



CEO Survey 2021

Survey on the Role of CEOs
in Advancing Sustainability & ESG

Supported by:



Glossary

| | |
|--------------------------------------|--|
| Sustainability Reporting | An organization's practice on reporting its environmental, economic, and social impacts. |
| Medium-scale Assets | Companies with assets between IDR50 – 250 billion (based on POJK No.53/POJK.04/2017). |
| Big-scale Assets | Companies with assets above IDR250 billion (based on POJK No.53/POJK.04/2017). |
| State-Owned Enterprise (SOE) | A business entity whose capital is wholly or partly owned by the government. There are 2 types of SOEs in Indonesia, namely public companies and liability companies. |
| Local Company | A business entity that is set up by a minimum of two local shareholders, one local or foreign director with a tax ID, and one local commissioner. |
| Multinational Company | A company that has business, staff, and premises in more than one country. Multinational companies typically have a centralized head office from which global activities are managed. |
| High Carbon Intensity | Companies that produce high levels of carbon emissions in their business-as-usual practices, including basic materials, consumer cyclical (automobiles & components), consumer non-cyclical (food & beverage, nondurable household products, and tobacco), energy, industrials, infrastructure, properties & real estate, transportation & logistics sector. |
| Med-Low Carbon Intensity | Companies that produce a lower amount of carbon emissions in their business-as-usual practices, including consumer cyclical, consumer non-cyclical, financials, healthcare, and technology sector. |
| IDX Industrial Classification | A classification model made by the Indonesia Stock Exchange (IDX) to group listed companies based on market exposure of the final goods or services produced. (IDX's Announcement of New Industrial Classification (IDX Industrial Classification / IDX-IC) No.: Peng-00007/BEI.POP/01-2021 date 13 Jan 2021) |

IDX Industrial Classification Sectors

BASIC MATERIALS Companies that sell products and services used by other industries as raw materials for producing final goods, such as Chemical Goods, Construction Materials, Containers & Packaging, Non-Energy Metal & Mineral Mining, and Wood & Paper.

CONSUMER CYCLICAL Companies that produce or distribute products and services generally sold to consumers but for cyclical or secondary goods in which the demand is directly proportional to economic growth, including manufacturers of Passenger Cars and their Components, Durable Household Goods, Clothing, Shoes, Textile Goods, Sporting Goods and Hobbies, provider of tourism, recreation, education, consumer support services, media companies, advertising, entertainment providers and secondary goods retail companies.

CONSUMER NON-CYCLICAL Companies that produce or distribute products and services generally sold to consumers and anti-cyclical or primary/basic goods which are not influenced by economic growth, such as Primary Goods Retail Companies (Food Stores, Drug Stores, Supermarkets), Beverage Manufacturers, Packaged Foods, Agricultural Product Vendors, Cigarette Manufacturers, Household Goods, and Personal Care Items.

ENERGY Companies that sell products and services related to energy extraction where their income is directly affected by world energy commodity prices, which include non-renewable energy (fossil fuels) such as Oil Mining, Natural Gas, Coal, and service providers that support the industry, and companies selling alternative energy products and services.

FINANCIALS Financial services companies such as Banks, Consumer Financing Institutions, Venture Capital, Investment Services, Insurance, and Holding Companies.

HEALTHCARE Companies that provide health products and services such as Healthcare Equipment Manufacturers, Healthcare Service Providers, Pharmaceutical Companies, and Research Companies in the Healthcare Sector.

INDUSTRIALS Companies that sell final products and services generally consumed by industry which include manufacturers of Aerospace, Defense, Building Products, Electrical Products, Machinery, providers of commercial services such as Printing, Environmental Management, Industrial Goods and Services Suppliers, and professional services such as Personnel Services and Research Services for industrial purposes.

INFRASTRUCTURES Companies that play a role in the construction and procurement of infrastructures, such as Transportation Infrastructure Operator Companies, Civil Building Construction Companies, Telecommunications Companies, and Utility Companies.

LISTED INVESTMENT PRODUCT Companies that provide investment products listed on the Indonesia Stock Exchange.

PROPERTIES AND REAL ESTATE Companies that develop properties and real estate and support service providers.

TECHNOLOGY Companies that sell Technology Products and Services, such as Internet Service Companies that are not internet connection providers, IT Service Providers, IT Consultants, Software Development Companies, Manufacturers in Network Equipment, Computer Devices, Electronic Devices and Components, and Semiconductors.

TRANSPORTATION AND LOGISTICS Companies that include transportation and logistic providers and delivery service providers.

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Opening Remarks

As the world emerges from the COVID-19 pandemic, companies reorganize their operations to focus on resilience and risk mitigation. In addition, the pandemic has amplified the prioritization of sustainability initiatives in businesses which have already gained traction for the last few years.

The encouragement of post-pandemic green recovery efforts and the urgency to anticipate future risks have encouraged business leaders to be more mindful of the Environmental, Social, and Government or ESG aspects in business which can serve as the strategy to sustainable economic recovery.

CEOs have an essential role in supporting the sustainability transformation of a company. Companies that have integrated ESG strategies and measures into their business models tend to be better positioned to address opportunities and long-term value after the crisis.

To better understand the role of CEOs in leading corporate sustainability, **Deloitte Indonesia** and **Global Reporting Initiative (GRI)**, supported by **Indonesia Stock Exchange (IDX)**, the **Indonesia Public Listed Companies Association (Asosiasi Emiten Indonesia/AEI)** and **The Australian Government Department of Foreign Affairs and Trade**, surveyed the CEOs of listed companies to obtain their insights on sustainability priorities during the pandemic and future predictions. The survey explored sustainability initiatives considered by the CEOs, including the ESG and sustainability issues that are discussed on the board's agenda and CEOs' leadership approaches in setting strategies and corporate governance of the company.

The survey discovered various insights and steps considered by CEOs when responding to environmental and social issues; however, all showed a common vision to achieve sustainability. Ultimately, we asked about the knowledge and skills needed by CEOs in adopting and advancing ESG and sustainability for companies. The survey results will contribute to designing future programs for CEOs to address the needs and challenges in managing sustainability issues.

This survey was conducted by distributing online questionnaires to IDX-listed companies and AEI members throughout September-October 2021. Previously, we held the CEO Forum on September 30, 2021, to convey the preliminary results and organized a knowledge and experience sharing session that was attended by the CEOs.

The questionnaire garnered responses from 138 CEO respondents, representing 18% of IDX-listed companies. Sector representation comprised 34 respondents from financials, 25 respondents from consumer cyclical, 18 respondents from basic materials, 18 respondents from consumer non-cyclical,

11 respondents from industrials, 9 respondents from energy, 7 respondents from technology, 5 respondents from properties and real estate, 5 respondents from transportation, 4 respondents from infrastructure, and 2 respondents from healthcare.

Based on the survey results, most CEOs considered ESG and sustainability as increasingly important issues to discuss during the pandemic. The topics for the current board's agenda and the next three years were sustainability reporting and employee health. Furthermore, the approach taken by CEOs to embed sustainability within their organizational structures was establishing additional ESG and sustainability roles and functions in the existing team. The CEOs upgraded their sustainability skills through internal capacity development as their leadership strategy.

Lastly, we would like to thank the CEOs who have participated in the survey. We sincerely hope that the survey results can be beneficial in understanding perspectives, roles, and steps of CEOs in advancing ESG and sustainability in the post-pandemic era.



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Key Findings



8 out of 10
CEOs

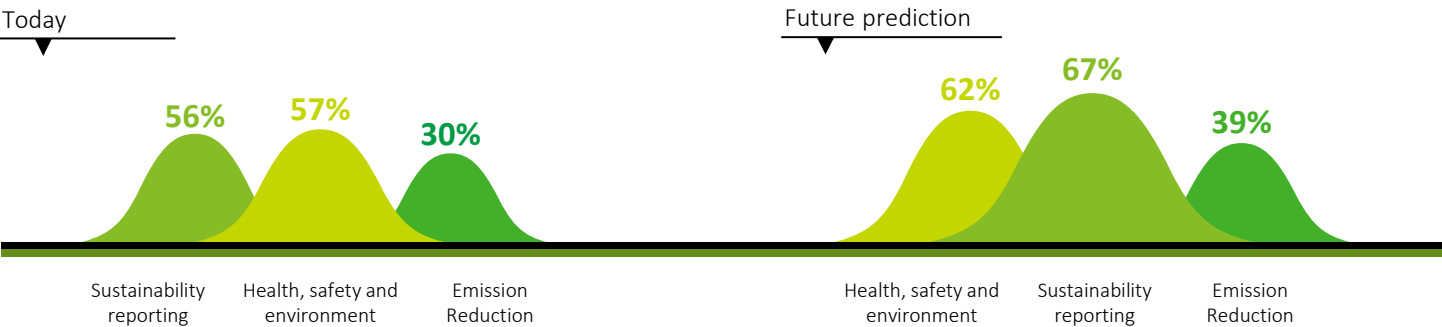
believed ESG issues are increasingly important to be discussed during the pandemic

What drives the inclusion of ESG topics in the board’s meeting?



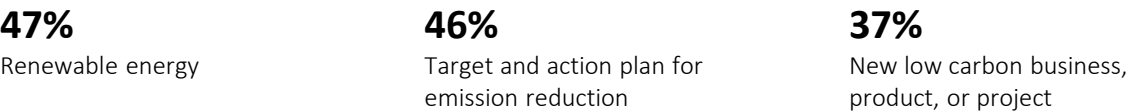
IN FOCUS: BOARD MEETING & ESG

Insight on current and future ESG topics in the board meetings



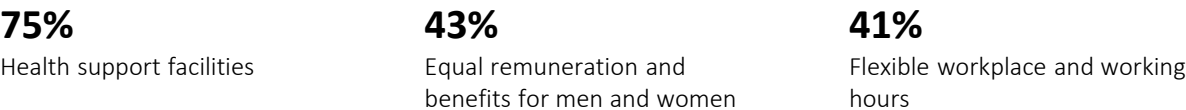
Into the Future: CLIMATE ACTION

Insight on the future focus of climate action initiatives



EMPLOYMENT & GENDER EQUALITY

Insight on the future focus of employment and gender equality initiatives



Key Findings

ESG-ALIGNED GOVERNANCE STRUCTURE

Common ways employed by companies to internalize sustainability



62%

Embedding additional sustainability & ESG job description and function into the existing team



46%

Appointing members of the BOD to spearhead the sustainability & ESG initiatives

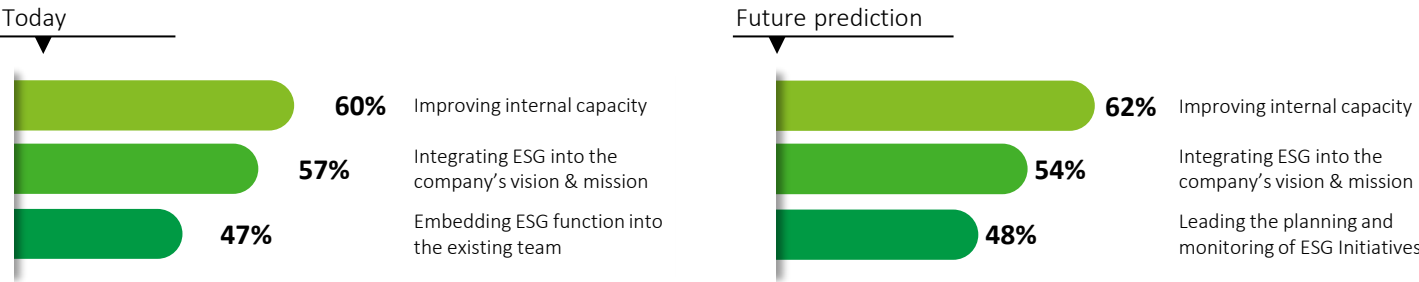


42%

Integrating sustainability & ESG within the company's Key Performance Indicator (KPI) at the management level

HOW CEOs ARE TAKING THE LEAD IN ADVANCING SUSTAINABILITY & ESG

Insight on current and future ESG leadership strategies



CEO's Learning Journey

The knowledge and skills beneficial in advancing CEOs' ESG leadership



Chapter 1

Sustainability and ESG amid COVID-19 Pandemic



The Pandemic: CEOs' reflection towards sustainability

Sustainability Amid Pandemic

Q: During the pandemic, sustainability & ESG become...
(n=138)

84%

of CEOs believed ESG issues are becoming crucial amid COVID-19



62% Increasingly important, already included in the board meeting agenda

22% Increasingly important, but not yet included in the board meeting agenda

16% Not urgent, because the company's operational is affected by COVID-19

1% Do not know

The pandemic drives businesses to build greater resilience, recovery, and ability to overcome disruptions that can affect the organization's survival in the future.^[1] Deloitte and GRI surveyed CEOs about their sustainability priority amid COVID-19. Most CEOs believed that sustainability issues were becoming crucial during the pandemic.

Although 84% of CEOs stated that ESG and sustainability are becoming increasingly important, 22% of CEOs still have not included the topic of sustainability on the board's agenda. The issue of sustainability is expected to be one of the board's agendas because implementing sustainability across the company will require the tone from the top and reflects the company's maturity in sustainability issues.

Sustainability maturity can be defined as a management approach that helps companies integrate ESG criteria into business strategy, operational implementation, risk management, and compliance. In Indonesia, the POJK 51, which targets the financial services sector, has directed that ESG and sustainability be included in the board's agenda through the Sustainable Finance Action Plan, which requires approval from the BOD and is acknowledged by the BOC.



THE UNDERLYING URGENCY AND REASONS TOWARDS A MORE ESG-CENTRIC POST-PANDEMIC WORLD



4 out of 5 global risks are environmental risks

According to the Global Risk Report 2020, environmental disasters were by far a major risk faced by the world, posing a significant threat to social and economic stability.^[2]



Environmental and social issues are stalling national recovery

Based on a study by the National Development Planning Agency (BAPPENAS) and the University of Indonesia (UI), the pandemic induced disruptions over the food supply chain, poverty, unemployment, social inequality, and vulnerable communities, as well as general waste and medical waste problems.^[3]



Rising stakeholders' concerns and expectations on business

Environmental and social issues were intensifying. Simultaneously, concerns from consumers, investors, and broader stakeholders were sky-rocketing.^[4]



ESG sows opportunities to grow internally and expand new markets

Aligning ESG to the business strategy can spur long-term competitive advantages through innovation, brand differentiation, consumer loyalty, cost efficiency, attractiveness, and talent retention.^[4]



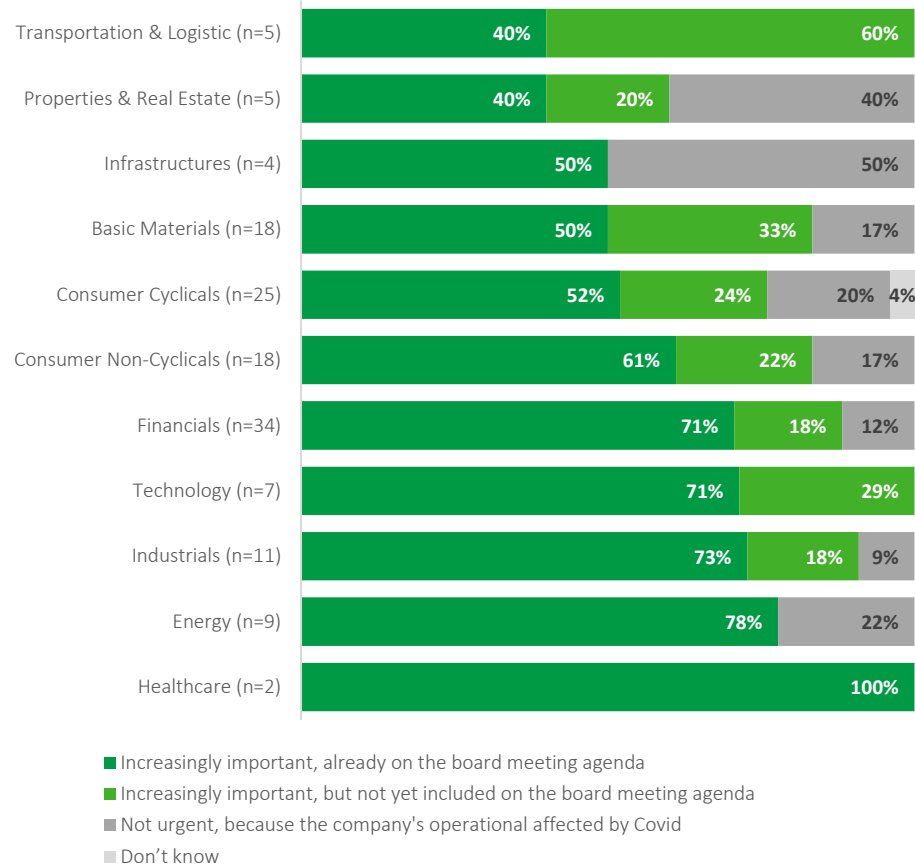
Value protection for business

The implementation of sustainability can minimize the costs and risks associated with reputation risks and social licenses to operate, operational risks and disrupted macroeconomic conditions, social and environmental context, as well as organizational resilience.^[4]

The Pandemic: CEOs' reflection towards sustainability (Cont.)

Sustainability Amid Pandemic

Q: During the pandemic, sustainability & ESG become...
(n=138)



Deep Dive: Sectoral Overview

Furthermore, almost all CEOs from various sectors have considered sustainability an important issue during this pandemic, especially for the health, energy, industrial, technology, and financial sectors.

Sectors with the Highest Concern on ESG and Sustainability

- The pandemic has exposed the health sector to ESG issues, including raising concerns on employee health safety and equal access to health facilities and vaccines for the community.
- National sustainable finance regulations has successfully driven ESG considerations in the financial sector.
- Indonesia's commitment to the Paris Agreement has encouraged the energy sector to switch to renewable energy and pursue emission reduction targets.

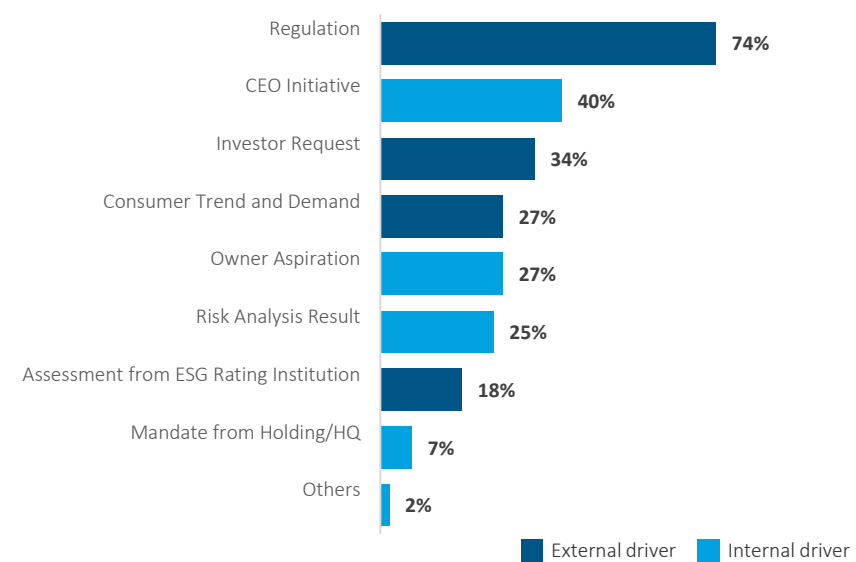
Sectors with the Lowest Concern on ESG and Sustainability

- Several sectors such as infrastructure and properties and real estate sectors have not considered the sustainability aspect, as they were indirectly impacted by the pandemic and received relatively low pressure from stakeholders to implement sustainability. ^[31]



Main Drivers on ESG Board Discussion

Drivers of ESG Discussion on the Board’s Agenda
Q: What are the main drivers driving the inclusion of sustainability & ESG into CEO and Director’s agenda? You may answer more than one.
(n=138)



The ever-evolving stakeholder value and good corporate governance have urged business leaders to consider a greater extent of externalities and stakeholder interest^[5]. Based on the survey results, there were three main drivers directly influencing CEOs to include sustainability into the board’s agenda, namely regulation (74%), CEO initiative (40%), and investor request (34%).

Overall, two of three drivers came from external factors. When external transformations are faster than the company’s reaction, leadership is vital to guide the organizations in understanding and adapting to the pace of external changes.^[7]

Driver #1 REGULATION

Currently, 74% of ESG drivers were attributable to regulation. The regulatory push for ESG and sustainability are increasing and evolving, which in turn affects the business landscape. The Government of Indonesia’s support for ESG and sustainability has intensified as exemplified by the commitment to Sustainable Development Goals 2030 and the currently evolving low-carbon development agenda. One of the regulations resulting from these commitments is the Financial Services Authority Regulation (POJK) 51/POJK.03/2017, which requires public companies to implement ESG and disclose sustainability reporting.

Given that regulation is the highest driver in encouraging CEOs to implement ESG standards, its implementation needs to be strengthened through economic instruments (subsidies, soft loans, grants) and non-economic instruments (such as increased coordination and collaboration, capacity building, adequate infrastructure, and information technology). ^[8]






Generally, some sectors are highly regulated by legal compliance while others are less strict. The financial service sector is highly regulated by numerous laws. The basic materials sector and consumer sector are sufficiently regulated by legal compliance. ^[9,10]

Based on the survey, four out of five sectors stated that regulation was the main driver for ESG discussion on the board's agenda, comprising financial sectors (74%), consumer cyclicals (76%), consumer non-cyclicals (72%), and basic materials (78%). Regulation is seen as a driving factor in long-term business operations.

ESG implementation can be accelerated for the high-compliance sector through sectoral dialogues, partnerships, and capacity building between business and government to build a common understanding of the barriers and opportunities on ESG issues.

Main Drivers on ESG Board Discussion (Cont.)

ESG Discussion Driver on Board Agenda (Selected Sectors)

| Sectors | Driver #1 | Driver #2 | Driver #3 | Driver #4 | Driver #5 |
|---|-------------------------------|--------------------------------|-------------------------------|---------------------------------|--------------------------------|
|  Financials (n=34) | 74% Regulatory Changes | 29% Investor Request | 26% Owner Aspiration | 24% Risk Analysis Result | 24% CEO Initiative |
|  Consumer Cyclicals (n=25) | 76% Regulatory Changes | 40% Investor Request | 40% CEO Initiative | 28% Owner Aspiration | 28% Market Demand Trend |
|  Basic Materials (n=18) | 78% Regulatory Changes | 39% Market Demand Trend | 28% CEO Initiative | 22% Risk Analysis Result | 22% Investor Request |
|  Consumer Non-Cyclicals (n=18) | 72% Regulatory Changes | 44% CEO Initiative | 33% Regulatory Changes | 28% Risk Analysis Result | 28% Market Demand Trend |
|  Industrials (n=25) | 82% CEO Initiative | 64% Regulatory Changes | 64% Investor Request | 45% Risk Analysis Result | 36% ESG Rating |

Driver #2

CEO INITIATIVE

CEO's leadership played an important role in managing sustainability issues. 40% of CEOs stated that the inclusion of sustainability into the board meeting agenda was driven by their own initiatives. CEOs act as a decision maker which brings ESG implementation to the company as an approach to adapt to the current trend and minimize the upcoming risks. ^[11]

CEOs need to have adequate knowledge and resources on ESG. The steps to sharpening CEOs' understanding of sustainability issues and decisions can be done through several activities, including getting involved in sustainability events such as conferences, seminars, and workshops, and through gaining insight from peer learnings, client interactions, and colleague feedback on facing ESG issues from firsthand perspectives. ^[12]

The main driving factor for the industrial sector was the CEO initiative (82%). The industrial sector has changed rapidly compared to stable sectors, thus emphasizing the importance of a company's agility and ability to innovate in winning the market. ^[9] CEO leadership is indispensable for strategizing, innovating, and proactively adapting to a fast-moving landscape as one of the keys to business resilience. ^[13]

CEO involvement is required through upholding leadership and commitment on the sustainability journey. CEOs can actively encourage sustainability initiatives through advocating and communicating internally and externally, directing strategy and goals, assigning responsibilities to employees, and providing a supportive environment. ^[14]

On The Board's Agenda: Current and Future ESG Topics

The heightening demand of key stakeholders and the risk of disruption experienced during and after the pandemic have increasingly prompted CEOs to consider diverse ESG topics on the board's agenda. As businesses begin to reopen during the new normal, companies need to rely on their employees, vendors, and customers to go beyond the response phase and start to “build back better”.

GRI and Deloitte asked CEOs about what ESG topics were discussed on the board over the past year and predictions for the next three years. Based on the survey, the most discussed ESG topics on the current and future board meeting were ‘employee health and safety’ and ‘sustainability report’. In general, the board’s sustainability discussion was expected to increase over the next three years.



Topic #1

THE RISE OF HEALTH SAVVY

Currently, 57% of CEOs recognized that prioritizing employees’ health and safety was the main ESG agenda. The pandemic has pushed CEOs to pay more attention to the health of their employees as health drives performance, company reputation, and organizational culture. ^[15]

CEOs need to adapt to all possible changes occurring in the health and safety aspects, especially the ongoing COVID-19 pandemic conditions and its new variant, Omicron, that can impact employee health and upcoming changes in health regulations. The pandemic may insist CEOs adjust the standard operating procedures, policies, communications, and adjustments to physical offices guided by the focus to promote workers’ health. Managing health issues nowadays needs to address a broader and integrated scope—covering physical, emotional, mental health, and well-being—for individuals, companies, and the wider community. Additional access to health-related resources and working arrangements beneficial to workers’ health also need to be considered, such as flexible work schedules, home office supplies, and mental health resources. ^[15]

Topic #2

MANDATE OF SUSTAINABILITY REPORTING

Sustainability reporting is becoming mainstream following the growing demand from regulators and investors to disclose non-financial metrics, comprising information on sustainability performance, management approach, and future targets. ^[16] Stock exchanges in various countries (such as the Stock Exchanges in Singapore, Malaysia, and China) have mandated all listed companies to disclose sustainability reports annually. Indonesia herself began to require all registered companies to submit sustainability reports in 2022, as mandated in POJK 51/POJK.03/2017. ^[17]

As more companies will be aware of sustainability reporting in the future, capacity building and support on developing sustainability reports are needed, including guidance on fundamental approaches for current state assessment, stakeholder engagement, materiality assessment, data collection, and reporting standards. ^[18] Hence, sustainability reporting will not act as a form of compliance but as an evaluation of companies’ progress towards sustainability.

On The Board's Agenda: Current and Future ESG Topics (Cont.)

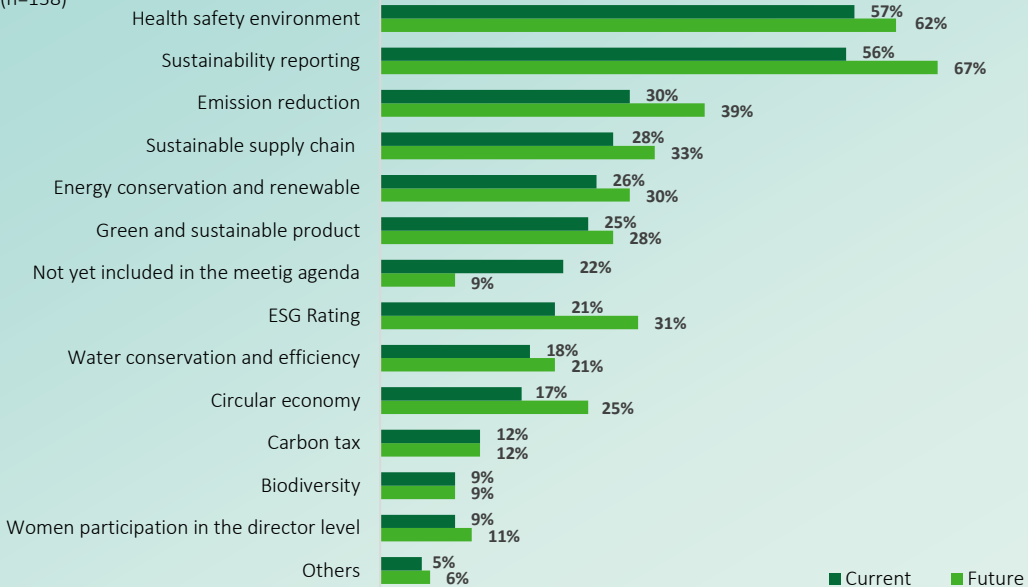
A diverse outlook of future ESG trends

Increasing future ESG priorities:



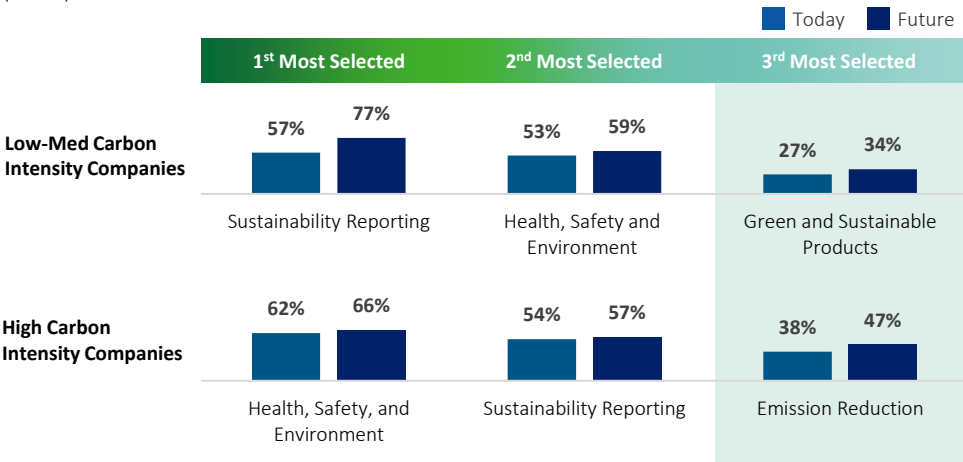
Sustainability at the Board's Meeting Amid Pandemic

Q: What issues have been discussed on the board meeting agenda?
(n=138)



DEEP DIVE: TOPIC OF DISCUSSION BASED ON CARBON INTENSITY

Q: What issues have been discussed on the board meeting agenda?
(n=138)



Low-med and high carbon intensity companies show similar concerns for sustainability topics, except for the third most selected concern. As low-med carbon intensity companies do not emit a large amount of carbon emission by themselves, they focus on developing and shifting to green and sustainable products to avoid any sustainability risks in the future.

However, **high carbon intensity companies** tend to focus on reducing their carbon emission to meet the regulated standard threshold. For instance, attempts to fulfill the Regulation of the Minister of Environment and Forestry No. 11/2021, and further to support the commitment of Indonesia to reduce GHG emissions by 29% (own capacity) or 41% (international assistance) by 2030.

Chapter 2

CEO's Leadership in Sustainability and ESG



CEO Leadership: Driving Sustainability Governance

Incorporation of Sustainability & ESG into Governance Structure

Q: How do you align sustainability & ESG into the organization's governance structure? May answer more than one.

(n=138)

- 62%** Embedding additional sustainability & ESG job description and function on existing team
- 46%** Appointing members of BOD to lead sustainability & ESG issues
- 42%** Integrating sustainability & ESG into company's KPI in management level
- 39%** Establishing sustainability committee to monitor sustainability & ESG issues
- 25%** Appointing dedicated person (such as Chief Sustainability Officer) in executive level for sustainability & ESG issues



More companies are starting to integrate sustainability into their organizational structures^[19]. CEO leadership in managing, monitoring, and measuring sustainability is necessary, although, in practice, it can be complex. In this survey, Deloitte and GRI explored the steps taken by CEOs in integrating ESG into the corporate governance structure.

Approach #1

ALIGNING SUSTAINABILITY INTO EXISTING TEAM

Based on the survey, a majority of the companies (62%) aligned their sustainability concerns by delegating sustainability descriptions and functions to the existing teams. These considerations may be based on the ease of aligning existing structures and businesses.

Considering sustainability needs to be embedded in operational aspects and synergized into business units, CEOs must conduct further studies on the extent of the maturity and readiness of the team in carrying out sustainability agenda. The sustainability team's functions should include coordination, monitoring, and sustainability reporting roles. Globally, several companies mandate sustainability agendas into existing teams led by CSR, environment, human resources (HR), communications, operations, risk management, or investor relations.^[11]

In general, the forms of sustainability governance for companies may vary and depend on certain considerations, including organizational culture, governance structures, operational and business models that may be exposed to ESG risks, as well as skills and knowledge within the organization.^[11,20]

Approach #2

APPOINTING BOD MEMBERS

The role of CEOs and the board in overseeing sustainability issues has intensified as 46% of companies have appointed BOD members to lead the initiatives. This indicates the importance of leadership support to drive sustainability strategy.

As companies become more mature in integrating their ESG programs within business strategies, the board and management are also becoming more involved in overseeing sustainability issues. For example, BOD members will be appointed to oversee the trend in sustainability and the alignment with business strategies.

In advancing ESG, the CEOs and the board need to understand external risks and opportunities and contribute such insights to the company. It will help the organization to reconfigure its strategy, provide leadership and assistance to formulate strategy by engaging, educating, and connecting with the teams. The necessary skills to foster the implementation include the skills for strategic thinking, persuading stakeholders, and making ESG more prominent and tangible in business.

CEO Leadership: Driving Sustainability Governance (Cont.)

Approach #3

INTEGRATING KPI AND OTHER APPROACHES

42% of CEOs have integrated sustainability & ESG issues into the corporate Key Performance Indicator (KPI) at the management level. Having measured sustainability indicators at the management level allows companies to execute the demand of internalizing sustainability agenda. ^[21]

KPI is used to manage, measure, and report on the company's sustainability performance. In developing KPI, CEOs need to assess how activities within the organization can be integrated with sustainability issues.



According to the survey, the first rank for sustainability governance strategy for local and multinational companies was to embed additional sustainability and ESG job descriptions and functions into an existing team. Meanwhile, the most selected sustainability governance for state-owned enterprises (SOE) companies was integrating sustainability and ESG into the company's KPI at the management level.

One of the underlying considerations for SOEs to consider developing sustainability KPI is the mandate assigned to SOE directors to implement social principles within performance indicators. Referring to the Ministerial Regulation (Permen) No. PER-11/MBU/11/2020 concerning Management Contracts and Annual Management Contracts for Directors of State-Owned Enterprises, one of the KPIs of the directors is the principle of economic and social value for Indonesia.

DEEP DIVE: INTEGRATION BASED ON COMPANY OWNERSHIP

Q: How do you align sustainability & ESG into the organization's governance structure? You may answer more than one.

(n=138)

Local Company

- 68%** Embedding additional sustainability & ESG job description and function into the existing team
- 47%** Appointing members of BOD to lead sustainability & ESG issues
- 41%** Integrating sustainability & ESG into company's KPI at the management level

Multinational Company

- 53%** Embedding additional sustainability & ESG job description and function into the existing team
- 43%** Appointing members of BOD to lead sustainability & ESG issues
- 43%** Establishing sustainability committee to monitor sustainability & ESG issues

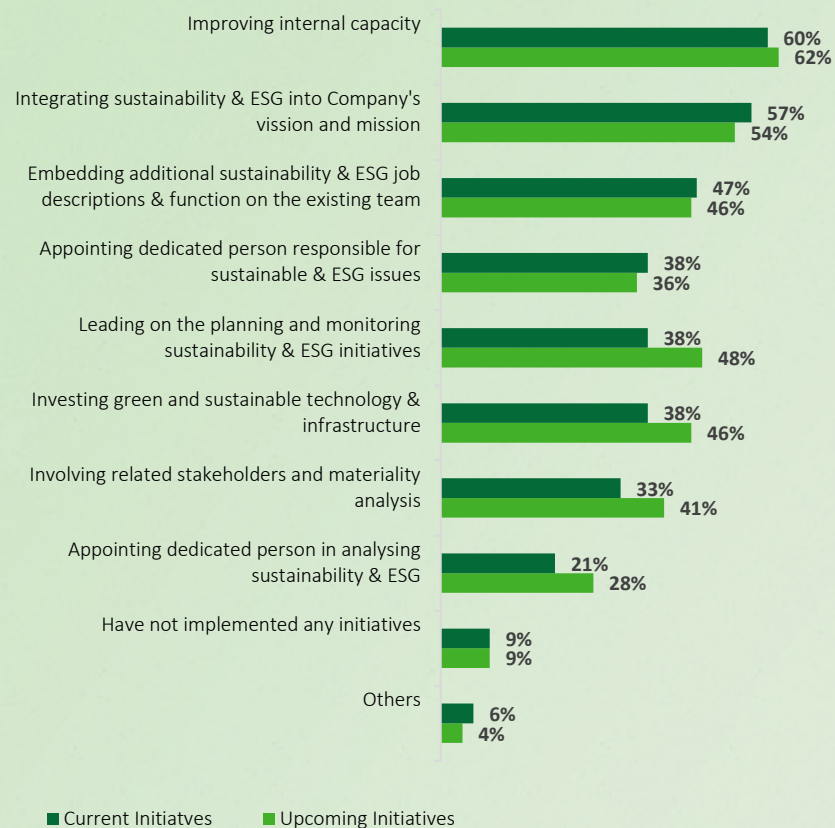
State-Owned Enterprise

- 86%** Integrating sustainability & ESG into Company's KPI at the management level
- 71%** Embedding additional sustainability & ESG job description and function into the existing team
- 57%** Establishing sustainability committee to monitor sustainability & ESG issues

CEO's Sustainability Effort

CEO's Effort for Sustainability and ESG Oriented Actions

Q: What efforts have you made in implementing sustainability & ESG in the company in the past year?
(n=138)



The main efforts made by CEOs in encouraging sustainability within companies were improving internal capacity and integrating sustainability and ESG into the company's vision and mission. In addition, CEOs have also begun to incorporate sustainability into the existing team.

Effort #1

IMPROVING INTERNAL CAPACITY

Most CEOs' efforts (60% for current implementation and 62% for future implementation) focused on improving internal capacity, including ESG and sustainability training and awareness-raising among the employees.

Building internal capacity is critical to developing awareness, knowledge, skills and is beneficial to augment the scale of the company's sustainable transformation journey. The form of capacity-building must be tailored to the needs of the organization.



Another commitment for the next three years is the growing CEO initiative to take on a role in planning and monitoring ESG initiatives. Moving forward, CEOs will also strive to implement green and sustainable technology and infrastructure, and conduct stakeholder engagement and materiality analysis.

Therefore, CEOs need to understand the current organizational capabilities and the skill gaps to be addressed in order to reach the desired future state of sustainability.

Internal capacity building components need to elucidate the way of thinking that can accelerate sustainable transformation by instilling:

- 1) **Forward-looking approach in understanding threats, opportunities, and pressures on sustainability that might occur to the business in the future;**
- 2) **Internal exploration on how business operations can be reconfigured to accelerate the transformation towards greater sustainability;**
- 3) **Ecosystem perspective to leverage the surrounding business ecosystem to create a competitive advantage.**

CEO's Sustainability Effort (Cont.)

Effort #2

INTEGRATING WITHIN VISION AND MISSION

Another considerable effort was to integrate ESG and sustainability into the company's vision and mission that has been implemented by 57% of CEOs and will still be implemented in future years by 54% of CEOs.

The integration of ESG and sustainability within vision and mission is required to lay the foundation, build a common understanding of the importance of sustainability among the company and its key stakeholders, and establish a common goal in integrating ESG aspects into the business. The first step that the CEO can take is to understand the scope and relevance of ESG to business strategy, both in terms of risks and opportunities. CEO can also conduct stakeholder engagement and materiality assessment to better understand the company's exposure to ESG issues.

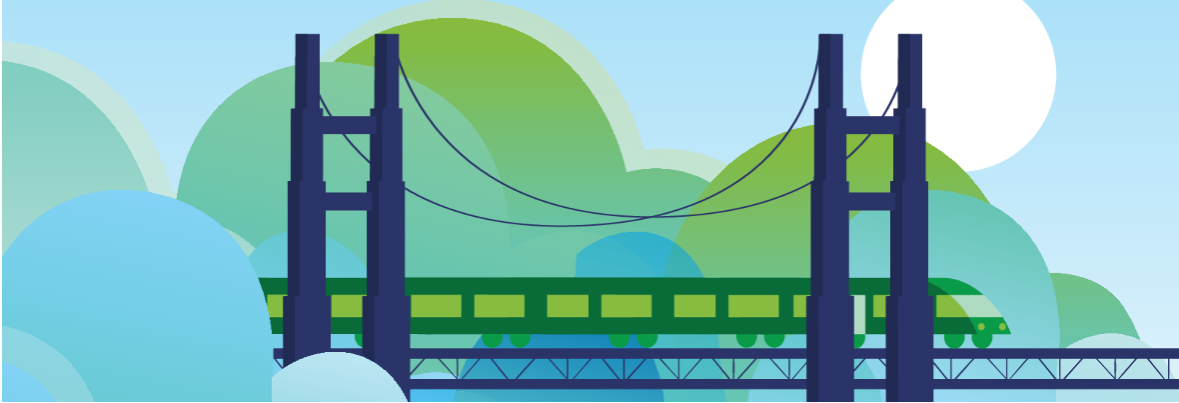


Chapter 3

CEO Key Focus Area












CEO Focus Area: Climate Action



Future Consideration on Climate Action and Decarbonization

Q: Which of the following climate change issues will be the company's priorities for the next three years?
You may answer more than one.
(n=138)

| Top 3 Climate Action Priority | Who is having this prioritized? |
|---|--|
|  #1 Using renewable energy at the operational level (47%) |  Industrial  Basic Material |
|  #2 Developing targets in emission reduction (46%) |  Basic Material  Consumer Cyclical |
|  #3 Developing business in low-carbon project/products (37%) |  Financial  Technology |

Reflecting on the impact of climate inaction in comparison to the COVID-19 outbreak, tackling climate change became one of the future concerns of stakeholders. Hopes are pinned on a post-pandemic "green recovery" – as economies reopen, businesses make better changes and greener choices.^[21]

This survey asked how CEOs respond to climate action for the next three years. Based on the results, most CEOs were likely to use renewable energy at the operational level (47%), develop emission reduction targets for future climate action (46%), and shift to low carbon projects or products (37%).

Climate change has diverse impacts and responses from various sectors, particularly those with high energy and emission intensity, such as the energy, industry, and raw material sectors. More than 80% of respondents from the energy (n=9) and industrial sector (n=11) and over 60% of respondents from the raw material sector (n=18) stated that they would prioritize climate change initiatives in the next three years. These sectors are considered energy-intensive sectors characterized by the high need for electricity to generate business operations, which are primarily generated from coal power plants.^[22]

Focus #1 RENEWABLE ENERGY

47% of CEOs planned to use renewable energy as the prioritized action on climate change issues. The sectors with the highest votes for the use of renewable energy were energy (89%, n=9), industrials (82%, n=11), and basic materials (61%, n=18).

The movement towards New Renewable Energy (NRE) is rapidly growing, owing to regulatory impetus, rising investor interest in NRE, and improvement in long-term cost efficiency. The Ministry of Energy and Mineral Resources (EMR) is drafting a roadmap to Net Zero Emission (NZE) by 2060 with a target of a 100% NRE energy mix.

In the near future, EMR will also issue a presidential regulation on NRE and the discontinuation of coal power plants. ^[23]

CEOs can gradually transition to a low carbon economy by increasing renewable energy within the energy mix through utilizing energy sources from solar panels, biomass power, hydroelectric or geothermal power, increasing grid interconnection and activating smart grid, and using electric transportation.

CEO Focus Area: Climate Action (Cont.)

Focus #2 EMISSION REDUCTION TARGET

46% of CEOs voted they would prioritize setting emission reduction targets as the forthcoming climate action in the next three years. Consumer non-cyclical and basic material sectors put emission reduction targets as the first concern on climate action.

Indonesia commits to reduce GHG emissions by 29% (own capacity) or 41% (international assistance) by 2030, with the primary sectors including forestry, energy, transportation, waste, industrial process and product use, and agriculture.^[24]

CEOs need to ensure that they have a fundamental understanding of climate risks and their implications on the business. The key questions that CEOs need to answer are: What business models need to be adapted for achieving emission reduction targets? What are the changes that need to be made? What is the current organizational capacity relating to operations, technology, and capital planning? What are the needed supporting conditions? ^[25]

Further, CEOs can reduce emissions by implementing cost-saving initiatives, such as reducing waste, increasing product circularity, and increasing energy efficiency. Companies can also engage with important stakeholders such as climate-conscious investors, policymakers, and customers.

Focus #3 DEVELOPING LOW CARBON PRODUCT/PROJECT

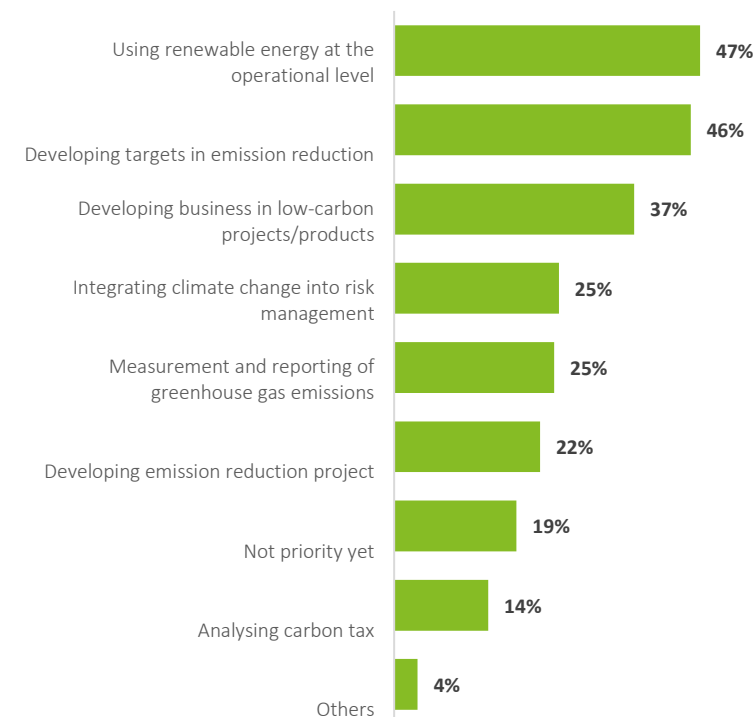
37% of CEOs voted to pursue climate action by developing low-carbon products or projects. From sectoral perspectives, the financial sector scored the highest on low-carbon products or projects development. Although the financial sector does not emit emissions significantly, it plays a crucial role in supporting low-carbon financing.

Companies pursuing the development of low carbon products or projects can refer to POJK 51/POJK.03/2017 which outlines the 13 sustainable business activities, such as renewable energy, pollution control and prevention, environmentally-friendly transportation, and climate change adaptation. ^[17]

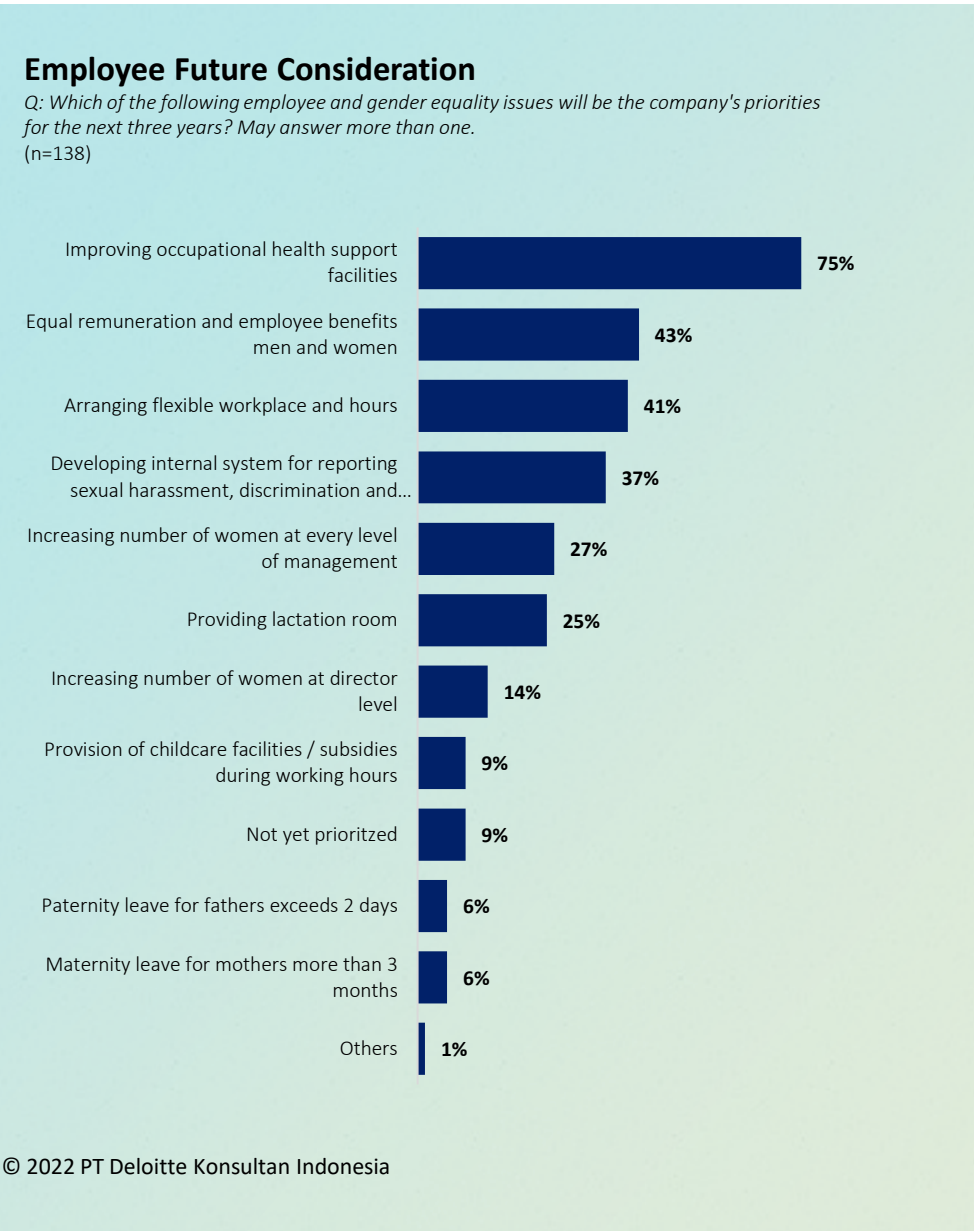


Future Consideration on Climate Action and Decarbonization

Q: Which of the following climate change issues will be the company's priorities for the next three years? May answer more than one (n=138)



CEO Focus Area: Employee & Gender Equality



One of the challenges faced by CEOs during the pandemic and beyond is employment, starting from adjusting the work environment to the new normal, increasing employee productivity, retaining and attracting new talent, and fostering a fair and inclusive workforce.

This survey asked how CEOs would respond to future work situations which address issues over gender and employee equality for the next three years. Based on the survey, most CEOs would prioritize improving occupational health support facilities. In addition, CEOs also paid attention to equal remuneration and a flexible workplace and working hours. The future of work is bound to be more flexible, inclusive, and connected.

Focus #1

OCCUPATIONAL HEALTH SUPPORT FACILITIES

75% of CEOs stated they would focus on improving occupational health support facilities, such as by providing mental health services and equal health insurance benefits. The pandemic restored CEOs' concern for health and, consequently, pushed them to embed it into the fundamental organizational culture by considering a holistic health aspect, encompassing physical, emotional, mental health, and well-being for organizations ^[15].

The CEOs can promote access to the company's occupational health services in the long-term by 1) Setting long-term organizational improvement targets and performance indicators, 2) Listing health issues within standing items in executive meetings, 3) Aligning health access to be a part of the human resource management strategy,

4) Requesting periodic reports and including them in the audit plan review 5) Leveraging an organizational understanding of workforce health drivers.^[26]

Various companies provide extensive health and safety programs. These programs include insurance, additional access to telemedicine visits, provision of free medical prescriptions, mental health consultations, and meditation subscriptions. To reduce stress, several global companies even provide subsidies for childcare, discounted tutoring for employees' children, and college prep.^[27]

CEO Focus Area: Employee & Gender Equality (Cont.)

Focus #2

EQUAL REMUNERATION AND BENEFIT

The issue of equality has increasingly caught CEOs' attention as 43% of CEOs would consider the issue of equal remuneration and benefits between male and female employees in the future. Equal remuneration and benefits are proven to lead to employees having higher motivation, lower turnover rate, higher brand reputation, as well as avoid potential risks on ethics compliance.^[28]

To help CEOs in enhancing equal remuneration, several steps for consideration include: 1) Eliminate bias by conducting an annual remuneration review and ensuring that equal remuneration policies and procedures are implemented, 2) Actively communicating the issues internally and externally, 3) Including pay equality on the agenda of the succeeding executive team, 4) Asking HR team to report on salary equity analysis. ^[28]

Focus #3

FLEXIBLE WORKPLACE AND WORKING HOUR

The COVID-19 pandemic has altered the way businesses operate. As a way to adapt to the current challenges and keep the business running, around 41% of CEOs would likely consider workplace arrangements and flexible working hours as their top priority issues.

In the future, more and more companies will implement a hybrid work model between working on-site and virtually. There is no 'one size fits all' when it comes to working hours and optimal work arrangements. Thus, CEOs need to recognize a variety of workforce needs in alignment with business needs.

In adapting to the new work model, several things to be prepared include technical support for the new ways of working. Apart from technology, human relations are an irreplaceable part. Empathic conversations among team members to stay connected are vital. The power of collaboration is one of the keys to running a flexible work model.

It should be noted that working from home should not change normal working hours, compensation, benefits, or work responsibilities. However, some flexibility may be required by the agreement between the manager and the relating worker in accordance with applicable laws, regulations, and company policies.



Chapter 4

CEO Learning Journey










CEO Learning Journey

Sustainability & ESG Made into CEOs’ Training Watchlist

Q: Are you interested to partake in a Sustainability & ESG learning session?
(n=138)



| Knowledge & skills needs | Learning format |
|--|---|
| Q: If answered “Yes”, what are the sustainability & ESG-related knowledge and skills that you need? May answer more than one. (n=131) | Q: If answered “Yes”, please input your advice for the design of the learning session. (n=131) |
|  88% Integrating sustainability & ESG into the company's long-term strategy |  60% Online learning |
|  69% Understanding sustainability risks and opportunities |  59% Public seminar |
|  61% Aligning sustainability into governance structures |  49% Small group discussion with sustainability expert |
| |  38% CEO sharing session |



To explore deeper into the CEOs’ education needs, Deloitte and GRI also asked CEOs about their learning interest in sustainability topics. Almost all (95%) CEOs expressed interest in participating in future ESG and sustainability learning sessions. This finding aligns with Deloitte Global research indicating that business leaders were increasingly focused on ensuring sustainable development as an integral part of their long-term businesses.^[29]

The skills needed by CEOs were mostly related to how CEOs can integrate sustainability and ESG into the company's long-term strategy (88%). The preferable training formats were e-learning (60%) and public seminar (59%).

The CEO development step is critical to navigating tipping points, designing strategic agendas, and leading personal and organizational change.^[30] CEOs can improve their knowledge and ESG leadership through education (training and e-learning), exposure (feedback and interaction), experience (rotation and business projects), and environment (tool and infrastructure).^[12,30]

Furthermore, in carrying out the company transformation, the maturity of CEO leadership in implementing sustainability and ESG becomes a critical factor. Leadership is among the three pillars that need to be considered by CEOs, along with organizational culture and organizational design.^[31]

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