



Environmental, Social & Governance Reporting in Travel & Tourism:

Trends, Outlook and Guidance



Introduction

As with all businesses, Travel & Tourism companies are increasingly affected by environmental and social issues that can influence global demand and industry-wide profitability. Publicly reporting on issues relating to sustainability, corporate responsibility, or environmental, social and governance (ESG) is a method by which companies demonstrate a commitment to transparency, and management approaches to proactively address externalities are articulated and advanced.

The World Travel & Tourism Council (WTTTC) has been making the case for the economic and employment contribution of Travel & Tourism to economies of the world for 25 years and our efforts have worked to raise the status of our sector and benchmark its contribution against others. ESG reporting carries this assessment further so that Travel & Tourism can be appropriately evaluated as a sector in terms of its contributions both to the economy and its impacts on environmental and social issues. As the sector continues to grow rapidly, recent forecasts suggest by 4% per year over the next decade, and with 1.8 billion international visitor arrivals expected by 2030, we need to ensure that this growth is sustainable and inclusive. ESG reporting is an important tool in monitoring and communicating how we achieve this.

The benefits of viewing ESG reporting as a strategic initiative are numerous. A fundamental concept of ESG reporting reflects the triple bottom line accounting framework. Many topics and indicators covered within ESG relate to economic impacts. As such, ESG reporting has also increased disclosure regarding the economic impacts of Travel & Tourism. Particularly, it creates the environment in which a company can demonstrate it is proactively addressing its impacts, that it cares that these issues are important to its major stakeholder groups, and that it has strong management and governance systems in place to act on issues.

At the request of our Members, WTTTC has produced a report outlining the key issues for ESG reporting in Travel & Tourism and prepared guidance for companies wishing to engage in ESG reporting activities. The full report on ESG reporting for Travel & Tourism can be accessed at www.wttc.org. This synthesis report provides a summary. It is intended to outline the core background, trends, facts and issues of ESG reporting in Travel & Tourism but in a much shorter form. Inevitably, discussion has been compressed and details have been omitted. Readers wishing to engage more deeply with the subject are therefore encouraged to read the full report.



What does ESG mean?

The term ESG, which stands for 'Environmental, Social and Governance', reflects the view that managing environmental and social topics is a governance issue for organisations. It is prevalent amongst the investment community and many view it as a proxy for the quality of management teams and a process to assess whether a company is positioned for long term success.

Every organisation, whether they know it or not, has an ESG strategy – for example, actions undertaken to meet compliance requirements, such as those related to employment practices, or engaging with guests, suppliers and communities, or identifying process efficiency measures that have corollary environmental benefits.

Who is who in ESG reporting?

ESG reporting has a myriad of players. These include:

Commitment formers:

who raise awareness of and engagement with the principles of ESG. Organisations such as the **UN Principles for Responsible Investment (UNPRI)** with over 1300 global signatories representing US\$45 trillion in assets in management; the **Equator Principles**, officially adopted by 80 financial institutions in 2014 including Bank of America, Citigroup, HSBC and JP Morgan; and the **UN Global Compact (UNGC)** wherein companies, including several in Travel & Tourism, commit to align their operations and strategies with ten principles in the areas of human rights, labour, environment and anti-corruption.

Reporting frameworks:

which provide the structure and mechanisms for companies to report. Frameworks include the **Global Reporting Initiative (GRI)**, often referred to as the de facto guideline for ESG reporting and in 2013 78% of ESG reporters referenced GRI in their disclosures; **CDP**, formerly known as the Carbon Disclosure Project is an independent body that develops and distributes annual information requests on behalf of 822 investors representing \$95 trillion in capital. Others include the **Climate Disclosure Standards Board**, the **International Integrated Reporting Council (IIRC)** and in the United States, the **Sustainability Accounting Standards Board (SASB)**.

Rankings, ratings and indices:

which collate ESG data and rank companies on their performance. These include broad-based holistic ESG rankings such as the **Dow Jones Sustainability Indices, FTSE 4 Good, Global 100 Most Sustainable Companies**; targeted environmental rankings such as the **Newsweek Green Rankings** and **CDP Leadership Index**; and social responsibility rankings such as **Ethisphere's World's Most Ethical Companies**. The **Global Initiative for Sustainability Rankings** helps companies navigate this complex area.

Who are the audiences for Travel & Tourism industry ESG information?

ESG information is sought out by a number of different stakeholder groups including:

Corporate Customers
Investors
Employees
ESG Raters and Analysts
Guests

Communities
Advocacy Groups and Media
Regulators and Government Agencies
Suppliers and Business Partners
Industry Peers and Influencers

ESG Reporting in Travel & Tourism

Transparent, public reporting on material environmental, social and governance (ESG) risks, opportunities and performance is now both a common practice within, and even an expectation of, all companies across sectors, including those within Travel & Tourism. More regulated and more data-driven reporting will become ubiquitous, providing deeper analysis of management approach and content, and a convergence with business strategy.

According to research undertaken by KPMG, ESG reporting is a global trend with 76%, 73% and 71% reporting rates for companies in the Americas, Europe, and Asia Pacific respectively. Of the 250 largest global companies, 93% reported on ESG performance in 2013. In growing markets, the number of companies reporting continues to increase significantly with a 16% increase in China and 53% increase in India from 2011–2013.

Reporting within Travel & Tourism has seen considerable uptake in recent years and is gaining momentum. In 2014 55% of WTTC's membership published an ESG report, up from 25% in 2013.

Reporting as a trend is growing in prevalence throughout the sector and is by no means limited to large publicly traded companies, with instances of reporting found all across the value chain including:

- Owners of tourism-related real estate.
- Nearly all forms of transportation entities, including airlines, rail companies, bus companies, and rental car companies. Rail and transit transportation entities are also reporting; for example, the Hong Kong MTR is a longstanding reporter, as are Korea Rail Network Authority and Renfe in Spain.
- Beyond GDS, other technology and distribution entities are reporting, though infrequently among OTAs.
- A growing number of airports have begun reporting, including Dallas–Fort Worth International Airport, Orlando International Airport, Incheon Airport, and Athens International Airport.
- Some convention centres have reported, such as the Amsterdam RAI in the Netherlands and Cape Town Convention Centre in South Africa. Comprehensive reporting is commonly found among large corporate, trade show, and conference event organisers. These have established sustainability programs, such as those of the US Green Building Council's Greenbuild Conference, the International AIDS Conference, the American Chemical Society's National Meetings & Exhibitions, Oracle's OpenWorld, as well as the several conferences of the United Nations.
- Tourism organisations such as CVBs, DMOs, and NTOs have begun reporting, with examples being the Abu Dhabi Tourism & Culture Authority, Visit Sweden and Korea Tourism Board publishing GRI reports.
- Within a destination, many service providers, in addition to ground transport, are part of larger companies that report, including restaurant chains. Major attractions have reported, such as Walt Disney, Sydney Olympic Park Authority and Zoológico de Barranquilla in Colombia.

ESG reports in Travel & Tourism tend to focus on the following elements:

Stakeholders and stakeholder engagement: A fundamental premise of sustainability reporting is that information reported is relevant to the organisation's stakeholders. For Travel & Tourism, there is a wide array of stakeholder groups that are identified in the reports ranging from employees, businesses through the supply chain, customers, shareholders and investors, government, communities and regulators.

Risk disclosure: Assessment and disclosure of risks relating to environmental and social issues are increasingly gaining importance. The Carbon Disclosure Project (CDP) surveys provide arguably the most thorough instance of risk disclosure in voluntary ESG reporting.

Goals and targets: A common component of reporting is the use of goals and targets. These may be quantitative or qualitative, with varying uses. Carbon targets thus are the most established and frequently occurring, though additional reduction targets for energy, water, and waste are also found.

Outlook for ESG Reporting in the Travel & Tourism Sector

Reporting Trends

ESG reporting is constantly evolving and shifting, with new trends and market makers developing continuously. Five current, key trends have been identified to help organisations prepare for reporting's future. Overall, ESG reporting will become more regulated, and as such the information will become evermore subject to auditing and verification, leading to the need for more sector-specific standards and granularity of detail. An increased focus on a company's approach to ESG issues in its supply chain will further increase reporting concepts throughout business large and small. And finally, the proliferation and eventual ubiquity of reporting will push the focus away from the frameworks themselves, and back onto the specific topics and indicators.

Trend 1: Reporting initiatives are increasing at national or regional levels

Historically, reporting has largely been a voluntary exercise, driven by markets rather than regulation. We are seeing a gradual shift toward the reporting of ESG information being defined, requested, and even mandated through governments and market regulators (stock exchanges). As of 2014, 19 members of the G20 had at least one regulation in place requiring that companies disclose at least some social and/or environmental metrics.

However, given that mandates for reporting ultimately will differ by country, the selection and level of alignment, integration, or application of current frameworks and guidelines within reporting mandates may take various forms depending on the country. The final format and framework used for disclosure requirements should not be the immediate concern of Travel & Tourism companies. These companies can take preliminary steps to prepare for ESG reporting that will ultimately be necessary regardless of the format or medium for ESG reporting.

WTTC's country reporting tracker monitors developments in national and regional reporting requirements and can be accessed at www.wttc.org.

Trend 2: Emphasis on materiality leading to reporting frameworks, guidelines, and standards is becoming more specific

As the practice of ESG reporting matures, reporting frameworks, guidelines, and standards are requiring industries to develop the most specific material topics. The concept of materiality is growing in prevalence across leading ESG reporting frameworks, including the GRI, SASB, and CDP. For example, the GRI sets forth a recommended process wherein organisations assess which topics are most material as part of the ESG report development process. For Travel & Tourism, the most and least commonly reported material topics are set out below.

Trend 3: Increased attention on assurance and verification of ESG information

Verification is a growing trend, particularly among larger organisations, with 59% of Global 250 companies having at least some of their ESG data assured in 2013, a 13% increase from 2011 levels. The leading component of this trend is having ESG data, particularly carbon emissions data, assured – in a similar manner to the auditing process for publicly reported financial data. As part of the verification process, an accredited third party reviews both how the data was collected and what calculations were used. As an outcome of the verification process, the third party provides a “level of assurance” – such as limited, moderate, reasonable, or high – based on the standard used to verify the data.

Trend 4: Increased focus on supply chain

The supply chain has always been part of a company's ESG reporting and strategies; however in recent years, a greater emphasis on supply chain responsibility has emerged, principally because an organisation's supply chain is perceived as an area of greatest impacts, risks and opportunities across sectors. This includes Travel & Tourism, where supply chain has been cited as accounting for up to 76% of impacts.

Trend 5: Harmonisation of information puts increased focus on specific concepts and issues rather than frameworks

Though reporting will increase, it is highly unlikely that one specific sustainability standard will satisfy the reporting needs of all Travel & Tourism businesses of various sizes globally (especially since inherent competition will exist among framework bodies and standards for their adoption). Instead, the application of key reporting concepts and inclusion of common issues themselves will become harmonised. All businesses could follow some type of reporting process and disclose content on a set of common issues. Furthermore, the variations found across emerging ESG reporting guidelines from different countries and market regulators will inhibit the global adoption of a singular, all-encompassing framework as is currently held de facto by the GRI.

Given these trends, the fundamental recommendation for companies to address ESG reporting is to first focus on the premises and concepts of reporting, including the data collection systems and internal content development/maintenance processes per the key ESG issues that affect their business.



Material Topics in Travel & Tourism

At the time of this publication's release, the attempt to commonly define the key issues and topics with related specifications on how to disclose risks, management approach, and indicators of performance or scale is one of the biggest issues within ESG reporting. This trend holds true for Travel & Tourism as well.

Significant work is underway to define the key topics and performance indicators for industries across Travel & Tourism. In addition to the topics, a commonly defined system of naming and categorising them is also needed. While materiality assessments to determine key topics are currently not very common within Travel & Tourism GRI reports, (fewer than 15% of the companies studied in this research had a materiality matrix), it is still useful to look at the most and least commonly reported indicators in Travel & Tourism GRI reports.

Most commonly reported:

- **Across the sector:** energy use & conservation, GHG emissions, GHG emissions reduction efforts, environmental impact mitigation efforts, workforce data, approaches to child labour, climate change risks
- **Tour Operators:** amount of materials used, training data, habitat protection/restoration, customer satisfaction, diversity
- **Hotel:** community assessment, skills development & performance reviews, diversity, programs to avoid serious diseases
- **Cruise Lines:** anti-corruption training, public policy positions, LCA assessments of products/services impacts, habitat protection/restoration, employee performance reviews, collective bargaining %, customer data breach complaints, waste generation
- **Airlines:** approaches to compulsory labour, coverage of benefits, diversity, waste generation, turnover, collective bargaining

Least commonly reported:

- **Across the sector:** Biodiversity value of water bodies and habitats affected by run-off and discharge, weight of transported hazardous waste, wage ratios vs. local minimum wage, sources affected by water withdrawal, water recycling

To date however, regardless of the final terminology, categorisation, prioritisation, or performance measurement methods, it is apparent that a handful of broad issues have emerged as important across all of Travel & Tourism in ESG reporting. These include:

- Climate Change
- Community
- Energy
- Governance, Risk, And Compliance (GRC)
- Supply Chain
- Waste
- Water
- Workforce

The guidance provided as a result of this research includes comprehensive issue briefs on each of these topics. Each brief examines the associated business risks, commonly reported metrics and their relation to the available reporting frameworks. They can be accessed at www.wttc.org.

Industry outlook, implications and opportunities

While the majority of Travel & Tourism businesses will need to begin to address ESG reporting at a preliminary stage, those companies with more mature reporting systems will have opportunities to further collaborate on common topics, metrics, and resources to help spur on the rest of the sector. In doing so, Travel & Tourism can be appropriately evaluated as a sector in terms of its contributions both to the economy as well as by its impacts on environmental and social issues.

Steps to ESG reporting for Travel & Tourism businesses

When an organisation begins down the path of ESG reporting, the process may at first seem overwhelming. However, a few key points should be considered.

First, larger companies with more historical reporting records tend to have higher stakeholder pressure to address and be accountable for the environmental and social impacts caused by their business models. The smaller scale of companies within Travel & Tourism has meant that relatively nascent reporting state of the sector is in part due to less historical pressure to report. At the same time, the levels of robust reporting required by large listed companies may not be expected by the stakeholders of all Travel & Tourism businesses.

Second, at present a multitude of resources exists to help organisations report. Developed frameworks include guidance and reference documentation and peer reports are available to benchmark their content, design, metrics, and disclosures. Research on various facets of reporting exists to help companies understand concepts and collaborative peer efforts to address reporting have taken hold in several places.

Finally, stakeholders request reporting as much for the process (a recognised step towards best practice) as for the information it contains. It is equally understood that reporting is a long-term process and that first-time reporters are not held to the same level of scrutiny in report quality as established reporters.

12 steps to begin reporting

The chart below describes 12 specific steps that organisations can take to approach reporting. Again, full details are available on the WTTC website www.wttc.org.



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