

# Sustainability in business practice: Price and value

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## 1. Introduction

Sustainability has become an essential value for businesses, not just an ethical choice. Legislators, finance institutions, customers and markets are pushing companies to be ESG (environmental, social and governance) compliant. Rules both mandate (e.g., mandatory waste separation) and incentivize (e.g., tax breaks for energy-efficient structures) sustainability. Banks condition access to credit on compliance with ESG parameters, while finance is giving importance to these parameters when assessing creditworthiness or selecting investments. Customers, especially younger generations already seek "green" products and services with specific sustainability characteristics. Even market and competitive condition are forcing companies to choose sustainability to differentiate oneself from competitors and enhance attractiveness to talent in the job market.

Sustainability is indeed a value for a hotel, but it also comes with a cost, as it generally entails higher expenses related to raw materials (management and logistics), staff (training and salaries) and a worse net financial position. Moreover, it is challenging for a hotel to justify charging a higher price for a sustainable stay, especially when compared to many eco-labeled products (such as an electric car) that already have the support of an increasing proportion of customers, despite their higher price (compared to a diesel car). This draws a distinction between services and products, where it is easier to turn the higher price of a sustainable product into a customer benefit than it is for a service.

Focusing on services, it is even more evident that sustainability is a holistic concept that cannot be limited to the environmental dimension and, therefore, to the letter E of the acronym ESG, even though, today, the topics of climate change, energy and pollution are prevalent in the common feeling. There is an equally powerful movement of attention towards social and ethical as well as deontological topics that is similarly characterizing the new industrial relations between workers and companies, between consumers and products/services and between economy, finance and the community at large. These elements are no longer disjointed, and it is not possible, for those who wish to achieve sustainability goals, to focus on just one of them. That is why we believe it is important to revisit the most recent literature on sustainability in the accommodation industry from the perspective of a medium-sized hotel chain that has recently completed the journey to become a (certified) Benefit corporation. The idea is to present environmental, social, ethical, and deontological topics under two main themes: the cost of sustainability (its price) and the value of sustainability.

This holistic approach encompasses the concept of "benefit for all," as a synthesis of a regenerative paradigm of business (not only reducing the impact on the environment but also producing positive effects, by creating shared value in the society as well as regenerating the biosphere) as opposed to an extractive one (where a business uses more economic, social and environmental inputs than it is able to produce as its output while operating).

By combining literature and field experience, we will try to understand if the value of sustainability will outweigh the costs or, at least, the profit expectations, which is a crucial aspect for any enterprise. Our thesis is that, for a medium-term period, additional costs will outperform additional revenues thus it may still be possible to witness a contrast between accommodation

enterprises that strive for sustainability and those that consider it merely a formal requirement. However, there will come a time when there is no room for those who have not built sustainable models. Accommodation businesses will soon no longer have the choice of whether or not to be sustainable; they will have to be.

## 2. The value

### *Competitive advantage*

Due to the severe competition among hotels, developing a personalized image has become critical in the positioning schemes. There is a strong relationship between green practices adopted by hotels and the green image of hotels. Hameed et al. (2022) find that the green image of a hotel (built on environment-friendly operations) positively impacts consumer green satisfaction and green trust, and these two variables have significant influence over the green word-of-mouth and hotels' physical image, as it emerges from digital platforms (Galati et al., 2021). 4 and 5-star (luxury) hotels are considered the most sensitive market segment. Many studies report a positive influence of green image on guest's overall online evaluation, guest's revisit-intentions and their intention to pay a premium price, stronger among Gen Z customers (Thomas, 2022).

Bianco et al. (2023), considering data from 251 certified hotels located in Florida, United States showed that certified hotels can increase their average daily rate and revenue per available room (RevPAR) - compared to competitors - through a first-mover advantage. If a competitor is certified, the best response is to become certified as well but the response effect performance as second movers are better than late movers. They also showed that certifications can create competitive advantage, mostly for small-size luxury and upper-upscale hotels. Large hotels with 300–500 rooms had the lowest gains from certification.

### *Price premium*

Price is a pivotal variable of hotel's ability to increase its economic performance (Guizzardi et al., 2019). However, although thousands of non-market valuation studies have been published and a plethora of studies have been conducted on consumers' willingness to pay a premium for staying at green hotels or for supporting green initiatives in the hotel sector, only a limited number of studies have estimated the monetary value of the premium. A recent systematic literature review (Damigos, 2023) – partially – fills this gap exploring the premium that consumers would be willing to pay to stay at a green hotel as results from 22 articles from 13 countries (published in the range 2007-2022). The article reveals that the percentage of customers willing to pay more for a stay at a green hotel varies between 5.4% and 91.6%, depending on the country being investigated and the valuation scenario. The average value is 53.2% (sd = 26.5%). Those who are unwilling to pay more typically argue that the financial benefits derived from energy and resource savings are sufficient, and therefore, no additional support from customers is necessary. Consequently, they believe that there should be no price difference between green and traditional hotels, or they expect a discount to incentivize their engagement in environmental practices.

According to Damigos (2023), consumer preferences, both revealed and stated, indicate an acceptable premium ranging from 4% to 6%. However, this varies depending on the specific sustainability action. Energy efficiency interventions, water consumption reduction, water reuse, waste recycling, and effective management policies have a premium range of 4.5% to 5.2%. The impact of renewable energy supply is more variable, ranging from 1% to 5%. Several factors positively influence the premium that consumers are willing to pay. These include star rating and age, with both customers staying in more luxurious hotels and younger customers showing a greater willingness to pay for green hotels or initiatives (although few studies did not find statistical significance). Income level is also a contributing factor. Nationality and environmental awareness do not show clear evidence of their influence, with some studies finding significance while others do not. However, there is a general consensus that educational level, number of children, and marital status have no influence on the willingness to pay a premium.

### ***Market value and finance***

Being sustainable means being transparent, and transparency is an essential value for investors. It is not a minor aspect of sustainability, yet it is often overlooked. This is why ESG issues have gained significant importance, even within the European Community, and they are considered on par with financial reporting in terms of significance and decision-making influence, especially in large companies. It is not surprising that a recent study, involving a sample of major publicly traded hotels in the United States, discovered a positive correlation between sustainability certifications and the market value of hotels (Bernard and Nicolau, 2022).

### **3. The costs (sustainability is difficult to sustain)**

Sustainability also entails costs that the tourism sector will not easily absorb. It involves integrating new elements into existing business models, requiring investments in production, governance, and social commitment that often bring about revolutionary changes to the corporate context. The transition towards sustainability in the production process necessitates actions like eliminating plastic usage or sourcing from local suppliers, which radically change the way both core services (like rooms) and ancillary services (like breakfast or spa) are delivered. Significant investments in innovation, research (for materials and processes), and training (for personnel) are required, leading to inevitable cost increases as we discuss in the following.

#### ***Production and management costs***

Studies conducted by various eco-labeling agencies claim that green certifications can lead to cost savings in energy, water, maintenance, and waste management, suggesting a reduction in production costs (Chi et al., 2022). However, an aspect that is often overlooked (even in the scientific literature), is that the investments required to achieve these cost-reductions can be substantial, posing a challenge in terms of financial sustainability, especially when interest rates are high. While implementing energy efficient measures, such as a low consumption boiler may help to save costs (depending on exogenous conditions, e.g. fuel prices), it will surely either increase the volume of passive interest or decrease the volume of active interest. Furthermore, when a hotel adopts energy-saving systems, soap dispensers, low lighting, and portion control at breakfast to reduce food waste, it faces a significant increase in costs associated with sourcing suppliers, implementing the breakfast setup, and acquiring the necessary raw materials.

The challenge presented by these costs is to maintain profitability at a steady level. Certified hotels are likely to raise their prices, considering that customers are willing to pay more for hotels that embrace sustainable initiatives (Casado-Díaz et al., 2020). However, Robinson et al. (2016) have reported insignificant effects on occupancy, as the broader market segment satisfied by sustainability certificates can be offset by reduced demand from price-sensitive customers reducing RevPAR. Nevertheless, Bianco et al. (2023) found that being the first mover in attaining a certification within a competitive set can lead to higher occupancy rates and positive RevPAR.

The main issue lies in the disparity between products and services. Eco-labeled products already enjoy growing support from customers. We are aware that organic products, which are implicitly sustainable, come at a higher cost, yet this has not hindered the positive trend in the market, with an increasing display of these products on department store shelves. However, when it comes to hotels, the higher price is not perceived in the same way as the price difference between an electric car and a diesel car. That is, it is easier to translate into a customer benefit the higher price of a sustainable product than a sustainable service. Finally, we highlight that the impact of additional governance, compliance and transparency costs (e.g., the obligation to draw up sustainability reports) are uncovered by the literature.

#### ***Labor cost***

The transition toward productive work opportunities with fair income, secure workplaces, personal development prospects, freedom of expression and association, and equal treatment for both genders represents an important cost, especially in the tourism sector, known for its significant share of informal labor-intensive work, facing challenges that hinder the achievement

of decent work, such as extended working hours, low wages, limited social protection, and a persistent gender pay (Santos, 2023).

In terms of aiming to construct a sustainability-oriented workforce, hotels have two options: (1) sustainable recruitment, or (2) upgrading the sustainable human capital providing critical related awareness, learning, training, and development to the existing employees. Focusing on sustainable recruitment is more cost-effective than providing sustainable knowledge and training to the existing employees (Salama et al., 2022) but not always possible. Sustainability requires rotations in positions (including top positions), gender and wage equality and/or smart-working and flexibility in workforce utilization that do not always fit easily into business' development plans. Many studies suggest that sustainable HRM (human resources management) adopts similar pillars to those of the mainstream HRM to define its practices: job design practices, recruitment and selection, training and development, performance appraisal and management, compensation and rewards (Anlesinya and Susomrith, 2020).

Sustainable job design involves determining the responsibilities and qualifications of a position to meet both the environmental goals of the hotel organization and the desires of responsible employees. It considers the technology used to achieve sustainable environmental performance.

Sustainable recruitment integrates environmental dimensions into employment policies and strategies. It should provide information about job requirements, nature, and type to select suitable individuals with relevant experience, skills, and behaviors. However, hiring staff with capabilities, skills, orientations, and green preparations is not easy. Job interviews should assess the potential fit of candidates with the organization's sustainable programs considering candidates' social orientation as a primary criterion for job vacancies (Luu, 2021).

Sustainable training and development practices need understanding market, governmental, and societal requirements. They focus on green innovations, new technologies, efficient products, and changes in business models (Tang et al., 2018). These practices include workplace workshops, job rotations, socially responsible management models, staff welfare training, health and safety measures, work regulations, equality, and employee rights. Proper training is crucial for hotels to convey their sustainable image and to foster socially accountable and concerned workforce.

Assessing staff performance involves promoting environmental learning and aligning performance criteria with sustainable standards (Mathews, 2018). Incorporating sustainability into performance appraisal ensures a positive image. Hotel managers should establish sustainable targets and procedures, assess incidents, practice social responsibility, and communicate sustainability strategy in daily operations (Zaki et al., 2018).

Sustainable reward management motivates employees and contributes to corporate sustainability. Salary bonus, extra incentives, tipping can reward sustainability criteria achievements. Some organizations use non-financial rewards (e.g., recognition, motivation, social incentives, and honors), instead of financial compensation leveraging on organization-wide labeling that raises employees' awareness of sustainability achievements.

Motivation and incentives are crucial HRM practices that link employee and organizational interests, supporting environmental management and innovation. Career advancement is a prime motivator for new hotel employees, and career management is increasingly recognized by Goh and Okumus (2020). Trusting employees and highlighting corporate growth plans increase understanding and commitment. Sustainable promotion involves the not easy task to help employees plan their careers based on their capabilities and organizational needs.

#### **Social commitment (“costs”)**

Considering sustainability as a social commitment goes beyond mere presence in the community and reducing the undesirable use of social resources. It involves assessing firms' implementation of social goals, such as working conditions, health and safety, employee relationships, diversity, human rights, community engagement, with the aim of maximizing

enduring socio-economic and environmental development for social well-being.

Social commitment in the accommodation industry is often associated to social inclusion, highlighting that employing people with disabilities represents an opportunity to attract and retain socially responsible customers and customers with disabilities, as it acknowledges and reflects the diversity of the consumer market, leading to improved customer relations and higher consumer loyalty (Miethlich and Oldenburg, 2019). These authors claim that further research is needed regarding managers' attitudes in the hospitality and tourism industry. Madera et al. (2022) show that concerns (i.e., costs) arise when employing individuals with mental or physical disabilities in roles where face-to-face communication with employees is required, core tasks must be completed, and the success of the business is heavily reliant on service excellence (e.g., in high-priced luxury segments). Employing people with disabilities does not have a negative impact on guest experiences (Gröschl, 2013) but to the best of our knowledge, there are no studies quantifying the associated cost (if any). Moreover, no literature exists regarding the consequences of employing individuals with challenging backgrounds (e.g., former prisoners or former drug addicts) in terms of guest complaints or any additional costs/investments required for guest safety.

Furthermore, social inclusion also entails the development of products that are accessible to individuals with various forms of disabilities, including those related to physical conditions, age, or religious and ethical choices. The employment of people with disabilities can have a positive impact on a company's success in creating products and services tailored to the needs of individuals with disabilities (Lindsay et al., 2018). Guests with disabilities specifically choose businesses that offer a barrier-free environment and accommodating facilities, where their disabilities are not highlighted by the employees. Additionally, the barrier-free environment is also appreciated by families with young children or older adults (Gröschl, 2013).

Philanthropy is another "cost" associated with social commitment, especially for businesses that are not profitable. While the credit system is geared towards evaluating whether to grant financing for the purchase of machinery that (allegedly) increases productivity, it is not yet ready to finance a project aimed at recovering plastic from the sea to improve the destination's image. Even more serious are the consequences if the "philanthropic" company becomes subject to insolvency proceedings because, in such cases, donations can be considered distractions.

#### **4. Conclusion: sustainability will become an essential requirement at any price**

In this paper, we combine the experience of a medium-sized Benefit hotel chain with the existing (though limited) literature on the impact of sustainability certificates on hotel firms' financial performance and competitive positioning. We demonstrate that sustainability entails cost and prices increase in the short term, but only a short-sighted perspective would view it as a problem as sustainability will become an essential requirement, and consumers will shape their expectations based on perceived value rather than price. In fact, in the medium term, the benefits of employing a socially responsible workforce will materialize in the form of a higher attractiveness for new talent. Moreover, social commitment will be seen as an investment that offer positive returns in terms of the chain's image, customer loyalty, and the ability to influence customer behavior, encouraging additional cost-savings via more responsible resource utilization.

That is why accommodation businesses will soon have no choice but to embrace sustainability; it will become a necessity, not an option.

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