



Environmental, Social and Governance (ESG) Adoption in the UK Hospitality and Tourism Industry

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**Environmental, Social and Governance adoption in the
Hospitality and Tourism Industry**

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Abstract

This paper critically analyses the findings of the Coldwell Banker Richard Ellis (CBRE) report on Sustainability and Environmental, Social and Governance (ESG) Adoption in the Hotel Industry and the World Travel and Tourism Council (WTTC) report on the Nature Positive Travel and Tourism 2024. The paper uses these data and findings combined with company ESG reports to examine the current state and trends related to ESG adoption from a UK perspective. Furthermore, its set out key challenges and innovative solutions to the implementation of an effective and innovative ESG policy in the UK.

Keywords: ESG, Sustainable Innovation, Environmental Initiatives, Global Reporting Initiative Standards, Green Investing

Research Objectives

The purpose of this research is to examine the adoption of ESG practices in the hospitality sector

1. Has there been an increase in ESG adoption amongst smaller hospitality organisations in the UK?
2. What are the greatest challenges facing tourism and hospitality operators in adopting innovative sustainable practices?

Introduction

The recent publication of the Sustainability and Environmental, Sustainability and Governance (ESG) Adoption in the Hotel Industry: A Global Status Update from the CBRE outlines how increasing employee and customer engagement is driving the hotel industry to implement sustainability at both an individual property level and across the hotel groups. According to the report, the focus of these initiatives is based on four core areas including, energy efficiency, carbon emission, water conservation and water reduction which is a key part of any ESG program (CBRE, 2023). For example, figure 1.0 shows energy per occupied room with the UK ranking well at both a European and global level with weather and consumption habits being a considerable factor.

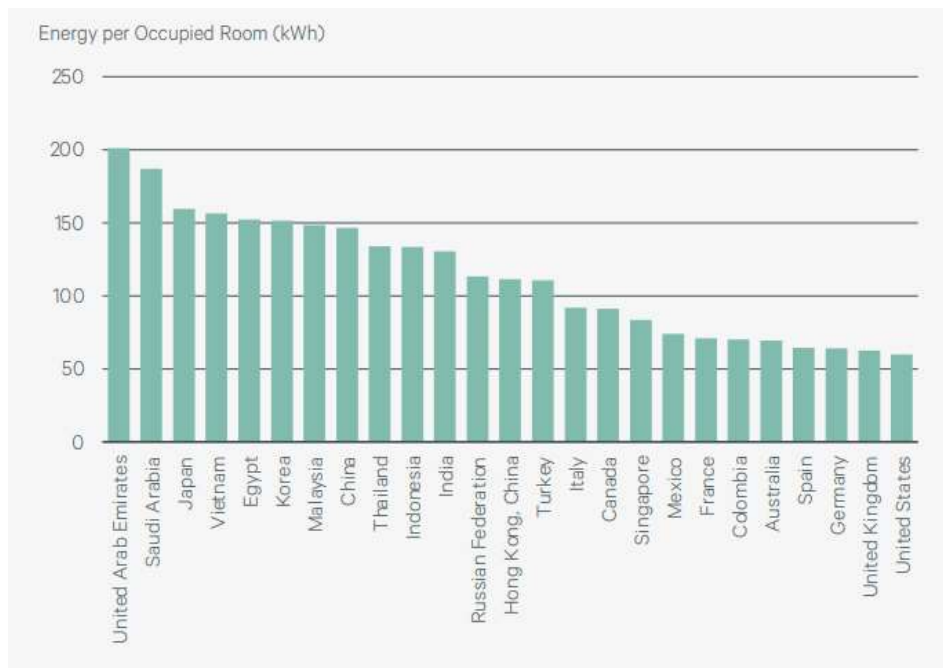


Figure 1.0 shows energy per occupied room CBRE (2023)

Furthermore, the report outlines the main green building certifications and standard agencies across the globe as outlined in Figure 2.0. In the UK, we have seen the implementation and updating of various legislation such as:

1. The Waste Controls (England and Wales) Regulation 2011- Requires registering for carrying of waste
2. Environmental Damage (Prevention and Remediation) Regulations 2009- Hotels must report any damage to land or the environment
3. BREEAM 2023 (Building Research Establishment Environmental Assessment Method)
4. ISO 14021:5.7- International Standard specifies requirements for self-declared environmental claims, including statements, symbols, and graphics, regarding products

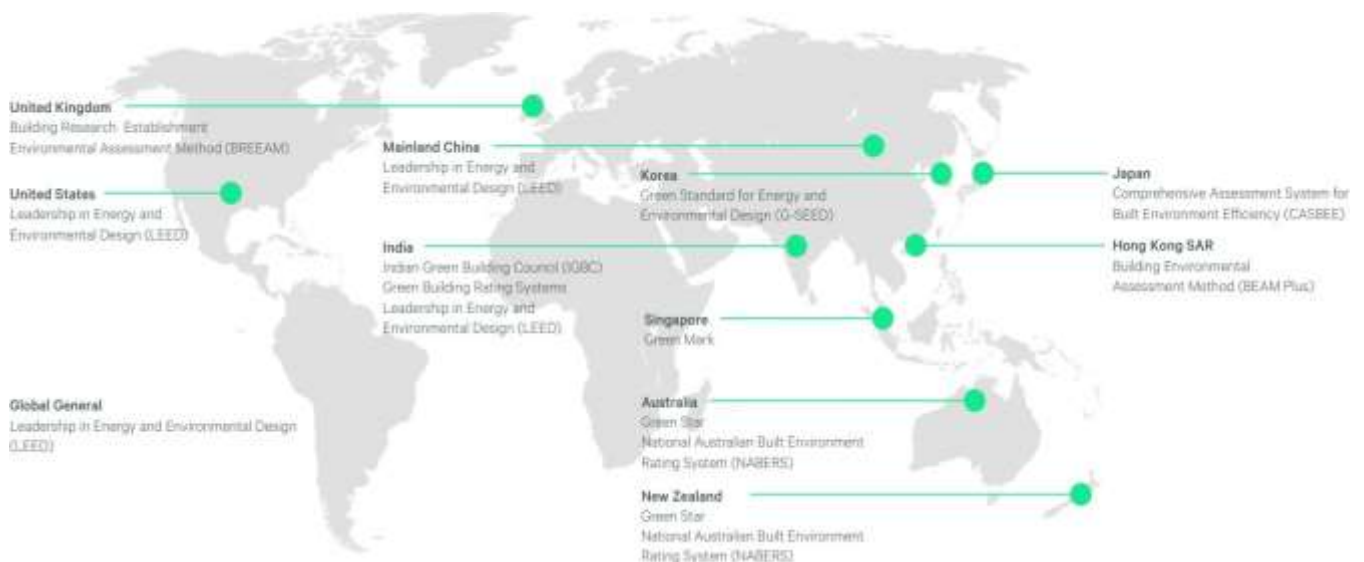


Figure 2.0 Green building certifications and standard agencies across the globe

The report also expects that further to the legislation, mandatory disclosure requirements and high energy prices will further incentivise property owners to adapt to green energy efficient initiatives at a property level to avoid possible penalties for non-disclosure requirements. This is also vital to ensure a transparent approach is taken to ESG reporting and the avoidance of greenwashing and inaccurate reporting of activities. It is also stated that hotel owners are aware of the possible financial savings of sustainable initiatives and the impact of non-action on brand reputation (CBRE,2023). For example, a recent policy document by Melia hotels on Climate Change and Environmental Policy outlined a series of initiatives at a group level overseen by the Board of Directors and its Sustainable Committee that has led to significant success in this area based on industry best practices as outlined by the Science Based Targets (2024)

For example, at one property in the Melia group they have initiated several programs including the recruitment of disabled staff, changing their supply chain to focus on local farmers, a paperless program and a reduction in plastic initiatives (Melia Hotels, 2022). In addition, according to Science Based Targets (2024) Melia Hotels has committed to a range of initiatives with the aim of reducing Greenhouse gas emissions across the group by 29.4% in 2025 and 71.4% by 2035 from a 2018 base year.

A further element that has been outlined by the report is the effect of climate change on the local environment in terms of flooding, water drought, water stress and increased temperatures. These factors are now significant considerations for hotel operators in addressing their sustainable initiatives at a property level. The focus on coastal areas and resorts in the UK is an area of focus for a variety of government agencies and local authorities. However, the report overlooks the large discrepancy in approaches to sustainability and regulation across the world. It is these discrepancies that can cause loopholes for larger organisations with international expansion plans and less robust sustainable approaches.

The report concludes that there will be a slowing in short term progress due to a mix of industry and global economic challenges but that stakeholders need to have a focus on trends, environmental initiatives and have an oversight of their ESG policy. Some of the key challenge areas were identified as the food inflation increase in 2023-2024 by 9.2% and there was overall increase in wholesale gas prices of 142% compared to before the Ukrainian conflict. Furthermore, it is important to note with an increase in hotels Earnings Before Interest Tax and Amortization (EBITA) and considerable growth in their Average Daily Rate (ADR), average wages in the Hospitality sector grew by 6%. This combined with developing the right internal resources to tackle these challenges needs to be a strategic priority (CBRE,2023). The hospitality business environment from a commercial perspective has seen mixed growth, according to STR Co Star (2024), in 2024 there was growth evident in terms of London and Regional Revenue Per Available Room (RevPAR) performance, with an increase of 1.5% and 3.1% with a decrease in RevPAR in the economy/budget segment of hotels. London RevPAR in 2025 is forecast to increase by 3% to £161.10, driven by an occupancy increase of 3.8% to 83.2%(Savills,2024).

Hotels with Targets

Furthermore, the World Travel and Tourism Council recent report on Nature Positive Travel and Tourism 2024 set outs the key role that Travel and Tourism has in the protection of and conserving of nature with examples from the industry of positive actions. The authors outline several recommendations in terms of awareness and actions that need to take place. The report highlights that a global review conducted by the UN Tourism agency shows that the importance of nature to Tourism is universally acknowledged within national policies and nature as a primary tourism product and direct link to the hospitality industry. In a UK context, The Tourism Recovery Plan published in June 2021 outlined ambitions plans for a sustainable Tourism plan that aims to put the UK at the forefront of the Tourism Sustainability agenda.

The report cites several previous WTTC surveys as seen in figure 4.0 that found over 65% of respondents of the survey had set specific carbon targets, 40% has water stewardship

initiatives, 39% waste reduction and single use plastics initiatives however only 10% of respondents had initiatives related to biodiversity (WTTC,2024).

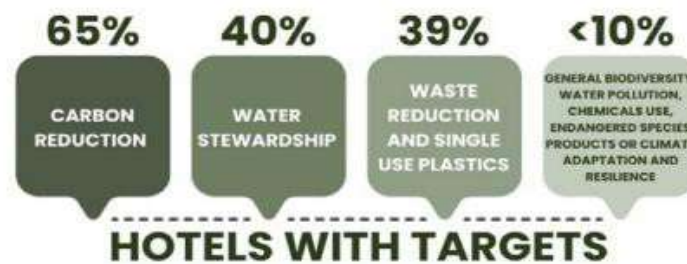


Figure 3.0 Respondent results hotel with targets WTTC (2024)

That last figure is a reminder of the continued actions that need to happen however the report points out that some positive actions have emerged from giving guest opportunities to visit various biodiversity projects in their local regions, more awareness of biodiversity issues and support or donations to local biodiversity projects. The greening of components of a supply chain has been identified as one of the keys ways to improve sustainability in a business. We have some relevant examples of this recently from a UK context with the opening of the 1 Hotel Mayfair part of SH Hotels & Resorts. The building design focusing on using local materials from the UK, a CO2 offsetting program through 400 square meters of green walls, water stewardship and the use of sustainable linen has shown that sustainability in a luxury setting can be achieved. The use of Biophilic design both inside and out with the use of over 200 local and regional plants that are in place both on the exterior of the building and within the guest bedroom shows further positive initiatives (1 Hotels, 2024). This can be further seen in the use of reclaimed wood and sustainable timbers that are used throughout the public spaces. As Kelbert (2008) explains biophilic design is an attempt to satisfy the need of contact with natural systems and processes in the contemporary built environment, and to improve people's physical and mental health, productivity, and wellbeing. The below figure shows the major UK and EU hotel groups' climate targets and net-zero goals according to the CBRE report taken from the Science Based Targets Companies Taking Action Report. The commitments are considerable and show a level of strategic maturity in terms of sustainability. One example we see of this is from Intercontinental Hotels Group commitment to reduce absolute scope Greenhouse Gas Emissions from fuel and energy-related activities and franchises by 46.2% in 2030 from a 2019 base year.

Company Name	Near term Target Status	Near term Target Classification	Near term Target Year	Net-Zero Committed
Accor S.A.	Targets Set	1.5°C	2030	Yes
Iberostar Hotels and Resorts	Targets Set	1.5°C	2030	Yes
ILUNION Hotels	Committed			Yes
InterContinental Hotels Group PLC	Targets Set	1.5°C	2030	No
Melia Hotels International SA	Targets Set	1.5°C	2025, 2035	No
Millennium & Copthorne Hotels plc.	Targets Set	Well-below 2°C	2030	No
NH Hotel Group	Targets Set	2°C	2030	No
Radisson Hotel Group	Targets Set	1.5°C	2030	Yes
The Student Hotel	Committed			No
Whitbread PLC	Committed			Yes

Figure 4.0 Greenhouse Emission Commitment Targets CBRE (2023), Science Based Targets (2024)

Challenges facing Hospitality and Tourism Businesses

The report also outlines based on their surveys the challenges that businesses face in achieving their nature positive goals. From figure 5.0 we can see the biggest change from 2022 to 2023 from respondents of the WTTC surveys has been the lack of funding to invest in sustainability, biodiversity, green technology, and their supply chains. In the UK, there are several funding schemes and grants made available for Tourism, travel and hospitality organisations that intend to adopt greener actions. This can vary from small- scale tourism infrastructure grants, grants for electric vehicle charging points and various funding grants from the UK Shared Prosperity Fund.



Figure 5.0 Barriers to Action for Nature 2022 & 2023 WTTC (2024)

Furthermore, there is a rise in interest and demand for Sustainable tourism sites citing a study from bookings.com that over 81% of customers last year intended to stay in sustainable accommodation and up to 50% of customers did not mind paying more for a sustainable option (Booking.com,2022). This shows that the sustainable trends are not only vitally important in protecting local nature and biodiversity but are also a viable business option.

Research Methodology

The material for this research has been taken from the CBRE industry report in 2023, the WTTC Nature Positive and Travel review 2024, PwC Consumer Survey 2024, United Nations Global Compact case studies and various leading hospitality companies published ESG reports from 2022-2024. In addition, government and industry reports have been examined in detail to provide a background and in some cases specific information relating to regulation of the sector. This case study approach is the most appropriate to the subject matter and provides opportunities for answering the key research questions through the analysis of secondary data and the use of thematic analysis to identify key themes and trends in the sector. Furthermore, this approach will enable triangulation and will assist with verifying the conclusions reached from the data (Saunders et al, 2012). Triangulation will allow me to use several methods or data sources to develop a full understanding of the challenge (Patton, 1999).

My approach to analysing the data collected was to follow a process of categorization of the key themes, trends and patterns that emerge under various relevant key headings based on my research questions, objectives, and analysis (Strauss and Corbin, 2015). The second stage was to attach relevant units of the data to the appropriate categories known as unitizing of data. This process will mean that I could start to recognize and identify relationships from the data, identify key patterns regarding measurement and future areas of concern or development. I then tested my various hypotheses against the relevant literature and data that I had gathered and set out my initial findings.

Findings

Consumer Trends

As consumers and businesses strive to do more to address key societal and environment issues, companies need to ensure a diverse ESG team is created that represents all areas of the business, its employees, and the communities it serves. A coordinated approach to governance structure is therefore vital to ensure effective accountability for decision making. As Stanley (2024) outlines, there has been a significant increase in awareness and consideration of ESG and governance amongst investors with 17% of investors stating that they are planning to increase their ESG investments (British Business Bank, 2024). Effective ESG can also have a positive impact on value creation in several ways for a company. As outlined by Heinz et al (2019) it can improve top line revenue growth in both business to business and business to consumer segments, it can lead to effective cost reductions, improve productivity, enhance investment returns by focusing on long term strategic investments and generate additional revenue through subsidies and supports from local authorities and governments. An important element as mentioned in the WTTC, CBRE reports and various hotel ESG reports is the influence from the consumers on ESG adoption. As outlined by PwC in their Voice of the Consumer Survey 2024, consumers state they are willing to spend 9.7% more, on average, for sustainably produced or sourced goods, as almost 85% report experiencing first-hand the disruptive effects of climate change in their daily live. The survey outlines that consumers are assessing producers' sustainability practices through tangible attributes including production methods and recycling (40%), eco-friendly packaging (38%), and making a positive impact on nature and water conservation (34%) (PwC, 2024)

ESG Frameworks

Moreover, key metric needs to be adopted to measure performance of the ESG goals outlined based on key established frameworks reflecting the current business operations and its code of conduct. The need to have a robust framework in accordance with the Global Reporting Initiative Standards is vital to ensure relevant data are collected, analysed and shared ensuing that greenwashing does not happen, and an organisation can communicate its objectives with credibility (GRI,2024). Therefore, it is vital that ESG performance is communicated in an effective manner both to showcase initiatives and to address areas of underperformance and focus points. The Environmental, Social and Governance framework created by the United Nations Global COMPACT is a best practice approach based on ten core principles covering Human Rights, Labour, Environment, and anti-corruption. There has been significant adoption of this framework from leading Hospitality groups such as Radisson Hospitality AB, AccorHotels and InterContinental Hotels Group with the United Nations Global Compact (2024) stated that is the world's largest corporate sustainability program, with over 18,000 companies and 3,800 non-business participants from 160 countries.

Technology Adoption

Due to considerable inflationary pressures, increase wages costs and high turnover, one of the key areas overlooked by the reports and a significant finding is the challenges that small to medium size enterprise have in adoption of new technology and in particular green technology with the ability to analyse the relevant data to make better informed sustainable investment decisions related to supply chains and inventory management. A recent study carried out by Square and Wakefield (2024) among 2,000 retail owners & managers stated that 39% of those surveyed intended to use more sustainable sourcing methods and operational initiatives. However, a key hurdle is accurate inventory management and the creation of a green supply chain with over 86% of surveyed businesses from the Square and Wakefield Research stating this as a key challenge in their operation. The challenges outlined was the lack of technology integration capability with existing systems, difficulties with employee use and training needs and a lack of flexibility to adopt the changes needed in the business operations.

Conclusion

Based on the key reports and findings we can see that ESG has become a key priority for many firms with extensive accreditation and governmental regulation in place. The extent of regulation in the hospitality sector has meant compliance and a proactive approach to managing this must be a key strategic priority for firms in the industry. The reports omitted two key areas for future exploration, the wide discrepancy in standards across geographical locations and the considerable pressures on small to medium sized enterprises to both adopt green technology and to develop the related skills in a challenging business environment. The significant challenges with technology adoption related to supply chains and inventory management as outlined has showed this is a key area for further investment and development by a range of organisations in the industry. The next step for this research project is to adopt a longitudinal design approach to observe changes in legislation, technology adoption related to green initiatives and key trends that emerge from the sector. This will be combined with a case design approach examining multiple separate cases of ESG adoption, turnover, and industry practices from a range of key industry stakeholders with differing levels of maturity.

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