



Environmental, Social & Governance Reporting in Travel & Tourism:

Trends, Outlook and Guidance



FOREWORD

Travel & Tourism companies, like any other businesses, are increasingly affected by environmental and social issues that can influence global demand and industry-wide profitability. Moreover, their customers and the communities in which they operate increasingly evaluate the responsibility of organisations and, through the internet and social media, they have numerous tools with which to inform and shape opinions on the sector as a whole.

In a Harvard Business Review article entitled ‘Leadership in the Age of Transparency’, the authors declared that ‘[it is] no longer possible to ignore externalities’ and that ‘the true measure of corporate responsibility – and the key to a business’s playing its proper role in society – is the willing, constant internalisation of externalities.’

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, through the reporting processes, articulate and advance management approaches to proactively addressing externalities.

ESG reporting has developed over the course of three decades as relationships between business and society have evolved. Recent trends show that ESG reporting is becoming a mainstream platform for organisations through which to communicate with and engage stakeholders. ESG reporting is now the norm among the largest companies in most countries and is becoming more prevalent across all sectors. Whether through customer or investor demand, or increased initiatives from governments and/or market regulators, one can expect the majority of WTTC members to address ESG reporting in some form over the foreseeable future. Nevertheless, if this forecast is to be realised, it will require a big leap forward given the number of companies currently reporting.

This research report, prepared by Greenview, and initiated by the WTTC Tourism for Tomorrow Working Group of representatives from over 25 Member companies, is intended to provide WTTC Members with a thorough understanding of ESG reporting – including the background to its development, the concepts, terminology, key entities and available external resources, as well as its status across all sectors and, specifically, within Travel & Tourism.

The research is divided into three sections. The first provides a broad background overview of ESG reporting’s current status in business, together with trends that are expected to influence and shape ESG reporting through the rest of this decade. These include some of the current challenges, gaps and opportunities for Travel & Tourism to address ESG reporting collectively as a sector.

The second section examines the state of ESG reporting within the Travel & Tourism sector, identifying fundamental concepts and providing detailed benchmarking. The third section offers more tailored guidance for Travel & Tourism companies to help them set up or improve existing ESG reporting platforms. A series of briefs are provided for a better understanding of the concepts relating to some of the issues most commonly reported.

While the research is presented as one report, its three separate and independent sections will facilitate updating and expansion to ensure that WTTC members continue to benefit from the latest ESG reporting trends.

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CONTENTS

Foreword	...03
Section 1: Overview of ESG Reporting Trends	...06
1. Concepts	...06
2. The Market Makers	...07
3. The Audiences	...10
4. Other Uses of ESG Reporting	...13
5. Reporting Trends	...14
6. Industry Outlook, Implications and Opportunities	...26
Section 2: ESG Reporting in Travel & Tourism	...29
1. Prevalence of Reporting	...29
2. Related Sector Initiatives	...30
3. Report Content and Components	...31
4. Key Issues	...32
Section 3: Guidance for Travel & Tourism Businesses	...39
1. Primary Steps to ESG Reporting	...40
2. Issue Briefs	...49
1. Energy	...49
2. Water	...51
3. Climate Change	...55
4. Waste	...58
5. Workforce	...61
6. Supply Chain	...64
7. Community	...67
8. Governance, Risk and Compliance	...71
Appendix I: About WTTC's ESG Research	...77
Appendix II: List of Acronyms	...79

Section 1:

OVERVIEW OF ESG REPORTING TRENDS

1.1 Concepts

1.1.1 Varied approaches, but based on the same fundamental concepts

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, companies across all sectors, including those in Travel & Tourism. ESG reporting is a global trend with reporting rates for companies in the Americas, Europe and Asia Pacific currently standing at 76%, 73% and 71% respectively. Of the 250 largest global companies, 93% reported on ESG performance in 2013¹. In growing markets, the number of companies reporting has increased significantly, with China up 16% and India up 53% from 2011 to 2013.

Companies report in different ways – through stand-alone ESG reports, integrated annual financial reports, and/or dedicated corporate websites. The advantage of having a dedicated website is that it can include additional information such as ESG statements of purpose, policies, progress against targets and interactive context designed to engage stakeholders around key issues and align to the company’s brand.

1.1.2 What does ‘ESG’ really mean? Why is the term used?

The term ESG, used widely within the investment community, reflects the view that managing environmental and social topics is a governance issue for organisations, a proxy for the quality of their management teams, and a process through which to assess whether they are positioned for long-term success. Combining the three words – environmental, social and governance – also provides a more tangible and easily understood set of concepts that does not carry any other connotations that are usually associated with ‘sustainability’ or ‘corporate responsibility’. The term ‘ESG reporting’ within this report is used to encompass public disclosures that may use other terms such as a sustainability report, corporate responsibility report, corporate social responsibility report, corporate citizenship report, responsible business report, creating shared value report, or environmental report. But it also encompasses responses to ESG-related surveys and questionnaires, as well as information used in ESG ratings, rankings and indexes.

1.1.3 Every organisation has an ESG strategy, whether or not they realise it

Regardless of revenue, employee count, or geographic reach, every organisation has an ESG strategy – whether they realise it or not. Parts of the ESG strategy include actions already undertaken to meet compliance requirements, such as those related to employment practices. Other parts are common sense, good business practices already in place, such as engaging with guests, suppliers and communities, and identifying process efficiency measures that have corollary environmental benefits. The pre-existing ESG strategy is frequently also an outgrowth of the company’s culture and the beliefs of its founders.

1.2 The Market Makers

1.2.1 Who are the market makers driving the practice of ESG reporting?

ESG reporting involves a myriad of players playing different roles, some of them wearing multiple hats within the marketplace. For a better understanding of the landscape, ESG reporting can be viewed as a series of market makers who influence what is reported and elevate its importance:

Market Makers	Overview																														
<p>ESG commitment formers (creating demand)</p>	<p>ESG reporting is driven in large part by entities that set forth a series of commitments to which organisations become members and signatories. Within these commitments, self-reporting on ESG and requesting ESG reporting from entities within one’s value chain are often included. A leading set of commitments among investors is the UN Principles for Responsible Investment (PRI) with over 1,300 global signatories representing US\$45 trillion in assets in management². PRI signatories include some of the largest pension funds in the USA, Europe, South America and Australasia. Two of the six principles are to “seek appropriate disclosure on ESG issues by the entities” in which they invest, and to “report on [responsible investment] activities and progress toward implementing the Principles”³.</p> <table border="1"> <caption>Assets under management (US\$ trillion) and PRI Signatories (2006-2014)</caption> <thead> <tr> <th>Year</th> <th>Assets under management (US\$ trillion)</th> <th>PRI Signatories</th> </tr> </thead> <tbody> <tr> <td>April 06</td> <td>~5</td> <td>~100</td> </tr> <tr> <td>April 07</td> <td>~10</td> <td>~200</td> </tr> <tr> <td>April 08</td> <td>~15</td> <td>~300</td> </tr> <tr> <td>April 09</td> <td>~20</td> <td>~400</td> </tr> <tr> <td>April 10</td> <td>~25</td> <td>~500</td> </tr> <tr> <td>April 11</td> <td>~30</td> <td>~600</td> </tr> <tr> <td>April 12</td> <td>~35</td> <td>~700</td> </tr> <tr> <td>April 13</td> <td>~38</td> <td>~800</td> </tr> <tr> <td>April 14</td> <td>~45</td> <td>~900</td> </tr> </tbody> </table> <p>For lenders, financial institutions commit to the Equator Principles (EPs) to manage environmental and social risks in project financing. As of 2014, approximately 80 financial institutions, including Bank of America, Citigroup, HSBC and JP Morgan⁴, had officially adopted the EPs, estimated to cover more than 70% of international project finance debt in emerging markets⁵. Other ESG commitments formed by the financial sector and banking industry include the Carbon Principles⁶ and Climate Group⁷. In addition, the Ceres Coalition comprises more than 130 investors, advocacy groups and other public interest organisations working to “mobilise investor and business leadership” to reduce environmental and social risks⁸.</p>	Year	Assets under management (US\$ trillion)	PRI Signatories	April 06	~5	~100	April 07	~10	~200	April 08	~15	~300	April 09	~20	~400	April 10	~25	~500	April 11	~30	~600	April 12	~35	~700	April 13	~38	~800	April 14	~45	~900
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² <http://www.unpri.org/about-pri/about-pri/>
³ www.unpri.org/about-pri/the-six-principles/
⁴ www.equator-principles.com/index.php/members-reporting
⁵ www.equator-principles.com/index.php/about-ep/about-ep
⁶ carbonprinciples.org
⁷ www.theclimategroup.org
⁸ <https://www.ceres.org/about-us/coalition>

¹ www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/default.aspx

For companies, a leading a set of ESG commitment is the **UN Global Compact (UNGC)** through which companies commit to align their operations and strategies with ten principles in the areas of human rights, labour, environment and anti-corruption. To maintain active participation, companies must communicate on progress towards implementing the ten principles annually, and often do so by publishing an annual ESG report. In 2014, more than 8,000 businesses in 145 countries participated in the UN Global Compact⁹. Participants include global leaders across sectors, such as Coca-Cola, Pepsi, Microsoft, Intel, Ford and Johnson & Johnson¹⁰.

UNGC participants commit to “enact within sphere of their influence” each of ten principles. As a result, UNGC participants often set forth supplier standards and request data from suppliers, including corporate travel providers, on ESG topics and performance.

The financial power behind these commitment-forming global investors, lenders and corporations has created demand for ESG reporting among the thousands of companies in their value chain, and creates a mechanism for which the practice of ESG reporting is becoming institutionalised.

ESG reporting framework providers (creating structure)

While commitment formers assist in creating demand for ESG reporting, a group of non-profit organisations create the structure, frameworks, guidelines and standards for reporting on ESG.

The **Global Reporting Initiative (GRI)**, established in 1997, is often referred to as the de facto guideline for ESG reporting in the absence of mandated reporting. In 2013, 78% of ESG reporters referenced the GRI guidelines in their disclosures¹¹. At least partial reporting in alignment with the GRI G4 guidelines, or an explanation for non-reporting, is embedded with the **Investor Listing Standards Proposal** issued by the Investor Initiative for Sustainable Exchanges.

The **CDP**, formerly known as the Carbon Disclosure Project and established in 2000, is an independent body that develops and distributes annual information requests on behalf of 822 investors representing US\$95 trillion in capital and approximately 66 purchasing organisations, including Wal-Mart¹². Initially distributing a single questionnaire on climate change, the CDP now also offers Water, Forest and Supply Chain disclosure programmes. And the CDP engages with cities, governments and policy-makers.

As the practice of ESG reporting matures and the perception increases that ESG-related externalities are material to the financial success of companies, standards are now also under development for ESG reporting within investor filings and annual investor reports. Globally, the **Climate Disclosure Standards Board (CDSB)** – a consortium including the Carbon Disclosure Project (CDP), Ceres, the Climate Group, the World Council for Business and Sustainable Development (WCBS), the World Economic Forum (WEF) and the World Resources Institute¹³ – has developed a draft framework for disclosures in mainstream financial reports. The CDSB framework has expanded beyond climate change to include natural capital information, namely water and forest commodities¹⁴.

In the USA, the **Sustainability Accounting Standards Board (SASB)** is currently developing standards for material sustainability issues designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as Form 10-K and 20-F¹⁵. As part of its partnership with the CDP, SASB receives technical assistance in referencing CDSB protocols for disclosure of carbon emissions¹⁶.

ESG rankings, ratings and indexes (comparing & benchmarking)

In addition, the International Integrated Reporting Committee (IIRC) is an entity consisting of international regulators, investors, companies, standards providers, accountants and non-governmental organisations, whose mission is to enable integrated ESG reporting to become a mainstream practice in both the public and private sectors¹⁷. In 2014, more than 35 investor organisations and 100 companies, including Unilever, Clorox, Marks and Spencer, Microsoft and Tata, participated in the IIRC Pilot Programme¹⁸.

Sector-specific framework providers are also gaining market influence. As an example, the Global Real Estate Sustainability Benchmark (GRESB) distributes a survey on behalf of 46 investors representing US\$5.5 trillion in capital¹⁹. In 2014, 637 real estate companies, including those owning Travel & Tourism assets, responded. The GRESB survey covers both environmental and social topics with questions about supply chain standards and monitoring. GRESB was recently absorbed into the Green Building Certification Institute, the partner organisation of the US Green Building Council that focuses on technical advancement of certification across various components of buildings and real estate.

Commitment formers may also provide their own ESG frameworks, as in the case of the UN Global Compact, which has guidelines for its signatories to issue a Communication of Progress (COP) on its progress towards applying the ten principles.

With the proliferation of public ESG data and increased interest in using ESG data to inform decision-making, many organisations rate and rank companies based on their ESG information. These include broad-based, holistic ESG rankings, such as the Dow Jones Sustainability Indices (DJSI), FTSE4Good Indexes and the Global 100 Most Sustainable Companies. In addition, there are targeted environmental rankings, including the Newsweek Green Rankings and the CDP Leadership Index, as well as social responsibility rankings, like Ethisphere’s World’s Most Ethical Companies. Regional, local and industry rankings, such as Brazil’s Most Sustainable Companies ranking, also exist.

Goldman Sachs’ GS SUSTAIN platform recently expanded its analysis to nearly 1,400 mid-to large-sized companies globally, following the collection and analysis of nearly 100,000 ESG data points from publicly available sources²⁰.

A multitude of ratings and rankings have sprung up in recent years as the ability to use publicly available data for comparative analysis has a relatively low barrier to entry. ‘Rate the Raters’ research has been published by SustainAbility on evaluating the various ratings and organisations to help understand the strengths and weaknesses of each²¹.

To assist organisations in navigating the numerous publicly available ESG rankings, ratings and indexes, the Global Initiative for Sustainability Ratings (GISR) has been established and has developed 12 principles from which the quality of ratings can be assessed. These principles include transparency, impartiality, continuous improvement and assurance²².

ESG research providers

In the background, behind many leading ESG rankings, ratings and indices, a set of specialised ESG research providers also develop and apply the methodologies to provide support and research products to investors and stakeholders. Leading ESG research providers include SAM (supporting the Dow Jones Sustainability Index), EIRIS (supporting the FTSE4Good Indexes), Trucost (supporting the Newsweek Green Rankings), IW Financial (supporting Corporate Responsibility Magazine’s annual 100 Best Corporate Citizens list), and CRD Analytics (supporting the NASDAQ Global Sustainability Indexes). Some firms perform their own research in house to produce their own ratings, as is the case of oekom research (developing proprietary country, sector, and corporate ratings in addition to publishing annual corporate responsibility review reports)²³.

⁹ www.unglobalcompact.org/ParticipantsAndStakeholders/index.html

¹⁰ www.unglobalcompact.org/participants/search?business_type=2&commit=Search&cop_status=active&country%5B%5D=209&joined_after=&joined_before=&keyword=&listing_status_id=3&organisation_type_id=&page=1&per_page=250§or_id=all&utf8=

¹¹ www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013-exec-summary.pdf

¹² <https://www.cdp.net/en-US/Pages/About-Us.aspx>

¹³ www.cdsb.net/about-cdsb

¹⁴ www.cdsb.net/climate-change-reporting-framework/framework-consultation

¹⁵ www.sasb.org

¹⁶ www.sasb.org/approach/key-relationships/

¹⁷ www.theiirc.org/the-iirc/

¹⁸ www.theiirc.org/companies-and-investors/pilot-programme-business-network/

¹⁹ 2013 GRESB Survey Report

²⁰ www.goldmansachs.com/citizenship/environmental-stewardship-and-sustainability/environmental-markets/global-investment-research.html

²¹ www.sustainability.com/projects/rate-the-raters

²² ratesustainability.org/standards/principles/

²³ www.oekom-research.com/homepage/english/oekom_CR_Review_2014_EN.pdf

<p>ESG aggregators and disseminators</p>	<p>Another by-product of ESG reporting is the aggregation and dissemination of information across platforms. Examples include CSRHub, which houses data from more than 300 data sources and nearly 9,000 companies²⁴, and the Corporate Register, which is an online registry of ESG reports. In addition, ESG frameworks, including the GRI, CDP, UNPRI, and UNGC, provide a repository to access ESG reports. Other third-party disseminators of information include Google, where companies' CDP Climate Change scores are posted as a 'key statistics' on public companies' Google Finance pages.</p> <p>Bloomberg's ESG products provide data on more than 120 indicators for approximately 5,000 publicly listed companies²⁵ globally, based primarily on public disclosures, and are increasing coverage every day. Bloomberg's products include scoring based on quantity of disclosure (not the quality of disclosure or the organisation's ESG performance), robust, customised screening and other portfolio optimisation tools.</p>
<p>Consultants, auditors, and data management providers</p>	<p>Consultants, auditors and data management providers also play an important role in shaping markets. Consulting firms, including McKinsey, Bain and SustainAbility, regularly publish research that emphasises the strategic importance of ESG issues, and conduct studies to elucidate the business case and potential financial implications. Large accounting firms, including PwC, Deloitte, KPMG and Ernst & Young, actively engage with standard providers to promote and emphasise the emerging practice of having ESG data assured.</p> <p>Data management providers, including SAP, credit360, CSRWare and OneReport, also work to streamline and promote the practice of ESG reporting.</p>

1.3 The Audiences

Within the Travel & Tourism sector, the primary audiences for ESG information are often corporate customers, investors and employees. Additional audiences include customers, communities, advocacy groups and media, regulators and government agencies, suppliers and business partners, and ESG raters and analysts.

When preparing ESG disclosures, it is important to understand the market dynamics among ESG report audiences:

Report Audiences	Market Dynamics
<p>Corporate customers</p>	<p>Large corporate purchasers across nearly every sector now ask their suppliers to provide information on ESG policies, performance and commitments. Notable examples include Walmart, which is expanding its sustainability questionnaires for suppliers from 15 to 100 questions, and Microsoft, which is specifically requesting that its Tier 1 suppliers produce GRI reports. Other large corporate purchasers that issue sustainability surveys to suppliers include IBM, Airbus, Siemens, Marathon Oil, British Telecom, Boeing, Volvo, BMW, and Johnson Controls.</p> <p>As with investors, corporate purchasers are also using specialised research providers like EcoVadis, which conducts a survey and grades suppliers on sustainability to inform decision-making and manage their value chain risks.</p> <p>Of particular interest to corporate customers are the environmental attributes of products and services, and mechanisms to ensure responsible labour and human rights practices within the supply chain.</p>

<p>Investors</p>	<p>Within the investment community there has been a shift from 'negative' to 'positive' screening on ESG performance. Originally, this community would seek to divest from companies or investments based on negative market perceptions. Currently, certain investors specifically seek companies with a positive ESG reputation, with some portfolios and indexes focused on positive screening. ESG is perceived as a framework for managing risks and achieving above average returns. Among investors, institutional investors and pension funds are an important audience, as many have committed to incorporate ESG into investment decisions. Additional investor audiences include ESG-focused investment firms, such as Calvert and Generation Investment Management, for which ESG is central to fund selection.</p> <p>Investors are particularly interested in governance practices, value creation opportunities, and quality of management approaches. Some investors will seek specific ESG-related criteria as part of their investment evaluations.</p> <p>The degree to which investors use and value the information will vary as well. Some investors have signed the UN PRI and request information as a best practice while others have more rigorous screening processes and evaluation criteria. In addition to the commitment formers, investor groups have themselves formed associations around the concepts of screening and evaluation, including the US Forum for Sustainable and Responsible Investment (US SIF), and the Global Sustainable Investment Alliance (GSIA), which is a consortium of national-level investment forums.</p>
<p>Employees</p>	<p>Sustainability is also now a leading topic of interest among the newest generation of employees entering the workforce, with research indicating that 96% of Generation Y look for an employer who is environmentally aware²⁶, and employees who are proud of their organisation's socially responsible activities are more engaged, confident and likely to stay with the company²⁷.</p> <p>ESG reports are used as an engagement and recruiting tool. In addition to environmental programmes, reporting on workforce and community engagement is of particular importance to employee audiences (both current and prospective).</p>
<p>ESG raters and analysts</p>	<p>Given the role that ESG raters and analysts play in ranking, aggregating and disseminating information in a company's ESG report to inform public perception, they are also an important audience.</p> <p>ESG raters and analysts typically seek to find easily accessible information on policies, programmes and performance metrics to support integration within their methodologies for developing rankings, ratings, indices, and other products.</p>
<p>Guests</p>	<p>Guests are also a potential audience for ESG reporting, and are typically most interested in topics that are most material to them, such as the environmental attributes of product and services, safety and sustainability of food, and measures to protect customer data privacy.</p> <p>For guests, companies also host ESG reports on their own branded corporate responsibility websites. Examples include Hyatt Thrive and United Airlines Eco-Skies.</p>
<p>Communities</p>	<p>Communities in which an organisation has a significant presence represent another potential audience for ESG reporting. Community audiences are generally interested in knowing an organisation is responsible and striving to make a positive impact in communities while also mitigating any potentially negative impacts to communities. Information found in ESG reporting can help form the basis of discussion for a company's social licence to operate.</p>

²⁴ www.csrhub.com
²⁵ www.bloomberg.com/professional/markets/equities/

²⁶ Johnson Controls Global Workplace Innovation. (2010). Generation Y and the Workplace. Retrieved from www.johnsoncontrols.com/content/dam/WWW/jci/be/global_workplace_innovation/oxygenz/Oxygenz_Report_-_2010.pdf
²⁷ Ketvirtis, S. (June 2012). How Corporate Citizenship Impacts Employee Engagement. Northwestern School of Education and Social Policy. Retrieved from www.sesp.northwestern.edu/msloc/knowledge-lens/stories/2012/how-corporate-citizenship-impacts-employee-engagement.html#sthash.UWTXKMmM.dpuf

Advocacy groups and media

Advocacy groups and media are also important audiences because their assessments of an organisation can create a multiplier effect that influences guest and other stakeholder perceptions and overall reputation. These audiences generally seek to find easily accessible information on the management approach to the economic, environmental and social topics about which they care the most.

Since reporting is prevalent across sectors, campaign-focused advocacy groups are often able to engage in sector-wide comparisons regarding key issues, using ESG reports as a resource. Examples include **Friends of the Earth** and **Greenpeace** which publish regular advocacy reports, such as *How Dirty is Your Data?*²⁸

Regulators and government agencies

Companies in Travel & Tourism, particularly cruise lines, airlines and airports, often identify regulators and government agencies – at the local and national levels – as a priority audience for their ESG report. A company's ESG report provides the opportunity to demonstrate their commitment to compliance with laws and responsible business practices, as well as describing their management approach in addition to key actions and/or investments to comply with laws and regulations. It also provides the opportunity to explain any challenges that the organisation may have experienced with regard to compliance.

In addition, when entering new geographic markets, an ESG report can be shared with local and national regulators to demonstrate their 'licence to operate'. Furthermore, the ESG report can explain the organisation's economic, social and environmental practices to assist in addressing any potential concerns and/or to differentiate an organisation from other potential entrants in the market.

It is also worth noting that regulators and government agencies are also purchasers of travel services. As with corporate customers, they consider ESG practices in purchasing decision-making. As an example, the US General Services Administration encourages potential vendors to disclose their environmental performance through ESG reports or other mechanisms²⁹.

Suppliers and business partners

Through ESG reporting, organisations can communicate their expectations of suppliers and business partners and, in numerous instances, areas where shared values and focus areas exist.

Industry peers and influencers

When reporting on ESG, organisations should be aware that it is very likely that industry peers and influencers will view the information for competitive benchmarking purposes. Through ESG reporting, organisations have the opportunity to highlight leading-edge practices and innovative approaches to industry challenges.

1.4 Other Uses of ESG Reporting

1.4.1 More in-depth research

As more organisations begin reporting routinely, the amount of ESG-related content allows for deeper analysis and comparison across sectors and within sectors. Researchers can examine quantitative and qualitative disclosure across many issues to produce findings for purposes other than rating or ranking companies. In addition to analysing the content for ESG ratings, rankings, and indices, a current trend is to assess the quality and quantity of information reported. The biennial KPMG Survey of Corporate Responsibility Reporting produces results on the frequency of reporting among large companies, major sector and countries³⁰. The report dissects trends on what type of information is being reported, use of third-party assurance, reporting content and processes, and the quality of reporting. The study does not highlight Travel & Tourism specifically, although related macro-sectors such as transport, trade and retail, and food and beverage, are evaluated.

Another annual exercise which tracks the pulse of reporting is the Green Business Report, in a general comparison of reporting trends in the USA and globally. In its 2014 report, the State of Green Business, it also began to examine sectors. Travel and leisure, identified as a broad sector, was listed as the second worst performing sector in terms of GHG emission levels (calculated as contribution to GDP per contribution to GHG emissions), and relatively fewer of its impacts were said to be found in the sector's supply chain than in other service or consumer discretionary sectors³¹.

Moreover, an increasing number of studies are being published which compare groupings of companies that strategically address ESG (where the information is obtained through reports) and demonstrate that they are out-performing those that do not³². An abundance of corporate reports also collectively enable specific topics that are commonly reported among companies to be researched³³, or for reporting trends within specific countries to be analysed³⁴. Within Travel & Tourism, content analysis research has been published in peer-reviewed journals where researchers leverage ESG reports as source documents to compare companies and arrive at generalised conclusions about their respective industries. Such research has been published for cruise lines³⁵, hotels³⁶ and theme parks³⁷.

1.4.2 Benefits of reporting strategically and consequences of inaction

There are numerous benefits to viewing ESG reporting as a strategic initiative. First, they are a good way of promoting a company's ESG performance and governance through the more than 100 corporate ESG rankings and other public repositories of data. The readers of these accounts comprise investors (some of whom are activists), lenders, corporate customers, employees, consumers, regulators, the media and other influential stakeholders. Through self-reporting, companies have the opportunity to manage the story that will be told.

If a company does not report on ESG performance, it may create the perception that:

- The company is not organised to proactively address these issues
- The company does not care that these issues are important to its major customers and financiers, and/or
- The company does not have strong management and governance systems in place.

Moreover, if a company reports on ESG but fails to acknowledge and describe its management approach to material ESG issues, a perception may be created that the company is 'greenwashing' and/or is disingenuous in its stated commitments and values.

³⁰ The KPMG Survey of Corporate Responsibility Reporting 2013. Rep. KPMG, n.d. Web. 1 Apr. 2014.

<www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013.pdf>

³¹ GreenBiz Group Inc. State of Green Business 2014 pp. 36, 70.

³² For examples, see Robert G. Eccles, Ioannis Ioannou, and George Sarafem. 'The Impact of Corporate Sustainability on Organisational Processes and Performance'. Harvard Business Review Working Paper 12-035 July 29, 2013; and Sam Research Alpha from Sustainability, 2011.

³³ For example, see Umias, Elizabeth Corporate Human Rights Reporting: An Analysis of Current Trends. November 2009.

³⁴ China country analysis, see Gao, Yongqiang. 'CSR in an Emerging Country: a Content Analysis of CSR Reports of Listed Companies'. Baltic Journal of Management 6.2 (2011) 263-291.

³⁵ Bonilla-Priego, Maria Jesús, Xavier Font, and Maria del Rosario Pacheco-Olivares. 'Corporate sustainability reporting index and baseline data for the cruise industry'. Tourism Management 44 (2014) 149-160.

³⁶ Judy L. Holcomb, Randall S. Upchurch, Fevzi Okumus. 'Corporate social responsibility: what are top hotel companies reporting?'. International Journal of Contemporary Hospitality Management, Vol. 19.6 (2007) 461 – 475.

³⁷ Judy Holcomb, Fevzi Okumus, Anil Bilgihan, (2010) 'Corporate social responsibility: what are the top three Orlando theme parks reporting?'. Worldwide Hospitality and Tourism Themes, Vol. 2 Iss: 3, pp.316 - 337

²⁸ Cook, Gary, and Van Horn, Jodie. How Dirty Is Your Data? Greenpeace International, n.d. Web. www.greenpeace.org/international/Global/international/publications/climate/2011/Cool%20IT/dirty-data-report-greenpeace.pdf.

²⁹ GSA Blog: 'GSA Uses Government Buying Power to Cut Carbon Pollution'. May 2014 <http://gsablogs.gsa.gov/gsablog/2014/05/30/gsa-uses-government-buying-power-to-cut-carbon-pollution/>

1.5 Reporting Trends

1.5.1 Current outlook

ESG reporting is constantly evolving and shifting, and at a furious pace, with new trends and market makers developing all the time. Nevertheless, for companies planning on adopting ESG reporting, or seeking to keep abreast of trends, it is important to be fully aware of the five key current trends, which are detailed below.

ESG reporting will become more regulated, and this will mean that the information disclosed will be increasingly subject to audits and verification, leading to the need for more sector-specific standards and granularity. A growing focus on a company's approach to ESG issues in its supply chain will further expand reporting concepts throughout businesses, whether large or small. And finally, the proliferation and eventual ubiquity of reporting will shift the focus away from the frameworks themselves back to the specific topics and indicators.

As can be confirmed from the market makers identified above, sustainability reporting itself in the past decade has practically developed into its own small industry that has earned the attention of most large companies. The next decade will undoubtedly be marked by a vast expansion and evolution in ESG reporting.

1.5.2 Trend 1: Reporting initiatives are increasing at national and regional levels

ESG reporting has historically been largely 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 a minimum of social and/or environmental metrics. In addition, 12 of the 55 exchanges require aspects of environmental and social reporting for at least some of their listed companies, with 7 of those exchanges, including those in Brazil, Malaysia, South Africa and the UK, requiring such reporting for all listed companies³⁸.

The emergence of ESG reporting guidelines through regulatory bodies has occurred in several instances over the past two decades, but is now gaining momentum, resulting in its own global initiatives. Some major concurrent initiatives include the Group of Friends (GoF) of Paragraph 47, the EU Non-Financial Reporting Directive, the Sustainable Stock Exchanges Initiative (SSE), and the World Federation of Exchanges Sustainability Committee.

The GoF of Paragraph 47 is a loosely organised group of government regulators drawing its origins from the 47th paragraph of the document 'The Future We Want', produced by the United Nations Conference on Sustainable Development (UNCSD) following the 2012 Rio +20 conference, which advocated for corporate sustainability reporting:

*"We acknowledge the importance of corporate sustainability reporting and encourage companies, where appropriate, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. We encourage industry, interested governments and relevant stakeholders with the support of the United Nations system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting, taking into account experiences from already existing frameworks and paying particular attention to the needs of developing countries, including for capacity-building."*³⁹

GoF was formulated by four countries, and at the time of publication had grown to include nine countries (Brazil, Denmark, France, South Africa, Norway, Colombia, Austria, Switzerland, and Chile), which signed the Group's charter. The GoF also has been championed by the UN Environment Programme (UNEP) and the GRI. Plans are underway through this group to conduct stakeholder engagement, to foment and exchange best practices, and to compile a technical body of knowledge on sustainability reporting at a country level⁴⁰.

Within the EU, in October 2014, the Council of the European Union adopted a directive for the disclosure of non-financial and diversity information for corporate transparency and accountability⁴¹. The legislation will require companies with more than 500 employees to report annually on environmental, social and employee-related material topics, and to include disclosures regarding the companies' policies, risks and performance for the reported topics. Companies that do not have policies in place would have to explain why they do not. This legislation is expected to affect 6,000 companies within the EU, and will vastly expand the prevalence of ESG reporting. Approximately 2,500 EU companies currently report on ESG performance on a regular basis⁴². Companies subject to the legislation must begin reporting under the new directive at the start of their financial year 2017^{43,44}.

In addition, in 2014, China's National Development and Reform Commission mandated greenhouse gas reporting for more than 20,000 companies and organisations⁴⁵. The mandate aligns with China's 2014 accord with the USA on climate change in which China has committed to limit carbon emissions to a [declared] peak and to generate 20% of total energy production from renewable energy sources by 2030⁴⁶.

On the side of market regulators, the Sustainable Stock Exchanges (SSE) initiative has a slightly longer history. Created in 2009 by several entities under the United Nations as a voluntary commitment whereby, among other activities, stock exchanges endorse the following statement: "We voluntarily commit, through dialogue with investors, companies and regulators, to promoting long-term sustainable investment and improved environmental, social and corporate governance disclosure and performance among companies listed on our exchange."⁴⁷

This group placed specific emphasis on ESG reporting through a presence at the Rio+20 conference and was influential in the inclusion of paragraph 47 itself. At the time of publication, 19 exchanges⁴⁸ had become partner exchanges on the SSE. And a feedback loop has begun to emerge, with some stock exchanges such as those in Johannesburg and São Paulo themselves becoming signatories of the UN PRI.

In addition, the World Federation of Exchanges (WFE) in March 2014 announced the launch of a sustainability working group, comprising 11 global stock exchanges on its committee⁴⁹, to address ESG reporting within the investment and regulatory committee. Furthermore, research also indicates that the majority of the world's largest stock exchanges are either considering, or have developed, some form of ESG disclosure⁵⁰. Stock exchanges in Hong Kong and Singapore are examples of those that have developed guidelines on ESG reporting, although neither has officially joined the SSE, GoF or WFE sustainability working group. Moreover, several have either begun, or will begin, to offer sustainability-related indices for investment, with the most prevalent example being the DJSI. Several studies have been conducted and made available as resources for understanding ESG reporting requirements by country⁵¹. These are constantly changing as new initiatives are being proposed.

⁴⁰ 'Group of Friends of Paragraph 47'. Group of Friends of Paragraph 47. N.p., n.d. Web. 01 Apr. 2014. <<https://www.globalreporting.org/information/policy/gofpara47/Pages/default.aspx>>.

⁴¹ Council of the European Union. Press release, Sept 2014. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/144945.pdf

⁴² Large European Companies Now Required to Provide Mandatory Environmental, Social and Governance (ESG) Disclosure - <http://www.davispolk.com/briefing/corporategovernance/large-european-companies-now-required-provide-mandatory-environmental/>

⁴³ Council of the European Union. New Transparency Rules on Social Responsibility for Big Companies. N.p., 26 Feb. 2014. Web. <www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/141189.pdf>.

⁴⁴ Official Journal of the European Union. Directive 2013/34/EU of the European Parliament and of the Council. 26 June 2013. <http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm>

⁴⁵ China Moves Toward Mandatory Corporate Greenhouse Gas Reporting: <http://www.wri.org/our-work/top-outcome/china-moves-toward-mandatory-corporate-greenhouse-gas-reporting>

⁴⁶ U.S. and China Reach Climate Accord After Months of Talks: http://www.nytimes.com/2014/11/12/world/asia/china-us-xi-obama-apec.html?_r=0

⁴⁷ SSE Initiative. N.p., n.d. Web. 01 Apr. 2014. <<https://www.sseinitiative.org/>>.

⁴⁸ <http://www.sseinitiative.org/stock-exchanges/>

⁴⁹ BM&F Bovespa, Borsa Istanbul, Borsa Malaysia, Chicago Board Options Exchange, CME Group, Deutsche Börse, InterContinental Exchange/NYSE, Johannesburg Stock Exchange, NASDAQ OMX, National Stock Exchange of India, Shenzhen Stock Exchange. www.unpri.org/whatsnew/stock-exchanges-create-esg-data-working-group/

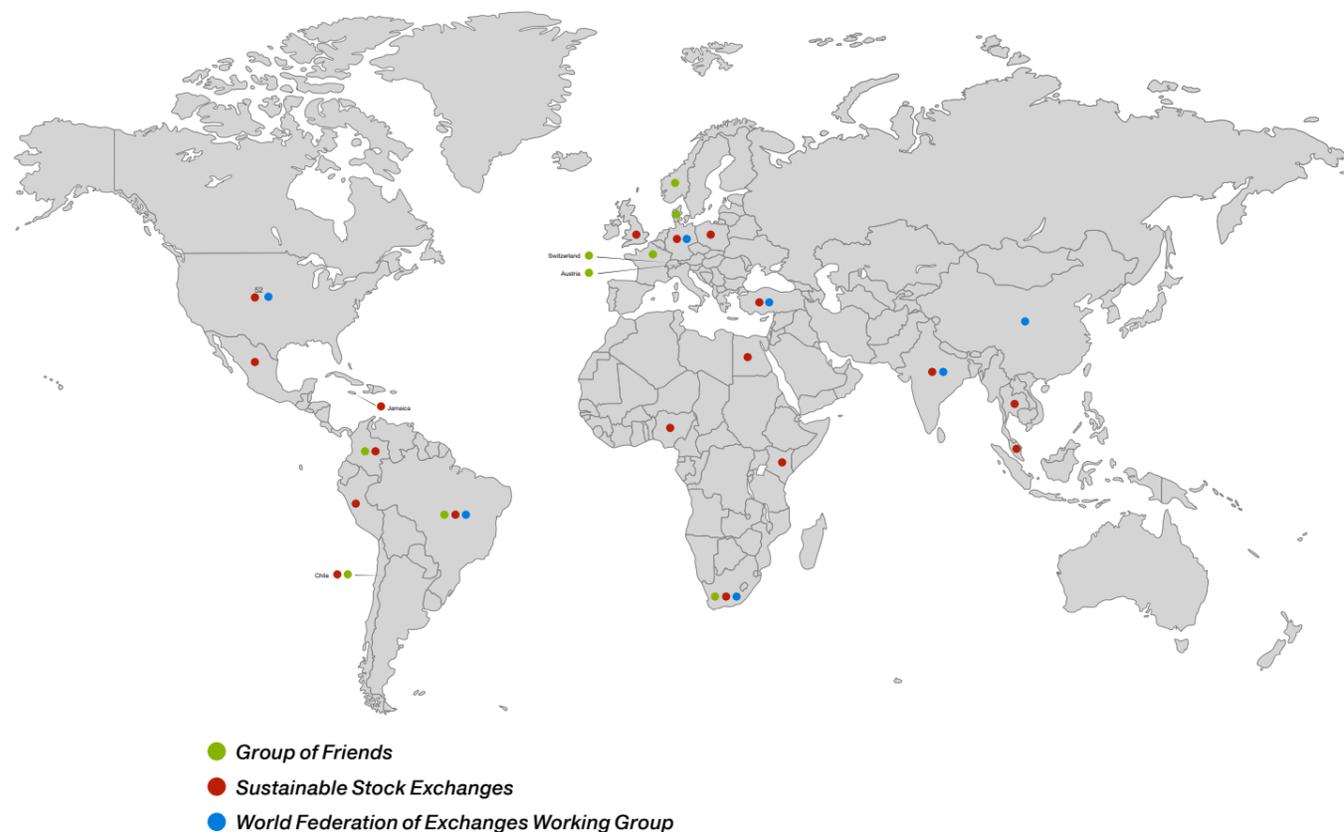
⁵⁰ CK Capital. Trends in Sustainability Disclosure: Benchmarking the World's Stock Exchanges, October 2013.

⁵¹ See Compilation of International and National Corporate Disclosure Initiatives. UNEP 06 December 2012. <www.unep.org/resourceefficiency/Portals/24147/Business-Resource%20Efficiency/Mapping%20exercise_SR%20Stakeholders%20and%20Initiatives.pdf>; INCR Listing Standards Drafting Committee Consultation Paper: Proposed Sustainability Disclosure Listing Standard for Global Stock Exchanges, Appendix. CERES Investor Network on Climate Risk, April 2013.

³⁸ 2014 Sustainable Stock Exchanges Initiatives 2014 Report on Progress: <http://www.sseinitiative.org/2014rop/>

³⁹ 'The Future We Want'. Business and Industry: Sustainable Development Knowledge Platform. United Nations, n.d. Web. 01 Apr. 2014.

Figure 1.1: Mapping of Leading Countries and Country Locations of Stock Exchanges involved in ESG Reporting Initiatives



Country reporting initiatives are varied in scope, applicability and level of mandate, and also have differing levels of guidance available for reporters. At one end of the spectrum, countries have put forth prescriptive stipulations with comprehensive guidance documents. Canada issued a *Starter's Guide to Sustainability Reporting*⁵³ and the Government of India's 2011 *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business* essentially contain a combination of the reporting framework with comprehensive guidelines and resources⁵⁴. At the other end, some initiatives may simply have encouraged reporting as a first step, followed by plans for developing any guidelines or reference documentation.

A result of these trends are that the market is moving from voluntary reporting, which uses frameworks and guidelines from third-party organisations such as GRI and CDP, to reporting according to guidelines or standards directly issued by government authorities, policy-makers or market regulators. In the past year, a handful of frameworks and sets of guidelines have been proposed to influence reporting at a country level. After years of development, in December 2013, the IIRC released its 'International <IR> Framework' with the purpose of establishing some guiding principles and content for the development of an integrated report⁵⁵.

The Investor Initiative for Sustainable Exchanges, an initiative of the Investor Network on Climate Risk (INCR, also a project of Ceres), recently released a proposal with recommended stock exchange requirements for ESG reporting⁵⁶. Instead of proposing a framework, it suggests specific components that stock exchanges can adopt in their own guidelines. By way of example, it recommends that companies' materiality assessments should be disclosed in annual financial filings, and that they should provide a hyperlink in their annual financial filings to an ESG Disclosure Index, as well as disclosing information on the ten specific ESG categories, using a 'comply or explain' approach for each. Similarly, the UN Conference on Trade and Development also released best practice guidance for policy-makers and stock exchanges in 2013⁵⁷.

However, given that mandates for reporting will ultimately 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 individual country. Some initiatives develop their own guidelines which may directly reference GRI or similar, as is the case of the Hong Kong Exchange ESG reporting guidelines. They may also create their own, as is the case of France through the Grenelle Act or the Sustainability Accounting Standards Board in the USA, while others will simply adopt a pre-existing framework with minimal adjustment. The institutionalisation of reporting requirements on stock exchanges or in regulation itself is a complex exercise and will vary from country to country, yet the culmination of the above efforts will undoubtedly lead to an increase in ESG reporting in some form.

Key concepts include:

Most, if not arguably all, stock exchange or government-led reporting initiatives are voluntary for companies. Even though it may be touted as a requirement in covering these initiatives, the common term used to describe these initiatives in disclosure is 'Report-or-Explain', 'Comply-or-Explain', or 'Apply-or-Explain', which creates a soft mandate for companies to either report, or explain why they do not report, without specific consequences for not reporting.

In theory a company can simply explain why it is not reporting due to insufficient data, proprietary and confidential information, a lack of clear guidance on reporting parameters by the initiative's governing body, and so forth. Some of the most touted examples of stock exchange reporting, BM&F BOVESPA in Brazil and the Johannesburg Stock Exchange in South Africa, both follow the report-or-explain concept. However, it should be noted that the report-or-explain concept serves the dual purpose of initiating discussions toward mandated requirements, while giving companies the opportunity to prepare for forthcoming requirements.

One notable example is India, where the Government of India's Ministry of Corporate Affairs put forth voluntary apply-or-explain guidelines on social, environmental and economic responsibilities of business, which contained a sustainability reporting component along with approaches to social responsibility. After years of discussion, in 2014, India expanded the apply-or-explain concept into a CSR reporting law, whereby companies with a certain income threshold will need to spend at least 2% of their average net profits on CSR initiatives or report a reason for not complying. The ruling officially passed in late February 2014 to take effect in April 2014, so the turnover for compliance was very quick. Indian companies that had not heeded the 2011 responsible business guidelines would have had to act quickly to set up their platforms⁵⁸.

Regulated disclosure of individual topics is often included in listings of countries with ESG requirements, but is not really complete ESG reporting. The umbrella of topics covered under ESG is arguably vast enough to encompass any new disclosure requirement. Some countries have placed more stringent reporting requirements on a specific topic or topics. One example is the USA, where the Sarbanes-Oxley Act of 2002 constitutes a large portion of governance disclosure. More recently, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2012 carries a provision on disclosure of sourcing of conflict minerals, particularly coltan, which is predominantly a key metal in the production for smartphones and has become a growing social concern. The majority of the world's coltan reserve can be found in the Democratic Republic of Congo and has since created tremendous political and civil unrest over the mining of this metal⁵⁹. As a result, and technically speaking, the USA now has mandatory reporting relating to ESG issues of supply chain, human rights and community impacts – but it is limited to this specific topic.

In the UK, carbon reduction and energy efficiency have been the ESG focus, first through the country's Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, which requires the participation of both the public and private sectors. The cap and trade system currently has over 2,100 participants⁶⁰. In 2013, the London Stock Exchange passed a mandate that all companies listed on the stock exchange must publish total GHG emissions⁶¹. Furthermore, Article 8 of the EU Energy Efficiency Directive of November 2012, whereby energy audits are mandatory for large entities, goes into effect this year. In order to address this directive directly, the government has launched the Energy Savings Opportunity Scheme (ESOS), which requires all audits to take place by 5 December 2015, with follow-up audits every four years⁶².

⁵² NASDAQ and NYSE

⁵³ www.cica.ca/focus-on-practice-areas/reporting-and-capital-markets/performance-reporting-resource-centre/item78374.pdf

⁵⁴ Government of India Ministry of Corporate Affairs. *National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business*, 2011.

⁵⁵ International Integrated Reporting Council. *The International <IR> Framework*, December 2013.

⁵⁶ Ceres Investor Network on Climate Risk. *Investor Listing Standards Proposal: Recommendations for Stock Exchange Requirements on Corporate Sustainability Reporting*, March 2014.

⁵⁷ United Nations Conference on Trade and Development. *Best practice guidance for policy-makers and stock exchanges on sustainability reporting initiatives*, 28 August 2013.

⁵⁸ 'New Rules for Corporate Social Responsibility Announced'. Nishith Desai Associates. Web. 12 Mar. 2014

⁵⁹ Ayres, C. J. (2012). The international trade in conflict minerals: Coltan. *Critical Perspectives on International Business*, 8(2), 178-193. doi:dx.doi.org/10.1108/17422041211230730

⁶⁰ CRC Energy Efficiency Scheme Annual Report Publication. Rep. Environment Agency, n.d. Web. 1 Apr. 2014. <cdn.environment-agency.gov.uk/LIT_8899_42af3a.pdf>.

⁶¹ 'Environmental Leader'. *Environmental Leader* RSS. N.p., 20 June 2012. Web. 28 Mar. 2014. <www.environmentalleader.com/2012/06/20/firms-on-london-stock-exchange-will-be-forced-to-report-co2-data/>

⁶² 'Energy Savings Opportunity Scheme'. GOV.UK. Department of Energy and Climate Change, n.d. Web. 08 Apr. 2014. <<https://www.gov.uk/government/consultations/energy-savings-opportunity-scheme>>

Integrated reporting has emerged in various forms, though not necessarily using the <IR> framework. In its 2013 Corporate Responsibility Reporting Survey, KPMG cited general acceptance of integrated reporting as the “next destination for corporate reporting”. The survey found that 51% of reporting companies included ESG information in their annual financial reports. This represented an increase from 20% in 2011 and 9% in 2009. While more than half of all companies included ESG information in financial reports, only 10% of reporters published what they considered to be an integrated ESG and financial report⁶³.

Integrated reporting can be considered short hand for the term ‘integrated financial and non-financial reporting’, whereby the comprehensive scope of ESG issues and reporting concepts are embedded in the same reports in which companies publish financial performance information. The term ‘integrated reporting’ has been championed by the IIRC and its International <IR> Framework. This framework represents a forward-looking design to “adopt ‘integrated thinking’ as a way of breaking down internal silos and reducing duplication, and improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.”⁶⁴

The <IR> Framework centres on the concept on value creation in the context of capital flows among the following types of ‘capital’: financial, manufactured, intellectual, human, social and relationship and natural capital. It also seeks to streamline current financial reporting mechanisms and reduce their complexity. The framework was released in December 2013 and may see increased use and alignment.

A difference, however, should be noted between the use of the term ‘integrated reporting’ and the <IR> Framework, which can create confusion in the marketplace and requires clarification⁶⁵. While many large companies are participating in the <IR> Pilot Programme, the use of the <IR> Framework is not mandatory to produce an integrated report. The companies currently publishing integrated reports do not necessarily follow this framework, nor is it embedded into current country stock exchange requirements. France is an example of a country that has what can be considered integrated reporting for over a decade through its Grenelle Act for ‘extra-financial reporting’, requiring environmental and social performance to be included in annual reports. However, these requirements are not aligned with the <IR> Framework.

Regulated disclosure may be set at certain thresholds of scale and may not affect most Travel & Tourism companies. This is most obvious when a country’s requirement originates from the stock exchange, and therefore does not apply to those companies not publicly traded or seeking listing on an exchange. Other country reporting schemes may have more comprehensive coverage of ESG topics, but will set thresholds of income to determine which companies are required to report.

Furthermore, some government-regulated disclosure may have certain thresholds for size or beneficial ownership, excluding small and medium enterprises (SMEs) or those without public (state) ownership. The proposed EU legislation is an example, with a threshold of 500 employees (the same threshold as for France’s Grenelle Act). As the majority of tourism businesses are SMEs, they will not be subjected to the same stringency or breadth of disclosure, although the principles of reporting will still be valid and some initiatives will carry provisions and guidance for SMEs. Likewise, as many SMEs form part of the supply chain of larger tourism businesses, they will be engaged to address key topics when responding to supplier evaluation processes of larger companies. However, when examining these trends, Travel & Tourism companies should be cautious, as much of the bell-sounding itself is done by the ESG reporting community, which itself stands to benefit from the buzz.

The final format and framework used for disclosure requirements should not be the immediate concern of listed Travel & Tourism companies, which can take preliminary steps to prepare for ESG reporting that will ultimately be necessary regardless of the format or medium for ESG reporting (see *Section 3 for further guidance*).

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

As the practice of ESG reporting matures, reporting frameworks, guidelines and standards are becoming more specific for industries to hone in on the most material topics. The concept of materiality has become prevalent across leading ESG reporting frameworks, including the GRI, SASB and CDP. The Global Reporting Initiative sets forth a recommended process by which organisations assess which topics are most material as part of the ESG report development process⁶⁶.

A leading practice in GRI guidelines use is to include the results of the materiality assessment in the ESG report or on the corporate website as **Ford Motor Company** has done with its interactive materiality website⁶⁷. Examples of published materiality assessments within Travel & Tourism include those from **IHG, TUI AG, HSH Group, Kuoni, Air Canada, Asiana, Finnair, Korean Air and Virgin Australia**. It is worth noting that the results of past materiality assessments are often embedded in a set of strategic ESG priorities that are also communicated.

Companies also consider topics and indicators covered in available GRI sector supplements.

As an example, sector supplements have been developed for Airport Operators, Construction and Real Estate and Event Organisers⁶⁸. For Airport Operators, additional topics include Business Continuity and Emergency Preparedness, Noise, Service Quality, Provision of Services, or Facilities for Persons with Special Needs⁶⁹. For event organisers, additional topics include Food and Beverage, Soft and Hard Legacies and Inclusivity. Additional indicators and disclosures include:

- Post-event initiatives, outcomes and long-term impacts
- Types of impacts of initiatives to create a socially inclusive event and create an accessible environment, and
- Share of F&Bs that meet the organiser’s policies or local, national or international standards⁷⁰.

SASB represents an important development whereby sector-based materiality assessments would inform ESG reporting in financial filings. SASB uses a materiality map in which more than 40 sustainability issues are analysed in the context of the industries in its Sustainability Industry Classification System (SICS)⁷¹ which maps to the Bloomberg Industry Classification System (BICS)⁷². SASB has identified ten thematic sectors: Health Care, Financials, Technology & Communication, Non-Renewable Resources, Transportation, Services, Resource Transformation, Consumption, Renewable Resources & Alternative Energy, and Infrastructure⁷³. For each thematic sector, SASB industry working groups have been established covering a set of industries within the sector. The Travel & Tourism sector is largely grouped within the Services sector. Airlines are grouped within the Transportation sector.

⁶⁶ Note that the GRI defines materiality as “the threshold at which Aspects become sufficiently important that they should be reported. Beyond this threshold, not all material Aspects are of equal importance and the emphasis within a report should reflect the relative priority of these material Aspects.” (Part 2 of G4 Implementation Manual, pp. 11)

⁶⁷ corporate.ford.com/microsites/sustainability-report-2012-13/blueprint-materiality-matrix

⁶⁸ https://www.globalreporting.org/reporting/sector-guidance/sectorguidanceG4/Pages/default.aspx

⁶⁹ https://www.globalreporting.org/resource/library/GRI-G4-Airport-Operators-Sector-Disclosures.pdf

⁷⁰ https://www.globalreporting.org/resource/library/GRI-G4-Event-Organisers-Sector-Disclosures.pdf

⁷¹ www.sasb.org/materiality/determining-materiality/

⁷² www.sasb.org/industryclassification/sics/

⁷³ www.sasb.org/industryclassification/sics/

⁶³ www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013-exec-summary.pdf

⁶⁴ www.theiirc.org/international-ir-framework/

⁶⁵ For an example, see the Johannesburg Stock Exchange Guidance Letter on Integrated Reporting dated June 27, 2013 www.jse.co.za/Libraries/JSE_Listing_Requirements_-_Guidance_Letters/Guidance_Letter_Integrated_Reporting_June_2013.sflb.ashx

Figure 1.2: SASB Industry Working Group for Hospitality & Recreation

Thematic Sector	Industry Working Groups	Industries
Services	Hospitality & Recreation <i>(Note: Other services industry working groups cover Consumer Services and Media)</i>	Hotels & Lodging Casinos & Gambling Restaurants Leisure Facilities Cruise Lines

Incorporating multi-stakeholder feedback, SASB Provisional Standards for the Services and Transportation industry were published in 2014⁷⁴. The following key issues per industry were identified as sustainability disclosure topics with associated accounting metrics:

Figure 1.3: SASB Disclosure Topics in Provisional Standards⁷⁵

Hotels & Lodging	Casinos & Gaming	Cruise Lines	Airlines
<ul style="list-style-type: none"> Energy and water management Ecosystem protection and climate adaptation Fair labour practices 	<ul style="list-style-type: none"> Energy management Responsible gaming Smoke-free casinos Internal controls on money laundering Political spending 	<ul style="list-style-type: none"> Fuel use and air emissions Discharge management and ecological impacts Shipboard health & safety management Fair labour practices Accident management 	<ul style="list-style-type: none"> Environmental footprint of fuel use Labour relations Competitive behaviour Accidents & safety management

The CDP is also evolving to further emphasise materiality and may develop sector-based reporting. The concepts behind materiality have been embedded within the CDP information requests for several years, as companies have to report on their prioritisation process and select from a series of potential risks and opportunities. In 2014, the CDP information request included more prescriptive dropdown menus to encourage companies to describe explicitly the degree of materiality for energy, water and climate change to the organisation. The CDP has modules for further reporting for the following sectors based on the General Industry Standards Council (GISC) classifications: Electric Utilities, Multi-Utilities, Oil & Gas Exploration & Production, Integrated Oil & Gas, Oil & Gas Refining & Marketing, Auto Parts & Equipment, Automobile Manufacturers, and Telecommunication Services & Information Technology. The CDP has also added sector-based resources and assigns point-of-contact to companies based on sector. It is expected that the CDP may eventually move to a more sector-based approach through the CDP’s Climate Disclosure Standards Board⁷⁶, which is working in collaboration with SASB⁷⁷.

In addition, the GRI has created the Global Sustainability Standards Board (GSSB) that may assist in the aggregation of emerging sector-based reporting standards⁷⁸. Announced in 2014, the GSSB will have a separate governance structure to the GRI and be tasked with “developing and approving the [GRI’s] Sustainability Reporting Standards”. With the advent of SASB and more detailed sector-based disclosures, GRI’s CEO Michael Meehan has stated that: “It’s GRI’s role to ensure that there is cohesion in the marketplace with standards around the world.”⁷⁹

Industry-specific collaboration includes the definition of material topics as well as performance indicators. Not only will the increased materiality focus further define specific topics for sectors, but also their related indicators of performance or scale. Sector-specific work within GRI, SASB and CDP all help further refine indicators. Similar work has been initiated and is ongoing in various industries for measurement and calculation of products and services, with potential convergence between this work and information reported through ESG frameworks. As an example, the Sustainability Consortium was born out of the supplier evaluation used in Wal-Mart’s Sustainability Index to help manage data and is now a multi-stakeholder organisation with the mission of addressing consumer product sustainability across many industries. The group has over 90 corporate members and is managed by Arizona State University and the University of Arkansas, with affiliations at Wageningen University and Nanjing University.

Similarly, the Apparel Index is a qualitative indicator-based tool to help companies assess the environmental sustainability of their apparel and footwear products. Originally released as the Higg Index 1.0 in June 2012, with the 2.0 version released in December 2013, this initiative is based on several other supporting tools within the apparel and footwear industry, including Nike’s Environmental Apparel Design Tool. Within Travel & Tourism, the International Civil Aviation Organization (ICAO) developed an industry-wide carbon emissions calculation methodology and calculation tool for air travel, and the Hotel Carbon Measurement Initiative (HCMI) developed a standard calculation guidance for carbon emissions from hotel stays. Collectively, these types of measurement initiatives also enable customers to measure and report the environmental footprint of their operations and supply chain at the organisational level.

1.5.4 Trend 3: Increased attention is being placed 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 over 2011 levels⁸⁰. The leading component of this trend is submitting ESG data, particularly carbon emissions data, for assurance – 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’ – limited, moderate, reasonable or high – based on the standard used to verify the data. For carbon emissions data, leading verification standards include ISO 14064-3, AA 1000 and ASAE 3000⁸¹.

Key concepts include:

Market pressures continue to drive increased attention to verification. Assurance is now essentially required to achieve a strong CDP Climate Change score, with up to 17% of total possible points under the 2014 performance score, and 11% of total points under the 2014 disclosure score attributable to assurance⁸². In addition, to comply with the GRI G4 Guidelines, the GRI recommends that organisations state ‘Assured’ or ‘Not assured’ next to each indicator referenced in the Content Index that accompanies the report. Also, within Bloomberg’s ESG platform, users have the ability to search not only ESG data but also whether the data has been assured.

Verification is seen to increase the credibility of a company’s ESG commitments and management approach. In a 2011 KPMG study, North American companies overwhelmingly cited “reinforce credibility among stakeholders” as the primary driver behind having data verified and assured⁸³. The second most common driver is to “improve the quality of reporting information”. However, it has been found that reports that are GRI-checked or externally assured show errors and are not 100% accurate⁸⁴.

Verification will eventually lead to better and more accurate reporting. There is a need for better and more accurate reporting, and the verification process has an important role to play. A study conducted by Vienna University of Economics and the Business Institute for Human Resources Management analysed labour and human rights indicators from the GRI framework. Of the 131 companies analysed from Forbes 250, only 11% of 85 of companies that claim to report on labour indicators actually report what they claim to report. For human rights indicators, only 20% of 62% of companies that claim to report this actually report what they claim they do.

⁷⁴ www.sasb.org/standards/status-standards/

⁷⁵ http://www.sasb.org/sectors/services/ and http://www.sasb.org/sectors/transportation/

⁷⁶ www.cdsb.net

⁷⁷ www.sasb.org/approach/key-relationships/

⁷⁸ https://www.globalreporting.org/information/news-and-press-center/Pages/GRI-Forms-New-Governance-Structure-to-Catalyze-Sustainability-Reporting.aspx

⁷⁹ ‘Michael Meehan and the future of sustainability reporting’. http://www.greenbiz.com/article/michael-meehan-and-future-sustainability-reporting

⁸⁰ www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013-exec-summary.pdf

⁸¹ https://www.cdp.net/en-US/Respond/Pages/verification-standards.aspx

⁸² https://www.cdp.net/en-US/Respond/Pages/verification.aspx

⁸³ Source: KPMG International Survey of Corporate Responsibility Reporting 2011.

⁸⁴ ‘False Claims in Sustainability Reports’. RSS. Sustainable Business Forum, 17 Nov. 2012. Web. 24 Mar. 2014. <sustainablebusinessforum.com/elainecohen1/71661/false-claims-sustainability-reports>.

Another study conducted by Banarra, an Australian sustainability consultancy, also included a similar analysis of ten Australian companies, which reported similar results to those of the Viennese study. In 2011, Leeds University and the Euromed School of Management conducted a study of over 4,000 sustainability reports in which the data being reported within these reports was thoroughly examined. The study revealed “unsubstantiated claims, gaps in data and inaccurate figures”⁸⁵. Examples include an energy company reporting carbon emissions equivalent to four times the planet’s entire carbon footprint; an automobile company reporting more waste generated at its facility than exists on the planet; and parent and subsidiary companies not reporting on their most material environmental topics and data because they assume the other will claim and report it.

Mandated integrated reporting will be a game changer, driving widespread assurance practices. Should integrated reporting be mandated either by nations or stock exchanges, it is expected that verification of ESG become the norm, given that the ESG data will be reported alongside financial data. In the meantime, market pressures continue to increase demand for ESG data assured.

Small- to medium-sized and non-public companies may be impacted by the trend toward verification. The G4 Guidelines includes new indicators on the percentage of new suppliers each year that are screened for environmental, human rights, and practices in addition to impacts on society. For companies that seek to have this data point verified and then assured, the screening process will need to be documented and in some instances may require additional rigour. In addition, the CDP Climate Change Information Request asks companies if they receive greenhouse gas emissions data from their suppliers. As verification becomes more mainstream, corporate purchasers may ask not only “Can you provide your greenhouse gas emissions?” but also “Have you had them assured?”

1.5.5 Trend 4: Increasing focus is placed on an organisation’s supply chain.

The supply chain has always been part of a company’s ESG reporting and strategies. In recent years, however, a greater emphasis on supply chain responsibility has emerged – driven in part by the G4 Guidelines’ addition to four new supply chain aspects: Supplier Environmental Assessment, Supplier Human Rights Assessment, Supplier Labour Practices Assessment, and Supplier Impacts on Society Assessment. As part of the G4 process, organisations have to assess whether these aspects are material to them or their stakeholders – with suppliers often considered as key stakeholders. In addition, within the CDP Information Request, companies have to disclose not only their direct risks but also those in their supply chain, in addition to describing ways in which they are engaging with their suppliers on energy, climate change and water issues. Within the field of ESG, an organisation’s supply chain is perceived as an area of greatest impacts, risks and opportunities across sectors. This includes Travel & Tourism, where the supply chain has been said to for up to 76% of the impacts associated with travel and leisure⁸⁶.

There are several examples of companies leading the way for sustainable supply chain innovations across different industries. As an example, **Wal-Mart’s** Integrated Sustainability Index, in partnership with the **Sustainability Consortium**, now encompasses 300 product categories across 5,000 suppliers, with that number growing each year. Through the index and settling goals for suppliers, Walmart aims to reduce fertiliser use on agricultural products for 14 million acres of US farmland by 2020 and expand the index efforts in its Chilean and Mexican markets⁸⁷.

Unilever holds a unique position in the consumer goods industry, as a company that integrates life-cycle analysis with its strategic sustainability goals. Unilever has a goal to halve water associated with consumer use in their products by 2020. This goal is achieved through efforts to create innovate products that reduce water use at the consumer end, but also to reduce water used to create that product in the manufacturing phase – all of which factors into a products life-cycle analysis within the supply chain⁸⁸.

Nike has invested in developing a waterless dyeing technology to manufacturer its textiles, which will significantly change the textiles industry⁸⁹. **Timberland** not only audits and ensures vendor sustainability through environmental, social and labour management audits, but also reports results regarding these audits on a quarterly basis⁹⁰. **Nestlé** was also one of the first movers to pledge to source sustainable palm oil for its supply chain. Palm oil is found in many food and consumer goods products and is driving rapid deforestation⁹¹.

Key concepts include:

ESG reporting is being used as a means of reducing ‘questionnaire fatigue’ in supplier evaluation. The increased focus on an organisation’s disclosure regarding its supply chain risks, impacts, management approach and indicators itself carries the largest implication for the future of ESG reporting. This stems from an organisation being asked by its customers or investors the basic ESG-related question: “What does your organisation do to evaluate its supply chain?” To improve its response to that question, the organisation relies on its own supply chain evaluation process, consequently requesting similar ESG-related information from its own suppliers. Historically, organisations recognised for innovative supply chain initiatives developed their own internal criteria and evaluation process. As the practice became more commonplace among large corporations and investors, companies began to face dozens, even hundreds of surveys or questionnaires from customers and investors containing similar information. Inhouse and third-party data platforms were developed to cope with the resulting data collection needs. It was also questionable as to what degree the information was actually analysed and used, as against just being collected for the sake of asking questions as a form of good supplier evaluation. As a result, common ESG reporting can streamline and simplify the supplier evaluation process if companies collectively report the same information in a common format.

Microsoft is recognised as having contributed to this trend when the company asked approximately 20 suppliers to use GRI’s Disclosure on Management Approach framework to report on how they meet the standards in Microsoft’s Vendor Code of Conduct, which includes coverage of environmental and social issues such as business ethics, labour and human rights, and respect for intellectual property⁹².

Common ESG metrics are used to streamline supplier evaluation processes. Standardised ESG reporting also emerged as a streamlined solution to supplier (and investor) evaluation. Companies realised it was easier for them to commit to a handful of specific practices and simply request a supplier’s GRI report as a best practice, themselves recognising the internal benefits derived from sustainability reporting, rather than attempting to re-invent the wheel of evaluating suppliers at an organisational level. Moreover, responding companies began to produce ESG reports and refer more directly to those reports or their content in their responses to supplier evaluation surveys. This was the period coinciding with much of the increase in GRI reports in Travel & Tourism, in line with the emerging need to provide information to institutional investors and corporate travel buyers.

As this trend continues and reporting becomes more prevalent, Travel & Tourism companies will begin to answer the same question, which will ultimately result in similar requests for information within the Travel & Tourism supply chain.

Challenges still persist because supply chains are diverse, complex, and encompassing. The supply chain encompasses companies large and small, and broad ESG reporting frameworks are not always a good fit for SMEs, as was discussed earlier. This will result in more simplified emanations of reporting guidelines and increased use of standards that encompass the key topics at the organisational and product/service level.

1.5.6 Trend 5: Harmonisation of information means applying specific concepts and issues rather than frameworks

Although reporting will increase, it is highly unlikely, given the other trends mentioned above, that one specific sustainability standard will satisfy the reporting needs of all Travel & Tourism businesses of various sizes globally – especially since inherent competition will continue to exist between framework bodies and standards. This leads to the fifth trend identified in this report, since the application of key reporting concepts and inclusion of common issues themselves can at least become harmonised. In short, all businesses could follow some type of reporting process and disclose content on a set of common issues.

We are likely to see a general shift of focus away from the frameworks themselves and more on the discussions of key topics. As the current trends involve identifying a set of industry-specific material topics and reporting on the respective risks, opportunities, management approach, and generally accepted key performance indicators for those topics, information is becoming increasingly harmonised across leading ESG frameworks. Each framework may serve a distinct from, but often complementary to, purpose than the others. These frameworks may also compete for investor audiences and strive to fulfil their own business models.

⁸⁵ ‘Doing good - or just talking about it?’ Society News. University of Leeds, 25 Nov. 2011. Web. 14 Apr. 2014. www.leeds.ac.uk/news/article/2696/8gt.

⁸⁶ GreenBiz Group Inc. State of Green Business 2014, pp. 40, 79.

⁸⁷ ‘Walmart Highlights Progress on the Sustainability Index’. Walmart Corporate. N.p., 12 Aug. 2013. Web. 24 Mar. 2014. <news.walmart.com/news-archive/2013/09/12/walmart-highlights-progress-on-the-sustainability-index>.

⁸⁸ ‘Our Water Footprint’. Unilever. N.p., n.d. Web. 24 Mar. 2014. <www.unilever.com/sustainable-living/water/footprint/index.aspx>.

⁸⁹ ‘NIKE, Inc. Announces Strategic Partnership to Scale Waterless Dyeing Technology’. NIKE, Inc. N.p., 7 Feb. 2012. Web. 24 Mar. 2014. <nikeinc.com/news/nike-inc-announces-strategic-partnership-to-scale-waterless-dyeing-technology>.

⁹⁰ ‘Supplier Sustainability’. Timberland Responsibility. N.p., n.d. Web. 24 Mar. 2014. <responsibility.timberland.com/factories/supplier-sustainability/>.

⁹¹ ‘Palm Oil Scorecard: Ranking America’s Biggest Brands on Their Commitment to Deforestation-Free Palm Oil’. Union of Concerned Scientists, 3 Mar. 2014. Web. 24 Mar. 2014. <www.ucsusa.org/global_warming/solutions/stop-deforestation/palm-oil-scorecard.html>.

⁹² www.greenbiz.com/blog/2013/06/14/how-corporate-reporting-improved-microsofts-supply-chain

Table 1.4:
Distinctions across Leading ESG Standards, Guidance and Frameworks

Leading ESG Standards, Guidance, and Frameworks	GRI	CDP	IIRC <IR> Framework	Investor Listing Standards Proposal ⁹³	SASB
Disclosure content	Self-defined	Sector-defined (in specific instances)	Self-defined	Self-defined (including 'comply or explain' option)	Sector-defined
Disclosure format	Voluntary report (stand-alone or annual)	Information request	Annual report	Investor filings and 'comply or explain' ESG disclosure	Investor filings
Scope of use	All organisations globally (more tailored toward large companies)	Global, targeted toward Fortune 500 companies	Global, companies currently producing annual financial reports	Global, listed companies on stock exchanges	US publicly traded companies filing with the SEC
Topics covered	Disclosures on management approach and indicators across six categories: economic, environmental, labour practices and decent work, human rights, society and product responsibility	In-depth reporting on strategy, governance, engagement, risks, opportunities and performance in targeted climate change, water and forests information requests	Discussion on value creation over time to protect and generate financial, manufactured, intellectual, human, social and relationship and natural capital	Materiality assessment disclosed in annual financial filings, specific ESG disclosure, on a 'comply or explain' basis, on 10 key ESG topics; hyperlink in annual financial filings to an ESG disclosure index (using GRI or equivalent)	Disclosures on industry-defined risks and performance indicators
Definition of materiality	Information that "may reasonably be considered important for reflecting the organisation's economic, environmental, and social impacts, or influencing the decisions of stakeholders"	Materiality concept is implicit through the information requests and instead requests disclosures on pre-defined risks and opportunities that have the "potential to generate a substantive change in your business operations, revenue, or expenditure."	"A matter is material if it is of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organisation's ability to create value over the short, medium and long term."	Topics that "have a direct or indirect impact on an organisation's ability to create, preserve, or erode economic, environmental, and social value for itself, its stakeholders, and society at large." ⁹⁴	Information is material if "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."
Sector distinctions	Sector may inform list of material aspects disclosed in G4; sector supplements developed for use when applicable	Limited sector modules available for; leaders identified across sectors and annual report identifies performance and trends within sectors	Sector may inform content reported but philosophy is more principles-based than rules-based, and thus not prescriptive based on sector classification	Sector-based initiatives may inform results of materiality assessment and disclosures provided in GRI or equivalent content indexes	Sector-based reporting is pre-determined by standards development by Industry working groups representing all sectors in SASB's classification system

Furthermore, the variations found across emerging ESG reporting guidelines from different countries and market regulators will inhibit the global adoption of one single, all-encompassing framework as is currently held de facto by the GRI. Thus it is often in the interests of ESG frameworks to join together, as well as create links to other relevant and related initiatives, to ensure validity and viability. Several examples of major linkages and MOUs have been put forth in the past few years, including the following:

- The GRI and CDP aligned to collaborate in the development of sector supplements and to give feedback on each other's guidelines and questionnaires. This leads to a more efficient reporting process⁹⁵.
- The GRI and UNGC aligned their work to advance corporate responsibility and transparency, and support an increasing number of companies and stakeholders⁹⁶.
- The GRI and IIRC have signed an MOU to collaborate on the continued mission of integrated reporting and sustainability reporting. They understand the complementary role both frameworks play in increased reporting transparency⁹⁷.
- SASB and the IIRC aligned work to advance the development of corporate disclosure and to communicate value to investors⁹⁸.
- SASB and CDP signed an MOU to increase support for standards relating to climate change disclosure and to support the determination of material topics involving climate change⁹⁹.
- The IIRC and CDP aligned to help accelerate advancement towards a resource-efficient economy¹⁰⁰.
- The GRI has put forward linkage documents to help organisations relate the specific reporting criteria to those of the CDP and UNGC. In addition, the GRI has aligned and proposed similar linkage documents with ISO 26000 and the OECD Guidelines for Multinational Organisations¹⁰¹.
- The GRI is one of the first sustainability reporting frameworks to introduce tagging sustainability reports with XBRL taxonomy. This tagging allows for easier access to information and provides a more efficient means of analysing reports¹⁰².
- IASB and IIRC signed an MOU that recognises the support from both organisations on the importance between integrated reporting from all facets, including financial, governance and sustainability reporting¹⁰³.
- IIRC and IFAC signed an MOU whereby both organisations recognise that collaboration between accountants and integrated reporting is essential to the success of increasing participation¹⁰⁴.
- IIRC and GISR signed an MOU that both organisations agree on the continued collaboration between reporting and ratings standards among reporting frameworks¹⁰⁵.

Looking forward, this web of linkages will collectively catch all issues, performance indicators and reporting methods that end up being encouraged or mandated across the world. Likewise, further prescriptive guidance on disclosure of approaches and performance to relevant issues and key topics will unfold in the short term. 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 as per the key ESG issues that affect their business.

⁹³ 'Linking up GRI and CDP'. CDP. N.p., n.d. Web. 28 Mar. 2014.

<<https://www.cdp.net/en-US/WhatWeDo/CDPNewsArticlePages/linking-up-GRI-and-CDP.aspx>

⁹⁶ 'UNGC and GRI Partnership'. CDP. N.p., n.d. Web. 28 Mar. 2014

<<https://www.globalreporting.org/information/about-gri/alliances-and-synergies/Pages/UNGC-and-GRI.aspx>>

⁹⁷ 'Integrated Reporting'. Integrated Reporting. N.p., n.d. Web. 31 Mar. 2014 <<https://www.globalreporting.org/information/current-priorities/integrated-reporting/Pages/default.aspx>>

⁹⁸ 'SASB and IIRC Announce Memorandum of Understanding'. The IIRC. N.p., n.d. Web. 28 Mar. 2014.

<www.theiirc.org/2014/01/16/sasb-and-iirc-announce-memorandum-of-understanding/>

⁹⁹ www.sasb.org/approach/key-relationships/

¹⁰⁰ 'CDP, CDSB and IIRC Announce Collaboration to Accelerate Integrated Reporting'. The IIRC. N.p., n.d. Web. 30 Mar. 2014. <www.theiirc.org/2013/07/18/cdp-cdsb-and-iirc-announce-collaboration-to-accelerate-integrated-reporting/>

¹⁰¹ 'Working Together for a More Transparent Future: An Update on GRI Linkage Documents'. GRI, n.d. Web. 09 Apr. 2014. <<https://www.globalreporting.org/information/news-and-press-center/Pages/Working-together-for-a-more-transparent-future-An-update-on-GRI-linkage-documents-.aspx>>

¹⁰² XBRL. GRI, n.d. Web. 09 Apr. 2014. <<https://www.globalreporting.org/reporting/reporting-support/xbrl/Pages/default.aspx>>

¹⁰³ 'IASB and IIRC to Cooperate on Integrated Reporting'. Accountancy Live, 8 Feb. 2013. Web. 09 Apr. 2014. <<https://www.accountancylive.com/iasb-and-iirc-cooperate-integrated-reporting>>

¹⁰⁴ 'IFAC and the IIRC Sign MoU on Cooperation, Collaboration For IR | IFAC'. Press Releases/News Alerts. IFAC, 17 Oct. 2012. Web. 09 Apr. 2014. <www.ifac.org/news-events/2012-10/ifac-and-iirc-sign-mou-cooperation-collaboration-ir>

¹⁰⁵ 'IIRC and GISR Agree to Cooperate on Corporate Reporting and Ratings Frameworks'. IAS Plus. Deloitte, 1 Apr. 2014. Web. 09 Apr. 2014. <www.iasplus.com/en/news/2014/04/iirc-gisr>

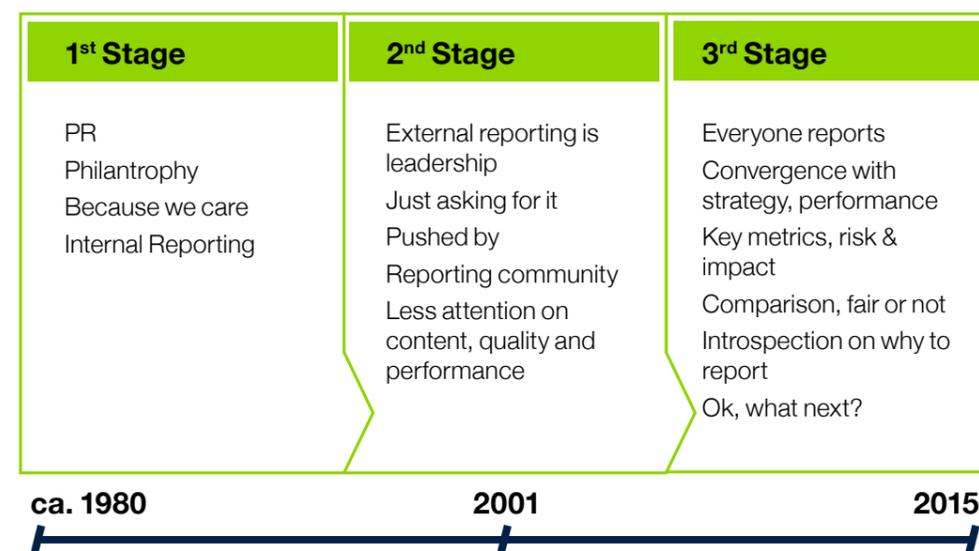
⁹³ Adapted from Ceres Investor Network on Climate Risk. Investor Listing Standards Proposal: Recommendations for Stock Exchange Requirements on Corporate Sustainability Reporting, March 2014.

⁹⁴ See Global Reporting Initiative. 'Materiality in the Context of the GRI Reporting Framework'. Available online at <https://www.globalreporting.org/reporting/G3andG3-1/guidelines->

1.6 Industry Outlook, Implications and Opportunities

1.6.1 A new stage of ESG reporting – more data-driven and with greater regulation

Several key trends influencing ESG reporting have been identified in the first section of this research. Overall, it can be argued that ESG reporting has evolved in three stages over the past few decades. In the first stage, the earliest forms of reporting were found among companies that had the most environmental and social criticisms. Language was heavily focused on public relations, corporate social responsibility was highly philanthropic, and much of the reporting was done internally within organisations for purposes other than external stakeholder communications.



With the advent of the predominant frameworks, the 21st century saw the transition to the next phase, marked by an overall push by several constituencies to increase reporting among business. The reporting focus shifted attention to stakeholders and their information requests. Internal processes for data collection started to develop, and the emergence of ESG gave companies the framework to demonstrate leadership and stand out for their efforts. Likewise, a significant reporting community was born, itself helping propagate the reporting trend. The value of reporting processes was a common discussion, and empirical analysis began to demonstrate that companies that disclosed their approach and performance to ESG issues (with disclosure a proxy for performance) outperformed non-reporters.

The current mainstreaming of reporting and, in turn, sustainability, as outlined in the prior sections of this research, point towards a new stage of ESG reporting. This stage will be marked by ubiquitous reporting, a deeper analysis of the management approach and content, and a convergence with business strategy, as the pressing issues around ESG further stress the business models of organisations across sectors and specifically within Travel & Tourism. Reporting will be more regulated and more data-driven. The sea of content will force stories to be told better, more authentically, and more relevantly to avoid fatigue. Introspectively, companies that have been reporting for over a decade will be able to take an introspective look to find where the true value of reporting lies, and how that value can be maximised (with other efforts minimised).

Companies will also not be able to hide their performance, as they will be held accountable to some degree over the multitude of targets that have been set in the coming decade. Some organisations will be able to demonstrate real progress, while others will continue lagging behind, publishing little more than glossy reports. The analysis of the information reported, however, will also become more astute, and the focus will shift to the actual strategy, with the programmes and performance of organisations evaluated in the same way that financial analysis is conducted, converging with the concept of value.

1.6.2 External pressures will stimulate further action

These three stages of reporting are also analogous to every organisation’s internal dialogue and use of reporting. The majority of Travel & Tourism businesses will need to begin addressing ESG reporting at the first stage. The opportunity for those Travel & Tourism companies with more mature reporting systems will be to further collaborate on common topics, metrics and resources to help stimulate the rest of the sector to move towards the new stage, so that Travel & Tourism collectively can be appropriately evaluated as a sector in terms of its contributions to the economy and impacts on the environment and society.

If the current trajectory of ESG reporting continues, a significant increase in reporting will be seen across Travel & Tourism organisations in the coming years. By the end of 2014, only 17% of the identified companies and just over one half of all WTTC members had reported or responded to ESG frameworks. External pressures from investors, customers and regulators will continue to increase. This research aims to provide a foundation for reporting for those seeking orientation and guidance. As Travel & Tourism companies progress in developing and improving their reporting processes, they will also recognise the need to focus on providing clear information that can be benchmarked against that of their peers, as well as ensuring that the sector overall can be compared with, and benchmarked against, other sectors. The wealth of content will increase and a common sector voice will emerge to support reporting needs.

Arguably, every sector is different, but the particulars of Travel & Tourism should be expounded for proper ESG analysis. In the past, the ESG analysis community did not clearly understand (and arguably still does not) the business models or metrics of Travel & Tourism industries. As an example, hotels and tour operators were placed in the same competing subsector as restaurants in the DJSI until recently. In addition, ESG analysis firms did not understand the fragmented business model often found in the hotel industry, and would pejoratively evaluate lodging Real Estate Investment Trusts (REITs) for a lack of programmes and disclosure, despite their not having operational control of the hotels (and in some cases being legally restricted from action). WTTC’s Sustainability Working Group members supporting this research also offered anecdotal stories of data analysis firms inaccurately estimating their energy, water and carbon data by a factor of as much as ten.

Also important, although less specific to Travel & Tourism, is the need for a common understanding of ESG disclosure in the Services sectors. It can be argued that the GRI and some of the CDP responses have their frameworks skewed toward companies that produce goods. The term ‘locations of operations’ can easily exceed 100 for travel companies, and data capture systems are more cumbersome. Similarly, training is an intrinsic concept in the service industries, with training a key operating procedure and focus of the majority of Travel & Tourism businesses – so inherent that most of it is not formally tracked. Should companies be required to start tracking each instance of training, including daily 10-minute operational briefings? Further topic discussion, collaboration and research can help provide awareness of the nuances of these types of issues within Travel & Tourism. On the other hand, Travel & Tourism will have to increase attention to key labour topics that may be highly relevant and impactful to the business and stakeholder, but not reported, either because of an unwillingness to publicly state information, or a lack of data capture mechanisms.

1.6.3 Reporting efforts within industry associations and organisations

Generally speaking, ESG reporting at an organisational level has not been addressed within or between industry trade associations or groups, although initiatives exist that cover components related to reporting. These include common performance measurement, specific initiatives, guidance and commitments to environmental stewardship and social responsibility, and engagement exercises, and are generally specific to a product or service rather than an organisation.

By way of example, the Pacific Asia Travel Association (PATA) has a Sustainability and Social Responsibility Committee that has announced efforts to help members meet disclosure requirements through a sustainability index¹⁰⁶. In 2012, the Global Business Travel Association (GBTA) released its Key Performance Indicators for Managing Corporate Travel, which included indicators of carbon emissions, termed ‘carbon visibility’, as well as comparisons of travel using rail versus air (with rail being environmentally preferable to air travel in their KPI). This was followed in 2013 by its Hotel Request for Proposal (RFP) – including 20 questions relating to sustainability ranging from certification to metrics and data reporting on energy, water, waste and carbon.

¹⁰⁶ pata.globalsustainabilityindex.com/en/terms.php, accessed March 11, 2014.

ICAO has developed a carbon calculation methodology and calculator that can be used to calculate carbon emissions from air travel¹⁰⁷, and this has been supported in policy advocacy through IATA for a global sectoral approach to aviation carbon emissions¹⁰⁸. Similarly, in lodging, a group of 25 hotel companies, together with WTTC and the International Tourism Partnership (ITP), developed the Hotel Carbon Measurement Initiative (HCMI) to publish a freely available, standardised carbon calculation method¹⁰⁹. Building on the HCMI, 12 hotel companies worked with Cornell University to release a hotel sustainability benchmarking study that provides benchmarks for energy and carbon emissions in hotels across major US markets, as well as at country level for a handful of countries¹¹⁰. In these instances, the common methodology and calculations serve the needs of those reporting data, as well as other entities using this data in their own reporting.

Where common intersections are found, further guidance on calculation and normalisation is beyond carbon calculation. By way of example, the term 'local' has a wide-ranging connotation and use across the sector. Initiatives to standardise calculations of carbon have emerged, but dozens of other performance metrics and indicators will need to be similarly evaluated.

These initiatives with larger trade associations help provide common language or advocacy but, as ESG disclosure shifts to national-level requirements through stock exchanges or government mandates, the national-level trade associations within specific countries will ultimately be more willing to support sector needs or address policy within each specific country. At present, at both national and multinational levels, the topic of ESG reporting has not been particularly addressed within travel industry associations and working groups in general. In addition to supporting performance measurement for carbon, these groups could provide benefit to members by increasing resources, adopting collaboration efforts, and providing support to help companies approach the wide spectrum of reporting.

Topics and performance indicators relating to ESG reporting also can be encompassed by a larger trend, termed 'non-financial reporting'. This trend carries with it the global discussions of moving beyond GDP towards more importance on measuring quality of life. Given the nature of Travel & Tourism and its range of influence on travellers and host communities, the historically academic study of travel's relation to quality of life may become more mainstream as well. Furthermore, sector discussions, initiatives and performance measurement currently focused on ESG may evolve to address the importance of Travel & Tourism as a key indicator in one's quality of life and well-being.

The opportunities for collaboration will also continue to grow, and these can be leveraged to stimulate positive change and key initiatives to help attain better performance once parameters are commonly defined. Travel & Tourism needs a collective voice to help define and build awareness around ESG reporting. This research will hopefully represent the first important steps in that convening exercise.

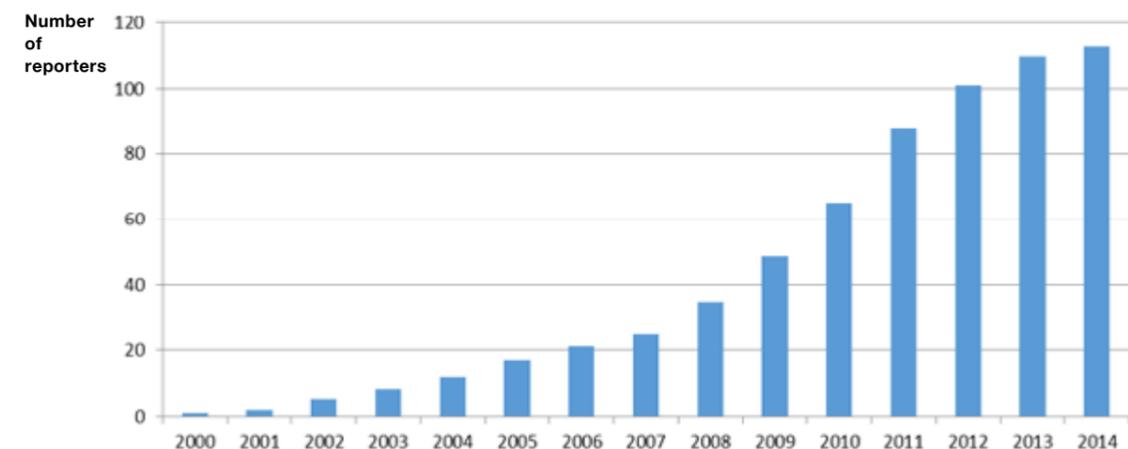
Section 2:

ESG REPORTING IN TRAVEL & TOURISM

2.1 Prevalence of Reporting

Environmental, Social and Governance (ESG) reporting within the Travel & Tourism sector has seen considerable uptake in recent years although, while now quite common, it is not yet mainstream. Figure 2.1 below highlights the growth trend of the number of reports globally over the past 14 years.

Figure 2.1: Sustainability Reporting within Travel & Tourism, 2000-2014



Source: Greenview

Since the value chain of Travel & Tourism has considerable reach, it is not easy to determine which reporting entities can be considered to sit within the sector. Figure 2.1 was generated by scanning airlines, hotel management companies/brands, cruise lines, large tour operators, global distribution systems (GDSs) and technology providers whose main focus is Travel & Tourism, and which have either produced a sustainability report (stand-alone or integrated financial and sustainability report), responded to the Carbon Disclosure Project (CDP) survey, or published a Communication on Progress (COP) as a result of having signed the UN Global Compact. It includes subsidiary companies that report, as well as parent brands.

Reporting among WTTC members is much more prevalent. By the end of 2014, 55% of WTTC members within the same industries had reported.

Industry Segment	WTTC Members	WTTC Reporters	% of WTTC Members Reporting
Airlines	10	8	80
Hotels	35	21	60
Cruise Lines	6	2	33
Tour Operators	12	5	42
GDSs	4	1	25

¹⁰⁷ 'Carbon Emissions Calculator'. International Civil Aviation Organisation, n.d. Web. 02 Apr. 2014. <www.icao.int/environmental-protection/CarbonOffset/Pages/default.aspx>.

¹⁰⁸ 'Fact Sheet: Global Sectoral Approach for Addressing Aviation Carbon Emissions'. IATA, Dec. 2014. Web. 11 Mar. 2014. <https://www.iata.org/pressroom/facts_figures/fact_sheets/Pages/emissions-approach.aspx>.

¹⁰⁹ Hotel Carbon Measurement Initiative. WTTC, n.d. Web. 02 Apr. 2014. <www.wttc.org/activities/environment/hotel-carbon-measurement-initiative/>.

¹¹⁰ Chong, Howard C. and Ricarte, Eric E. "Hotel Sustainability Benchmarking." Cornell Hospitality Report 14.11 (May 2014) <www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-17924.html>.

Reporting is becoming more widespread throughout the sector and is by no means limited to these industries or to large publicly traded companies, with examples found all across the value chain. Owners of tourism-related real estate are reporting. Nearly all forms of transport companies are reporting, including rail, bus and rental car firms. Rail and transit transport companies are also reporting, eg the Hong Kong Mass Transit Railway (MTR) is a longstanding reporter, as are the Korea Rail Network Authority and Renfe in Spain. Beyond the GDSs, other technology and distribution entities are reporting, although the practice is infrequent among online travel agencies (OTAs).

A growing number of airports have begun reporting, including Dallas-Fort Worth International Airport, Orlando International Airport, Incheon Airport, and Athens International. Some convention centres, such as the Amsterdam RAI in the Netherlands and Cape Town Convention Centre in South Africa, have also reported. Comprehensive reporting is commonly found among large corporate, trade show and association conference event organisers that have established sustainability programmes. These include the US Green Building Council's Greenbuild Conference, the International AIDS Conference, the American Chemical Society's National Meetings & Exhibitions and Oracle's OpenWorld, as well as the several conferences of the United Nations. Even tourism organisations such as CVBs, DMOs and NTOs, have begun reporting, with examples including the Abu Dhabi Tourism Authority, Visit Sweden and the Korea Tourism Board, which publish Global Reporting Initiative (GRI) reports. Within a destination, many service providers in addition to ground transport operators, including restaurant chains, are part of larger companies that report. Major attractions have reported, such as Walt Disney, the Sydney Olympic Park Authority and Zoológico de Barranquilla in Colombia.

The trend of reporting raises a significant question: How much further will reporting in Travel & Tourism increase, and to what limits? Given the current status, it is difficult to define who could or should be reporting. Some major travel companies do not report, while other smaller entities report, even though they are not publicly listed and do not have corporate travel buyers or governments putting pressure on them to do so.

2.2 Related Sector Initiatives

For the current benchmarking exercise, WTTC used as a base Bloomberg ESG data on companies within what it specifies as the 'travel, lodging and dining sector'. Dining and catering/F&B companies were removed from the list, and all non-listed WTTC members were added, along with companies that have global portfolios within the hotel, airline, cruise, tour operating and GDS sectors. This created the following 'universe' of potential reporters, with the corresponding prevalence of reporting:

Industry Segment	Universe of Potential Reporters	# with Bloomberg ESG Score	# with GRI Content Index	# with CDP Response ^a	% Reporting through 2014 ^b
Airlines	226	17	34	17	19%
Lodging ^c	323	14	33	15	9%
Cruise Lines	89	3	9	3	4%
Tour Operators	40	1	8	2	32%
GDSs ^d	5	0	1	0	20%
Total	683	35	85	35	13%

^a Includes Investor CDP, CDP Water, and CDP Supply Chain.

^b Publishing reports through 2014, which uses 2013 or prior calendar data.

^c Including hotels, resorts, timeshare and gaming hotels. Excluding lodging owner entities whose primary business model is real-estate investment or asset management.

^d Not including OTAs.

Source: Greenview

Without including all the other types of organisations within the sector's value chain, it is clear that the majority of tourism businesses are not reporting and that significant increases could be achieved. Extending this analysis throughout the other areas of Travel & Tourism also proves interesting, with similar results. By way of example, over 30 airports have published sustainability reports, which would make them a significant group of reporters in Travel & Tourism in aggregate when compared to the other industries above. On the other hand, if compared with the hundreds of airports in existence, they would represent the smallest share of reporters within their respective universe.

2.3 Report Content and Components

Using the current benchmarking exercise, several insights are also offered into the type of information being reported. Frequency of topics reported, use of goals and targets, and disclosure of risk are highlighted below. Further information can also be found in the guidance section.

Although 113 companies within the boundary set for the benchmarking exercise had published at least one sustainability report by the end of 2014, the breadth and depth of information varied significantly. The length of reports ranged from 16 pages, the shortest, to 427 pages, the longest, with the average at around 70 pages. Length is not necessarily an indicator of report quality, although this is a common perception. The Bloomberg ESG score, for example, is calculated purely based on the amount of information publicly available, and not the performance of the organisation in addressing ESG topics. Furthermore, integrated reporting is often seen within the reporting community as a leading practice, although integrated reports may have less ESG-related content than GRI reports. At present, only a handful of Travel & Tourism companies have published what could be considered as integrated reports. These include Sol Meliá, Iberia, Qantas, Virgin Australia, Southwest Airlines and French companies following the Grenelle Act, such as Accor.

Report benchmarking also requires the setting of boundaries and thresholds. It is interesting to note that 24% of Travel & Tourism reporters do not currently cite a particular reporting framework for their sustainability reports. By way of example, MGM Resorts International and Qantas publish reports but do not currently use GRI. Disney, Royal Caribbean and TUI all have adopted GRI in recent years, but reported in previous years without declaring GRI alignment. And some companies, such as British Airways, have reported using GRI in the past, and continue to publish sustainability reports, but have since ceased to declare a GRI level or include a content index. Starwood Hotels & Resorts, for example – like some other companies – has consistently responded to the CDP climate change response, but only recently published its first sustainability report. From an analyst's point of view (which is often a key audience in the ESG reporting industry), a GRI content index is an essential component for understanding, evaluating and rating/ranking a company as it streamlines the data collection process and facilitates some level of comparability. Furthermore, it helps set a general benchmark for the depth and breadth of content needed for a document to be considered as ESG reporting. (Some companies have published two-page CSR reports that were not counted as ESG reports.)

Figure 2.2:
Sustainability Reporting in Travel & Tourism by GRI Application Level

GRI Level	% of Reporters
G4	16
Core	12
Comprehensive	1
Level undeclared	3
G3 or G3.1	59
A/A+	7
B/B+	14
C/C+	11
Level undeclared	27
No GRI reference	25

However, the current trend is a move away from quantity to quality of reporting. Prior to the introduction of G4, the GRI guidelines had three levels of disclosure based on the amount of information reported using the framework. These were assigned A, B, and C, which indicated the respected levels of content required to be covered. Among the benchmarked companies, most were reporting at C level, with longer-term reporters tending to increase to level A. The G4 guidelines have done away with levels, instead moving towards two types of designations, 'core' and 'comprehensive', which refer to how closely the report applies the complete framework guidelines.

Regarding the information disclosed within GRI reports, specific types of common information can be found – material topic identification, stakeholder engagement mechanisms, governance disclosure, disclosures on management approach (DMA), and indicators of performance or scale. Using the benchmarked sector reports with a GRI content index, some general trends and aggregate information are provided below.

2.4 Key Issues

2.4.1 Stakeholders and stakeholder engagement

A fundamental premise of sustainability reporting is that information reported is relevant to the organisation's stakeholders. Just exactly who is represented as stakeholders across the Travel & Tourism sector varies from one industry to another. Figure 2.3 below shows a breakdown of stakeholder groups identified in Travel & Tourism reports.

Figure 2.3: Frequency of Stakeholder Groups Identified in Travel & Tourism Sustainability Reports

Stakeholder Group	Airlines	Hotels	Cruise Lines	Tour Operators	GDS/Tech
Employees/Associates/ Colleagues/Team Members	63%	71%	80%	50%	100%
Supply Chain/Suppliers	41%	50%	60%	50%	100%
Guests/Customers/Corporate Clients/Passengers/Consumers	66%	57%	80%	50%	50%
Shareholders	41%	32%	40%	33%	50%
Investors	53%	25%	40%	33%	-
(Property) Owners and Franchisees	-	29%	-	0	-
Business Organisations/Industry-specific Organisations/Peers/ Industry and Trade Associations	22%	18%	20%	17%	50%
Government(s)/Governmental Organisations	41%	4%	80%	33%	50%
Business Partners	13%	18%	-	17%	50%
Communities/Community Organisations	38%	32%	40%	17%	-
Local Communities/Home or Destination Ports		7%			
Regulators	9%	4%	-	17%	-
Media	13%	7%	60%	17%	-
Global Partners/Strategic Partners	-	7%	-	-	-
Academic Institutions/Universities	9%	4%	-	17%	50%
NGOs/Non Profits (Including International Organisations relating to Sustainability, Environmental, Humanitarian and Development Issues)	38%	25%	80%	50%	-
Authorities	19%	4%	-	-	50%
Society/the Public	16%	4%	-	17%	100%
Environment	6%	11%	-	-	100%
Travel Professionals/Travel Agents	-	-	20%	-	-
Distributors	3%	4%	20%	-	-
Licensees	-	-	20%	-	-
Factories	-	-	20%	-	-
Retailers	-	-	20%	-	-
Contract Workers/Contractors	3%	4%	20%	-	-
Researchers & Rating Agencies	6%	4%	20%	-	-
Science & Research/Scientific Community and Research Experts	9%	-	20%	-	-
Trade Unions	13%	4%	-	-	-
Financial Analysts	-	-	-	17%	-

Other stakeholder groups identified but found in less than 5% of reports include: Lenders, Tenants, Tourists, Restaurants, Sporting Bodies, Venue Operators and Visitors, Professional Associations and Bodies, Certification Authorities, Airports, Air Navigation Service Providers, Business and Leisure Travellers, National and Industrial Representations, Auditing Bodies, Farmers, Provincial Authorities, Gaming Boards, Liquor Boards, Rating Agencies, Competitors, Local Government Representatives/Elected Officials and Timeshare Owners. Airlines, Hotels and Tour Operators were also listed as various Travel & Tourism industries can be stakeholders for each another.

Several groups are commonly found, such as shareholders, employees, local communities, customers, suppliers and organisations of civil society. These are also found in the GRI guidelines as examples of main stakeholder groups¹. The results demonstrate how certain groups will be more relevant to some industries than others. For example, port destinations are a common stakeholder group specific to cruise line operators, and gaming boards will be relevant to organisations that operate casinos. Customers may be split according to the various guest/customer segments, and business units of the organisation may require other groupings, such as franchisees and timeshare owners.

Slightly over half of all reporting companies displayed identifiable stakeholder engagement mechanisms (such as surveying, interviewing, panel discussions) to gain feedback or insight to key topics or report content/quality. This does not imply that the other half do not engage stakeholders, as some form of engagement exists with most stakeholder groups in all organisations (eg investor calls are a form of engagement). However, when it comes to identifying and discussing the organisation's influence and impact on ESG issues relevant to those stakeholders, the practice is still relatively nascent within reporting companies – in the same way as reporting itself is within the Travel & Tourism 'universe'.

2.4.2 Risk disclosure

Assessment and disclosure of risks relating to environmental and social issues are increasingly gaining importance, especially with the effects of climate change growing more evident. The CDP surveys perhaps provide the most detailed example of risk disclosure in voluntary ESG reporting. In collaboration with the CDP, a Travel & Tourism benchmarking exercise demonstrated how risks are currently being assessed.

Figure 2.4: Commonly Disclosed Risks and Opportunities within Travel & Tourism²

	Most Common Climate Risks Discussed in CDP Responses	Most Common Climate Opportunity Drivers Identified in CDP Responses
Tour Operators	Energy efficiency	
Hotels	Mandatory carbon reporting, Energy efficiency, Flooding, Mandatory water efficiency/Conservation/ Recycling/Process standards, Declining water quality, Increased water stress or scarcity	Emissions reporting obligations, Product labelling regulations & standards, Product efficiency regulations & standards, Carbon taxes, Fuel/Energy taxes & regulations, General environmental regulations, Cap and Trade schemes
Cruise Lines	Energy efficiency, Mandatory carbon reporting	Cap and trade schemes, Fuel/Energy taxes & regulations, Product efficiency regulations & standards, Emissions reporting obligations
Airlines	Carbon tax, Cap and trade, Investment in low carbon fuels	Cap and trade schemes, International agreements, Emission reporting obligations, Fuel/Energy taxes & regulations

Only four companies participated in the CDP Water Disclosure in 2013 while, in comparison, the sector has 36 participants engaged in CDP Climate Change Disclosure.

¹ G4 Sustainability Reporting Guidelines Implementation Manual. Rep. GRI, n.d. Web. 9 Apr. 2014.

² Prepared using data provided in partnership with the CDP

2.4.3 Goals and targets

A common component of reporting is the use of goals and targets. These may be quantitative or qualitative, with varying uses. The GRI guidelines ask for a company to disclose its goals and targets as part of its DMA for the reported aspects. Furthermore, the CDP questionnaire asks specific questions on the organisation's quantitative targets on greenhouse gas (GHG) emissions and water reductions.

All benchmarked companies within Travel & Tourism indicated they were setting some kind of goal/s. However, only a fraction of these said they had set specific targets.

Source	#	Set a GHG Target	Set an Energy Target	Set a Water Target	Set a Waste Target
Sustainability report	113	38	35	25	27
CDP response	38 Climate change, 4 Water	15 of 38	n/a	4 of 4	n/a

Setting quantitative reduction targets as a management approach has its mainstream roots in the Kyoto Protocol of 1997, which was based on country-level commitment to a carbon emissions reduction threshold decrease below a baseline year of 1990 levels³. This followed with a best business practice of setting reduction targets from a baseline. Carbon targets are therefore the most established and frequently occurring, although additional reduction targets for energy, water and waste are also found.

Targets once again were the subject of debate in the 2009 COP conference of the UNFCCC in Copenhagen, during the discussion on setting a binding agreement to cut carbon emissions. This was seen as a more globally acceptable and updated extension and adjustment to the Kyoto Protocol of 1997 that was set to expire in 2012. During that time, sector discussions and non-binding commitments to reductions were common – one example coming from the member airlines of the International Air Transport Association (IATA), who set an industry goal to halve carbon emissions by 2050 from 2005 levels⁴. Likewise, WTTC itself put out a report Leading the Challenge on Climate Change, which called for a similar 50% reduction in carbon emissions from 2005 levels by 2035⁵. A handful of companies endorsed these commitments, and a few even continue listing them in their publicly reported long-term targets. However, the current trend is for more short-term targets to be set around reductions of energy, water, waste, or carbon, since this increases accountability with regard to managerial control.

Within Travel & Tourism the most notable feature is the use of 'intensity-based' reduction targets, rather than 'absolute' reduction targets. Absolute reductions, such as those proposed in the Kyoto Protocol, are based on aggregate output. Intensity-based reduction targets are based on a reduction per unit of production, such as square footage, passengers, visitors, room nights, employees, or revenue dollars. Within benchmarked companies, absolute reduction targets in carbon, energy, water, or waste were found in only a handful of companies.

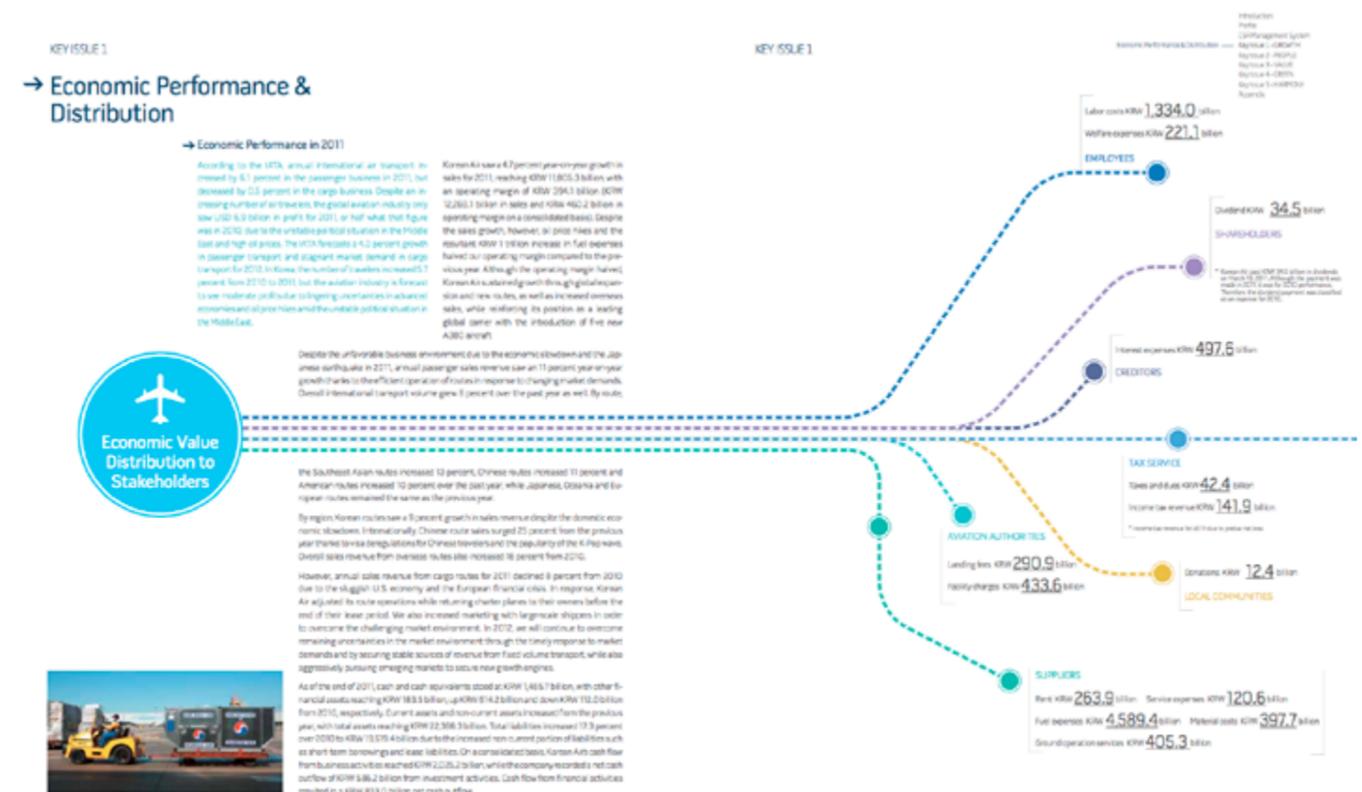
Given that Travel & Tourism is expected to grow in contribution to the global economy from 9.8% in 2014 to 10.5% in 2025⁶, aggregate reductions are unlikely to be obtainable for energy, water and waste, given the expected growth of each company and the fact that general business models are based on centres of consumption increasing incrementally by guest and not based on process improvement in manufacturing or extraction. Aggregate reductions in GHG emissions would, however, be attainable if there were a shift to renewable energy and other low-carbon inputs.

2.4.4 Reporting the economic impacts of Travel & Tourism

Historically, Travel & Tourism's economic impacts have been widely studied with comprehensive data provided by WTTC, UNWTO, OECD and others. However, since one of the fundamental concepts of ESG reporting focuses on the triple bottom-line approach, many topics and indicators covered within ESG relate to economic impacts. Analysis of those impacts is now generating data at company and destination levels, as well as at the product/service level, as ESG reporting has also increased disclosure regarding the economic impacts of Travel & Tourism.

IHG's GRI reporting contains disclosure about a management approach to commissioning research to study the economic impacts of the company and the industry with highlights of indirect employment and business sales reported for the USA, UK and Brazil⁷. American Airlines' GRI report contains linkages to an economic impact analysis the airline conducted for the economic value it generated in every state in the USA⁸. Korean Airlines includes an infographic relating the economic value distribution to specific stakeholders.

Figure 2.5: Korean Air Economic Value Distribution to Stakeholders



Source: Korean Air Sustainability Report, 2013

Other companies, such as Marriott International and Thomas Cook Group, include itemised reporting on community investment in terms of charitable giving in cash and in-kind values. Event sustainability reports will also often report the direct and indirect economic impact of their event within the destination, and destinations themselves will include economic impact analysis to varying degrees in their own sustainability reports.

Looking forward, the increased reporting of economic impacts can be a valuable resource for the sector. Further quantification of ESG issues also can be cross-analysed with the sector's economic activity. The information can be helpful when discussing issues of trade-offs and comparisons of economic impact with environmental and social impacts. Collectively, this information can help support the discussion of the economic impacts of Travel & Tourism and how they relate to ESG reporting in a global context.

2.4.5 Materiality

Materiality assessments to determine key topics, through a process which is described in detail in the GRI guidelines, are currently not very common within Travel & Tourism GRI reports. (Less than 15% of those analysed contained a materiality matrix.)

³ 'Kyoto Protocol'. Kyoto Protocol. United Nations Framework Convention on Climate Change, n.d. Web. 31 Mar. 2014. <unfccc.int/kyoto_protocol/items/3145.php>.
⁴ See www.iata.org/pressroom/facts_figures/fact_sheets/pages/environment.aspx
⁵ Leading the Challenge on Climate Change. WTTC.
⁶ Economic Impact of Travel & Tourism 2015. WTTC.

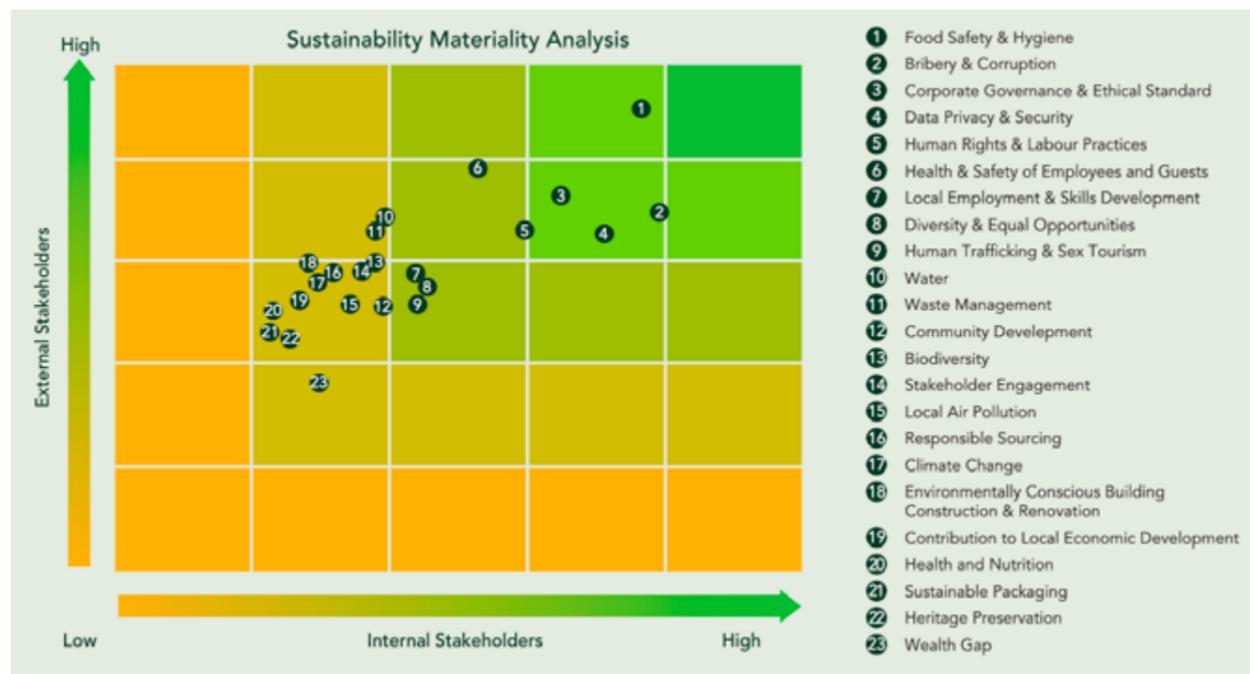
⁷ IHG 2012 Corporate Responsibility Report.
⁸ American Airlines. The Economic Impact of American Airlines on the U.S. Economy 2012 Report. www.aa.com/content/images/production/corporate-responsibility/2012/2012_Economic_Impact_Report.pdf

Figure 2.6: TUI AG Materiality Matrix



Source: Destination Sustainability. Rep. TUI AG, n.d. Web. 9 Apr. 2014. <https://www.tuigroup.com/en/sustainability/sust_management/reporting/sdreport2012>.

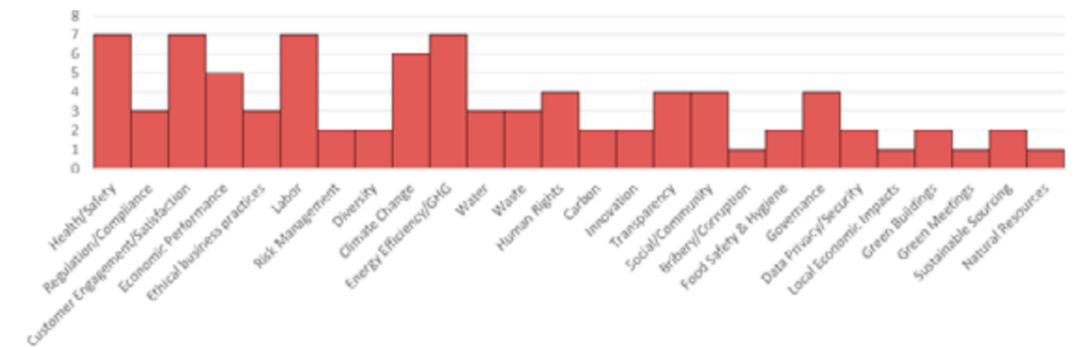
Figure 2.7: HSH Group Materiality Matrix



Source: Hongkong and Shanghai Hotels Limited 2013 Annual Report and Sustainability Review, p. 100.

Among those company reports that included a materiality matrix, some recurring topics could be found. Analysing the top ten material aspects among Travel & Tourism reporters with a materiality matrix, the frequency of topics was as follows:

Figure 2.8: Frequency of commonly reported material topics among reporters with a materiality matrix



In truth, many organisations embark on ESG reporting by using the indicators as a basis for defining what information they will report, without fully considering or applying the methodology put forth by GRI. This means there is a wider distribution of the indicators found among the reports and, just because reporting of certain indicators is not prevalent, it does not imply that the topic is irrelevant. It may be a case of companies either being hesitant to report this type of information, or not having the data capture structure in place, or simply not having considered the aspect before within the realm of ESG. Figure 2.9 shows the most and least common reported indicator categories across the sector.

Figure 2.9: Most and Least Commonly Reported Indicators in Travel & Tourism GRI Reports

Most Common	
Cross-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, Programmes to avoid serious diseases.
Cruise Lines	Anti-corruption training, public policy positions, Life-cycle analysis (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.
Uncommon	
Cross-sector	<ul style="list-style-type: none"> 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.

Similarly, only a third of all the companies referenced content relating to the DMA disclosure component of the GRI guidelines. As the material topic identification and DMA content are central to the G4 guidelines, many current reporters need to address these components of their report. While this research does not seek to define key topics for the sector, this analysis has been used to support the identification of the most common topics and indicators in the guidance section as a starting point for companies' evaluation.

2.4.6 Outlook on material topics in Travel & Tourism

In April 2015, at the time of this publication's release, ESG reporting is first and foremost about attempting to commonly define the key issues and topics with a specific focus on risk disclosure, a company's management approach and indicators of performance or scale. This also holds true for companies in the Travel & Tourism sector.

Specific issues regarding the economic, environmental and social impacts of Travel & Tourism have been researched for decades across a broad spectrum of topics. At the general sector level, over the past decade and particularly around the time of the Copenhagen conference, the broad topic of climate change relating to Travel & Tourism was explored thematically by global multilateral organisations⁹. Research explored the various facets of climate change in terms of its risks and opportunities, and key areas of focus relating to the overall topic, such as energy use, biodiversity loss, water scarcity and local community impacts. These papers set out to build awareness of the implications of climate change itself and focused on policies at national levels or management approaches at organisational levels (such as setting emissions reduction targets), but not necessarily on the concept of reporting information concerning climate change.

Other compilations of key issues and topics for the sector also exist. In June 2013, UNEP released the publication GEO-5 for business, which focused on identifying topics of business risks and opportunities across ten sectors (including tourism and transportation as two of the ten)¹⁰. In 2013, GRI also published what appeared to be a hastily compiled list of various topics based on a literature review, which was criticised for its repetitions and duplications, lack of balance in terms of the specificity of topics, confusing wording, and also inconsistency with what sector companies were actually reporting. Further GRI-originated materiality studies are evolving in each sector, although not for Travel & Tourism at the time of publication.

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. As the GRI's topics research example showed, the exercise of categorising and filtering topics is challenging. This is due to the fact that significant overlap is inevitable since, for example, the relationship between water and energy, biodiversity and climate change, supply chain and human rights, and many others, inherently exists. At the time of this report's publication, the Sustainability Accounting Standards Board's (SASB's) massive topic definition exercise across all industries encompasses several related sectors, with provisional standards developed in the USA for the related Travel & Tourism industries of Hotels & Lodging, Casinos & Gambling, Restaurants, Leisure Facilities, Cruise Lines, Car Rental & Leasing, Rail Transportation, Airlines and Restaurants. These standards have prescriptive definitions and prioritisation on which topics are material for each industry. (See Figure 2.8 for material issues in the Travel & Tourism sector.)

Conversely, with the transition to the GRI's G4 guidelines, reporting organisations are expected to define and report only around their material topics as part of the reporting process itself. Increased use of the G4 guidelines will help provide more sector analysis across companies to evaluate which topics are being reported by whom, with an accompanying rationale that also forms part of the disclosure. With these developments, industry-specific initiatives are underway to support definition and clarification of these topics.

In 2014, the International Tourism Partnership (ITP) engaged in a process to determine the most material social and environmental issues for the global hotel industry. Following the approach of GRI G4, the work encompassed identifying a range of social, environmental and governance issues, with ITP reaching out to its membership and wider stakeholders for feedback on the relevance and significance of these issues. It also held an event to bring together hotel companies and key stakeholders to discuss in more detail those issues felt to be most pressing and most challenging¹¹. ITP's work used the GRI sector supplements developed under prior versions of their guidelines in the relevant sectors of airport operators, event organisers, construction and real estate, and tour operators¹², in which topics and key indicators were defined in an engaged, multi-stakeholder process. While GRI sector supplements assist in specific sectors, most industries are not covered – including those within Travel & Tourism, notably hotels and cruise lines.

To date, however, regardless of the final terminology, categorisation, prioritisation, or performance measurement methods, it is apparent that a handful of broad issues will inevitably emerge as important across all Travel & Tourism industries in ESG reporting. These are presented in this guidance research as issue briefs, which were commonly identified through the reporting benchmarking exercise discussed in the previous section, as well as a literature review of research and guidance outlining key topics. As additional issues emerge, these can also be presented in the same format.

Section 3:

GUIDANCE FOR TRAVEL & TOURISM BUSINESSES

3.1 Introduction

The World Travel & Tourism Council's (WTTC's) ESG research, carried out in collaboration with Greenview with co-ordination from the WTTC Sustainability Working Group, highlights the relatively low occurrence of ESG reporting among Travel & Tourism companies. Moreover, most of current sector reporters have not yet undertaken robust materiality assessment exercises, formalised stakeholder engagement platforms, or provided comprehensive disclosures on their approaches to managing the risks, impacts and opportunities relating to key topics. At the same time, the research demonstrates that regulatory and market pressures will accelerate the need for ESG reporting, and this will also result in greater depth and quality of reporting.

When an organisation first embarks on ESG reporting, the task can seem daunting, especially if it chooses as role models the Fortune 100 companies that have over a decade of reporting experience and sizeable reporting budgets. However, as a first step it is important to take into consideration the fact that larger companies with years of reporting experience tend to have higher stakeholder pressures to address, as well as being accountable for the environmental and social impacts caused by their business models. Travel & Tourism's relatively nascent ESG reporting status is also due in part to lesser historical pressures to adopt the practice, and key stakeholders may not in fact require such robust reporting.

Second, a multitude of resources already exist to assist organisations in their ESG reporting. Frameworks are now much more developed and include guidance and reference documentation. Thousands of peer reports are available for benchmarking content, design, metrics and disclosures. Research on various facets of reporting exists to help companies understand concepts. And companies can also take advantage of collaborative peer efforts to address the issues.

Finally, stakeholders request reporting as much for the information it contains as for the process itself, although it is now recognised as a best practice to be encouraged. It is also widely appreciated that reporting is a long-term process and that first-time reporters cannot be held to the same level of scrutiny in report quality as established reporters. First-time reporters or respondents to ESG frameworks will often cite the benefits of the reporting process. Reporting enables companies, not least their corporate responsibility and sustainability departments, to connect the dots between various activities across the organisation and create continuous improvement opportunities. Some of the benefits of reporting that have been cited include:

- Identifying key stakeholders and topics of greatest importance
- Building trust through transparency
- Consolidating data and information
- Creating a repository to direct stakeholders to accurate, credible, self-published information, streamlining responses to varied requests on ESG topics
- Explaining a company's views and approach to topics of greatest importance
- Supporting customer evaluations prior to purchasing
- Explaining what makes an organisation unique
- Providing case studies and examples to highlight proud accomplishments
- Using ESG reporting for recruitment purposes.

Sections 1 and 2 of this report are intended to provide background support and resources for first-time as well as experienced ESG reporters. This section is designed to help the less experienced reporters, or first-timers, benefit from the WTTC research, detailing the specific steps that organisations can take to approach ESG reporting.

⁹ For example, see Climate Change and Tourism: Responding to Global Challenges www.unwto.org/sdt/news/en/pdf/climate2008.pdf; From Davos to Copenhagen and beyond: advancing tourism's response to climate change www.unwto.org/pdf/From_Davos_to%20Copenhagen_beyond_UNWTOPaper_ElectronicVersion.pdf; and Climate Change and Tourism Policy in OECD Countries www.oecd.org/cfe/tourism/48681944.pdf

¹⁰ UNEP. GEO-5 for Business: Impacts of a Changing Environment on the Corporate Sector 2013.

¹¹ Interview with Fran Hughes, Head of Programmes, International Tourism Partnership.

¹² For more information see <https://www.globalreporting.org/reporting/sector-guidance/sectorguidanceG4/Pages/default.aspx>. Tour Operators Sector Supplement was developed with the G2 guidelines and has not been adapted to the G4.

3.2 Preliminary Steps to ESG Reporting

3.2.1 Familiarisation with existing reports and practices

The most basic and the simplest first step to ESG reporting is to read existing reports and the ESG-related responses of peer companies and key clients. This will serve several purposes. First, sharing these reports with other internal audiences can help build awareness of the overall trend, as well as the specific type of information being reported. This will help overcome the barriers of a general stigma on business transparency that pervades many corners of business. Many departments will be unaware of the fact that workforce data is commonly reported publicly, and some may even be hesitant to report on carbon emissions out of fear of admission that climate change actually exists. However, given that a company's top ten largest customers are themselves all reporting training and injury data, as well as describing a management approach to climate change, this can help bring entire organisations quickly up to speed on the relevance and prevalence of this type of information.

Reading customer reports can shed light on risks and opportunities as well. By way of example, in the past few years several businesses – including Unilever, PwC, Siemens, Timberland, and Microsoft – have indicated in sustainability reports their achievements in lowering carbon emissions from reducing business travel, or intentions to reduce business travel as a management approach to reducing GHG emissions and increasing employee well-being. Some organisations even set goals inversely related to demonstrating that less travel results in a better triple bottom-line performance. This type of public disclosure can be invaluable to Travel & Tourism as a means of better understanding the pulse of views on business travel and ESG.

Finally, reading other reports can help an organisation understand its relative positioning, including its strengths and weaknesses. However, subsequent reporting processes should first and foremost be introspective, based on the organisation's unique positioning, business model and approaches to ESG topics.

3.2.2 Developing internal reporting processes

Reporters should strive to make the reporting process as efficient as possible, as well as providing added value. A critical step is to assemble a core team and start to identify content owners and subject matter experts. Given the nature of ESG topics, a cross-functional effort is required. Companies are advised to identify and engage champions in Operations, Human Resources, Supply Chain, Finance, Legal, Marketing/Customer Relationship Management and other critical functions. Leadership should also be engaged at the highest level possible. CEOs and boards of directors are often more aware of the concepts of ESG than the executives working for them.

It is important for everyone to recognise that reporting is an ongoing process and not a one-time project. Internal processes for data collection, content compilation, stakeholder engagement and topic discussion will add value and spread out the project's time commitments if carried out on a routine basis throughout the year, rather than once a year.

3.2.3 Evaluating the types and degrees of reporting

In defining the degree in which to report, reporters should consider the source of ESG requests and ensure that reporting is in line with an organisation's size and available resources. Are stakeholders asking for specific frameworks to use and levels of application? Could others be substituted to satisfy their requests?

In addition, regardless of how specific these requests, the GRI framework and any country-specific reporting guidelines should be evaluated as a starting point. Though many of their components may not be relevant or applicable, they will serve as a base for understanding the key concepts.

In addition to evaluating the actual frameworks, questionnaires or guidelines, peer reports and responses can be evaluated to help better understand how reporting looks in practice.

3.2.4 Identifying stakeholders and forms of engagement

Identifying stakeholders is essentially asking a fundamental question: Which groups are impacted and influenced by your organisation's business model? The first step is to identify them, and then to engage them so that understand which topics are important to them, and what information they would like to see the organisation disclose.

Common stakeholder identification is a fairly straightforward process. However, through the reporting process, companies have the opportunity to look introspectively into the specific culture of the organisation, the stakeholders served, and nuances and interdependencies among stakeholder groups.

Every company is already practising some form of stakeholder engagement. Customer satisfaction surveys, investor calls and various employee engagement exercises are common. Thus, two components should be considered. First, how can stakeholders be engaged specifically regarding their views on ESG topics and reporting? And second, how can current stakeholder engagement mechanisms be leveraged, and where will new engagement need to take place? Marriott is one good example of a company mapping, leveraging and enhancing its stakeholder engagement mechanisms for ESG – as can be seen from the following table:

Figure 3.1: Marriott International Stakeholder Engagement Table

Stakeholders	Forms of Engagement	Areas of Collaboration
Associates	Global Engagement Survey, Marriott Global Source (intranet), executive town hall meetings, social media, newsletters, Business Councils, community projects, wellness programmes, Legal and Ethical Conduct Survey	Associate Appreciation Week, Cultural Appreciation Day, Global Compass (Arne Sorenson's Blog), Living Our Core Values/ Living the Gold Standards, Marriott Jobs & Careers and My Marriott HotelTM (Facebook), Ritz-Carlton Environmental Action Conservation Team, Spirit to Serve Our Communities Day, TakeCare wellness program
Customers	Guest Satisfaction Surveys, charitable donations of loyalty programme rewards points, cause marketing, industry working groups, sustainable guest room products, customer forums, research, social media	Global Business Travel Association (GBTA) standard Request for Proposal (RFP) template, Juma Offset It Program, Marriott on the Move (JW Marriott Jr's Blog), Marriott Rewards Insiders®, Ritz-Carlton VolunTeaming® and Give Back Getaways
Communities	Community engagement programmes, volunteering, fundraising and cash contributions, in-kind donations, disaster relief	American Red Cross, International Federation of Red Cross and Red Crescent Societies, Back on My Feet, Children's Miracle Network Hospitals, Feeding America, Habitat for Humanity®, International Marriott Foundation for People with Disabilities, Marriott Scholars Program, National Academy Foundation, SOS Children's Villages, The Prince's Trust Fairbridge, United Way, Youth Career Initiative
Shareholders	Annual Report, sustainability reporting, carbon disclosure, quarterly earnings releases and conference calls, annual shareholder meetings, analyst meetings	Carbon Disclosure Project (CDP), Investor Supply Chain and Water Disclosure responses, Global Reporting Initiative (GRI)
Associations	Board memberships, executive committees, working groups, advisors, research, partnerships, workshops lobbying	American Hotel & Lodging Association (AH&LA), Catalyst, Centre for Work & Family at Boston College, Corporate Voices for Working Families, Cornell Centre for Hospitality Research, Family and Work Institute, Global Business Travel Association Sustainability Committee, International Tourism Partnership (ITP), U.S. Chamber of Commerce Business Civic Leadership Center, U.S. Green Building Council Greenbuild Working Group, U.S. Travel Association, World Travel & Tourism Council (WTTC) Environmental Working Group, WorldatWork's Alliance for Work-Life Progress
Supply Chain	Local supplier capacity building, supply chain screening, supplier diversity program, sustainable procurement surveys, engagement workshops, strategic partnerships FutureFish, Hospitality Sustainable Purchasing	Index (HSPI), National Minority Supplier Development Council's (NMSDC) Global-Link Initiative, WEConnect International, World Environment Center
Owners and Franchisees	Economic Development, sustainable hotel development	Fairfield by MarriottTM hotel projects in India and Brazil, hotel development project in Haiti, LEED® Hotel Prototype
Nongovernmental Organizations (NGOs)	Board memberships, executive committees, working groups, advocacy for Reduced Emissions from Deforestation and Degradation (REDD) projects, strategic partnerships on global issues	Audubon International, Brand USA, International Tourism Partnership (ITP) and World Travel & Tourism Council (WTTC) Hotel Carbon Measurement Initiative, ITP Human Trafficking Working Group, Juma Sustainable Development Reserve (Amazonas Sustainable Foundation), Nobility of Nature (Conservation International), U.S. Green Building Council (USGBC), World Economic Forum
Government	Lobbying, advocacy, briefings, meetings, pilot projects and research, regulatory filings	Immigration Reform, Labor and Human Resource Regulation, State and Federal Tax Reform, Travel Promotion and Facilitation through the President's Travel and Tourism Advisory Board (TTAB), U.S. Department of Energy, U.S. Environmental Protection Agency

Source: Marriott International Sustainability Report, 2011 and 2012

When organisations are encouraged by stakeholders to adopt ESG reporting, it gives them an added opportunity to go beyond the technical issues and to try to understand their stakeholders' primary aim in requesting the information, so that they can better align their reporting with these expectations and gain a clearer understand of the uses of ESG reporting.

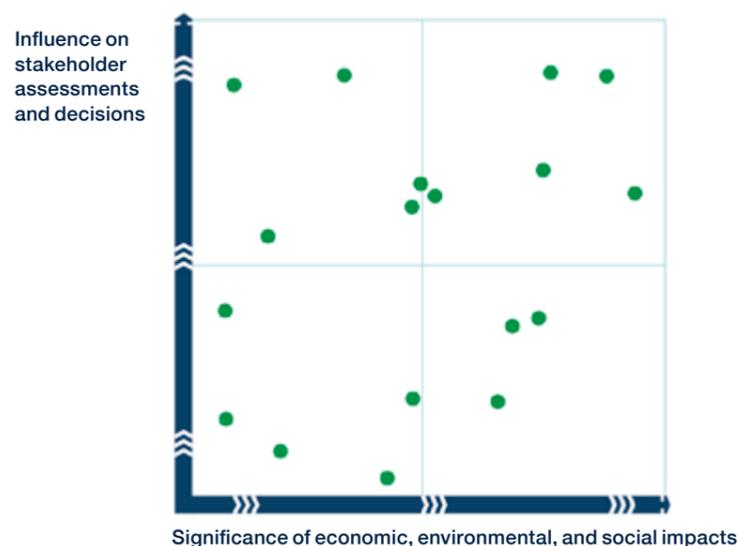
3.2.5 Identifying key topics to report

While the key issues or topics within Travel & Tourism will likely be pre-defined by country-specific reporting frameworks such as the Sustainability Accounting Standards Board (SASB) and others, stakeholder engagement (through materiality assessment) and competitive benchmarking are still useful, ongoing exercises. As an example, through stakeholder engagement, companies are increasingly identifying the opportunity to report in more depth on food safety and customer data privacy protection.

To apply the Global Reporting Initiative's (GRI's) materiality process, an organisation must consider, for each ESG topic, both the:

- Level of its **impacts** – actual or potential – (eg business model, operations, etc)
- Level of **stakeholder concern** – actual or potential – (eg influence on perceptions and decision making concerning the organisation).

Figure 3.2: GRI Visual Representation of Prioritisation as a Part of the Materiality Assessment



Source: G4 Implementation Manual, Part II

The GRI sets forth a four-step process that is intended to be iterative and support continuous improvement:

GRI Materiality Process Steps	Key Outcomes
Identification	Define the boundary for the materiality assessment: Which stakeholders, topics and entities (if multiple divisions, subsidiaries or joint ventures, for examples) to consider? <i>Note:</i> Organisations often use the GRI aspects to develop the list of topics to assess for materiality, but further customise the list based on their industry.
Prioritisation	Conduct an internal assessment of most material topics to the organisation based on the levels of impact and stakeholder concern (both actual and potential).
Validation	Engage with stakeholders and senior leadership to validate findings “with the aim of ensuring a report provides a reasonable and balanced representation of the organisation’s sustainability performance, including both its positive and negative impacts.”
Review	After the reports are published, the organisation is to focus on material topics and consider stakeholder feedback to inform future reporting, strategies and programs.

Source: G4 Implementation Manual, Part II

To be ‘in accordance’ with the GRI G4 guidelines, a materiality assessment is central to the ESG reporting structure. G4 reporters will need to provide:

- A thorough description of why each aspect or topic is material (both internally and externally)
- A full description of the approach to managing the issues surrounding the material aspect/topic, and
- A report on at least one performance indicator related to each material aspect.

As part of the ‘disclosures on management approach’ for material aspects, the GRI recommends that organisations describe associated policies, commitments, goals and targets, responsibilities, resources and specific actions (including stakeholder engagement) for each material topic. In addition, the GRI recommends that the companies report on how to evaluate the effectiveness of the management approach. It is worth noting that the results of past materiality assessments are often embedded in a set of strategic ESG priorities that are also communicated.

More simplified approaches to defining key topics can be undertaken as a starting point. One example is from Wyndham Worldwide, which mapped its core issues to its impact on key stakeholder groups in a direct/indirect format.

Figure 3.3: Wyndham Worldwide Core Issues Table

CORE ISSUES	KEY STAKEHOLDER GROUPS			
	● DIRECT IMPACT		● INDIRECT/PARTIAL IMPACT	
	ASSOCIATES	SHAREHOLDERS	CUSTOMERS*	GLOBAL PARTNERS
Driving Financial Capital				
• Ethical Conduct	●	●	●	●
• Human Rights	●	●	●	●
• Corporate Governance	●	●	●	●
• Corporate Financial Performance	●	●	●	●
Driving Natural Capital (Wyndham Green)				
• Climate Change Strategy	●	●	●	●
• Environmental/Resource Management	●	●	●	●
• Regulatory Compliance	●	●	●	●
• Supply Chain Evolution/Management	●	●	●	●
Driving Human Capital				
• Be Well Program/Employee Wellness	●	●	●	●
• Wyndham Diversity	●	●	●	●
• Professional Growth/Training	●	●	●	●
• Work Life Balance	●	●	●	●
• Philanthropy/Wishes by Wyndham	●	●	●	●

Source: Wyndham Worldwide Sustainability Report, 2014

3.2.6 Setting boundaries

ESG reporting carries a greater need to define one’s boundaries for the information that will be reported. Boundaries are primarily delineated based on where impacts occur and where the organisation has control. For example, should a company report the energy usage of its franchised operations? And as impacts occur throughout the procurement and disposal of products and services required by companies, best practice leans toward recognising and understanding impacts across a life cycle, although the reported information may only have an operational boundary.

Boundaries also refer to time, as each reporting cycle should define the boundary of data. For example, a calendar year or a fiscal year can be set in alignment with a company’s financial reporting. Some ESG frameworks will provide requirements or guidelines on time boundaries. Time should also be considered when determining and disclosing what data to exclude due to incomplete reporting during the defined time boundary or baseline/target years.

Finally, boundary definitions should be documented clearly for the benefit of internal processes. Different data or topics may have different boundaries due to impacts or data constraints. These should be noted for each item reported.

3.2.7 Documenting management approaches

ESG reporting, particularly using the GRI guidelines, encourages organisations to provide transparency on its management approach to relevant topics. Through reporting, companies describe policies and practices, commitments, goals and targets (short, medium, and long-term), defined organisational responsibility, the organisation’s governance and accountability structure, training and resources, and stakeholder engagement mechanisms.

As a starting point, every company’s current corporate responsibility platform and specific programmes will form part of their management approach and will have some documentation available to some degree. The important step is to evaluate this information from an ESG lens. Is the information overly boastful? Does it indicate why the programmes were developed, why they are relevant, and are they related to the organisation’s business model? What other management approaches are involved that may not be disclosed? Which topics are not covered that will require further documentation?

Management approach reporting can also serve to provide context around performance indicators in addition to explaining challenges or decisions not to engage in certain practices.

3.2.8 Evaluating ESG-related risks

The practice of defining the scope of ESG reporting is usually guided by an assessment of each organisation’s greatest risks and opportunities. ESG reporting can be used to complement current processes to evaluate risks. While risks and opportunities may vary across market participants, common industry risks and opportunities emerge for Travel & Tourism

Figure 3.4: Common Industry Risks and Opportunities

Types of Externalities	Industry Risks	Industry Opportunities
Economic	<ul style="list-style-type: none"> Income inequality Geopolitical risk Rising materials costs 	<ul style="list-style-type: none"> Innovation Process efficiency Social enterprise Infrastructure
Environmental	<ul style="list-style-type: none"> Extreme weather events Water and resource scarcity Air pollution 	<ul style="list-style-type: none"> Climate change adaptation and mitigation^a Sustainable tourism Guest and employee engagement
Social	<ul style="list-style-type: none"> Child labour and forced labour Human trafficking and sex tourism Cultural and heritage protection 	<ul style="list-style-type: none"> Community investment Human capital development Supply chain partnership Industry partnership

Source: Greenview

^a Adaptation: Initiatives and measures to reduce the vulnerability of natural and human systems against actual or expected climate change effects; Mitigation: Measures or actions to reduce global warming

As an example, the investor questionnaire for the Carbon Disclosure Project (CDP) contains a prescriptive section on disclosing risks and opportunities relating to climate change according to ordinal scales that can help organisations better understand ESG risk disclosure. Types of risk categories include physical, regulatory, and other ‘business’ risks.

Table 3.5: CDP Climate Change Risk Categories

CDP Climate Change Risk Categories	Disclosure Options
<i>Physical</i>	<ul style="list-style-type: none"> Change in mean (average) temperature Change in temperature extremes Change in mean (average) precipitation Change in precipitation pattern Change in precipitation extremes and droughts Snow and ice Sea level rise Tropical cyclones (hurricanes and typhoons) Induced changes in natural resources Uncertainty of physical risks
<i>Regulatory</i>	<ul style="list-style-type: none"> International agreements Air pollution limits Carbon taxes Cap and trade schemes Emission reporting obligations Fuel/energy taxes and regulations Product efficiency regulations and standards Product labelling regulations and standards Voluntary agreements General environmental regulations, including planning Renewable energy regulation Uncertainty surrounding new regulation Lack of regulation
<i>Business (Other)</i>	<ul style="list-style-type: none"> Reputation Changing consumer behaviour Induced changes in human and cultural environment Fluctuating socioeconomic conditions Uncertainty in social drivers Uncertainty in market signals

Source: International Panel on Climate Change (IPCC)

In addition, CDP reporters must explain:

- What level of board and executive oversight exists to manage these issues?
- How do you manage associated risks within overarching risk management practices?
- Are you able to quantify the potential financial implications on specific risks and opportunities associated with the topic?
- How are you engaging with the supply chain to manage these risks?
- Do you engage with policy-makers to address these risks?
- What role do you play to address these risks through affiliations with industry associations?

Often ESG-related risks are already being disclosed and embedded in an organisation’s existing risk management procedures. However, they will have different terminology or not be viewed as ESG-related. A discussion with risk management can be first focused on relating current risks.

3.2.9 Defining performance indicators to report

Performance-based reporting for material topics is necessary for credible, value-added ESG reporting. Nearly all ESG reports include available environmental data relating to energy and water. Social data includes injury rates, workforce diversity and percentages of employees receiving performance reviews. Economic data includes community investments such as monetary donations, in-kind and volunteer contributions.

When reporting performance indicators, it is important to include footnotes to explain any exclusions to the boundary in addition to any relevant assumptions used in calculating the data. Normalising data is also a helpful tool to help audiences better understand the data.

Performance indicators add congruence to an organisation's corporate responsibility and sustainability programmes. If an organisation has a heavy focus on community giving, then an ESG lens will find it logical that performance indicators on community giving should be tracked as part of the organisation's management approach. If certain data constraints or confidentiality issues exist, then these can be documented as well.

3.2.10 Developing content management procedures and structure

Once the prior steps have been undertaken, implementing a content management process is critical to support the accuracy and ease of overall ESG reporting. This will often be a mixture of qualitative process-based undertaking, as well as heavier lifting of quantitative data gathering and analysis. Spread-sheets are often used, and numerous software solutions are also available.

One increasing trend in overall reporting procedures is to place the report in an online format housed within the company's website, or within a micro-site. InterContinental Hotels Group is an example of a company that has moved to web-based reporting with PDF downloads that can be customised¹.

In light of the trend toward assurance, it is important to have strong systems and records in place to support eventual assurance. Moreover, it is helpful to monitor the data throughout the year to identify outliers and potential data accuracy issues.

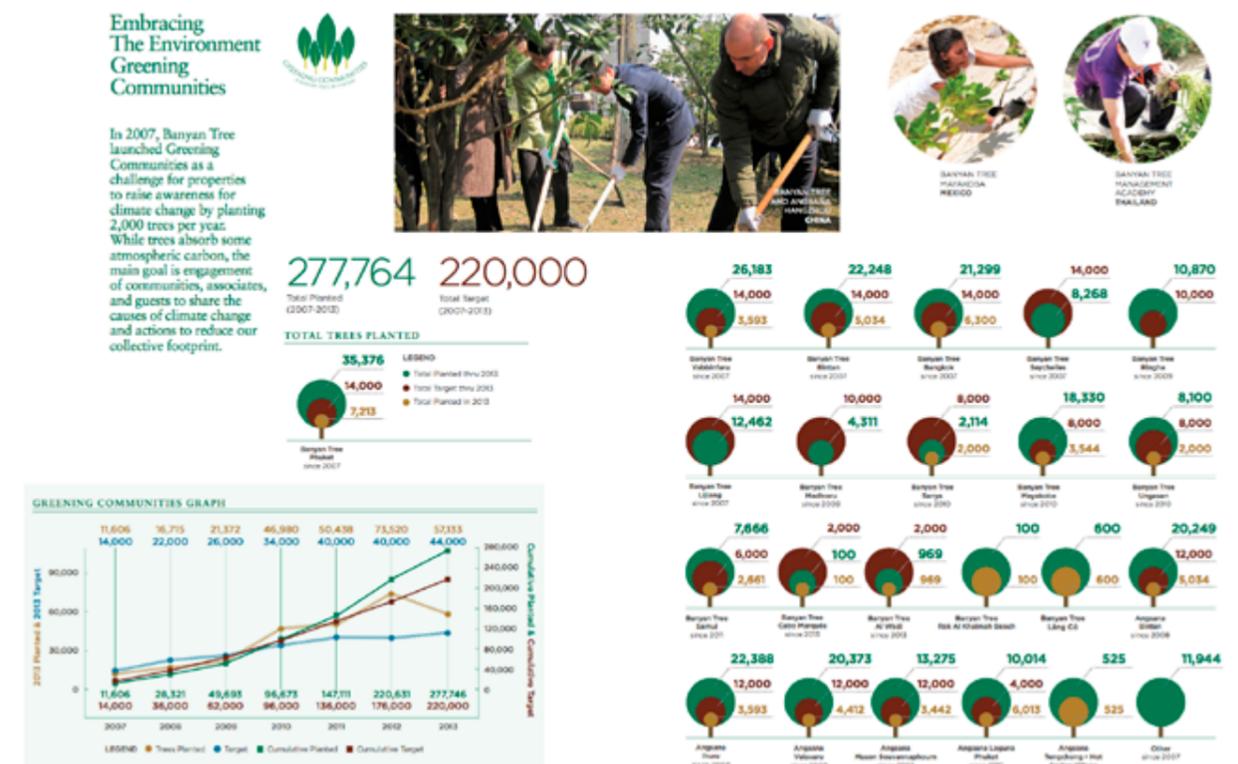
It should be noted that many companies work towards gathering information, indicating future intent to disclose specific data in subsequent reporting, with the management approach currently focusing on putting the procedures and structure in place.

3.2.11 Setting goals and targets

Common in terms of best practice and growing stakeholder expectations for a credible ESG report are to have goals and targets to report, and to report transparently on progress against these goals and targets. When developing a target, a baseline must first be established which, in specific instances, such as water and GHG emissions, can be a challenging multi-annual process. An important consideration is also the target year. Companies typically set targets in a 5-10-year range for key ESG performance indicators. In addition, companies also normalise targets, particularly for environmental impacts, to work towards achieving efficiency gains while the absolute impacts might increase as the companies' revenue and scope of operations grow.

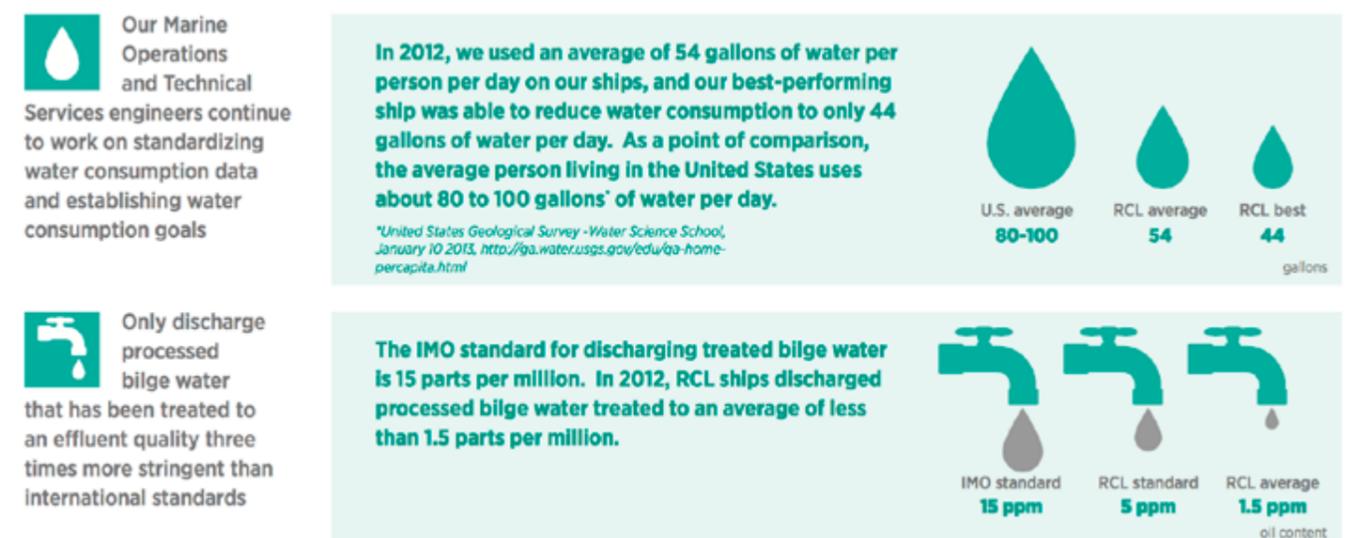
Targets and goals offer significant room for innovation and creativity, both in goal setting and in the presentation of the information. Banyan Tree's sustainability reporting contains a significant emphasis on progress against their tree-planting goals, and Royal Caribbean presents its goals and performance in relation to relative daily consumption in US households compared with that on board their ships.

Figure 3.6: Banyan Tree Tree-planting



Source: Banyan Tree Sustainability Report, 2013

Figure 3.7: Royal Caribbean Energy, Water, and Waste Goals, Progress and Comparisons



Source: Royal Caribbean Cruise Lines 2012 Environmental Stewardship Report

¹ IHG 2014 Responsible Business Report <http://www.ihgplc.com/index.asp?pageid=718>

Some goals may be used as aspirational approaches, but add less credibility to current management. As an example, it is unlikely that current management will be in place in 2050 to be held accountable for meeting or missing a target in that year.

Likewise, the feasibility of achieving the target should not be taken lightly. One premise of a target is to increase accountability and demonstrate competency of the management approach to achieve the target. If targets are missed, the perceptions of these can diminish an organisation's reputation. Thus, target setting should come after several other steps have been taken within the reporting process.

3.2.12 Identifying opportunities for collaboration with peers

While corporate responsibility and sustainability are in many ways seen as tools for gaining strategic advantage, they include several issues which organisations do not consider to be competitive, and which can therefore benefit from collaboration. These include common performance measurement, topic identification, stakeholder engagement and advocacy efforts. In addition, in alignment with the GRI materiality process, collaboration with stakeholders can provide the opportunity to refine and improve the effectiveness and usefulness of ESG reporting every year.

Industry-specific and cross-industry working groups have been formed around specific topics/issues as well as ESG reporting in general. Existing trade associations can be leveraged to support ESG topics and reporting. The frameworks themselves often present continuous opportunities for collaboration. As ESG reporting can be a common thread among customers and suppliers, further opportunities may be sought within those linkages as well. Collaboration does not need to be formalised in every case. But ad hoc partnerships, support and cross-referencing opportunities are often a positive outcome.



3.3 Issue Briefs

ISSUE BRIEF 1: ENERGY

Energy is the most commonly found topic among existing reporters in Travel & Tourism, but it encompasses many aspects and relates differently to various industries. The term is used to encompass disclosure on how and where the energy is generated or sourced, the efficiency of its use, and the costs involved at every stage. Energy disclosure is heavily quantitative and often broken down into the various types of energy used. It can incorporate both energy consumption figures and process-based indicators of energy management, including projects or initiatives as well as specifications of energy efficiency in products or services. As energy disclosure has significant quantitative elements, analysis of a company's energy management often includes energy-related investments and returns on those investments. At present a growing focus on energy disclosure relates to energy procured or generated from renewable sources such as solar, wind and geothermal, and biofuels in addition to the efficient use of energy.

For Travel & Tourism companies, energy is the largest source of GHG emissions and central to the discussion on contributions to climate change. For cruise lines, airlines and other transport companies, energy issues are focused on the direct burning of fuels, while energy in hotels and tourist facilities also involve electricity use. Hotels are often cited under a subset of buildings as part of the 40% of GHG emissions. Cruise lines are criticised for burning a highly polluting form of fuel. Tour operators may have various energy challenges depending on the location of energy use needs. And as industry in general becomes more intertwined with technology and cloud computing, the increased use of appliances, equipment and data servers also increases the focus on energy.

Risks

Energy risks involve the potential rise in costs of energy sources, which can be due to diminishing resources as well as the regulatory implications of carbon taxes, renewable energy mandates and others that would influence the price of energy or the costs of developing or retrofitting facilities to meet energy efficiency specifications. Risks can also involve energy security, depending on the type and location of operations.

While energy risk remains an interconnected global issue, energy was not listed directly as one of the Top Ten Global Risks of Highest Concern in the World Economic Forum's (WEF's) Global Risks 2014 report. But given that energy is imperative for the function of so many other global systems, energy issues are indirectly embedded within some of the top ten global risks, (ie No. 5: Failure of climate change mitigation and adaptation; No. 6: Greater incidence of extreme weather events; and No. 8: Food crises).

What is interesting to note from the WEF Global Risks 2014 report is that while energy risk remains an important topic on the agenda of global risk perception, the language and focus have slightly shifted over the past few years. In both 2012 and 2013, rising GHG emissions were ranked third highest in the global risk perception of likelihood. However, in 2014, those topics did not even make the top five list. Instead, they gave way to extreme weather events and climate change, ranked second and fourth respectively. This does not imply that the way in which energy issues were perceived three years ago is no longer relevant – it has actually shifted the conversation to a much more material risk, one that is occurring in real time and will continue to affect our global economy. As a result of energy's dependence on oil, there is now risk of heightened extreme weather events and climate change in line with increased GHG emissions.

Industry-specific energy risks are primarily financial because the consumption of energy makes companies vulnerable to pricing increases driven by regulations or other factors. For example, if a company spends US\$10 million on energy annually, a 10% increase in the price of fuel or electricity would represent an additional US\$1 million in outlay. Furthermore, the price of energy has ripple effects on the economy and may lead to increases in production and transportation costs, particularly if the price of fuel rises. Energy-related regulations may also directly impact Travel & Tourism companies, requiring significant investments in on-site equipment that is not compliant with local, state and national regulations. Also, there is a reputational factor associated with energy. Companies that are perceived to be energy inefficient or 'energy gluttonous' may not attract the corporate travel market and 'environmentally conscious' consumer market.

Commonly reported topics

- Energy costs
- Energy usage
- Renewable energy
- Pollution resulting from the use of energy
- Energy-efficient products and services
- Initiatives to reduce energy consumption

Commonly reported performance metrics

	AIRLINES	CRUISE LINES	HOTELS	TOUR OPERATORS	GDS/IT
MOST COMMON	<ul style="list-style-type: none"> Total energy Energy per revenue tonne-km (RTK) 	<ul style="list-style-type: none"> Total energy Energy by users (ship and shore) 	<ul style="list-style-type: none"> Total energy Energy per occupied room Energy per available room Energy per guest night Energy per m2 or ft2 	<ul style="list-style-type: none"> Total energy Energy per guest night Energy per m2 	<ul style="list-style-type: none"> Total energy Energy per employee Energy per 1 mn transactions

Others

The Global Real Estate Sustainability Benchmark (GRESB), a sector-specific survey for real estate, requests information on annual performance within the 'like-for-like' boundary consisting of sites and impacts in boundary for two consecutive years. GRESB also requires a specific percentage of renewable energy as a total of overall energy consumption, and energy ratings for the properties under the EU Energy Performance Certificate (EPC), National Australian Built Environment Rating System (NABERS), and US Energy Star rating schemes.

GRESB and the SAM Corporate Sustainability Assessment Questionnaire used for the select members of the global Dow Jones Sustainability Indexes also ask what percentage of a company's revenue or operations is represented in the energy data required, in addition to whether energy data has been verified or assured.

Relation to main ESG frameworks

GRI	<p>Energy is listed under Environment in the GRI framework, with Disclosures on Management Approach (DMA) on energy required for G4 disclosure. Five performance indicators are related to energy:</p> <ul style="list-style-type: none"> Energy consumption within the organisation (EN3) Energy consumption outside the organisation (EN4) Energy intensity (EN5) Reduction of energy consumption (EN6) Reductions in energy requirements of products and services (EN7).
CDP	<p>The CDP Climate Change Information Request requests data on:</p> <ul style="list-style-type: none"> Aggregate energy consumption by source Low carbon energy purchased Low carbon energy generated on site Energy efficiency projects, which may include those related to renewable energy.
SASB	<p>The SASB Provisional Standards have included energy (or fuel) as a disclosure topic for the Hotels & Lodging, Cruise Lines and Airline industries.</p> <p>For each industry, SASB accounting metrics requests that energy consumption be 'broken down' into types including renewable energy:</p> <ul style="list-style-type: none"> Hotels & Lodging: <u>Energy consumption percentage breakdown between grid electricity and renewable energy (SV0201-01)</u> Cruise Lines: <u>Fuel consumption percentage breakdown among heavy oil, renewables and onshore power (SV0205-03)</u> Airlines: <u>Renewables as a percentage of total fuel consumed (TR0201-03)</u>.
<IR>	<p>The Integrated Reporting (<IR>) Framework recommends that "cost reduction or new business opportunities related to energy efficiency" be reported alongside financial information on "expected revenue growth or market share." (3.8)</p>

Resources and further reading

- Sustainable Aviation Fuel Users Group
- CRC Energy Efficiency Scheme Annual Report Publication – Rep. Environment Agency.
- Energy Savings Opportunity Scheme GOV.UK. Department of Energy and Climate Change
- GreenBiz Group Inc. State of Green Business 2015

ISSUE BRIEF 2: WATER

Water is a comprehensive issue relating to many facets across economic, environmental and social topics. Water disclosure is usually accompanied by additional terminology, such as water withdrawal, water risk, water consumption, water scarcity, water discharge, etc. Water use is a commonly reported quantitative indicator, as are the initiatives to increase water efficiency and recycling. For boundaries of terminology, water disclosure within Travel & Tourism is generally confined to its availability and use (intake, operations, effluent) in relation to the organisation.

As water is the basic building block for life, topics relating to water can be far-reaching and relevant to specific organisations in their reporting. By way of example, the concept of water footprinting and related data have emerged significantly in ESG reporting. Data exists on the amount of water required to produce specific goods and services, with enlightening figures relating topics of food and beverage to water. Water's relationship to energy has also been increasingly explored in reporting, including the energy required to produce potable water and treat wastewater where freshwater is unavailable, and the amount of water required to produce energy and cool facilities such as data servers. Other topics inherently involving water, such as sea-level rise, ocean health, impacts on water sources from effluent discharge, eutrophication, acid rain and procurement of bottled water generally, are treated as separate topics.

Water is a complex issue for Travel & Tourism reporting, as the risks and impacts of water are generally localised in places of operation. Some destinations have abundant water, while others are significantly water stressed, as can be seen in Figure 3.8. Countries that are seeking to increase tourist arrivals should also be mindful of the fresh water that will be needed to meet the increased visitor demand.

Figure 3.8: Comparison of Tourism’s Contribution to GDP, Tourist Arrivals and Water Risks by Country

Country	Direct GDP Contribution 2013 (%) ^a	2000 Arrivals (mn) ^b	2020 Forecast Arrivals (mn) ^c	Baseline Water Stress ^{d,e}	Seasonal Variability	Flood Occurrence	Drought Severity ^e
Austria	3.2	19.9	25.3	0.3	0.7	0.3	0.3
Canada	3.3	18.7	38.0	1.2	1.6	1.2	1.2
China	3.5	46.8	210.2	2.9	2.7	2.9	2.9
Egypt	3.8	8.2	34.3	1.3	2.5	1.3	1.3
France	3.0	75.9	119.6	1.8	1.5	1.8	1.8
Germany	3.3	21.5	27.3	1.9	0.8	1.9	1.9
Greece	3.0	14.3	21.6	3.3	2.5	3.3	3.3
Italy	3.3	36.5	55.3	3.4	1.5	3.4	3.4
Malaysia	3.3	16.4	43.6	2.1	1.7	2.1	2.1
Mexico	5.1	21.9	44.5	3.5	3.1	3.5	3.5
Netherlands	4.5	10.0	14.6	1.7	0.9	1.7	1.7
Poland	5.5	15.2	34.6	1.3	0.6	1.3	1.3
Russia	3.9	21.2	78.9	1.2	1.9	1.2	1.2
Saudi Arabia	5.7	9.1	25.6	5.0	1.6	5.0	5.0
Singapore	4.7	na	na	5.0	1.0	5.0	5.0
South Korea	4.0	6.0	13.5	3.5	3.3	3.5	3.5
Qatar	4.1	na	na	5.0	0.4	5.0	5.0
Sweden	8.1	3.1	6.6	1.3	1.2	1.3	1.3
Thailand	4.7	9.6	36.4	1.7	3.5	1.7	1.7
Turkey	2.5	20.3	59.2	3.0	2.6	3.0	3.0
Ukraine	5.9	4.4	10.0	2.1	1.2	2.1	2.1
UK	5.0	30.0	58.5	2.6	1.7	2.6	2.6
USA	6.9	49.4	98.3	2.9	1.7	2.9	2.9

Note: na = data not available

^a World Travel & Tourism Council (WTTC)

^b S Gössling et al, Tourism and water use: Supply, demand, and security. An international review. Tourism Management 33 (2012).

^c WTTC

^d WRI Aqueduct. Water risks use a scale of 0 to 5, with 5 being the highest

^e WRI Aqueduct. Water risks use a scale of 0 to 5, with 5 being the highest

Water issues will also vary throughout the year as drought and flooding may occur seasonally. Thus, water disclosure may relate to geographic location, entirely separate from an organisation’s internal operations. Likewise, water usage can be decoupled from water withdrawals. For example, hotels can implement efficient water fixtures but be criticised for drawing water from ground or river sources where local communities are impacted.

Risks

Water risk ranked third of the top Ten Global Risks of Highest Concern in the WEF Global Risks 2014 report. In addition, greater incidence of extreme weather events (eg floods, storms, fires) and the food crises are also dependent on water risk and ranked within the top Ten Global Risks of Highest Concern, in 6th and 8th places respectively. According to the WEF Global Risks 2014 report, water is deemed a systemic global risk while remaining a localised issue. Water risk concerns are a matter of quality, quantity and proper management of water resources to meet increasing global demand. According to the IPCC’s Fifth Assessment Report, with each degree of warming, renewable water resources are projected to decline by at least 20% for an additional 7% of the global population.

For the Travel & Tourism sector, water risks are profound – way beyond the financial implications should the price of water rise or the availability of water be restricted. The world’s oceans, seas and lakes play a critical role in regulating ecosystems: generating the oxygen in the atmosphere, absorbing carbon dioxide and hosting life. For Travel & Tourism, water is at the heart of the recreational activities that sustain the sector. Perhaps most profoundly, water is critical for human health and hygiene.

Water risks are perhaps the most easily understood, quantifiable and reported of all risks. While climate risk is equally common, the risks themselves may be less exact than water. The World Resources Institute (WRI) and World Wildlife Fund (WWF) both host web-based water risk tools that help companies, governments and institutions assess their water risk globally through geographic data interfaces. WRI’s Aqueduct tool runs a risk assessment across 12 water risk indicators for each data input (geographic coordinates). Companies are able to select indicators and weights of those indicators that are more relevant to their operation. WWF’s Water Risk Tool operates in a very similar way as well, without the option of weighted indicators. Both of these tools offer data export functions that can be used for corporate reporting purposes, such as CDP’s Water Disclosure.

Commonly reported topics

- Water consumption in operations
- Water stress (availability vs demand)
- Flooding
- Drought
- Contamination
- Water withdrawals
- (Waste) water discharge
- Water efficiency initiatives
- Community impacts from water withdrawal, use and discharge.

Commonly reported performance metrics

	AIRLINES	CRUISE LINES	HOTELS	TOUR OPERATORS	GDS/IT
MOST COMMON	<ul style="list-style-type: none"> • Total water consumption • Total water consumption on ground • Total water consumption in air 	<ul style="list-style-type: none"> • Total water consumption • Water per person per day 	<ul style="list-style-type: none"> • Total water consumption • Water use per guest night • Water use per m2 or ft2 • Water per occupied room 	<ul style="list-style-type: none"> • Total water consumption • Water per guest night 	<ul style="list-style-type: none"> • Total water consumption • Total water consumption
ALSO REPORTED	<ul style="list-style-type: none"> • # of engine water washes per year 	<ul style="list-style-type: none"> • Bilge water sea discharge (litres/ nautical mile) 	<ul style="list-style-type: none"> • Water use per employee 		

Relation to main ESG frameworks

GRI	<p>Water is an issue under Environment, with DMA on water required for G4 disclosure. Three performance indicators are related to water:</p> <ul style="list-style-type: none"> • Total water withdrawal by source (EN8) • Water sources significantly affected by the withdrawal of water (EN9) • Percentage and total volume of water recycled and reused (EN10). <p>Water is also addressed within Effluents and Waste, with performance indicators on:</p> <ul style="list-style-type: none"> • Total number and volume of significant spills (EN24) • Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff (EN26).
CDP	<p>The CDP Water Information Request, initiated in 2009, has increased in rigour since inception; requesting data and information on:</p> <ul style="list-style-type: none"> • The importance of water to the future success of an organisation • How the importance of water is evaluated • How water has positively and/or negatively influenced business strategy • Results of water risk assessments • Whether water risk assessment includes supply-chain risks • Which stakeholders are factored into risk assessments • Scope and requirements of supplier water reporting • Facility-based water reporting • Whether water reporting has been verified or assured.
SASB	<p>For the Hotels & Lodging industry, SASB Provisional Standards include water management as a disclosure topic in tandem with energy management</p> <p>The associated accounting metric is total water withdrawn wherein (1) % of recycled water and (2) % of water withdrawn in regions with High or Extremely High Baseline Water Stress (SV0201-02) are also reported.</p> <p>To identify regions with High or Extremely High Baseline Water Stress, SASB recommends the use of the World Resource Institute's Water Risk Atlas tool, Aqueduct⁵.</p>
<IR>	<p>Within the <IR> framework, water can be included in a company's description of the overall 'stock and flow of capitals' citing the use of water to grow crops as an example of how many activities cause increases, decreases, or transformations that are far more complex and involve a broader mix of capitals or of components within a capital.</p> <p>Water is cited as relevant to descriptions of natural capital as an "environmental resources and processes that provide goods or services that support the past, current, or future prosperity of an organisation."</p> <p>Water is also considered a potential aspect of manufactured capital, citing water treatment plants as an example of "manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services."</p>
Others	<p>Surveys also highly emphasise water. The SAM Assessment for the Dow Jones Sustainability Index asks for the data coverage as a percentage of revenue or operations for reported water consumption. GRESB emphasises risk assessments for water at the time of site selection and/or prior to making new acquisitions.</p> <p>The UN-sponsored CEO Water Mandate has also released Water Disclosure Guidelines, providing basic and advanced reporting options for companies⁶.</p>

Resources and further reading

- WRI Aqueduct Tool
- WWF Water Risk Filter
- S Gössling et al, Tourism and water use: *Supply, demand, and security. An international review. Tourism Management 33 (2012).*
- Tourism Concern. *Water Equity in Tourism.*
- International Tourism Partnership. ITP Water Risk Assessment, August 2013.
- EarthCheck Research Institute. *2nd White Paper tourism and Water: From Challenges to Solutions. March 2014.*
- GreenBiz Group Inc. *State of Green Business 2015*

ISSUE BRIEF 3: CLIMATE CHANGE

Climate change is a concept that encompasses a myriad of topics and associated strategies, approaches, risks, impacts and indicators. Climate change is also an issue discussed and debated on several levels, as it may pertain to specific impacts of a product, all the way to the planetary survival of humanity.

Climate change has two distinct sides in ESG reporting. The first side is what an organisation is doing to reduce its contribution to climate change (its direct GHG emissions or 'carbon footprint', as well as activities within operations or supply chain that indirectly contribute to GHG emissions or climate change). The second side is how an organisation is managing and mitigating the risks to its operations and supply chain associated with climate change, as well as how it is adapting to current or foreseen climate change impacts.

Climate change is where the managerial approach of reduction targets has been most commonly used. Traditionally, the focus on climate change's leading cause, carbon emissions, has been the focus of the attention by the sector and analysts. However, as supply-chain analysis improves and further impacts of climate change are adequately quantified, increasing attention has been given to the impacts of food, particularly livestock, in climate change for the associated emissions from deforestation (both for animals and feedstock), cultivation, processing and transportation. For Travel & Tourism operations containing significant F&B components, attention to menus could be a growing focus. Likewise, GHG emissions result from life cycles of other materials procured and waste generation.

Climate change also carries more political debate, and related ESG frameworks have incorporated content on an organisation's advocacy or lobbying efforts to influence climate change debate. Some even screen whether or not a company will include the term 'climate change' in any part of its stock exchange disclosure.

Airlines have received the most attention within the sector for contributions to climate change. Various research studies have estimated air travel's contribution to climate change, ranging from 3% to 9%⁷. Airlines were the only Travel & Tourism sector to be regulated by the EU ETS. Carbon emissions from airplanes also receives more particular attention and heavier weighting for the concept of radiative forcing, since the emissions are released much higher up in the earth's atmosphere.

Risks

Climate change risk ranks 5th as the failure of climate change mitigation and adaptation in the WEF Global Risks 2014 report. According to WEF, climate change adaptation not only needs to happen at a faster pace to prevent increased global temperatures, but will also likely cost developed and developing countries hundreds of billions of dollars. What is most interesting to note with climate change is the systemic interconnected impact it holds across societal, environmental and social facets⁸.

Climate change poses significant potential risks to the global demand for and profitability of the Travel & Tourism sector. Extreme weather events, such as 2013's Typhoon Haiyan in the Philippines, lead to business interruptions and property damage in addition to having economic and supply-chain ripples that last several months after the event. In 2013, 41 weather disasters are estimated to have caused more than US\$1 billion in damage⁹. In 2012, Superstorm Sandy in the USA was an example of an unpredictable, extreme weather event impacting a heavily populated area that was considered to be exposed to the significant risk of hurricanes.

⁷ See related research, including <http://climatecare.org/wordpress/wp-content/uploads/2013/07/Calculating-the-Environmental-Impact-of-Aviation-Emissions.pdf>, IPCC, Aviation and the Global Atmosphere: A Special Report of the Intergovernmental Panel on Climate Change (1999).

⁸ Global Risks 2014 report. World Economic Forum, n.d. Web. 4 Apr. 2014. <reports.weforum.org/global-risks-2014/>.

⁹ www.scpr.org/news/2014/03/24/43009/un-2013-extreme-events-due-to-warming-earth/

⁵ Additional information can be found at: <http://www.wri.org/our-work/project/aqueduct>.

⁶ <http://ceowatermandate.org/files/Disclosure2014.pdf>

In the 2014 Fifth Assessment Report from the Intergovernmental Panel for Climate Change, key impacts emphasised the widespread risks associated with climate change, citing “widespread and consequential impacts on all continents and across the oceans,” including the fact that climate change will cause heat waves, extreme precipitation, coastal flooding and other extreme events to intensify, noting increased extreme precipitation events year round in northern Europe, the risk of sea-level rises in populous coastal cities, including Mumbai, Miami and Shanghai, and more heat waves in northern Africa.

Citing corollary socioeconomic risks, the IPCC’s Fifth Assessment Report also stated “Climate change impacts are projected to slow down economic growth, make poverty reduction more difficult, further erode food security, and prolong existing and create new poverty traps, the latter particularly in urban areas and emerging hot spots of hunger.”

As climate change may impact specific regions differently, tourism is a particular area of study to understand how destinations and regions may see an impact on travel demand. As an example, building hotels in the Caribbean may not be considered feasible due to the increased costs of insurance premiums, and tour operators as well as the rest of the value chain face risks of reduced travel demand as a result of increased hurricanes.

Commonly reported topics

- Climate change risks
- GHG emissions
- GHG emissions reductions projects, or products/services
- Policy advocacy for/against climate change legislation
- Low carbon energy sources
- Low carbon products or services.

Commonly reported performance metrics

	AIRLINES	CRUISE LINES	HOTELS	TOUR OPERATORS	GDS/IT
MOST COMMON	<ul style="list-style-type: none"> • Total GHG Emissions (Scope 1, Scope 2, and Scope 1 +2) • Air pollutant emissions • Water pollutants 	<ul style="list-style-type: none"> • Total GHG Emissions (Scope 1, Scope 2, and Scope 1 +2) • Ship fuel GHG emission rate • GHG total for ships • Ship refrigerant GHG emissions 	<ul style="list-style-type: none"> • Total GHG Emissions (Scope 1, Scope 2, and Scope 1 +2) • GHG emissions per occupied room • GHG Emissions per m² or ft² 	<ul style="list-style-type: none"> • Total GHG Emissions (Scope 1, Scope 2, and Scope 1 +2) • GHG emissions per revenue • GHG emissions per passenger • GHG emissions per km • Aircraft GHG emissions 	<ul style="list-style-type: none"> • Total GHG Emissions (Scope 1, Scope 2, and Scope 1 +2)

Relation to main ESG Frameworks

GRI	<p>Emissions are an aspect under Environment, with DMA on emissions required for G4 disclosure. Five performance indicators are related to greenhouse gas emissions:</p> <ul style="list-style-type: none"> • Direct greenhouse gas (GHG) emissions (Scope 1) (EN15) • Energy indirect greenhouse gas (GHG) emissions (Scope 2) (EN16) • Other indirect greenhouse gas (GHG) emissions (Scope 3) (EN17) • Greenhouse gas (GHG) emissions intensity (EN18) • Reduction of greenhouse gas (GHG) emissions (EN19). <p>Climate change is also part of the GRI’s Economic Performance aspect, with an indicator on:</p> <ul style="list-style-type: none"> • Financial implications and other risks and opportunities for the organisation’s activities due to climate change (EN2).
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CDP	<p>The CDP Climate Change Information Request asks for data on:</p> <ul style="list-style-type: none"> • Scope 1, 2, and 3 Emissions data • Emissions per revenue and full-time employee • Drivers behind change in annual emissions performance • Targets (whether absolute or relative) • Base year for targets • Change in absolute emissions if using relative targets • Estimated emissions saved by completed emissions reduction projects during the reporting period • Boundary (Operation Control, Financial Control, or Equity Share Based) • Global warming potentials used • Emissions factors applied • Potential financial implications for each type of reported risk and opportunity • Associated cost to managing each reported risk and opportunity. <p>The CDP Climate Change Information Request also asks for information regarding:</p> <ul style="list-style-type: none"> • Highest level of responsibility for managing climate change issues • Whether climate change is part of company-wide risk management approach • Whether climate change is integrated into business strategy • Whether a company is directly or indirectly engaging with policy-makers on climate change issues • How a company is engaging with suppliers and members of its value chain on climate change issues • Whether a company is reporting on climate change in other public disclosures, such as ESG Report, Annual Report, website, or financial filings.
SASB	<p>SASB Provisional Standards include the reporting of Scope 1 emissions as an accounting metric for the Cruise Lines and Airlines Industries (as both industries are highly fuel intensive to carry passengers).</p> <p>In addition, the SASB Cruise Lines and Airlines Provisional Standards include discussion and analysis on companies’:</p> <ul style="list-style-type: none"> • Long-term strategy or plan to reduce Scope 1 emissions • Short-term strategy or plan to reduce Scope 1 emissions • Emissions reduction targets • Analysis of performance against emissions reduction targets. <p>The SASB Hotels & Lodging Provisional Standards emphasises “climate adaptation” proposing that the companies report on the number of lodging facilities located in FEMA Special Flood Hazard Areas or foreign equivalent (SV0201-03).</p>
<IR>	<p>The <IR> Framework positions climate change as a disclosure within “significant factors affecting the external environment including aspects of the legal, commercial, social, environmental and political context that affect the organisation’s ability to create value in the short, medium, or long term/”</p> <p>The <IR> Framework groups climate change with other environmental challenges, such as the loss of ecosystems and resource shortages.</p>
Others	<p>The Maplecroft Climate Innovation Index questionnaires heavily emphasise innovation and adaptation with 62.5% of its assessment criteria based on innovation of new technologies or initiatives that capitalise on climate-related opportunities (50%) and adaptation by modelling climate impacts and changing company strategy and operations (12.5%). Like the CDP, the CII questionnaires also assess management through policies, disclosures, targets, verification and supply chain processes (12.5%), mitigation of carbon emissions through policy responsiveness, partnerships and efficiency (12.5%), and emissions reductions in greenhouse gas emissions by reporting scope (12.5%). Companies are evaluated using public domain disclosures, such as CDP Climate Change responses.</p>

Resources and further reading

- *International Civil Aviation Organisation Carbon Emissions Calculator.*
- *Fact Sheet: Global Sectoral Approach for Addressing Aviation Carbon Emissions.* IATA, December 2014.
- Hotel Carbon Measurement Initiative.
- Chong, Howard C. and Ricaurte, Eric E. *“Hotel Sustainability Benchmarking.”* Cornell Hospitality Report 14.11 (May 2014)
- UNWTO. *Climate Change and Tourism: Responding to Global Challenges* www.unwto.org/sdt/news/en/pdf/climate2008.pdf;
- UNWTO. *From Davos to Copenhagen and beyond: advancing tourism’s response to climate change* www.unwto.org/pdf/From_Davos_to%20Copenhagen_beyond_UNWTOPaper_ElectronicVersion.pdf
- *Climate Change and Tourism Policy in OECD Countries* www.oecd.org/cfe/tourism/48681944.pdf
- Intergovernmental Panel on Climate Change.

ISSUE BRIEF 4: WASTE

Waste is a broad issue because it involves degrees of waste generation and diversion, and also the concept of effluent waste and the downstream impacts caused. This can include persistent pollutants, eutrophication, land use change from landfills, and handling of hazardous waste.

Disclosures relating to waste can be conceptualised following the traditional ‘Three Rs’ – reduce-reuse-recycle – in order to first avoid waste and then divert waste from landfill or incineration. A growing topic within waste is the handling of electronic ‘e-waste’ at its end of life or replacement. This has been brought to the forefront of public attention because of the growing use of electronic devices on a massive scale. As Travel & Tourism businesses do not generally produce products, the extended product responsibility issues are more related to the Travel & Tourism supply chain.

As waste becomes intertwined with energy and with natural resource inputs, management approaches to waste are now being termed ‘responsible resource recovery’. Waste management is a topic of managerial application similar to energy and water. However, waste data is traditionally not as commonly measured in some instances, particularly in terms of facilities. Cruise ships have more robust reporting mechanisms for waste disposal given the risks of discharge into fragile ocean or coastal environments that have been raised by stakeholders, while hotels do not report waste from operations as consistently. Similar to cruise ships, waste generation and disposal is a more prominently reported issue in tour operators with operations in destinations lacking proper waste infrastructure.

Types of waste will also vary. Hotels generally do not have significant amounts of hazardous waste, while cruise ships and airlines handle more chemicals in association with their operations. In addition, travel and tourism companies generate significant amounts of food, hygienic and other forms of ‘wet waste’, which presents innovative opportunities for composting and other forms of re-use. As an example, HSH Group donates vegetable trimmings from kitchens to a local non-profit organisation, which cooks them to serve the homeless and others in need¹⁰. Marriott, Starwood, Hyatt, Wyndham, IHG, Caesars and other hospitality companies have partnered with Clean the World®, a non-profit organisation that collects partially used soaps and other hygiene amenities, recycles these items as source material, and then manufactures and distributes new bars of soap globally to communities in need¹¹.

Waste will also present data challenges since, globally, the waste management infrastructure has not built a common practice of accurate reporting of waste amounts, as is the case with utilities such as energy and water. Furthermore, waste streams are handled differently across the globe and harmonisation is unlikely. Thus, waste is not as frequently reported as energy or water, although this does not necessarily mean it is less material to stakeholders, but rather that data availability is currently limited.

Risks

Waste can carry various risks depending on the waste topic and waste material. The WEF Global Risks 2014 report indicates plastic waste pollution as a key concern for the marine ecosystem and human health¹². For Travel & Tourism, risks can be financial, regulatory and reputational. Financial risks include the cost of disposal for sending waste to landfill in addition to opportunity costs associated with unrealised revenue generation and cost reduction opportunities, including those within the Restriction on Hazardous Substances (RoHS) Directive in the European Union and the Resource Conservation and Recovery Act in the USA. When hazardous substances are exported, companies may also be subject to the terms of the Basel Convention Annex I, II, III and VIII.

From a reputational perspective, Travel & Tourism companies are increasingly expected to be good stewards of the environment and not create detrimental impacts to oceans and ecosystems that guests visit through its waste management procedures. In addition, as more companies report on waste as a material ESG topic, companies that do not track waste, but report low waste-to-landfill diversion rates, or that do not have goals, such as achieving zero-to-waste landfill by a specified date, may experience reputational risks. Food waste, in particular, is a waste type of interest to direct consumers, and many companies describe leading practices such as composting in their ESG disclosures.

Commonly reported topics

- Waste generated
- Waste diversion rates
- Handling of hazardous waste
- Programmes to reduce waste generation.

Commonly reported performance metrics

	AIRLINES	CRUISE LINES	HOTELS	TOUR OPERATORS	GDS/IT
MOST COMMON	<ul style="list-style-type: none"> • Total waste landfilled • Total waste recycled 	<ul style="list-style-type: none"> • Total waste landfilled • Total waste recycled 	<ul style="list-style-type: none"> • Total waste landfilled • Total waste recycled • Waste per guest night • Total recycling per occupied room 	<ul style="list-style-type: none"> • Total waste landfilled • Total waste recycled 	<ul style="list-style-type: none"> • Total waste landfilled • Total waste recycled
ALSO REPORTED			<ul style="list-style-type: none"> • Total dry waste per occupied room • Total wet waste per occupied room 		

Relation to main ESG frameworks

GRI	<p>Within the ‘Emissions and Waste’ aspect under Environment, data is required on the total weight of waste (EN23):</p> <ul style="list-style-type: none"> • By type (defined by company and usually industry-driven) • By disposal method (landfill, reuse, recycling, composting recovery, including energy recovery, incineration, deep well injection or on-site storage) <p>Total waste is broken down by hazardous and non-hazardous waste, and it is recommended that companies report on how the disposal method has been determined:</p> <ul style="list-style-type: none"> • Disposed of directly by the organisation or otherwise directly confirmed • Information provided by the waste disposal contractor • Organisational defaults of the waste disposal contractor <p>In companies’ disclosures on their management approach regarding waste, progress against targets, reporting year accomplishment, objectives for future years and waste-to-landfill diversion challenges are usually discussed.</p>
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¹⁰ HSH Group Sustainability Report 2013: <http://www.hshgroup.com/en/Corporate-Social-Responsibility/Sustainability-Reports.aspx>

¹¹ <https://cleantheworld.org/partners/hospitality/>

¹² Global Risks 2014 Report. World Economic Forum, n.d. Web. 4 Apr. 2014. <reports.weforum.org/global-risks-2014/>.

CDP	<p>The CDP 2014 Climate Change Information Request asks whether Scope 3 emissions associated with waste-to-landfill methane are relevant and/or calculated.</p> <p>If reporting on Scope 3 emissions associated with waste-to-landfill methane are calculated and reported, the methodology and emissions factors are requested. Moreover, the CDP asks whether these Scope 3 emissions have been assured and, if multiple years of data are available, whether emissions are increasing or decreasing.</p>
SASB	<p>SASB's Provisional Standard for the Cruise Lines Industry includes the following accounting metric: Amount of ship waste discharged to environment and the percentage treated prior to discharge (SV0205-06).</p> <p>In addition, cruise lines are to report on the number of notices of violations received for dumping.</p>
<IR>	<p>While environmental, manufactured and financial capitals are inputs, the <IR> Framework conceptualises waste as an 'output' of a company's business model – in addition to products produced and services delivered. As an output, the <IR> Framework states that waste should be discussed "within the business model disclosure depending on [its] materiality."¹³</p> <p>Materiality would also be a guiding principle in determining whether and how to include disclosures and performance indicators regarding waste in an annual report.</p>
Others	<p>The Travel & Tourism survey for the Dow Jones Sustainability Index requests four years of data on total waste generated and the annual waste target for the reporting year. The Dow Jones Sustainability Index questionnaire also asks what percentage of a company's revenue or operations is covered within the reported waste data.</p> <p>GRESB, a sector-specific survey for real estate, asks whether a waste management policy exists, including for construction waste, in addition to whether waste is part of the organisation's environmental management system. GRESB also asks whether long-term landfill diversion targets are in place and are also publicly reported.</p>

Resources and further reading

- Circular Economy Reports. Ellen Macarthur Foundation. <http://www.ellenmacarthurfoundation.org/business/reports>
- Cradle to Cradle. McDonough and Braungart. 2002.
- The Upcycle. McDonough and Braungart. 2013.
- 'Goodyear's Journey to Zero Waste to Landfill'. World Business Council for Sustainable Development. <http://www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=15750&NoSearchContextKey=true>

ISSUE BRIEF 5: WORKFORCE

A large pillar of the 'social' component of ESG deals with workforce-related topics. 'Workforce' is an extremely broad term although, inevitably, topics associated with the workforce will be relevant to Travel & Tourism as it is a labour-intensive service sector.

At the most basic level, workforce data includes number of employees in ESG for a better understanding of the organisation's scale. This serves as the denominator that provides an understanding of workforce composition in terms of geography, diversity, gender and employment type. Further workforce issues relate to their treatment and engagement, ranging from compliance-based issues and health & safety to handling of grievances, collective bargaining and extending into wellness, training and development. These will vary by industry. For example, airlines tend to have greater management approach disclosure regarding collective bargaining, while tour operations do not.

Wage levels are a key topic relating to the workforce, with wage ratios compared to management and local minimum wage levels gaining more attention. These are especially important in Travel & Tourism where wages may be above the local minimum wage levels but below those in developed countries. Depending on the location of operations, different topics may also be central to the workforce issues, eg gender in the Middle East and immigration in North America and Europe.

Travel & Tourism is somewhat unique in comparison to other types of reporters since, in the service industries, the customer interacts directly with the workforce at a much deeper level than in manufacturing. As such, local employment often carries a greater focus.

Risks

The WEF Global Risks 2014 report ranks structurally high unemployment/underemployment as the 2nd of the top Ten Global Risks of Highest Concern. In addition, severe income disparity, ranked as the 4th most important, will also relay into workforce-related concerns. According to the WEF Global Risks 2014 report, "an estimated two-thirds of the youth are not fulfilling their economic potential" in developing countries. Workforce concerns are not just singular to developing countries, but also developed economies as well – where younger generations are faced with underemployment and over-burdened with higher education debt. The workforce disconnect remains a rather large gap to be addressed¹⁴.

For the Travel & Tourism sector, workforce management presents a series of financial, legal and reputational risks. For most Travel & Tourism companies, labour is the greatest line item among its operating costs. As such, the financial community increasingly conceptualises a company's investments in its workforce as 'human capital', for which companies should strive to gain the highest return – similar to the approach for more traditional capital investments in property and equipment. Decreased employee morale and increased turnover reduce a company's return on its human capital investments. Moreover, within Travel & Tourism, customer service is critical to the brand and sustained revenue, highlighting the strategic importance of an engaged, high-morale workforce as they directly engage with customers and often drive the guest experience.

Travel & Tourism companies must also navigate a series of local and national regulatory requirements regarding employment practices, including diversity quotas in some markets. In addition, instances of discrimination and workplace injuries, such as spills and falls, present litigation risks across all segments of the Travel & Tourism sector.

The financial and legal risks associated with workforce management can also translate into reputational risks. In addition to having a consumer-facing brand, companies have a brand as an employer that also drives financial performance. Through social media and an increase in 'Best Place to Work' rankings, employees (both current and prospective) have more tools to evaluate employers within Travel & Tourism. If a company is associated with either endemic or egregious violations of workers' rights, negative publicity and/or scrutiny may well follow.

Commonly reported topics

- Workforce composition by region, employment type, gender and contract
- Benefits provided
- Turnover and retention
- Injury rates
- Fatality rates
- Labour force from local communities
- Training and development levels
- Collective bargaining.

¹³ <IR> Framework, p .26 (Content Elements – Outputs (4.18))

¹⁴ Global Risks 2014 Report. World Economic Forum, n.d. Web. 4 Apr. 2014. <reports.weforum.org/global-risks-2014/>.

Commonly reported performance metrics

	AIRLINES	CRUISE LINES	HOTELS	TOUR OPERATORS	GDS/IT
MOST COMMON	<ul style="list-style-type: none"> Regional employee breakdown Employee gender profile Injury and fatality rates Employee turnover ratio % of employees covered by collective bargaining agreements 	<ul style="list-style-type: none"> Regional employee breakdown Employee gender profile Injury and fatality rates Employee turnover ratio % of employees covered by collective bargaining agreements 	<ul style="list-style-type: none"> Regional employee breakdown Employee gender profile Injury and fatality rates Employee turnover ratio % of employees covered by collective bargaining agreements 	<ul style="list-style-type: none"> Regional employee breakdown Employee gender profile Injury and fatality rates Employee turnover ratio % of employees covered by collective bargaining agreements 	<ul style="list-style-type: none"> Regional employee breakdown Employee gender profile Injury and fatality rates Employee turnover ratio % of employees covered by collective bargaining agreements
ALSO REPORTED	<ul style="list-style-type: none"> % of locally hired employees 			<ul style="list-style-type: none"> Employee engagement score 	

Relation to main ESG frameworks

GRI	<p>Within its General Standards Disclosures, the GRI G4 guidelines recommends that all organisations report the following information at a minimum (G4-10 and G4-11) as part of its 'Organisational Profile':</p> <ul style="list-style-type: none"> Total number of employees by employment contract and gender % of total employees covered by collective bargaining agreements Whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed Any significant variations in employment numbers (such as seasonal variations for Travel & Tourism companies). <p>For deeper disclosures, the GRI conceptualises workforce issues within its Labour Practices category, for which there are five commonly reported aspects: Employment, Labour/Management Relations, Occupational Health and Safety, Training and Education, and Diversity and Equal Opportunity. (Equal Remuneration for Men and Women is an aspect that it is not commonly reported.)</p> <p>Within the 'Employment' aspect, there are three indicators:</p> <ul style="list-style-type: none"> Total number and rates of new employee hires and employee turnover by age group, gender, and region (LA1) Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation (LA2) Return to work and retention rates after parental leave, by gender (LA3). <p>Within the Labour/Management Relations aspect, there is only one indicator: minimum notice periods regarding operational changes (LA4). This indicator would be reported only if material to an organisation – for example, a significant percentage of workers – were covered by a collective bargaining agreement (as reported in G4-11).</p> <p>Within the Occupational Health and Safety aspect, there are four indicators:</p> <ul style="list-style-type: none"> % of the total workforce represented in formal joint management – worker health and safety committees that help monitor and advise on occupational health and safety programmes (LA5) Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender (LA6) Workers with a high incidence or high risk of diseases related to their occupation (LA7) Health and safety topics covered in formal agreements with trade unions (LA8).
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	<p>Within the Training and Education aspect, there are three indicators:</p> <ul style="list-style-type: none"> Average hours of training per year per employee by gender and employee category (LA9) Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings (LA10) % of employees receiving regular performance and career development reviews, by gender and employee category (LA11). <p>Within the Diversity and Equal Opportunity aspect, there is one indicator (LA12) that requests data on (1) composition of governance bodies and (2) breakdown of employees:</p> <ul style="list-style-type: none"> Per employee category According to gender By age group By minority group membership Based on other indicators of diversity.
CDP	<p>While primarily focused on climate change and energy, the CDP 2014 Climate Change Information Request asks whether all employees are incentivised to work towards energy reduction targets.</p> <p>In addition, in both the CDP Climate Change and Water Information Requests, companies often describe employee engagement efforts regarding environmental sustainability in disclosures on strategies and how risks and opportunities are managed.</p>
SASB	<p>The SASB Provisional Standards have identified 'Fair Labour Practices' as a disclosure topic for the Hotels & Lodging, Cruise Lines and Airline industries.</p> <p>However, the associated accounting metrics vary across industries:</p> <ul style="list-style-type: none"> Hotels & Lodging: Companies are to report on turnover rates (both voluntary and involuntary), average hourly wage for hotel employees by region and % of hotel employees earning the minimum wage. Cruise Lines: Companies are to report on average hourly wages by region for seafarers in addition to the % of seafarers working maximum hours and those paid for overtime. Airlines: Companies are to report on the % of the active workforce covered by collective bargaining agreements in US and foreign companies, and the number and duration of strikes and lockouts during the reporting period. <p>Hotel & Lodging and Cruise Line companies are also required to report on the number and amount of both fines and settlements related to labour law violations.</p>
<IR>	<p>The <IR> Framework emphasises human capital alongside financial capital. Human capital is defined as "people's competencies, capabilities and experience, and their motivations to innovate, including their (1) alignment with and support for an organisation's governance framework, risk management approach and ethical values; (2) ability to understand, develop and implement an organisation's strategy; and (3) loyalties and motivations for improving processes, goods and services, including their ability to lead, manage, and collaborate."¹⁵</p> <p>The flow between human and financial capital is described as follows: "There is a constant flow between and within the capitals as they are increased, decreased, or transformed. For example, when an organisation improves its human capital through employee training, the related training costs reduce its financial capital. The effect is that the financial capital has been transformed into human capital."¹⁶</p> <p>The <IR> Framework encourages companies to decide which performance indicators regarding the workforce to report in the context of outcome on capital flows, which includes human capital. As with the GRI, materiality is a guiding principle in determining the content in the report¹⁷.</p>
Others	<p>Human capital development, talent attraction and retention, and occupational health and safety are emphasised in the Dow Jones Sustainability Index's selection methodology for Travel & Tourism, accounting directly for 23% of the overall 2014 criteria weighting.</p> <p>In addition, there is a series of rankings regarding workforce issues at the local and national level, such as Best Place of Work rankings. Each year, Working Mother Magazine identifies its Working Mother 100 Best Companies¹⁹. The Human Rights Campaign also publishes an annual Corporate Equality Index, which serves as a benchmarking tool on corporate policies and practices pertinent to lesbian, gay, bisexual and transgender employees. Companies that score 100% receive the 'Best Places to Work for LGBT Equality' distinction²⁰.</p>

¹⁵ <IR> Framework, p. 12 (*Fundamental Concepts*)

¹⁶ <IR> Framework, p. 11 (*Fundamental Concepts*)

¹⁷ <IR> Framework, p. 5 (*Guiding Principles*)

¹⁹ www.sustainability-indices.com/sustainability-assessment/corporate-sustainability-assessment.jsp

¹⁹ www.workingmother.com/best-companies

²⁰ www.hrc.org/campaigns/corporate-equality-index

Resources and further reading

- Ketvirtis, S. (June 2012). How Corporate Citizenship Impacts Employee Engagement. Northwestern School of Education and Social Policy. www.sesp.northwestern.edu/msloc/knowledge-lens/stories/2012/how-corporate-citizenship-impacts-employee-engagement.html#sthash.UWTXKMmM.dpuf
- Johnson Controls Global WorkPlace Innovation. (2010). Generation Y and the Workplace. www.johnsoncontrols.com/content/dam/WWW/jci/be/global_workplace_innovation/oxygenz/Oxygenz_Report_-_2010.pdf
- www.workingmother.com/best-companies
- www.hrc.org/campaigns/corporate-equality-index

ISSUE BRIEF 6: SUPPLY CHAIN

Supply chain involves both the specifications of products and services procured by companies, as well as the related ESG practices of the suppliers as organisations. Supply chain also creates a need to segment out suppliers, as organisations will have several tiers depending on the product or service offered. Supply chain has gained increased focus within ESG reporting in recent years. Regulators have also begun to emphasise supply-chain impacts. For example, the US Environmental Protection Agency incentivised the reduction of supply-chain greenhouse gas emissions through its annual Climate Leadership Awards for which Caesars Entertainment was a 2014 winner²¹.

Many studies have shown that most of an organisation’s impacts, and even risks, fall within its supply chain. Furthermore, many opportunities exist for improvement when an organisation incentivises or pushes requests down its supply chain, given the leverage corporations hold as large paying customers. As such, the supply chain goes beyond evaluation of risks and impacts to also encompass the innovation and collaboration opportunities within the supply chain when an organisation includes this type of engagement as part of its management approach.

Supply-chain analysis can have parallels to life-cycle assessment. However, within Travel & Tourism, supply chains are unique where companies procure thousands of finished products for furniture, fixtures and equipment – rather than the raw materials for inputs or manufacturing suppliers for processing them. In tourism, and particularly for tour operators, the supply chain often holds a central discussion around localised impacts, including local supplier labour and locally sourced products or services when involving the guest experience.

Supply chain is also a part of a larger discussion of the value chain, which goes beyond procurement to involve upstream and downstream impacts associated with the organisation’s business model. In this discussion, Travel & Tourism has a longstanding example of this, given the various industries that come together, compete with, affect, and are affected by each another within travel. The value chain of tourism within a destination is itself an entire field of study. Furthermore, the value chain of tourism itself includes natural capital, considering that a destination’s biodiversity, natural resources and attractions are often generators of demand and key components of the traveller’s experience. Within the ecosystem services paradigm, recreation & ecotourism and aesthetic values of natural lands are even listed as ecosystem services²². Furthermore, the products and services consumed during travel may have localised impacts on natural and social capital. Therefore, as the supply chain is vastly encompassing, it can be broken down into further topics and explored thematically as specific to Travel & Tourism as well as within destinations themselves.

Risks

Supply-chain risk has the potential to be impacted across several other global risks, such as water crises, greater incidence of extreme weather events, and food crises, ranked 3rd, 6th and 8th, respectively, within the top Ten Global Risks of Highest Concern in the WEF Global Risks 2014 report. All these risks have the potential to halt the production and transportation of goods and services globally. One example is the decreased global auto production as a result of the 2011 earthquake in Japan, which led to the Fukushima nuclear plant catastrophe²³.

For the Travel & Tourism sector, the risks associated with the supply chain are multi-faceted and pose not only economic but also environmental and social risks. Supply-chain risks can be assessed from two vantage points: (1) Risks from an organisation’s suppliers, and (2) Risks that an organisation may create for its customers as a ‘supplier’ of Travel & Tourism products and services.

Economic risks are primarily associated with potential business interruptions and pricing volatility, both of which are tied to net income. Increases in the price of fuel, for example, usually result in ripple effects across all procurement categories due to shipping and transport cost increases. In addition, many products are petroleum based. Extreme weather events, such as 2013’s Typhoon Haiyan, can lead to supply-chain delays that are often felt for several months after this type of horrific and tragic event.

For most companies in Travel & Tourism, the environmental footprint of the products purchased is far larger than the footprint from direct operations. For this reason, Travel & Tourism companies are expected to engage with their suppliers to seek ways of minimising these shared impacts, through purchasing standards and engagement to identify environmentally preferable alternatives and reducing impacts associated with packaging, shipping, transportation, usage and end-of-life disposal.

Social risks are also very prevalent within the supply chain of Travel & Tourism, most notably the threat of child labour, forced labour, and other human rights violations within key procurement categories such as food and apparel. Other products may have adverse social impacts, such as food items for which animals were treated inhumanely in production, or items for which species that risk extinction were exploited. Companies are increasingly expected to set forth clearly defined expectations of suppliers as they relate to human rights, labour and social practices, such as in a Supplier Code of Conduct. Moreover, companies are expected to monitor suppliers’ ‘social’ practices through audits and other oversight mechanisms.

Commonly reported topics

- Suppliers participating in codes of conduct or evaluated
- Environmental, Labour and Human Rights risks within supply chains
- Local procurement
- Diversity suppliers
- Type of products: Organic, Fairtrade, etc.

Commonly reported performance metrics

	AIRLINES	CRUISE LINES	HOTELS	TOUR OPERATORS	GDS/IT
MOST COMMON	<ul style="list-style-type: none"> • % of suppliers that have undergone human rights screening 	<ul style="list-style-type: none"> • % of suppliers that have undergone human rights screening 	<ul style="list-style-type: none"> • % of suppliers that have undergone human rights screening • % of hotels requesting the suppliers’ code of conduct 	<ul style="list-style-type: none"> • % of suppliers that have undergone human rights screening 	<ul style="list-style-type: none"> • % of suppliers that have undergone human rights screening
ALSO REPORTED	<ul style="list-style-type: none"> • Annual spend on qualifying suppliers • Annual spend on minority women-owned enterprises • # of eco-friendly purchase items and spend 		<ul style="list-style-type: none"> • % of minority suppliers • % of hotels serving organic food and/or fair-trade products 		

²¹ <http://www.epa.gov/climateleadership/awards/2014winners.html>
²² See Ecosystems and Human Wellbeing: Millennium Ecosystem Assessment for further information.
²³ Global Risks 2014 Report. World Economic Forum, n.d. Web. 4 Apr. 2014. <reports.weforum.org/global-risks-2014/>.

Relation to main ESG frameworks**GRI**

Within its General Standards Disclosures, the GRI G4 guidelines recommend that all organisations provide a description of its supply chain (G4-12) as part of its Organisational Profile.

The G4 guidelines have also added four new aspects pertaining to assessments of suppliers regarding labour practices, human rights, impacts on society, and impacts on the environment.

Within the G4 Specific Standards Disclosures, voluntary indicators include the following:

- % of new suppliers screened during the reporting year regarding:
 - *Labour practices (LA14)*
 - *Human rights (HR10)*
 - *Impacts on society (SO9)*
 - *Impacts on the environment (EN32).*
- Significant actual and potential negative impacts in the supply chain and actions regarding:
 - *Labour practices (LA15)*
 - *Human rights (HR11)*
 - *Impacts on society (SO10)*
 - *Impacts on the environment (EN33).*
- Whether suppliers have been identified having significant risk regarding:
 - *The right to exercise freedom of association and collective bargaining (HR4)*
 - *Incidence of child labour (HR5)*
 - *Incidence of forced or compulsory labour (HR6).*

CDP

The CDP 2014 Climate Change Information Request asks for information on:

- Whether identified risks and opportunities are indirect through the supply chain
- How many suppliers have been engaged on climate change issues, and what % of spend is represented by these suppliers
- What methods of engagement are used
- How engagement strategies are prioritised
- How success in engagement is measured
- Whether a company has data on suppliers' GHG emissions and climate change strategies
- Whether Scope 3 emissions from purchased goods and services are calculated.

The CDP 2014 Water Information Request asks for information on:

- Whether the supply chain is incorporated into water risk assessments
- Whether an organisation considers itself exposed to water risk in its supply chain that could generate a substantive change in its business, operations, revenue, or expenditure
- Whether each identified risk and opportunity is a supply-chain risk
- % of key suppliers required to report on their water use, risks and management, and the proportion of procurement spend represented
- Whether water policy includes supply-chain actions
- Whether goals regarding engagement with suppliers to help them improve water stewardship are in place.

SASB

In comparison to the GRI and other frameworks, SASB Provision Standards for Travel & Tourism include limited disclosures on supply-chain issues. However, for the airline industry, companies are to report on the "notional amount of fuel hedged, by maturity date" (TR0201-04), but the context is more aligned to economic risk management.

Limited, explicit supply-chain disclosures for Travel & Tourism within SASB reflect the investor audience for the framework. Unlike SASB, the GRI, for example, is developed with broader multi-stakeholder input in order to represent the interests of governments, academics and civil society organisations as well. The GRI framework therefore places a greater emphasis on supply-chain reporting.

<IR>

As part of the <IR> Framework, suppliers are identified as users for an integrated report, and providing benefits to suppliers is identified as one of the purposes of an integrated report²⁴.

Suppliers are also referenced in the <IR> Framework's guiding principles that an "integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account, and responds to their legitimate needs and interests."²⁵

In developing a report, the <IR> Framework recommended that the supply chain be reported on to provide context for its competitive landscape and market positioning²⁶.

Unlike the GRI and CDP, specific supply-chain disclosures are not set forth. Instead, the consideration of supplier dynamics is central to the entire integrated report as it relates to value creation.

Others

The Travel & Tourism survey for the Dow Jones Sustainability Index contains detailed questions about supply-chain management, including the % of critical suppliers, % of Tier 1 suppliers identified as having high economic, environmental and/or social risk, what tools are used to monitor suppliers, and what % of Tier 1 suppliers are audited. In addition, the Dow Jones Sustainability Index selection criteria consider ESG capability building measures for suppliers and examples of quantitative benefits received from sustainability initiatives in its supply chain.

GRESB, a sector-specific survey for real estate, asks whether a supplier engagement policy is in place. GRESB also asks whether suppliers and contractors are subject to sustainability-specific requirements, and how these requirements are monitored.

Resources and further reading

- 'Palm Oil Scorecard: Ranking America's Biggest Brands on Their Commitment to Deforestation-Free Palm Oil', Union of Concerned Scientists, 3 Mar. 2014. <www.ucsusa.org/global_warming/solutions/stop-deforestation/palm-oil-scorecard.html>.
- www.greenbiz.com/blog/2013/06/14/how-corporate-reporting-improved-microsofts-supply-chain
- Umias, Elizabeth Corporate Human Rights Reporting: An Analysis of Current Trends. November 2009.
- GreenBiz Group Inc. State of Green Business 2014

ISSUE BRIEF 7: COMMUNITY

Community is perhaps the broadest overall term used in ESG reporting for Travel & Tourism. Topics relating to the community are often at the heart of an organisation's business model as the service usually involves an experience with the community. As such, it will become an increasingly ubiquitous term that will require further context and clarification in its use in order to provide meaning, especially given its overlap with the workforce and supply chain, in addition to the natural and social capital afforded within local communities.

Traditionally, community topics within ESG reporting involve the various impacts caused by an organisation on a local community in terms of their environment, resources, economic activity and social change. Community will be cross cutting through other ESG topics, especially for Travel & Tourism. Examples will be charitable giving in communities, supply chain, and water withdrawals/discharges. Furthermore, employee issues are often intertwined with community issues.

Community is also a broad issue as communities are commonly cited stakeholder groups and engaged regularly at various levels. Community may involve civil society and regulatory bodies as well, especially when it deals with the organisation's social licence to operate. In the case of community as well, tourism development topics are equally relevant as operational topics. Several ESG frameworks include components of disclosing impacts on communities and community engagement, although it is actually less common for Travel & Tourism companies to report this information. This does not mean that the issue is immaterial but as can be the specific case of Travel & Tourism companies, handling community data from hundreds, even thousands, of locations (some of which are highly remote) is a daunting challenge with which the sector is grappling.

It should be noted that community may also involve the community of the organisation's corporate offices, irrespective of the location of operations as multinational companies are also a part of the community(ies) in which they are headquartered. This is particularly interesting considering that stakeholder pressures on ESG reporting and its related management approaches vary across the globe. The local or national community in which an organisation's corporate headquarters is located can influence the focus and robustness of its corporate responsibility platform and level of ESG reporting.

²⁴ <IR> Framework, p. 9 (Using the Framework, 1C – Purpose and Users of an Integrated Report)

²⁵ <IR> Framework p. 19 (Guiding Principles, 3C – Stakeholder Relationships)

²⁶ <IR> Framework, p. 25 (Content Elements – 4A, Organisational Overview and External Environment)

Risks

Societal risks are widespread and, according to the WEF Global Risks report 2014, include an array of issues such as: “the decline of trust in institutions, the lack of leadership and persisting gender inequalities” to “ideological polarisation, extremism – in particular those of a religious or political nature – and intra-state conflict such as civil wars.”²⁷ Profound political and social instability ranks 10th in the top Ten Global Risks of Highest Concern list in the report. Indirectly, societal risks are impacted by all top ten risks listed.

Risks posed by community issues can impact both global demand for Travel & Tourism, as well as demand in local or regional markets. Travel & Tourism is expected to maximise positive community impacts and minimise negative impacts within the sphere of its influence and control. While Travel & Tourism companies are typically not exposed to the same levels of community-based scrutiny and activism as sectors such as mining, oil and gas, or big box retailers, the Travel & Tourism sector’s economic, environmental and social impacts on local communities can be significant.

In many local and national economies, tourism is the largest and sometimes the only major sector, directly supporting up to 80% of jobs. Moreover, business travel plays a critical role in supporting commerce in cities such as New York, London and Hong Kong, which have large, diversified local economies. Travel & Tourism companies are expected to bring positive economic impacts to the community for which profits are derived – through local hiring and the support of local businesses.

As part of their environmental stewardship commitments, Travel & Tourism companies face risks if local environmental impacts, such as those related to local air pollution, water quality, biodiversity and heat island effects, are adversely impacted by operations. When developing and operating sites for hotels and resorts, companies may face risk if they do not consider these types of local environmental impacts. In addition, companies are expected to manage adverse social impacts from operations, which may include light pollution, traffic congestion, and threatening local culture and heritage sites.

Commonly reported topics

- Charitable giving
- Volunteer hours
- Contributions to research/conservation funds
- Investments in local infrastructure and services.

Commonly reported performance metrics

	AIRLINES	CRUISE LINES	HOTELS	TOUR OPERATORS	GDS/IT
MOST COMMON	<ul style="list-style-type: none"> • Total \$s of charitable donation • Economic value generated and distributed • Employee volunteer hours 	<ul style="list-style-type: none"> • Total \$s of charitable donation • Economic value generated and distributed 	<ul style="list-style-type: none"> • Employee volunteer hours 	<ul style="list-style-type: none"> • Employee volunteer hours 	<ul style="list-style-type: none"> • Total \$s of charitable donation • Economic value generated and distributed

Relation to main ESG frameworks

GRI

Within its General Standards Disclosures, the GRI G4 guidelines recommend that all organisations provide a description of its approach to stakeholder engagement (G4-24 to 27) which, for Travel & Tourism, includes communities in ESG reporting. Disclosures include:

- Basis for identification and selection of stakeholders with whom to engage
- Types of engagement
- Frequency of engagement (for each type)
- Key topics and concerns, and how the organisation has responded to those key topics and concerns (including through its reporting)

Within the ‘Economic Performance’, ‘Market Presence’, ‘Indirect Economic Impacts’ and ‘Procurement Practices’ aspects, voluntary indicators include:

- Community donations, taxes paid and wages paid (EC1)
- Commercial, in-kind, and pro bono investments and service supported, and expected impacts (EC7)
- Ratios of standard entry-level wage by gender compared to local minimum wage at significant locations of operation (EC5)
- % of senior management hired from the local community at significant locations of operation (EC6)
- % of spending on local suppliers at significant locations of operation (EC9)
- Significant indirect economic impacts (both positive and negative), including economic development in areas of high poverty and enhancing skills and knowledge in a geographic region (EC8)

‘Local Communities’ is also an aspect with Society, with two associated indicators:

- % of operations with implemented local community engagement, impact assessments and development programmes (SO1)
- Operations with significant actual or potential negative impacts on local communities (SO2).

To fully report on SO2, a rigorous assessment is recommended that considers vulnerability and risk to local communities from potential impacts due to factors such as:

- Degree of physical or economic isolation of the local community
- Level of socioeconomic development including the degree of gender equality within the community
- State of socioeconomic infrastructure (health, education)
- Proximity to operations
- Level of social organisation
- Strength and quality of the governance of local and national institutions around local communities.

In addition, the organisations’ impacts regarding the following were considered within the SO2 assessment:

- Use of hazardous substances that impact on the environment and human health in general, and specifically on reproductive health
- Volume and type of pollution released
- Status as major employer in the local community
- Land conversion and resettlement
- Natural resource consumption.

CDP

The CDP 2014 Climate Change Information Request embeds community needs within the assessment of risks and opportunities, which include:

- Induced changes in the human and cultural environment
- Increasing humanitarian demands
- Fluctuating socioeconomic conditions
- Changing consumer behaviour
- Reputation
- Uncertainty in social drivers.

For each risk and opportunity, ‘wider social disadvantages’ can also be selected as a potential impact.

²⁷ idem

As water is generally considered a more local issue than climate change, the CDP 2014 Water Information Request specifically asks for information regarding:

- Whether communities are factored into water risk assessments
- Whether community opposition has had a detrimental impact during the reporting period
- Whether community opposition is a potential risk and, if so, whether community engagement is part of the response strategy
- Whether any goals are in place to increase access to Safe Water, Sanitation and Hygiene (WASH), to strengthen links with the community.

SASB

In SASB Provisional Standards, Community is emphasised in the context of ecosystem protections for the Hotels & Lodging Industry. The standards include a discussion and analysis on environmental management policies and practices to preserve ecosystem services (SV0201-05).

In addition, hotel and lodging companies are to report on the number of lodging facilities in or near areas of protected conservation status or endangered species habitat (SV0201-04).

<IR>

Within the <IR> Framework, an organisation would report on value creation efforts and annual changes in 'social and relationship capital' alongside financial capital.

The <IR> Framework describes social and relationship capital as "the institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes: (1) shared norms and common values and behaviours, (2) key stakeholder relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with external stakeholders, (3) intangibles associated with the brand and reputation that an organisation has developed, and (4) an organisation's social licence to operate."²⁸

Local communities are identified as an audience and potential beneficiary for the integrated report.²⁹ Specifically, the <IR> Framework states the business creation and cost reduction opportunities regarding engagement with local communities can be relevant to the 'Financial Information and Other Information' content element³⁰.

Others

Corporate Citizenship and Philanthropy and Stakeholder Engagement are emphasised in the Dow Jones Sustainability Index's selection methodology for Travel & Tourism, accounting directly for 13% of the overall 2014 criteria weighting³¹. Within Corporate Citizenship and Philanthropy, it is asked whether a company-wide strategy is in place, what the three main priorities are within the strategy, and what key performance indicators are used to measure the business benefits in addition to the social and environmental benefits. Within Stakeholder Engagement, it is asked where the highest level of responsibility for stakeholder engagement lies in the organisation and how frequently the Board is briefed on stakeholder engagement activities.

GRESB, a sector-specific survey for real estate, asks whether community-monitoring practices are in place and if these practices include monitoring an organisation's impact on crime levels, local business revenues, local residents' well-being and local community welfare. In addition, GRESB asks whether companies have a community engagement programme and if the following elements are within the scope of the programme: Sustainability Education, Health and Well-being, Sustainability Enhancement Programmes for Public Spaces, Employment Creation in Local Communities, Research and Network Activities, Supporting Charities and Community Groups and Communications and Processes to Address Community Concerns.

In the World's Most Ethical Companies ranking, Ethisphere Magazine includes Corporate Citizenship and Responsibility as a category in its Ethics Quotient methodology, with a 25% weighting. Within the category, community involvement and corporate philanthropy are included, noting that the "quality and effectiveness of the initiatives are considered, in addition to stated and measureable goals, accountability and transparency."³²

Resources and further reading

- 'Measuring Socio-Economic Impact-A WBCSD Guide For Business'. World Business Council for Sustainable Development. www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=15357&NoSearchContextKey=true
- 'Building an Inclusive Green Economy for All'. World Business Council for Sustainable Development. www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=14776&NoSearchContextKey=true
- 'Understanding Our Economic Impacts'. Unilever. www.unilever.com/sustainable-living-2014/enhancing-livelihoods/understanding-our-economic-impacts/
- The Big Pivot. Andrew Winston. 2014.

ISSUE BRIEF 8: GOVERNANCE, RISK AND COMPLIANCE (GRC)

Governance, Risk and Compliance (GRC) is an emerging term to encompass the growing level of disclosures involved with ESG reporting. Traditionally, these elements have been addressed within internal departments for specific audiences. Therefore, the GRC issue is more focused on the application of ESG reporting for multiple audiences and relating to transparency, coupled with the increasing regulatory landscape emerging around various issues that now attract more investment analyst interest.

Risks

Global governance failure ranks 7th in the top Ten Global Risks of Highest Concern in the WEF Global Risks 2014 report. Governance failure is the most interconnected to other global risk concerns and most closely interconnected to climate change. Global pacts on how to address climate change issues do not just stop at governments, but involve several other multi-stakeholder groups both in the public and private sectors. This requires much more "resilience and flexibility" when it comes to devising a solution³³.

In addition, following each global financial crisis, the interest in corporate governance is renewed and reforms, such as the Sarbanes-Oxley Act and Dodd-Frank Act in the USA, are enacted. Within ESG reporting, GRC measures and results are reported in two contexts: (1) overarching corporate practices and (2) practices that are specific and related to a company's most material ESG risks and opportunities. In fact, many of the country-level initiatives on ESG reporting are themselves akin to GRC discussions.

Within many organisations, the concepts behind GRC are often better known and understood among the leadership team and Board than those behind Environmental, Social and Governance. In alignment with the increasing awareness of the financial impacts that externalities present, the approach to GRC has since shifted towards adding business value through improving strategic planning and operational decision-making, and has relevance to environmental and social management approaches.

With regard to overarching corporate governance practices, maintaining the integrity of the Board – through its composition, diversity and adherence to defined corporate governance principles – is increasingly valued by the investment community. Practices regarding CEO and executive compensation are included as optional reporting disclosures within the GRI G4 framework, and ratios between compensation of the executive leadership and average employee are specifically requested as a part of the assessment process for inclusion within the Dow Jones Sustainability family of global indexes.

Governance, risk and compliance practices specific to climate change and water are heavily emphasised in the CDP Information Request, and are weighted significantly in the scoring methodology – which presents risks for Travel & Tourism companies with limited procedures or transparency on current practices. Within the Travel & Tourism sector, airlines and cruise lines, in particular, are subject to numerous environmental regulations. Cruise lines are governed by International Maritime Organization regulations, including the International Convention for the Prevention of Pollution from Ships (MARPOL) that contains requirements to minimise pollution by oil, sewage, garbage and air emissions, and establish special Emission Control Areas with limitations on sulphur and nitrogen oxide emissions in the air.

Across Travel & Tourism, compliance with anti-corruption and bribery laws is an additional risk that is managed with leading regulations, such as the Foreign Corrupt Practices Act and the UK Bribery Act, require robust procedures and policies to be put in place.

²⁸ <IR> Framework, p. 12 (Fundamental Concepts)

²⁹ <IR> Framework, p. 9 (Using the Framework, 1C – Purpose and Users of an Integrated Report)

³⁰ <IR> Framework, p. 17 (Guiding Principles, 3B – Connectivity of Information)

³¹ www.sustainability-indices.com/sustainability-assessment/corporate-sustainability-assessment.jsp

³² www.ethisphere.com/worlds-most-ethical/scoring-methodology/

Commonly reported topics

- Board composition and diversity
- Board evaluations
- Remuneration policies
- Board and Executive oversight over ESG issues
- Enterprise Risk Management
- Climate Change and Water Risk assessments
- Anti-corruption
- Environmental Compliance.

Commonly reported performance metrics

- Number of independent directors
- Number of female directors
- Estimated potential financial implications of climate change risks
- Percentage of operations subject to water risk
- Percentage of employees trained on anti-corruption policies
- Number of legal cases regarding corrupt practices
- Number or value of environmental fines.

Relation to main ESG frameworks

GRI

The G4 General Standards Disclosures contains 22 indicators (G4-34 to G4-58) on governance for “comprehensive” reporting, but recommends that all companies report on the following for core reporting (G4-34):

- Governance structure of the organisation, including committees of the highest governance body
- Any committees responsible for decision-making on economic, environmental, and social impacts.

The G4 recommends that key ESG risks identified be included within the content of an ESG Report’s Statement from the organisation’s most senior decision maker.

Additionally, GRI contains voluntary risk-related disclosures on:

- Key impacts, risks and opportunities (G4-1)
- Financial implications and other risks and opportunities for the organisation’s activities due to climate change (EN2)
- Workers with high incidence or high risk of diseases related to their occupation (LA7)
- Operations with significant actual or potential negative impacts on local communities (SO2)
- Significant actual and potential negative impacts in the supply chain and actions regarding:
 - Labour practices (LA15)
 - Human rights (HR11)
 - Impacts on society (SO10)
 - Impacts on the environment (EN33).
- Operations and suppliers identified having significant risk regarding:
 - The right to exercise freedom of association and collective bargaining (HR4)
 - Incidents of child labour (HR5)
 - Incidents of forced or compulsory labour (HR6).

For “comprehensive” reporting, the following General Standard Disclosures regarding compliance are reported:

- Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines (G4-57)
- Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters relating to organisational integrity (G4-58)

CDP

Anti-Corruption and compliance with the Environmental, Society and Product and Services aspects, with the following associated performance indicators:

- Total number and % of operations assessed for risks related to corruption and the significant risks identified (SO3)
- Communication and training on anti-corruption policies and procedures (SO4)
- Confirmed incidents of corruption and actions taken (SO5)
- Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations (EN29)
- Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations (SO8)
- Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services (PR9)
- Total number of incidents of non-compliance with regulations and voluntary codes concerning:
 - Health and safety impacts of products and services during their life cycle (PR2)
 - Product and service information and labelling (PR4)
 - Marketing communications, including advertising, promotion and sponsorship (PR7).

The CDP 2014 Climate Change Information Request asks for information on:

- Highest level of direct responsibility for climate change within the organisation
- Whether climate change risk management findings are reported to the Board
- Whether the organisation has identified any climate change risks or opportunities that have the potential to generate a substantive change in business operations, revenue, or expenditure
- Potential financial implications, time frame, likelihood, management methods and cost of management for each identified risk and opportunity.

The CDP 2014 Water Information asks for information on:

- Highest level of direct responsibility for water within the organisation
- How the effects of water quality and water quantity on its success are evaluated
- Whether water is integrated into a comprehensive, company-wide risk assessment process incorporating both direct operations and supply chain
- How frequently water risk assessments occur, their geographical scale, which factors are involved, and how far into the future are they considered
- Whether organisation is exposed to water risks or opportunities that have the potential to generate a substantive change in business operations, revenue or expenditure
- Countries, river basin and number of facilities exposed to water risks
- Whether the organisation was subject to any penalties and/or fines for breaches of abstraction licenses, discharge consents, or other water and wastewater-related regulations in the reporting period
- Description of any penalties and/or fines for breaches of abstraction licences, discharge consents or other water and wastewater-related regulations.

SASB

The SASB Provisional Standards emphasise passenger health and safety as a key governance, risk and compliance topic for the Cruise Lines and Airlines industries.

Cruise Lines companies are to report on:

- Number of alleged crime incidents involving passengers or employees
- Number of serious injuries per million customers and voyages in which gastrointestinal illness count exceeded 2%
- Fleet average vessel sanitation programme inspection scores, and the % of failed inspections.

Airlines companies are to report on:

- Number of accidents
- Number of government enforcement actions of aviation safety regulations
- Implementation and outcomes of Safety Management Systems.

For all sectors, SASB Provisional Standards references the ‘Risk Factors’ section of companies’ 10-K filing as a place for additional disclosures considering a company-level determination of material sustainability topics.

<IR>

Within the <IR> Framework, 'Governance' and 'Risks and Opportunities' are two of the eight content elements for which states are "fundamentally linked to each other and are not mutually exclusive".

For 'Governance', the <IR> Framework suggests that an organisation's integrated report should answer: "How does the organisation's governance structure support its ability to create value in the short, medium, and long term?"

For 'Risks and Opportunities', the <IR> Framework suggests that an organisation's integrated report should answer: "What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?"

Unlike the GRI and CDP, the <IR> Framework is more conceptual with fewer explicit references to compliance. However, the <IR> Framework states that "it may be relevant for the discussion of performance to include instances where regulations have a significant effect on performance (eg a constraint on revenues as a result of regulatory rate setting), or the organisation's non-compliance with laws or regulations may significantly affect its operations."

Others

Governance and risk management are emphasised in the Dow Jones Sustainability Index's selection methodology for Travel & Tourism, accounting directly for 11% of the overall 2014 criteria weighting.

In addition, there is a series of assessments that is specifically focused on corporate governance, such as the ISS Corporate Governance Quotient and new QuickScore 2.0, which evaluates 4,100 companies across sectors based on board structure, board shareholder composition, audit-related practices and executive compensation.

In Ethisphere Magazine's World's Most Ethical Companies ranking, the Compliance and Governance categories have a 35% weighting. Within the Governance category, risk management is also evaluated.

Resources and further reading

- 'Demystifying Sustainability Risk: Integrating the triple bottom line into an enterprise risk management program' (http://www.coso.org/documents/COSO-ERM%20Demystifying%20Sustainability%20Risk_Full%20WEB.pdf)
- ISS Corporate Governance Research and White Papers (<http://www.issgovernance.com/knowledge/papers>)
- Professional Risk Managers' International Association Publications (<http://www.prmia.org/risk-resources/prmia-publications>)
- COSO Risk Management Framework (<http://www.coso.org>)
- Global Risks 2014 Report. World Economic Forum, n.d. Web. 4 Apr. 2014. (<http://reports.weforum.org/global-risks-2014>)

Appendix I:

ABOUT WTTC'S ESG RESEARCH

This research project has been co-ordinated by the World Travel & Tourism Council's Sustainability Working Group comprising over 20 WTTC members and industry partners.

The starting point for the project was to define the objectives and scope of the research with a view to maximising benefits for members. The research was supported throughout the project by reaching out to the working group and to external entities, including Bloomberg LP, the Carbon Disclosure Project (CDP), the World Tourism Organization (UNWTO) and the Sustainability Accounting Standards Board (SASB).

Working group members were also surveyed and interviewed for input at the start of the research. An interim working group meeting in February 2014 presented preliminary results and formed the final direction of the research.

The research is intended to lay the groundwork for the further expansion of WTTC's advocacy efforts regarding ESG reporting worldwide as the trend continues to evolve.

WTTC Sustainability Working Group Members

ALTOUR

Amadeus IT Group SA

American Express Company

Avis Budget Group

BestDay Travel

The Coca-Cola Company

Ctrip.com International

Department of Tourism and Commerce Marketing, Government of Dubai

Ecolab

Etihad Airways

Fairmont Hotels & Resorts

Hong Kong & Shanghai Hotels

International Hotels Group

JTB Corporation

Jumeirah Group

Mandarin Oriental

Marriott International

Messe Berlin GmbH

Shangri-La

The Travel Corporation

Trend Operadora LTDA

TUI AG

United Airlines

Wilderness Safaris

Value Retail PLC

Appendix II:

LIST OF ACRONYMS

BICS	Bloomberg Industry Classification System	IPCC	International Panel on Climate Change
CDP	Carbon Disclosure Project	IR	Integrated reporting
CDSB	Climate Disclosure Standards Board	IT	Information technology
COP	Communication on Progress	ITP	International Tourism Partnership
CRC	Carbon Reduction Commitment	KPI	Key performance indicators
CSR	Corporate social responsibility	LCA	Life-cycle analysis/assessment
CVB	Convention and visitor bureau	NTO	National tourism organisation
DJSI	Dow Jones Sustainability Indices	OECD	Organisation for Economic Co-operation and Development
DMA	Disclosures on management approach	OTA	Online travel agency
DMO	Destination management/marketing organisation	PATA	Pacific Asia Travel Association
EP	Equator Principles	SAM	Sustainable asset management
ESG	Environmental, social and governance	SASB	Sustainability Accounting Standards Board
ESOS	Energy Savings Opportunity Scheme	SEC	Securities and Exchange Commission
F&B	Food and beverage	SICS	Sustainability Industry Classification System
GBTA	Global Business Travel Association	SSE	Sustainable Stock Exchanges
GDS	Global distribution system	UNCSD	UN Conference on Sustainable Development
GHG	Greenhouse gas emissions	UNCTD	UN Conference on Trade and Development
GISC	General Insurance Standards Council	UNFCCC	UN Framework Convention on Climate Change
GISR	Global Initiative for Sustainability Ratings	UNGP	UN Global Compact
GRC	Governance, risk and compliance	UN PRI	UN Principles for Responsible Investment
GRESB	Global Real Estate Sustainability Benchmark	UNWTO	World Tourism Organization
GRI	Global Reporting Initiative	WCBSD	World Business Council for Sustainable Development
GSSB	Global Sustainability Standards Board	WEF	World Economic Forum
HCMi	Hotel Carbon Measurement Initiative	WFE	World Federation of Exchanges
IATA	International Air Transport Association	WTTC	World Travel & Tourism Council
ICAO	International Civil Aviation Organization		
INCR	Investor Network on Climate Risk		
IIRC	International Integrated Reporting Committee		

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The logo for the World Travel & Tourism Council. It features a stylized green location pin icon above the text "WORLD TRAVEL & TOURISM COUNCIL" in white, uppercase letters, all set against a dark blue rectangular background.

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