

12th Annual Sustainability Roundtable Highlights

by Aaron Adalja & Jeanne Varney

The Center for Hospitality Research at the Cornell Peter and Stephanie Nolan School of Hotel Administration in the Cornell SC Johnson College of Business at hosted its 12th annual Sustainability Roundtable in the fall with the beautiful colors of the season flourishing in Ithaca. Although everyone was not able to gather in Ithaca again this year, holding the event in a virtual format again allowed participants from around the world to dial in to reconnect and engage in meaningful discussions pertaining to pressing sustainability issues.

Given the unprecedented issues that the hospitality industry has been facing in the era of COVID-19, there has been concern that much of the recent progress made in improving sustainability performance would be lost. However, participants in the roundtable reported that although some areas have been affected, there is still robust and meaningful work being accomplished, from the tactical work at the unit level, to the evolving corporate strategies of global brands.

Once again, this year's participants represented a wide variety of sectors including hotels, restaurants, NGOs, and academic institutions. There were two main areas of focus for this year's discussions: climate commitments in supply chain contracts; and how sustainability can help in rebuilding the workforce family. Although the topics were very different, they were chosen for their timely impacts on the hospitality industry.

SESSION 1: CLIMATE COMMITMENTS IN SUPPLY CHAIN CONTRACTS

Reducing carbon emissions is the cornerstone of effective global climate change mitigation strategy and lies at the heart of private sector sustainability initiatives. The ability to measure that reduction, however, varies greatly in difficulty depending on the scope of emissions in question, thereby creating significant challenges for firms to effectively operationalize carbon reduction strategies. In general, measurement of scope 1 and scope 2 emissions is well understood, but scope 3 emissions from upstream suppliers and downstream buyers are much harder to track consistently.

The hospitality industry is working to standardize these metrics and create accountability up and down the supply chain. One method for managing scope 3 emissions that has recently gained traction is the use of climate commitments in supply chain and procurement contracts. This approach has some clear benefits as well as drawbacks to consider, though:

- Through robust, technologically enabled contracting mechanisms, firms can advance their climate pledge by enforcing climate commitments among suppliers and issuing remediation fees for non-compliance.

- These contract mechanisms can be perceived as a “stick” approach and may exploit an imbalance in bargaining power among supply chain actors.
- An alternative “carrot” approach could be to instead reward supply chain partners that are making an impact in sustainability that leverages their comparative advantage by giving them more business through contract incentives.
- The supply chain constraints imposed by COVID-19 have made it challenging for many hospitality companies to exclude supply chain options based on explicit contract mechanisms right now.

Another major challenge in managing scope 3 emissions is a lack of standardized data and metrics by which to measure them consistently across supply chain partners. In some cases, data is only collected at the company—rather than product-level, so it's nearly impossible to disentangle the supply chain components of those emissions. For example, company-level reductions in emissions could be attributable to changes in the supplier's overall product assortment (e.g., selling more products with lower carbon emissions) or to changes in production methods for particular products. Buyers, therefore, need detailed product-level data to accurately measure scope 3 emissions.

In addition to the aforementioned issues, a number of other points that are important to consider in the context of scope 3 emissions were raised by roundtable participants during the discussion:

- Tackling scope 3 emissions requires working together with supply chain partners—you are all part of a value chain, everyone has a shared responsibility, and ultimately you are reporting each other's data.
- On the consumer side, providing customers access to standardized information about hotel properties and the impact of their sustainability efforts may drive also customer loyalty.
- Initiatives are underway with international non-profit organizations to make sustainability data publicly available so that everyone can study the impact.

- In measuring scope 3 emissions, it is essential that the hospitality industry establish boundaries and align itself to make progress feasible; and in this regard, incremental progress is more important than perfection.
- Third-party intermediaries play a critical role in helping hospitality companies map and collate data up and down the supply chain.
- Some suppliers have begun including carbon costs directly on invoices so that accounting systems can measure carbon directly, alongside financial information. Should hotels request this information? In the future, this will become more commonplace, but greenhouse gas accounting is still in development.

In a sense, measuring scope 3 emissions represents the final frontier in the quest to mitigate carbon emissions in supply chains. Novel mechanisms facilitated by technology have been developed to address this need, but the discussion among roundtable participants highlighted a number of existing challenges that limit the progress made on this front. Nonetheless, it is clear that the hospitality industry is committed to working with its supply chain partners and its customers to continue forging a path forward that creates shared value for all of its stakeholders.

SESSION 2: HOW DOES SUSTAINABILITY HELP IN REBUILDING THE WORKFORCE FAMILY?

The significant issue of labor shortages in the hospitality industry has been making headline news all throughout the COVID-19 pandemic. Unprecedented statistics such as the quit-rate of U.S. hotel and food-service workers at a record high of 6.8% (more than twice the national average of 2.9%) have been regularly reported. Translating that into individual worker figures brings the number to over 890,000 workers (U.S. Bureau of Labor Statistics). Because the labor market is so different now, hospitality establishments have been searching for creative and non-traditional ways to attract and retain employees. Here are general trends for what has garnered some success, and what has not.

What has not worked very well

- Hiring bonuses
- Higher wages
- Better benefits (free meals, 401k matches, etc.)

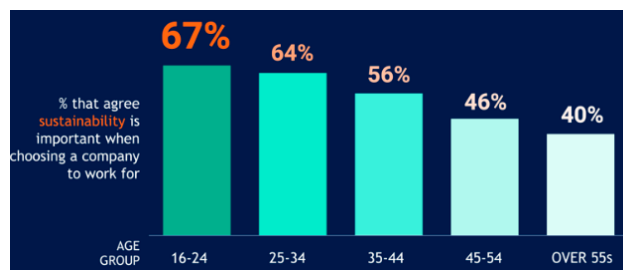
What employees are asking for

- Better managers
- Better communication
- Proper training
- Avoiding workplace harassment/ protection from abusive customers

These factors above are very important. But in order to think outside the box, let us pose the question: How can sustainability strategies, initiatives and programming improve worker retention? In a recent survey by Anthesis, when asked about the importance of sustainability credentials when attracting and retaining talent, a particularly high percentage of millennials and GenZ workers agree that sustainability is important when choosing a company to work for.

EXHIBIT 1

Anthesis Survey¹



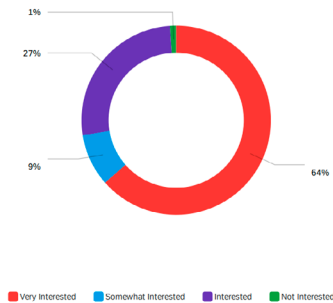
¹source: <https://www.anthesisgroup.com/sustainability-vital-for-employee-attraction/>

These findings are confirmed anecdotally and through research that college students today have a keen interest in sustainability. In a 2020 USC Sustainability 2028 Plan survey, where half of the respondents were students, there was a high level of interest in the campus' sustainability initiatives.

EXHIBIT 2

USC Sustainability 2028 Plan survey²

Please indicate your level of interest in sustainability on USC's campus (2 of 11)



² https://green.usc.edu/files/2020/03/2028_Survey_Results_31920.pdf

Research also shows that organizations that have strong sustainability programs have improved worker engagement and that increased worker engagement can boost company profitability by as much as 21% (Gallup).

Employees feel really good when they know they are a part of something larger than themselves – if that's connected to their workplace, the connection grows stronger. There are creative ways to use sustainability to attract, engage and retain employees. Some suggestions included:

- Bring together guests and employees to work on a sustainability initiative
 - Clean up a beach, plant trees, build-a-bike for a youth bike giveaway, etc.
- Green certifications portray a commitment to sustainability and may build trust
- Empowering/entrusting employees with responsibility for developing/executing sustainability initiatives (employee ownership)
- Communicating the continued commitment to sustainability initiatives, products, practices (even if some have been put on pause)

- Involve employees in the selection, development, and execution of community engagement activities
- Remote working arrangements (full or part-time) if possible
- Referral bonuses for hiring friends because people are more likely to stay if they are working with friends
- Offering unique benefits that are local, or pertain to special businesses such as offering free ski passes for workers near ski resorts, giving employees free room nights, dinner reservations, rounds of golf, Spotify subscriptions, wellness products, etc. Make the offering relevant to the employee
- Hosting a contest or competition that is centered around finding sustainability solutions

Based on the discussion among roundtable participants, it is clear that there is a strong and growing interest from employees in the sustainability performance of the companies they work for. More and more workers today want to work for a company with a purpose that contributes to a higher good. Therefore, given the link between sustainability credentials and employee attraction/retention, hospitality operators could possibly alleviate some of their labor issues by promoting and increasing their sustainability programming, and engaging their workforce in these initiatives.

SESSION 3: RESEARCH AND HOT TOPIC ROUND ROBIN

The final session of the roundtable traditionally focuses on emerging areas for research and "hot topics" in sustainability. Some of these are prompted by the current COVID-19 environment and some are a result of the continued quest for ESG (environmental, social, governance) improvements. Several highlights from the discussion are as follows:

- Although COVID caused a positive global drop in greenhouse gas emissions, building owners and managers need to find ways to sustain lower emissions to meet the UNSDGs and avoid the global

1.5°C temperature increase. We need to keep our focus on these goals.

- More customers are looking to travel responsibly and book sustainable hotels. Managers need to transparently communicate the sustainability value proposition to customers better. How can we make the search and booking process easier?
- How does sustainability impact asset value? How do owners quantify this into appraisal values and risk/liability assessments? The current appraisal standard does not consider climate change impacts. Should a physical building's impact on climate be a consideration? If it was, would more owners/asset managers engage in greater sustainability transformation for their assets?
- Could using a net zero carbon emissions design and marginal abatement cost curve (MACC) calculation for hotel development lead us to increased asset value? Framing decisions using MACC helps firms prioritize decisions based on environmental impact and capital constraints.
$$\text{Marginal Abatement Cost } (\$/\text{tCO}_2\text{e}) = \frac{\text{Net Present Value } (\$)}{\text{Total tCO}_2\text{e abated over the life of the project}} \times -1$$
- As the costs of energy and carbon increase, companies face the risk that buildings with poor energy efficiency or committed emissions becoming stranded assets. How is this risk internalized? Alternative construction, how construction waste is addressed, and circularity are now key aspects of sustainability strategy in property development.
- In the past, the hospitality industry has taken a reactive approach to sustainability. How can it move towards a more strategic approach to these initiatives?
- Sustainability is a default consumer expectation in the hospitality industry—part of the cost of keeping up—and no longer a differentiator in and of itself. The question is now: What specific sustainability initiatives will a brand use to target different consumer segments?

Despite the ongoing operational challenges faced by the hospitality industry due to the COVID-19 pandemic, it is clear from this year's Roundtable that sustainability is a top priority for the industry. Hospitality companies are therefore finding new ways to continue making progress on these initiatives within the constraints of the current environment. This commitment implies a broader transformation in the role of sustainability in hospitality: While in the past it may have been viewed through the lens of marketing and product differentiation, sustainability has become an essential pillar of corporate strategy. As more precise and standardized data become available to measure and track performance along this dimension, the hospitality industry is well poised to continue to drive meaningful change on a global scale. ■

THANK YOU

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- Emma Conover MBA '23, Samuel Curtis Johnson Graduate School of Management, SC Johnson College of Business
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- Debbie Friedel, Director of Sustainability, Delaware North
- Maisie Ganzler '93, Chief Strategy & Brand Officer, Bon Appetit Management Company
- Vaibhav Garg, Area Talent & Culture Manager, Accor, The Maldives
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 - Aditi Mohapatra, Vice President, Global Social Impact and Sustainability, Expedia Group
 - Craig Mustard, Head of Domestic Brand Management, Choice Hotels
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 - Michele Sarkisian, President, P3 Advisors
 - Rishi Shah '99, Director, Sustainability, Wyndham
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 - Ray Stetter, Managing Director, Travel, Accenture
 - Scott Taber '85, Senior Vice President, Global Hospitality, Four Seasons Hotels and Resorts
 - Katarina Tesarova, Vice President, Global Sustainability, Las Vegas Sands
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Aaron Adalja is an assistant professor of food and beverage management at the Cornell Nolan School of Hotel Administration and an applied economics and policy area faculty member in the Cornell SC Johnson College of Business. He holds a PhD in agricultural and resource economics from the University of Maryland, College Park.

Adalja's research interests include a range of topics in food and agricultural economics, drawing on consumer theory, industrial organization, and marketing to examine empirical questions in food labeling and quality certification, food safety, and agricultural marketing. His current research includes studies on consumers' and firms' responses to voluntary non-GMO food labeling and on the economic impact of U.S. food safety regulation on produce growers.

Prior to graduate school, Adalja spent several years as a chef de partie for the Thomas Keller Restaurant Group at Per Se in New York City, an experience that catalyzed his interest in hospitality and food economics.



Jeanne Varney is a senior lecturer at the Cornell Nolan School of Hotel Administration. She resides in the property development and management department, where she is responsible for the curriculum in Hospitality Facilities Management, Hospitality Asset Management, Sustainable Development, and Introduction to Sustainable Hospitality. In Hospitality Facilities Management, she combines the technical facilities curriculum with a practical management perspective. In Hospitality Asset Management, she examines the broad range of issues faced by hotel ownership groups requiring asset management oversight and analyses, and how to influence results that meet ownership objectives. In Sustainable Development, she leads students through the principles, methodology, and strategic application of green hotel development and practices in an engaged learning environment. In

Introduction to Sustainable Hospitality Principles, she guides students through the implementation of tactical green principles, policies and practices.

Outside Cornell, Varney is a principal with Olive Hospitality Consulting, where she provides practical sustainability solutions to businesses looking to improve the "triple bottom line" for their organizations. She has more than 20 years of real estate, operations, and sustainable hospitality experience. Prior to establishing Olive Hospitality Consulting, Varney was vice president of asset management at Host Hotels and Resorts, administering the full range of ownership responsibilities, including operational and capital expenditure budgeting, ongoing operational reviews, and long-term strategic planning for the properties. Varney previously held positions with Marriott International Corporate Headquarters and Horwath Landauer Hospitality Consulting, as well as positions with the Ritz-Carlton Hotel Company and Four Seasons Hotels and Resorts.

Outside her professional duties, Varney is an international past president for NEWH, Inc. and is a founding member of the NEWH Sustainability Committee. She is also a member of U.S. Green Building Council, Sustainable Hospitality Council, Cornell Real Estate Council, and Cornell Hotel Society. Varney holds an MBA from the George Washington University and a BS degree in hotel administration from Cornell University.

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