2 The Sustainable Hospitality Value Chain

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Learning goals

After studying this chapter, readers will have the ability to:

1. Define sustainability as value creation in an environmental, social and economic dimension at the level of societies, organizations and individuals;
2. Explain the fundamental principles for the environmental, social and economic dimension of sustainability;
3. Compare and contrast the concepts of shared value and sustainability;
4. Describe the four quadrants of the Sustainable Hospitality Value Chain;
5. Compare and contrast the Sustainable Hospitality Value Chain with Porter's value chain.

This book is based on three main overarching concepts: sustainable value creation; the principles underlining the environmental, social and economic dimension of sustainability; and the Sustainable Hospitality Value Chain. This chapter explains these three concepts in dedicated sections.

Sustainable value creation

In the introduction to this book, sustainability was briefly defined as value creation in the economic, social and environmental dimensions. The introduction also illustrated why the hospitality industry is in a perfect position to engage in sustainability. In this section we explain the concept of sustainable value creation in more depth on the basis of Cavagnaro and Curiel (2012) and Cavagnaro (2016). For more information or further sources please refer to these two books.

An organisation creates value when the costs of producing and delivering a good or service are lower than the benefits gained by selling it. In this definition of value creation, costs and benefits are broadly understood. In other words, value is not only considered in economic terms but may include social costs, such as health problems caused by unsafe working conditions, and social benefits, such as the creation of jobs. The definition also includes environmental costs, such as water pollution, and environmental benefits, such as renewable energy. Yet, in contemporary business management thought the concept of value is largely explained with an exclusive reference to the financial bottom line of a company. Value is considered to be the same as profit and is realised when the *economic* costs of producing and distributing a good or service are less than the *economic* benefits obtained by selling it. From this perspective there are two main strategies to increase profit, i.e., increasing revenues or reducing costs. To understand the limits of a purely economic understanding of the concept of value creation, let us briefly but critically assess both strategies by looking at their merits and demerits.

Let us first consider increasing revenues. For the sake of the argument, we look at increasing revenues under very positive conditions, which is when a market is growing. In a growing market an increasing number of people ask for a specific product and service; it is therefore easy to increase revenues by expanding the market base. Yet even when a market is growing, an expansion strategy has its downsides both in general, and in the specific context of sustainability. To illustrate these downsides let us consider the example of tourism growth in the city of Amsterdam in The Netherlands. Nowadays, Amsterdam is one of the most appealing European cities for tourists. Yet this has not always been the case. Around the 1980s Amsterdam's position on the tourism market was rather weak. Its image had suffered from various incidents and a weakening economic climate, whilst the competition of other European cities was increasing. Amsterdam was increasingly considered a city of problems rather than opportunities. To change the tide and re-establish Amsterdam as a tourism and business destination, in September 2004 Amsterdam Partners, an organisation established a year earlier to manage the marketing efforts of Amsterdam, launched a campaign to re-brand the city. The campaign had great success and its slogan, '**I Am**sterdam', is still in use today (Kavaratzis and Ashworth 2006). Building upon the success of the '**I Am**sterdam' campaign, in 2009 the Municipality of Amsterdam issued a new plan to expand tourism by focusing on the so-called MICE industry (Meetings; Incentives; Congresses and Events). Tourist numbers increased sharply, from 4,192,000 in 2004 to 7,435,000 in 2016. Overnight stays in Amsterdam also increased from 8,000,000 in 2004 to more than 14,000,000 in 2016. The hotel business boomed; in 2004 Amsterdam counted 341 hotels with 17,728 rooms and 37,763 beds; in 2016 it boasted 458 hotels with 30,645 rooms and 67,095 beds (Municipality of Amsterdam, n.d.). Room occupancy also increased, except in the years immediately after the 2008 financial crisis.

Amsterdam has an old city centre, nestled around its canals. Cars, trams, bikes and people living in the city know how to manage the narrow streets. As long as the number of tourists remained limited, they were of no inconvenience to day-to-day life in the city. On the contrary, they helped to make Amsterdam the lively destination that everyone wished to visit. With their increasing numbers, and in some cases odd behaviour, tourists become a nuisance in the streets of Amsterdam. Residents first tried to accommodate them by taking a different route to work, for instance, or by getting up earlier than the tourists. Residents then started protesting against their city being taken over by tourists, as they saw it. The Municipality of Amsterdam announced in 2016 that they would reconsider their strategy, regulate the offer of Airbnb, and put a halt to further hotel developments. The case of Amsterdam is not unique. Other European cities, such as Florence in Italy, Barcelona in Spain and Berlin in Germany, are wrestling with the same issue, namely the rapid growth and saturation of a market. A market saturates because there are limits to the selling of a product even when a market is growing. In the case of Amsterdam the product is the city itself and the limits are its narrow streets and the forbearance of its residents confronted with an increasing number of tourists. The conclusion that we can draw from this and similar examples is that strategies exclusively or largely focused on (economic) growth are not sustainable in the long term because they fail to consider the impact of growth on the surrounding community and the natural (or man-made as in the case of cities) environment.

Let us consider whether the same applies to the second strategy, i.e., cost reduction. Are there limits to cost reduction?

In general, businesses always keep a keen eye on costs, because even in a booming market they tend to grow faster than the revenues. When growth slows down though, attention to costs increases and businesses tend to shift their focus from increasing revenues to cutting costs. From a purely economic perspective, costs should indeed be avoided as best as possible and therefore managers tend to cut costs as far as the law and the continuity of operations permit. In some cases, businesses look for ways to avoid overly strict laws and regulations. They might relocate to countries with more lenient laws and, if they cannot relocate, they might interpret laws and regulations in ways that are the most advantageous for themselves. Typical places where managers in hospitality look for 'avoidable costs' are maintenance, purchasing and personnel.

Though costs should always be managed properly, a purely economic perspective could induce a company to shift costs to the future or to other people rather than to cut costs. Consider, for example, the case of purchasing bed linen. In order to get the lowest price possible, a purchasing manager might not consider the conditions under which that linen is produced. It could turn out that the bed linen was produced under very unsafe working conditions in a workshop in Bangladesh; that children were employed in harvesting cotton in India; and that chemicals in the water used in the bleaching process has contaminated the drinking facilities of a village nearby the plant. This could result in bad publicity for the business that purchases the bed linen. However, that is not the point that we wish to make