

Corporate Governance, Strategy and Sustainability

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- ✔ **Corporate governance, culture and sustainability**
- ✔ **Sustainability and strategy**
- ✔ ***Stakeholder Engagement***
- ✔ **Progression Matrix - ESG**
- ✔ **Managing the risks**
- ✔ **Opportunities and strategy**



CORPORATE GOVERNANCE, CULTURE AND SUSTAINABILITY

It all starts with corporate culture

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- ✓ **Policies and structures** are key but ...
 - ✓ Implementation of **sustainable practices** depends on the **culture and strategy of the organization** and its employees, customers, suppliers, etc.
 - ✓ A robust corporate governance framework will allow for creation of a **culture focused on addressing environmental and social issues**
 - ✓ *Corporate Governance Codes*

'Culture eats strategy for breakfast'



Peter Drucker
Business professor

CORPORATE GOVERNANCE, CULTURE AND SUSTAINABILITY

BEHAVIOR - CULTURE – ETHICS – INTEGRITY – LEADERSHIP - VALUES

- Structures and policies that allow for **growth and development** of the organization
- Corporate governance should consist of **creating an environment** in which people **voluntarily** comply, act ethically and with **integrity**
- Culture strongly influences **behavior**

A FUNDAMENTAL RESPONSIBILITY OF THE BOARD

- Establishment of culture, **values**, ethics - monitoring and evaluation
- Assure **alignment** between purpose, values, strategy and incentives
- **Inclusion in the board agenda**

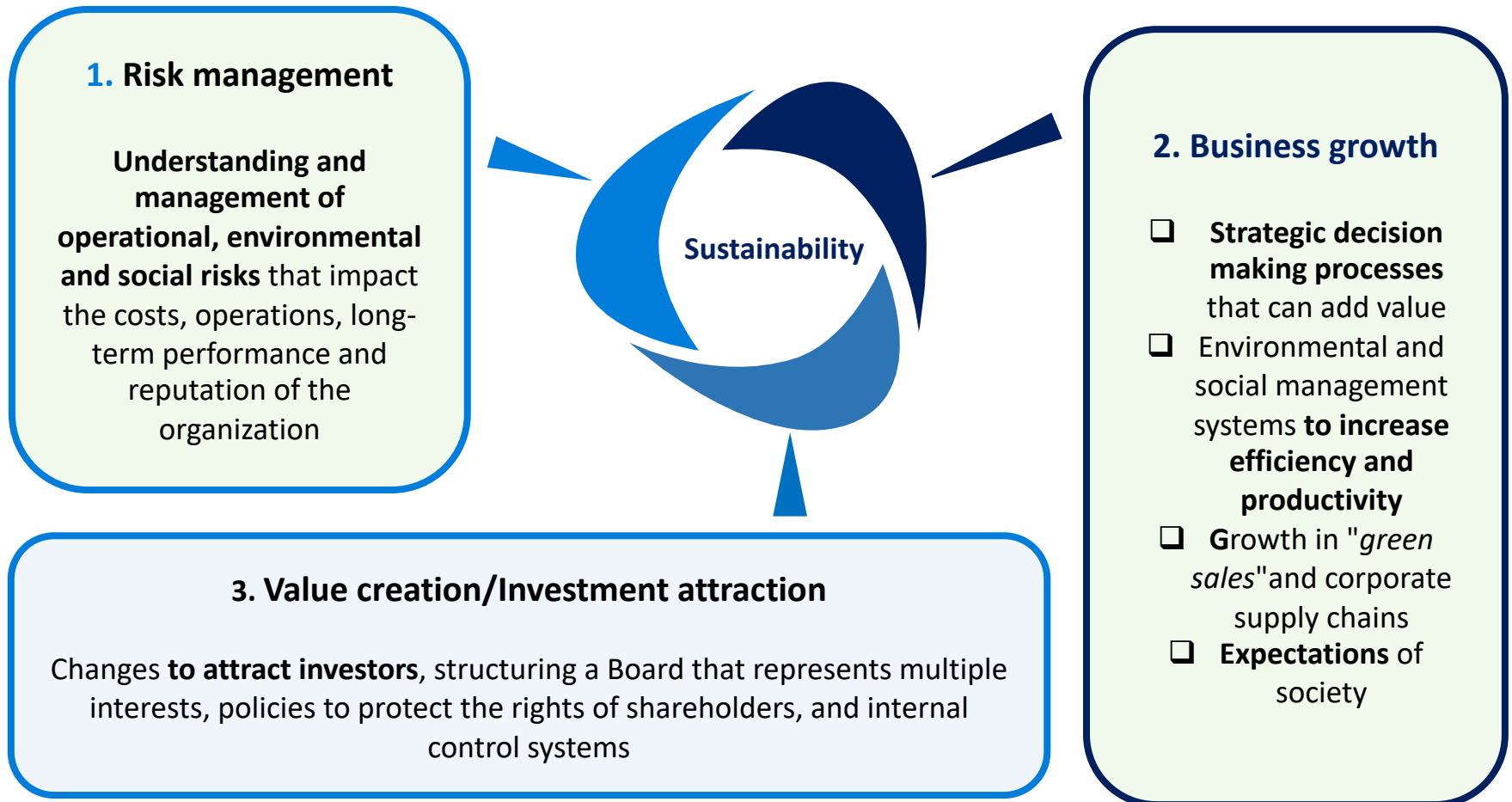
**“IT’S NOT
HARD TO MAKE
DECISIONS
WHEN YOU KNOW
WHAT YOUR
VALUES ARE”**

- ROY DISNEY



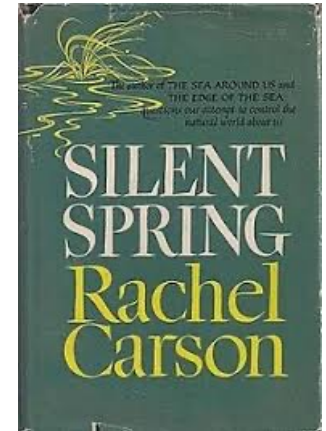
CORPORATE GOVERNANCE AND SUSTAINABILITY

Key responsibilities of the Board of Directors



Strategic approach to sustainability

- **1962 *Silent Spring*** Hard questions about the impact of industrial processes on nature
- Road to 2010s - climate change in this decade, COP21 and Paris Agreement
- Environmental issues have moved from civil society to the boardroom, but sustainability still remains a challenge for businesses, especially when times are hard. Why?
- Business people and environmental movement differ in worldviews
 - ✓ Nature of the role of business in society: A force for good or evil?
 - ✓ Period: 5 year cycles vs. decades
 - ✓ What keeps you up at night: financial performance or environmental sustainability
 - ✓ Just one more business risk?: assumed risks or unacceptable risks



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*Mike Rosenberg, Professor IESE, Strategy and Sustainability:
A Hard-nosed and Clear-eyed Approach to Environmental Sustainability*

Strategic approach to sustainability

Strategic challenge for the Board of Directors:
establishing the link between companies and the environment

- ✓ Viability over medium and long-term
- ✓ Financial performance and profitability for shareholders
- ✓ Size/scope of the business
- ✓ Operational performance
- ✓ Globalization
- ✓ Stakeholder groups



Fig. 1.1. Symbiotic Relationship between Business and its Environment

Strategic approach to sustainability

Key considerations for the Board and Senior Management

- *Social license to operate*: Acceptance of a project by civil society
- Catastrophic risk management
- Consumer behavior, temptation to "greenwash" and damage to reputation
- Technology and the environment: disruptive innovation, both a risk and an opportunity (for example, electric cars – Tesla v GM)
- Globalization

¿How can you respond?

- Break the law
- Minimum (*Bare minimum*)
- Comply and prepare for future change
- Show and tell
- *Payment-on-principle*: sacrifice financial results to meet the demands of stakeholders
- *Act, plan, direct*: based on business logic - recognize that the world is changing, better lead than pay later to catch up



Strategic approach to sustainability

Companies need to see their past, present and future to decide which way to go: THAT is the role of the Board of Directors!

Mike Rosenberg, Professor IESE, Strategy and Sustainability: A Hard-nosed and Clear-eyed Approach to Environmental Sustainability



STAKEHOLDER ENGAGEMENT, STRATEGY AND THE BOARD

corporate responsibility and achieving the *triple bottom line*

- ✓ The Board's key responsibility is to design **inclusive governance models** that are stakeholder-aware in a strategic and comprehensive manner
- ✓ **Investors** increasingly demand greater interaction by companies in the environment in which they operate; viz. BlackRock with US\$ 6.3TR in assets under management
- ✓ Stakeholder Engagement is a process by which an organization involves **all people and entities** that may be affected by the operations of the organization
- ✓ Integration of Stakeholder Engagement with organizational management systems provides **institutional mechanisms for shareholders to influence strategy** and practices

'To prosper over time, every company must not only deliver financial performance, but also show how they make a positive contribution to society'



Laurence D. Fink
Chairman & Chief Executive
BlackRock

ESG INTEGRATION IN FRAMEWORK OF CORPORATE GOVERNANCE FOR FINANCIAL ENTITIES

SUSTAINABLE BANKING



SUSTAINABLE BANKING

Application of sustainability framework to bank corporate governance

Sustainable banking covers two important aspects of a bank's operations

Risk Management

Integrating the environmental and social risk assessment of the client's operations as part of credit/due diligence analysis process to mitigate:

- ✓ financial losses
- ✓ damage to the environment
 - ✓ labor conflicts
- ✓ reputational damage, etc.

Financial Products and Opportunities

Promotion of loans to companies that are involved in environmentally and socially responsible businesses
Offer financial products that allow implementing

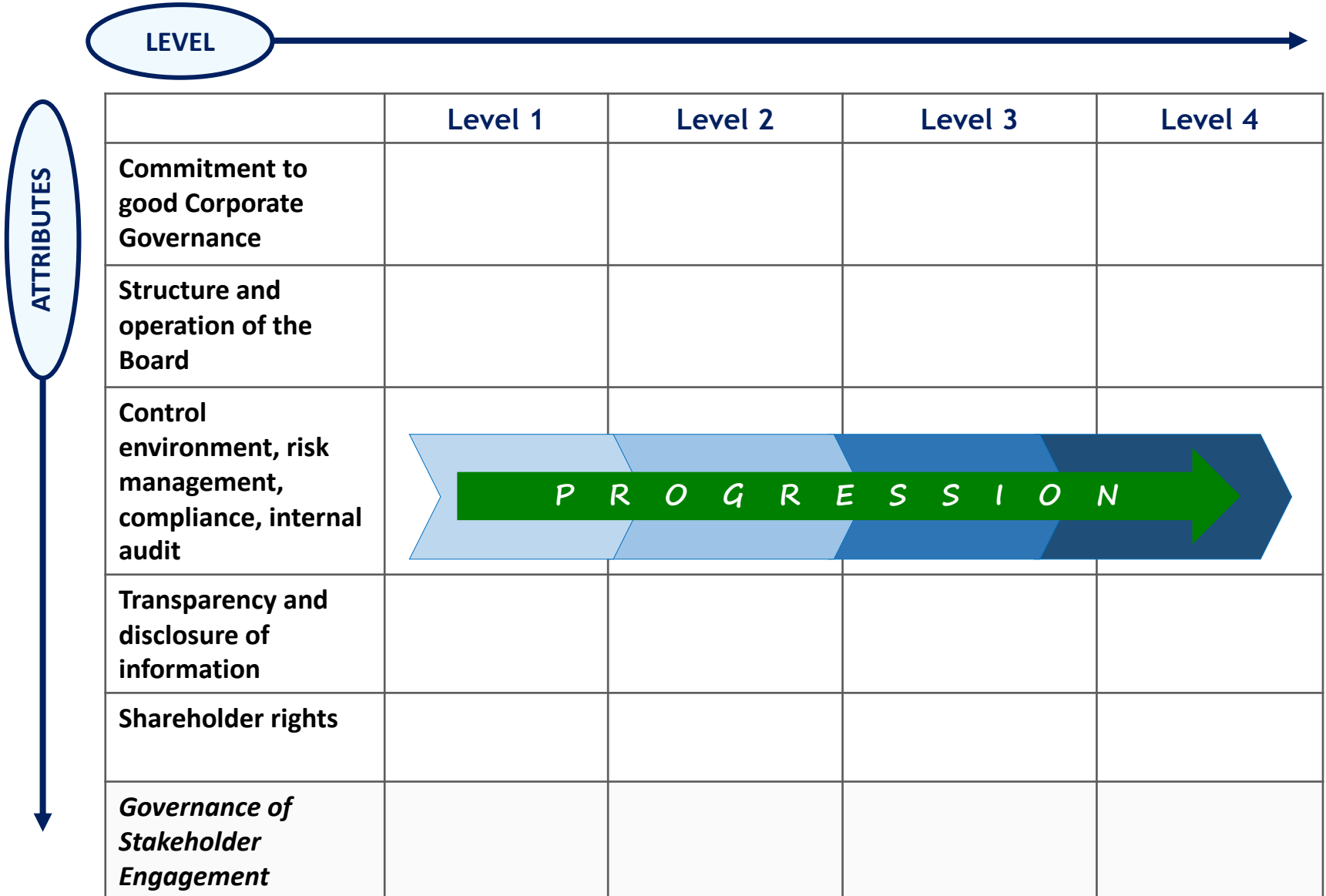
Technologies that efficiently use resources:

- ✓ renewable energy
- ✓ clean production
- ✓ Green/blue bonds, etc.
- ✓ corporate citizenship
- ✓ "Impact investing"

Progression Matrix/ESG

- 1 ESG Commitment
- 2 Board
- 3 Internal control, risk management, compliance
- 4 Disclosure and Transparency
- 5 Shareholders
- 6 *Stakeholder Engagement*

PROGRESSION MATRIX



PROGRESSION MATRIX

Featured changes

| Attribute | Description |
|---|---|
| Commitment to good Corporate Governance | <ul style="list-style-type: none"> • Integration of environmental, social and governance aspects, as well as inclusion of commitment to stakeholders • Supervision of environmental, social and governance aspects at the Board level. Creation of a Board Committee to review environmental, social and governance issues • National/Global Leader in environmental, social and governance issues |
| Structure and operation of the Board | <ul style="list-style-type: none"> • Board approves sustainability strategy and policies on environmental and social issues • The Board verifies and audits the Integrated Management System • Environmental, social and governance issues are regularly included on the Board's agenda • Inclusion of a member of the Board with a clear understanding of environmental and social risks, or inclusion of an expert advisor on environmental and social issues |
| Control environment, risk management, compliance, internal audit | <ul style="list-style-type: none"> • Environmental and social management system integrated into the corporate risk management framework • Sustainability Leader has unlimited access to the Board and Reports to the Board's Risk Management Committee |
| Transparency and disclosure of information | <ul style="list-style-type: none"> • Annual management report includes reports related to environmental, social and governance issues • The annual report uses reference frameworks such as IIRC, GRI, SASB • Data related to environmental, social and governance issues are subject to independent assurance |
| Shareholder rights | Addition of commitment to stakeholders (<i>Stakeholders</i>) |

PROGRESSION MATRIX

STAKEHOLDERS

| Attribute | Description |
|------------------------|---|
| Stakeholder engagement | <ul style="list-style-type: none"> ➤ Stakeholder participation policy ➤ The key stakeholders for the organization are identified ➤ Mechanism of interaction/communication with the Stakeholders, where they can ask questions or complain ➤ Social entrepreneurship incorporated into the Board's decision-making and public disclosure reports ➤ Personnel and reporting lines focused on internal Stakeholders (such as workers) and external (such as contractors) ➤ Board ensures appropriate dialogue with key Stakeholders ➤ Social Entrepreneurship activities are a recurring theme of the Board's agenda ➤ Inclusion of sustainability data and how the company's activities materially affect the stakeholders in the Annual Management Reports ➤ Senior Manager of the company designated responsible for Stakeholder relations ➤ Commitment to Social Entrepreneurship visible to staff, contractors, suppliers and Associates through codes of conduct or similar that establish the core. Expectations regarding issues such as interactions with Stakeholders ➤ Independent audit on the effectiveness of the complaints mechanism to the Board |