BDO BRIEFING

ESG IN TOURISM & TRAVEL

ADDING VALUE THROUGH MANAGED SUSTAINABILITY

PERSPECTIVE

ESG CHALLENGES AND OPPORTUNITIES

Since 2005, environment, social, and governance, ESG, has transformed from an impact investing concept into a data-driven methodology to quantify corporate value and risk.

Brand value – which is its reputation – may be exposed via failings of corporate governance, while consumer activism further raises the stakes through threatened D&O (Directors and Officers) litigation. Across the entire tourism sector, hotels groups are easy targets because of misstatements in respect of the environment (so-called 'greenwashing'), actual impact upon communities, and less than ideal employment practises.

Studies indicate that GenZ will pay a 25% premium for sustainable options

The majority of millennial and Gen Z travellers from the US, UK, Australia, China, and India are prioritising sustainable tourism options. They're also willing to pay more for products and services aligned with their values. Some studies indicate that Gen Z will pay a 25% premium for sustainable options.

Unlike with so many industries, the race here is to the top. Prestige brands are chasing the profitability derived through winning the sustainable tourist. They best utilise ESG to solve the industry's most significant challenges, such as with brand awareness, talent acquisition, reduced energy costs, or securing construction permits.

As with the cruise industry, major hotel brands have all tried to declare their 'green' credentials, but with a lack of standardisation, their claims are buried in obscure management-speak which serves to avoid transparency.

ESG reporting looks at organisational honesty, transparency, and integrity. It's in contrast with CSR, because CSR is about values, while ESG is centred on people and value, and how stated values are quantified.

The climate imperative, irrespective of cause, is going to cause massive change to the entire tourism sector. Mandatory climate reporting will become more widespread, and the governments of at-risk destinations are becoming more assertive in their approaches.

Change is inevitable, and it will be those who embrace sustainability who will rise to the top.

FOCUS ON FACTS

THE ARGUMENT THAT ESG ADDS VALUE IS ABSOLUTE

Corporations which emphasise ESG concerns are shown by numerous studies to realise enhanced financial returns.

Analysing the results of >2,000 studies on the impact of ESG propositions on equity returns, McKinsey found a 63% positive return vs. a mere 8% negative.

Stronger ESG ratings have a strict correlation with reduced downside risk and better credit ratings, and investment in ESG delivers reduced costs and enhanced productivity.

Companies which embed effective ESG practises generate profitability increases of 20%

A 2015 meta-study of more than 200 sources by Oxford University and Arabesque Partners noted that “80% of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance. This is supported by World Economic Forum (WEF) research which shows that companies which embed effective ESG practices generate an average profitability increase of 20 percent!

The sustainable tourism market is projected to grow by $235b through to 2025, with a 9.72% CAGR, 51% of which will be led by European consumers.

While 87% of travellers seek sustainable travel, 43% say they rarely or never manage to achieve this. No wonder a worrying 52% of travellers feel that the hotel industry is making little effort towards sustainability.

Crucially, 32% of sustainability-orientated travellers cite a lack of certification as a major obstacle in their being able to travel sustainably.

At COP-25, the UNWTO concluded that transport-related emissions from tourism in 2016 contributed to 5% of all man-made emissions and is on-track to increase to 5.3% by 2030. ABTA, already cite tourism as responsible for 8% of man-made emissions.

Strong ESG metrics can influence clients, people, with some studies reporting that 35% of people would pay 25% extra for sustainable products and services. From a reputational view, consider also that a 76% of consumers are inclined to boycott companies which are unsustainable or have poor employment practices.

Investors want to know a company’s social and environmental impact, and of all institutional asset owners, 95% are seeking sustainable investing methods.

GREENWASHING

DON'T RISK YOUR REPUTATION

The hotel industry's "save your towel" mantra gave rise to the term "greenwashing". It was an effort by hotels to reduce their laundry labour costs, and not driven by environmental concerns.

Three decades later, and what's changed? Are the 'green' and eco-friendly statements throughout your branding and annual reports reflective of the facts? Marketeers are getting carried away, and they're risking their firms as a result.

Companies which embed effective ESG practises generate profitability increases of 20%

Increasingly educated on landfill, energy, and carbon emissions, consumers are trying to provoke change: they want more than luxury and they're spending accordingly. They are also conducting their own due diligence.

Driven by consumer activism, regulators are clamping down upon 'green fatigue'. Put bluntly, 'greenwashing' is an accounting fraud, in that there is often a discrepancy between reported and actual behaviour, and executives face personal culpability.

Sustainability is financially beneficial, so it's tempting to make bold claims and promises to keep pace with the competition. Green marketing inflates prices since Generation Z will willingly pay a premium.

The problems arise through ambiguity as to what 'sustainable' actually means. To claim a hotel is 'green' requires more than purchasing carbon offsets or 'green' imagery!

Pay attention to both your group's internal activities as well as those across your supply chain. Query claimed 'sustainable' product or service attributes, demand evidence, and examine your own worker conditions together with those of your suppliers with equal thoroughness.

It is precisely because ESG reporting relies on evidence-based data that the risks due to greenwashing can be mitigated.

Greenwashing is very much a key ESG risk and requires careful risk management. The role of ESG reporting in this context is to ensure that the necessary action-plans are in place, together with appropriate stakeholder engagement to ensure meaningful fulfilment.

CARBON

GNG MANAGEMENT ISSUES IN TOURISM AND TRAVEL

When discussing carbon management, we are referring to the equivalent carbon generated by a collection of climate impacting greenhouse gasses (GHGs).

These emissions fall into three categories, or scopes, summarised in the figure overleaf. Scope 3 emissions are typically greater than the other two combined, but to achieve carbon neutrality, all three types of emissions and their sources must be identified and measured.

The UNWTO/ITF research into climate change site accommodation as being responsible for 21% of total tourism-related emissions.

As with many other industries, the drive to mitigating climate impact is driven by consumer pressure and is facilitated by innovation.

Bucuti & Tara Beach Resort in Aruba claims to be the first carbon neutral resort in the Caribbean. The resort implemented measures such as reducing emissions to the lowest per-occupied-room electricity usage in Aruba, regional sourcing of supplies and solar panels to generate energy for heating water. They are now committed to the goal of becoming carbon negative / climate positive.

With such innovation there are savings, as well as opportunities to license new technologies. Initial construction cost may be higher for an energy efficient building, but the lower operating costs pay long-term dividends and enhance the asset value.

Accommodation providers' dependence on local third parties and infrastructures remain a challenge. For example, to reduce Scope 2 emissions by switching to on-site renewable energy sources (e.g. solar, wind, geothermal energy) highly depends on local energy infrastructures.

Emissions are more than fuel, and the benefits of carbon management are exemplified no better than the example of Hilton, Accor, and Hyatt: they've set the goal of a 50% reduction in food waste by 2030. This is being achieved through AI technology which determines the amount, quality and type of food thrown away daily. Accor, one of the early adopters, reports cutting their food waste in half and saving over $880,000 annually.

Become a leader by tackling your carbon footprint and you're on the way to a terrific ESG rating and enhanced profitability.

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