

Measuring the Value Added and Business Strategy: A Case of Property Corporations in Indonesia Stock Exchange

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Abstract

The property market, especially in apartment products, has in recent years shown unstable conditions and has a downward trend between new supplies, new absorption and occupancy rates. Property corporations have market challenges and business competition that require a business strategy to win the competition through the value added offered. The purpose of this study is to measure the value added that can be given by the corporation in the apartment product into a property business strategy. This research involves property corporations classmates, owning apartment products, listed as a go-public company and doing an Initial Public Offering (IPO) in the same year on the Indonesia Stock Exchange. The data collection in this descriptive research is done through observation, interview and documentation study. The research findings show the most dominant value added influencing business strategy is increased flexibility and value enhancement besides other less dominant value added such as cost reduction, risk control, marketing, productivity improvement and cultural change. While the business strategy chosen by all of property corporations involved in this research have a business strategy to attract investors, retain investors and increase investor wealth.

Keywords :

Value Added, Business Strategy, Property Corporation

I. Introduction

Property businesses in general including apartment products have an appeal to boost corporate earnings related to investments offered in competitive markets. Commercial real estate markets such as apartments are an investment asset that can be managed with its own management to become a more competitive market, and in fact the property industry is part of an increasingly competitive sector facing new challenges (Palm, 2013a).

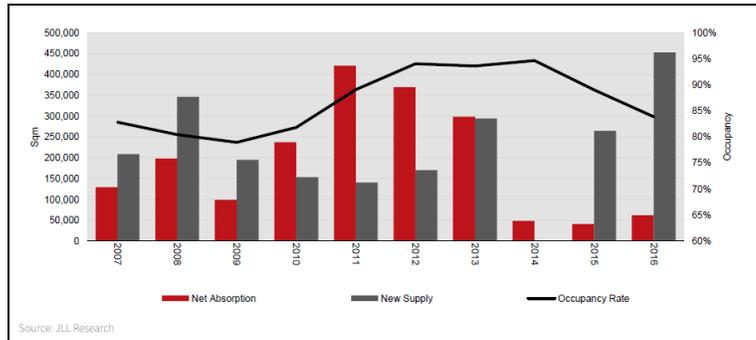


Figure 1. Offering, Demand, and Occupancy Rate of Apartment Year 2007 s.d 2016
(Taylor- JLL Research, 2017)

In the last year 2017 expected to phase up-swing in the property market with increasing market interest, sales and increased competition. A potentially problematic property in the red zone is an apartment, whereas other products ie industrial, residential, mall and hotel sectors are still in a secure business zone (properti.liputan6.com, edition 13/12/2016 downloaded 19/3/2017) , and the focus of this research is apartment products.

The property firms have new offerings that are out of sync with new absorption / demand and occupancy rates tend to decrease in 2007 through 2016 (Figure 1). It is interesting to examine through the business strategy how the ability of property corporations will be able to face market challenges and the development of apartment business competition. Corporations must be able to win of the hearts of consumers from competitors through the value added of property products offered by formulating a business strategy. Value added is an economic term that means the services offered by a company will add value to the user compared to the services of a competing company (Qayyum, 2017).

Toivonen & Viitanen (2016) stated that the property business strategy model should characterize the things to be scanned: the organization's ability to provide value added, in addition to the organization's internal environment and the company's external environment. Competitors in the property industry have 'forced' the corporation to further develop a more service-oriented approach and one of them is the delivery of necessary services as a 'value added' (Palm, 2011). The value added expected by the physical occupants of the apartment is to provide ease of activity, comfort, safe, more privacy, while finance for the apartment investor is an investment of the preferred assets due to the relatively low risk, the financial performance results above the deposit / bond performance, and are in equity markets whose market conditions are relatively more stable, in addition to the income from leasing. The value added for an apartment from a property company can be used as a business strategy to address market challenges as well as the development of competition. This research is expected to identify and measure any value added that can be used in the business strategy of property corporations.

II. Literature Review

Properti is the rights that one individual has in lands or goods to the exclusion of all other; rights gained from the ownership of wealth. (Jack C. Harris et.all, 1987 dalam Hariyono, 2003). Prescott and Andrews (2011) declare that property management seeks to optimize and implement decisions on the procurement, operation, maintenance, monitoring, renewal, upgrading and removal of apartments physically in order to provide safe and economical infrastructure so as to affect the operational performance and profitability of the company. Revenue growth and profitability are drivers for managers to maximize shareholder value and increase profits that grow over time, and managers must formulate and implement strategies that enable companies that can win competitive advantage over competitors. The apartment business manages the interests of investors and property users / apartment residents in relation to an assessment that focuses on how an apartment can 'add value', so as to achieve a business strategy that aims to maximize the portfolio value of the property.

The four property companies that introduced the IPO (Initial Public Offering) in the same year in March, June, August and November in the Indonesian Stock Exchange for 5 years (2012 - 2016) show the condition of revenue growth and profitability increase in 2012 to 2015, and sliding in the year 2016. The growth in revenue and profitability of PC2 and PC4 in the changes is relatively less significant than PC1 and PC3. What can be explained ?

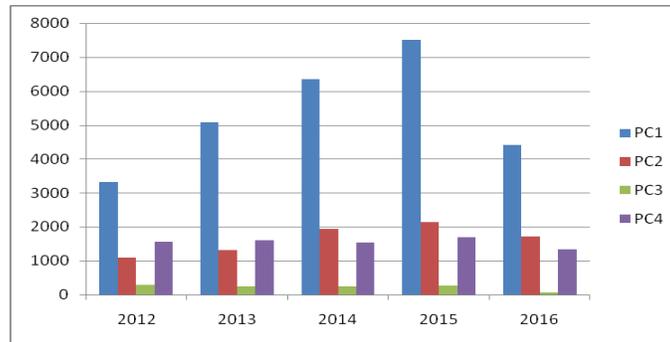


Figure 2. Total revenue on four property corporations year 2012 to 2016 (www.idx.co.id, 2017)

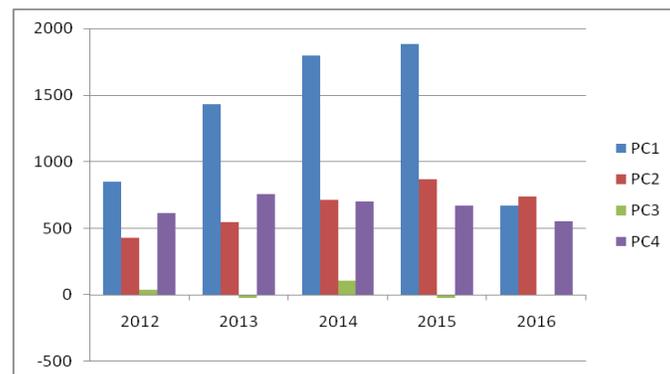


Figure 3. Total Profit/Loss on four property corporations year 2012 to 2016 (www.idx.co.id, 2017)

Ali, et.al (2006) state on real estate in the UK and Malaysia shows the company's real-estate strategy in a 'mature' market more visible than firms in emerging markets, due to the contribution of real-estate companies to the market mature more transparent than in a growing market. Property firms used as sampling in this study are companies that enter the stock market with revenue and profit growth achieved through a synergistic effort between strategy and financial performance. Internal factors related to property management (including value added apartments) will provide information on the level of effectiveness of strategy formulation and implementation until testing comparing the same potential with other companies.

A study by Lindholm and Gibler (2006) on value-added measurement found that in order to win competitive positions, a resource utilization strategy can be used that leads to increased value at operational levels ranging from measurable facilities, locations, risks, and measured information technology and its development as an added value offered by the company can be used to achieve a strategy of revenue growth and profit. The notion of value creation and capture value, as introduced from strategic management (Brandenburger and Stuart, 1996) with value-based theory becomes a framework that unites firm heterogeneity and competition in competitive strategy research (Chatain & Mindruta, 2017).

Value added is a major challenge of business having a sense of finding ways to create added value, either by making better products or by using more efficient resources (Brandenburger & Nalebuff, 1997). De Jonge (1996), as quoted by Krumm (1999), argues that there are seven elements of value added of a real estate: (1) increased productivity, (2) cost reduction, (3) risk control, (4) improvement value, (5) increased flexibility, (6) cultural change, and (7) public relations (PR) and marketing (Lindholm et al., 2006). These seven elements serve as an instrument for the measurement of value added in real-estate managed by property companies which is the object of observation of this research.

III. Methodology

The type of this research is a descriptive with mixed method approach. Research with a mixed-method design need a procedure for collecting, analyzing, "and mixing" quantitative and qualitative methods in a study or series of studies to understand the research problem (Creswell, 2015). The purpose of this study is to measure the value added that can be identified in the property company and identify the strategic business. The sampling decision in the mixed method research is more complicated, because the sampling scheme should be designed based on the qualitative and quantitative research components of the study. Specifically, the random sampling scheme presented as part of the quantitative paradigm, whereas the non-random sampling scheme used as a qualitative paradigm (Onwuegbuzie and Collins, 2007).

Population used in this research is property corporations that already go-public or listed in Indonesia Stock Exchange, location in Jakarta, owning apartment product, and the corporate doing IPO / Initial Public Offering of shares in Indonesia Stock Exchange in the same year. Another consideration of the sampling corporations by observation and documentation study has a business strategy formulated and implemented through the ability to add value.

The research instrument used is compiled through operational of variables consisting value added and business strategy variables and consists of 25 indicators. The definition of value added variables is measured through increased productivity, cost reduction, risk control, value enhancement, increased flexibility, cultural change, and public relations and marketing. Business strategy is defined as creating and retaining customers, attracting and retaining investors, contributing to business processes, promoting corporate values and culture, stimulating innovation, and enhancing core competencies and increasing investor wealth as shareholders with competitive advantage objectives.

The research procedure consists of determining the object of research, research objectives, conducting literature study, determining the research method to be used, collecting data, analyzing and discussing statistically and descriptively, and making research report. Data collection can be done through observation, interview and documentation study. Existing questionnaires are designed to better understand the depth of the research problem consisting of 25 questions conducted through in-depth interviews with corporate managers directly.

IV. Result and Discussion

The first dimension of dominates value added is an increase of flexibility that has a quantitative value of 83.3%. The corporation has an value added in rate of occupation, legal aspect, and finance especially when considering customer's budget, total units occupied, land procurement, applicable regulation, cash flow, and project output. While for operational hour with a quantitative value of 66.7% and qualitative done through standard operation procedure.

Table 1. Results of Quantitative and Qualitative Data for Value Added

Dimensions	Indicators	Quantitative (%)	Qualitative
Increasing productivity:	1. accomodation avaiability 2. availability of site selection 3. other alternative locations	50 50 50	1. <i>gimmick</i> , value fully furnish 2. <i>risk, investor needs, accesibility</i> 3. market capablity
Cost reduction:	1. cost efficiency 2. residence effectiveness 3. supervision of maintenance costs	83,3 50 60	1. compare with competitor 2. compare access other location 3. service guarantee
Risk control:	1. flexible portfolio 2. suitable location 3. portfolio value 4. risk of construction process 5. environmental aspect 6. Human Resources	50 50 50 50 66,7 50	1. does not harm the other 2. close from transportaion center 3. see track records and historical data 4. sales person role 5. save and safety environment 6. profesional employee

Increase of Value:	1. selling time 2. buying time 3. revitalisation 4. market knowledge 5. market observation	50 66,7 33,3 50 50	1. priority,preferensi 2. priority, profitability, consumer's budget 3. demand prospect 4. display, promotion 5. compare prices
Increase of flexibility :	1. operational hour 2. rate of occupation 3. legal aspect 4. finansil	66,7 83,3 83,3 83,3	1. standard procedure 2. customer's budget, total units 3. land procurement, applicable regulation 4. cashflow, project output
Changing the culture :	innovation of apartment	50	1. local stakeholder, 2. culture changes
Public relation and marketing:	1. office loction 2. office image 3. corporate governance	50 50 33,3	1. good looking, reachable 2. good impression 3. standard

The results of observation and interviews place the dimensions of the increase of value as the second dimension that dominates the buying time of 66.7% with qualitative explanations on priority, profitability, consumer's budget. Companies consider the value of how consumers have priority at the time of purchase, and budget owned. Quantitative result of 83,3% at cost reduction by doing cost efficiency for company as value added which need but result less significant because just looking for comparison with competitor. The same condition occurs in risk control dimension with environmental aspect indicator that is equal to 67,7%, company do save and safety environment but result still moderate. Other indicators whose quantitative value is less than 50% are part of the company's concern although it is not the dominant added value to support the business strategy. Identification of value added in property corporations with data processing in quantitative and qualitative presents in Table 1.

Identification of business strategy in property corporations with data processing in quantitative and qualitative presents in Table 2.

Table 2. Results of Quantitative and Qualitative Data for Business Strategy

Dimensions	Indicators	Quantitative (%)	Qualitative
create customer	1. create customer effort	50	1. increase level of confidence
keep the customer	2. customer retention	50	2. give attention
attract investors	3. efforts to attract investors	100	3. provide information
keep investors	4. efforts to defend investors	100	4. provide concrete evidence
contribute business process	5. business process contribution efforts	66,7	5. adjust needs
promotion of company value	6. efforts to promote corporate values	83,3	6. develop environmental insight
promotion of corporate culture	7. promotion of corporate culture	50	7. build a work ethic
stimulating innovation	8. innovative excitement efforts	66,7	8. build communication
increase core of competency	9. efforts to improve core competencies	66,7	9. make improvements
increase wealth of investor	10. wealth-level efforts for investors	100	10. trying to increase product value

There are 3 indicators of business strategy with absolute quantitative value (100%) that is efforts to attract investors, efforts to defend investors and wealth-level efforts for investors which is qualitatively done by providing information, providing concrete evidence, and trying to increase product value. While the moderate quantitative of > 50% - 83.3% is on the indicators of efforts to promote corporate values, business process contribution efforts,

innovative excitement efforts and efforts to improve core competencies. Another 50% indicator consists of create customer effort, and promotion of corporate culture.

V. Discussion

Referring to Klopčič, Kuipers, and Hocquette (2013) opinion, the value added of increased flexibility with legal aspect is done when the land / site procurement stage needs to be adjusted to the remuneration of factors of production ie legal aspects / provisions applicable through employment, capital and risk . When the company will start a job, the availability of land and location including the handling of its legal aspects must be quickly resolved, and this is the most expected value added by any property company, because the land or location is raw material (production factor) and the next process will not running if raw materials are not available yet.

Increasing the value of the indicator is the time to purchase the apartment product. Time required when the buyer make priority determination, profitability of the project and check the financial condition in accordance with the remuneration / rewards of the product factors ie building construction work, initial capital, and risks arising from property / apartment products

White (2011) says the management of real-property business can be done with a number of process improvements. Improving the process that can be done is to find a more efficient and effective way through innovative strategies from the quality of service delivery to customers with a more efficient operating costs resulting in an increase in the investment value of the property / apartment. Increased productivity, cost reduction, risk control, cultural change, public relations and marketing are another added value that is an innovative strategy in the process of more effective and efficient property / apartment business methods and methods.

Based on the findings of this study, the added value of the business activities of the apartment product business can be demonstrated through the performance of the corporation in a business strategy. The performance income derived from capital value and also from leasing value as proposed by Edwards & Ellison (2004) because property business is asset investment product.

The efforts to attract investors, retain investors, and increase wealth for investors as the business strategy dimension of property apartments selected by all property corporations, according to Humplick and Peterson in Karlaftis and Kepaptsoglou (2012). The interests of investors as stakeholders in the property sector have a vested interest in and expectations of invested investments so as to require assessment and measurement of various performance dimensions.

The operational performance and profitability of firms operating the apartment assets influenced by optimization in the apartments management start in the procurement, operation, maintenance, control, renewal, improvement until in elimination of physical assets as well as to provide safe and economical infrastructure (Prescott and Andrews, 2011). For example, performance measurement focuses on cost per square meter and space and property unit strategy decisions so as to contribute to increased revenue (Lindholm & Leväinen, 2006). Operational and profitability activities are carried out to make management more flexible, and through a strategic planning process and in accordance with the potential, the company can implement the ' value added ' that has been indicated (Lindholm and Gibler, 2006).

VI. Conclusion

Property firms can provide added value through increased flexibility, value enhancement, and cost efficiency as the most implemented dimension, while increasing productivity, risk control, changing culture and public relations and marketing is more of an added value dimension. The identified value additions will improve performance through improved and more efficient and effective management processes in a defined business strategy to achieve revenue and profit growth objectives.

Finally, the property business firm's strategy as the main way or effort to attract investors, retain investors and increase investor wealth in apartment products. This is done by providing information, providing concrete evidence and trying to increase the value of the apartment product. Business strategies that are set to achieve revenue and profit growth goals and through added value can be achieved.

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