INTRODUCTION
WHY ESG IS A TOP PRIORITY

There’s a powerful relationship between consumers and brands in the tourism and travel sector, one built on hope and trust. It can be harmonious or brittle, and perceptions can change in an instant.

Consumers are challenging the sector by being selective with their spending. Your brand must reflect their values, and this is where ESG - Environment, Social, and Governance - enters the frame.

Ethical consumers are questioning how employers treat their staff, and local communities are waking up to the potential for abuses of power. This is why it’s time to drop the outdated thinking that ESG is a mere investment tool, and recognise too that ESG is about far more than the environment.

The reality is that ESG is concerned with the impact an organisation has upon people and society and, equally, the impact society has upon the organisation. We refer to this as “double materiality”.

From a corporate perspective, ESG is a methodology to quantify impacts and risks. It’s distinct from CSR because it relies on evidentiary data, and it is leading a tsunami of regulation. Preparation is key.
Be warned, though: there are plenty of pitfalls. Consider how the industry has accepted the pledges from Accor, Hilton, and IHG to halve their carbon footprints in one decade. Are these realistic ambitions? Can they be substantiated? Consumer activism may lead to D&O (Directors and Officers) litigation¹ if the stated goals prove to be little more than hot air.

Your ESG approach must be substantiated, quantifiable, and long-range. Approached with vigour and supported by your top management, it’s the surest way to add value to your organisation, especially in such a competitive industry.

The intention of this White Paper is to offer insight into key ESG considerations.

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Immediately prior to the pandemic, travel and tourism accounted for 10.3% percent of both global GDP and employment. This statistic held consistent across markets as diverse as the USA, Europe, and the Caribbean.

Amidst a post-pandemic rebound, there are fresh risks, not least of all with the global energy crunch. Globally, the public paid attention to COP-26 and they’re now demanding climate action.

Skift Research’s Millennial and Gen Z Traveller Survey 2019, revealed that the majority of millennial and Gen Z travellers from the U.S., 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.

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

Airlines, cruise ships, and 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 reduce transparency.

ESG reporting is about honesty and transparency, and it relies upon the integrity of the organisation too. Whilst CSR is about valuing people, ESG is about values, people, and planet: it quantifies stated values.

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 the rising tide of sustainability who will rise to the top.
When corporations pay attention to environmental, social, and governance (ESG) concerns, countless studies highlight that their returns are enhanced.

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.

Companies which embed effective ESG practices generate profitability increases of 20%.

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.

A 2015 metastudy 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 an average profitability increase of 20 percent for companies which embed effective ESG practices!”
In the 1980’s, and in response to the hotel industry’s “save your towel” movement, environmentalist Jay Westerveld coined the term “greenwashing”. He noted that the claim preyed on guests’ environmental sensibilities by urging them to save water. In reality, this movement was an effort on the part of hotels to reduce their laundry labour costs and the campaign only made a marginal difference in water usage.

Three decades later, and what’s changed? How many ‘green’ and eco-friendly statements are on your website, and what of your annual reports? Marketeers are getting carried away, and they’re risking their firms as a result.

With the negative effects of landfill, fossil fuel, and carbon emissions, there’s no shortage of consumers willing to try to help stem the tide. However, if a corporate business model relies on the consumption of palm oil or plastic bottles, for example, then dressing up a brand’s credentials as ‘green’ becomes harmful deception.

We now refer to ‘green fatigue’, and regulators are clamping down in response to consumer activism. 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 delivers social and financial benefits, and it’s tempting to make bold claims or to declare goals to keep pace with the competition. Green marketing inflates prices since Generation Z will willingly pay a premium, according to McKinsey’s buying habits research.

The problems arise through ambiguity as to what ‘sustainable’ actually means. Many companies market a product as ‘green’ if it has a green label, a recycled cardboard price tag, and undyed string. 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 worker conditions with equal thoroughness.

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

According to SpringerLink, “Environment, social, and governance (ESG) risk is the consideration of non-financial risks arising
from the environment and sustainability, reputation, or brand, legal, technological, product or service quality, labour, ethical conduct, compliance, and strategic considerations.”

Greenwashing is very much a key ESG risk, and requires careful risk management. When the biggest corporation in tourism and travel announce bold pledges to achieve net-zero goals by 2030, they need the guidance to ensure they are achievable.

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.
ESG FACTS

WHY ESG MUST BE YOUR PRIORITY

- The projected growth of the sustainable tourism market share from 2020-2025: $235b
- The CAGR of the sustainable market’s growth momentum 2020-2025: 9.72%
- Percentage of the sustainable market’s growth will be driven by European consumers: 51%
- Sweden ranks as the top sustainable travel destination, with the USA ranked at #35, and the UK at #40.
- The percentage of carbon emission reduction achieved by Hilton in 2019 (incl. >91.5m of soap diverted from landfills): 32%
87% Percentage of travellers who want to travel more sustainably. Only 43% say they "never or rarely" manage to achieve this.

5% Percentage of global carbon dioxide emissions caused by all forms of tourism-related travel.

72% Percentage of travellers who believe sustainable travel is important and impacts their choices.

52% Percentage of travellers surveyed who believe the hotel industry is making little effort towards sustainability.

32% Percentage of travellers who cite lack of certification as a major obstacle in enabling them to travel more sustainably.
As of Summer 2022, the UK has no single ESG law or regulation. The UK’s ESG regime consists of domestic and EU-derived laws and regulations, many of which are not ESG-focused but which have an influence.

The UK does not now intend to replicate the European Commission’s proposal for a Corporate Sustainability Due Diligence Directive (CSDDD) because it considers the directors of UK quoted companies already subject to the key themes of human rights and environmental management issues via their annual reporting obligations.

The UK’s ESG legal landscape is fragmented, with a wide range of laws and regulations with which all businesses (big and small) must comply. These include the UK Corporate Governance Code 2018 (the “UKCGC”), the directors’ duties in the Companies Act 2006 (the “Companies Act”), the Listing Rules, the Disclosure Guidance and Transparency Rules (the “DTRs”), the UK Stewardship Code 2020 (the “UKSC”), the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Climate Change Act 2008 (the “CCA 2008”), and the Bribery Act.

Globally, the European Commission CSDDD (Corporate Sustainability Due Diligence Directive) will force many strategic and operational changes, as will the CSRD. These will affect countless organisations which export to, or conduct operations in, Europe. CSRD obligations will apply from 1 January 2024.

The US Securities Exchange Commission (SEC) adopted mandatory climate change disclosure reporting in the annual reports and registration statements of public companies registered with the SEC, including any company (domestic or foreign) whose stock is listed on a U.S. stock exchange.

Our position is that the real dangers are to be found in the combination of regulatory enforcement investigations and consumer activism. A case in point is the claim by Client Earth against KLM airlines in which they allege misleading advertising and breach of consumer and competition law standards.

Client Earth’s challenge is clear: “with a view to climate change, there is no such thing as ‘more sustainable’ or ‘responsible flying’, and that the only sustainable thing KLM can do is to fly fewer planes”.

The UK Advertising Standards Agency
(“ASA”) is processing many similar sustainability claims, and will soon release their findings as to the public’s understanding of terms such as “carbon neutral” and “net zero”.

There’s little doubt that both NGOs and consumer activists will then seize on such findings and bring further challenges both in the UK and across the EU.

The picture is similar in the USA, where Directors and Officers litigation will rapidly up the ante in the high stakes of corporate ignorance in respect of environment, social, and governance behaviour.

The real dangers are to be found in the combination of regulatory enforcement investigations and consumer activism.
Materiality is the principle of defining the environmental, social, and governance topics which matter most to your stakeholders. Of your entire ESG reporting journey, few things can be considered to be of equal importance than how you incorporate and prioritise the views of your stakeholders.

New regulations such as mandatory climate reporting and the European Directive on non-financial reporting are prompting businesses of all sizes to re-consider the material topics on which they should report.

The process begins by accepting that your stakeholders include those who are external to your own operations. You must think beyond your Executive, and consider your workforce, the entire supply chain, the community, and beyond.

We lead the materiality assessment process with close reference to the principles set forth by Global Reporting Institute (GRI) and the Sustainability Accounting Standards Board (SASB), because these are the two frameworks most widely recognised and accepted.

When conducted rigorously, such assessments demonstrate the good governance of your organisation. You will discover, there are many approaches to making the process as smooth and effective as possible.

In tourism and travel, your stakeholders extend beyond consumers, employees, and affected local businesses. You must consider also such diverse groups as cultural heritage bodies, both public and private; transportation providers; community leaders at local and regional levels; the press; environmental specialists; alliance partners; special interest groups; people with academic or research interests related to a targeted issue or population, and many others.

When organisations consider how sustainability topics interrelate with their business strategy and then link sustainability with risk, they strengthen their operations.

The benefits of better informing your stakeholders are revealed not only through greatly improved employee, investor, and customer confidence, but extend also through to those concerned with regulatory oversight.

Because stakeholder engagement is at the beginning of the ESG and sustainability reporting process, and continues throughout its life-cycle, it is the most effective approach to stimulating the added value for which ESG is known.
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.

According to UNWTO/ITF research, by 2030 CO2 emissions from tourism are forecast to increase by 25% above the 2016 levels. The causes have been cited as accommodation, 21% of total emissions, and transportation for a further 75%.

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

As with many other industries, the drive to mitigating climate impact is driven by consumer pressure and is facilitated by innovation. For example, Carnival Corporation and P&O have launched a number of ships powered by liquefied natural gas (LNG), while Hurtigruten have three battery hybrid powered ships, and MSC may soon launch hydrogen powered ships.

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.

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 was 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!

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Contrary to the opinion of some commentators, ESG and CSR are entirely complimentary: ESG is a scoring and reporting mechanism with which to measure the impact of a Social Responsibility policy.

So close is the alignment, that a well founded CSR strategy, especially when accredited (audited), may equate to almost 30 percent of your ESG reporting process.

CSR is an invaluable methodology to build a strong organisational culture underpinned by shared social values and purpose. The contrast with ESG is that the latter is more focussed on creating opportunity and identifying business risks. Put simply, CSR is about values, and ESG is about value.

CSR is centred on the concept that the organisation has responsibilities to the community, environment, and society. Its goal is to demonstrate an organisation’s charitable and ethical responsibilities. CSR obligations reflect a company’s beliefs and culture, and each organisation chooses the CSR efforts which make the most sense for them.

While CSR aims to attempts to hold organisations accountable in terms of their societal responsibilities, it has always tended to lack the governance to measure impact.

ESG looks at the wider picture and its standards integrate environmental and social responsibility into corporate strategy and governance. The very essence of ESG is that it has measurable goals and impacts. In short, it’s evidence-driven.

Unlike CSR, ESG is concerned with organisational strategy. We’ve seen how strong ESG metrics can influence people, with some studies reporting that 35% of people would pay 25% extra for sustainable products and services, and a staggering 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. Of all institutional asset owners, 95% are seeking sustainable investing methods.

Today’s risk landscape is volatile. Risk is now more environmental and social than economic. Seven of the top ten likely hazards, and eight of the top ten impactful risks, are related to environment, social, and governance.
Failure to meet both ESG and CSR criteria can hurt a company’s finances and reputation. Not fulfilling emission reduction goals can lead to downgrades and share price losses, while not improving pay and working conditions can lead to high attrition and productivity loss.

As the tourism and travel industry becomes more regulated, firms will need risk management and compliance tools to combine pertinent data, automate processes, and assure error-free reporting.

Your most important stakeholders demand quantitative, measurable action from businesses and the ecosystems in which they operate. A combined approach is key: corporate strategy and growth should be based on the proper auditing and certification of both ESG and CSR.
The mission of ESG PRO is to enable our clients across all sectors to demonstrate the exceptional change which adds value to both the organisation and to society.

ESG PRO is remarkable in its client-centric approach: we are small enough to care, and powerful enough to deliver. Supported by the 450 staff across our group, we are entirely results-driven.

Whether you represent a single hotel or a global brand, our teams are able to manage your entire ESG and Sustainability journey. We even advise governments seeking sustainable solutions for the management of the cultural and heritage impacts of tourism and travel.

We’re global in scope, with clients spanning SE Asia, the Middle East, Europe, and the Americas. Our approach is unique too: we control costs by conducting the majority of our work remotely.
ESG PRO
GLOBAL EXPERTISE

- ESG reporting consultancy
- ESG ratings management
- Carbon reporting and management
- Carbon neutrality and verification
- CSR accreditation
- Social Value (TOMS) certification
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