

## 3 ■ The Business Case for Engagement

The social and environmental impacts of tourism are increasingly prominent on the radar screens of consumers and the media, and the industry has begun to respond. Market research demonstrates that consumers are increasingly taking social impact into account when designing their vacations.<sup>10</sup> Growing interest in concepts such as ecotourism, pro-poor tourism and responsible tourism testify to this. Honing in on this trend, leading companies have begun to explore ways in which they can benefit local communities not only through philanthropy, but also by integrating development objectives into core business models and practices. The business benefits for doing so center around the two key issues of mitigating risk and building opportunity.

### 3.1 Mitigating Business Risk

Tourism companies, like those in other industries with a physical presence on-the-ground, face various forms of risk where economic opportunities are lacking. Although most of the evidence is anecdotal, this can be a particular challenge for relatively luxurious facilities located in highly impoverished or unequal locations, even if they themselves are not directly responsible for poverty or inequality. These conditions can lead to crime, dependence, and unrealistic expectations of assistance, often coupled with resentment at needing that assistance – as well as, in extreme cases, instability and conflict. Whether directly linked to tourism or not, these circumstances can present security risks, reputation risks, and regulatory or policy risks for tourism companies. While certainly only a piece of the solution, efforts to spread the economic benefits of tourism can play a role in risk mitigation and management.

#### 3.1.1 Security Risk

Most industries suffer in situations of sustained local opposition, terrorist threats, and more generalized civil unrest. However, a tourist destination can be drawn to a complete halt if locals are openly hostile, if crime is too frequent or too violent, or if terrorism or conflict threatens in the general vicinity. While a mine may increase security and continue to operate profitably in a conflict zone, a tourist-oriented hotel will probably suffer heavy financial losses and even close. Conflict can also devastate natural and historical treasures, permanently diminishing the value of a place as a tourist destination. This level of risk is usually general, affecting the entire destination rather than an individual hotel, and calls for collective risk management at the industry level in concert with governments and others. Public-private partnerships to share tourism revenues and other economic benefits more directly with citizens can be part of such efforts.

#### 3.1.2 Reputation Risk

Limited local economic benefit and high income inequality can also contribute to hostile employees and unfriendly locals, leading to poor levels of service and, more seriously, theft and harassment when guests leave

hotel premises. Negative vacation experiences are easily communicated to other prospective guests and to journalists through online hotel reviews. Even one or two isolated incidents involving staff misbehavior or the experience of theft can severely undermine a hotel's reputation.

### 3.1.3 Regulatory and Policy Risk

In locations where income inequality is high or where luxury tourist facilities contrast too starkly with stagnant surrounding economies, public support from politicians and regulators may be limited, even if they themselves use the facilities. In rare instances, negative public views of tourism and its impact on the local economy, culture, and environment can lead to the imposition of heavy-handed or inappropriate regulation, restricted planning permission, or other types of blocking by government. Such situations can give rise to significant costs or constraints on growth. In contrast, efforts to catalyze local economic development in their surroundings can create the space for politicians and officials to support and even partner with tourism companies.

## 3.2 Building Business Opportunities

Expanding economic opportunity – particularly through core business and hybrid mechanisms, in addition to strategic, sustained, and targeted philanthropy – can benefit tourism companies in a number of ways, ranging from enhancing the customer experience to decreasing costs and improving access to finance.

### 3.2.1 Enhancing Customer Satisfaction

Enhancing customer satisfaction is of particular importance to the tourism industry. Expanding economic opportunity can improve customer service in the following ways:

- **Improving staff morale and service quality.**<sup>11</sup> Employees who receive opportunities for training and personal development are more likely to feel positively about their jobs and are more inclined, as well as better equipped, to provide high-quality service to guests. Staff also report higher levels of job satisfaction when they feel that they are part of an organization that contributes to the greater good. Local employees are well aware of a company's effects on the communities they come from. In addition, when a tourism company starts to systematically benefit its community, attitudes about employment in the industry are likely to improve, attracting better and more motivated staff and leading to improved service and guest experiences.
- **Offering a more diverse range of unique products for customers.**<sup>12</sup> Tourism companies can develop better products for tourists by incorporating local services, goods, and cultural experiences into vacation options. This can help companies differentiate themselves from local competitors or other geographic locations that share similar physical characteristics. For example, hotels can link tourists to cultural experiences such as the 'Ruta del Cacao' in the Dominican Republic, which takes guests to an organic cocoa farm where they can see how beans are grown and processed, buy locally manufactured arts, watch folk dancing, and taste and buy the cocoa, while gaining an understanding of the role cocoa cultivation plays in the island's socio-economic landscape.<sup>13</sup> The tour operator First Choice provides another example of a company that has developed rural excursions and volun-tourism programs, through which guests gain a hands-on experience and opportunity to engage in a mutually beneficial manner with people in host communities.

- **Improving community attitudes and interactions with guests.** Working with local suppliers and communities to expand economic opportunity can help increase appreciation of the tourism industry and strengthen a company's social license to operate. Tourists are likely to have a more welcoming, friendly experience with locals if their host hotel or resort is seen in a positive light by local inhabitants, taxi drivers, business owners, and public officials. In the Gambia, for example, hotels started allowing craft market producers and vendors to sell on designated days within the hotel and juice pressers to deliver juice to guests. Relations between sellers and guests have improved, and levels of hassle on the beach and in the markets have dropped.<sup>14</sup>

### **3.2.2 Building the Brand and Improving Marketing Capacity<sup>15</sup>**

Tourism companies can help create more distinct niches for themselves in the market through economic opportunity efforts. Purveyors of sun and sand are many in number, so incorporating local culture, supplies, and services into the guest experience can help provide product differentiation and branding. The Haciendas in Mexico offer one example of how a luxury spa holiday experience has effectively incorporated traditional treatments based on local cultures and history. This, in turn, opens up new marketing opportunities. Good initiatives may receive awards and free publicity through the burgeoning number of travel and lifestyle magazines, in addition to business publications. In some cases, lodges and hotels offering unique experiences are promoted alongside five-star hotels because of the unusual packages that they offer.

Companies can also tap into specific marketing advantages created by organizations helping consumers identify ethical tourism products. These range from the Fair Trade in Tourism trademark to specialist websites such as the Responsible Tourism site ([www.responsibletravel.com](http://www.responsibletravel.com)). Spier Estate in South Africa, for example, estimates that its FTTSA certification led to more than 52 mentions in print between October 2003 and December 2004.<sup>16</sup>

### **3.2.3 Decreasing Operating Costs**

Sourcing locally can help reduce costs in the long run. Some tourist destinations are in remote areas with underdeveloped infrastructure. Companies are forced, usually at significant expense, to import needed goods. If local supplies can be developed, these costs can be reduced, although developing adequate local suppliers often requires initial inputs of training and resources.

### **3.2.4 Increasing Access to Financing<sup>17</sup>**

A few pioneering hotels have obtained funding from organizations such as the International Finance Corporation (IFC), regional and national development banks, and foundations. These investors often require adherence to social and environmental criteria. Tourism companies proactively pursuing inclusive business models that benefit the poor are more likely to be able to access such funds. The IFC's support of the SIWA Sustainable Development Initiative in Egypt offers a good example, as does the longstanding relationship between the Aga Khan Development Network and Serena hotels in locations as diverse and challenging as Rwanda and Afghanistan.

### 3.2.5 Collaborating more Effectively with Government<sup>18</sup>

Working proactively with communities to expand economic opportunity can also lead to better relationships with local, national, and regional policy-makers. Governments may explicitly or implicitly favor companies with positive social and economic development impacts when deciding whether to grant planning permission, operating licenses, and other opportunities. For example, authorities may allow a company's guests access to publicly-owned natural resources and cultural landmarks, thus helping it market itself as providing unique experiences.

## 3.3 Addressing Obstacles to the Business Case

Despite the growing business case for greater engagement, most tourism companies have only started to scratch the surface when it comes to explicit efforts to expand economic opportunity. The initiatives that do exist tend to be philanthropic actions rather than core business operations. This tends to limit their sustainability and scale, although strategic and targeted philanthropy can still make an important contribution in many cases. There are a number of reasons that progress has not been more marked, as outlined below. Addressing these challenges will be essential if tourism companies are to increase their development impacts, as well as manage their business risks and opportunities better.

***Community economic development is viewed as a philanthropic cause rather than a core business risk or source of opportunity.*** Companies' community economic development strategies span a spectrum from pure philanthropy to core business practices and other levers. Most companies in the tourism industry are still at the philanthropic end of the spectrum. While charitable giving can play a useful role and is relatively simple to carry out, it fails to leverage the tourism sector's core competencies to their full potential with respect to increasing economic opportunity and alleviating poverty.

***Economic impact is a relatively small, isolated piece of the CSR agenda.*** When the social responsibility of a company is evaluated by investment analysts, potential employees, and guests, the analysis often includes environmental and social policies, stakeholder engagement practices, public reporting, and external assurance.<sup>19</sup> Compared with environmental issues, which often lend themselves to technical solutions that are easier to measure, economic issues require broader, more relationship-based solutions that are hard to measure especially in the short term. As a result, economic impacts receive little in the way of attention from analysts and others evaluating the company. A company can score very well based on labor practices, environment, and philanthropic donations, while doing little to expand economic opportunity in surrounding local economies. This form of evaluation makes it less likely that companies will see creating economic opportunity as a key part of their agendas, even though it may in fact be one of the greatest contributions they can make to the countries and communities where they operate.

***Companies face operational constraints in local employment and procurement.*** Even when tourism companies make explicit commitments to expanding economic opportunity, their efforts can run up against operational constraints, such as lack of local capacity. Hiring locally, for example, can be challenging if residents lack essential qualifications such as literacy. In procurement, tourism companies, like any others, need reliable,

high-quality, low-cost goods and services. This combination of attributes is often more readily available from large national or regional wholesalers than from small, local entrepreneurs, who tend to lack management skills, technologies, capital, and other resources.

**External pressure is limited.** In some industry sectors, local communities, civil society groups, governments, consumers, and investors have put strong pressure on companies to minimize their negative impacts and increase their positive ones. To date there has been less of a spotlight on tourism. In part, this reflects the fact that there have not been major crises in the industry. However, external pressure has started to grow. This has focused in particular on the industry's environmental impacts and working conditions, but is also starting to highlight the conditions of poverty surrounding many popular tourism destinations.

**Highly competitive value chains limit incentives and opportunities to enhance development impacts.** Traditionally, mass tourism has been driven by low prices. In countries where tour operators still play a key role, those running on business models of tiny margins per passenger plus high volume often put pressure on hotels to provide low-cost options. This can make it difficult for hoteliers to allocate resources for supporting local economic development activities.<sup>20</sup> Until recently, whether booking through tour operators or the Internet, consumer demand for such activities has not been sufficient to drive change in the industry.

As outlined at the beginning of this section, despite these challenges, the incentives shaping the tourism industry are beginning to change. The number of niche operators (even if now owned by mainstream companies) who operate on smaller numbers, higher margins, and stronger destination-level relations is increasing. The business case for tourism companies to expand economic opportunity beyond the efforts already underway is growing, offering great potential to both the companies and the locales in which they operate. Section 4 outlines four of the key strategies that companies can use to turn this potential into practice.