

ESG in Hospitality

KPMG Cyprus' Hospitality newsletter

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Environmental, social and governance (“**ESG**”) principles are gradually becoming an important part of the hospitality industry. Sustainability is being incorporated into not only the industry’s strategies but also in the day-to-day operations. Travelers are increasingly seeking for sustainable practices and expect the industry to offer more sustainable travel options.

What is ESG?

Environmental, social and governance principles are nowadays becoming essential for the successful business of any industry as the public seeks more disclosure and transparency from the companies they interact with, even during their holidays.

Following the Paris Agreement signed in 2015, as well as the increased awareness of the impact non-ESG friendly operations have on the world and the planet, there has been a rising pressure in the past few years on companies, including airlines and hotels, to embrace ESG norms and maximise sustainability in their operations.

The Paris Agreement

In December 2015, 196 parties adopted the Paris Agreement, a legally binding international treaty setting out a global framework for limiting global warming. The agreement envisions a climate neutral world by mid-century and therefore requires all parties to start reducing their emissions the soonest possible.

The Paris Agreement works on a five-year cycle of increasingly ambitious climate actions carried out by all countries with the target to limit global warming to well below 2 degrees Celsius, ideally to 1,5 degrees Celsius.

The Treaty has been into force since 4 November 2016 and it marks the beginning of a shift towards a net-zero emissions world.

ESG impact on Hospitality sector

Like in all other sectors, ESG is widely seen to have an impact on the hospitality sector globally. Travelers are increasingly seeking confirmation that sustainable practices are in place and their anticipation for the sector to offer even more sustainable travel options sets pressure on the tourism stakeholders to account for ESG factors in their operations and continually adapt to them.

More and more hotels seek to identify opportunities to achieve eco-label certifications and ensure the sustainability of their operations. Despite the fact that such sustainability certifications are voluntarily, hotels and other related accommodation providers are increasingly going through third-party assessments for compliance with sustainable tourism standards in aim to achieve such sustainability certifications. Well known tour operators are also encouraging their partner hotels to obtain such certifications and many online booking platforms are now highlighting hotels which are certified for sustainable tourism.

53%

of global travellers want to travel more sustainable (booking.com survey, 2020)

44%

of guests under the age of 25 search for the hotel's environmental and social practices before booking (Hilton survey, 2018)

69%

of global travellers expect the industry to offer more sustainable travel options (booking.com survey, 2020)

72%

of travels are planning to stay in an eco-friendly or green accommodation within the next year (Statista survey, 2022)

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Environmental example practices

- An international hotel group removed all single-use toiletries eliminating 200 million and 500 million bottles respectively on an annual basis.
- A U.S. state passed a bill for banning small toiletry bottles. As of 2023, hotels repeating offenses will be charged with a \$2,000 fine.
- If New York bans single-use toiletries in hotels, the law under consideration would most likely eliminate 27.4 million bottles annually in New York city alone.
- A hotel group with over 7,000 hotels worldwide committed to source 100% of the eggs used in all their hotels around the world from cage-free sources by 2025 and publicly report on progress annually.
- One of the most famous hotels in Las Vegas saved 30 million gallons of water in just a year by implementing a towel reuse program.

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Social Impact example practices

- Numerous hotel companies have adopted more generous parental leave policies. For example, some hotels have increased their leave allowances for new mothers and new fathers at a full pay as well as adoptive parents or employees who need to take care of their loved ones.
- Many hotels are being awarded for their social impact and included in diversity lists like the "Top 50 Companies for Diversity" list.
- A renowned hotel donated \$4.7 million to charitable organisations since 2008 and committed to hire 10,000 employees between the ages of 16-24 as part of its scheme to support young people who are disconnected from the economy either by not working or not going to school.
- Many hotels declare a 100% gender equity in pay among their staff.

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Corporate Governance example practices

- Hotels are being awarded for their corporate governance by various institutes like the Ethisphere Institute which names the World's Most Ethical Company on an annual basis.
- A world known hotel chain had successfully offered to over 29,000 managers an anti-corruption training and to further 11,000 other employees a business ethics course on global trade sanctions.
- The board of directors of a hotel group with 13 hotel brands comprises of women at 30%.
- One of the largest hotel brands in the world established a 24/7 hotline which is run by an independent company so team members can report suspected misconduct or concerns anonymously.
- Several organisations in the hospitality industry are disclosing their initiatives on ESG matters and some have already launched annual ESG reports.

A rising wave of ESG reporting

Over the years, many companies have acknowledged that ESG is becoming imperative for mitigating company risk and creating long-term value, thus they have voluntarily adopted ESG practices and reporting. However, the recent establishment of the EU's Corporate Sustainability Reporting Directive ("CSRD") which sets European Sustainability Reporting Standards ("ESRSs") is anticipated to create a big wave of ESG reporting as it applies to almost 50,000 companies. Subject to the mandatory sustainability reporting companies include non-EU companies with subsidiaries operating within the EU and companies which are listed on EU regulated markets. Affected companies are required as of 2024 to report in accordance with the ESRSs disclosing many metrics and targets.

The first CSRD reports are due in 2025, highlighting the need for urgent adaptation of ESG practices and KPIs at all levels by all affected companies.

64%

of G250 companies acknowledge climate changes as a risk to their business (KPMG Survey, 2022)

49%

of G250 companies acknowledge social elements as a risk to their business (KPMG Survey, 2022)

Source: Press releases and other publicly available information

ESG in Cyprus Hospitality

As ESG is increasingly becoming a significant part of the hospitality sector around the world, the Deputy Ministry of Tourism in Cyprus recognised its importance in long-term competitive success and has incorporated ESG in its future strategic plans.

One of the main focus areas of the 10-year strategy plan the Deputy Ministry launched in 2020, the “National Tourism Strategy 2030”, is the establishment of Cyprus as a climate friendly destination through numerous initiatives, including the reduction of CO2 emissions. The performance will be measured by a series of key performance indicators related to sustainable tourism development goals.

ESG initiatives have also been seen by numerous hotels and other accommodation establishments across Cyprus, which have embraced an environmentally friendly and socially responsible way of operating and achieved various certifications for sustainable tourism, like the Travel Life Certification.

Examples of initiatives undertaken by hotels in Cyprus include installation of recycle bins within the hotel premises, promotion of towel reuse and elimination of plastic use i.e. plastic straws and single use toiletries. Furthermore, numerous hotels have been giving back to the island’s society through various donations, charity events and other initiatives which have a positive impact on our society.

“ The vision of our National Tourism Strategy 2030 is to develop Cyprus’ tourism in a sustainable way, which positively impacts our economy, our society and the environment.”

Deputy Ministry of Tourism, Cyprus

ESG in the future

Travellers are becoming even more eco-conscious and are seeking for more sustainable ways of travelling and more eco-friendly destinations. According to a survey carried by the biggest online booking platform, booking.com, over half of the global travellers are travelling with an eco-conscious mindset and more than two-thirds expect the hospitality and travel industry to offer more sustainable travel options. Consequently, the hospitality industry needs to adapt to these changes, something that it is now acknowledged by numerous hotel companies which are already making strides by implementing ESG practices on their properties and operations in aim to become more sustainable, socially impactful and ethical. Unavoidably, the Cyprus’ hospitality industry must also embed ESG, especially now that CSRD has been into force making companies in the hospitality sector of Cyprus subject to ESG reporting.

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