

SUSTAINABILITY REPORTING FOR HOTEL COMPANIES: A TOOL FOR OVERCOMING THE CRISIS

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Abstract

The purpose of the paper is to investigate the possibilities of implementing sustainability reporting in hotel companies. To implement the external sustainability reporting, an internal reporting system based on the requirements of the triple bottom line needs to be established. Such internal reporting systems should help hotel managers to increase revenues and reduce costs and could be a successful tool to overcome the crisis. Main research question is what is the current level of sustainability reporting in hotel companies. The achieved level of sustainability reporting in Croatian hotel companies has been researched in correlation with assessing the current state and possibilities of further development. A comparison between internal reporting requirements and the achieved level of internal reporting reveals a significant gap.

The low level of quality of sustainability reporting in Croatia is probably the result of lacking mandatory and uniform reporting criteria about sustainability. Introducing EMAS could solve this, since it provides clear reporting criteria, and includes the mandatory periodic auditing of reported statements.

This paper presents a conceptual framework of sustainable reporting for hotel companies in order to improve the quality of sustainability information for short and long term decision making, by combining the USALI (Uniform System of Accounts for Lodging Industry) financial segment information with environmental and social perspectives. The presented model could open different scientific discussions but also challenge further development of sustainability reporting in hotel companies.

Keywords sustainability reporting, environmental management accounting system, hotel companies

INTRODUCTION

The hospitality industry is a significant consumer of resources with a considerable impact on natural environments, economies, cultures and societies. Hotel companies are under pressure from stakeholders and competitors to enhance their social and environmental responsibility in a manner to adapt their sustainable business practices to become more responsible. In today's competitive hospitality business, it is harder than ever to gain competitive advantage. Therefore, hotel companies that apply sustainable business are not only contributing to environmental preservation, but also incur benefits that may contribute to assisting them in gaining competitive advantages, increasing revenue and reducing costs.

During the last economic crisis, the tourism sector in Croatia has evidenced a positive trend of the non-financial indicator (tourist arrivals, overnight stays), however, the financial indicators of hotel companies do not follow this trend. In the last 5 years the number of overnights has grown by 10% but the total loss of hotel companies has also risen by 20% (from 120 to 143 million euro), which is shown in table 1.

Table 1: The results of hotel companies and tourism in Croatia

	2008	2009	2010	2011	2012
Tourism income (in billion euro)	7,5	6,4	6,2	6,6	6,8
Tourist arrivals (in millions)	11,26	10,27	10,60	11,46	11,84
Overnights (in millions)	57,1	56,3	56,4	60,4	62,7
% Tourism in GDP	3,7	3,8	3,9	4,1	4,1
Total value of hotel company assets (mil. euro)	5.341	6.264	6.462	6.610	-
% of Capital in Assets	58%	48%	43%	41%	-
Total revenue of hotel companies (mil. euro)	1.133	1.119	1.133	1.248	-
Total expenses of hotel companies (mil. euro)	1.246	1.223	1.329	1.381	-
Profit of hotel companies (mil. euro)	48	52	40	62	-
Loss of hotel companies (mil. euro)	168	166	241	205	-

Source: Croatian financial agency (FINA) and Statistical yearbook

Globally, Croatian tourism is experiencing tremendous growth regarding the arrivals, overnights, tourism income and share in total GDP. However, Croatian hotel companies are missing the opportunity to capture a fair share. According to data from final financial reports of hotel companies, the hotel companies' result has been disproportionately large. The total value of hotel companies, the total revenues and total expenses have grown on average 10% and the total value of their own capital has fallen (from 58% to 41%). The main problem is that the total value of loss has grown significantly by almost 20%. On the other hand, what is positive is the fact that the total profit of hotel companies has also grown by 30%, which means that there are some companies that have shown a positive trend, but their profit cannot cover the total loss. Addressing them requires a high level of coordination to manage resources more effectively in order to develop effective strategies that balance economic viability, environmental conservation and social impacts.

Like many tourist countries, Croatia is trying to adopt sustainable tourism as its framework for tourism development. Sustainable tourism has the potential to optimize the long-term economic viability of a destination by revitalizing both artificial and natural environments of tourist destinations and enhancing the socio-cultural integrity of host communities (Harris et al., 2012). Therefore it is very important to choose the best way to enhance both internal and external sustainability reporting. Improvement of the internal reporting system will have an impact on the quality of external sustainability reporting.

1. SUSTAINABLE REPORTING: Literature review

There is growing concern about the social and environmental impact of corporation activities but traditional financial accounting and reporting is not able to provide this information. The term “social and environmental” reporting is becoming less frequently used, with organizations more likely to adopt the ambiguous term “sustainability reporting” (Adams, Larrinaga-Gonzalez, 2007). There is no consensus in the literature about a framework for sustainability reporting, but most research has examined and shown disclosures in corporate annual reports (Brown, Jong, Levy, 2009).

According to the OECD sustainability means linking the economic, social and environmental objectives of societies in a balanced way and taking a long-term perspective about the consequences of today’s activities (OECD, 2008).

Gray and Milne agreed that it is difficult to precisely define what a sustainable organization would look like and report on its sustainability, but they pointed out that the central issue for sustainability reporting is how a corporation can or cannot contribute to sustainable development (Gray and Milne, 2002). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization, including both positive and negative contributions (Sustainability reporting guidelines GRI, 2011).

Reporting on sustainability performance has become a real challenge for companies to respond to management requirements and stakeholder needs. The challenge is to report information based on consistent data from across the company. The Global Reporting Initiative (GRI) is the best-known framework for reporting environmental and social performance worldwide, if measured by rate of uptake, comprehensiveness, visibility, and prestige. GRI has been amazingly successful since its modest inception in 1999. Sustainability reports based on the GRI disclose outcomes and results that occurred within the reporting period in the context of the organization’s commitments, strategy, and management approach.

One of the newly emerged tools is Sustainability Balanced Scorecard that is based on the Norton and Kaplan’s (1997) concept of Balanced Scorecard but a fifth dimension – the sustainability perspective has been added. Poldrugovac and Tekavčić (2013) found nine different approaches on how to integrate sustainability into Balance Scorecard. So currently, there is no general agreement on what this sustainability perspective should consist of.

There are some other initiatives for sustainability reporting framework development. The International Federation of Accountants (IFAC) together with the Global Reporting Initiative (GRI) and The Prince’s Accounting for Sustainability Project established The International Integrated Reporting Committee (IIRC), a body to oversee the creation of a globally accepted Integrated Reporting Framework, which combines financial, environmental, social and economic information into a comprehensive format and shows mutual influences. The framework should elicit material information from organizations about their strategy, governance, performance

and prospects in a clear, concise and comparable format. The Framework is intended to underpin and accelerate the evolution of corporate reporting, reflecting developments in financial governance, management commentary and sustainability reporting (Integrated reporting, 2011).

Brown et al. emphasized that significant trends in sustainability reporting include widening the scope to include social impact indicators and information on governance; broadening target audience beyond shareholders and employees, to include capital providers; integration of sustainability with financial reporting; regional differences in reporting and verification practices; persistent problems with data quality; and dominance of large multinational enterprises among the reporters. The most important reason for taking up reporting by companies is reputation management and brand protection (Brown et al., 2009).

Ideally, reporting on sustainability is integrated into a single integrated report that communicates every aspect of a company's performance. Effective sustainability reporting is a powerful part of communicating with stakeholders about how a company is performing against their objectives. Companies that embrace this are likely to have an advantage over their competitors and boost value for shareholders (PWC, Sustainability reporting). Best practice shows that some companies create their sustainability report as three integrated Profit & Loss Accounts: environmental, social and economic P&L. Environmental P&L covers GHG emissions, water use, the impacts of changes in land use on eco systems and biodiversity, local air pollution and waste. Social P&L include impacts such as fair wages, freedom of association, health, security and stability, empowerment, community cohesion, human capital, gender equality. Economic P&L focus on some of the beneficiaries of the economic impacts such as job creation, wages, total tax contributions, indirect and induced output, productivity and efficiency gains, business creation and growth (PWC, 2011).

Current sustainability reporting practice is viewed negatively with regard to its credibility and sufficiency, as well as the opportunities it provides for engagement with companies, particularly among environmental NGO respondents. While respondents tended to be suspicious of corporate motives for sustainability reporting, many were optimistic about the potential for NGO engagement with companies aimed at tackling social and environmental issues and improving current sustainability reporting practice (O'Dwyer et al., 2005).

2. SUSTAINABLE REPORTING IN HOSPITALITY INDUSTRY

Hotel companies are initiating programs for the implementation of sustainable development into their business. However, the success of such programs will depend on the extent to which national governments encourage sustainable tourism initiatives and their ability to understand how policy impacts the hospitality industry as a whole (UNEP 2002, 33-42). Hospitality business influences the environment, economies and society in both positive and negative ways.

The idea of sustainability has its roots in the more general concept of sustainable development, commonly known as a “Our Common Future”, attributed to the Brundtland Commission Report in 1987, defined as the concept of “...development that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED 1987, 1), in order to limit environmental and socioeconomic damage. Today most hotel companies strive towards sustainability, in a manner to manage resources in such a way that economic, social and environmental benefits are maximized both in meeting the needs of the present generation and protecting and enhancing opportunities for future generations (Sloan, Legrand, Chen, 2009).

Since 1992, the trend in the hospitality and tourism industry has been on focusing on environmental concerns, use of technology, and efficient use of energy (Kalisch, 2002). This emphasis was escalated to an international scale through the implementation of Agenda 21. Agenda 21 as forwarded by the World Travel and Tourism Council (WTTC), the World Tourism Organization (WTO), and the Earth Council set international guidelines relative to sustainable tourism. The WTO established the Global Code of Ethics for Tourism (GCET), which is a “comprehensive set of ten principles whose purpose is to guide stakeholders in tourism development” (World Tourism Organization, 2005). These ten principles are not legally binding but do serve as guidelines to central and local governments, local communities, tourism operators, and tourists concerning the preservation of the environment.

In the European area the Initiative for Improving sustainability reporting in the Hospitality sector has been established. With reference to this initiative the European Federation of Food and Agriculture and Tourism Trade Unions and Hotels, Restaurants and Cafés in Europe drafted compliance parameters concerning equal opportunity, non-discrimination, working conditions, “fair pay”, vocational training and life-long learning, health and safety, and the relationship between employers and employees at all levels. This proactive stance is important, since the unified actions are reflective of industry association adoption and engagement in socially responsible behavior as opposed to externally derived governmental compliance directives. Other initiatives such as “Green Hotels” have gained a foothold in lodging operators’ contribution to the society’s concern for the environment.

The Green Globe 21 is a global sustainability benchmarking program designed specifically for achieving the sustainability goals and efforts in tourism and hotel industry (Green Globe 21, 2004). It offer a series of carefully chosen key performance indicators (KPIs) in way of reduction of carbon emissions, energy efficiency, air quality protection, noise control, fresh water resource management, wastewater management, waste minimization, improved social and cultural relations, land management and ecosystem conservation and management. Declining resources, radical transparency and increasing expectations (Laszlo, Zhexembayeva, 2011) should be interconnected in the hotel business strategies if we want to embed sustainability into practice. The general approach of sustainability should be adjusted to the specifics of the real circumstances of a particular hotel or hotel company to answer to the following questions (Johnson et al. 2003, 17):

- Which natural resources and services are used to produce and offer target product and services? How should the costs and benefits of resource use be measured?
- How integrated are energy, motivation, knowledge, capacity for relationships, and other forms of human capital? What types of and how much direct and indirect value does integration create?
- How do the tourism products and services create value for local individuals, social groups and their relationships, and how can this be measured?
- Can existing manufactured stock and infrastructure be used in way that requires fewer resources and more human creativity? Can these efficiencies and their value be measured?
- Can sustainable business practices be used to create or increase value for a hotel's or hotel company's stakeholders?

Well-organized management information systems (MIS) and sustainability accounting play a particularly important role in the process of manager decision-making, focused on the achievement of sustainable development goals in hotels and hotels companies. Sustainability research on tourism and hospitality industries has been receiving increased attention. On the other hand, despite the economic and social magnitude of the hotel companies there is a lack of research on sustainability reporting practices applied to hotel companies. Most of the sustainability studies focus on policy and regulations development, planning and organization, customer perception and satisfaction, management perception, motivation and benefits, marketing strategies, initiatives and obstacles, certifications certification and facilities management (Chan & Hawkins, 2010; Chan & Hawkins, 2012). By implementing environmental protection management, hotels expect to receive positive publicity, enhance reputations, reach environmental conscious customers, and save costs (Chan & Hawkins, 2010; Millar & Baloglu, 2011).

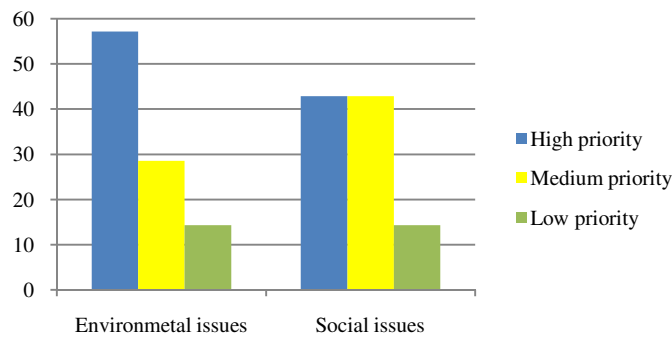
3. METHODOLOGY AND RESEARCH RESULTS

In Februaruy 2013 an online survey (questionnaire) was carried out in order to assess the achieved level of sustainability reporting in different industries as well as the supporting environment conditions. For this paper, we extracted the results from hotel companies. The research results are based on relevant data from the seven largest hotel companies in Croatia (in national and foreign ownership) which are listed on the Stock Exchange and altogether have 47 hotels. This represents 10% of the overall number of 3-5 star hotels in Croatia (Ministarstvo turizma Republike Hrvatske, 2012). The questionnaire consisted of 20 questions regarding general data of the companies and sustainability issues.

As reporting systems of sustainable development should be based on clearly defined strategic goals, the first step was the overview of the achieved level of strategic planning and the character and priorities of some goals and objectives. The investigated companies prepare their strategic plans for periods of 5 years (71.04%) and 3 years (28.06%). Their key priorities for all companies are financial and economic development. 57.14% of companies name environmental issues as a high priority in their strategic goals, 28.56% consider it a medium priority and for 14.30% it is a low

priority. Social issues are regarded as high priority among 42.86%, as medium priority for 42.86%, and 14.30% view it as low priority (Figure 1).

Figure 1: **Environmental and social strategic priorities**



Source: Survey results analyzed and presented by authors

From the researched companies, only 28% prepare sustainability reports. Of these 33% publish it annually and the rest prepare it depending on their needs.

The motivation for applying the principles of sustainable development and sustainability reporting systems in hotel companies are connected with different reasons (Figure 2).

Figure 2: **Benefits of applying sustainability**



Source: Survey results analyzed and presented by authors

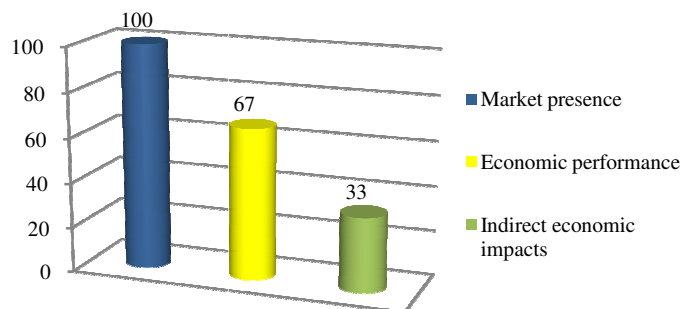
Management in hotel companies apply the principles of sustainable development primarily because they want to increase their reputation in the eyes of their business partners (100%). Applying the principles of sustainability is in the opinion of the respondents positively perceived by customers, which contributes to their loyalty, hence also the profitability. These principles are commonly linked to socially responsible employees, which increases their loyalty (85%). This raises the overall quality of process performing, especially because some of the investigated hotel

companies are certified under the provision of the standard ISO 9001. It provides a competitive advantage, which can make hotel companies more attractive for investors (67%). However, far fewer respondents believe that adopting sustainability principles can contribute significantly to sales growth and increased market share, as well as to an increase in the level of productivity (33%).

Although many of the relevant requirements are fulfilled, sustainability reporting systems are developed only in 30% of surveyed hotel companies, of which only one company presented statements on sustainable development regularly each financial year, while others prepare reports occasionally or only if it is necessary. The starting points for preparing a report on sustainable development are based mostly on the principles of the “Global Compact” or “CSR Index”, but not the “Global Reporting Initiative” (GRI) framework. Since the sustainable development reports should include data on the economic, environmental and social components, research has been directed to the assessment of the compliance with the “triple bottom line” principle.

The economic component of the statements is identified through the evaluation indicators of market presence (100%) and the overall economic performance (67%) of the individual hotel company (Figure 3).

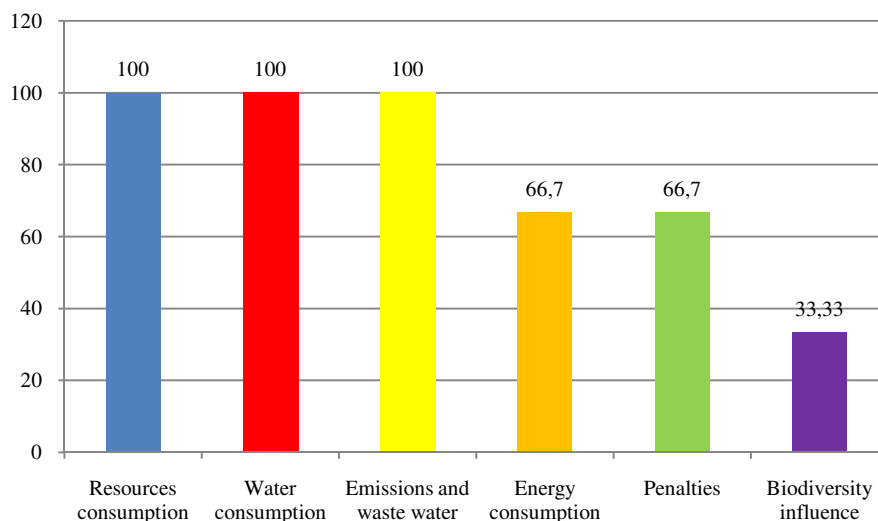
Figure 3: **Economic indicators in sustainability reports**



Source: Survey results analyzed and presented by authors

The environmental component of reports primarily present data on the consumption of material resources and drinking water, emissions, general waste and waste water as well as the impact of transport on the environment (100%). Somewhat less importance is placed on reporting on the renewable energy sources and on the penalties for non-compliance with environmental regulations (67%) and the impact on biodiversity (33%) (Figure 4).

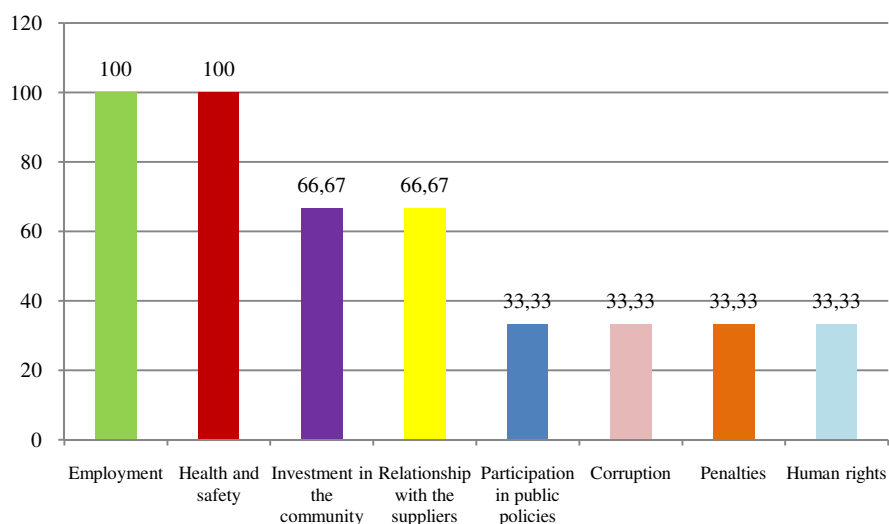
Figure 4: **Environmental indicators in sustainability reports**



Source: Survey results analyzed and presented by authors

Sustainability reports present the relationship to the community (social component) in many different ways (Figure 5).

Figure 5: **Social indicators in sustainability reports**



Source: Survey results analyzed and presented by authors

All reports (100%) present information on employment (number, structure, education, training and reward system, etc.) as well as health and safety at work (number of accidents and sickness caused by working conditions, etc.). This is followed by information about investments in the community and about improvements in relations with suppliers (67%). Some reports present information about participation of hotel companies in public (destination) policies and consequences of unfair market competition, corruption and monopoly, as well as non-compliance with ethical and moral principles. Few reports show information on violations of human rights, as well as their protection, or information related to child labor and discrimination on the basis of age, gender, race or other factors.

Among the investigated hotel companies the preparation of sustainability reports is not based on manual or any written rules, their content is defined according to their needs, by using the relevant internal and external data sources. Only a small part of the surveyed hotel companies have clearly defined the basic KPIs as indicators for assessing the achieved level of sustainable development, while the other choice of indicators reflect the ongoing reporting system and management or external user needs. All researched hotel companies have placed special emphasis on market share assessment and customer satisfaction monitoring, and they are also making use of the opportunities of social networks.

4. DISCUSSION

The establishment of sustainability reporting is nowadays very important, because companies are being pressured by stakeholders to become more transparent - such transparency is becoming the norm, rather than the exception. At the same time this means that hotel companies have to really accept the principles of sustainable development, and the achieved results need to be presented in internal and external reports in a systematic and transparent manner. The results of this study will be analyzed in the context of the global approach to this problem, i.e. that nearly of 80% of the world's largest companies issue some type of responsibility report" (KPMG 2008, 4).

Thus, the emphasis is on any type or content presented in a sustainability report. The main consequence in the process of sustainability reporting is that there is no real obligation to apply certain rules and standards. The following figure presents reasons for preparing sustainability reports in Croatia, which is basically a reflection of the main sustainability goals that are implemented in practice (Figure 6).

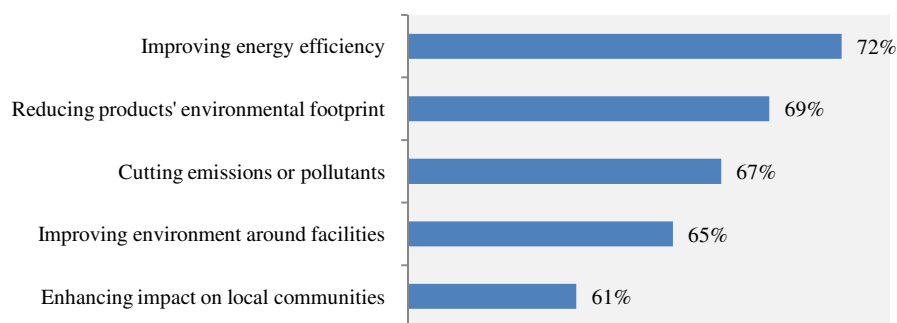
Figure 6: **Priorities of sustainable development in the practice of hotel companies in Croatia**



Source: Survey results analyzed and presented by authors

One of the main reasons for preparing sustainability reports are compliance with regulations and standards and long term business success, followed by the relationship with employees, customers & business partners, new market opportunities and raising quality. The less likely reasons for preparing such reports are the implementation of environmental policies and improving the relationship with stakeholders. It should be noted that the presented research results differ significantly from related research results carried out on the global level (Figure 7).

Figure 7: **Reasons for preparing sustainability reports at the global level**



Source: Economist Intelligence Unit survey 2010, presented in KPMG (2011), Corporate Sustainability – A progress report, KPMG International, p. 17.

Comparing our research with the research conducted by the Economist Intelligence Unit on 400 companies around the world, we can see that their main reasons are improving energy efficiency, reducing the environmental footprint, emissions and pollution, improving the environment and enhancing the impact on local communities. This clearly shows that there is a completely different state of mind about sustainability in Croatia when compared to the rest of the world.

In recent years a number of widely accepted reporting frameworks have been developed and adapted, as a basis for ensuring compliance of internal and external sustainability reporting systems. These frameworks aim to provide benefits for both reporting organisations and report users by promoting a standardized approach that potentially minimizes ambiguity and rhetoric messages (Huang, Pepper, Bowrey 2011, 4). In this context the importance of the Global Reporting Initiative (GRI) as sustainability reporting guidelines should be pointed out, especially the importance of the supplements for the financial service sector, which share the most similarities with the hotel industry, when compared with other sector supplements. If we want to provide some kind of benchmarking between the presented information in sustainability reports from different hotel companies, the content of the reports and reports disclosure should be made with respect to the GRI framework.

Unfortunately, the researched hotel companies in Croatia do not apply GRI frameworks yet and their management only pointed out the links with the “Global Compact” and “CSR Index”, which primarily offer rules for sustainability reporting linked to the external user needs.

These reports do not identify some significant goals and long-term targets, such as transforming its business in the field of renewable energy and ensuring zero consumers and manufacturing waste goes to landfills. It should be noted that some goals of sustainable businesses are connected with using 30 percent of renewable energy, reducing packaging by 20 percent, and so on (KPMG 2011, 17).

If we take this into consideration, it can be concluded that the existing statements of Croatian hotel companies lack relevant information for internal and external users. Therefore they are lagging far behind many companies in the world which are committing themselves to tough goals, even without regulatory mandates, in part because they believe such rules will come at some point. If a very important part of sustainability reporting is the environmental realm, introducing the EMAS (Engel, 2000) could solve some problems, since it provides clear reporting criteria and includes the mandatory periodic external auditing of reported statements. For this purpose, it is necessary to provide stronger external support and incentives, with an emphasis on improving the internal and external reporting and benchmarking system.

For improving the internal part of sustainability development reporting systems it would be useful to upgrade the well-developed financial reporting system, based on the USALI - Uniform System of Accounts for The Lodging Industry standards (Janković, Peršić, 2010) that are compatible with the starting points of IFRS 8, the global accepted International Financial Reporting Standard, focused on segment reporting (Peršić, Poldrugovac, 2009; Peršić, Janković, Poldrugovac, 2012). The same principles can

follow the process of sustainability reporting systems in hotel companies, which will be designed in such a way to highlight the competitive advantage of the hotel company. By using relevant indicators, a possibility of benchmarking within the global hotel industry will be ensured, with a tendency to apply the same assumptions for the other branches. Sustainability accounting has to be established on specific management requirements in order to be a relevant source of decision-making information for evaluating sustainability performance in the specific condition of a particular hotel company.

5. CONCLUSION

Reporting sustainability performance is a powerful communication tool that offers a distinct advantage over certification in the context of communicating sustainability efforts. Disclosing sustainability performance publicly or even to limited stakeholder groups places the judgment and performance evaluation on the reader. The process of sustainability reporting begins with sustainability measurement of the three pillars of sustainability: environmental, social and economic.

In the environmental category, measurement begins by examining the hotel's related policies, programs, procedures and drivers and this can be divided into three main categories: processes, consumption and Impacts. While measuring processes means the evaluation of property policies and programs, measuring the consumptions means measuring the energy, waste and water. All processes and their related resource consumption in hotel operations have some form of environmental impact (Singh, Houdre, 2012).

According to the GRI, the social dimension of sustainability within hotel operations with a people-intensive nature of the business, can be divided into four categories: labor practices, human rights, society and product responsibility.

The economic reporting of sustainability represents the financial effects of programs, policies, processes and consumption. On a deeper level, economic sustainability can include the economic impacts of hotel operations generated within the community (Singh, Houdre, 2012).

The continuous presentation of transparent indicators on sustainability is a very important contributor in order to achieve a competitive advantage, either in times of financial health or perhaps more importantly in times of financial crisis.

From our research, we can conclude that Hotel companies have not reached a sufficient level of sustainability reporting. There is an evident lack of information for internal and external users. This lack of information leads to decision-making in conditions where not all aspects of the company's performance are taken into consideration. These decisions are then made on the wrong informational basis and could lead the companies in the wrong direction.

The conducted research has elicited many questions: why are there not more hotel companies that report about sustainability (for external and internal purposes), which information about sustainable development should they report and what are the major accounting assumptions needed to implement sustainability reporting. This line of research should be continued and the sample expanded. One of the steps that should be made in the future is primarily to raise awareness about sustainability through education. Also, detailed guidelines for implementation should be prepared. These guidelines should be based on different methodologies for sustainability, but should also take into consideration the Uniform System of Accounts for the Lodging Industry. This would improve internal and external reporting and benchmarking and would contribute to achieving a competitive advantage in this time of crisis.

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