Asset Sustainability as Determinant of State-Owned Enterprise Financial Sustainability

Andi Tenri Harahap(✉), Abdul Rahman Kadir, Muhammad Sobarsyah, and Mursalim Nohong

Hasanuddin University, Makassar, Indonesia
andi.t.harahap@gmail.com

Abstract. Wealth is not the only important thing in this world, however, people will have difficulty in the absence of wealth or economic activity. The inability to manage finances and assets is influenced by various factors, one of which is limited resources or knowledge. Wealth management as part of financial science can make it easier to develop and protect various assets owned. This study is explanatory research that aims to examine certain phenomena through qualitative approach without any hypothesis-test. The data used in this study is financial records of Indonesian state-owned banks listed on the Indonesia Stock Exchange. Through Asset Sustainability approach, this study found that BTN is the only bank that is likely to be sufficiently maintaining or renewing existing assets among Indonesian state-owned banks. Should the other state-owned corporations banks continue to under-invest in their assets, they may experience a degradation in the asset's service levels and/or usefulness.

Keywords: Financial · Asset · Sustainability · State Owned Enterprise · Wealth Management

1 First Section

Lack of knowledge in managing income or wealth may lead to errors in choosing investment instruments, and can result in the loss of a number of assets owned, and the expected return or profit on investment is not achieved. Problems like this do not only occur among people with low incomes, but also among people at the upper economic level.

Financial and investment education with a wealth management approach is one of the keys to respond this phenomenon [1]. The term Wealth Management began to be used in Indonesia in 2000 when foreign banks operating in Indonesia offered wealth management services as a more advanced model in individual, family and institutional financial planning and related to asset management [2].

Effective wealth management is not an easy task due to lack of knowledge and skills so that many people or institutions fail to manage their wealth. Specifically, the Certified Wealth Managers' Association (CWMA) notes several factors that lead to failure in

M. I. Ferdiansyah et al. (Eds.): ICAME 2022, AEBMR 239, pp. 167–171, 2023.
https://doi.org/10.2991/978-94-6463-146-3_17

wealth management, such as lack of clear goals, incompatibility of life and health insurance schemes, greed and over-speculating, inadequate investment and portfolio management, debt management weak, do not pay attention to professional recommendations, and wealth managers who are incompetent or wrong in selecting wealth managers.

Failure in wealth management will have a negative effect on human life, both in the present and in the future, for themselves and the next generation [3]. On the other hand, proper management of wealth will provide good benefits for people or institutions. Professional wealth management is a basic need for individuals, families, and institutions.

Managing wealth professionally is not just collecting or saving money, paying taxes, or maintaining property [4]. Wealth management contains a comprehensive and sustainable wealth planning and management process, it also involves creating the best scenarios for living, for the future, and for next generations.

Wealth Management has three main pillars, namely Wealth Protection and Preservation which emphasizes the protection of wealth to be managed against all potentially detrimental risks; Wealth Growth and Accumulation which emphasizes the growth of wealth and its accumulation from the point of view of tax management and investment management; and Wealth Distribution and Transition focuses on planning wealth after the productive period has passed.

The progress of the increasingly advanced business world has made the financial sector very important for both large- and small-scale companies. And, uncertain economic conditions and intense competition in the business world can trigger and even encourage bankruptcy for companies of any scale. Before developing its business to the level of 'competitive ability' in the midst of these harsh and uncertain conditions, the company must continuously review its condition and performance. One way is to analyze financial performance through a review of the annual financial reports that the company always makes, in which there are cash flow records.

Financial performance assessment is used to determine the level of efficiency and effectiveness of the collection and distribution of funds in order to achieve the organizational goals that have been set. There are several aspects that can be used as a measurement of financial performance, namely assets, profits, debt and the ability to pay debts or company liquidity.

This study will examine asset sustainability as a determinant in measuring the company's performance and financial sustainability. Business sustainability can be defined as the adoption of business strategies and tactical plans needed today by companies and their stakeholders in order to secure and nurture both human and natural resources for future needs. Asset Sustainability Ratio helps indicate whether the organization is replacing assets as their service potential is exhausted and helps identify whether the organization will be able to continue providing its services to the community.

2 Method

This study is explanatory research that aims to examine certain phenomena through qualitative approach without any hypothesis-test. The data used in this study is secondary data in the form of financial records of Indonesian state-owned banks listed on the

Indonesia Stock Exchange. Data were analyzed using the Asset Sustainability Ratio approach to provide an overview of their financial performance and sustainability in banking business.

3 Results and Discussion

3.1 Result

The Asset Sustainability Ratio is a long-term approximation of the turnover of managed infrastructure assets as they reach their useful life. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to depreciation expense.

$$\text{Asset Sustainability Ration} = \frac{\text{Capital Expend On Replacement of Assets}}{\text{Depreciation Expense}}$$

Capital expenditure on replacement of assets means the works required to replace existing assets or facilities with assets or facilities of equivalent capacity or performance capability, but exceptions on the issuance of new or additional assets. Depreciation expense represents an approximation of how far the consumption of assets during the period. Target is met if the ratio can be measured to 90% (0.90) or more per annum (Table 1).

Table 1. Asset sustainability ratio of state-owned banks for the 2020–21 financial year (Expressed in millions of Rupiah)

Bank Name	Input	Value	Asset Sustainability Ratio (%)
Bank Rakyat Indonesia (BRI)	Capital expenditure on replacement of assets	1,337,078	41.79
	Depreciation expense	3,199,102	
Bank Tabungan Negara (BTN)	Capital expenditure on replacement of assets	400,446	103.10
	Depreciation expense	388,897	
Bank Mandiri	Capital expenditure on replacement of assets	2,210,290	44.97
	Depreciation expense	4,914,320	
Bank Negara Indonesia (BNI)	Capital expenditure on replacement of assets	1,366,662	67.39
	Depreciation expense	2,027,912	

(Sources: financial statements of PT Bank Rakyat Indonesia (Persero), 2021; financial statements of PT Bank Mandiri (Persero), 2021; financial statements of PT Bank Negara Indonesia (Persero), 2021; Annual report of PT Bank Tabungan Negara (Persero), 2021).

3.2 Discussion

In the setting of sustainable business practices, the role of the financial system can be fulfilled when its main task– to allocate funds in the most productive way and create long-term value, is also fulfilled. A change in mindset is needed, to achieve this–an integrated process of sustainable financial education and incentives from governance and regulation, is needed [5].

Companies pursuing sustainability will seek to increase the positive impacts of their business activities and eliminate the negative ones, restoring natural-capital while enhancing human-capital as well as nurturing ethical-capital [6]. World Commission on Environment and Development (WCED) and International Federation of Accountants (IFAC), define financial sustainability as the ability to fulfill service delivery and financial commitments in the present, implementing current policies and sustaining them without causing additional debt in the future [7].

Financial stability is an integral part of the overall company's business sustainability, in the form of the availability of funds that allow the company to adjust the balance of its financial flows during a certain period [8]. In addition, this is determined by the ratio of various financing sources and their conformity with the company's asset structure.

Some of the key aspects in assessing sustainability are the calculation of relevant stages in the budget, long-term financial forecasts, and current and long-term sustainability statements, and Asset Sustainability Ratio is one of the relevant measures of corporate financial sustainability. This ratio is generally used to measure the sustainability of government assets, especially infrastructure assets. However, this ratio is worth considering in state-owned enterprises (BUMN) due to part or all of their assets belong to the state or the government.

As noted in a Queensland, Australia, in Federal Highway Administration (2012) report, "A government is financially sustainable if the local government is able to maintain its financial capital and infrastructure capital over the long term" [9]. The Asset Sustainability Ratio and related wish to assess whether an infrastructure investment is sustainable in the future.

The concept of this ratio allows a company to illustrate the state of its infrastructure as an additional effective way to communicate the consequences of current trends. By its very nature, infrastructure is a long-term asset–the future state of which is highly dependent on long-term strategy and becomes even more important when the entire network or system is evaluated.

To ensure that the initial investment in new infrastructure is sustainable into the future, assets must be managed adequately and thoroughly throughout their life cycle. Each phase of its life cycle (planning, acquisition, utilization, and disposal) requires unique policies and actions that utilize a set of resources (material, financial and human) [10].

4 Conclusion

Analysis Referring to the analysis results, BTN is the only Indonesian state-owned bank that achieved the target and enable the company to adequately nourish existing assets or replace them when reaching the end of their usefulness. Should the other banks (Mandiri, BRI, BNI) continue to under-invest in their assets, they may experience a degradation in the asset's service levels and/or usefulness. This is likely to create a burden for shareholders or affect the interest of potential investors due to the need– to incur financial costs to recover the assets first, whether– the convenience costs of not being able to utilize them. However, this study only looks at one of many measures of financial performance and sustainability. Examining the return, income and/or firm size may provide a more comprehensive picture in determining corporate's financial sustainability.

References

1. Gunardi, H., Primiana, I., Effendi, N., & Herwany, A.: The Performance of Private Wealth Management in Indonesia. Academy of Accounting and Financial Studies Journal l7 (11), 717 (2020).
2. Machali, I., & Hidayat, A.: The Handbook of Education Management, Prenadamedia. (2016).
3. Rofiq, A.: Wealth Management Strategi Pengelolaan Asset: Transparansi, Akuntabilitas, Efektifitas, Efisiensi. Al-Tanzim, 1(1), 63–75 (2017).
4. Sina, P. G.: Wealth Management Untuk Pensiun Yang Sejahtera. Jurnal Economia, 11(2), 186 (2015).
5. Schoenmaker, D., & Schramade, W.: Asset Pricing and Sustainability: A Teaching Note. SSRN Electronic Journal. (2020).
6. Johnston, P., Everard, M., Santillo, D., & Robèrt, K. H.: Reclaiming the definition of sustainability. Environmental Science and Pollution Research, 14(1), 60–66 (2007).
7. Navarro-Galera, A., Rodríguez-Bolívar, M. P., Alcaide-Muñoz, L., & López-Subires, M. D.: Measuring the financial sustainability and its influential factors in local governments. Applied Economics, 48(41), 3961–3975 (2016).
8. Akramovich, K. A.: Creative Approach to Effective Measures of Financial Sustainability Management. Asian Journal of Technology & Management Research, 11(2), 45–48 (2022).
9. Federal Highway Administration: Asset Sustainability Index : A Proposed Measure for Long-Term Performance (Issue July) (2012).
10. United Nations: Managing Infrastructure Assets for Sustainable Development. In A Handbook for Local and National Governments, United Nations. (2021).