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RETHINKING THE GLOBAL ECONOMY

Sustainability Reporting in the Hospitality Industry: A Research Model Proposal on Sustainability Performance

Alp YENIDOGAN[1], Tugba GURCAYLILAR-YENIDOGAN[2], Nilufer TETIK[3]
[1]*Akdeniz University, Faculty of Economics and Administrative Sciences, Dumlupinar Boulevard Campus-Antalya,TR-07058, Turkey*
Tel: +90 242 763 66 80, Fax: +90 242 763 66 84,
Email:alp.yenidogan@kamelyacollection.com

Abstract: As a new methodology of business accounting, sustainability performance management has been expanded the coverage of firm performance to include the organizational impacts on its all stakeholders. Although various frameworks have been developed to measure sustainable development in recent years, those are at the country- or destination- level and hence the debate still continues on business sustainability performance. Given this gap, the current study provides some measures for sustainability performance in the hospitality industry consistent with the ETIS indicators. Furthermore, the authors propose a research model to clarify how environmental and social sustainability affect the traditional financial accounting performance.

Keywords:TBL accounting; Sustainability performance; Economic performance; Social performance; Environmantal performance; Hospitality industry.

JEL classification:Q56

Introduction

With the increasing awareness of the need for corporate social responsibility, a growing number of tourism companies have embraced a value-based stakeholder management approach asserting that building a strong coalition of all interest groups surrounding the organization enables maximization of economic value for all stakeholders (i.e.

2Akdeniz University,Faculty of Economics and Administrative Sciences, Dumlupinar Boulevard Campus-Antalya,TR-07058, Turkey
Tel: +90 242 227 44 00 (ext. 3785), Fax: +90 242 227 44 54, Email:gurcaylilar@akdeniz.edu.tr
3 Akdeniz University,Faculty of Tourism, Dumlupinar Boulevard Campus-Antalya,TR-07058, Turkey
Tel: +90 242 227 44 00 (ext. 3785), Fax: +90 242 227 44 54, Email:niltetik@akdeniz.edu.tr

stockholders, customers, suppliers, creditors, employees and, even members of a community) rather than the short-run profitability. Given this great emphasis on sustainable business practices, the role of sustainability performance and reporting is likely to become increasingly important to business. Whereas attractiveness of tourist destinations is strongly influenced by their natural and socio-cultural environment, the hotels as an integral part of tourism superstructure can gain a competitive age just in a way of taking more responsibility for the environmental and social impacts of their operations and using an effective performance management system that serves monitoring and auditing of strategic goals on sustainability action plan [Assaf et al., 2012; Cvelbar & Dwyer, 2013; Wagner & Svensson, 2014]. At the corporate level, sustainability performance management necessitates a new methodology of business accounting that expands the coverage of firm performance to include the organizational impacts on its all stakeholders.

Triple Bottom Line [Elkington, 1997] serves as an integrated framework of business accounting that incorporates environmental and social performance outcomes into the profit-based financial reporting model. Adoption of the TBL approach implies the state of being accountable for reporting on social, environmental and economic performance towards stakeholders [Dwyer, 2005]. The economic reporting is concerned with monitoring general financial performance and sector-specific operational efficiency. The environmental reporting with a particular attention to issues such as solid waste and water management, energy usage, climate change, biodiversity conservation, and etc. is related to savings and ecological footprint accounts on natural capital assets. The social reporting reflects the social and cultural impacts of operations on human capital assets (i.e. employees, customers, cultural heritage, local community). A key challenge of sustainability reporting with the TBL accounting is the difficulty in measuring the social and environmental bottom lines respectively referred to as “planet” (natural capital) and “people” (human capital), not in quantifying the bottom-line profitability for economic activities. Several world-leading organizations such as the United Nations Environment Programme (UNEP), European Commission, The European Federation of Financial Analysts Societies (EFFAS) have put sustainability reporting on a strategic agenda of priority and developed sustainability frameworks and guidelines to enable corporations and NGOs to report the corporate social responsibility practices of a business.

The Global Reporting Initiative pioneered the development of the world’s most widely used sustainability framework for reporting on the triple bottom line. In addition to the universally applicable guidelines of the GRI, sector supplements are tailored versions and submit additional documents specialized to a given sector. However these supplements are not available for the hospitality industry. Although some institutions such as SASB (Sustainability Accounting Standards Board) and DVFA (Deutsche Vereinigung für Finanzanalyse und Asset Management) provide Key Performance Indicators (KPIs) to account for sustainability performance tailored to the hospitality industry, the deficiency of a reliable and comprehensive measurement tool for sustainability performance in the hospitality industry still continues to remain. On the other hand, the European Commission has launched many initiatives (including the EU eco-management and audit scheme-EMAS, the EU Ecolabel, the Tourism and Environment Reporting Mechanism-

TOUERM, and the Corporate Social Responsibility initiatives- CSR) to raise awareness in the environmental, social, cultural and economic management for businesses and destinations. Especially the ETIS (European Tourism Indicator System) initiative has been addressing a much broader spectrum of metrics in the categories of destination management, social and cultural impact, economic value, and environmental impact. The enterprise survey module of the ETIS can fulfill the need for a reliable measure of hospitality sustainability performance and hence clarify ambiguous relationships between the sustainability performance pillars.

1. Relationship between the Three Pillars of Sustainability Performance

Environmental and social management practices can cause better financial performance through cost reduction and revenue enhancements associated with customer satisfaction and loyalty in service business [Wüstenhagen, 2008]. The study of Bohdanowicz (2005) showed that the strongest incentive for hotels to undertake more environment-friendly activities is a decrease in operating costs and thereafter increased customer demand appears as the second-strongest incentivizing factor. Kassinis and Soteriou (2003) investigated the relationship between environmental management practices and market performance in the hospitality industry. Their findings provide support for revenue-increasing effect of product/service satisfaction through customer loyalty. Garay and Font (2012) reported positive correlations between corporate social responsibility practices (environmental- and social- impact assessments) and corporate financial performance. Segarra-Oña et al. (2012) analyzed whether economic performance of Spanish hotels differs according to the adoption of ISO 14001 environmental certification. They found that the applications of ISO 14001 standards positively affects EBITDA profit margin for beach hotels. The results of Alvarez-Gil et al. (2001) indicated that environmental management exerts a positive influence on short-term financial performance although contradictory results have been discussed in previous literature. Environmental management may cause a diminishing effect on financial performance whereas environmental protection regulations enforce firms to take costly actions in pollution control activities [Klassen & Whybark, 1999].

Lopez-Gamero et al. (2009) clarified conflicting results on the relationship between environmental protection and firm performance. In this new model based on the resource-based view, firm resources (i.e. knowledge and learning capacity for adopting environmental management practices and capabilities of cooperating with external stakeholders) generated through proactive environmental management, mediate the positive relationship between environmental performance and financial performance. It is of great importance to distinguish between environmental management and environmental performance. Environmental performance is the output of environmental management practices and they are not automatically interlinked concepts. Firms with a better environmental performance can gain competitive advantage by lowering costs and improving differentiation, which in turn leads to improved financial performance. According to the study of Lopez-Gamero et al. (2009), being proactive in environmental management enhances the competitive edge of hotels in terms of differentiation by gaining a strong brand image and reputation rather than reducing costs.

Socio-cultural impacts of a tourism company within its operating network of local organizations may influence financial performance, as well as environmental management practices that have already been discussed extensively. Social performance can be increased with the success of a firm in relationships with its stakeholders such as employees, customers and local community. For example, building strong relationships with hotel employees may reduce the rate of employee turnover as one of the highest operating cost in the hospitality industry and hence leads to retention gains without bearing the costs of hiring and training new employees. Furthermore improved employee satisfaction helps achieve higher levels of service quality that fosters customer satisfaction. Accordingly, the research coverage for the links between the pillars of triple bottom line approach should be expanded to include the influence of social impacts [Boley & Ayscue, 2016].

2. Sustainability Frameworks

In recent years, various frameworks have been developed to measure sustainable development at the country- or destination- level (see Table 1). On the other side, the debate on how to measure business sustainability performance is still going on because of sector-specific characteristics of measurement. Despite the generic version of sustainability performance comprising of economic, environmental, and social impacts, measurability of business sustainability will soon be a possibility with the development of sector supplements.

Table 1: Sustainability frameworks

Framework	Criteria
Accountability	AccountAbility's AA1000 series are principles-based standards to help organizations become more accountable, responsible and sustainable. **The AA1000 Series of Standards;** **The AA1000 AccountAbility Principles Standard** (AA1000APS) provides a framework for an organization to identify, prioritize and respond to its sustainability challenges. **The AA1000 Assurance Standard** (AA1000AS) provides a methodology for assurance practitioners to evaluate the nature and extent to which an organization adheres to the AccountAbility Principles. **The AA1000 Stakeholder Engagement Standard** (AA1000SES) provides a framework to help organizations ensure stakeholder engagement processes are purpose driven, robust and deliver results.
Carbon Disclosure Project (CDP)	Carbon Disclosure Project aims to motivate companies and cities to disclosure their environmental impacts giving decision makers the data they need to change market behavior. Companies and cities are reporting to CDP's;Climate Change Program,Water Program,Forests Program,
Dow Jones Sustainability Index in collaboration with RobecoSam	Dow Jones Sustainability Index is the first global scale application. The index constitutes a reference point for global investors as it is adding sustainability criteria to traditional financial analyses. Many companies with high financial performance from all around the world are evaluated and the companies ranked as having the highest sustainability performance have the right to be listed in the DJSI.
Global Reporting Initiative (GRI)	GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. GRI improves the sustainability reporting framework.

	GRI's mission is to empower decision makers everywhere, through GRI sustainability standards and multi-stakeholder network, to take action towards a more sustainable economy and world.
Goldman Sachs GS Sustain ESG	GS SUSTAIN is the long-term investment strategy of Goldman Sachs' Global Investment Research division (GIR). GS SUSTAIN is focused on identifying the companies in each industry best positioned to deliver long-term outperformance through sustained industry leadership and profitability.
Social Accountability International (SAI)	SAI is a non-governmental, international, multi-stakeholder organization dedicated to improving workplaces and communities by developing and implementing socially responsible standards. In 1997, SAI launched SA8000 (Social Accountability 8000) – a voluntary standard for workplaces, based on ILO and UN conventions – which is currently used by businesses and governments around the world and is recognized as one of the strongest workplace standards.
ISO 14000	To manage the environmental responsibilities, companies and organizations of all kinds may use ISO 14000 family of standards. ISO 14001:2015 sets out the criteria for an environmental management system and can be certified to. The standards can be used by any organization regardless of its activity or sector. Also using ISO 14001:2015 can provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved.
European Tourism Indicator System (ETIS)	The European Commission has developed a 'European Tourism Indicators System' (ETIS) to measure tourist destination's performance in relation to sustainability. ETIS is a Europe-wide system suitable for all tourist destinations. It is; • a management tool, supporting destinations who want to take a sustainable approach to destination management • a monitoring system, easy to use for collecting data and detailed information and to let destinations monitor their performance from one year to another • an information tool (not a certification scheme), useful for policy makers, tourism enterprises and other stakeholders.
The Academy of Business in Society (ABIS)	ABIS (formerly known as EABIS) was founded in 2001 and launched at INSEAD in 2002 with the support of the leading Business Schools in Europe (INSEAD, IMD, London, ESADE, IESE, Copenhagen, Warwick, Vlerick, Ashridge, Cranfield, Bocconi) in partnership with IBM, Microsoft, Johnson & Johnson, Unilever and Shell. This initiative was driven by a shared belief that challenges linked to globalization and sustainable development required new management skills, mindsets & capabilities. Mission of ABIS is to build bridges and strengthen collaboration between the corporate and academic worlds to accelerate systematic change in business education and practice.
Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA)	DVFA was founded in 1960 as a society of investment professionals in Germany. DVFA published a document in conjunction with European Federation of Financial Analysts Societies (EFFAS) titled "Key Performance Indicators for Environmental, Social and Governance Issues" in 2010. The document is a Guideline for the integration of Environmental, Social and Governance Indicators into financial analysis and corporate valuation.
STOXX Indices	STOXX Ltd. is an established and leading index specialist and first STOXX indices have been launched in 1998. Globally more than 500 companies which include the world's largest financial products issuers, capital owners and asset managers are licensed with STOXX indices. The STOXX Low Carbon index family is designed to enable investors to decarbonize their portfolios, i.e. limit the exposure of their portfolios to climate-related risks, such as stricter regulations and physical damage, while participating in the low-carbon economic growth.

Source: Created by authors utilizing from the web sites of organizations.

Conclusion: A Research Model Proposal for Measuring Sustainability Performance in the Hospitality Industry

We propose a model to explore the relationships among the three pillars of sustainability performance in the hospitality industry (see Figure 1 and Table 2). This research model assumes that long-run profitability of accommodation companies is more likely correlated with how sustainable environmental and social resources are used to gain economic benefits. We differentiate hotel-specific economic performance from the general financial performance. Whereas financial performance is the statement of the net monetary worth of tourism activities over a given period of time, hotel-specific economic performance reflects the success of an organization through the creation of economic growth in its market value. Hence, we consider the meaning of financial performance as reaching beyond economic performance [Becchetti, 2007]. In this connection, social and environmental performance may affect economic performance in two ways: First, the hotel-specific economic performance may positively mediate the links between financial performance and social performance, and environmental performance. Second, social and environmental performance is likely to increase financial performance by either its cost-reducing effect on operations or revenue-increasing effect of market performance.

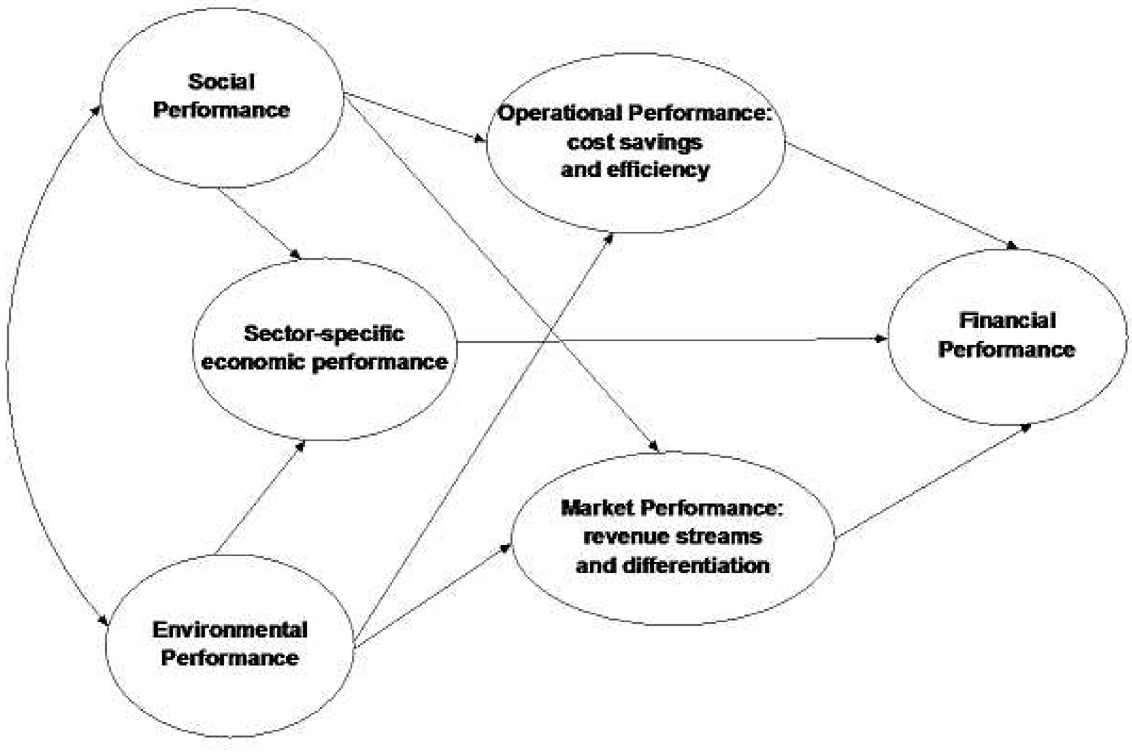

Figure 1: Conceptual framework for sustainability performance

Source:Created by authors.

Table 2: Measures for sustainability performance in the hospitality industry

Environmental Performance	**Social Performance**	**Hotel-specific Economic Performance**
-Ratio of average energy consumption (water, electricity, LNG etc.) to the total annual expenditure -Percentage of average annual cost savings from the investments in water conservation -Percentage of average annual cost savings from the investments in electricity and fuel energy conservation - Percentage of average annual cost savings from the waste recycling and disposal -Percentage of the area designated for landscape and protection -Ratio of the investments in green product development to the total annual sales	-Rate of female employment -Gender of general manager -Ratio of average education expenditure per person to the total annual expenditure -Percentage of the supply from local producers -Average turnover rate of supply chain -Average employee turnover rate	-Repeat guest ratio -Average rate of "same day" visitors in year -Average length of stay of the guests (nights) -Average occupancy rate in year /in high season -Average price per room in high season /in low season -Earnings per room

Source: Created by authors utilizing from the ETIS indicators.

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