

## Submission to: Sustainable Hotels: Exploring the Opportunities for Value Creation

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Dr. Ruth Mattimoe completed a Ph.d entitled "*An Institutional Study of Room Rate Pricing in the Irish Hotel Industry*" with Prof. Bob Scapens, Emeritus Professor of Management Accounting at the Manchester School of Accounting and Finance (now Manchester Business School). Since then, her sole research has earned a Fáilte Ireland (Irish Tourist Board) Applied Industry Fellowship for research into the financial management aspects of small and micro Irish tourism businesses and her joint research on UK hotels and restaurants (with Prof. Will Seal of The Business School, Loughborough University) a Chartered Institute of Management Accountants (CIMA) grant. At two Irish Academy of Management conferences, her papers were awarded the Fáilte Ireland prize for the best paper in the Tourism Track. Real life issues in hotels and other tourism entities and professional service firms provide a sustaining platform for her research.

## Abstract

Effective delivery of the finance function and sustainable business in hotels in the British Isles

This chapter reviews the professional accountancy literature to gain an overview of extant definitions of sustainability and value, starting with the Brundtland report and the Triple bottom line (TBL) report on “people, planet and profit”. Sustainability or social accounting is traced up to the most recent Integrated Reporting (IR) initiative. The Accountability framework called Enterprise Governance **devised** by the International Federation of Accountants (IFAC) is discussed. The two dimensions of conformance or governance and performance are explained and the value creation imperative is shown to rest within the performance dimension.

Using recent literature, the debate moves on to show that value is created through the business model of the organisation and the six capital sources and is retained through knowing when to change the model to avoid erosion of value in the face of a fast-changing world. Using academic and professional literature, the key role of the finance function in sourcing, delivering and retaining value is discussed. To unlock, measure and maximise the value from sustainable business models is a challenge. Some Irish case evidence of sustainable business models and environmental practices is presented. The chapter concludes noting that sustainability is about smart business as well as about social conscience. The importance of people, in particular the finance professional, in creating value is noted.

**Keywords:** *Sustainability, Enterprise Governance, Value Creation, Finance function*

### *Sustainability: looking beyond the check-box and 'eco-bling'*

In this section, the origin of and the importance of sustainability in the context of a world population that will grow from seven billion people in 2012 to nine billion in 2050 is explained (IFAC, 2014). The creation of value and moreover, the need for sustainability issues to be embedded in the core business strategy of the business and for a culture of integrated thinking, is outlined, so avoiding the "check-box" approach to this issue.

The term sustainable development rose to significance after it was used by the Brundtland Commission in its 1987 report *Our Common Future*. In the report, the Commission coined what has become the most often-quoted definition of sustainable development: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"(1987:41)

Sustainable development is the organisation's response to the social, ethical and environmental agenda and what it does, as a business, to embed that within their organisation (St Paul's Institute and CIMA, 2014). In simple terms, sustainability is the ability to make something last for a long time or indefinitely and the term was popularised by Elkington (1987) to describe a way of doing business that does not erode the firm's relationship with the environment or with society (Killian, 2012). A sustainable global economy should therefore combine long term profitability with ethical behaviour, social justice, and environmental care (Elkington, 1987). From an environmental and social perspective, sustainability issues are transforming the competitive landscape, forcing organizations to change the way they think about products, technologies, processes, and business models. From a financial perspective, the primacy of shareholders as owners has given way to a more enlightened view of maximizing wealth creation that incorporates *wider stakeholder perspectives* and issues into decision making.

According to stakeholder theory (Freeman, 1998), the business entity should be used as a vehicle for co-ordinating stakeholder interests, instead of maximizing shareholder (owner) profit. Business and society are inter-dependent. This means that reporting to stakeholders other than shareholders is necessary. Due to increasing globalisation and scarce resources, the concept of a company having a responsibility beyond the purely legal or profit-related has gained new impetus. The company's actions and activities have an effect on the environment, consumers, employees and other stakeholders. Defined by the European Commission

(2001) as the integration by companies of social and environmental concerns in their business operations and in the interaction with their stakeholders on a voluntary basis, Corporate Social Responsibility (CSR) is about managing companies in a socially responsible manner. It marked an evolution from the concept of sustainable development. Since 2000, the CSR concept has pushed further and further up the corporate agenda as business strives to act responsibly towards people, planet and profit (the so-called '3Ps')..Companies must strive to be profitable, but also minimise negative environmental impacts and act in conformity with societal expectations. The definition of CSR "is not static" (Killian, 2012, p. 9) and the evolution in the story of CSR is discussed in a later section.

Social accounting (also called sustainability accounting, social and environmental accounting, corporate social reporting and non-financial reporting) is the reporting aspect of CSR and originated in the early 1980s (Tilt, 2007). Considered to be a sub-category of financial accounting, it discloses non-financial information about the social and environmental effects of a company's economic actions to particular interest groups within society and to society at large. In practice . . . "many firms, in reporting their CSR activities, include them in a sustainability report" (Killian, 2012: 7). She also notes from a review of CSR reports, that branding using CSR activities contributes to the overall trust of the public in the brand. She gives the example of *The Body Shop* who built a brand based on marketing their natural products and their ethical production with no testing on animals etc (2012:8) .

Given the expected increase in world population noted above, it is apparent that this growth will increase demand for scarce natural resources that cannot be met, if production and consumption remain as they are today(IFAC, 2014). Therefore, there are major challenges ahead and sustainability is a significant issue, not just in terms of the tangible benefits of initiatives in the area, but it leads to improved brand reputation, creating a competitive advantage (CGMA, 2012a: 4).

Value is said to be created when a business earns revenue (a return on capital) that exceed its expenses (the cost of capital) ACCA (2011:12). Increasingly, the "value" of an organisation is related to intangible non-financial factors. However, this chapter will argue that to create value, companies must create a culture and instill a mindset of *integrated thinking* rather than just checkbox compliance (such as the inclusion for example of a separate sustainability report in the Annual Report). For a company to do more than "box ticking", its Annual Report must provide a

coherent account of the business model, explaining how value is created and must show how sustainability is not a stand-alone strategy, but is increasingly integrated into the core business strategy.

As Douglas Johnston, Partner (Climate Change and Sustainability Services, Ernst and Young) is quoted as saying:

“ a move [is needed] from what’s typically been termed ‘CSR’- which is largely about box-ticking, risk management and a little bit of ‘eco-bling’ on the side – to something that is a lot more embedded within the business”

(St. Paul’s Institute and CIMA, 2014:5)

Given the focus on social accounting, value creation and the business model, which fall into the domain of the accountant, the role of the finance function must now be explored. A link is made between value creation, the business model, the finance function and the entire accountability framework of the organisation.

#### *The Finance Function, Enterprise Governance and Value Creation*

IFAC (2013) categorizes professional accountants as creators, enablers, preservers, and reporters of sustainable value for their organizations. ACCA (2011:6-7) also concurs with these ideas, mentioning value being sourced in professional accountants’ talents, delivering value through their financial analysis and risk management skills and value being sustained through their ethical behaviours and professionalism.

Insert Figure 1 here

There is also a specific mention in the ACCA (2011:7) report of a heightened role for professional accountants “in sustainability and CSR issues”. A final concluding comment on the importance of the accountant in helping the value creation effort is noted by ACCA (2011:48):

The next decade presents an enormous opportunity for the finance profession. In all sectors, in all economies around the world, professional accountants will be using their skills and talents across organisations to help create and sustain long-term value.

The context of value creation resides within an over-arching accountability framework conceived by the Chartered Institute of Management Accountants (CIMA)-called Enterprise Governance. Enterprise Governance is defined by CIMA (2004:12) as a “framework covering both the corporate governance and the business governance aspects of an organisation. Therefore, it covers the internal workings of the

organisation (business governance or performance) as well as the outward-facing aspects (corporate governance or conformance).

Insert Figure 2 here

The diagram above, Figure 2, illustrates the fact that Enterprise Governance covers the entire accountability framework of the organisation. The conformance dimension takes an historic view of the firm, whereas the performance dimension is forward-looking. Companies must balance conformance with performance. The finance function can be involved in both dimensions. The lines in the diagram show that, although conformance feeds directly to accountability and performance to value creation, conformance can also feed to value creation while performance can feed to assurance.

The separation of ownership (the shareholders or principals) and control (by the directors as agents of the shareholders) in listed companies creates the agency problem. An agency, in general terms, is the relationship between two parties, where one is a principal and the other is an agent to whom work is delegated and who engages in corporate transactions with third parties. The goals of the principal and agent may be in conflict and the two may have different attitudes to risk (Eisenhardt, 1989).

The dominance of the shareholder in agency theory "has engendered shareholder-centric definitions of corporate governance" (Brennan and Solomon, 2008:886). Conformance is also called "corporate governance" and covers issues such as board structures, roles and executive remuneration. A statement in the Annual Report of a public company stating its compliance with the latest Stock Exchange Combined Code of Corporate Governance<sup>1</sup> together with the external audit process and the presence of an in-house audit committee, ensure this dimension is addressed. Therefore, the conformance dimension has the focus on the shareholder, but this covers only part of the accountability issue.

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<sup>1</sup> The UK Corporate Governance Code has been instrumental in spreading best boardroom practice throughout the listed sector since it was first issued in 1992. It operates on the principle of 'comply or explain'. It sets out good practice covering issues such as board composition and effectiveness, the role of board committees, risk management, remuneration and relations with shareholders. Listed companies are required under the Listing Rules either to comply with the provisions of the Code or explain to investors in their next annual report why they have not done so. If shareholders are not satisfied they can use their powers, including the power to appoint and remove directors, to hold the company to account. ( <https://www.frc.org.uk/corporate/ukcgcode.cfm>)

By contrast, the performance (or management of performance) dimension focusses on strategy and value creation- helping the board to make strategic decisions, understand risk and identify key drivers of performance. Value creation is shown in Figure 2 to be clearly part of the performance dimension of the Enterprise Governance framework. The definition of “business model” and its relationship to value creation was developed by the Chartered Global Management Accountancy profession (CGMA, formerly CIMA) as “the chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long-term” (CGMA 2013: 4).

#### *Value Creation and the Business Model*

Nine years after 2004 and the CIMA Enterprise Governance model and the idea of the performance dimension, CGMA (2013:4) makes a new specific connection between value creation and the *business model*, noting two key themes:

. . . firstly, that business models focus upon the way in which organisations seek to create and define sustainable value, both financial and non-financial. Secondly, a business model provides a statement of the basic logic of the business: “how we do it”.

However, to continue with an unchanging business model is insufficient as one of the most influential management thinkers, Charles Handy (1994: 49) observed that:

. . . the world keeps changing. It is one of the paradoxes of success that the things and ways which got you where you are, are seldom the things to keep you there.

Identifying when it is time to re-evaluate or change a business model is critical in building long term sustainability (in the performance dimension) and is now discussed.

Understanding what makes your business model sustainable matters even more in today’s environment, where due to new technologies, greater and faster connectivity such as cloud technology, global economic integration, changes in customer attitudes, shifting supply chains, moves by competitors etc., the models themselves must change to deliver continued success: “the *responsiveness to change* is a key element of an effective and sustainable business model” (CGMA, 2013: 3 [italics added]). Basically, innovation in business models, be they new pricing models, a shift to selling products as services etc, will be a more subtle

way of differentiating a company from its competitors than purely on a functional basis of “product is king” (CGMA, 2013: 19).

Some help as to whether it is time to change a company’s business model is offered by the management consultancy firm, Deloitte, who offer a series of questions and advise that too many “no” answers may signal it is time to change the model (see CGMA 2013: 20-21). In the same report, accountants can take the lead by considering a series of questions concerning changes to the business model; for example “are the outcomes of the current business model being measured appropriately?” and “how do the financial risks of pursuing the new model compare to the risks of following the status quo?” (CGMA 2013: 23). The role of the finance function in prompting change in the business model is thus assured. A further specification of

#### *The Six Capitals and the Value Creation Process*

Basically, business models create value through the dynamic conversion of resources and capabilities (or inputs) into outputs through business activities. As part of the strategic planning process, the business model is informed by the strategy, vision and mission statements of the firm (CGMA 2013: 3).

The work of the IIRC on the IR Framework uses the concepts of “capitals” to illustrate the resources and capabilities used by a firm to create value. The availability and appeal of these capitals may change over time, as market conditions buffet the business model and require it to be overhauled. There are six such capitals as noted (CGMA 2013:4-5) and the relative importance of each capital to the value creation process will vary by business. The six Integrated Reporting capitals are: financial, manufactured, human, intellectual, natural and social and relationship.

Insert Figure 3 here

Organisations, such as hotels, need to understand how the capitals interact with each other to create or potentially destroy value, as noted in Figure 3 above. The diagram shows that outputs are different from outcomes. Outputs are key products or services produced by businesses to create value as well as the waste or other by-products that may either create or erode value.

By contrast, in line with the Integrated Reporting framework, outcomes are the internal and external consequences for the capitals as a result of

an organisation's business activities and outputs, including customer satisfaction, profit (loss), shareholder return and contribution to the local economy through taxes. More value is coming from people rather than physical and financial assets- with customers and employees shaping the future business agenda for organisations. CGMA (2012b:5) note the need for an emphasis by companies on how the non-financial human dimension contributes value, implying support for the Integrated Reporting framework already discussed. This human dimension is very vital in hotels, particularly in luxury hotels, where service is as important as physical facilities.

Pressures from shareholders and financial markets may, however, put the focus on short-term profitability and take attention away from customer relationships, knowledge and human capital, technology, strategic vision and intellectual property, which as shown in Figure 4 below, are the crucial value drivers. The current reporting system was agreed by 76% of respondents as focussing on the financials, while 75% of those surveyed in the CGMA (2012b) report agreed on a need to put more emphasis on the non-financial, so emphasising the long term sustainability of the business.

Insert Figure 4 here

ACCA (2011: 12) concurs, noting the intangible factors that drive value:

increasingly the 'value' of an organisation is driven by broader intangible factors- the reputation of its brand, its influence in the marketplace, and of course the talents, skills and innovation of its employees. Different businesses create value in different ways. They operate in different industries, in different markets, they offer different products and services and have different customers. They have different competitive advantages and unique selling points, different cost structures and different operating margins; their value chains are different.

### *Communicating the Value through Integrated Reporting*

As a follow up to the triple bottom level (TBL) reporting, and to render and guarantee consistency in social and environmental information, the Global Reporting Initiative (GRI) was established with the goal of providing guidelines to organisations reporting on sustainability. GRI is an international not-for-profit organization, with a network-based structure. Its activity involves thousands of professionals and organizations from many sectors, constituencies and regions and its mission is to make sustainability reporting standard practice ([www.globalreporting.org](http://www.globalreporting.org)). The

Global Reporting Initiative (GRI) promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to a sustainable global economy.

To increase transparency and accountability and to build stakeholder trust in the organisation, GRI has pioneered and developed a *Sustainability Reporting Framework*, that is widely used around the world. The Framework, including the Sustainability Reporting Guidelines, sets out the Principles and Standard Disclosures organizations can use to report their economic, environmental, and social performance and impacts. A sustainability report presents the economic, environmental and social impacts caused by the firm's everyday activities. It also demonstrates a commitment on the part of a company to make their operations sustainable and contribute to sustainable global economy (GRI, 2014). It used to be submitted as a separate report to the financials.

IFAC is the global organisation for the accountancy profession, with its members being drawn from national professional accountancy bodies, covering accountants working in public practice, industry, government and academia (see [www.ifac.org/paib](http://www.ifac.org/paib)). More recently, IFAC has been significantly involved with the International Integrated Reporting Council (IIRC), which is developing an international framework to help organizations report how strategy, governance, performance, and prospects lead to the creation of value over the short, medium, and long term. This is next discussed.

In 2010, the Prince's Accounting for Sustainability Project (A4S) and the GRI co-convened the International Integrated Reporting Council (IIRC-<http://www.theiirc.org>). It is a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-governmental organisations (NGOs). Together, this coalition shares the view that communication about value creation in the form of an Integrated Report (IR) should be the next step in the evolution of corporate reporting. Previous experimental attempts by companies self-declaring "integrated reports" date back to 2010 and this sparked an international debate. In 2013, IIRC launched the first version of an IR Framework which clearly defined what an integrated report comprises (see <http://www.theiirc.org/about/>)

An Integrated Report would be prepared instead of an Annual Financial Report (or the published accounts of public companies) and a separate annual sustainability report. However of more interest for this chapter is

the focus on “business model” in the deliberations surrounding the Framework.

Currently, Integrated Reporting is voluntary. Its aim is to describe and disclose how an organisation’s business model uses financial and non-financial capital in producing value. Research by GRI (2013) on companies who have pioneered these reports from 2010-2013 (756 reports) revealed interesting insights; firstly that financial services, energy utilities and mining are the leading sectors experimenting with integrated reporting (GRI, 2013: 28). A selection of interesting quotes from the latter research are noted below:

“the core part of an integrated report is, to me, the *business model*, as that explains how the business creates value. But for the description of the business model to accurately report value creation, it is critical that it explains how the company impacts the capitals upon which its success is based, including its impact on natural and social capital” (33) [italics added]

“for companies in certain industries, there will necessarily be a greater focus on sustainability in the environmental and social sense, as their operations may have a greater potential impact on the people they employ and/or affect through their operations. For example, the integrated reporting of a virtual organisation that provides consulting services might be expected to focus more heavily on intellectual capital and less on environmental and social and relationship capital than a company in the extractive industries . . . the key for any company is to consider all six of the capitals covered under IR and to give emphasis in their reporting to those areas which are most relevant to their ability to create and maintain value within the context in which they operate” (37)

This is a telling comment which would indicate hotels need to focus on the human, social and relationship capital elements, so vital to the quality of service in luxury hotels.

Finally, the research mentions that a report is only genuinely integrated when the company’s sustainability is integrated into strategic planning, risk management, innovation and forecasts. External financial analysts will therefore perceive that sustainability is more than an environmental issue or a theme confined to social causes, but “is a business variable” (GRI, 2013:35). Thus, the opening comment in this chapter of the need to move beyond check-box compliance and ‘eco-bling’ resonates here.

## *Tracing the Corporate Social Responsibility story: from Philanthropy to Corporate Shared Value (CSV)*

Corporate Social Responsibility (CSR) is a concept that is constantly changing. Long-term sustainability will result not from movement along a smooth trajectory, but rather from continuous adaptation to changing conditions, as illustrated by Figure 6 (CGMA, 2012a). This definition of CSR requires the view of an organisation as a system that is closely coupled with social, environmental and economic systems at different levels or scales - such as at the product or process level to the enterprise wide level to the regional or global level.

The diagram in Figure 6 shows that many companies progress from mere compliance with externally imposed environmental, social and governance requirements to corporate philanthropy (giving support to charitable and social causes). More recently, companies have tried to consume resources more efficiently to reduce impact on the environment (environmental sustainability). Further evolution in the concept of CSR in Figure 6 is the idea of Corporate Shared Value (CSV). This means that companies create economic value in a way that also creates value for society (social value) by addressing the needs and challenges of (and considering the benefits of their plans to) society and local communities.

The idea of enhancing business competitiveness but at the same time advancing the economic and social conditions in the communities in which the business operates, is the basis of the concept of shared value

(CGMA 2012a:2)

Porter and Kramer (2011:65) writing in *Harvard Business Review*, describe three ways in which companies can create this CSV:

(i) Re-conceiving products and markets:

There are societal needs for clean drinking water, nutrition, care for the aged etc. So, for example, food producers concentrate more on nutrition and less on attributes that have previously driven consumption, such as taste. Energy companies now market products and services designed to reduce energy usage helping to make the industry more sustainable.

(ii) Redefining productivity in the value chain:

For example, efforts to minimise pollution have been seen as increasing business costs and are mandated by regulation and taxes, but under CSV, there is growing awareness of the need to consider the external costs

arising through neglecting the pollution issue- such as diminishing the brand and reputation of the company.

(iii)Enabling local industry cluster development:

A company uses a supply chain for the products and services it uses in its operations. However, recent trends have been to source supplies from distant locations, due to short-term unit cost considerations. However, building a cluster around the local community can increase its economic vitality and improve the reliability of the supply chain. Shifting activities to even lower cost locations is not a sustainable solution to competitive challenges as they are overlooking the broader issues that contribute to success- the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers and the economic distress of local communities in which they produce and sell.

As these examples show, CSV is more than philanthropy- it is a new way to achieve economic success (Porter and Kramer, 2011).

In this chapter, some case examples from the Irish hotel industry that fit these three categories will be given in the penultimate section "Case evidence from Ireland".

Some background to Irish tourism is now presented to convey the reality of the difficulties in value creation in the light of the deep recession of 2008 and attempts made by the industry to recover from this.

#### *Tourism in Ireland and the challenge of Value Creation*

Tourism is Ireland's largest indigenous industry and a critical component of the export economy, accounting for €5.7 billion in spending in 2013 and represents 4% of Ireland's GNP ([www.ihf.ie](http://www.ihf.ie)). Hotel stock is currently (as at latest available information-namely 2013) listed as 835 properties and 57,362 rooms. The number of hotel rooms grew far more dramatically. The figure jumped from 26,400 rooms in 1996 to 59,000 in 2009 -a 123pc increase in the number of hotel rooms in just 13 years (Garvey, 2012).

Much of the new capacity since 2001 was driven not by a realistic appraisal of underlying demand or by measurement of the likely cash flows from the constructed property, but by tax incentives on offer for new hotel construction. In a 2009 report for the Irish Hotels Federation (IHF), economist Peter Bacon estimated that this expansion in hotel capacity had cost a total of €5.2bn, of which €4.1bn had been borrowed (Garvey, 2012). The year 2008 brought deep recession with the twin issues of low demand and bedroom stock capacity at its highest ever, as well as the debt burden.

Tim Fenn, CEO of the Irish Hotels Federation, commented in BDO (2013: 14) on many hoteliers being in survival mode with uneconomical room rate prices being charged. In relation to sustainability, he says:

. . .you either have to reduce your costs and restructure your debt or achieve some degree of improved usage. So while we address our cost base we must achieve sustainable levels of activity. The markets will, ultimately dictate whether increases in price levels occur, but it is important that we take a long-term view in terms of our pricing, particularly if we want to see real growth in visitor numbers.

Irish hotels have had to drop prices to recover from the low occupancies of 2008/2009, but the cost base has remained high, such as energy costs and very high local authority rates (at roughly €1,500 per hotel room) (BDO, 2013: 15). Labour costs account for 30%-40% of annual turnover for most hotels, even higher for 4/5 star hotels (AIB, 2013:7), with Ireland having the third highest minimum wage in Europe.

They face the inevitable challenge of seasonality and the ever-present burden of fixed costs as well as over-hanging debt associated with room stock - over 60 hotels have gone into receivership (BDO, 2013: 12). Discounting room rates is not sustainable in the long-run, given that rates and energy costs are outside their control. Hoteliers need to effectively identify the markets which have a genuine growth opportunity and get back to basics and effectively market and sell their businesses (BDO, 2013: 5)..

A recent survey by Allied Irish Banks (2013: 9) on the Irish hotel sector noted online bookings accounting for 56% of all bookings, with just over one third of bookings made over the 'phone. A quarter of all bookings are through third party websites, the main ones being booking.com and expedia. The online booking channel has helped to grow sales, but at a price in terms of profitability due to the commission levels.

Irish hotels are responding to shifting customer profiles (such as domestic tourists, over 55s and couples who are value-for-money hungry consumers) as well as the impact of the digital revolution. Their response is through introducing special offers as well as sourcing cheaper suppliers where feasible. Interestingly, the report noted that "hoteliers are not waiting to see what the future might bring... in the past 12 months, half of those surveyed had undertaken training in online development" (AIB, 2013:11).

Given the capital intensive and high fixed cost nature of the hotel sector and the need to refurbish the product to sustain repeat business, it was

encouraging that many were intending over the next 3 years to invest in upgrading and refurbishing their properties, but using reinvested profits from the business rather than loans. Shaun Quinn, CEO of Fáilte Ireland, (the Irish Tourist Authority), commented on the learning involved in experiencing a recession:

Any manager in the hotel business in their early 30s or younger, has gone through what is, probably, a once-in-a-lifetime shock. There will be a lot of learning from that when demand returns in terms of creating a lean business model that creates value.

This quote reflects the challenge of renewing the business model to ensure continued resilience in changed circumstances.

### *Case Evidence from Ireland*

This section briefly discusses the empirical work for the Fáilte Ireland study featuring the following 12 case sites (Figure 7 below). Six of these (E, F, G, H, J and L) were hotels or guesthouses, with the rest being activity centres who drive demand for the hotels.

### **Figure 7: The case sites in the Fáilte Ireland study**

- **A:**Rothar - cycling company in West
- **B:**Equus- riding school in Midlands
- **C:**Sub Aqua - diving centre
- **D:**Sea Spa- seaweed spa in North West
- **E:**Island Retreat- guesthouse in island location
- **F:**Rustic Lodge- guesthouse in rural Midlands location
- **G:**The Cedars- hotel subject to preservation order in North West
- **H:**The Oaks- small indigenous hotel chain in West
- **I:**Orangerie- vegetarian restaurant in Dublin
- **J:**Fairways Country Club- golf and hotel facility-North Co. Dublin
- **K:**Tonnta-surf school in South East
- **L:**Castle-historic castle used for accommodation in North East

Some examples from Case **H** illustrate two of the three strands of CSV while an example of the third strand- local industry cluster development- is evident in the overall study.

**Case H:** This hotel (**H**) was located in a popular scenic part of the rural, maritime West of Ireland, accessible by train and hosting a thriving community of artists. It was a 3-star hotel with 111 bedrooms and is part of the 'Poplars' Hotel Group, a chain of 5 family-run hotels in the West of Ireland. The chain is recognised for its friendly and homely atmosphere, high standards of accommodation, cuisine and comfort. The general

manager, with the help of his father-in-law, (founder of the Poplars Group), bought "The Oaks Hotel" in 1995. The hotel had received EU grant aid for the construction of new bedrooms and the refurbishment of existing ones, extension of the restaurant, construction of a new lobby, kitchen and banqueting room.

Re: CSV Theme (i)-Re-conceiving products and markets

We can see this theme in the area of renovation of the hotel:

"There was a big renovation done, and 33 rooms were renovated, extended and renovated at the back and 11 were more put on top. And, as part of that construction, it was designed to the highest environmental standard. In fact, Sustainable Energy Ireland put out a call for a competitive grant and you had to make your submission and apply for it. And we were one of the ones who were awarded the grant."

Re: CSV (ii)-Redefining productivity in the value chain

This theme is exemplified through greater efficiency through the reduced consumption of energy in Case H:

"But an end result of all of that is, between energy efficiency, managing the energy a bit better, better insulation, energy efficient lighting, we've reduced our consumption of energy by about half a million kilowatts per annum".

"The heating of the hotel, bedrooms etc as well as of the water in the swimming pool was achieved with a boiler run on wood pellets".

"Each year, there's 1000 tonnes fewer of CO<sub>2</sub> being emitted from these buildings"

Furthermore, in the area of waste management and recycling:

Yes, all waste used to go into bins, and it was dumped in landfill, and you were charged by the weight. And the total was about 250 tonnes. We put the composter in and all the food waste is put through that and that naturally breaks down into a compost. And it reduces the volume of landfill by approx. 90%. It's down to 40 tonnes now. Waste food is dead weight. It's loaded with water. So instead of having 10 bags, we end up with one bag of compost, which we can put out on the grass.

And we take the ashes we've left from the boiler, because it burned down to a fine powder. We can put that on the land. It's carbon".

To show the commitment of the hotel to best practice in energy and environmental matters, the hotel had appointed an Environmental

Manager who represented the hotel as part of an environmental group called Green Hospitality<sup>2</sup>:

“I deal with all the environmental matters and the energy matters”.

“So we have a green team, and we hold meetings with them every so often, and we just watch what’s going on, and [ as regards lights in the bedrooms] . . . that some sort of a sequence would be in place, so that when somebody came in and turned on the main switch in the bedroom, only certain lights would come on”

*Re: CSV Theme (iii)-Local Industry Cluster Development*

Small firm literature identifies networks as the essential support structure in any training intervention to help entrepreneurs to learn and it would appear to positively affect the quality of this experiential learning. Networks are closely followed by business mentors, with appropriate industrial and sector expertise (Kelliher et al, 2009:81-82). International studies also support these findings, so small firm network-centred learning is vital (Morrison and Texeira, 2004).

A powerful example of these networks is taken from the overall study cohort, where eight out of the twelve case site owner- managers belonged to Tourism and Learning Networks (TLNs). TLNs were unanimously positively rated by those eight owner-managers (in the study) who had attended them.

Typically, participants in TLNs are owner-managers of small and micro tourism enterprises, particularly those employing less than 20 people. These networks also include ‘associate members’ such as tourism representative bodies, County Enterprise Boards, County Councils, LEADER groups and other interested parties. Currently, Kelliher *et al* (2009, p.81) report there are “35 networks throughout Ireland”.

The TLNs are focused on action-based learning where participation and interaction are encouraged. Generally, they have a minimum of 25 participants on each one. The programme includes a core element, representing about 70% of the total input. The remaining 30% consists

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<sup>2</sup> The Green Hospitality Programme is the only Irish-developed environmental certification standard for the hospitality sector. The Green Hospitality Eco-label and Awards are recognised both nationally and internationally as standards that allow members achieve good environmental performance and allow visitors to choose “Greener” hospitality businesses, knowing that defined criteria are being implemented and monitored.. This is a voluntary programme that aims to develop leadership and best practice within the hospitality sector. <http://www.ghaward.ie/index.php?id=10>

of a variable element, to meet individual Networks' specific needs. The Extranet is a follow-up web community after the TLN events have finished, whereby participants can keep in touch through on-line discussion groups.

The TLNs she attended prompted one of the respondents, (**C**), to start a very successful marketing network where local businesses would join up and prepare a brochure of activities, accommodation and restaurants in the area around a central theme, to "create a buzz" to attract the domestic market to the area. As part of her TLN, a dialogue had started about setting up a honeypot of activities for a particular area, but due to lack of funding for the Extranet after the TLN had ended, this dialogue stopped (**F**).

This shows the potential of the TLN to prime business among the local tourism operators.

A second example of clustering is when links are created between activity centres and local hotels to create reciprocal demand and so build sustainability. It was found that vouchers to stay at local hotels were available at the activity centres used by overseas clients such as A, C, D and K (the activity centres)<sup>3</sup>. Similarly, the hotels would carry information about activities in the local area, be it surfing, riding, diving, wind-surfing etc.

Finally, life cycle issues were recognised as part of the sustainability problem. Some owner managers, concerned that their businesses were not sustainable in their current form, were planning to sell on or adapt their property to other uses. Others in well-performing businesses (**H**) were developing add-on businesses, such as beach riding, but were tying this business to their own personal assets, so that this stream became an exit route for himself and his family, should his hotel business fail.

By contrast, one case site, **G**, was a hotel that was based in a small town in the North West of Ireland, a favourite destination for family holidays. The son of the owner had inherited the hotel, located in the main street of the town, still retaining its original décor and design from the 1950s and subject to a preservation order. Regrettably, this hotel was an example of a failure by his father (who had previously run the hotel and then bequeathed it to his son) to plan for sustainability, as it needed huge re-development, which was not affordable by the current owner. It had achieved the end of its lifecycle as a hotel in its current form, as many of the children of the families that used to stay

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<sup>3</sup>The riding school tended to cater for children of local families, who did not require accommodation and attended usually just for a lesson each week.

in the hotel, had become parents and had purchased holiday homes in the area and used these, in preference to staying at the hotel. After much soul-searching, the current owner, who was a trained chef, surmised that those holiday home owners might come to his hotel for food and beverage. A secondary opportunity to renovate the kitchen area and then run cookery lessons for adults and children alike, also seemed plausible.

### *Conclusions*

Sustainability is not just about being ethically and socially responsible- it is about smart business. As the case examples show, reducing energy costs and eliminating cost of waste has a "bottom line" impact as well as protecting the environment. The challenge for the finance professional is to recognise and unlock the latent value from the sustainability levers relevant to the business.

The finance function must make the connections between tangible short-term shareholder profits from revenue generation and cost control, while at the same time realising the longer term non-financial gains from good risk management and the building of trust with other stakeholders to enhance brand value and reputation. Indeed as the CGMA (2012b:10) notes "one thing we can be sure of in this uncertain world is that people-their ideas and relationships-will be more important than ever before".

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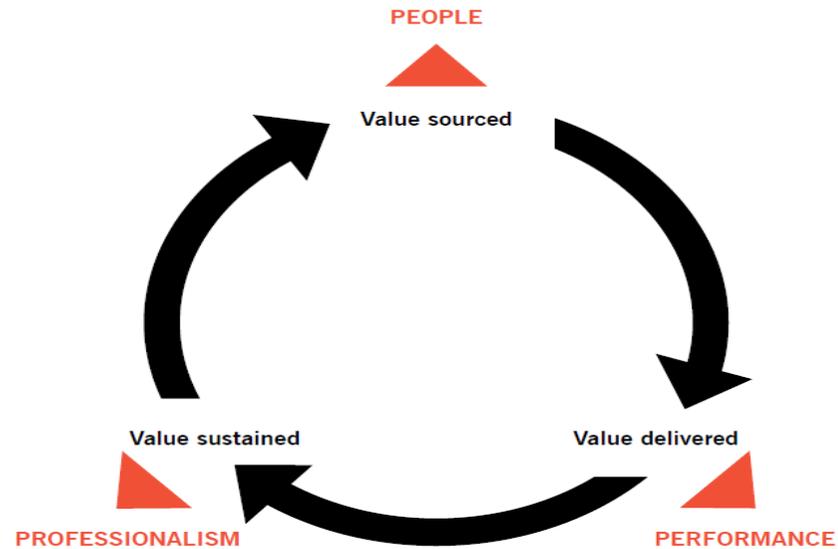
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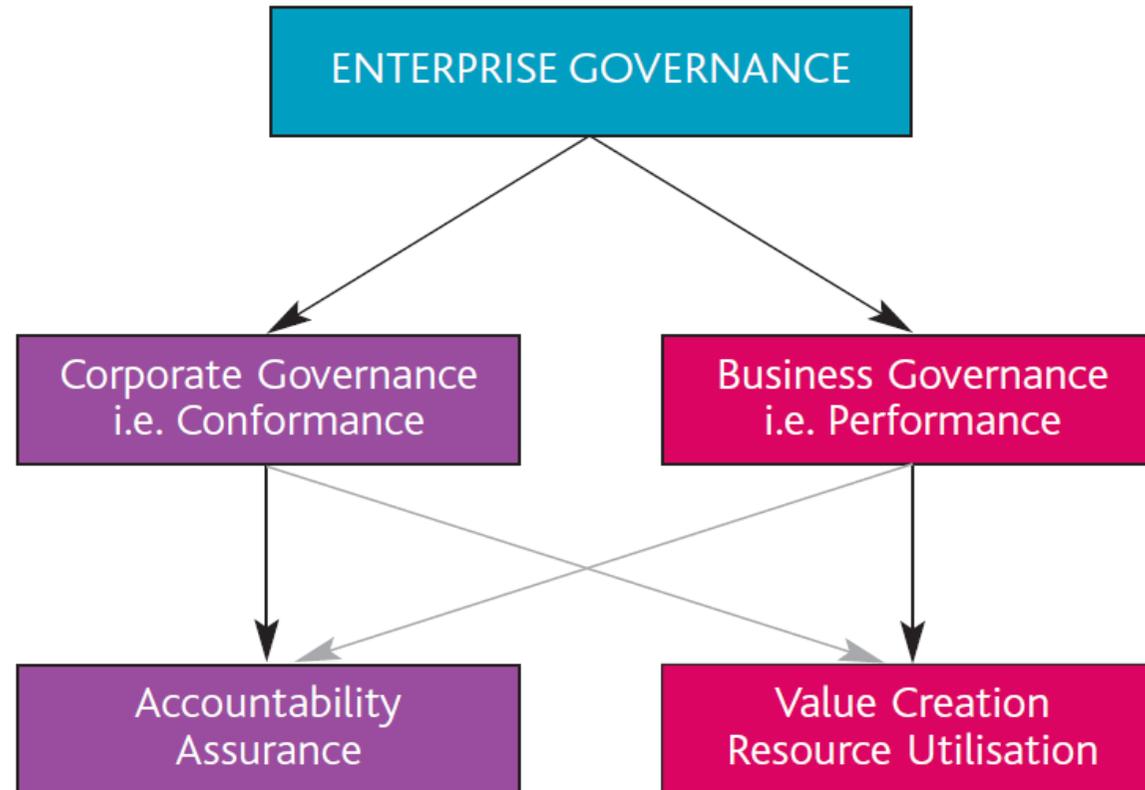
**Figure 1: The Professional Accountant and the Value Cycle**



Source: ACCA (2011: 5) *The value creation model for business: 2010 and beyond* (London: ACCA).

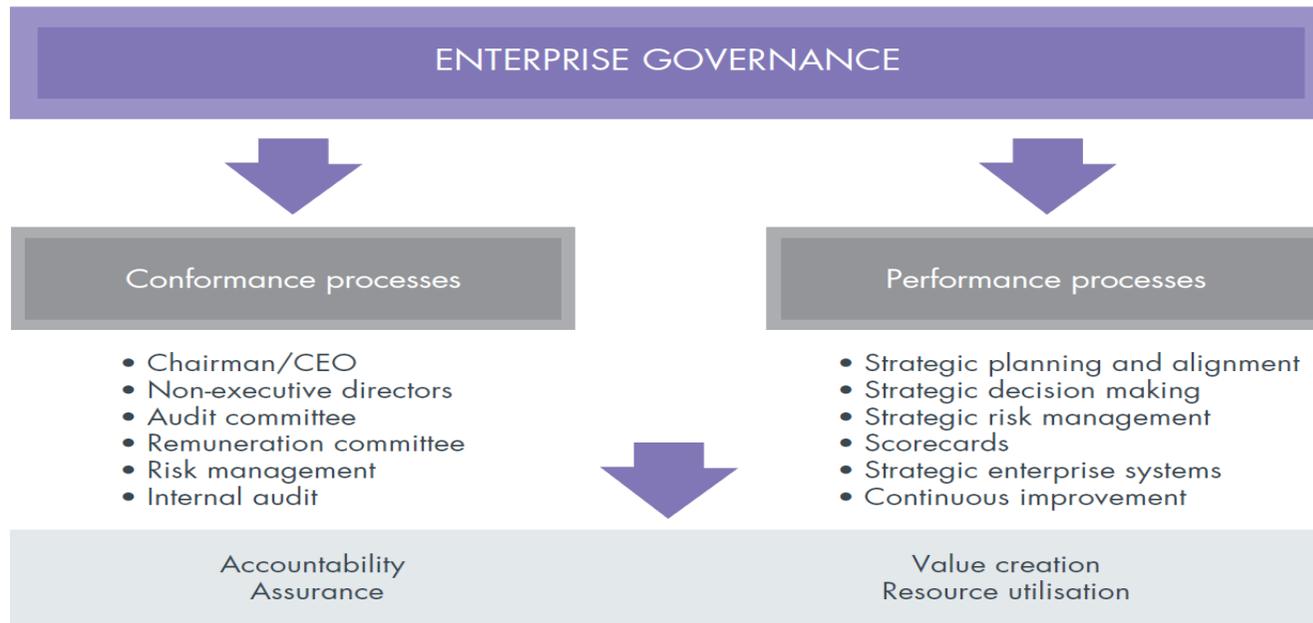
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**Figure 2: The Enterprise Governance Framework**



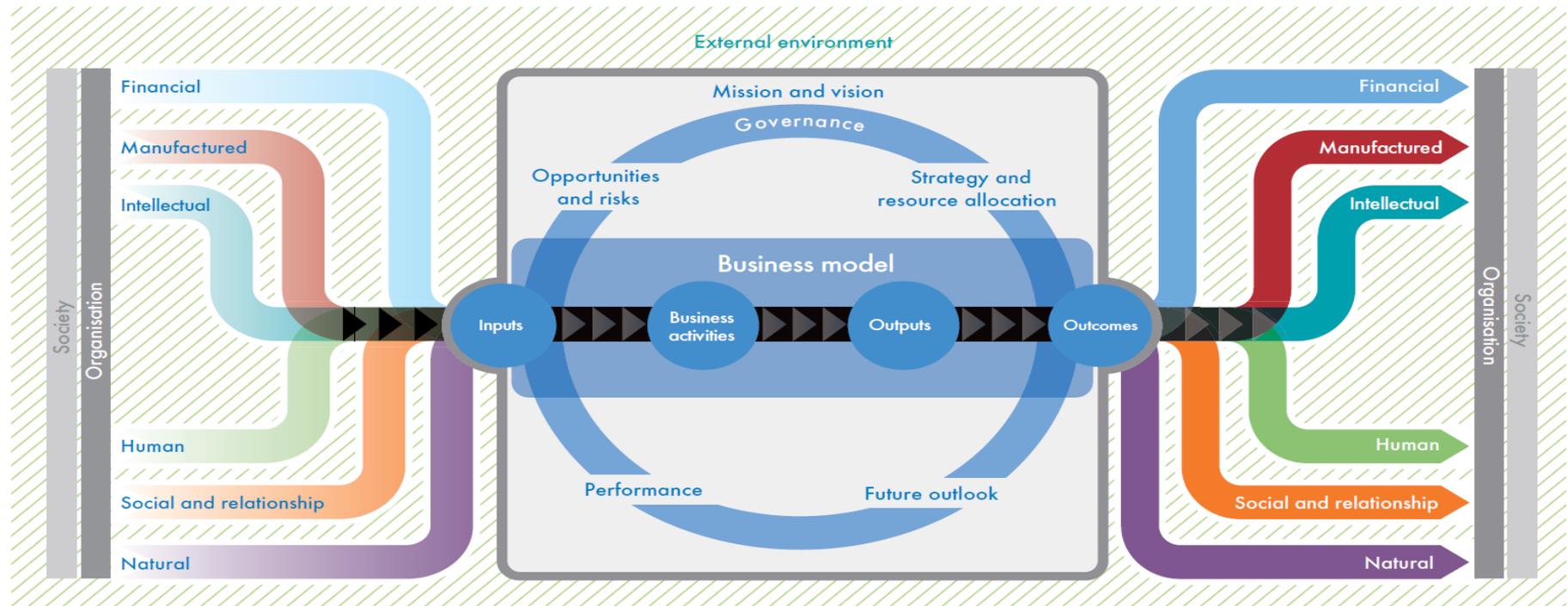
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**Figure 3 :The Performance Dimension and Value Creation**



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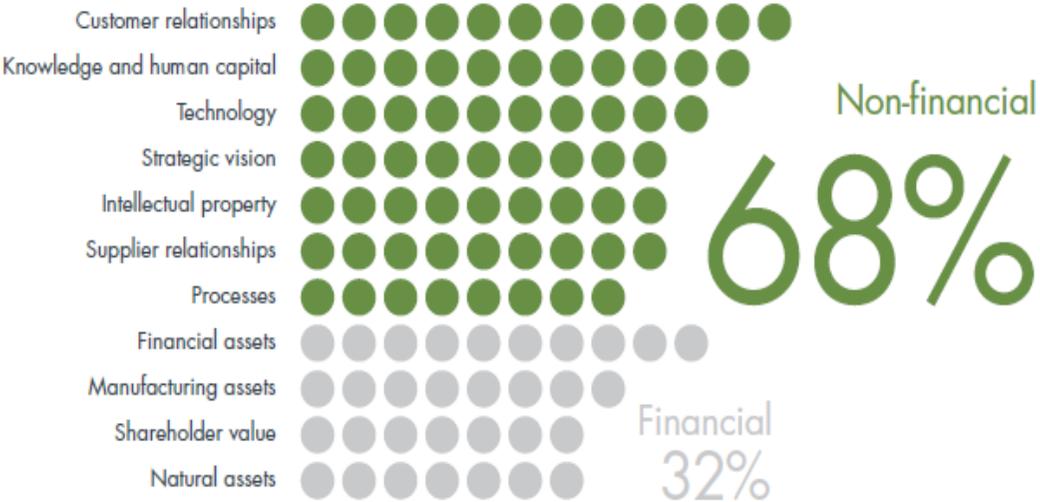
**Figure 4: Creating value through business activity**



<IR> framework showing the business model at the heart of the organisation © IIRC 2013

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**Figure 5: Financial and non-Financial sources of Value provided to the business**

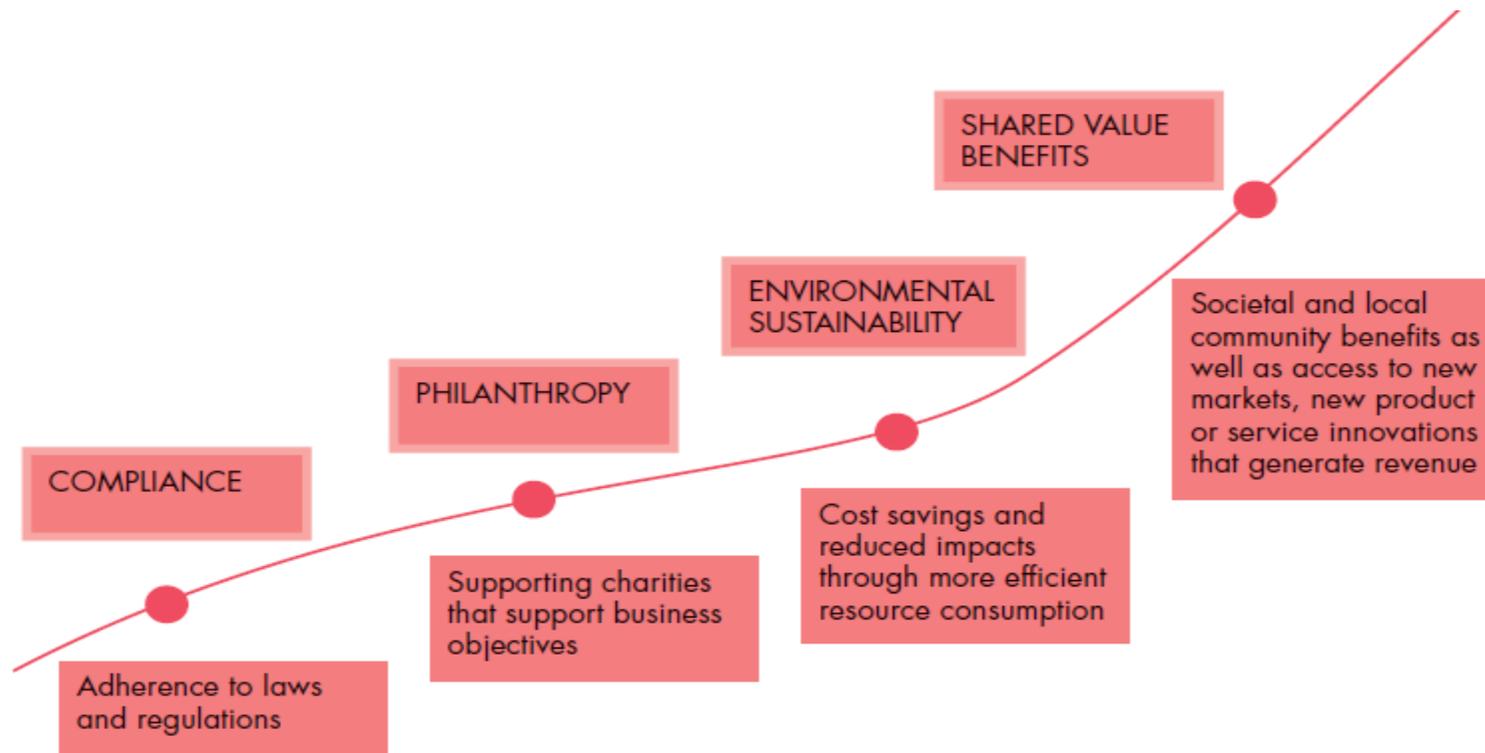


(Percentage of those who selected 8-10 on a scale of 1-10)

Source: Chartered Global Management Accountant (CGMA) (2012b : 5) *Rebooting Business: Valuing the Human Dimension* (London: Chartered Institute of Management Accountants and New York: American Institute of CPAs).

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**Figure 6: CSR as an evolutionary curve**



Source: Chartered Global Management Accountant (CGMA) (2012a: 2) *Sustainable Business- Shared Value in Practice* (London: Chartered Institute of Management Accountants and New York: American Institute of CPAs)

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