

# MEASURING VALUE CREATED THROUGH CSR IN REAL ESTATE VALUE CREATION CHAIN

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## Abstract

*This paper presents a conceptual framework for the measurement of value created through corporate social responsibility (CSR). The method of GQM (Basili et al., 1994) was chosen for creating this value measurement framework. The framework takes into account value creation possibilities through all four responsibility types proposed by Carroll (1999) and considers aspects of shared value (Porter and Kramer, 2011). Residential real estate value creation chain (VCC) is developed according to the context of possible CSR initiatives. The suggested framework is proposed as initial tool for value created through CSR measurement in residential real estate VCC. Further adjustments of this framework and residential real estate VCC will be made after surveying experts of CSR and VCC. Development of such framework would allow to measure all value created through CSR independently who has received it – the company, stakeholders or society.*

**The type of the article:** Theoretical paper.

**Keywords:** corporate social responsibility, value creation chain, value measurement, real estate.

**JEL Classification:** M14, M21.

## 1. Introduction

**The problem.** There is a discussion in academic society that CSR not always helps to create higher value than its implementation costs. It leads to assumption that implementation of CSR activities might be detrimental for some companies and the whole idea of CSR might not be sustainable enough in practice. But such assumptions can't be reliably verified without measuring all value created through CSR. The residential real estate value creation chain (VCC) only partly adopts CSR (it is noticed that only some actors of this VCC performs CSR activity, while in most cases there is no common CSR policy in the whole VCC). Therefore without a holistic framework for measurement of value created through CSR, it's totally unclear whether residential real estate VCC should foster adoption of CSR.

Having methodology, which enables measurement of value created through CSR in the whole VCC would allow to check the particular cases (like Lithuanian residential real estate VCC) when value created through CSR seems lower than costs of CSR implementation. Such a tool would build a foundation for further research of value creation through CSR and would help to determine reasons why created value might be lower than costs in each particular case. For instance:

- 1) if wrong CSR initiatives were chosen for implementation;
- 2) if CSR implementation level has not yet reached the break-even point;
- 3) if not all value was measured.

**The aim** of this research is to propose a conceptual framework for measuring the value created through CSR in real estate VCC.

## 2. Method

The conceptual model for value measurement is developed based on theoretical research and prepared for further verification by survey of experts of CSR and VCC. The method of GQM (Basili *et al.*, 1994) was chosen for creating this value measurement model.

- *Objectives and goals* for GQM method were adopted from conceptual framework of value creation through CSR in separate member of VCC proposed by Jonikas (2013). Main objectives are to measure value created through CSR and received by company, stakeholders and society. Goals of this method go deeper and describe more specific areas where or to whom the value might be created.
- *Questions* for the framework were chosen based on acknowledgement that CSR consists of four kinds of responsibilities: economic, legal, ethical, and philanthropy (Carroll, 1999; Aras & Aybars, 2010; Gholami, 2011; Valackienė & Micevičienė, 2011). As authors suggested different variables to reveal value in each part of CSR, the range of questions might and should be expanded after surveying experts of CSR and VCC.
- *Metrics* were found the most challenging part of this framework. There already has been made a distinction between value creation and value appropriation, recognizing that, in some cases, organizations that create new value will lose or will have to share this value with other stakeholders, such as employees, competitors, or society (Nohria & Ghoshal, 1994; Makadok & Coff, 2002; Chatain & Zemsky, 2011; Porter & Kramer, 2011). Therefore, researching value creation through CSR, Porter and Kramer (2011) suggested the concept of shared value. Four types of value (Jonikas, 2012) should be taken into attention while developing metrics for this framework: not shared exchange, not shared use, shared exchange and shared use value.

Speaking about value creation, an important point of view should be noted that CSR is becoming a business strategy and not only a theory (Juščius, Pukelienė & Šneiderienė, 2009). Furthermore most of recently performed empiric CSR researches focus on value received by companies. Though, value for stakeholders mostly remains as a secondary topic. Talking about financial value created through CSR, more outstanding view was presented by Visser (2010), Margolis and Walsh (2001) who said that, value creation through CSR is more than just financial profitability. The goal is economic development, which means not only contributing to the enrichment of shareholders and executives, but improving the economic context in which a company operates, including investing in infrastructure, creating jobs, providing skills development and so on. Furthermore company benefits received through CSR could be generally grouped into:

- *financial value* - Griffin & Mahon (1997), Margolis & Walsh (2001), Aras, Aybars, Kutlu (2010), Vyser (2010), Ioannou & Serafeim (2010).
- *competitive advantage* – Juščius & Snieška (2008), Ruževičius & Serafinas (2007), Georgiev (2009), Quyang (2011), Du, Bhattacharya & Sen (2010)
- *favorable purchase decision making* - Hietbrink, Berens & Rekom (2010), Banyte, Brazioniene, Gadeikiene (2010), Šimanskienė & Paužolienė (2010).

Apart those value creation possibilities through CSR, scholars note quite many problems especially related to CSR and stakeholders conjunction. Juščius (2007), Yuan, Bao and Verbeke (2011) pointed the situation that, societal stakeholders' increasingly demand for CSR initiatives, and simultaneous corporate managers require that any such initiatives should improve business performance. Such situation has triggered various alternative strategies to integrate CSR in prevailing business activities, but not all of them are successful. And while there is no holistic framework how to measure value created through CSR, decision making on CSR implementation still remains subjective and one-sided in most cases.

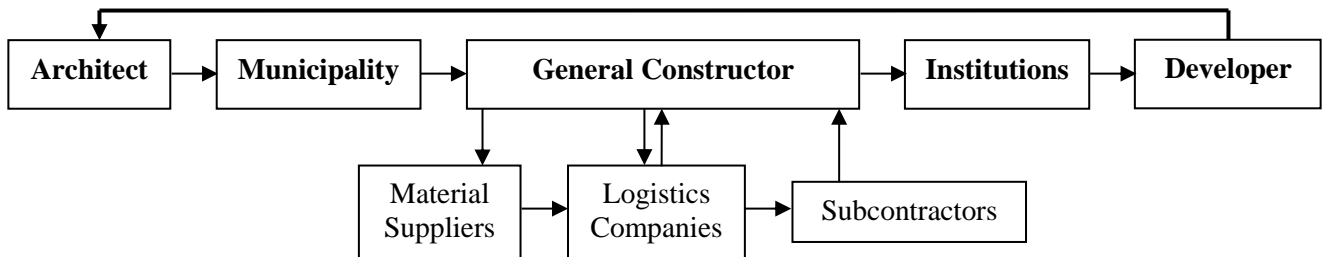
**Table 1.** Conceptual framework for measuring value created through CSR

Objective	Goal	Questions	Metrics
COMPANY	Financial	increased company stock value	stock market price if applicable
		increased sales	change in sales
		loyalty of employees	employee turnover rate, average
		new business activities	opinion of executives (survey)
	Marketing	brand awareness	top of mind position in the market
		positive associations with brand	shift in positive associations
		point of differentiation	opinion of executives and customers
		access to new markets	opinion of executives, factual sales
		customer loyalty and retention	repeat purchase, loyal customer
		favourable purchase decision	customer opinion, sales (if comparable)
justification of higher price	customer opinion, sales (if comparable)		
STAKEHOLDERS	Employees	better work conditions	employee opinion, compliance to standards
		health savings	number of accidents and illnesses
		self - realization and satisfaction	employee opinion (survey)
	Customers	improved quality	consumer opinion by survey, number or product return and complaints
		higher perceived value	consumer opinion by survey
		new added value	product or service analysis
		involvement (co-creation)	executive opinion, customer opinion
	Suppliers and Business associates	increased competitive advantage	sales, average price, market share
		faster production	production cycle, supply chain timing
		increased mutual trust	opinion of suppliers and partners
new standard in business sector		case analysis if applicable	
SOCIETY	Society	new social services and products;	case analysis if applicable
		charity projects	received donations and other benefits
		support for education and job creation	case analysis if applicable, funds for education and new job creation, number of new jobs
		public health and other welfare	analysis of statistics of specific illnesses
	Environment	prevention of pollution	reduction of CO <sub>2</sub> emissions and similar
		restoring contaminated areas	spendings on environment restoration
	Government	budget savings	alternative costs of government in case if no such value created
		reduced unemployment	new jobs in CSR companies, government savings on donations for jobless people
		increased GDP	additional GDP created by CSR
		foreign investments	number of new companies and total investments when it was done under condition of CSR adoption

Theoretical and empiric researches confirm that value creation through CSR is feasible independently to company size particularly on the factors that translate into marketing benefits (Bocquet & Mothe, 2011; Vancheswaran & Gautam, 2011). As it is confirmed, small companies can also introduce radical innovation based on their CSR involvement. Results advise that small companies should decide which dimension of CSR is central to their strategy, and how they could use their strategic CSR to develop radical innovation, thus taking advantage of their CSR orientation to further develop value creation and innovation performance. Therefore simple and easily applicable framework for measurement of value creation through CSR would be highly beneficial for small but innovative companies.

As Januszewski (2011) noted in his research, the aim of the identification of key customers is to facilitate the optimal allocation of resources of the company. Not all customers are equally important for the company, and the company is not able and should not try to acquire and satisfy needs of each customer. The same should be said about company stakeholders. Not all of them are equally important for the company, because implementation of CSR initiatives brings different

value to stakeholder groups. Purely from the economic point of view, the company should adjust its CSR policy towards those stakeholder groups where the largest common value is created at lowest costs of CSR implementation (highest “profit” of CSR implementation independently who will get the largest share of created value).



**Figure 1.** Real Estate Value Creation Chain

Trying to measure value created through CSR in the whole VCC requires defining the VCC, but naming parties of VCC and their interdependencies is not yet enough. Figure 1 shows quite standard VCC in real estate project development. The developer is the company or a person who initiates the real estate project. Developer applies to architect for preparation of the project, which is later confirmed by municipality. After municipality issues construction permission, company starts creation of physical value – constructing a building. Construction company requires various materials from suppliers, logistics company services to deliver those materials and subcontractors for specialized works. Once building is completed, government institutions inspect the object and issue appropriate certificates which validate that building is truly finished, meets all requirements and is ready for use. Finally, developer receives the value – building which is ready for sale, rent or own use.

As it was noted, CSR might help to create not only share, but use value as well. And as it is seen from proposed value measurement framework, not only companies from VCC should be taken under the scope of research, but stakeholders and society as well. Considering all this, much more parties should be taken into account of VCC, while trying to measure value created through CSR in residential real estate VCC.

### 3. Results

Broadening the scope of residential real estate VCC, 4 stages of value creation should be emphasized:

- 1) **pre-construction stage** takes all activities before real construction is started (i.e. acquiring land, preparing the project, getting permissions for construction and etc.);
- 2) **construction stage** takes all activities which create real physical value (i.e. preparing construction site, ordering and delivering materials, hiring subcontractors and etc.);
- 3) **sales stage** takes all activities while ownership of residential real estate is being transferred to new owners – inhabitants (i.e. marketing campaign of residential real estate project, actions of real estate agents, bank credit policy and et.).
- 4) **after-sale stage** takes activities which arise after the residential real estate is transferred to new owners (i.e. guarantees for construction work, municipality obligations to develop the district, any issues related to housing credit payment).

Table 2 shows all possible actors of residential real estate VCC which are connected by order flow, information flow, material and service flow, permissions and verifications. Interaction of these actors of VCC is visually show in Figure 2.

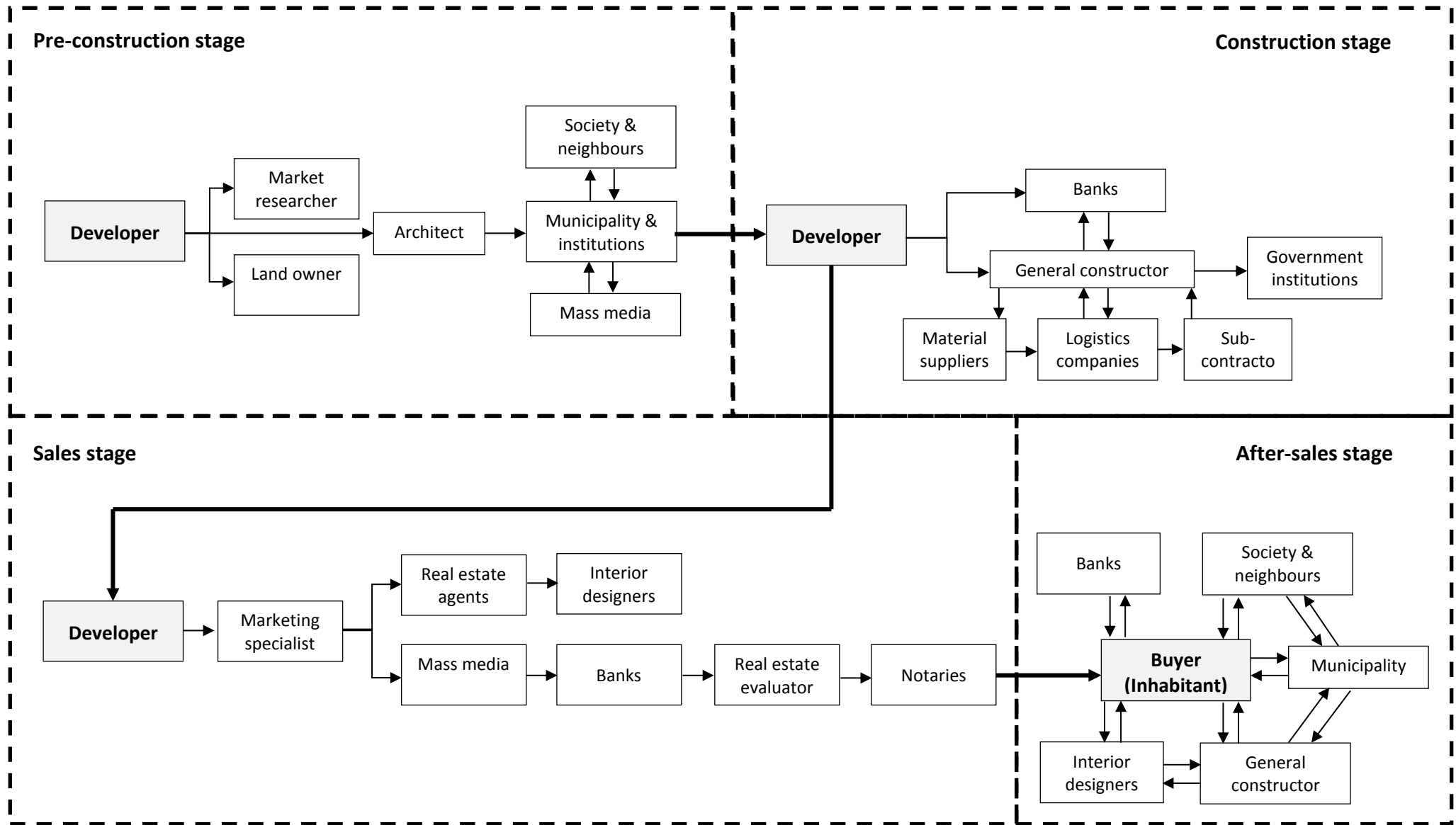
Measuring value created through CSR in residential real estate is performed applying framework proposed in Table 1 in all stages of VCC outlined in Figure 2. The received outcome is given in Table 3.

There is no point of measuring increased sales in residential real estate VCC, because each real estate object is new and takes quite long time to be built. Therefore it is suggested to measure if

such objects are sold faster if they are involved in CSR activity. Customer loyalty and retention is an important benefit and value for company, but it's barely to be possible to measure repeat purchase and loyal customers while analysing sales of residential real estate. Therefore it has been modified to "customer loyalty and recommendations". Though public health and some other welfare is hard to be measured via short period of time, it is left in the new framework for the purpose if this framework might be used for longitudinal research. Foreign investments, as possible outcome of CSR initiatives in residential real estate case, is not likely to be expected, but in any case it is possible.

**Table 2.** Parties involved in residential real estate VCC

Party of VCC	Role in VCC in context of CSR	Stage of value creation
Project developer	Investor, project initiator and manager, which makes general decisions on how real estate project will be developed. It is the initiator of VCC	pre-construction, construction, sales
Land owner	Can sell or rent land to Project development company. He contributes to VCC by deciding to support or not to support particular real estate projects and by setting the price or rent for the land. Land can be initially owned by: <ul style="list-style-type: none"> <li>• project developer</li> <li>• municipality / government</li> <li>• other private owner</li> </ul>	pre-construction
Marketer	This is market researcher, marketing specialist. He determines business possibilities for real estate and needs of particular market segments, can suggest CSR initiatives to be added into the project.	pre-construction, sales
Architect	Can suggest various project options and ideas related to CSR	pre-construction
Municipality and related institutions	Municipality not only issues construction permissions, but also can negotiate with real estate developers for	pre-construction, after-sales
State institutions	Construction inspection institution, Electricity network operator, Center of registers, Notaries, Mortgage. Even if those institutions don't create value directly, they act as checkpoints in VCC	pre-construction, construction, sales
Banks or other credit institutions	Construction financing (loans to project developer, construction companies and etc.) and loans for flat buyers. Bank's policy and rules might be responsible or not	all stages
Construction company	Main decision maker and rule setter in construction stage. This company might keep its CSR policies or not, might require the same from their subcontractors or not	construction
Subcontractors	Construction company hires subcontractors to more specialized works (i.e. cleaning & utilization, gardening) and in such cases when additional help is needed. Subcontractors keep the same CSR initiatives as main company or not	construction
Suppliers of materials	Materials are healthy and environment friendly or not. Durable and appropriate quality or not	construction
Transport	Prompt delivery of materials to construction site, environment-saving transportation	construction
Real estate agents	Main actors in real estate sales stage. Is the whole sales process socially responsible or not, mainly depends on them	sales stage
Real state evaluation company	This is independent evaluator of real estate value. Based on these evaluations banks make decision regarding loans for potential buyers. Value can be set in ethical way or not	sales stage
Interior designer	Can suggest interiors with environment friendly materials, can design healthier living space and etc.	sale, after-sales
Neighbors and local society	If permission for construction is required from neighbors	pre-construction, after-sales
Inhabitants	Flat buyers for whom CSR initiatives can be important or have no meaning at all.	Sales, after-sales
Mass media	Can announce good or bad news about the project since its initial stage. Can be used by developer or real estate agent to advertise the project.	all stages, but specially in sales stage



**Figure 2.** Residential real estate value creation chain in context of CSR



**Table 3.** Conceptual framework for measuring value created through CSR in residential real estate VCC

Objective	Goal		Questions	Metrics	Method
COMPANY	<i>Financial</i>		increased company stock value	stock market price if applicable	Market data
			faster sales	average sales time per object (i.e. flat) object sale out percentage per year	Case analysis
			increased price	price per m <sup>2</sup> of the real estate object compared to price of similar type objects without CSR activity	Market data
			loyalty of employees	employee turnover rate, average	Case analysis
			new business activities	opinion of executives (survey)	Survey
	<i>Marketing</i>		brand awareness	top of mind position in the market; number of times mentioned in the press	Survey Market data
			positive associations with brand	shift in positive associations	Survey
			point of differentiation	opinion of executives and customers	Survey
			access to new markets	opinion of executives, factual sales	Survey
			customer loyalty and recommendations	customers opinion if they would recommend to others a real estate object built by the company	Survey
			favourable purchase decision	customer opinion, sales (if comparable)	Survey
			justification of higher price	customer opinion, sales (if comparable)	Survey
	STAKEHOLDERS	<i>Employees</i>		better work conditions	employee opinion, compliance to standards
health savings				number of accidents and illnesses	Case analysis
job satisfaction and self - realization				employee opinion (survey)	Survey
<i>Customers</i>		<i>Buyers or tenants of new flats</i>	improved quality	consumer opinion by survey, number or product return and complaints	Survey
			higher perceived value	consumer opinion by survey	Survey
			new added value	product or service analysis	Case analysis
			customer involvement (co-creation)	executive opinion, customer opinion	Survey
<i>Suppliers and Business associates</i>		<i>Architect; Land owner; Market researcher; Banks; General constructor; Subcontractors and material suppliers; Real estate agent; Interior designers; Lawyers;</i>	increased competitive advantage	sales, average price, market share	Case analysis
			faster production	production cycle, supply chain timing	Case analysis
			increased mutual trust	opinion of suppliers and partners	Survey
	new standard in business sector		case analysis if applicable	Case analysis	

<b>SOCIETY</b>	<b>Society</b>	<i>Neighbours (directly); Society (through mass media)</i>	new social services and products; charity projects	case analysis if applicable received donations and other benefits	Case analysis Case analysis	
			support for education and job creation	case analysis if applicable, funds for education and new job creation, number of new jobs	Case analysis	
			public health and other welfare	analysis of statistics of specific illnesses	Market data	
			<b>Environment</b>		prevention of pollution	reduction of CO <sub>2</sub> emissions and similar
			restoring contaminated areas	spending on environment restoration	Case analysis	
			saving nature in other forms	if buildings are planned in the way to save natural surroundings	Case analysis	
	<b>Government &amp; Municipality</b>		<b>Government</b>	budget savings	alternative costs of government in case if no such value created	Case analysis
				reduced unemployment	new jobs in CSR companies, government savings on donations for jobless people	Case analysis
				increased GDP	additional GDP created by CSR	Case analysis
				foreign investments	number of new companies and total investments when it was done under condition of CSR adoption	Case analysis
			<i>Construction inspection institution; Electricity network operator; Real estate evaluator; Center of registers; Notaries;</i>	if any stimulations is provided from these institutions to company or any of stakeholders	research of legal base (if laws or any other documents foresee any kind of benefits for residential reals estate where CSR is applied)	Case analysis
					institution's opinion and their official policy	Survey



## 4. Discussion

Value creation through CSR is mostly researched only from the perspective of a single company or group of stakeholders, but not holistically in a whole VCC. There are various suggestions on value measurement methodology, but when it comes to measurement of shared or use value, it's difficult to find any methodology convenient enough for practical implementation. The proposed framework is just conceptual idea which will be developed in few ways:

- 1) any new benefits invoked by CSR implementation should be reviewed and, if needed, - added to question section of this framework;
- 2) there should be added more metrics and rules for their calculation in order to make this framework more objective and precise;
- 3) system for measurement of use value in practice should be clarified.

Another field of discussion concerns the proposed residential real estate VCC. It should be evaluated by expert survey and updated in such way that it becomes more convenient for practical use, but still remains holistically.

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