



## ESG INTEGRATION IN COMMERCIAL REAL ESTATE: HOW IS THE COMPANY SOLVING INTEGRATION PROBLEM?

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### Article Information    Abstract

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The changing global trends and market dynamics are driving investors and banks to realize responsible investments by integrating environmental, social, and governance (ESG) principles as their reference. Commercial Real Estate (CRE) companies require funds for business development, acquisitions, and operations through investors and banks. This situation is compelling CRE companies to integrate ESG principles into their business activities as an obligation to meet responsible investment standards. This research aims to explore the initiatives of CRE companies in facing the problem of ESG integration. A qualitative research method with ethnographic approach was employed in this study to obtain in-depth information through observation and in-depth interviews with relevant informants. Observations were conducted at the NWP Property office in South Jakarta with three informants, including the Head of Research and ESG, a Supervisor of the Energy and Sustainable team, and Head of Operations at all malls owned by NWP Property. Based on the research findings, the main problem faced by the company in the integration process is dominated by the availability of data. There are 5 shared values from respondents in addressing the question of how the company solving integration problems. These values include using a data-driven approach in decision-making, collaboration between departments to helps in the problem-solving process, the importance of understanding team members' perspectives to achieve common goals, and systematic preparation and planning resulting in solutions to the issues.

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### INTRODUCTION

Commercial real estate (CRE) companies worldwide are increasingly confronted with problems that are more complex than ever before. These problems extend beyond the considerations of the amount of investment required to construct a project and the profits to be gained, and also encompass factors such as rental cost calculations and the financing of project operations. Current problems include how to use electrical energy efficiently to prevent pollution, water waste management, and waste recycling to avoid water pollution in the surrounding environment, as well as building positive relationships with the communities where the project is located.

ESG, which comprises environmental, social, and governance aspects, has become a part

of company's business activities related to the impact of those activities. Furthermore, the increasing effects of global warming and the emergence of the COVID-19 pandemic have heightened the urgency of ESG implementation and its comprehensive integration into the business processes, including acquisition, development, and project operations. As a result, these circumstances will require companies to be managed in a way that protects and potentially enhances profits. Therefore, commercial property owners increasingly feel the need to conduct business responsibly towards multiple stakeholders, such as investors, customers, tenants, the local community, and government.

The relationship that forms between CRE and investors, including banks, is related to

investment and loans. CRE requires funds for operational needs, acquisitions, and project development. On the other hand, investors and banks expect their investments and loans to be well-targeted, profitable, and low in risk. This risk is related to the impact of CRE business activities on the environment, society, and corporate governance. Responsible investment by investors and banks demands that CRE adapts by integrating ESG into its business.

Nirvana Wastu Pratama (NWP Property) is a commercial real estate company in Indonesia that was established in 2015 as a joint venture company between PT. City Retail Development Tbk. (NIRO) and Warburg Pincus, a leading global growth investor. NWP Property has expanded its footprints by ~7x in 7 years (from 4 projects in mid – 2015 to 30 projects in October 2023) through development and acquisition (Pratama, 2023). The significant growth in the number of projects is facilitated by robust financial conditions through investor funding and bank financing. The facts show that significant impact of funding on the sustainability of a CRE company's business. Furthermore, the integration of ESG into NWP Property's business activities is the key to securing funding that has a profound influence on the company's business growth.

Behind NWP Property's success in securing funding, the process of integrating ESG into the company has become an effort to respond to global conditions. The company's readiness to integrate ESG into its business activities presents its most significant problem. The adoption and adaptation of new values, the selection of appropriate technology, and the establishment of stakeholder engagement are just a few of the problem faced by NWP Property and not as the key problem of integration. The complexity of these problem ultimately drives the company, through its management, to resolve them swiftly and effectively.

The purpose of this research is to understand shared value that use as the efforts by management in addressing the problem of ESG integration within the company in response to global changes and market trends related to investors or banks as one of the sources of funding in the company's business activities. This research also aims to uncover the common values, culture of sharing within groups, and shared values of the company to address the complexity of problem in the process of ESG integration.

## METHOD

The research method employed in this study is qualitative with an ethnographic approach. Qualitative approaches in data collection, analysis, interpretation, and report writing differ from traditional quantitative

methods. Qualitative methods involve purposeful sampling, collecting open-ended data, analysing text or images (e.g., pictures), representing information in figures and tables, and offering personal interpretations of the findings (Creswell, 2014). Qualitative methods are oriented towards describing and interpreting data, and they may lead to the development of new concepts or theories. They rely on a flexible, emergent, but systematic process (Hancock, 2009).

Ethnography has a background in anthropology. The term means “portrait of a people” and it is a methodology for descriptive studies of cultures and peoples. The cultural parameter is that the people under investigation have something in common. The parameters include geographical, religious, social / familial and shared experience. In Ethnography, data collection techniques include both formal and informal interviewing, often interviewing individuals on several occasions, and participant or non-participant observation (Hancock, 2009).

Author conducted direct observations at NWP Property, which is also the company where the author is employed, located in South Jakarta. The observations included participation in various meetings at the internal department level, between departments, and at the management level, along with the board of directors. The data used in this research was obtained through in-depth interviews with three individuals directly involved in the ESG integration process within the company. These individuals included the Head of Research and ESG, Supervisor of the department, and the Head of Operating Assets at NWP Property. As a result, the author was able to identify core problem of integration process and shared values to solving integration problem in company through ethnography design.

## RESULT AND DISCUSSION

Based on the research findings through observations and interviews with management representatives from NWP Property, the complexity of problems arising from global demands that drive all business activities to consider their impact on the environment, society, and governance through the implementation of ESG principles was identified. Financial institutions such as banks and investors believe that implementing ESG principles within a company will enhance returns and minimize investment risks from various aspects, including investments in CRE companies. CRE companies require funding support from investors and banks for their development, acquisitions, and business operations, thus necessitating ESG integration within their companies.

The management of NWP Property responded positively to this situation by deciding

to initiate the integration process of ESG principles into the company. In 2018, the Energy Sustainability (ES) Division was established under the Research Department. The ES team was formed to assist the company's management in focusing on the "E" (Environmental) aspect through energy efficiency initiatives across all of NWP Property's assets in Indonesia. The "S" and "G" (Social and Governance) aspects, in general,

had already been addressed by the company in its policies, such as anti-discrimination, gender equality, anti-bribery measures, compliance with the Foreign Corrupt Practices Act (FCPA), and reporting of annual business activities to shareholders. Therefore, at the beginning of this ESG integration process, management was particularly concerned about the "E" aspect.

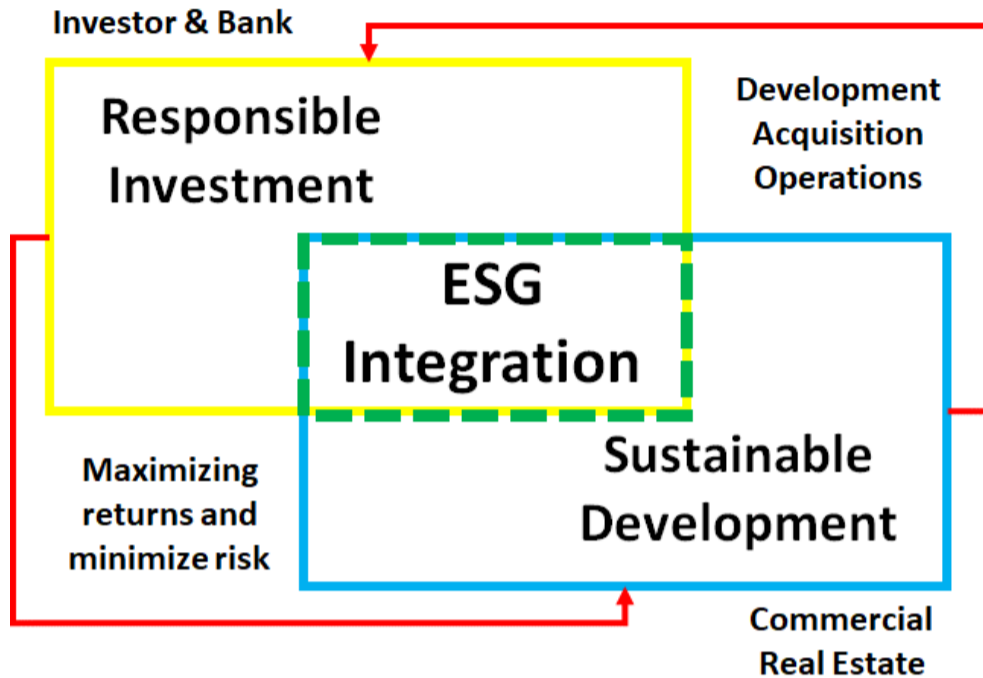


Figure 1. Relations between Investor, Bank and Commercial Real Estate Company

**ESG Integration Problems**

The main problem faced by the company's management is dominated by the availability of data. This encompasses access to obtain data, data completeness, and data relevance to the needs. The company's management needs to address these problem one by one to be able to progress in adopting ESG principles within the company. Without access to quality data, the company cannot make informed decisions.

Data access is related to the management's method of obtaining data from all of the company's assets, which are located across

Indonesia. The ES team needs to conduct site visits to each asset location to gather complete and accurate data. This situation is directly related to being time-consuming, increased travel costs, and coordination with field teams. With limitations in terms of the number of teams and time available, some data is obtained through coordination with Mall Managers and their teams. The field team's capabilities to obtain data correctly also raise concerns regarding completeness and accuracy. The abundance of data acquired needs to be selected according to needs to obtain the right answers.

**Table 1.** Problem in ESG Integration in NWP Property

<b>Respondent</b>	<b>Head of Research &amp; ESG</b>	<b>Supervisor of ES Team</b>	<b>Head of Operations</b>
What is the problem of ESG Integration process in company	<ul style="list-style-type: none"> <li>• Need to set up a framework, duties and responsibility from scratch</li> <li>• Management can't change energy system on all of malls at the same time, neither will all items be the same</li> <li>• As many times the data is not available</li> <li>• Very difficult to get accurate data and make estimation</li> <li>• Big risk for top management to trust with the decision based on estimated data and very careful with data</li> </ul>	<ul style="list-style-type: none"> <li>• Data collection process was incomplete</li> <li>• Some urgent data that was necessary was missing or inaccurate due to various reason</li> <li>• Sensor malfunction</li> <li>• Lack of reporting from the site team</li> <li>• Faced challenges where meters wew possibly damaged or not functioning correctly, and the data was unusual</li> <li>• Communication among departement</li> <li>• Centralized team at the head office to handling operations in 30 malls</li> <li>• The longer it takes to obtain data, the more we risk missing opportunities for improvements and timely responses to issues</li> </ul>	<ul style="list-style-type: none"> <li>• There are some staff that not aware to ESG principles</li> <li>• There is a need for expenses to implement new technology and systems</li> <li>• Some staff thinking that prioritizes only profit without considering its consequences</li> <li>• Lack of information about ESG Principles for integration process</li> </ul>

The condition of each operational asset of the company also significantly affects the quality of the data obtained. Issues such as equipment for energy measurement being damaged, ongoing equipment repairs, and missing measurement devices partitions contribute to this. Another condition that has been identified relates to malfunctioning measurement tools, resulting in very low data accuracy. The fact that Mall managers and their teams do not provide regular reports also impacts the availability of historical data.

The company's management is highly concerned about the availability of quality data because it significantly impacts the company's decision-making process. Incomplete, inaccurate, and irrelevant data can pose problem and even hinder management in making decisions. The accountability of the company's management in policymaking through a data-driven approach is rigorously tested in this situation, and it would be a significant risk if the company were to make decisions based on low-quality data.

**Shared values for resolving integration problems within the company**

Derived from interviews with three research samples, the data presented in table reveals the presence of 5 shared values that company management can employ in resolving ESG integration problems. These values consist of using a data-driven approach in decision-making, collaboration between departments to helps in the problem-solving process, the importance of understanding team members' perspectives to achieve common goals, and systematic preparation and planning resulting in solutions to the issues (table 2).

The company's management recognizes that aligning the company's goals with environmental impact is an appropriate initiative in response to global changes through the integration of ESG principles within the company. However, the problem they face is the availability of high-quality data, which is crucial for making decisions in their efforts to integrate ESG. The common view understood by the company's management regarding the creation of shared value within the company is implemented through a data-driven approach.

**Table 2.** Shared Values of 3 Personas

Subject	Personas	Shared Values
Head of Research & ESG	Engaging in systematic thinking when identifying issues	<ul style="list-style-type: none"> <li>• Employing a data-driven approach in decision making</li> <li>• Collaboration among departments will helps in the problem solving process</li> <li>• Understanding the perspectives of team members is essential to achieve common goals</li> <li>• Systematic preparation and planning will lead to solutions for the issues</li> </ul>
	Ensuring through preparation before executing tasks and resolving problems	
	Heavily relying on data availability when making decisions	
Supervisor of Energy Sustainability Team	Requires collaboration among individuals in solving a problem	
	Avoids making decisions without the availability of complete and valid data	
Head of Operations	Capable to assessing the team's condition effectively	
	Thinks critically when evaluating on-field issues	
	Exercises careful consideration before implementing policies	

A data-driven approach is a common value that emphasizes the importance of using data as the basis for decision-making. Thus, indirectly, the company has demonstrated its commitment to making decisions based on accurate, complete, and relevant information. Data validity serves as the source of responsible decision-making within the company. This, in turn, is expected to lead to making the right decisions in accordance with the current circumstances.

The data-driven approach is closely related to the exchange of information involving various departments within the company. The exchange of information among departments leads to interactions and collaborations to obtain references. The collaboration that occurs fosters a conducive working environment, enabling the company to find solutions to the problems it faces. As a shared value, the data-driven approach is realized as a commitment to transparency, sustainability, ethical business practices, and integrity.

This practice is carried out by the company's management in decision-making to address issues collectively. The data-driven approach can create alignment within the

company, especially when facing the problems of integration.

The management of NWP Property has agreed that a data-driven approach is the right way to address the problems of ESG integration. Accessing information accurately, ensuring the correct data collection process, and conducting comprehensive data analysis are the initial steps taken before collaborating with other departments such as legal, finance, project, business development, operations, procurement, and human resources. This collaboration is aims to obtain information from various perspectives comprehensively. Ultimately, this approach creates a collaborative working environment to make responsible decisions.

A data-driven approach is capable of addressing the problems faced in the process of ESG integration. The company's management can generate data-driven decision-making (sometimes abbreviated as DDDM), which means that the process of using data to inform the management's decision-making process and validate a course of action before committing to it (Stobierski, 2019). Decisions made based on data become highly measurable and represent the viewpoints of all relevant departments

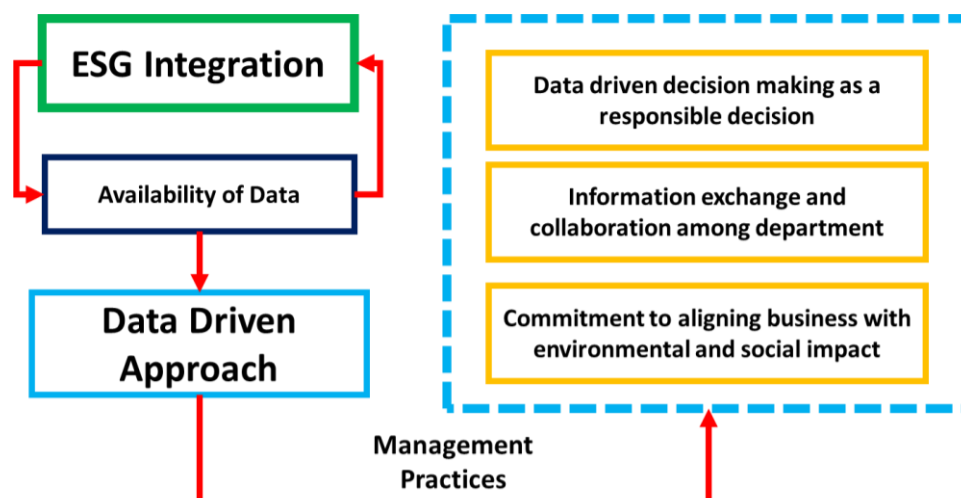


Figure 2. Data Driven Approach in Management of Company

## CONCLUSION

Based on the research results, it can be concluded that there are three distinct personas with consistent value, which collectively form shared values used to resolving ESG integration problems within the company. These shared values encompass practices such as using a data-driven approach in decision-making, collaboration between departments to help in the problem-solving process, the importance of understanding team members' perspectives to achieve common goals, and systematic preparation and planning resulting in solutions to the issues. These five shared values represent the principles applied by the company's management to address these problems.

The availability of data is the key problem for the company's management in ESG integration. The integration of ESG is carried out by the company in response to changing global and market trends related to the demands of investors and banks for responsible investment. NWP Property uses a data-driven approach to make responsible decisions based on information exchange and collaboration among departments. Data-driven decision-making occurs after management acquires data that is valid, accurate, and relevant to the problems of the integration process. Thus, NWP Property's commitment to align its business activities with environmental and social impacts can be realized through data-driven decision-making. A sustainable business model is successfully implemented through the integration of ESG principles into the company's business activities.

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