

CHAPTER I

INTRODUCTION

I.1 Background

Environmental, Social, and Governance (ESG) term has been widely recognized in the business communities in the past few years. According to the ESG page of the Indonesia Stock Exchange (IDX) website, ESG is a set of standards with three main criteria for measuring sustainability. Businesses have used it as one of the key factors in decision-making regarding investments. At the same time, the framework of ESG can be utilized to measure business impact on the environment, social, and governance aspects.

ESG is not merely corporate social responsibility (“CSR”) that businesses do to give back to the community. ESG comes in as a set of strategies with a well-defined framework to guide the entire business practices of a company. Although only increasingly popular in the past few years globally and a little later in Indonesia, the term ESG was first introduced back in 2005 in a report by the United Nations Environment Programme (“UNEP”) Finance Initiative (“FI”). The UNEP FI report promoted ESG and included it in investment decision-making and ownership practices. It was also the first report to promote research on ESG materiality.

UN Secretary-General at the time, Kofi Annan, led the process of defining frameworks for large institutions to implement Principles for Responsible Investment. Among the reasons is that the world poses risks and opportunities regarding the impact of businesses. The world has faced detrimental issues in the past few decades, ranging from climate change, ethical supply chains, poverty, hunger, discrimination, corruption, etc. The issues captured the attention of UN member countries way before ESG was coined by UNEP. In 1992, more than 178 countries adopted a set of action plans for sustainable development. In 2000, the plan evolved into Millennium Development Goals with the main objective of reducing extreme poverty. The UN member countries reconvened in 2015 to redefine the global goals to tackle those pressing issues and created the 17 Sustainable Development Goals (“SDGs”) with various targets we know today.

SGDs aim to eradicate poverty and hunger; promote good health and well-being, quality education, gender equality, clean water, and sanitation; affordable and clean energy; decent work and economic growth; industry innovation and infrastructure; reduce inequalities, sustainable cities and communities, responsible consumption and production; and to ensure the efforts for climate action; life below water; life on land; peace, justice, and strong institutions; as well as partnerships for the goals. The goals include every single urgent issue the world has been facing.

SDGs are not specific for businesses. This is the key difference between SGD and ESG. While companies can conduct initiatives to support the SDGs achievements of the country where they operate, they can choose not to contribute or to pick which goal is relevant to their businesses. Meanwhile, ESG was established to guide sustainable investments, intended for businesses to implement and eventually promote. Businesses, especially large investors, have the power and capital to make a difference and positive impact. ESG also solves the issue of business or industrial externalities posed by the

existence of industries or as a result of their products or natural resources extraction, which used to make headlines in the past.

In 2023, implementing and reporting ESG is more than a guidance. In some cases, it's a requirement. ESG implementation and reporting are regulated based on each country's laws. For example, in the United Kingdom, climate-related financial disclosures are mandatory for public, large-private, and Limited Liability Partnerships (LLP) companies. The UK Department for Business, Energy & Industrial Strategy issued a reporting guidance for companies in February 2022 that defines specific criteria for companies required to conduct reporting and the disclosure details. Their neighbor, the European Union (EU), the United States, and Canada, have issued directives or regulations with similar purposes.

Indonesia also jumped on the sustainability bandwagon. In 2017, the Financial Services Authority (OJK) issued a regulation no. 51/POJK.03/2017 coupled with a direction from IDX stated in a letter and their website determining that sustainability implementation and reporting are required for publicly listed companies in Indonesia. The sustainability reporting requirement started in 2020 to report the progress in the full year ("FY") of 2019 for financial services institutions and foreign banks, and the timeline for other categories varied. Public listed companies must start reporting their FY 2020 progress to be issued in their 2021 Sustainability Reports.

Based on IDX's industry sector classification in 2023, Sampoerna is categorized as Consumer Non-Cyclical, with tobacco as a subcategory. It is interesting to examine the progress of ESG implementation by tobacco companies, noting that this is one of the most regulated and controversial industries worldwide, not only in Indonesia. With the increasingly strict regulation and higher excise taxes imposed on the products marketed by tobacco companies, it has been dubbed as a "sunset industry." World Health Organization (WHO) stated that the tobacco epidemic is the biggest public health threat the world has been facing, with billions of smokers around the globe exposed to the risks associated with using tobacco products, especially cigarettes. However, the strict regulations, high excise taxes, and limited rooms for the industry made the sales volumes in Indonesia decrease every year. For instance, in 2022, the Ministry of Finance reported that cigarette production in Indonesia declined by 3.26% compared to the previous year (Rizaty, M.A. 2022).

This challenge of decline across the industry impacted the profitability and share price of the two biggest players in Indonesia: PT HM Sampoerna Tbk. (Sampoerna; IDX: HMSP) and PT Gudang Garam Tbk (Gudang Garam; IDX: GGRM). HMSP recorded a net profit decrease of 11.4% in 2022 compared to the previous year, even though the company recorded a 12.48% revenue increase. GGRM experienced a decline in revenues (0.16%), and net profit decreased by 50.41% in 2022 (Fernando, A. 2023). HMSP and GGRM used to be categorized as strong blue-chip LQ45 Index companies, but in September 2023, HMSP was ousted from the list, leaving GGRM the only blue-chip tobacco company. Both companies recorded more than 70% decline in share price in the past few years: HMSP was Rp3,970 on 15 February 2019, dropped to Rp860 on 30 September 2023 (78% decline), and GGRM was Rp92,050 on 15 March 2019, dropped

to Rp24,975 in 6 October 2023. Investors were not pleased with these financial performance results.

Being ousted from the prestigious blue chip stock index was not the only thing that happened to Sampoerna due to its plummeted share price. In November 2020, BEI issued the “IDX ESG Leaders Index” and collaborated with Sustainalytics, a leading independent institution engaged in ESG and corporate governance research. Sitting on number thirteen, HMSP was included in this index when it was first launched. By June 2023, HMSP was no longer considered a part of the IDX ESG Leaders Index (Safitri, 2020).

The ESG data provided is in the form of ESG risk assessments and controversy analysis, which will be the basis for determining the constituents of the IDX ESG Leaders Index. The Index calculation method uses the Capped Free Float Adjusted Market Capitalization Weighted & ESG Tilt Factored method with a maximum share weight limitation of 15%, adjusted at the time of evaluation (IDX, 2020). In the future, in addition to being used by investors as a guide for investing, the IDX ESG Leaders Index is also hoped to be used as an underlying for capital market products, such as mutual funds and Exchange-Traded Funds (ETFs), for investors’ easier consideration.

Tobacco companies’ business sustainability is still a puzzle. This research will specifically focus on analyzing the implementation, progress, and opportunities of ESG as a strategy to strengthen the overall business performance of PT HM Sampoerna Tbk., the current market leader and a multinational corporation (“MNC”). It is an Indonesian affiliate of Philip Morris International Inc. (“PMI”) that is listed both on the New York Stock Exchange (“NYSE”) and the EU (NYSE/Euronext Paris: PM).

I.2 Company Profile

With 111 years of presence, PT HM Sampoerna Tbk. (Sampoerna) is the oldest cigarette company in Indonesia today. It is one of the largest tobacco companies in Indonesia, and its main activities are manufacturing and trading tobacco products. In Q1 2024, the company employed a significant workforce with more than 90,000 direct and indirect employees throughout Indonesia (direct employees were around 20,000 people); and has 7 owned production facilities, including two machine-made cigarette factories and a smoke-free products factory, as well as partnered with 43 Third Party Operators (“TPO”) owned by local businesses for its labor-intensive product segment: hand-rolled *kretek* cigarettes (Sigaret Kretek Tangan/SKT). Sampoerna sold its products through 109 area sales and distribution offices across Indonesia.

In its 2023 Annual Report, Sampoerna outlined its key priorities:

- a) Pave the way for sustainable combustible cigarette performance;
- b) Establish the foundations and accelerate commercialization of smoke-free products;
- c) Consistently create value across the broader ecosystem in Indonesia, with sustainability embedded in the way the company runs its business and operations.

These key priorities show the company's importance of sustainability, which has become not only an addition to its business operations but also a necessity and the heart of its strategy to achieve successful business performance.

I.2.1 The History of Sampoerna

Sampoerna started as a family company in Surabaya, East Java, in 1913. The company's century-old history started with the perseverance of its founder, the first generation of the Sampoerna family, 20-year-old Liem Seeng Tee. He had learned how to roll cigarettes by working for a factory in Lamongan, and he opened a small kiosk in Surabaya that sold homemade cigarettes and other basic necessities.

In 1913, Liem Seeng Tee started a formal business titled “*Handel Maatschappij Liem Seeng Tee*” with its flagship product of *Dji Sam Soe* and a main belief of nine as his lucky number. He had the goal to make his company “a king of cigarette business”; therefore, he added a Chinese character of “Ong” or “King” to the pack and added “people” next to the King that combined are read as “Sampoerna” which then became his family and business name from then on. It took him almost 20 years to finally buy a large factory where he made large quantities of cigarettes by employing women from around the area to roll cigarettes.

After he passed away, the business continued under the leadership of his second son, Liem Swie Ling (Aga Sampoerna). He had started another cigarette business called PT Panamas, which subsequently became a subsidiary of Sampoerna. Under the second-generation leadership, the company launched Sampoerna Kretek, also known as Sampoerna Hijau. The business ran deep in the family, as Liem Seeng Tee’s daughter, or his third child, also started another cigarette business under PT Gelora Djaja, also known as Wismilak (IDX: WIIM).

As a tradition in a family business, when the previous owner passed, the company leadership goes to the children, most frequently the first son. The third generation of Sampoerna family business was helmed by Putera Sampoerna, who founded the infamous *Sampoerna A* or *A Mild* brand. It pioneered clove cigarettes (*kretek*) but machine-made and is lower in tar and nicotine content compared to its hand-rolled predecessors. Under his leadership, he expanded to establish the seeds of the company known as Alfamart today and a number of other businesses: *Sampoerna Kayoe*, *Sampoerna Agro*, *Bank Sahabat Sampoerna*, an international gambling company *Mansion*, *Putera Sampoerna Foundation*, *Sampoerna Academy and University*, and eventually *the Sampoerna Strategic Group* of companies. His son Michael Sampoerna succeeded his leadership in 2000 as President Director of PT HM Sampoerna Tbk. at the age of 22. Five years later, Michael sold the tobacco business to a multinational company, Philip Morris International (Sampoerna M., 2007).

I.2.2 Public Listed Company

Sampoerna has been listed in the IDX since its Initial Public Offering (“IPO”) in 1990, issuing Rp 12,600 per share. In 2005, Sampoerna’s majority shares were acquired by PT Philip Morris Indonesia (PMID), a subsidiary of a leading international tobacco company, Philip Morris International Inc. (PMI). This acquisition was one of the biggest transactions in Asia at the time. Before the acquisition, Sampoerna obtained the third rank on the leaderboard. Leveraging global business practices brought by PMI, Sampoerna became the number one market leader in the Indonesian cigarette market a year post-acquisition and remained in the leadership position since then.

In 2015, IDX issued a requirement that a publicly listed company should have at least 7.5% of its total paid-up capital owned by the public. Before then, PMID held the ownership of 98.18% of Sampoerna shares. Therefore, in October 2015, Sampoerna conducted a rights issue for 5.68% of its shares to the public, or 269,723,076 ordinary shares, with an exercise price of Rp. 77,000 per share. The total proceeds of this right issue was Rp20.768 trillion. Once again, Sampoerna recorded one of the biggest transactions in the history of IDX. This transaction was the biggest in Indonesia in seven years since 2008. In November 2015, Sampoerna ousted BBKA and became the company with a market capitalization of around Rp 474 trillion, or the largest in Indonesia.

A year later, the share price of Sampoerna became increasingly unaffordable. Therefore, the company announced a 1:25 stock split to provide retail investors with an affordable price. In April 2016, HMSP's initial share price was Rp92,500, which was then split to Rp3,700 per share. Fast forward seven years after, the share price hit Rp860 in the last quarter of 2023. The same decline goes for Sampoerna's financial performance. In the past three years since the pandemic's peak, the company's net profit consistently declined: it went from Rp 13.7 trillion in 2019 to Rp 8.5 trillion in 2020, Rp 7.1 trillion in 2021, and Rp 6.3 trillion in 2022.

I.2.3 Sampoerna's Sustainability Strategy and Focus

In conducting its business operations, Sampoerna stated sustainability is a part of the company's strategy. In its 2023 Annual and Sustainability Reports, Sampoerna stated, *"We at Sampoerna believe that sustainability goes beyond minimizing the impacts associated with our products, operations, and value chains. Sustainability is the foundation for innovation, growth, and long-term value creation that we continually strive for. Hence, it is embedded into every aspect of our business and activities"* (Sampoerna 2023 Sustainability Report, 2024).

The Company operates with such longstanding commitment to sustainability with a main objective to embrace and address the expectations of stakeholders that are important to the company that is imprinted in its "Three Hands Philosophy" with "hands" that represent the stakeholder groups: (1) employees, business partners, and shareholder; (2) adult consumers; and (3) society at large. The commitment to sustainability is evident through its initiatives under the "Sampoerna Untuk Indonesia" (Sampoerna for Indonesia) umbrella program that is also aligned with the Sustainable Development Goals (SDGs).

Sampoerna's ESG pillars were utilized both as a requirement fulfillment and a strategy to meet the needs of its stakeholders, including the shareholders and investors. It also serves as an enabler embedded in how the company operates. The sustainability initiatives conducted by the company cover a wide range of aspects, centering on the operational activities of Sampoerna, from raw materials sourcing to the sales activity of the end-products manufactured by the company.

Although the corresponding ESG initiatives have been implemented for years, Sampoerna has only started to adopt the ESG framework for its sustainability reporting by 2022. The year 2023 is the third year Sampoerna will publish its sustainability report. Previously, the company reported the initiatives and progress using its own framework.

In each of the ESG pillars, Sampoerna has established specific directions coupled with ambitious goals, which are:

1) Environment

The company has outlined its focus on reducing its environmental footprint through various climate actions while optimizing its waste and water management. Sampoerna's targets are to send zero waste to landfills from production facilities by 2024 and achieve carbon neutrality in all production facilities by 2025.

2) Social

Sampoerna strives to continuously create value for all its key stakeholders within and beyond its operations.

One of the key focuses here is the company's dedication to supporting micro, small, and medium enterprises (MSMEs) that are the backbone of the nation's economy through at least two flagship programs: "Sampoerna Retail Community" (SRC) that has been specifically focusing on developing traditional retailers since 2008 and "Sampoerna Entrepreneurship Training Center" (SETC) that is intended to empower various types of MSMEs and entrepreneurs through comprehensive training, assistance, capacity building, and business networking. In developing MSMEs, the company has collaborated with numerous partners in Indonesia. Additionally, Sampoerna also participated in the Business 20 (B20) Forum as a part of the G20 multilateral agenda to be a part of the dialogue for a policy-making process that, among others, aims to assist Indonesia's economic growth post-recovery to reach better outcomes in terms of the MSME empowerment.

In line with the Company's commitment to supporting its employees, especially in the labor-intensive segment of hand-rolled cigarettes, Sampoerna has also implemented entrepreneurship and financial literacy skills training to help employees prepare for their upcoming retirement through the "HOPE program."

In the social pillar, Sampoerna also inserted its commitment to responsible sales and marketing practices, which are dubbed of crucial importance, to engage retailers in implementing responsible trade practices when it comes to selling tobacco products that are intended for adult consumers of 18 years old and above.

Last but not least, in this pillar, aligned with its parent company, Sampoerna aims to maximize the benefits of introducing innovative smoke-free tobacco products ("smoke-free products") specifically intended for legal-age adult smokers and legal-age adult nicotine users who decide to continue using tobacco or any other nicotine-containing products.

3) Governance

Overall, the way Sampoerna conducts its businesses is in accordance to compliance with the highest ethical standards and integrity. This commitment to good corporate governance does not only cover the company on its own but also throughout its entire value chain from its tobacco and clove farmer partners, employees, procurement and manufacturing processes, all the way to its sales and marketing practices.



Figure I.1: Sampoerna's ESG Framework and Key Focus

(Source: Sampoerna Sustainability Report, 2024)

I.2.4 PMI at a Glance

How both Sampoerna and PMI started were similar. PMI began as a family microbusiness when Mr. Philip Morris opened a tobacco and cigarette shop in London, back in 1847. His son Leopold Morris then established a formal company in 1881, and the company was taken over by a few other owners, until its incorporation in New York in 1902. Philip Morris was then mainly known as an American company, especially with the infamous *Marlboro* white cigarettes brand was established in 1908 and quickly gained popularity with its masculine cowboy persona. By 1972, the brand became the world's most sold cigarettes.

In the 1950s, Philip Morris opened an international operating division that was incorporated as a standalone company thirty years later. In 2001, the operations center of Philip Morris' international business relocated to Lausanne, Switzerland. In 2007, Philip Morris USA spun off Philip Morris International from its US business (PMI, 2024). Since then, both companies have been operating with distinctive ownership, leadership, and directions, although some agreements were made afterward when it comes to selling PMI's products in the US territory as now Altria-owned Philip Morris USA holds control

of the tobacco market in the US for PMI-made products that the US business did not have.

In 2024, PMI became one of the world's leading tobacco companies, employing direct workforce of 79,800 globally with approximately 25% of them are handling Indonesian market under the Sampoerna company. PMI's operations center is located in Lausanne, Switzerland, with its recently established headquarter in Connecticut, USA.

PMI aims to create a net positive impact to benefit not only the company, but also shareholders, consumers, and society. While PMI has been widely known as a cigarette company that is usually associated with negative externalities, it has announced a new purpose in 2016, later reemphasized in its 2022 Annual Meeting of Shareholders and Proxy Statement, to deliver a smoke-free future as its new vision. This is done by focusing its resources on developing, scientifically substantiating, and responsibly commercializing smoke-free products that are less harmful than smoking (PMI ASM and Proxy Statement, 2024). Thus, the new change requires a major transformation for the global company.

This new purpose started a while earlier when in 2008, PMI established a state-of-the-art research and development facility for smoke-free products in Neuchatel, Switzerland, called "The Cube" (PMI Science, 2024). Based on its 2023 Integrated Report, since 2008, PMI has been invested more than USD 12.5 billion to develop, scientifically substantiate and commercialize innovative smoke-free products for adults who would otherwise continue to smoke (PMI 2023 Integrated Report, 2024).

The road to achieve the smoke-free future vision is also shown through a series of corporate actions, PMI also acquired Swedish Match, an oral nicotine delivery company, in 2022 to expand to another category of smoke-free products and Vectura Fertin Pharma, now a subsidiary, to focus on other wellness products. Its latest direction is to evolve its portfolio for the long term to include products outside of the tobacco and nicotine sectors.

I.2.5 PMI's Sustainability Strategy and Focus

As an affiliate of a global company, Sampoerna has adjusted its sustainability strategy to align with PMI's goals, directions, and strategy. For PMI, sustainability is also embedded into every aspect of PMI's business and activities, even more so as the company has been undergoing a transformation toward a smoke-free future. Sustainability has a deep meaning for PMI as a fundamental opportunity for innovation, growth, and purpose-led, impact-driven, long-term value creation. Additionally, it means minimizing negative externalities, mitigating risk, maximizing operational efficiency, and optimizing resources.

PMI has redesigned its ESG framework to focus on two distinct forms of issues: product impact and operational impact. Product impact relates to what the company produces, while operational impact focuses on how the company produces.

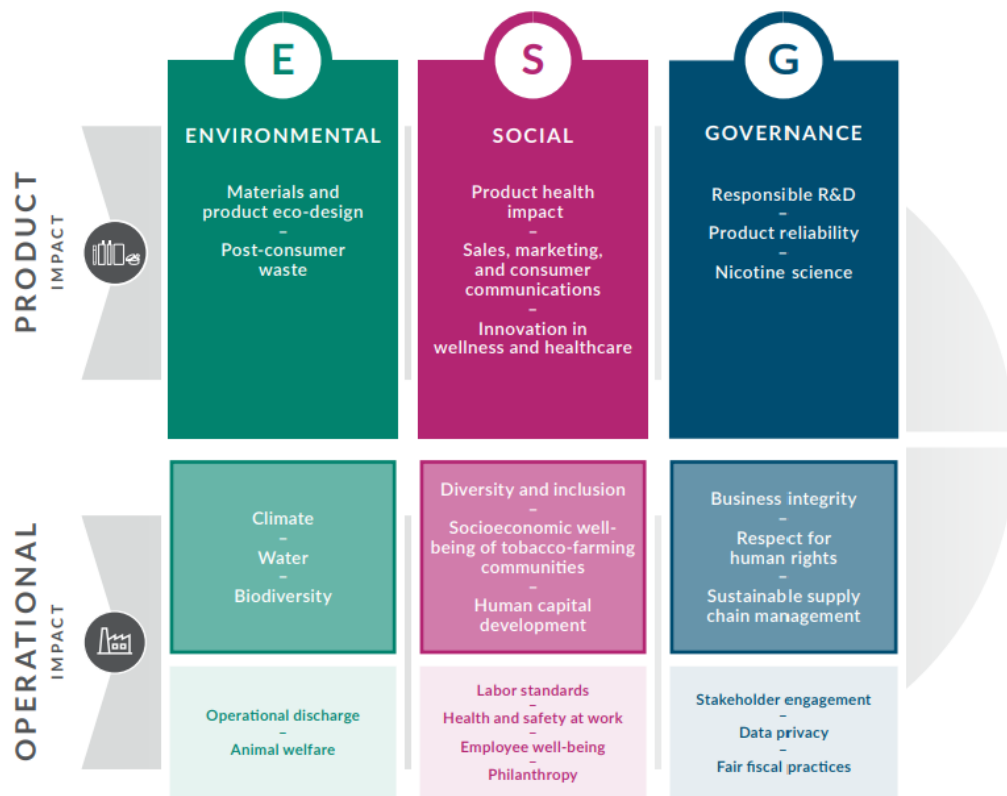


Figure I.2: PMI's evolved ESG Key Focus divided as product and operational impact

(Source: PMI Integrated Report, 2024)

Under these impact pillars, there are key focuses on each environmental, social, and governance aspect. These key focuses aim to achieve 11 headline goals which are connected to PMI's eight sustainability strategies for both impact pillars that are collectively called as "2025 Roadmap" that was first introduced in 2019.







Goals		
 PRODUCT IMPACT	 Purposefully phase out cigarettes	1 Intentionally work toward phasing out cigarettes by ensuring that we become a substantially smoke-free company by net revenues by 2030 and continue to reduce our combustible shipment volume
	 Maximize the benefits of smoke-free products	2 Develop and commercialize science-based smoke-free alternatives, making them available in 100 markets (of which at least half are low- and middle-income markets) and continue to increase the total number of users
	 Seek net positive impact in wellness and healthcare	3 Deploy robust youth access prevention programs in indirect retail channels and ensure that sales of our products abide by our Marketing Codes
	 Reduce post-consumer waste	4 Lay the foundation to evolve into a broader lifestyle, consumer wellness, and healthcare company in the long term
		5 Reduce post-consumer waste and prevent littering by implementing comprehensive programs covering all our consumables
		6 Follow eco-design and circularity principles for all smoke-free electronic devices
 OPERATIONAL IMPACT	 Foster an empowered and inclusive workplace	7 Nurture a more diverse culture that promotes equity and inclusion by providing access to lifelong learning to all our employees and improving gender and local representation in management globally
	 Improve the quality of life of people in our supply chain	8 Eradicate systemic child labor in our tobacco supply chain
		9 Ensure all contracted tobacco farmers make a living income; partner with our direct suppliers to promote a living wage for their workers
	 Tackle climate change	10 Achieve carbon neutrality in our operations and accelerate our decarbonization toward net zero across our value chain
	 Preserve nature	11 Promote biodiversity, address critical water challenges, ensure no conversion of natural ecosystems, and halt deforestation in both our tobacco and pulp and paper supply chains

Figure I.3: PMI's 11 Sustainability Headline Goals

(Source: PMI Integrated Report, 2024)

I.2.6 PMI's ESG Recognitions in Stock Market

Sampoerna's commitment to sustainability goes beyond mere compliance with the country's ESG requirements for publicly listed companies. Its parent company, PMI, has been putting sustainability into practice. The company is listed on the New York Stock Exchange (NYSE) and Euronext Paris under the stock ticker PM.

PMI is currently one of the largest tobacco companies globally and is included in the Standard and Poor's (S&P) Global 500 list of largest companies listed in US stock exchanges, including NYSE and NASDAQ. On its website, S&P stated under the "Who

We Are” section that it is now “finding new ways to measure ESG” and that it is also “changing the way people see things and empowering them to make an impact on the world we live in” (S&P Global, 2024). It highlights the importance of sustainability and ESG to the largest companies in the US, if not globally, and these values have been incorporated into considerations to measure a company’s performance.

	BUSINESS INSIDER				MARKETS INSIDER		
Philip Morris	92.68	0.00	1.17	05:00 PM	0.37	-1.78	-7.75
	92.68	0.00	1.28%	08.03.2024	0.41%	-1.91%	-7.81%

Figure I.4: Philip Morris International (NYSE:PM) stock price as of 8 March 2024

(Source: Business Insider, 2024)

By December 2023, PMI has been officially included in the Dow Jones Sustainability World Index for the first time. It is one of the most reputable indexes to measure companies’ sustainability performance worldwide, which is limited to only 10% of the largest S&P Global companies based on the long-term criteria of economic, environmental, and social. PMI has also been a part of the Dow Jones Sustainability North America Composite Index for four years in a row and was awarded “Prime” status in the ISS ESG Corporate Rating (PMI Press Release, 2024). PMI scored 85 out of 100 in the S&P Global Corporate Sustainability Assessment (CSA) 2023, the highest among 13 tobacco companies. It has increased by 21 points since PMI first participated in the ranking in 2018. PMI was awarded “Prime” status for its ESG performance rating methodology, noting that the threshold is sector-specific, reflecting ambitious absolute performance requirements. This classification shows that PMI is qualified for responsible investments.

I.3 Business Issue

The company operates in what is called “a sunset industry” by observers and experts due to these pressures coupled with consistent declines. As a tobacco company, Sampoerna will continue to manufacture and market tobacco products despite the growing pressures from public health organizations and the government. At the same time, Sampoerna and its parent company PMI have been purposefully embedding ESG sustainability initiatives across its business operations as an enabler to minimize negative impacts and create long-term value within its operations, for the environment, and communities. Therefore, this ESG strategy could serve as an opportunity to ensure business sustainability for Sampoerna, despite the sunset industry issue for the industry, financial performance, and share price continuous decrease. The highlight is to fully understand and comprehend which part of the strategy has been implemented effectively by the company toward the business sustainability goal, which part hasn’t, what the challenges have been, and how to improve the overall performance. These are the main issues and topics that will be elaborated and analyzed in this research.

The research titled Five Ways that ESG Creates Value (Henisz, et.al., 2019) emphasized that “...sustainability presents new opportunities to enhance investment

returns,” and strong ESG performance can improve a company’s overall business performance. ESG implementation can offer an opportunity if it’s consistently and effectively planned, implemented, reported, and integrated into a firm’s strategic decisions. Eventually, ESG could help grow businesses—or, in the case of tobacco companies, to remain sustainable or improve overall business performance.

This research aims to analyze the implementation of Sampoerna’s sustainability initiatives, provide recommendations to improve as well as to refocus its resources with an objective to maximize business sustainability while addressing potential risks and leveraging future opportunities.

The relevant stakeholders in this research are largely based on Sampoerna’s Guiding Principle called the ‘Three Hands Philosophy’, which represents key stakeholders for Sampoerna, namely:

1. Adult Consumers
2. Employees; Business Partners; and Shareholders:
 - a. Majority: the parent company of Sampoerna—PMI
 - b. Minority: retail investors
3. The society at large, including MSMEs.

With some additional relevant stakeholders:

4. Government and Regulators
5. The media

The relationships among stakeholders are shown in this rich picture:

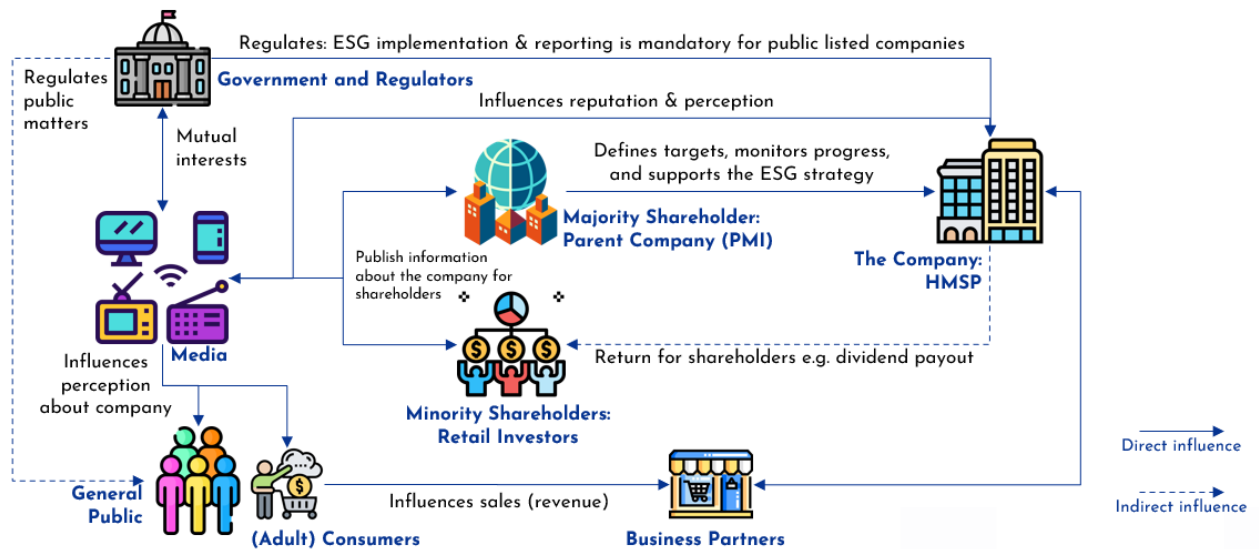


Figure I.5: Rich picture of relationships among stakeholders of Sampoerna

(Source: Author, 2024)

I.4 Research Objectives

The objectives of this research are to examine:

1. Sampoerna’s ESG strategy assessment;
2. The effectiveness of Sampoerna’s ESG implementation;

3. Identify challenges of ESG implementation for Sampoerna;
4. Identify improvement areas for ESG implementation;
5. Define recommendations for resource refocusing to improve Sampoerna's business sustainability in order to address potential risks and leverage future opportunities.

I.5 Research Questions

From the above explanation, these are the key questions of this research:

1. How are the strategy and implementation of Sampoerna's sustainability initiatives in the Economic, Environmental, Social, and Governance (ESG) aspects?
2. What are the challenges and main points of improvement in terms of Sampoerna's sustainability initiatives?
3. How to improve Sampoerna's ESG strategy and implementation to ensure business sustainability?

I.6 Research Scope and Limitation

This research has some scopes and limitations which are:

1. It will be conducted under the tobacco company, PT HM Sampoerna Tbk. with references from its parent company, Philip Morris International.
2. It will mainly examine the implementation of ESG sustainability initiatives conducted by PT HM Sampoerna Tbk. in 2022 and additional findings throughout 2023, using benchmarks from its 2021 Sustainability Report and PMI 2022 Integrated report.
3. The research focuses on five aspects of sustainability progress reporting: strategy, economics, environment, social, and governance, as outlined in OJK regulation on mandatory reporting for publicly listed companies in Indonesia.

I.7 Research Writing Structure

This research is a qualitative study with explanation and analysis that consists of literature review, data collection, and analysis. It underwent three stages:

Table I.1: Research Writing Stages

Stages	Chapter	Outcome and Output
First	1	Introduction and Problem Statement <ul style="list-style-type: none"> • Background • Business issue • Research objective, questions, scope, limitation
Second	2, 3	Literature Review and Data Collection Method <ul style="list-style-type: none"> • Literature review • Data collection preparation
Third	4, 5	Data Analysis <ul style="list-style-type: none"> • FGD and Interview results interpretation • Collected data analysis based on theories: external & internal factors, business situation

		<ul style="list-style-type: none">• Gap analysis to formulate business solution: strategy, improvement areas, implementation plan• Conclusion and recommendation
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(Source: Author, 2024)

The following diagram outlines writing structure of this research for each chapter.

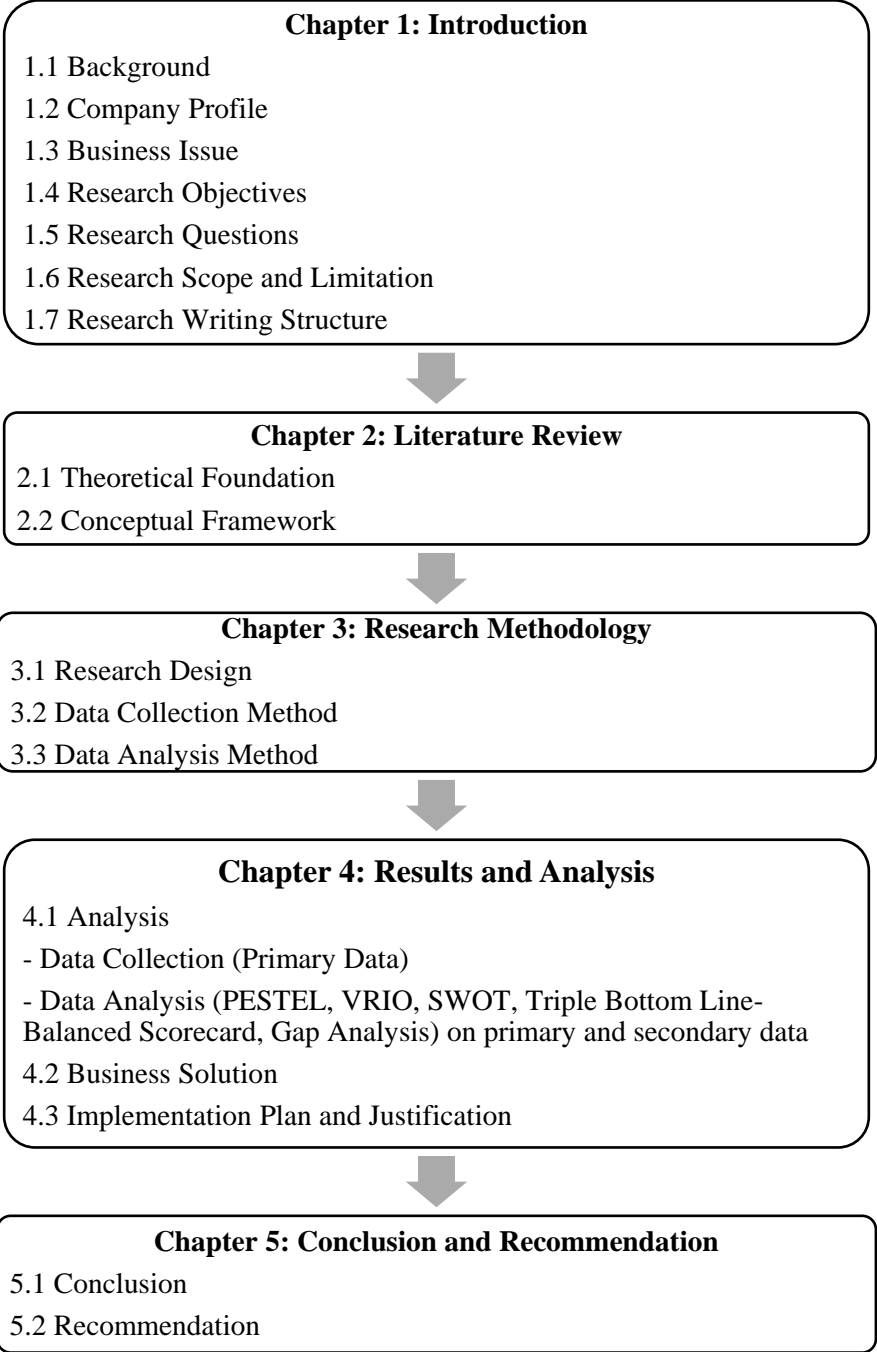


Figure 1.6: Research Writing Structure

(Source: Author, 2024)