

Creating Shared Values: A Case Study of Samudera Indonesia and Soedarpo Family

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ABSTRACT

PT Samudera Indonesia Tbk (SMDR) is one of the biggest logistic and shipping companies in Indonesia, it is majority-owned by one of the oldest family businesses, the Soedarpo Family. This research aims to describe the ESGRC activities at SMDR. Based on our interview and study literature, the result shows SMDR has excellently implemented both ESG and GRC. SMDR believes in going beyond its mission of providing quality marine cargo transportation and logistics services, to create shared value for its stakeholders. For SMDR, to be responsible for the business is not only through Corporate Social Responsibility (CSR) activities, but also to ensure that every business operation conducted has complied with environmental and social regulations.

Keywords: ESG, GRC, CSR, Family-Owned Business, Samudera Indonesia.



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INTRODUCTION

Samudera Indonesia and Soedarpo Family

PT Samudera Indonesia Tbk (“SMDR” or the “Company”) is engaged in shipping, including transporting cargo by vessels and other activities where it acts either as a local or general agent for other shipping companies. The Company started its commercial operations in 1964. PT Samudera Indonesia Tangguh is the direct controlling shareholder of the Company. Figure 1 below, shows the ownership structure of SMDR.

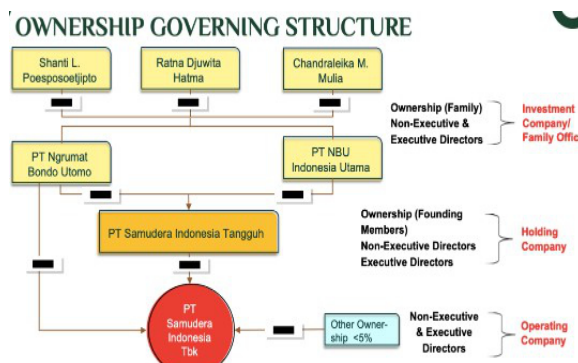


Figure 1. Ownership Governing Structure
Source: Ngrumat Bondo Utomo

PT Sumatera Indonesia Tangguh is owned and controlled by PT Ngrumat Bondo Utomo (“NBU”) and PT NBU Indonesia Utama. NBU and PT NBU Indonesia Utama shares ownership is divided equally among the family Shanti Lasminingsih Poesosoetjipto, Ratna Djuwita Hatma and Chandraleika Masli Mulia, with 33.33% of shares respectively -all are the daughters of Soedarpo Sastrosatomo, the founder of SMDR.

Family Motto and Governance Structure

Not only instilled by a strong basic values or motto -Patience, Resilience, Persistence, and Faith (Ngrumat Bondo Utomo, 2021)- the Soedarpo family has established a clear and written family governance structure, especially for an Indonesian family business. Not only in a business or corporate setting, but in a family, a well-defined governance structure can become a guideline for members to discuss issues, secure assets, and distribute roles among them.

In their family governance structure (see Figure 2) we can observe that it includes a Family Assembly as its constitution, a Family Council, an Ownership Structure (TRUST or LLC), and a division of Family Office (taking care of the family domestic investment, accounting, tax & legal, and philanthropy) and Family Business (holding and operating companies).

Not only within SMDR, but the Soedarpo family has also instilled strong shared values which create positive and productive environments in the family holding companies. Such consistency, to prioritize professionalism and benefits to society, from the highest level of decision-making (controlling shareholder) to the operating company (SMDR) makes them a role model in the industry.

RESEARCH PURPOSE

There are limited resources that describe Indonesian family-owned business governance and its ESGRC. Nevertheless, here, we have SMDR, a public company, majority owned and controlled by a family business, with one of the biggest market shares in Indonesian Stock Exchange (IDX), describe how they run the business remarkably and responsibly.

This chapter expects that observers can gain more knowledge on SMDR ESGRC activities and achievements, which one can argue that such milestones are affected by the strong value of the family who had founded the business.

METHODS

This part describes how researchers gather the necessary data or information that is used in this paper. Methods that were applied are as follows:

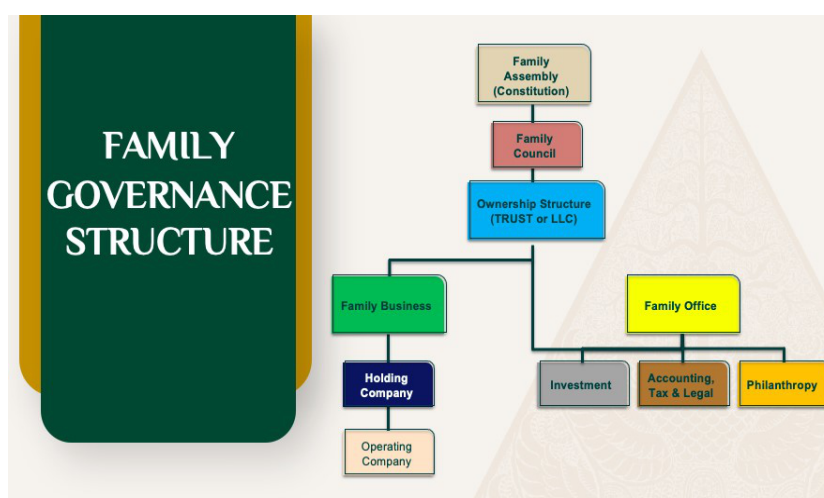


Figure 2. Family Governing Structure
Source: Ngrumat Bondo Utomo

Desktop and Literature Research

Before the group had a discussion with the primary resources (Ibu Shanti Poesposoetjipto herself and Ibu Helianti Sastromo, the Compliance Director of SMDR, both together referred to as "Primary Resources"), the group had collected SMDR's Annual Reports and information of its holding entities. The information had helped the group in understanding general information and perception upon SMDR.

Discussion Session

After analyzing the available public resources, the group did an online discussion with the Primary Resources, in 2 separate sessions, first with Ibu Shanti, then with Ibu Helianti the week after, to get a confirmation and insight from their point of view on the family business and ESGRC of SMDR.

RESULT AND DISCUSSION

In this section we can totally see that SMDR has been committed to conduct its business in accordance with sustainability principles. It consistently makes an effort in providing a comprehensive contribution to stakeholders and reduce the negative impact on the business, especially from economic, social and environmental aspects. Although it finds challenges the integration of sustainability programs due to the enormous scale of the company's divisions and units, it is safe to say that the Patience, Resilience, Persistence, and Faith values of its founders have become a guidance for the executors in the company's operation. Hence, the ESGRC measures can be done by the Company.

Application of International Standard in Environmental Management System

The company operates locally and internationally as a shipping business, according to our interview, SMDR ensures that all of its business units comply with regulations on environmentally friendly business practices. It does not stop with the element of complying with local regulations, the

company has also taken further steps by obtaining ISO 14001 Environmental Management System certification to ensure that the standards have been implemented in all of its business areas.

According to the Company's Annual Report in 2021, as confirmed during the interview, one of the businesses that has the most significant contribution to the company's energy consumption is Samudera Shipping. This business utilizes fuel in the form of MFO which is Marine fuel oil (MFO) that is used to power low speed marine diesel engines and marine gas oil (MGO), which has a lower viscosity to MFO and does not require preheating. It is used in medium to high-speed marine engines and Solar B30. The B30 blend, comprising 30% of palm oil-based Methyl Ester (PME) with 70% of diesel fuel, represents a substantial decrease in the amount of diesel fuel normally used by commercial transport vehicles.

The policy in the use of energy for vessels complies with regulations from the International Maritime Organization (IMO) regarding the use of low-sulfur fuels since 1 January 2020, with an allowable sulfur content of not more than 0.5% worldwide except for Emission Control Area (ECA). The company has also complied with IMO regulations for very low sulfur fuels with an allowable sulfur content of no more than 0.1%.

The Company has implemented initiatives to reduce the emissions footprint. These are based on compliance with IMO regulations on the use of low sulfur fuels and internal guidelines for environmentally friendly companies. Since the IMO regulations came into force, SMDR has increased the number of blends with low sulfur fuels such as LSFO, this new generation of low sulfur marine fuel oils (LSFO) called ultra-low sulfur fuel oils (ULSFO) with a sulfur content lower than 0.1% have been replacing traditional intermediate fuel oils and heavy fuel oils like IFO 180 and IFO 380 for use in the Sulfur Emission

Control Area (SECA), LSMDO and Solar B30 for ship operations in the Samudera Shipping division.

Social and Community Building

Through Corporate Social Responsibility (CSR) activities, SMDR has implemented various programs to contribute to the development and empowerment of the community. The company's CSR program is managed by Samudera Indonesia Peduli Foundation and Samudera Indonesia Education Foundation. In general, the CSR implementation policies focus on improving the living standards of the communities around the company's coastal operating sites, as well as other communities in need.

Throughout year 2021 the Company has carried out various CSR activities with an investment of up to Rp7.78 billion with the following details:

Category	Amount (Rp)	Percentage
Economy and Community	3,872,796,311	49.76%
Religious	1,968,128,957	25.29%
Humanity and Disaster	625,515,280	8.04%
Health and Sports	329,886,001	4.24%
Environmental Conservation	291,699,048	3.74%
Education	445,323,643	5.72%
Repairs and Development of Public Facilities	248,876,761	3.20%
Total	7,782,226,001	100%

Figure 3. CSR Activities Allocation
Source: SMDR Annual Report 2021

School Boats Program

Various CSR programs were implemented during the year 2021. First, Samudera Indonesia School Boat Program is the flagship program of Samudera Indonesia Peduli initiated in year 2018. Entering its third year of operation, it expanded the benefits of the Samudera Indonesia School Boat by increasing its fleet to three vessels in three provinces, namely the Sinar Waisai School Boat in Muaragembong, Bekasi District, the Sinar Wakatobi School Boat in Telong Elong, East Lombok, and the Sinar Way Kambas School Boat in Loa Kumbar, Samarinda.

The three vessels are specially designed to be a transportation fleet for students and teachers

in coastal areas of Indonesia to school by prioritizing security and safety aspects in accordance with the operational standards of the Company's vessels. The total beneficiaries of the Samudera Indonesia School Boat in year 2021 are 2,771 passengers. The Sinar Waisai School Boat operates on the Citarum River, Muaragembong, West Java, and the Sinar Wakatobi School Boat operates in the Telong Elong Sea, East Lombok, West Nusa Tenggara, while the Sinar Way Kambas School Boat operates on the Mahakam River, Samarinda, East Kalimantan.

Education Program

In year 2021, SMDR carried out an educational support program for outstanding cadets, who need tuition assistance and capture the best potential of young seafarers, from four shipping schools in three provinces in Indonesia, namely the Jakarta High School of Maritime Sciences, the Banten Shipping Polytechnic, Semarang Polytechnic Bumi Akpelni, and Semarang Marine Science Polytechnic. Samudera Indonesia Peduli conducts an interview selection process and academic grade selection for 118 prospective scholarship recipients. From the selection process, 33 best candidates were selected and received educational assistance for one year of education and the opportunity to practice in the company.

Other CSR Programs

From the Annual Report we can also learn that the Company also took several programs of CSR which focused on philanthropy. In 2021, 498 orphans and disadvantaged communities will receive program support. The fundraising program in 2021 was conducted four times: Ramadan 2021, 10 Muharram - PERWASI, The 57th Anniversary of Samudera Indonesia and Christmas 2021. Samudera Indonesia Peduli participated in helping victims of natural disasters in several regions in Indonesia. Some of the assistance provided, such as food distribution for

“emergency response” to the flood in South Kalimantan, occurred from October to December with 333 beneficiaries.

In addition to the food distribution, Samudera Indonesia Peduli also provided assistance of a rubber boat equipped with safety equipment to be given to local flood disaster response’s volunteers. The company also helped victims of the natural disaster of the Mount Semeru eruption that occurred on 4 December 2021. A total of 65 beneficiary families received health needs packages at the emergency post for a period until end of January 2022. Another assistance provided for victims of the Mount Semeru eruption was temporary rented housing units and kitchen equipment and business capital and assistance for 24 families heavily affected by the disaster.



Figure 4. Natural Disaster Relief & CSR Program
Source SMDR Annual Report 2021

CSR Linked with Supply Chain (Workforce)

According to the three categories of CSR activities by Sri Urip (Urip, 2010), one can argue that SMDR has applied types of CSR which:

- Is called community relations, where the choice of the CSR activity depends on the needs of the community or society in which the corporation is operating, and where it gives sustainable benefit directly to the community and society and indirect benefit to the corporation, such as community acceptance (the seafarer scholarships and boats programs); and.
- Corporate philanthropy, which is often seen as

the traditional CSR activity. This involves the direct contribution to charity in the form of cash grants, donations, or services in kind at the time of national disasters (the donations to people impacted by natural disasters).

High Standard of Governance Risk and Compliance

As a highly-compliant public company, SMDR ensures that Good Corporate Governance (GCG) implementation and policies are based on Indonesian laws and regulations as well as international standards. This implementation of the GCG is fully supported by the commitment of all managers and employees in the company. It is also complemented by internal control and risk management systems.

Governance

Board of Commissioners (BOC) is supported by the Audit Committee, the Nomination & Remuneration Committee and the Corporate Development Committee. Meanwhile, the duties of the Board of Directors are supported by a body that supports them also such as Executive Committee, CEO Office and Corporate Internal Audit.

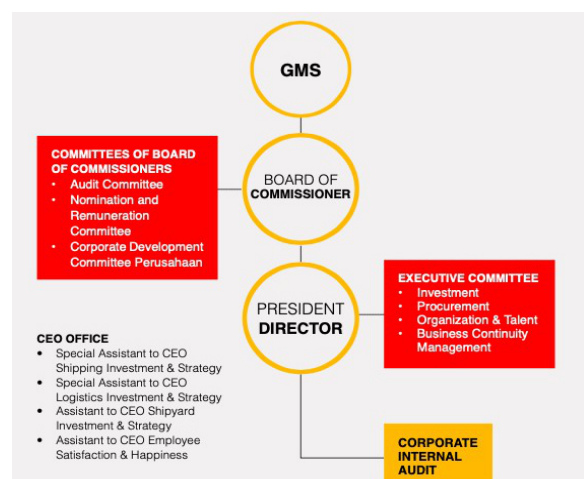


Figure 5. SMDR Organs
Source: SMDR Annual Report 2021

Internal Control

SMDR implements internal control to ensure the achievement of the effectiveness and efficiency of

the company's operational activities, preparation of valid financial statements, compliance with applicable laws and regulations. As the implementation of this internal control system, company establish policies and their derivatives has a standard operating procedure or Standard Operating Procedure ("SOP") and Risk Register that is periodically adjusted to develop the company's operations and business. SMDR does periodic supervision, carried out through DCIA to ensure compliance with regulatory SOPs, and the internal control system, makes sure that all has been running effectively and efficiently.

Risk Management System



Figure 6. Risk Management Framework.
Source: SMDR Annual Report 2021

For SMDR, business risk is an unavoidable factor inherent in the operations of its aspects of the business. The realization of the implementation of risk management as part of the GCG will protect the interests of the company, strengthen the company's resilience and provide shareholders with sufficient security that business risks can be optimally anticipated and calculated. The risk management policy is defined in the Enterprise Risk Management (ERM) framework implemented since 2017. ERM is an integral part of the business system that is continuously inculcated as the culture underlies every planning, implementation and performance management of all elements in the business.

Based on its type of business, SMDR has identified six risk exposures that may arise from its business activities, as follows:



Figure 7. Types of Risk
Source: SMDR Annual Report 2021

In profiling the risks and determine the mitigation efforts for each risk exposure, the company has determined a risk universe that comprises three categories:

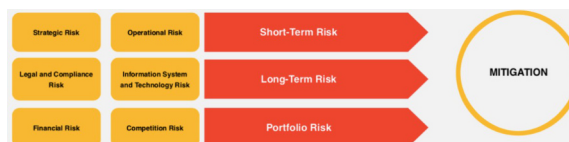


Figure 8. Risk Mitigation
Source: SMDR Annual Report 2021

Based on the three categories of risk, the Company can identify risks that may arise from each business activity and prepare a mitigation action for each risk.

CONCLUSION AND RECOMMENDATION

There are several conclusions which we can learn from the above descriptions on SMDR and the family governance.

Soedarpo family has a strong family philosophy and clear structure of governance –from its constitution to business and philanthropy operations. These positive values and presence of the founders help SMDR, and other entities in the group, to operate professionally and their longevity in the industry.

SMDR has complied with international standards in waste management, consistently built community and applied a high standard of corporate governance, risk management and compliance infrastructures.

Recommendation

Despite its positive testimonies and exposures, like any other companies. Including the most developed ones, there is always a room for improvement from time to time. We recommend that SMDR to establish its strategy in Creating Shared Values ("CSV").

CSV is necessary as a new paradigm of CSR application, whereby all stakeholders interest become the considerations in an effort to creating a shared beneficial value (Daniri,2021). The below figure shows three ways to approach the creation of CSV:

Creating CSV will strengthen the position of any company not only as a business entity, but also a social entity. A justified CSV can create a structured mutual relationship between a company's business and its surrounding ecosystem.



Figure 9. CSV Creation Approaches
Source: Lead by CSV, Daniri 2021

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