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HARMONIZATION OF SUSTAINABILITY REPORTING SYSTEM IN THE HOTEL INDUSTRY

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SUMMARY

Purpose

Sustainability reporting is becoming an increasingly prevalent form of both reporting of and a sophisticated way of suggesting a business entity's sustainable approach to generating profit. Although being relatively a new form of reporting, sustainability reporting has become somewhat prestigious form of communicating with stakeholders. In certain cases, sustainability reporting has become a necessity by law, yet it is not a widely practised form of reporting.

Such cases are becoming even more widespread worldwide, with perhaps the Directive 2014/95/EU by the European Commission of the European Union (EU) most widely known. By the Directive effective from 2014, all entities in the EU starting on 1st January 2017 are to report on non-financial information, such as environmental, social and employee matters, as well as respect for human rights, anti-corruption, bribery matters, and other topics related to the impact an entity generates in its natural, social and economic environment. As a member state, Croatia has incorporated provisions of the Directive into its national Accounting Act, thus requiring all entities with more than the average number of 500 employees on their balance sheet data, a criterion stated in the Directive 2014/95/EU, to report on non-financial information, while it is encouraged that other entities should welcome and abide by this Directive as well.

This requirement means that business entities should be prepared to disclose non-financial information on a timely basis of their own choice, but to do it regularly, just as it is being reported on financial matters in highly sophisticated and widely familiar financial statements. This requirement which was defined by the Directive and triggered the research questions of this thesis, aims to understand the level of readiness of business entities to meet this requirement.

The literature review suggests that the application of sustainability principles in the internal processes impacts the quality of information disclosed in (external) sustainability reports. This leads to a research question concerning the methods used by business entities, i.e. practices that are the results of application of certain accounting methods (*de facto* harmonisation), as opposed to *de jure* accounting harmonisation, e.g. accounting methods set by law and/or accountancy profession. The purpose of this research is to examine the state of sustainability reporting in the hotel industry from the point of the *de facto* accounting harmonisation, thus assessing the level of preparedness of hotel business entities to comply with the law requirement defined by the Directive.

Methodology

The hypothesis of the research refers to correlation between the application of sustainability principles (environmental and social) in internal processes and the quality of sustainability reports. The research divides *de facto* into internal and external harmonisation. Such approach to the research requires a mixed methods research design, where qualitative and quantitative methods are sequentially and equivalently applied, meaning they are afforded equal weighting, with one method preceding the other.

The external *de facto* harmonisation focuses on (available) external sustainability reports disclosed by the world's leading ten hotel groups (Marriott International, Accor Hotels, Wyndham Hotels and Resorts, Hilton, Hyatt Hotels Corporation, Jin Jiang International Hotel Management Company, Shangri-La Hotels and Resorts, Melia Hotels International, Intercontinental Hotel Group, NH Hotel Group) that were available for five reporting periods. The internal *de facto* harmonisation focuses on the internal processes in the hotel entities, which data was gathered by an online questionnaire e-mailed to large and medium-sized hotel entities (all having 50 or more employees) that are registered in the Republic of Croatia.

The external *de facto* harmonisation is explored by quantitative methods, with data being gathered by content analysis of sustainability reports and measured by a harmonisation index. The internal *de facto* harmonisation is explored by qualitative methods, with data from the questionnaire being analysed by the use of descriptive and non-parametric (Kendall W test of concordance) statistics. The hypotheses were tested by Spearman's correlation coefficient. The data analysis did not provide statistically significant correlation between the application of sustainability principles and the quality of sustainability reports, thus not supporting the stated hypotheses.

Findings

The research results reveal very low levels of both external and internal *de facto* harmonisations. Also, very few environmental and social indicators moderately correlate with the quality of sustainability reports. Due to the experiences of using the Uniform System of Accounts for the Lodging Industry (USALI), it was expected that the level of *de facto* harmonisation among hotel groups and entities would be somewhat higher. The reason to consider USALI standards is that these are worldwide recognised standards used in the hotel industry practice for financial segment reporting, even in Croatia, thus making it an excellent starting point for creating a quality internal non-financial reporting, not only for internal but also for external users (stakeholders).

These research results reveal that the hotel industry is aware of the importance of sustainability reporting and has been trying to implement it into its business, but the results also suggest the lack of support that comes from *de jure* harmonisation. Current trends in the *de jure* harmonisation suggest very different paths in sustainability reporting, depending upon the geographical area and the stakeholders in focus, resulting in quite different approaches to sustainability reporting, e.g. SASB Standards, GRI Standards, Integrated Reporting to name but a few. These research results suggest that *de facto* harmonisation to a certain degree may be correlated to and/or caused by the *de jure* harmonisation.

Major limitations of the research are evident in the analysis of both the external and internal harmonisations. Although ten of the world-leading hotel groups' sustainability reports have been analysed, their collection required a meticulous approach and a constant scrutiny as to which reports should and which reports should not be included in the research. In this process, one of the challenges to overcome was the different time frames of these reports (the hotel groups were both reporting on a different time basis and by different reporting frameworks) as well as the different reporting frameworks that were applied over the period (different versions of the GRI frameworks, UN Global Compact or the framework of their own choice and such like).

In general, there are very few sustainability reports available due to this being a relatively new kind of reporting. Although the biggest and the most significant hotel entities (hotel companies) in Croatia did fill out the questionnaire, the response rate was rather low, which also limited the research to the use of descriptive and non-parametric statistics. Even after the mandatory date for reporting on sustainability set by the Directive (entities with more than 500 employees), the number of these reports in Croatia did not increase simply because the majority of hotel entities in Croatia did not fall under this category, thus it not being mandatory to report on sustainability.

Generally speaking, at the moment there are not enough either sustainability reports or responses available from the hotel entities to perform any kind of multivariate analysis and to test the causal relations, and to discover the true nature of both the external and internal *de facto* harmonisation in the hotel industry.

A suggestion for further research is to find the most suitable way of upgrading current USALI Standards with environmental and social indicators, for these are a well-developed system in the field of internal financial reporting for internal users in the hotel industry, and as such could provide a methodological framework for improving sustainability reporting for internal and external users in the hotel industry.

Another suggestion for further research would be to assess the internal and external impacts that affect the quality of the disclosed sustainability reports. Due to the diversity the hotel processes even within one country, a suggestion is that future researches should include both quantitative and qualitative methodologies and methods in order to generate the indicators and other relevant specific information needed in sustainability reporting. While quantitative methodology reveals why something is happening, qualitative methodology reveals the answers as to how and why something is happening.

Regardless of the current situation, the history of the sustainability reporting development has proven that sustainability has been continuously evolving, suggesting it will continue this trend in the years to come. Yet, further evolution of this reporting system inevitably presumes a higher level of quality of these reports and information therein disclosed, meaning that now that some kind of framework for sustainability reporting has been established, the next focus ought to be on the quality of the information disclosed therein.

Another approach to consider in improving sustainability reporting is to motivate business entities to improve sustainability reporting “from the inside out”, meaning that management ought to be motivated to report on the impact the business has on the environment and society, not only because of the legislation or to meet yet another requirement to be present in certain areas (e.g. stock exchanges), but also because sustainability reporting provides better recognition among the stakeholders in the hotel industry, including employees, wider society, management and others. This could be done by recognising such efforts through national, international and industry rewards (e.g. The Tourism Flower – Quality for Croatia), which all could signify the level of commitment of a business entity towards the full and quality implementation of sustainability reporting system in their operations.

Originality of the research

The research results of this doctoral dissertation present a significant contribution to the science and practice of sustainability reporting. Based on a comprehensive analysis of theoretical knowledge, standards, regulations, and examples of good practice, two original models were developed, one for assessing the quality of sustainability reports, and the other one for assessing the degree of harmonization of non-financial reports in the hotel industry.

The need and approach to change the conventional accounting paradigm (financial reporting) are pointed out as a requirement to provide information for sustainable development that is relevant in the decision making process. Assessment of the quality of sustainability reporting of the world’s most successful hotel companies and the

practice of the Croatian hotel industry resulted in suggestions for improving *de facto* harmonization of the sustainability reporting system in the hotel industry.

By continually expanding the knowledge of this new accounting paradigm focused on providing and disclosing specific non-financial information relevant to the internal and external users, a gradual change will come to the ways of earning the profit, which is to include environmental and social issues as well. Achieving a higher quality level of sustainability reports and their greater usefulness requires better cooperation of hotel management with stakeholders and the community as a whole, including the development of a national system for stimulating and rewarding application of sustainability principle in everyday operations, with sustainability reports becoming a new approach to assessing competitiveness and market visibility based on sustainability principles.

Keywords sustainability reporting, sustainability accounting, hotel industry

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