



Sustainability and Corporate Social Responsibility in Hospitality

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TABLE OF CONTENTS

Introduction	3
Global Hotel and Motel Industry Overview	3
Industry Size.....	3
Employment	3
Energy Usage.....	4
Waste	4
Community	4
Ownership Structure.....	4
Trends / Best Practices	5
Environmental	5
Internal Collaboration and Competition - IHG	6
Partnering with Government and Environmental Agencies - Hilton, MGM and Fairmont.....	6
Engaging Employees - Scandic.....	6
Staff Awareness - Hilton	7
Solar Water Heating - Confederation Place Hotel (Kingston, ON).....	7
Institutionalized Environmentalism - Fairmont	7
Social.....	8
Local Autonomy - Scandic	8
Focus on Staff Retention and Training - Hilton and Marriott.....	8
Health & Safety and Lifestyle - Scandic.....	8
Economic.....	9
Recommendations	9
Employees are the Key	9
Focus on CSR areas that have Positive Financial Impact	10
CSR Targets as a Component of Hotel Management Agreements	10
Ensure the Impact is Real Before Announcing Externally	11
Conclusion.....	11

Introduction

As we become increasingly aware of environmental and social issues impacting our world, the commercial real estate industry has been identified as an area that can have a major affect on our future. Commercial buildings impact our economy as the place where we work, shop, and sometimes live; they impact the environment through the generation of carbon emissions and solid waste; they impact society in the way that the building owners and tenants interact with the local community, their employees, and their customers. Within the commercial real estate industry, the hospitality sector has the potential to have massive impacts in all of these areas and it is up to property owners and managers to determine whether these impacts are positive or negative. While the term hospitality is often expanded beyond accommodation (hotels and motels) to include establishments such as restaurants and amusement parks, this paper will focus on accommodation.

Global Hotel and Motel Industry Overview

Industry Size

The Global Hotel and Motel industry generated \$509 Billion in revenue in 2008. While the industry grew at a brisk pace between 2004 and 2008 with a compound annual growth rate (CAGR) of 7.1%, it is expected to grow much more modestly from 2008-2013, with a CAGR of 4.1%¹.

Canada's Hotel and Motel Industry generated \$16.3 Billion in revenues for 2008 with a CAGR from 2004 to 2008 of 6.9%. As with the global industry, revenue growth is expected to decline between 2008 and 2013 and CAGR is projected to fall to 4.2%².

Employment

As of 2009, close to 320,000 Canadians are employed by the hotel industry with wages of over \$8 billion³. While this is certainly a significant number of workers, it is not always clear whether the

¹ DataMonitor, *Global Hotels & Motels*, December 2009

² DataMonitor, *Hotels & Motels in Canada*, December 2009

impact of this employment is positive or negative. In certain instances problems can develop in the communities where the gap between affluent tourists and low-income hotel workers⁴.

Energy Usage

Energy intensity, stated in gigajoules per square meter (GJ/m²), is a term used to measure the relative amount of energy used in buildings. The accommodation sector of the commercial building stock in Canada has a higher an average energy intensity of 1.88 GJ/m², more than 25% above the average of 1.54 for Canadian commercial buildings⁵.

Waste

While no worldwide data could be found, it is reported that in the United Kingdom (UK), hotels produce roughly 4 million tonnes of solid waste annually⁶. Waste is a concern on many accounts including environmental, health and safety standards, as well as overall cost.

Community

The relationship between a hotel and the surrounding community is a function of the hotel's treatment of employees, commitment to local causes and its environmental performance. While these types of relationships are difficult to measure, it is safe to say that they have not always been positive and that special attention must be paid in order for hotels to have a positive impact on their surrounding community going forward.

Ownership Structure

In recent years a separation has developed between those who own hotels and those who manage them. The most common contract between a hotel owner and hotel operator is the Hotel Management Agreement whereby operators manage a hotel on behalf of the owner in exchange for a management fee. In these cases it is the owner who is assuming the risk of economic losses

³ Hotel Association of Canada, *Canada's Lodging Sector 2009*, <http://www.hotelassociation.ca/>

⁴ Bohdanowicz, P., & Zientara, P., *Hotels Companies Contribution to Improving the Quality of Life of Local Communities and the Well-Being of their Employees*, Tourism and Hospitality Research, December 2008

⁵ Natural Resources Canada, *Commercial and Institutional Consumption of Energy Survey*, June 2007

⁶ Price, J., *The Benefits of Talking Rubbish*, Caterer and Hotelkeeper, January 2004

as well as the potential reward of profits while the managing firm seeks to maximize the fees that they are paid⁷.

This multiple stakeholder system can lead to some issues when it comes to a hotel's corporate social responsibility (CSR) performance. For one, most management agreements do not have any specific terms that deal with CSR. This makes it difficult for a building owner to impose a CSR program on the operator and conversely, an operator is unlikely to implement a CSR initiative if there is no incentive for them to do so under the agreement⁸.

Trends / Best Practices

Practitioners of the tourism industry and accommodations in particular have the ability to have a major impact on the communities in which they do business. Hotels are a source of employment and economic stimulation for the surrounding areas. The relationships that they develop with their staff, the surrounding community, the environment, and local economy are vital to the long-term health of a particular region. In general, it is those that include CSR and sustainability as a vital aspect of their core strategy that have the best results⁹.

This section provides some examples of best practices as well as some specific initiatives that have been undertaken by some of the major hotel brands in the world.

Environmental

As mentioned above, energy, water and solid waste are major environmental concerns in relation to hotels. Some examples of how hotel owners and operators have been able to work at reducing this impact are as follows:

⁷ Schlup, R., *Hotel Management Agreements: Balancing the Interests of Owners and Operators*, Journal of Retail and Leisure Property, November 2003

⁸ Butler, J., *The Compelling "Hard Case" for "Green" Hotel Development*, Cornell Hospitality Quarterly, August 2008

⁹ Bohdanowicz, P., & Zientara, P., *Hotels Companies Contribution to Improving the Quality of Life of Local Communities and the Well-Being of their Employees*, Tourism and Hospitality Research, December 2008

Internal Collaboration and Competition - IHG

Intercontinental Hotel Group (IHG) is a multinational hospitality company that owns several large hotel brands including Holiday Inn, Crowne Plaza and the flagship brand Intercontinental Hotels and Resorts. In order to reduce its energy and carbon emissions, IHG undertook an innovative campaign to drive energy savings through an online service called “Green Engage”. This online community allowed hotels of similar size to compare ideas and compete to see who could conserve the most energy¹⁰.

Partnering with Government and Environmental Agencies - Hilton, MGM and Fairmont

Hilton and MGM, two large, multinational hotel brands, have used government agencies as a means of demonstrating accountability and credibility in their environmental claims. They accomplished this through a partnership with the United States Department of Energy. The partnership’s intention is to help hotel owners and operators to reduce the energy consumption of their facilities¹¹.

Fairmont, meanwhile, has forged a partnership with the United Nations Foundation’s World Heritage Alliance in order to promote and practice conservation and sustainable tourism. This cause is particularly sensitive to Fairmont as they operate several properties that are either in or adjacent to UNESCO World Heritage sites¹².

Engaging Employees - Scandic

Scandic is one of the largest hotel operators in Scandinavia with over 140 hotels under management. A great example of CSR being incorporated into the company’s core strategy, Scandic set a goal to become the most resource efficient hotel company without detracting from the quality of services and facilities. Scandic’s has approached this goal as it has with all other CSR initiatives - through a focus on employees not only as a social initiative, but as a means of driving both economic and social CSR performance. From an ecological perspective, their approach includes training programs for ecological sustainability and a program to divert the funds

¹⁰ Caterer and Hotelkeeper, *IHG aims for \$200m saving with Green Engage*, February 5, 2009

¹¹ Moresco, J., *Energy Department Partners with Hilton, MGM to Reduce Energy*, Red Herring, April, 2009

¹² Gardner, S., *Gang Green*, Hotelier, July / August 2007

spent on Christmas cards in order to save paper and energy but also donate to a more worthy cause¹³.

Staff Awareness - Hilton

Further to the engagement issue is that of education and awareness. Hotels are very people-intensive operations and for sustainability programs to be effective it is crucial that staff are aware of the issues at hand. Hilton initiated a staff awareness programme in 2006 and have since seen energy emissions reduced 10% and water use reduced by 5%¹⁴.

Solar Water Heating - Confederation Place Hotel (Kingston, ON)

The Confederation Place Hotel in Kingston Ontario is a 100-room full service hotel with a conference centre. The hotel was approached by London Ontario's Enerworks to install 20 solar panels for a water heating system that preheats water by 25 to 30 degrees, thus saving over 70% of energy used for hot water. The project cost \$52,000, of which \$14,000 was recovered through government grants and generated gas savings of over \$10,000 in the first year of operation. In addition to the cost savings, the reduction in gas usage means an elimination of 26 tonnes of carbon emissions¹⁵.

Institutionalized Environmentalism - Fairmont

Fairmont, one of the largest hotel operators in the world, has made environmental programs a core part of their strategy and a must-have for every hotel under their management. The organization has a "green team" at every one of its locations that look to find areas where efficiencies can be gained and to help the different departments reach their environmental goals¹⁶.

¹³ Bohdanowicz, P., & Zientara, P., *Corporate Social Responsibility in Hospitality: Issues and Implications. A Case Study of Scandic*, Scandinavian Journal of Hospitality and Tourism, 2008

¹⁴ Taylor, I., *Eco-Friendly is the Only Future*, Travel Weekly, 2008

¹⁵ Gardner, S., *Gang Green*, Hotelier, July / August 2007

¹⁶ Gardner, S., *Gang Green*, Hotelier, July / August 2007

Social

There is a lot written about how, if managed sustainably, the tourism industry can have a positive impact on local and regional¹⁷. Some best practices in this area are as follows:

Local Autonomy - Scandic

Scandic has taken seriously the notion that a hotel is an important development tool for its surrounding area. They have demonstrated this by initiating programs that allow managers of individual hotels to support causes that are specific to their surrounding area¹⁸.

Focus on Staff Retention and Training - Hilton and Marriott

The hotel industry is characterized by high employee turnover and a mostly unskilled workforce, with relatively little room for internal advancement¹⁹. As mentioned previously, hotels interactions with their staff is the front line for their interactions with the local community as they are generally employing residents of the local area. If employment in a hotel is unstable it means that employment in the surrounding area is unstable and development can be hindered.

Hilton's approach to this issue is their "Hilton University" initiative which aims to provide training to staff that hope to build a career within the organization²⁰. Similarly, Marriott launched a program designed to retain employees. As Marriott noted, retaining employees is not only good social practice but good business as well with the company estimating that every 1% improvement in employee turnover would lead to \$10-15 million in savings²¹.

Health & Safety and Lifestyle - Scandic

Another program that Scandic has put in place is their Health and Healthy Lifestyle program. This includes incentives to exercise and programs to assistance for those wishing to quit smoking²².

¹⁷ Bohdanowicz, P., & Zientara, P., *Hotels Companies Contribution to Improving the Quality of Life of Local Communities and the Well-Being of their Employees*, Tourism and Hospitality Research, December 2008

¹⁸ Bohdanowicz, P., & Zientara, P., *Corporate Social Responsibility in Hospitality: Issues and Implications. A Case Study of Scandic*, Scandinavian Journal of Hospitality and Tourism, 2008

¹⁹ Bohdanowicz, P., & Zientara, P., *Hotels Companies Contribution to Improving the Quality of Life of Local Communities and the Well-Being of their Employees*, Tourism and Hospitality Research, December 2008

²⁰ Boardman, J., & Barbato, C., *Review of Socially Responsible HR and Labour Relations Practice in International Hotel Chains*, International Labour Office, June 2008

²¹ Pizam, A., Thornburg, S.W. (2000), *Absenteeism and Voluntary Turnover in Central Florida Hotels: a Pilot Study*, International Journal of Hospitality Management, Vol. 19 pp. 211-17

²² Bohdanowicz, P., & Zientara, P., *Corporate Social Responsibility in Hospitality: Issues and Implications. A Case Study of Scandic*, Scandinavian Journal of Hospitality and Tourism, 2008

Economic

A hotel's economic impact on its surrounding area has a lot to do with its own financial success. In order to have a lasting impact on the communities in which they operate, hotels must have a sustainable business model and a long-term view. As with the previous two sections, the way that hotels approach their employees is of utmost importance in ensuring long-term financial success and economic sustainability.

This is particularly true in the current economic climate where hotels are experiencing declining earnings which translates to lower fees for management companies and operating income losses and lower property valuations for owners²³. This suggests that hotels owners and operators are going to need to do everything they can in order to stay in business.

As consumers are now becoming much more careful about how and where they spend their vacation dollars, social responsibility emerges as a potential differentiating factor in an industry that is getting increasingly competitive. Recent studies have indicated that green programs have emerged as one of the top ten factors in the decision process for choosing a hotel²⁴.

Recommendations

Employees are the Key

In order for a hotel to perform well in any or all of the three facets of CSR used in this report, it is crucial that employees are trained, educated, empowered and engaged. Hotels are a people-intensive business and the people working in a hotel can be both the originators and beneficiaries of CSR. Employees are part of the community and if they are treated well, have stable employment and a fair wage there will be positive benefits within the community. One of the major concerns with tourism-related businesses, particularly in rural communities, is that employees have very high turnover and are not developing skills that will help them to be successful in the future and thus the economic and social benefits to the surrounding area are somewhat muted. In order for a hotel to

²³ Woodworth, R.M., *Falling Profits - Rising Cap Rates*, Cornell Hospitality Quarterly, May 2009

²⁴ Sheehan, P., *Going for the Green*, Lodging Hospitality, August 2005

be considered a good corporate citizen, particular attention must be paid to employee development.

In addition to this, the employees are the ones who will be implementing and, ideally, creating new initiatives for a socially responsible, sustainably run hotel. If employees are empowered and feel as though they are an integral part of the hotel's operations and not simply temporary labour they will be more likely to buy into and help develop sustainability and CSR programs. These benefits will be amplified if the employees can see the benefits to their local communities.

Focus on CSR areas that have Positive Financial Impact

In today's economy there is a tendency for CSR initiatives to be shelved in order to focus on operations. Much of the writing on this topic, cited in this paper, indicates that financial and social performance is not necessarily mutually exclusive. Energy and water emission reductions can reduce utility bills, solid waste reduction reduces hauling fees, and customers are increasingly making CSR and particularly eco-friendliness a component in their choice of accommodation. In an industry that is reeling from reduced travel, anything that owners and operators can do to reduce operating costs while minimizing vacancies is going to have implications for the financial sustainability and viability of the hotel.

CSR Targets as a Component of Hotel Management Agreements

As discussed above, there are some competing interests between hotel owners and operators. In order to avoid this issue, it is recommended that hotel management agreements be adapted to remove these conflicts in a way similar to the Green Lease movement in office buildings²⁵. Of the topics discussed in this paper, the easiest to measure and thus easiest to design incentive programs around is energy usage and waste generation. Both of these have environmental and cost implications that are directly correlated and therefore reductions should equate to cost savings. The idea would be that, if the hotel operator is incented to run the hotel profitably rather than basing fees purely on top-line revenue, then there will be greater motivation to conserve energy. In addition to a profitability incentive, cost reduction targets specifically related to energy

²⁵ Brooks, S.M., *Green Leases and Green Buildings*, RealPAC, May 2008

usage could also be an effective way for the owners to encourage operators to conserve environmentally.

Similar goals could be set for social goals though these may be more difficult to measure. Because measurement is complex and therefore difficult to be contractually obligatory for social programs, it may be something that needs to be addressed outside of the management agreement as a separate agreement or addendum.

Ensure the Impact is Real Before Announcing Externally

One of the benefits to be had from socially responsible and sustainable hotel management is positive public perception. The pitfall with this is that there is a large amount of cynicism with regard to claims made by various organizations. One of the considerations that must be taken into account prior to going public with sustainability or CSR programs is whether or not the claims may be viewed as “green-washing”. Green-washing is defined as making or exaggerating environmental claims for use as a marketing and public relations tool and should be avoided at all costs.

Conclusion

Hotels, depending on how they are run, can be great or can be terrible corporate citizens. They can use massive amounts of energy and water for no real purpose other than luxury, or they can find ways to innovate and conserve while still providing guests with the experience that they look for in a hotel. At the same time, hotels can treat their employees as low-paid, highly replaceable pawns, or they can empower them as the face of the hotel and know that a happy employee will likely mean a happy guest and will enhance the hotel’s reputation in the community. This employee relationship is key to how the hotel interacts with customers, the local community, and the natural environment. If hotels are going to make the changes in order to achieve some of the positive results illustrated above then hotel owners and operators will need to work together to find ways to build a culture of environmental, social and, ultimately financial performance.