

Disruption of Financial Performance and Sustainability in Property and Real Estate Companies in Indonesia for the 2009-2018 Period

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Abstract: Sustainability means that companies must minimize environmental damage and ponder their long-term sustainability. Sustainability generally includes the environment, societal aspects and governance. Nowadays, Property and Real Estate industry sector is disrupted because there has been a shift in the pattern of home purchases by the millennial generation that threatens the sustainability of these property and real estate companies. This research attempts to find out about the way financial performance has influenced the sustainability of property companies for the 2009-2018 period. The measurement of the latter's financial performance employs the financial ratios consisting of profitability, efficiency, liquidity, leverage and market, as derived from financial performance and annual reports from 34 companies. Company sustainability is measured using a scorecard by examining the website and annual report from each company. This study uses the quantitative approach and employs financial data as stated in the financial statements of property and real estate industry companies as secondary data. The statistical method for this study is panel data regression. The novelty of this research can be found in the influence of financial performance on the sustainability of property companies, a phenomenon that has never been studied. The results show a concept of how financial performance affects the sustainability of property and real estate companies in Indonesia.

1 INTRODUCTION

Observing the current conditions, the business world in Indonesia is influenced by industrial developments which are often referred to as the 4.0 Industrial Revolution. One of the factors that greatly influence the sustainability of an industry is the sustainability factor. Sustainability generally includes the environment, societal aspects and governance, often abbreviated as ESG. ESG is important for investors, governments, regulators, companies, non-government organizations and the general public as a measure of whether a company pays attention to environmental, social and governance aspects. The ESG score of a company is directly proportional to the benefits of the company for the environment, societal aspects and governance around it.

Sustainability means that companies must minimize environmental damage, which is a serious problem as the company develops. In general, the cause of this damage is that the management of

resources is not carried out optimally but predominantly focuses on economic purposes. Environmental pollution will also have an impact on social problems in the community. For example, the Lapindo Mud case in Indonesia has caused tremendous harm to the people around the company that made the environmental and social impacts.

Sustainability is also related to current phenomena, especially those observed among the millennial generation, which will greatly affect the development of the property industry. Millennials tend not to be interested in buying property, as their income is more used to support their lifestyle, including buying the latest devices, or dine at a luxurious place in prestigious malls. They do not think about investing in property for the long term. Millennials think it is better to use their money for a vacation abroad than to save the money for a down payment on a property. They are better off renting a property than buying property, because if they are bored somewhere they can easily rent a new place. This millennial generation's behavior will certainly

affect the performance and sustainability of property companies.

Property business (like any other business) has a cycle of ups and downs. But the decline experienced by the property industry in Indonesia is currently fairly long. The decline in demand for the property industry has been going on from 2014 until now and has not shown signs of recovery. Many predict that the property industry has been going on after the 2019 elections for which investors are currently waiting. There are many factors that affect the current sluggishness of the property industry in Indonesia, but perhaps the main problem is that there has been a property price bubble that rose nearly 40-50% in 2010-2013 so that fewer people can afford to buy homes at increasingly high prices. As a result of this lethargy it is often a question of how property and real estate companies in Indonesia maintain their sustainability.

The awareness of the millennials aged 27-37 to fulfill basic needs in the form of housing is still low, even though they form a fairly large part of the workforce in Indonesia, which is estimated to reach 23 million. In addition, residential prices are increasing from year to year, making it impossible for them to buy a property. They are only able to rent because property prices do not match their income. This condition will certainly be detrimental to them, because renting alone means they spend money as a cost, while by deciding to buy property, they will obtain more benefits in the shape of assets, which at the same time become a form of investment. In addition, technological developments support this trend, that is to say people can easily rent a house, among others, through the Air BnB application and Airy Rooms. This factor in technological development has made it easier for the millennial generation to rent than to buy an asset in the form of a property at a relatively high price level, which requires them to take credit to a bank or other financial institution. Millennials who are also very familiar with the internet certainly expect that Information and Communication Technologies (ICT) must also be well implemented by property companies. ICT that is not implemented properly will create inefficiencies in the market, leading to high transaction costs.

This phenomenon will directly or indirectly affect the performance of companies in the property and real estate sector in Indonesia, especially their financial performance, due to a decrease in the number of purchases of property and real estate. By the same token, financial performance will affect the sustainability of the company. Sustainability is

generally interpreted as a goal or target that covers the long-lasting balance between the economy, environment and society. Sustainability is an ongoing process that is directed towards achieving this goal. (Lorenz & Lützkendorf, 2008). Sustainability of the Property and Real Estate industry is measured using the ESG Score. ESG stands for Environment, Societal Aspects and Government. These three variables are measurement variables from the ESG Score used to measure the sustainability of a company. This sustainability is a measurement for the continuity of the company's long-term existence.

The problem that arises in this study is that there is some inconsistency in the results of previous studies where there are certain studies that claim financial performance affects sustainability while others say there is no effect at all. A study conducted by Halbritter & Dorfleitner (2015) concludes that the stock portfolio using ESG does not produce abnormal returns, both for companies with high ESG and with low ESG ratings. This is in line with research conducted by Lee, Faff, & Rekker (2013) which says that there is no significant difference in return between companies that have high and low corporate social portfolio values. Likewise in the study of Bauer, Guenster & Otten (2004), stating that governance does not affect the performance of the company and Bello (2005) where social performance does not affect the performance of the company.

Company performance is generally measured by its financial performance through stock prices. Companies with good performance usually have high stock prices and vice versa. In a study by Waddock & Graves (1997) social performance and financial performance showed a positive and significant relationship whereas in the study of Gompers & Metrick (2003) it is said that governance is very influential on company stock returns. Al-Tuwaijri, Christensen, & Hughes (2004) conclude that environmental performance has a significant influence on financial performance. Likewise in the study of Friede & Bassen (2015) it is found that ESG has a positive correlation with financial performance. Companies that report ESG to have low stock volatility and high returns (Ashwin et al., 2016).

There are two perceptions, namely whether sustainability affects financial performance or financial performance affects sustainability. Since there are still several differences in various previous studies, this study seeks to find out what the conceptual effect is of the financial performance of

property companies on sustainability. According to Razali & Adnan (2015), the novelty of this research study lies in the fact that sustainability in property companies has been studied but the influence of financial performance on the sustainability of property companies has never been subjected to any academic research study.

2 LITERATURE REVIEW

The basis of sustainability theory is the theory of the triple bottom line as developed by Elkington (1998), who said that the measure of a company's success is whether it can balance three aspects, namely People, Planet and Profit. These three aspects are measured by societal, environmental and economic aspects. This theory was developed when companies were simply operated to make a profit.

Donaldson & Preston (1995) state that companies in carrying out company operations are not solely doing this for the sake of the company, but must also be responsible to stakeholders of the company, consisting of shareholders, creditors, consumers, suppliers, government, and society. Sustainability disclosures issued in the sustainability report are generally a form of corporate responsibility towards stakeholders.

Sustainability of property companies is also related to the sustainability of the earth as a whole (Lorenz & Lützkendorf, 2008). The issue of sustainability develops from environmental problems, namely in the form of concerns about pollution and damage to the earth (Razali & Mohd Adnan, 2015). One measurement of financial performance on this sustainability property is to use the returns from companies that measured sustainability (Halbritter & Dorfleitner, 2015).

The government as the party that oversees the environment, social and corporate governance (especially of incorporated companies) is actually also very concerned about social and environmental responsibility. This is evidenced by the issuance of Law No. 40 of 2007 concerning the Limited Liability Company of the Republic of Indonesia, as in Article 74 it is stated that the company that carries out its business activities in the field of natural resources must carry out social and environmental responsibilities in which the obligation is budgeted and calculated as the company's costs, paying attention to propriety and fairness.

3 HYPHOTHESIS

There are 8 hypotheses that have been used in this study, namely:

- H1: Company liquidity affects the financial performance of property companies in Indonesia;
- H2: The size of the company influences the financial performance of property companies in Indonesia;
- H3: Firm leverage affects the financial performance of property companies in Indonesia;
- H4: Company efficiency affects the financial performance of property companies in Indonesia;
- H5: Financial performance affects the sustainability of property companies in Indonesia;
- H6: The environment affects the sustainability of property companies in Indonesia;
- H7: Societal aspects affect the sustainability of property companies in Indonesia;
- H8: Governance affects the sustainability of property companies in Indonesia.

4 RESEARCH MODEL

Figure 1 below depicts the research model used in this study:

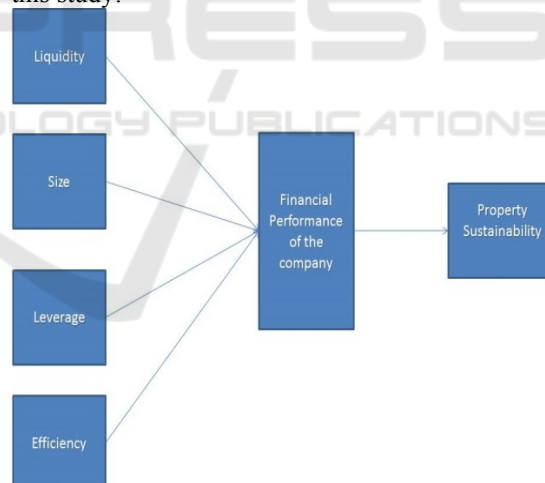


Figure 1: Research Model.

5 RESEARCH METHOD

The approach used is a quantitative approach, so that this study predominantly uses financial data, specifically the financial statements of incorporated (Tbk.) companies in the property and real estate industry sector as secondary data for the 2009-2018 period. The data to be used is obtained from the

financial statements of these incorporated companies which is secondary data, collected by techniques downloaded from the page www.idx.co.id and www.yahoofinance.com. The sustainability data consisting of Environment, Social and Governance (ESG) scores are obtained from the company's annual report using the content analysis method (using scoring). (Razali, Yunus, Zainudin, & Lee Yim Mei, 2017)

The sampling technique used in this study consists of purposive sampling with the following criteria:

1. Samples are taken from Property and Real Estate companies that have been listed on the Indonesia Stock Exchange from 2009 – 2018;
2. The sample measuring their financial performance and sustainability was measured using 16 measurement attributes.

The financial performance of a property company is measured by efficiency ratios, liquidity ratios and leverage ratios (Chan & Aziz, 2016), while size is measured using market capitalization.

In this study there are 16 sustainability attributes, namely the sustainable concept mentioned, the sustainability in corporate social responsibility statement in organisation, the environmental issues statement, the special section on sustainability, the policy on sustainability, the sustainability award recognition, the green/ environmentally projects, the social sustainability, the status of environmental management system, the environmental system audit programme in organisation, the conformance with environmental, the code standards, the objectives or targets relating to priority environmental issues in the organisation, the initiatives on sustainability practices, the awareness programmes, the sustainable strategies, and the financial report with integrated sustainability information. (Razali, Yunus, Zainudin, & Lee Yim Mei, 2017).

Meanwhile in the measurement of financial performance the ratio used is profitability ratios which consists of net profit margins, return on average assets, and return on average equity; efficiency ratios consisting of sales to assets ratio and sales to net working capital, liquidity ratios consisting of current ratio and quick ratio (Chan & Aziz, 2016), where the formula of the financial ratios above as in figure 2.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}}$$

$$\text{Return on Average Assets} = \frac{\text{Net Profit}}{\text{Average Net Assets}}$$

$$\text{Return on Average Equity} = \frac{\text{Net Profit}}{\text{Average Total Equity}}$$

$$\text{Sales to Assets Ratio} = \frac{\text{Total Revenue}}{\text{Average Total Assets}}$$

$$\text{Sales to Net Working Capital} = \frac{\text{Total Revenue}}{\text{Average Net Working Capital}}$$

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Total Current Assets} - \text{Inventory}}{\text{Total Current Liabilities}}$$

Figure 2: Financial Ratios.

The statistical method used for this study is panel data regression. Panel data is a combination of time series data and cross section data. Panel data consists of two types, namely balanced panel data if in each period the same amount of data is found, and unbalanced panel data if in each period the data is not the same amount. If the panel data has a number of periods greater than the number of individuals, a fixed effect is used, but if the period is smaller, random effects are to be used.

6 RESULT & DISCUSSION

After all financial ratios are calculated and all companies have been ranked based on sustainability attributes from the largest to the smallest, regression statistical analysis is performed using panel data. In the regression with the next panel data, it is first seen whether the data obtained is balanced or unbalanced. Next by using Eviews 10 software, the Chi-square test and Lagrange multiplier test were conducted to determine whether the panel data test in this study used the common effect, fixed effect, or random effect method. If the chi-square result is greater than 0.05, the common effect is chosen compared to the fixed effect. In the Lagrange multiplier test, it will be seen whether the p value of greater than 0.05 then the common effect is chosen compared to the random effect.

After determining which panel data regression test is used between the common effects, fixed effects, or random effects, the next step is conducting test panel data regression using Eviews software. For each independent variable tested, namely liquidity, size, leverage and efficiency, see which p value is lower than 0.05. If the p value on the independent variable is lower than 0.05, it means that the independent variable has a significant effect on the dependent variable, namely sustainability of the company. Besides that, what needs to be seen

from the regression results is the r square value, where if the r square value is greater than 0.05, then the four independent variables, namely liquidity, size, leverage, efficiency are considered simultaneously to affect the dependent variable.

The results of this research form a concept of how financial performance affects the sustainability of incorporated companies, especially property and real estate companies in Indonesia.

7 CONCLUSIONS

This research study provides a concept of the way financial performance affects the sustainability of incorporated companies, especially property and real estate companies in Indonesia. The 8 hypotheses mentioned above should be proven based on data collected from www.idx.co.id and www.yahooofinance.com.

This research still needs to be tested empirically by testing how the regression of financial performance influences the sustainability of incorporated companies, especially in property and real estate companies in Indonesia. The results of this study will demonstrate a concept of how financial performance affects the sustainability of incorporated companies, especially property and real estate companies in Indonesia.

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