Strategic CSR, reputational advantage and financial performance: a framework and case example

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Abstract: Heightened social and environmental concerns of the civil society have compelled present day managers to deviate away from the traditional viewpoints of business strategising that merely focuses on shareholder wealth maximisation. While they are primarily tasked with ensuring sound returns on capital and long term economic growth of the firm, the demands of a wider society to be socially and environmentally responsible are exerting enormous pressure on them and cannot be ignored. While many argue that trying to satisfy the divergent stakeholder expectations might cause a dent in the financial performance of the business, the authors portray the case of a company which created added value for the stakeholders by incorporating responsible economic, environmental and social behaviour into organisations’ strategies. Their proactive moves have helped them to create a reputational advantage in a highly competitive industry and in turn contributed positively to the financial performance by skilfully exploiting the reputational advantage.

Keywords: sustainable business; corporate social responsibility; CSR; reputation advantage; financial performance; property development; Malaysia.


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1 Introduction

Today, financial performance alone is not considered as a criterion for judging a business organisation’s performance. Literature commonly discusses variables like globalisation, information based economy, technology, decreased trade barriers etc. which lead to intense competition as the reasons contributing to the complexity and dynamism of present day business environment and the survival and success of the business is dependent on the organisations’ adaptation capability. Managers have no choice but to consider all these variables while formulating strategies for their businesses or risk being lost out in the competition and these have been widely discussed in the literature. A relatively not much discussed element is the changing value systems in the society and its impact on the business organisations. While one does not undermine the importance of sound returns on capital employed and long term economic growth; incorporating responsible economic, environmental and social behaviour into organisations’ strategies has become equally important as stakeholder expectations have become wider in scope. Hence, to remain competitive in the market and to be successful, business organisations have to remodel the traditional thinking about critical success factors and competitive advantages. While some argue that trying to meet differing stakeholder demands especially on socio-environmental front can have a negative impact on financial performance, many studies in the Western context have proved otherwise. If strategised well, socio – environmental concerns can bring reputational advantage which will be immensely beneficial for differentiating and positioning a business in today’s competitive environment. Businesses which have recognised this huge potential have moved from a mere customer centred orientation to a more socially and environmentally responsible orientation. These organisations are proactive and transform and lead the industry instead of following the market or industry trends, which may further enhance their reputation.

The importance of corporate social responsibility (CSR) to business was discussed as early as 1930s (Carrol, 1979) and the theory and practice of CSR have witnessed substantial changes since it first gained attention. The work by Bowen (1953) paved way for serious discussions on social responsibility in the 1960s and since has flourished internationally in the later decades. The over enthusiasm about the concept triggered sceptical reviews and opposition which were evident in works of Friedman (1970) who thought that the primary responsibility of a corporation is shareholders’ wealth.
maximisation. Despite the opposition from few, CSR continued to grow and has gained different dimensions, in due course. Drawing on researches done in the past, Lockett et al. (2006) outlined four focal areas of CSR: business ethics, environmental responsibility, social responsibility and stakeholder approaches, which they agree will include some overlaps and lacuna. An attempt is made in this paper to portray a case which covers most of these dimensions of CSR.

The objective of this paper is to discuss the linkage of CSR which includes ethical, environmental and social dimensions and its positive linkage to reputational and financial advantage by portraying a case example from Malaysian property development industry. CSR, despite being a widely discussed and practised issue in the west, has started gaining real attention in Malaysian business scenario in the recent past only. The common belief held by mostly family controlled businesses in Malaysia is that CSR is only an additional cost to the business and has not given much attention by them. But lately, professionally managed organisations, realising the long term value creation effects of CSR, have started showing more interest towards socially responsible practices. No explicit study has been conducted in Malaysian context to portray the linkage between CSR and reputational and financial advantage. Hence, in this paper, the authors’ attempt is to portray a clear picture of the importance of CSR and how it can help in developing intangible organisational resources which in turn contribute to organisational growth; in a theoretical and contextual perspective. Malaysian property industry, where most of the major players are directly or indirectly controlled by families, is taken as a case scenario and zooms into one particular firm that has made a proactive move by incorporating socio environmental aspects into their strategy formulation. This acted as a differentiating factor which enabled them to stand out of competition. This competitive advantage has led to enhanced reputation resulting in increased profitability and market value. The case study starts off with an analysis of the economic situation and the property industry of Malaysia. In the next stage, an analysis of competing firms within the industry were undertaken to understand the complexity of the industry and the competitive behaviour of the firms. The focus of the analysis then turns to the chosen organisation and dissects how the chosen company has become unique in its competitive strategies. It was seen that the company has moved away from the traditional input-output productivity model, where output was just viewed in quantum of production. They measured their output in terms of stakeholders’ perceived value and recognised a larger socio economic system than just the organisation. This has helped them in developing intangible organisational resources so as to position themselves as a unique player in the market. The later part of the study delves deep into the details of the chosen organisation and analyse how they have carved this unique position in the market and have outshined competition by embracing socio environmental aspects along with economic objectives.

2 Background

Early definitions of CSR view it as the responsibility of business organisations to pursue its policies and make decisions which are desirable in terms of the objectives and values of the society (Bowen, 1953). The concept was revisited by various scholars afterwards, adding more depth and breadth. From a mere compliance perspective, it has evolved into a more holistic perspective of being responsible for the betterment of society and environment while ensuring shareholders wealth maximisation. Despite the fact that the
primary objective of every corporate body is to earn profit and maximise shareholders’ wealth, companies should take their own initiatives to protect the well-being of the society and should carry out its business activities within the framework of environmental norms. The concept has evolved over time and today, a company is said to be engaging CSR if it makes business decisions which are in congruence with the ethical values, in compliance with the legal requirements, and in harmony with the people, communities, and the environment. Corporate sustainability has become very important, whereby business organisations explore opportunities and manage risks deriving from economic, environmental and social aspects so as to address stakeholders’ expectations and create long term shareholder value. Being socially and environmentally focused along with economic focus is not just a matter of getting portrayed as socially responsible but a strategic move to yield better economic benefits by creating competitive advantage and hence ensuring sustainability.

Schools of thought in relation to CSR are varied. Some theorists argued that the primary responsibility of the businesses is to maximise profits and hence compliance to the basic rules of the society, legal and ethical, are enough (Friedman, 1970; Levitt, 1958). From a purely financial perspective, CSR actions equate to decrease in profits and if profits are considered to be the only value driver for a business, Friedman may be right. The main argument against Friedman’s view point stems from stakeholder theory proposed by Freeman (1984). Corporate governance is not just about taking care of shareholder interests, but also the interests of other stakeholders including suppliers, customers, employees and publics. CSR initiatives hedge social risk and hence create value through risk reduction. Studies shows that focus on primary stakeholders creates relatively more value (Bosch-Badia et al., 2013) than secondary stakeholders but attention to secondary stakeholders has an insurance effect in case of negative events (Godfrey et al., 2009). These added value creations ultimately benefits the shareholders. Hence this school of thought expects the organisations to be responsive to the socio environmental expectations of the wider society resulting in much broader socio-environmental obligations. Changing value systems in the society is in line with the latter approach to CSR.

A comprehensive definition of CSR is not easy to be found. The definition given by World Business Council for Sustainable Development (WBCSD) which can be considered quite holistic, defines CSR as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large” [Corporate Social Responsibility: Meeting Changing Expectations, (n.d), p.3]. An easy way is to look into how businesses take into consideration of its social and environmental impact in the manner it operates, by way of maximising the benefits and minimising the negative effects. In other words, a corporation should be committed to continuously behave ethically and contribute to the socio-economic development while creating avenues for employees to improve the quality of life and their families as well as the local community and society at large (Holmes and Watts, 2000). The case of logistical operations of Ford Motor Company is an ideal example to illustrate the concept of sustainability by delivering superior economic, social and environmental benefits. European operations of Ford uses recyclable standardised plastic containers for shipping their car parts, sparing valuable wood resources. The standardised packaging provides better storage density during transportation. After usage, the containers will be broken down into chips, shipped in sacks back to the supplier location, to be reprocessed to make new packaging
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Containers. These activities will considerably reduce the transportation volume resulting in considerable reduction in costs and emissions so as to meet the environmental bottom line. The new containers were ergonomically designed and plant workers could handle it with much more ease. This exhibited Ford’s societal concern. The change in packaging helped Ford save their shipping costs by over twenty five percent by avoiding third party contracts for packaging, which contributed to cost efficiency (Ford.com).

One of the key contributions of CSR is towards sustainable development. Sustainable development is a concept to ensure a better quality of life by enhancing social progress, maintaining healthy and stable economic growth while protecting the environment with the prudent use of natural resources. Corporations are able to contribute to sustainable development by managing their business conduct in such a way that creates economic stimulus via job creation without compromising the commitment to protect the environment and fulfill other social responsibilities. Hence, sustainability in business could not be achieved solely by profit maximisation alone but through a series of socially responsible actions by the business. Organisations must now assess CSR projects in light of their ability in having a balanced and integrated approach, i.e., to generate not only the social benefits to the community as a whole but also the economic benefits and thereby, maximising the value for shareholders. By having more socially responsible initiatives, the organisation may enjoy better corporate reputation among other stakeholders such as suppliers, customers, and business associates. Corporate reputation may lead to stakeholders having higher confidence in the organisation and therefore, increasing sales revenue which in turn leads to profit maximisation. Thus, larger organisations may have extra financial resources for allocating funds to undertake socially responsible activities and thus having bigger impact onto society. On the other hand, industries which have adverse impact on the environment and society will be more in need for sustainable business practices in order to sustain their business image and survival (Haniffa and Cooke, 2005; Jenkins and Yakovleva, 2006).

In recent years, there has been a considerable increase in the volume of literature on sustainable business practices (Wood, 1991; Haniffa and Cooke, 2005; Jenkins and Yakovleva, 2006; Hanlon and Heitzman, 2010; Lanis and Richardson, 2012). This literature is guided by a wide array of theoretical perspectives and seeks to address issues pertaining to economics, governance, accountability and ethics, ultimately the eco-systems and co-existence of business and the environment as a whole.

3 The relationship between strategic CSR, reputation and financial performance

Results of numerous studies conducted to gauge the relationship between corporate social performance and financial performance of organisations reveal that there is a positive correlation between social performance/reputation and financial performance (Aupperle et al., 1985; Formbrun and Shanley, 1990; Orlitzky et al., 2003; Pava and Krausz, 1995; Robert and Dowling, 2002; Saeidi et al., 2015; Waddock and Graves, 1997). An analysis of most of these studies points to three major conclusions: Over the time, the strength of positive correlation has improved, the positive impact is seen in long run, and last but important, value creation as a result of CSR is more visible when focused on primary stakeholders (Bosch-Badia et al., 2013). This does not mean that focus on secondary stakeholders are of no benefit as Godfrey et al. (2009) found that the CSR efforts targeted
at secondary stakeholders has an insurance effect which benefits shareholders in case of negative events. Fostering stronger and better relationships with the various stakeholders, both primary and secondary, could lead to improved financial performance by way of leveraging on the reputational advantage which can be a source of competitive advantage (Hillman and Keim, 2001). Tang et al. (2012) in their more recent study observed that firms which adopt a consistent CSR engagement strategy involving related dimensions of CSR lead to higher financial performance.

The mediating link between CSR and financial performance is the reputational advantage created by strategic CSR. Corporate reputation is basically perceptions held by stakeholders that embody its image and values and hence the image is very much linked to sustainable business practices. It can be seen as a function of: credibility; trustworthiness; reliability and responsibility (Fombrun, 1996). It is an intangible asset to the organisation, a competitive advantage, which contributes to the overall organisational performance assuring long term value creation. The reputational advantage created through sustainable business practices will have a positive impact on its marketing efforts whereby affluent and socially concerned market segments can be targeted and value based pricing strategies can be implemented. This enhanced marketing opportunities and reduced perceived risks will make the investors more willing to make investments in organisations with superior reputation (Miles and Covin, 2000). Figure 1 shows the possible linkage between sustainable business practices, reputational advantage and financial performance, based on the discussion above. This paper provides the case example from Malaysian property development industry depicting how sustainable business practises contributes to reputation and provide financial advantage.

**Figure 1** Linkage between sustainable business practices, reputation advantage and financial performance: a framework to appraise the case example

4 An overview of Malaysian economy

A country’s economic environment plays a crucial role in the success or failure of strategies of any business. Hence it is important to analyse the economic environment of the chosen industry, before dissecting the organisation’s strategy and its success. Despite the challenging economic outlook, the property market in Malaysia continued to be vibrant until 2013–2014, mainly driven by the rapid urbanisation with Kuala Lumpur as
the most populous and fastest-growing cosmopolitan city in the country. According to the Economic Transformation Programme (2015), where the ultimate objective is to turn Malaysia into a developed-nation status by 2020, one of the goals is to transform Greater Kuala Lumpur into top 20 most liveable cities globally where the population is targeted to be around ten million. This national policy of economic concentration by revitalising and expanding Greater Kuala Lumpur backed by economic growth has fuelled rapid urbanisation growth which has generated a tremendous demand for housing.

On closer examination, property development has always been the ‘main locomotive’ for the Malaysian economy. According to data released by National Property Information Centre (2014), the construction sector was the most significant contributor to the GDP growth of the Malaysian economy, contributing about 11.6% in 2014. Recently, the Malaysian government, in its aim towards achieving a high-income nation by 2020, unveiled the 11th Malaysian Plan which runs from 2016 till 2020 in which a total of RM250 billion has been allocated for infrastructure development where the real estate sector is well poised to be the main beneficiary as a result of the many spill-over effects from improved accessibilities, amenities and job opportunities (www.kwp.gov.my).

On the economic front, the Malaysian economy is expected to remain resilient despite the economic challenges. On 30 June 2015, Fitch Ratings has raised its outlook of the Malaysian economy from negative to stable (www.nst.com). This well-regarded agency has just re-affirmed that Malaysia’s fiscal finances had improved with government deficit falling from 4.6% of GDP in 2013 to 3.8% of GDP in 2014 and government debt/GDP declining from 54.7% at the end of 2013 to 53.9% at the end of 2014. On a separate note, the World Bank is optimistic about the outlook of the Malaysian economy and believes that Malaysia will still continue to register healthy economic growth in the years ahead despite the current economic challenges. According to the World Bank (2015), Malaysia’s growth is projected to maintain a healthy pace and the economic growth is predicted to be around 4.7% and 5.0% for 2015 and 2016 respectively. This growth rate is considered to be good for a developing middle-income economy.

**Figure 2** Malaysia annual GDP growth chart

![Malaysia Annual GDP Growth Chart](Source: World Bank)
5 An overview of property industry in Malaysia

As a result of rapid urbanisation over the years, the property development industry has grown by leaps and bounds to cater for the housing, employment and social needs of communities. According to the data released by National Property Information Centre (NAPIC, 2014), the average price of all types of houses has registered encouraging growth of 5.5% from 2000 to 2014. More noticeably, prices of residential property have surged by as much as 54% for the past five years despite a growing overhang in supply, far outpacing income growth and giving rise to concerns that the market is becoming unsustainable. The rising trend of property prices has lured more developers to join the bandwagon in launching not just new properties, but also to promote the concept of living within an environmental-friendly, self-sustainable and vibrant township with comprehensive facilities where residents can live, work and play. The trend of property prices in Malaysia is shown in Figure 3.

Figure 3 Trend of Malaysian house prices

The townships in Malaysia come in different shapes and sizes. Many decades ago, houses were built for merely satisfying the basic need for a shelter – to have a roof over one’s head. The tastes and expectations of house buyers have evolved tremendously over the years from owning a home just as a basic place to stay to expecting more sophisticated functionalities such as a home located in gated and guarded environment, excellent connectivity with highways, eco-friendly settings with ample green zones with parks and recreational components, childcare nurseries and schools, as well as lifestyle-cum-entertainment townships for shopping convenience. As the society becomes more affluent over time, house buyers have higher expectations for aesthetics, landscaping and lifestyle elements in their projects. Thus, what used to be luxury components in township development are now regarded as necessities. Hence, property developers have to re-strategise its business models in order to adapt to the changing needs of the house buyers.
Table 1  Established property developers in Malaysia

<table>
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<tr>
<th>Developer</th>
<th>Description</th>
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<tbody>
<tr>
<td>UEMS</td>
<td>UEM Sunrise Berhad, has become a major player in the Malaysian property industry. They are master developers of Nusajaya, in the prestigious Iskandar Malaysia project in Johor Baru. UEMS focuses on high end projects in Mont Kiara, a premier neighbourhood in KL and around Kuala Lumpur City Centre.</td>
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<tr>
<td>Gamuda Land</td>
<td>The company’s first integrated township is called Kota Kemuning, located in Shah Alam. It is an award-winning township that showcases quality living with vast tracks of green landscape and a variety of amenities. The hallmark of Kota Kemuning township is its resort-style golf club, i.e., Kota Permai Golf and Country Club which has won numerous awards.</td>
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<td>IOI Properties</td>
<td>It is a highly-esteemed property developer who has a huge land bank of more than 9,000 acres. Backed by a solid balance sheet, the company has a large reserve of funds for future land bank acquisitions. The developer has enjoyed huge success from its major mixed development townships in the high-growth corridors within Klang Valley and Johor. It also has exposure in overseas markets such as Singapore and China.</td>
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<td>Mah Sing Group</td>
<td>The company is an innovative developer of niche products known for building quality homes and prime commercial projects in strategic locations. In 2014, the company bagged the ‘Asia Best Managed Companies Award’ in a poll organised by Euromoney, a leading international magazine.</td>
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<td>S P Setia</td>
<td>The top developer in Malaysia in terms of revenue, raking in close to RM4 billion sales in 2014. Its eco-themed townships have won many awards internationally, a testament to the company’s commitment to creating holistic and harmonious living. The company clinched the No. 1 title in The Edge Malaysia Top Developers Awards in 2013 which it won for the 8th time. No other developer has come to this close to achieve this feat. The founder of the company, Tan Sri Liew Kee Sin clinched the title as the Property Man of the Year Award in 2007.</td>
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<tr>
<td>Sime Darby Property</td>
<td>A pioneer in township developments, Sime Darby’s flagship sustainable community township development is Subang Jaya development which was started as early as 1974. A winner of the FIABCI International Prix d’Excellence Award in 1995, the Subang Jaya township is recognised as the largest township in the ASEAN region ever built by a single developer. Today, this township has matured into a fully integrated development with renowned tertiary institutions, medical centres and lifestyle shopping malls with excellent network of highways.</td>
</tr>
<tr>
<td>Sunway City Berhad</td>
<td>A well-established brand, this developer-cum-construction company transformed an area of 800-acre of a former mining land into a ultra-modern, thriving township known as Bandar Sunway which is complemented with an abundance of amenities such as the award-winning, Egyptian-inspired shopping mall, i.e., Sunway Pyramid; a reputable medical centre (Sunway Medical Centre); Asia’s Best Waterpark (Sunway Lagoon theme park); reputable higher education institutions (Monash University and Sunway University) as well as upmarket Sunway Resort Hotel.</td>
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</table>
The property developers in Malaysia are mostly involved in building a wide array of properties ranging from affordable housing to high-end properties. Traditionally, the focus of these property developers has always been towards profit maximisation with limited emphasis placed on social and environmental considerations. The traditional developers, mostly family controlled, are more interested to pursue short-term profit maximisation to appease shareholders than long term value creation for the benefit of all stakeholders. These developers are mainly interested in just building and selling houses without much emphasis on the ‘softer’ parts of the development such as incorporating recreational, social or environmental friendly features. By contrast, well-capitalised developers have the financial muscle and technical expertise to develop bigger, self-sustained townships by incorporating the green elements in their development projects, thus providing the joy of serene and tranquil living experience. Based on the sheer size of the development, the project period usually takes at least more than five years. Due to the favourable demographical landscape with growing middle-class households, the demand for housing is expected to expand significantly, particularly in major urban areas such as the Greater Kuala Lumpur, Penang and the new Iskandar Region in Johor Baru. The continuous efforts by the government to promote infrastructure development such as construction of new highways and extension of modern rail networks have inevitably led to a surge in demand for the nearby land and properties due to better accessibility. Hence, property developers tend to buy prime land strategically located within walking distance to the railway stations as these properties are more appealing to the mass market, especially among the working class. As such, the sale of these properties will normally experience higher take-up rates as buyers are more optimistic of the capital appreciation in the future.

Some of the more established property developers in Malaysia known for the quality products and have over the years shaped Malaysia’s community-focused townships. A brief of these property developers are given in Table 1.

While property development industry enjoyed a stable market condition until 2014; 2015 proved not to be that exciting and the trend is expected to get worse in the coming years. Implementation of Goods and Services Tax constrained the disposable income, crude oil prices became very volatile and Ringgit became much weaker, all contributing a dent in the economy which directly impacting property sales (Maybank IB, 2015). This has compelled many major Malaysian property developers to start taking cautious steps in the market. There are cases of big players delaying the launches and cutting the sales targets by up to 33% and the competition became fiercer (The Star, 2015).

6 CSR and Malaysian property industry

Even though Malaysian organisations lag much behind other developed countries in terms of adoption of CSR, last couple of decades has shown considerable improvement. This could be partly due to the government initiatives. The national stock exchange, Bursa Malaysia, now requires all the listed companies to disclose their CSR initiatives in their annual reports and provides four dimensions of sustainable practices to be followed which includes community, environment, workplace and marketplace (Bursa Malaysia, 2011). Property developers in particular are evaluated based on awards/certifications, CSR/sustainability reporting, green projects, clear policies on CSR etc. While the push by the government and the National Stock Exchange has resulted in some leading companies
showing considerable improvement in CSR and sustainable business practices, most of the property development companies opted for mere compliance.

7 A case example from Malaysian property development industry

The chosen company is a major player in the Malaysian property development industry. All the data pertaining to the company is taken from publicly available sources. The company started from its humble beginnings in 1974 as a construction outfit and has now grown to a well-known property development company with projects within and outside Malaysia. The company was incorporated as a construction company on 8 August 1974 and listed on the stock exchange in 1993. In 1996, it achieved a major breakthrough when it shifted its core focus to property development with supporting divisions in construction, infrastructure and wood-based manufacturing, making it one of the most versatile property developers in the country. Its first property development – a 700-acre development based in suburban Kuala Lumpur – set the benchmark for its subsequent projects: a well-planned development that balances affordable quality residential and commercial properties with an outstanding landscape and community-centric facilities. Over the years, it has tirelessly strived to produce highly innovative products to cater not only for the local Malaysian market, but also international market as well. This developer has built many award-winning townships which cater for people from all walks of life which range from residential houses, high-rise condominiums, as well as retail and commercial developments.

Today, this company has a market capitalisation of approximately RM8 billion, making it one of the top developers in Malaysia. Based on its 2014 Annual Report, the company has about 4,610 acres of prime land yet to be developed with a price tag of RM 74 billion. In the last eight years, the company has spread its wings beyond Malaysia to countries such as Vietnam, Singapore, Australia and more recently, the UK. The overseas venture has proven to be very successful which recorded strong sales performance despite it being relatively unknown in the overseas market. For example, its maiden foray into the UK, situated at the site of one of Britain’s most iconic landmarks in the heart of London, continues to garner strong take-up rates and keen interest worldwide. Prices start from £338,000 for a studio to £6,000,000 for a penthouse. Sales contracts which have been formally entered into with purchasers for 824 units or equivalent to 95% of apartments, translated into a whopping £681 million, making it one of the fastest selling projects in London in recent years.

8 Mission, vision and values

The organisation achieves competitive advantage by identifying and focusing on the critical success factors which are predominantly centred on customer satisfaction, financial performance, strategic positioning and social responsibility issues. The critical success factors analysis is done using a top down approach, i.e., it begins by examining the corporate vision and mission, the corporate values and the key functional strategies to support the overall corporate objective. Through a series of brainstorming sessions between the senior management and the managers across the different departments, key
strategies are then formulated to ensure that the company performs well in each critical success area.

The key critical success factors for this company are:

- talented workforce – inspiring a culture of excellence
- incorporating green elements in developments
- being a leader in sustainable development
- live-learn-work-play philosophy
- a responsible and caring developer towards the society.

The 2014 Annual Report of the firm states its corporate vision as: ‘to be the best in everything that we do’ whereas its mission is as follows:

- to provide superior customer service and satisfy customer needs through a culture of excellence
- to enhance shareholder’s value
- to be a caring and responsible employer
- to be mindful of our social responsibilities.

The management philosophy of upholding the values in the process of delivering high quality and well-designed homes resulted in enhanced reputation and hence the firm’s projects both locally and internationally were well-received, translating into strong financial performance.

The townships by the company were well planned with aesthetically pleasing landscape designs and have a good balance of mixed products of residential, commercial and office components which explains why its projects are highly sought after by many. These townships have the necessary characteristics to support the economic vibrancy such as including corporate offices and industrial components in the townships to provide job opportunities to the residents. The company ensures all its townships are meticulously planned to offer holistic living with generous landscape and community-centric facilities, built as a self-sustained development centred on the principles of sustainability, safety, easy accessibility and a plethora of community friendly amenities. Indeed, in every project development, the company will ensure that the township can thrive where people can live, learn, work and play where residents can enjoy a balanced, enriched and holistic lifestyle.

9 Sustainable business practices – the ECO philosophy

Over the years, this company has earned the reputation as one of the most remarkable property developers in Malaysia given its continuous quest to produce quality products and being responsive to the customers’ and societal needs. It is guided by its corporate responsibility charter of ‘building sustainable communities for all’ and calls themselves as the ‘ECO builder’. ECO stands for environment, community and organisation thus covering all the stakeholders.
As a for-profit business entity, economic sustainability is of prime concern and hence the company’s marketing activities have always been customer-centric. Customers’ needs form the core of their developments. The company’s many ongoing mixed-development projects are premised on the notion of sustainable living by integrating the four elements of live-learn-work-play. With a wide spectrum of self-contained townships, high-rise residences, retail and commercial properties and luxury homes, the company offers a wide array of property types to cater for communities from all walks of life.

To unlock the value of the existing land and transform townships into liveable cities for communities, the developer has also embarked on commercial developments to be integrated into townships. The company’s maiden retail mall project was accorded international recognition with the Gold Award in the retail category at the FIABCI Prix d’Excellence Awards in 2014 in Luxembourg, Germany. This award is a true testament to the company’s philosophy of live-learn-work-play which promotes work-life balance, nurturing a wholesome, vibrant community where the township will be equipped with facilities such as shops, banks, schools, surrounded by lush greenery perfected by nature and technology. It is this philosophy which acts as a competitive advantage for this developer, setting it apart from the other competitors.

Being an eco-friendly developer and to reflect the exemplary leadership in sustainable development, the company built its corporate HQ, which is recognised as the only first private sector corporate office accorded with Green Building Index (GBI) Platinum rating. This high-tech building is designed with open-plan concepts with plenty of natural lighting and energy-efficient features. This award speaks volume about the company’s commitment towards building greener townships. The company’s township is well-known for environmental friendliness with generous greenery landscapes and an abundance of flora and fauna such as large areas of parks and gardens, tree-lined pedestrian walkways, providing the community with a tranquil and serene setting to live in. In some of their flagship projects, the developer have gone beyond just providing greenery but developing a comprehensive tropical landscape with a diversity of flora and fauna. One project earmarked 56-acres of land for a forest park and with the help of recognised ECO advisers, created a truly sustainable landscape that will serve as an ideal habitat for fish, butterflies, birds and other friendly creatures. The butterfly sanctuary was developed in collaboration with Penang butterfly farm where 20,000 butterfly food and nectar plants were planted to attract varying butterfly species and a nursery takes care of caterpillars before releasing them to nature. Bird Park was established in collaboration with Kuala Lumpur Bird Park who provides consultancy on establishing bird colonies within the park. On academic side, the company has established an academic Chair of Environmental Engineering and Green Technology at one of the local universities, so as to contribute academically to the green sphere. They have taken every opportunity, like world environment day, to create more awareness about environmental issues, among the public.

A company must integrate social perspectives into a core framework it already uses to understand competition and guide its business strategy (Porter and Kramer, 2006). In terms of social work, its annual report states that the company set up a charity trust which has managed to raise funds to the tune of RM65 million as of 2014. The fund is mainly raised from charity dinner held annually. The primary objective of the fund is to provide financial and moral support to the underprivileged children, particularly in the areas of education and medical welfare. For example, the Foundation provided assistance to schools in the rural areas to create a more conducive environment for students, such as
providing chairs and desks, school books and bags, building infrastructure like basketball courts, halls, and shelters for these primary and secondary schools.

The company is known for making immense contributions to human capital development as they consider their skilful and committed employees as the most important asset. The initiatives of the company have resulted in employees exhibiting a strong sense of belonging to the company. To retain the talents, the company offers attractive remuneration packages, share options, career advancement opportunities, etc. In order to reward and retain the staff, the company launched a scheme called Long-Term Incentive Plan (LTIP) in 2013 to ensure that staff are rewarded and motivated for higher productivity and this has resulted in employees willing to put in the extra mile to serve the customers, both internally and externally. The company has a well-structured succession planning and grooming programme which ensures identification and moulding of future leaders of the company. It is hence not surprising that this developer emerged as the overall champion of the Aon Hewitt Best Employers award in 2003, 2005, 2009, 2011 and 2013. The company reports its CSR activities in its annual report and web site and the main objective of reporting CSR for organisations is to become more known as a responsible corporate citizen at the local as well as international level (Avram and Avasilcai, 2014).

10 Reputation advantage – achievements and accolades

With an extensive portfolio ranging from integrated townships to luxury residences, this company has successfully spread its wings to seven countries, collecting numerous local and international awards along the way. They are now a widely recognised as a household name with a proven track record of benchmark-setting and innovation-driven accomplishments. The awards are varied and include awards for property development, environmental friendliness, sustainability, human resources management, corporate governance etc. which shows the excellence of different facets of the organisation. For instance, it is the only developer to have claimed the no. 1 position in The Edge Malaysia Top Developers Awards for the 8th time in a row, since 2005 till 2013. Apart from this achievement, this organisation is a gold winner in the Fiabci Prix d’Excellence Awards for the 6th time. Fiabci is the French acronym for the International Real Estate Federation. According to the Federation, the Fiabci Prix d’Excellence recognises project that best embodies excellence in all real estate disciplines involved in its creation. It is also the only developer in Malaysia to have earned this prestigious award for six times. Its passion for continuous innovation and excellence was rewarded when the founder of the company who clinched the title as the Property Man of the Year Award in 2007. Apart from the company’s property development awards, it also achieved Aon Hewitt Best Employers list five times in 2003, 2005, 2009, 2011 and 2013. In 2011, the company emerged as the overall best employer in Malaysia and among one of the best employers in Asia Pacific. Other awards in varied areas include: The Edge-PEPS Value Creation Excellence Awards 2013, The Edge-PAM Green Excellence Awards 2013, BCA Green Mark Awards, Malaysia Best Investor Relations Awards, GBI certification for projects, MGBC Leadership in Sustainability Awards 2014, FinanceAsia’s Asia Best Companies awards including: 2004, 2007, 2008 – top 10 best-managed company in Malaysia, 2004–2007 – top 10 best corporate governance in Malaysia, 2005–2007 – top 3 best investor relations in Malaysia, 2007 – top 10 most committed to a strong dividend policy.
11 Value-based pricing strategies translated into strong financial performance

Riding on the wave of success, the company’s product and services are undoubtedly recognised for their superiority within the industry given the fact that it has won the no. 1 title in The Edge Malaysia Top Property Developers Awards in 2013 which it won for the 8th time. This award is given by The Edge Malaysia, which is the leading business weekly paper in Malaysia. No other developer has come to this close to achieve this feat.

Figure 4 Revenue of chosen company from 2010 to 2014

![Revenue of chosen company from 2010 to 2014](source: The chosen developer’s Annual Report 2014)

Figure 5 Profit before tax of chosen company from 2010 to 2014

![Profit before tax of chosen company from 2010 to 2014](source: The chosen developer’s Annual Report 2014)

Due to the overwhelming response and sales towards the various categories of products launched over the years, the firm’s financial performance has been phenomenal. Leveraged on its reputational advantage, this developer is able to offer value-based pricing to more affluent markets by selling their properties at premium prices. This is consistent with the research findings which show that performing CSR is vital in increasing firm performance through enhancing reputation and competitive advantage while improving the level of customer satisfaction (Saeidi et. al., 2015). In terms of sales, the company holds the top position in Malaysia, registering record revenue and earnings year after year. The group’s total revenue was RM 1.9 billion in 2010 and this amount doubled to RM3.8 billion in 2014, mainly driven by aggressive sales in the on-going projects both locally as well as from overseas.
Similarly, in tandem with the impressive revenue growth, the group’s profit before tax almost doubled as it increased from RM364 million in 2010 to RM722 million in 2014.

Looking at 2015 performance, the industry suffered in totality, but the chosen company managed to outperform the competitors. Table 2 shows a comparative analysis of sales performance of major industry players for second quarter of 2015. Table 3 shows peer analysis of major industry players. The tables give a clearer picture of performance of the chosen company in comparison with its peers, especially during times of uncertainty.

Table 2  Comparative analysis of sales performance of major industry players

<table>
<thead>
<tr>
<th>Company</th>
<th>FY15 sales target (MYR million)</th>
<th>Actual sales (MYR million)</th>
<th>Percentage of sales target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mah Sing</td>
<td>3,430</td>
<td>1,063.3</td>
<td>31%</td>
</tr>
<tr>
<td>Sunway</td>
<td>1,200</td>
<td>353.0</td>
<td>29%</td>
</tr>
<tr>
<td>UEMS</td>
<td>2,000</td>
<td>600.0</td>
<td>30%</td>
</tr>
<tr>
<td>Chosen company</td>
<td>4,000</td>
<td>2,537.0</td>
<td>63.4%</td>
</tr>
</tbody>
</table>

Source: Maybank IB Research

Table 3  Peer analysis of major industry players

<table>
<thead>
<tr>
<th>Company</th>
<th>Share price (MYR/share) as at 29 Sep 2015</th>
<th>Market capitalisation (MYR million)</th>
<th>Div payout policy (%)</th>
<th>EPS 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mah Sing</td>
<td>1.32</td>
<td>2,355.3</td>
<td>40</td>
<td>15.7</td>
</tr>
<tr>
<td>Sunway</td>
<td>3.45</td>
<td>9,067.3</td>
<td>20–30</td>
<td>32.7</td>
</tr>
<tr>
<td>UEMS</td>
<td>1.25</td>
<td>907.8</td>
<td>20–40</td>
<td>8.2</td>
</tr>
<tr>
<td>Chosen company</td>
<td>3.23</td>
<td>7,782.4</td>
<td>50</td>
<td>28.1</td>
</tr>
</tbody>
</table>

Source: Maybank IB Research

12 Implications and conclusions

Survival and growth in highly competitive industries is always a concern for managers. This paper shows how incorporating CSR into business strategy can act as a competitive advantage and ensures growth and profitability of the business in long run. The role of resultant reputational advantage in making marketing efforts more successful explains why managers and decision makers should formulate more holistic business strategies linked to sustainability and go beyond the conventional view of maximising short-term economic benefits. Therefore, firms should not treat CSR as expenditure, but an investment and design their CSR policies by consistently focusing on social, economic and environmental dimensions which will lead to reputational advantage which in turn contributes positively to the financial performance. From a policy maker’s perspective, this study provides guidance to governments in implementing policies and introducing incentives that encourage the adoption of responsible corporate behaviour amongst firms which subsequently leads to stronger regional competitive advantage for a country. The authors have tried to illustrate the relationship between CSR, reputational and financial
advantage through a case example which they believe is a first step towards more depth research, especially in a regional context. Empirical studies need to be undertaken to establish a model showing the inter relations of the various variables and to subsequently test in various industries and contexts.

Business organisations that innovate successfully will lead the race in the market and it is evident in Malaysian property development sector. Through a higher level of competitive advantage achieved through implementing sustainable business practices, companies are able to create superior value not only to its shareholders but also to the wider group of stakeholders. Taken together, it can be claimed that implementing sustainable business practices can enhance the marketability of the products with value-based pricing, improve the strategic positioning of the company within the industry as well as registering better financial performance. Even though it cannot be established that the financial success of the company is solely based on the sustainable business practices of the organisation, it is evident that the practices have positively contributed to the financial success, when compared to the financial performance of the competing firms. It could also be seen that many competing firms have started to replicate the strategic moves of the said organisation, in pursuit of survival and success, as the industry faces concerns that the market is becoming unsustainable because of various reasons including oversupply in the market. This further reinforces the proposition that sustainable business practices can improve the market positioning and financial performance of firms through reputational advantage.

References


54 P.B. Nair and R.W.B. Wahh


