

Real estate investors' maturity in using corporate social responsibility to develop sustainable properties



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Urban sustainability & governance

Senge, P., Smith, B., Kruschwitz, N., Laur, J. & Schley, S. (2008). *The Necessary Revolution: How Individuals and Organizations are Working Together to Create a Sustainable World*. Boston, Ma: Nicholas Brealey Publishing.

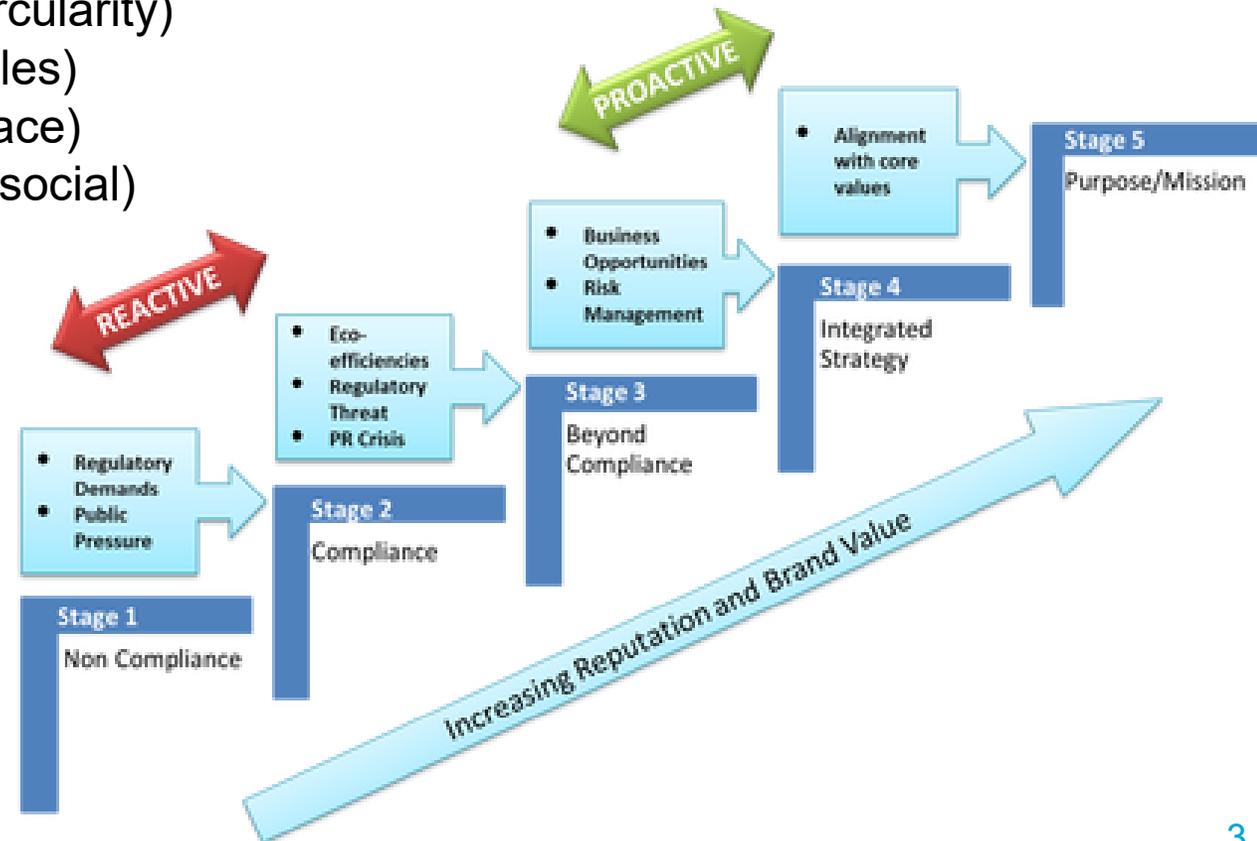
Key sustainability challenges:

- Climate adaptation (resilience)
- Resource management (circularity)
- Energy transition (renewables)
- Spatial quality (value of space)
- Gentrification/affordability (social)

Governance roles:

- Private sector drivers & barriers > *beyond compliance*
- Public sector incentives & regulations > *multi-faceted steering*

Senge et al. (2008)



Global societal & Urban governance Shifts

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Sustainability, Neoliberalism, and the Moral Quality of Capitalism

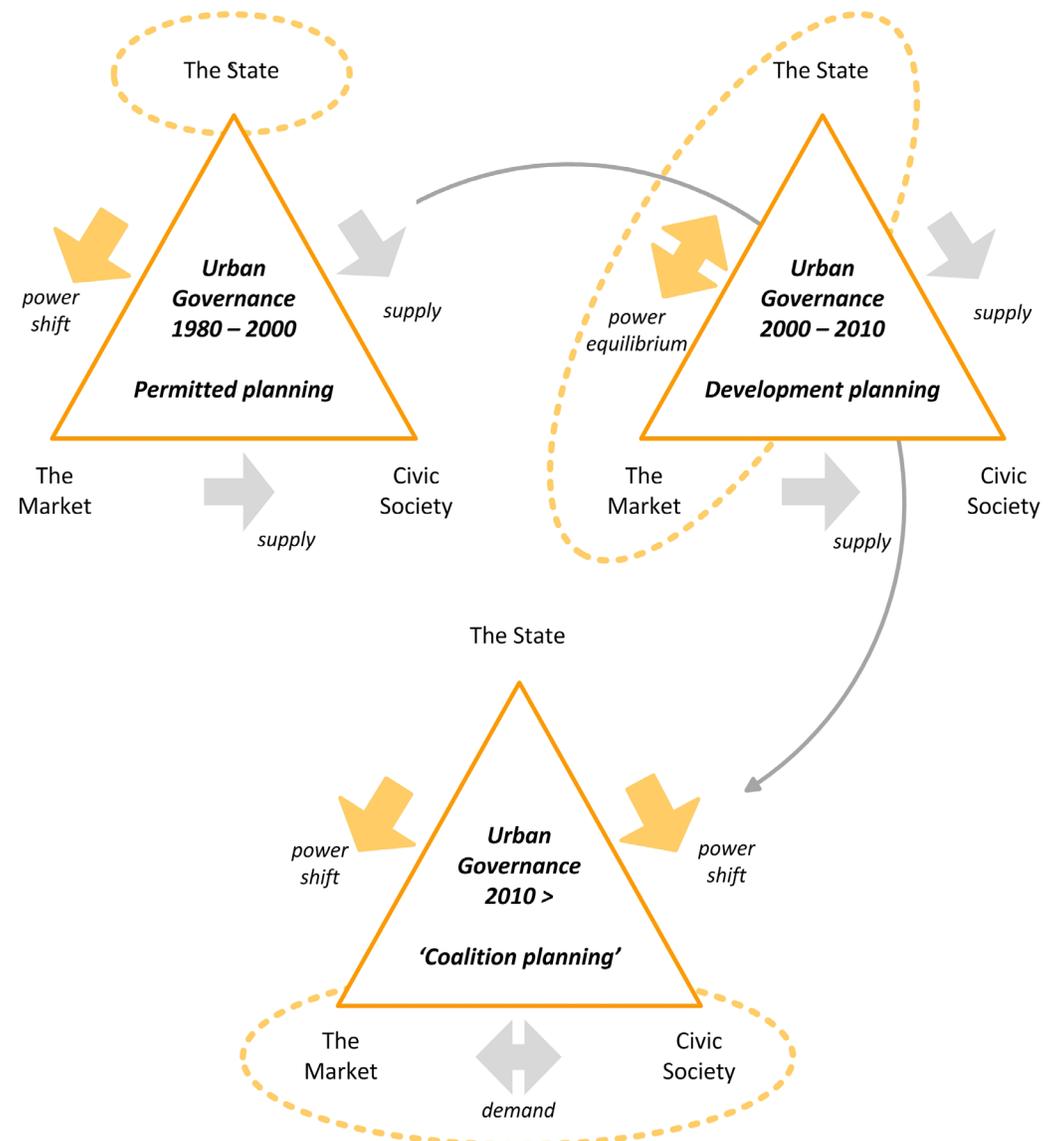
Colin Crouch

Professor Emeritus, University of Warwick, UK

Abstract: Paradoxically, the rise of neoliberal economic thinking and its rejection of concepts of both state intervention in the economy and the pursuit of purposes by business that are not directly related to profit maximization, has been accompanied by intensified social criticism of business and concerns about sustainability. The article explores the implications of these paradoxes and relates them to active consumerism and to the issue of market externalities.

Key Words: neoliberalism, moral capitalism, externalities

Since the 2008 financial crisis there has been an enhanced debate over the moral qualities of a capitalist economy; and it is a debate that cannot be stilled by insisting that it is not the job of corporations or the market to be concerned with moral issues, and that these are matters for governments (or for no-one at all). Business leaders engaged in corporate responsibility have been aware of this for far longer, but a series of events has brought it to the fore. The behaviour of bankers that produced the crisis itself has of course been one cause of the renewed debate. But there has also been the related concern over growing inequalities that seem to separate a tiny corporate (and especially financial) elite from the rest of the population. Also relevant is a succession of major corporate scandals of various kinds, from Enron in the USA at the end of the 1990s to News International in the UK in 2012. These have not been scandals in shady firms in the margins of the economy



Crouch, C. (2012). Sustainability, Neoliberalism, and the Moral Quality of Capitalism. *Business & Professional Ethics Journal*, 31 (2), 363-374.

Heurkens, E.W.T.M. (2012). *Private Sector-led Urban Development Projects: Management, Partnerships & Effects in the Netherlands and the UK*. Delft University of Technology, Delft.

Corporate Social Responsibility

Pressing societal & environmental challenges influence (private sector) real estate investment & development:

- Challenges (urbanization, gentrification, climate change and resource scarcity) > global call for more responsible sustainable market behavior ([Becker & Murphy, 2000](#)).
- Notion of Corporate Social Responsibility (CSR) has gained global attention in the real estate industry ([Roberts, Rapson, & Shiers, 2007](#)).
- Real estate investors response > CSR policies, organizational units to manage CSR programmes, sustainable behaviour, CSR achievements reporting.
- Rationale > influence the chance for market success, reputation and value of companies ([Luo & Bhattacharya, 2006](#)).

Becker, G.S., & Murphy, K.M. (2000). *Social economics: Market behavior in a social environment*. Cambridge, MA: Harvard University Press.

Roberts, C., Rapson, D., & Shiers, D. (2007). Social responsibility: Key terms and their uses in property investment. *Journal of Property Investment & Finance*, 25(4), 388-400..

Luo, X., & Bhattacharya, C.B. (2006). Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing*, 70(4), 1-18.

CSR in different models of society

Anglo-Saxon vs. Rhineland UD/RE practices:

- In the Continental Europe's real estate sector, the concept of CSR remains rather abstract and vague ([Jackson & Apostolakou, 2010](#)).
- CSR origin, meaning and implementation in business practice often unclear to practitioners.
- CSR is associated with the Anglo-Saxon model of society, and not with the Rhineland model of society which exists in northwestern Europe ([Jackson & Apostolakou, 2010](#); [Kinderman, 2012](#); [Matten & Moon, 2008](#)).
- Due to connectedness of social and economic systems, caused by globalization, Continental Europe's real estate sector is under influence of Anglo-Saxon characteristics such as liberalization, privatization and deregulation – ingredients for CSR to flourish.

Jackson, G., & Apostolakou, A. (2010). Corporate social responsibility in Western Europe: An institutional mirror or substitute?. *Journal of Business Ethics*, 94(3), 371-394.

Kinderman, D. (2012). 'Free us up so we can be responsible!' The co-evolution of corporate social responsibility and neo-liberalism in the UK, 1977–2010. *Socio-Economic Review*, 10(1), 29-57.

Matten, D., & Moon, J. (2008). "Implicit" and "explicit" CSR: A conceptual framework for a comparative understanding of corporate social responsibility. *Academy of Management Review*, 33(2), 404-424

Research methodology

Research question(s):

- How do real estate investors use CSR to develop sustainable properties?

Literature review:

- CSR in models of society
- CSR within real estate sector / investors

Qualitative cross-case analysis:

- United States, Hong Kong (Anglo-Saxon), The Netherlands (Rhineland)
- Interviews, document reviews, site observations
- Comparison using/applying Maturity model

CSR & real estate (1/4)

Within the real estate sector:

- CSR is often associated with concepts such as:
 - Responsible Property Investment (RPI)
 - Social Responsible Property Investment (SRPI)
 - Sustainable Property Investment (SPI)
 - Sustainable Property Development (SPD)(e.g. [Brodowicz, 2017](#); [Jones et al., 2009](#); [Newell, 2009](#); [Squires & Moate, 2012](#)).

Brodowicz, D.P. (2017). Socially responsible property investment in cities – Between economic reasoning and social obligations. *Real Estate Management and Valuation*, 25(2), 33-44.

Jones, P., Hillier, D., Comfort, D. & Clarke-Hill, C. (2009). Commercial property investment companies and corporate social responsibility. *Journal of Property Investment & Finance*, 27(5), 522-533.

Newell, G. (2009). Developing a socially responsible property investment index for UK property companies. *Journal of Property Investment & Finance*, 27(5), 511-521.

Squires, G., & Moate, J. (2012). Socially responsible property investment in urban regeneration: Priorities and behaviours of institutional investors in practice. *Journal of Urban Regeneration & Renewal*, 5(2), 152-163.

CSR & real estate (2/4)

Within the real estate sector:

- In today's real estate industry, emphasis is on constructing a 'sustainable built environment', including sustainable buildings and (urban and rural) areas (e.g. [Reed et al., 2009](#); [Wilkinson et al., 2018](#); [Williams & Dair, 2007](#)).
- Parallel to the people-planet-profit dimensions of CSR, sustainable property development requires the integration of social, environmental and economic development in a way that is equitable and lasting ([Redclift, 2005](#)).

Redclift, M. (2005). Sustainable development (1987-2005): An oxymoron comes of age. *Sustainable Development*, 13(4), 212-227.

Reed, R., Bilos, A., Wilkinson, S., & Schulte, K.W. (2009). International comparison of sustainable rating tools. *Journal of Sustainable Real Estate*, 1(1), 1-22.

Wilkinson, S., Dixon, T., Sayce, S., & Miller, N. (2018). Sustainable real estate: A snapshot of where we are. In S. Wilkinson, T. Dixon, N. Miller & S. Sayce (Eds.), *Routledge Handbook of Sustainable Real Estate* (pp. 3-18). London: Routledge.

Williams, K. & Dair, C. (2007). A framework for assessing the sustainability of brownfield developments. *Journal of Environmental Planning and Management*, 50(1), 23-40.

CSR & real estate (3/4)

CSR and real estate investors:

- Involved in the purchase, ownership, management, rental and sale of real estate for reasons of profit ([Hoesli & MacGregor, 2000](#)).
- Construction of new property or redevelopment of existing property, as part of a real estate investment strategy, is considered to be a sub-specialty of real estate investment > property development.
- In this study, the practice of a real estate investor involves both investment management and development management.
- Real estate investor, by means of property development, can influence own investment product.
- With regard to the financial performance of investment funds, it may be argued that the real estate investor is intrinsically motivated to develop properties that are sustainable ([Keeping & Shiers, 2004](#)).

Hoesli, M., & MacGregor, B.D. (2000). *Property investment: Principles and practice of portfolio management*. London: Pearson Educational.

Keeping, M., & Shiers, D.E. (2004). *Sustainable property development: A guide to real estate and the environment*. Oxford: Blackwell Publishing.

CSR & real estate (4/4)

CSR and real estate investors:

- In the global real estate investment practice, a growing interest in 'good governance' is apparent. Visible in increasing use of reporting frameworks
> **Global Reporting Initiative (GRI)** and International Integrated Reporting Council (IIRC).
- For investment management, reporting on **Environmental, Social and Governance (ESG)** criteria is prominent for assets in ownership.
- Participation in the **Global Real Estate Sustainability Benchmark (GRESB)** gained popularity. GRESB is an international industry-driven organization that addresses the sustainable performance of real estate assets.
- In property development, the attainment of building certificates stands out.
> **BREEAM, LEED** and **WELL**.

Case studies

Selection criteria:

- Objective to generate in-depth knowledge on CSR characteristics.
- Possibility for cross case analysis on Anglo-Saxon / Rhineland companies
- Companies report use of CSR according to GRI guidelines ([Del Mar Alonso-Almeida, Llach, & Marimon, 2014](#)).

Studying CSR at different levels:

- on the strategic level of the case companies.
- on the operational level (i.e., level of construction projects).
- concerning institutionalization within business practice.

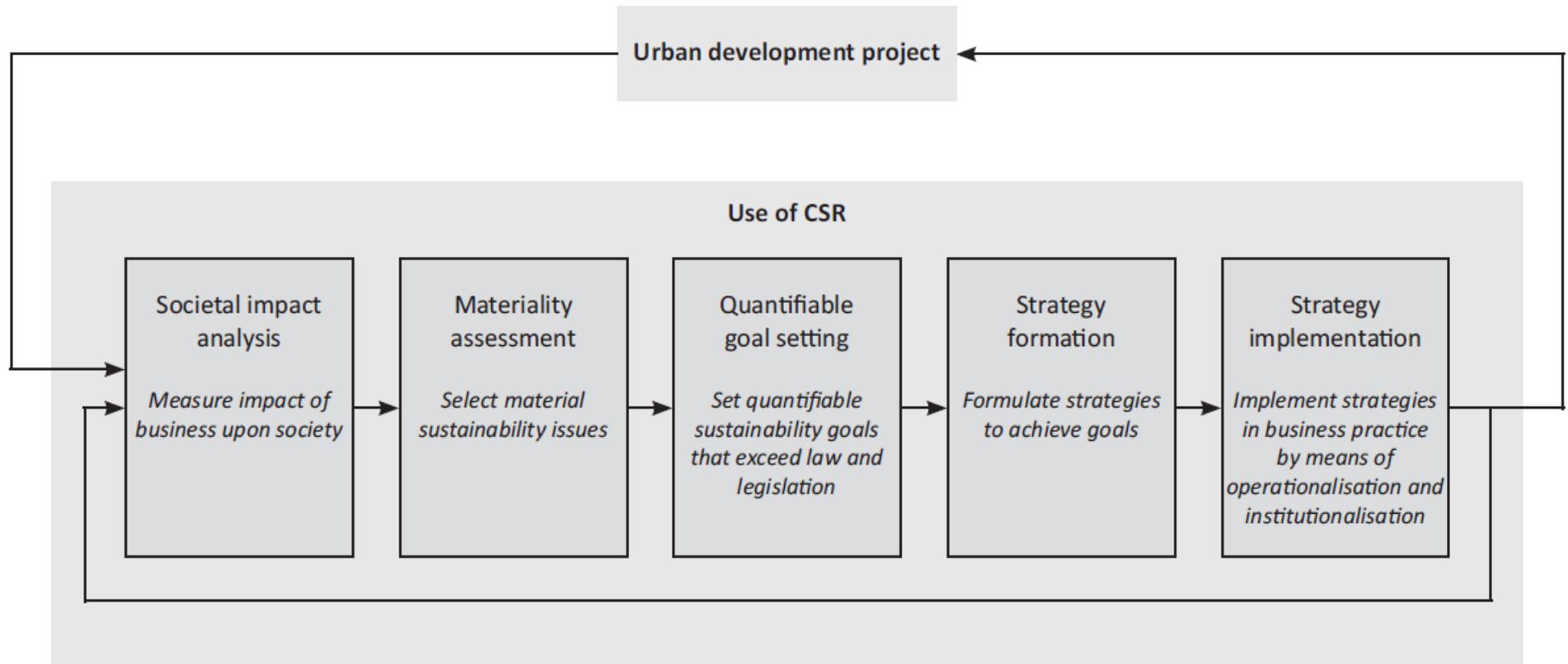
Del Mar Alonso-Almeida, M., Llach, J., & Marimon, F. (2014). A closer look at the 'Global Reporting Initiative' sustainability reporting as a tool to implement environmental and social policies: A worldwide sector analysis. *Corporate Social Responsibility and Environmental Management*, 21(6), 318-335.

Common cross-case CSR characteristics

The real estate investors studied:

- use formal materiality assessments to determine core business-related CSR issues;
- aim to formulate CSR goals that are distinctive and measurable;
- strive to find a CSR management structure that fits the company's characteristics, and;
- use existing CSR and sustainability reporting and certification guidelines as structuring devices for CSR policy setup.

Continuous use of CSR



Huijbregts, R. (2017). *The socially responsible developing investor: The use of Corporate Social Responsibility to develop sustainable urban areas*. MSc MBE Thesis, TU Delft

CSR maturity model

Level of CSR maturity ↑

1. UNAWARE

No CSR interest, dedication or activity

Possibility of window dressing: use of CSR terms to cover other non-CSR activities

2. EXPLORATORY

Assessment of impact of business upon society

Assessment of material sustainability issues

Assessment of organisational Institutions:

- Assessment of the need for a culture change, for a particular CSR management structure, leadership style and policy, and for particular CSR support systems and processes such as communication, education, evaluation and benchmarking

3. DEFINED

Definition of material sustainability issues

Definition of quantifiable goals per material issue

Definition of a strategy per goal

Establishment of a CSR policy, based upon goals and strategies

Establishment of a CSR management structure and leadership style

Establishment of CSR support systems and processes such as methods/channels/programmes for communication, education, evaluation and benchmarking

4. ADOPTIVE

Encouragement of employees to implement CSR strategy:

- Encouragement by means of management, leadership, policy, support systems and processes such as communication, education, evaluation and benchmarking

Translation of general material issues, goals and strategies into project-specific material issues, goals and strategies:

- During a project: evaluation of progress towards achievement of project-specific goals
- After realisation of a project: evaluation of achievement of project-specific goals

5. ADAPTIVE

Continuous cycles of improvement and evolution

Re-assessment of impact of business upon society

Re-assessment of material sustainability issues

Re-assessment of quantifiable goals

Re-assessment of strategies

Re-assessment of organisational Institutions

- Re-assessment of the need for a culture change, for a particular CSR management structure, leadership style and policy, and for particular CSR support systems and processes such as communication, education, evaluation and benchmarking

Continuous encouragement of employees to implement CSR strategy in projects

Development over time →

Huijbregts, R. (2017). *The socially responsible developing investor: The use of Corporate Social Responsibility to develop sustainable urban areas*. MSc MBE Thesis, TU Delft

Conclusions (1/2)

Common CSR characteristics, studied real estate investors:

- use formal materiality assessments to determine core business CSR issues
- aim to formulate CSR goals that are distinctive and measurable
- strive to find a CSR management structure that fits company's characteristics
- use existing CSR and sustainability reporting and certification guidelines as structuring devices for CSR policy setup.

CSR maturity model:

- shows where an organization stands in terms of CSR development
- indicates steps that can be taken to achieve a more mature state of CSR
- can be used by real estate investors in practice both as a tool of self-assessment and as a stimulus to a further development of CSR
- indicate a difference in CSR maturity in Anglo-Saxon & Rhineland practices

Conclusions (2/2)

CSR materiality issues & sustainable properties:

- Only part of the materiality issues determined by the case companies relate to the actual built environment.
- One may be inclined to think that almost all materiality issues would relate to properties, those being the end product of real estate investor business activity. > CSR (mis)match with sustainability certificates?
- To impact the degree of sustainability of properties, materiality issues relating to the built environment (e.g. energy, materials, water and waste) need to be well-represented in CSR policy.

Implications: Opportunity

Sustainability certificates & GRI reporting > catalyst for CSR thinking:

- promising real estate investor interest in obtaining sustainability certificates like BREEAM and LEED
- receiving such certificates is commercially attractive.
- certificates and GRI reporting frameworks stimulate real estate investors' thinking about the bigger picture – acting socially responsible.



Implications: Threats

Gap between CSR business management & development management > disruptive for CSR policy implementation:

- CSR was positively received by (strategic) business management.
- ‘On the ground’, development managers lacked enthusiasm, due to diversity of activities (sales, lease, asset management, construction).

CSR as empty shell > CSR policy needs intrinsic motivation:

- In the Dutch case, main impetus for CSR was an external push: the companies’ shareholders asked for the introduction of CSR policy.
- If an intrinsic motivation for CSR lacks, it might not fully be supported
- Under these circumstances, reporting activities according to guidelines have lesser effect on the sustainability of company’s real estate.

Contact

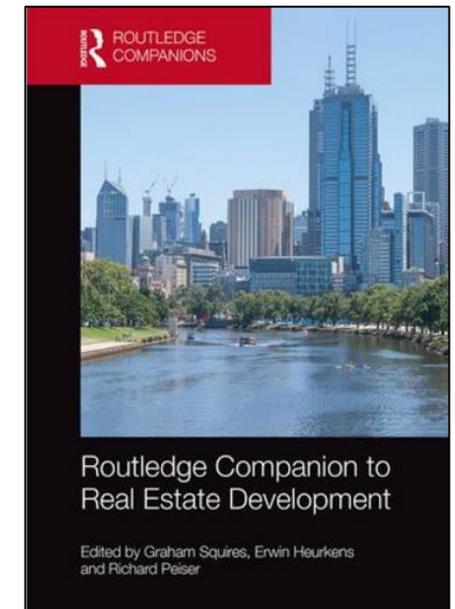
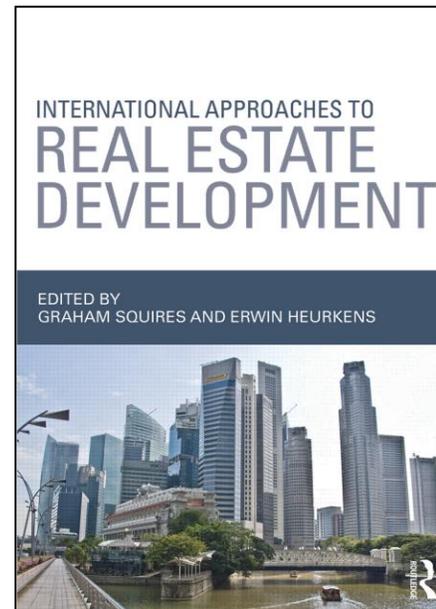
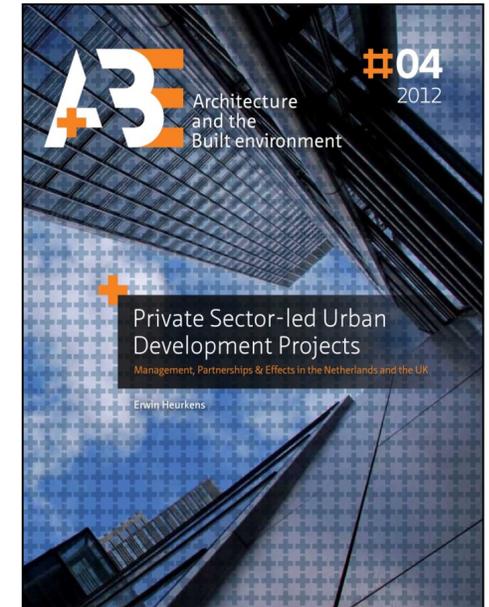
Dr Erwin Heurkens MSc

Delft University of Technology
Faculty of Architecture &
Built Environment

Department of Management in
the Built Environment

Chair Urban Development
Management

e.w.t.m.heurkens@tudelft.nl
www.erwinheurkens.com
[@eheurkens](https://twitter.com/eheurkens)



Thank you for your attention!

