alignment with UN SDGs 8, 9, and 11.

SDG 8 regarding Decent Work and Economic Growth has the target to promote sustained, inclusive, and sustainable economic growth, full and productive employees and decent work for all. PT ABC's business of constructing toll roads is a form of infrastructure that may help the development of underdeveloped areas. Proper infrastructure will give transportation access to the areas, which will help to fulfill logistical needs and eventually increase the attractiveness of an area for investment purposes, industrial needs, commercial, or tourism. The development of such areas will then result in new jobs for the public surrounding the toll road.

Other than that, development of non-toll road services by PT ABC in the form of rest areas can also potentially create new jobs, especially in the hospitality and food and beverage sectors. These rest areas and the development of areas surrounding PT ABC's toll roads are one of their contributions in developing Small Medium Enterprises (SMEs) in Indonesia. These impacts represent the indirect and direct impacts of toll road developments by PT ABC, especially in underdeveloped areas. PT ABC has also used some of the relevant KPIs to measure this, such as increase in toll road length and revenue from other businesses.

SDG 9 regarding Industry, Innovation, and Infrastructure is one of the SDGs that is directly related and relevant to PT ABC's core business operations. Construction of toll roads is a form of infrastructure development, and when done with a proper feasibility study, it may be a sustainable infrastructure without negative environmental effects. The availability of proper infrastructure can provide incentives for companies to invest in rural or underdeveloped areas. Other than the economic and investment aspects, construction of toll roads can also increase connectivity. Increasing connectivity will play a big role in developing an area out of poverty.

PT ABC should be aware of its role as an agent of development in Indonesia as an SOE. The development of infrastructure or SDG 9 is reflected in PT ABC's strategic objectives and in the form of these KPIs: car transaction volume (which depicts connectivity and transportation flows), progress of toll road construction (which ensures that Indonesia's infrastructure development agenda is achieved on time) and increasing length of toll roads (which depicts the increasing connectivity and the direct measurement of infrastructure development).

SDG 11 regarding Sustainable Cities and Communities has the target to make cities and human settlements inclusive, safe, resilient, and sustainable. As an infrastructure, toll roads create inter-town connectivity and connect areas that may previously have limited access. Proper access and connectivity can act as a catalyst for an area to develop into a sustainable urban area.

The existence of proper toll roads could be a solution for the increasing density of inhabitants in big cities. Toll road infrastructure can be a supporting facility for an existing city, adding to the quality of life for people that live in the city and providing access to and from satellite cities. By providing access to and from satellite cities and suburban areas, toll roads can help to ease the load of population density in big cities. In other words, the other function of toll roads in building sustainable cities is to develop cities and new urban areas. PT ABC has included SDG 11 in its KPI regarding increasing the length of toll roads.

#### **4.5 ANALYSIS ON AWARENESS AND PT ABC'S EMPLOYEES' PERCEPTIONS ON SUSTAINABILITY ASPECTS**

As an effort to build awareness regarding sustainability aspects, PT ABC has regularly published its sustainability report and audited PKBL reports since more than five years ago through the company website.

Based on interviews conducted with PT ABC's employees, their employees are quite aware and well-informed regarding UN SDGs. Employees can give examples of company activities which are related to SDGs. Moreover, employees of PT ABC also think that what the company does is not explicitly

done to achieve SDGs, although some of the initiatives regarding SDGs achievements are indirectly carried out by PT ABC through its business operations. Regarding the training and development aspect, PT ABC has not given any training which is specifically conducted regarding SDGs.

#### 4.6 BENCHMARKING ON ESG PLAN AND SUSTAINABILITY STRATEGY

Abertis Infraestructuras, S.A. and subsidiaries (“Abertis”) is an international toll road company. Abertis manages toll roads in fifteen countries, namely Spain, Chili, and Brazil. For the purposes of this research, Abertis was chosen as a benchmark for PT ABC due to the similarity of the industry in which both companies operate.

As a recommendation, PT ABC’s ESG Plan and Sustainability Strategy were formulated in this research. The plan consists of four pillars, namely social, economic, environmental, and law and governance. This recommendation is constructed by considering PER-05, in which the strategic objectives are compatible with RPJMN 2020-2024, which are in line with SDGs, and based on benchmarking with Abertis. One of the examples of the recommendation on ESG Plan and Sustainability Strategy for PT ABC-social pillar (which focuses on SDGs 1, 5, 8, 9, and 11), can be seen in Table 9 below.

Table 9. Recommendation on ESG Plan and Sustainability Strategy for PT ABC - Social Pillar

Strategic Objectives	Short-term Roadmap short term: ESG Plan Targets → RKAP 2023 Targets	Long-Term Roadmap: SS Targets by 2030 → RJPP Targets 2021 - 2025 and 2025 - 2030
Establish positive synergies with the community, for example by financing or helping micro and small enterprises (MSMEs)	Collectability of the financing program - Rating 1 for more than __% of the total number of managed funds	Collectability of the financing program - Rating 1 for more than __% of the total number of managed funds
SDGs 1: Increasing income through productive economic programs by developing infrastructure in disadvantaged areas	- Increasing projects with community, in terms of number of projects or value ( __%) - Evaluation of social impacts in communities in the funded projects	Increasing projects with community, in terms of number of projects or value ( __%) - Evaluation of social impacts in communities in the funded projects
SDGs 5: Increasing gender	Increasing number of females in BOD	Increasing number of females in BOD

Table 9. Recommendation on ESG Plan and Sustainability Strategy for PT ABC - Social Pillar (continued)

Strategic Objectives	Short-term Roadmap short term: ESG Plan Targets → RKAP 2023 Targets	Long-Term Roadmap: SS Targets by 2030 → RJPP Targets 2021 - 2025 and 2025 - 2030
equality and women empowerment	and Group Head level by ___% of total employees	and Group Head level by ___% of total employees
Guaranteed safety and comfort of toll road users	- Decrease in death rate and accident rate on toll roads by _% in 20xx - Customer complaints are 100% resolved - BPJT's assessment results on the fulfillment of SPM amounting to 100% - Customer satisfaction index on toll road	- Decrease in death rate and accident rate on toll roads by _% in 20xx - Customer complaints are 100% resolved - BPJT's assessment results on the fulfillment of SPM amounting to 100% - Customer satisfaction index on toll road
Occupational safety and health assurance	No work accidents	No work accidents

## 5. CONCLUSION

Based on the analysis, PT ABC has identified its stakeholders according to the theory of Carroll, Brown, and Buccholtz (2018). One of PT ABC's sustainability efforts is conducted through its TJSL program (Corporate Social and Environmental Responsibility). PT ABC's TJSL program is also in line with the Triple Bottom Line theory, which consists of Profit, People, and Planet.

Regarding its strategies, PT ABC has already implemented the four levers of controls: belief system, boundary system, diagnostic control system, and interactive control system, which is in line with the theory based on Simons (2014). From this research, it is also concluded that PT ABC's strategic objectives and KPIs are already in line with the attainment of SDGs in Indonesia, although it was not communicated and documented explicitly.

Moreover, PT ABC's employees are aware of sustainability aspects and SDGs. As there were no formal, documented specific strategic objectives and KPIs linked with SDGs, there was no commitment yet to achieve certain SDGs targets.

## **6. RECOMMENDATION**

Based on the research, the short-term recommendations that are given can be categorized into diagnostic control systems, PT ABC's strategy alignment to SDGs 8, awareness and employee perception on sustainability, and benchmarking sustainability strategy and ESG plan.

First, as a recommendation for its diagnostic control systems, PT ABC needs to formally document its strategy showing its alignment to the attainment of SDGs to achieve the government of Indonesia SDGs' objectives in 2030. Such a strategy needs to be part of PT ABC's strategic direction. The related KPI needs to be added to the Directors' KPI in their management contracts.

As a recommendation for PT ABC's strategy alignment to SDGs 8 - *program kemitraan*, based on the research we noted that most of the loan receivables are provided to companies in plantation sector. In the future, PT ABC may consider distributing the fund to the business sectors which are located near their toll business area, for example, the micro and small enterprises ("MSMEs") in the rest area.

The third recommendation given is regarding awareness and employee perception of sustainability. PT ABC needs to conduct training for all levels specifically regarding SDGs to increase employees' awareness, so that it can turn into the commitment to achieve SDGs target and become PT ABC's culture. The training may also include specific topics, for example related to the implementation of *Sustainable return on investment (S-ROI)* for certain projects, so that the S-ROI can provide information on the impact result of such projects.

Moreover, PT ABC has realized the need to have an integrated information system in relation to gathering information for sustainability reporting, which

should cover the whole part of PT ABC to produce complete, trusted, and timely information. Currently, PT ABC is still in the process in relation to this matter.

The last short-term recommendation is regarding benchmarking on Sustainability Strategy and ESG Plan. PT ABC may incorporate the recommendation of Sustainability Strategy and ESG Plan (refer to table 9) into their overall strategy to contribute to achieving Indonesia SDGs' objectives by 2030. Such strategy and plan need to be aligned with RPJMN 2020 - 2024, shall also consider the Metadata Indicators issued by Bappenas, and comply with PER-05.

Such strategy and plan also need to be communicated clearly by the management both formally and informally, so that management can be involved regularly and on a personal basis in the decision-making process, i.e., by performing the interactive control systems. This is in line with the research result that in integrating the sustainability aspect, intensive dialogue may mitigate that obstacle in the integration process (Beusch et al., 2021).

PT ABC may also measure its performance by using statistical demographic data, which may be obtained from BPS (Badan Pusat Statistik) as an initial indicator, i.e., PDB, manpower (including number of women), to show their contribution of being an agent of development. Hence, if PT ABC is not able to distribute dividends or pay tax, it has contributed through its social role to increase the welfare of the people and achieving its SDGs goals.

Furthermore, based on the research, the long-term recommendation includes recommendations for the Ministry of SOE and PT ABC.

The Ministry of SOE shall enforce the obligation for SOEs to enact KPIs that are linked to companies' contributions to SDGs achievements. By doing so, it is hoped that the companies will prioritize SDGs in their business activities, which will help Indonesia to attain its SDGs targets by 2030.

The second and third long-term recommendations are given to PT ABC. To show more commitment to sustainability, PT ABC may add a new director, namely Chief Sustainability Officer (CSO), to its Board of Directors. As a BOD, the CSO will then automatically become part of the directors who are bound by

the Management Contract with the Ministry of SOE. As such, the KPI regarding sustainability achievements will also be reflected in the collegiate and Individual KPIs, which are included in the Management Contract.

Lastly, PT ABC needs to improve the process of selection, evaluating, and monitoring on the distribution of the loans. PT ABC may consider engaging with other SOEs in the banking and financial institution sectors.

Regarding the research limitations, this research only depends on the interview results of certain people sitting in senior management and middle management positions. Accordingly, as a recommendation for future research, it is suggested to expand this research by distributing questionnaires to find out more details about the situation and condition of PT ABC.

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