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Leveraging Sustainability Certification in Canada's Urban Hotel Markets

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Abstract

The greening of the hotel industry has been identified as important to the industry for a multitude of reasons. Most importantly, being identified as a green property may lead to enhanced profits. Milton Friedman's 1962 property rights argument, the theoretical framework used in this study, stated the sole purpose of an organization such as a hotel is profit. Conveying a property's green qualities is difficult though. Certification has been identified as one important method for conveying a property's green attributes. Yet, the role green certification can play in a hotel's profit is not known. This study seeks to identify the profits gained from earning a specific green certification: Green Key Global. This certification program is North America's most popular with more than 3,000 participating hotels. The data used to make inferences regarding profitability stemming from Green Key certification has been gleamed from recent STR and HVS data. The data focuses on the largest hotel markets in Canada: Toronto, Montreal, and Vancouver. The upper upscale and luxury properties in this city are compared using STR metrics (e.g. occupancy, supply, demand, Rev PAR, and ADR).

Keywords: Big data; Certification; Green hotels; Smith travel research; HVS global valuation services; sustainability

Introduction

The greening of the hotel industry is important. First, some studies have shown hotels accepting an environmental stewardship narrative have shown increased profitability; such studies include industry partners Travel Industry Association of America, Orbitz, Travelocity, and Cone Roper [1]. Secondly, customers have shown they consider environmental factors when making hotel decisions [2]. This has also been a questioned discourse; studies have shown consumers state they consider environmental factors but these customers cannot necessarily differentiate green-washing from environmental sensibility and/or they may not be willing to pay more for such environmentally sensitive practices [2]. Finally, employees and managers alike at the property level have stated they are concerned with environmental issues [3].

Green Hotels are environmentally-friendly properties whose managers are eager to institute programs that save water, save energy and reduce solid waste—while saving money—to help PROTECT OUR ONE AND ONLY EARTH! Being green means guests, staff and management are healthier. There's just no doubt that when odors, fumes, soot, droplets and residues of toxic, poisonous chemicals are not in the air, on our food or on anything we touch, we are not absorbing or breathing them. Sooner or later all properties will be sold, and any green property will demand a higher price because it's value is much enhanced by lower utility bills per square foot, its healthier aspects and owner care. The hotel industry forms a large part of the tourism industry and if not managed properly, it has the potential to be detrimental to the social and natural environments within which it functions. Hotels are also resource intensive and in order to reduce their impact, it is imperative to go "green!

Conveying a property's green qualities includes portraying the greenness to all stakeholder groups including customers, ownership, and employees. This has been repeatedly identified as a difficult task. The multitude of options for conveying greenness has lead to "grey" rather than green outcomes. Yet, there are options for conveying green. For example, Font and Harris identified certification as the best method for conveying a property's green attributes to potential customers.

Certification can provide a seal of quality for visitors [4]. Certification programs can play a role beyond providing a simple ecolabel though. For example, certification programs can impact the community and customer experience if set up with sustainability-oriented foci [5]. Some studies have even identified the implementation of small-scale certification program as beneficial to stakeholders holistically [6].

This study focuses on the application of a specific certification in lieu of certification as a whole. Furthermore, the study focuses on financial attributes of earning certification rather than whether a hotel is green or not. This is because hoteliers are not focused on greening so much as return on investment (ROI) in relation to certification programs. Thus, while a majority of research conducted in hospitality literature is seeking to understand environmental impacts and shortcomings of certification programs this study seeks to understand the financial ROI of earning environmental stewardship certification. No studies have identified the ROI of green certification in a specific program to date. Thus, this study is filling an existing gap in the literature.

Green Key Global is North America's largest hotel certification program. The program has shown fast growth patterns in recent years. This study identifies the correlation between achieving Green Key Global certification and ROI. The data used to identify the correlation, or lack thereof, between properties earning Green Key certification and properties not earning this certification comes from Smith Travel Research (STR), HVS Global Hospitality Services, and Green Key Global. The data from this unique partnership makes this study unique and provides insights that have not previously been published.

Literature Review

Hotel certification

Conveying a property's "green" qualities is difficult. Yet there

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are opportunities for conveying greening as a CSR component. CSR stands for Corporate Social Responsibility. This includes marketing [7], community outreach, certification [8], and others. This paper will focus on certification. Certification programs have been identified as the primary method of designating a property as "green" and thus conveying environmental stewardship to visitors. Yet, problems persist within hotel certification. Chan and Wong conducted a study that concluded 36% of hotel managers in their study (the study took place in China, Macau, and Hong Kong) had only a minimal or complete lack of understanding of different greening certifications available to them. The authors attempted to establish motivations for implementing, or not participating in conjunction with, specifically the ISO's 14.000 EMS standards. This is a mainstream and generally respected greening program with a lengthy history.

Chan and Wong found that there was little external pressure from upper level management, employees, national and/or local governments, or market conditions to earn certification. The largest issue was that there was no regulating force pushing for compliance with EMS ISO 14.000's or other certifications' standards. Chan and Wong formed a belief that there exists an internal motivation in executive committee managers to create more environmentally sustainable practices in the industry. Yet, the data also shows that the management responsible for implementation, the front-line managers, lack motivation to follow through with the ideas

EMS ISO 14.000 Series is only one certification program. There are more than 400 certification programs available worldwide and approximately 100 available to North American hoteliers. This multitude of options makes choosing the best one for an individual property difficult. Furthermore, each certification program has benefits and drawbacks when an organization chooses to earn the certification. For example, Chan's 2013 study focused on hotel manager attitudes regarding marketing green attributes of hotels to customers. The study found that managers of green-certified hotels believe customers are willing to pay a premium for tangible green services and are less suspicious of a hotel's green claims when the property has earned certification of its green practices. Conversely, managers of un-certified hotels were identified as individuals who believe the benefit of being green-certified is over-stated. Obviously, each group had a bias towards certification that aligned with their property's approach to green certification. Yet, Chan and similar studies such as the price premium of an environmentally friendly product [9,10] the Bottom Line of Green is black, have all identified that hotels do see a positive ROI when it is perceived as green. These studies also concluded that the relationship between ROI and certification needs more investigation. The positive correlation is suspected by hotel management but not necessarily true. One issue consistently credited with hindering the implementation of certification programs in the accommodation portion of the hospitality industry is a perceived lack of financial incentive. The issue is not that there are no financial savings. The issue is that the costs outweigh the benefits. Thus, one possibility to explain why certification programs is failing worldwide is the lack of understanding of how certification can affect the "bottom line" of hoteliers' financial situation [1]. This study answers such calls for investigation by investigating the ROI of North America's most popular hotel certification program.

Green key global

The Hotel Association of Canada (HAC) created Green Key Global in response to market conditions. Specifically, the greening of the hotel industry was a timely topic in Canada in the 1980s and 1990s (e.g. Earth Summit in Rio de Janeiro). HAC, the lobbying entity of Canada's hotel industry, assisted in forwarding Green Key Global to meet market demand and to ensure green regulation would be uniform and specific within the Canadian hotel industry. The ownership of Green Key Global by an industry partner seen in the marketplace as a regulator is a boon to the program as will be discussed shortly. Basically, the ownership model of Green Key Global gives the program a unique edge when compared to existing hotel certification programs. The market conditions that lead to the inception of Green Key have changed minimally. Hospitality is continuing to move toward sustainability. The hotel industry continues to face pressure to develop measurable goals and to apply performance measurement models to assess sustainability progress in business practices [11]. Green Key is an organization seeking to fill this gap. Green Key assists hotels in developing measurement techniques through sustainability reporting, performance measurement, application of green practices, and creation of an internal sustainability culture according to [11]. Today, Green Key Global can be understood as an environmental certification with more than 3,000 participating hotels. The program exists to evaluate and certify primarily hotels in Canada and the United States based on their environmental initiatives [12]. Within this context the goal of Green Key Global is to create a platform for members to leverage organizational CSR activities to support sustainable initiatives and improve overall fiscal performance and community relations [12]. The Green Key Eco-Rating Program assesses the five operational areas of a property and nine areas of sustainable practices (Table 1). The success of the program in Canada allowed for growth into new markets. For example, in the United States Green Key Global shares a partnership with HAC and LRA Worldwide Inc. in order to certify properties in the United States. Green Key Global is also planning growth in Central and South America. Their successes, sustainable business model, and future growth possibilities make them an apt case to study.

Problematic qualities of hotel certification programs

Green certification has been identified as problematic for the hotel industry. It is arguable that CSR is often not the reason for hotels to adopt green initiatives [13] writes "a positive inclination among hotel managers towards using economic incentives as a strategy to convince senior-level management about investing in energy-efficiency/ conservation measures or energy audits." An example would be the government providing tax incentives for hoteliers to use sustainable technologies. Another economic incentive would be if hotel operators saw an increase in occupancy because of their eco label. Eco-labels also address the psychological disconnect between people and environmental problems in that they increase consumer awareness and provide the opportunity for immediate decision-making regarding environmental action. Eco-labeling programs provide valuable, more complete information to consumers about the environmental effects of their purchase decisions [14]. Eco labels give guests a choice to spend

Operational areas	Sustainable practices
Corporate environmental management	Energy conservation
Housekeeping	Water conservation
Food and Beverage Operations	Solid waste management
Conference and Meeting Facilities	Hazardous waste management
Engineering	Indoor air quality
	Community outreach
	Building infrastructure
	Land use
	Environmental management

Table 1: Operational areas of Green Key certification.

their money on a hotel that operates in a sustainable manner. Although certification programs are much maligned, certification programs such as Green Key Global have had success in growth in recent years, but the motives and accomplishments of such programs have been questioned. Furthermore, consumers have been shown to not understand differences between programs. For example, most consumers are unable to differentiate green certification brands including specifically Green Key Global [15]. A University of California study defined the inability as a lack of brand awareness amongst consumers regarding eco-rating awarding entities [15]. The term "brand awareness" is at least partially problematic because mission statements of certification programs rarely include branding (indicators of success are more often focused on lowering costs such as electric and water). Green Key was one such program specifically mentioned in the aforementioned study [15]. The multitude of eco-rating awarding entities is the cause of the lack of brand awareness. This has shown that consumers take little notice of eco-ratings when making hotel purchasing decisions. Along with the lack of awareness from the consumer, there exists a lack of understanding of the environmental impact that a hotel has on its surrounding natural environment [15] study survey results identified that most consumers lack awareness of the environmental impacts of hotels. Most respondents (62.3%) in this study answered that they are not sufficiently informed about the actual environmental practices in hotels. Because of what has been coined the lack of brand awareness in awarding entities and the lack of knowledge that consumers have about a hotel's environmental impact, it is arguable that consumers are suspicious of the validity of these entities. Consumers are more likely to trust an eco-rating awarding entity if it is operated by the government or by a not-for-profit organization as alluded to earlier in this paper. Government and non-profit organizations are seen as more trustworthy eco-certifiers, compared to hired private agencies, or a hotel's own eco-certification program [15]. Also, the industry's sustainable practices are often viewed as the way to merely achieve their ultimate marketing goal of maximizing profitability [11]. It is seen in academic studies that if consumers are made more aware of the green-initiatives, it is less likely that the initiatives are seen as green-washing. It is likely that in order to attract consumers to green-certified hotels, educational outreach is required in order to most effectively reduce operating costs while simultaneously increasing attractiveness to potential customers. Furthermore, the hotels should provide detailed information about the specific green practices they have undertaken and should highlight the more unique ones. Such unique practices might perhaps be xeriscape gardens, composting efforts, etc. [11].

Theoretical Framework

Hotel certification programs are much maligned in literature for leading to "grey" outcomes rather than "green" outcomes [4]. This is due to investment strategies in the hotel industry. It has been increasingly identified that "green" is customers' social construction rather than evidence-based; basically, if an organization can convince customers they are green then the customer has a higher level of satisfaction with the brand whether the organization has implemented greening practices or not [1]. Thus, a great deal of recent research in hotel greening has focused on ideal sustainability practices, green outcomes of certification, and marketing green to customers. These foci have led researchers to problems with greening in that they are majority grey outcomes being certified [4]. This study would be remiss without identifying the much-maligned hotel certification industry and stakeholder theory. Yet, this paper approaches certification within a different framework. Specifically, we accept Milton Friedman's 1962 property rights argument as the framework for this paper. It is possible that this argument best explains the current status of greening in the hotel industry. Friedman, as interpreted [6], evidenced decision-makers in an organization who fail to maximize shareholder wealth are violating the shareholder agreement. Thus, organizations such as hotels exist solely to make a profit. This means that greening decisions made by hotels should not exist on a foundation of corporate social responsibility or in the best interests of society as a whole (e.g. stakeholder theory), but rather should be profit-based. Friedman's argument has faced scrutiny, particularly from those claiming hotels have are obligated to be upstanding corporate citizens. Some academics have even attempted to discount the application of Friedman's argument in the context of the hotel industry. For example, Ferrero, Hoffman, and McNulty (2012, p. 1-2): Milton Friedman famously stated that the only social responsibility of business is to increase its profits, a position now known as the shareholder model of business. Subsequently, the stakeholder model, associated with Edward Freeman, has been widely seen as a heuristically stronger theory of the responsibilities of the firm to the society in which it is situated. Friedman's position, nevertheless, has retained currency among many business thinkers. In this paper we argue that Friedman's economic writings assume an economy in which businesses operate under the protections of limited liability, which allows corporations to privatize their gains while externalizing their losses. By accepting limited liability, Friedman must also accept a view of business as embedded in social interdependency, which serves as the logical and moral foundation for corporate social responsibility (CSR). To restore consistency to his economic principles, Friedman must refuse limited liability or modify his doctrine on CSR and the related stakeholder model of business. CSR in the context of this study is not important though. We are investigating profit. According to Friedman organizations such as hotels exist to make a profit. We accept this as the goal of a hotel for the purposes of this study. It is possible that consumers are willing to pay a premium to organizations using what they perceive to be sustainable practices in the accommodation sector. In fact, according to multiple industry studies, as compiled [1], this has proven to be the case. Saunders study shows that Friedman's argument does apply:

1) A travel Industry Association of America study found 54% of Americans are more likely to patronize hotels that practice environmental responsibility than those that do not.

2) An Orbitz study that figured 67% of Americans place importance on the eco-friendliness of an organization when choosing a hotel.

3) A Travelocity study stated 80% of Americans are willing to spend more on an eco-friendly destination and

4) A Cone Roper Study Saunders cited found that 95% of consumers in the accommodation sector of the hospitality industry have a more positive image of a company that supports causes they care about. Based on the aforementioned data it is possible that Milton Friedman's property rights argument applies to hotel certification. We accept this as the framework for our study while understanding we are testing solely the profits garnered from earning certification in the single most accepted green certification program in North America.

Methodology

We identified the largest Canadian hotel markets as the sample population for this study (Vancouver, Toronto, and Montreal). We created comp sets that include all upper upscale and luxury market segments as STR defines them for the city. Further parameters ensured we were only relying on hotels involved in direct competition. This was based on discussions with HVS, STR, and personal knowledge of each city we were interested in better understanding and brand included in the comp sets. We created two comp sets for each city's hotels. One comp set for hotels that have earned Green Key certification and one comp set for hotels that have not earned Green Key certification. No upper upscale or luxury hotel was left out of a comp set unless HVS, STR, and the researchers agreed it could not be considered a direct competitor and/or the property does not subscribe to STR data analytics sharing. Using the aforementioned approach we created two comp sets for each city for a total of six comp sets. The comp sets are as depicted in Table 2 (Green Key certified hotels) and Table 3 (hotels without Green Key certification): We compared the five generally accepted primary indicators of operational financial performance between each comp set (e.g. ADR, Rev PAR, Occupancy, Supply, and Demand). We also compared HVS P&L data for the hotels to ensure we best understood the hotel market and to ensure the STR data was correct. This two-pronged approach allowed for multiple points of comparison between each hotel grouping. We viewed P&L statements using HVS provided for as many hotels as possible. This was for three reasons. First, to ensure all hotels were reporting correctly. Secondly, this was used to understand how USALI can allow for greater insights to hotel income statements. Finally, the HVS P&L statements were used to identify correlations between certification and savings. Specifically, we sought to understand whether certification lead to changes in operations that should be included when viewing savings. For example, most hoteliers have changed shower heads, light bulbs, and commodes in order to save money. Perhaps there are other changes brought about and/or instigated by certification in Green Key that lead to cost savings. These cost savings are claimed to occur [12] but no evidence currently exists that such savings are realized at the property level. The savings [12] claims will occur exist in Corporate Environmental Management, Conference and Meeting Spaces, F&B Outlets, Engineering and Housekeeping. Finally, HVS' P&L statements were used to measure the quantitative and qualitative cost of the five operational areas as defined by Green Key: corporate environmental management, housekeeping,

Property	Rooms	STR Classification
Vancouver		
Westin Bayshore Vancouver	511	Upper Upscale Class
Four Seasons Vancouver	372	Luxury Class
Hyatt Regency Vancouver	644	Upper Upscale Class
Marriott Vancouver Pinnacle Downtown	438	Upper Upscale Class
Pan Pacific Hotel Vancouver	503	Upper Upscale Class
Renaissance Vancouver Harbourside	442	Upper Upscale Class
Sheraton Vancouver Wall Centre	733	Upper Upscale Class
Sutton Place Hotel	561	Upper Upscale Class
Toronto		
InterContinental Toronto Centre	586	Luxury Class
Sheraton Centre Toronto Hotel	1377	Upper Upscale Class
The Westin Harbour Castle	977	Upper Upscale Class
Renaissance Toronto Hotel Downtown	348	Upper Upscale Class
Marriott Toronto Eaton Centre	461	Upper Upscale Class
Montreal		
Delta Montreal	456	Upper Upscale Class
Hyatt Regency Montreal	395	Upper Upscale Class
Hilton Montreal Bonaventure	395	Upper Upscale Class
Marriott Chateau Champlain	611	Upper Upscale Class
Le Centre Sheraton Montreal	825	Upper Upscale Class

Table 2: Green Key Certified Hotels.

Property	Rooms	STR Classification
Vancouver		
Preferred Metropolitan Hotel	197	Upper Upscale Class
L'Hermitage Hotel Vancouver	60	Luxury Class
Loden Vancouver	77	Luxury Class
Opus Vancouver	96	Luxury Class
Rosewood Hotel Georgia Vancouver	156	Luxury Class
Wedgewood Hotel Vancouver	83	Luxury Class
Toronto		
King Edward	301	Upper Upscale Class
Ritz Carlton	263	Luxury Class
Four Seasons	259	Luxury Class
Shangri-La	202	Luxury Class
Trump	241	Luxury Class
Montreal		
Omni Mount Royal Montreal	299	Upper Upscale Class
Courtyard by Marriott Montreal	212	Upscale Class
Hotel Le Crystal	131	Luxury Class
Lowes Hotel Vogue	142	Luxury Class
Le Place D'Armes Hotel and Suites	133	Luxury Class

Table 3: Non Green Key Certified Hotels.

food and beverage operations, conference and meeting facilities, and engineering. HVS already collects this data, but the information has not previously been published or viewed in a way whereby the effects of a specific green certification program investigated. The HVS portion of this study is not approved by HVS for passing along yet due to privacy rules. It should be noted that this study is investigative. It is not intended as the culmination of a major research project. Thus, some of the glaring deficiencies in data will need to be fixed in future studies. There are many limitations to this study though. First, the data used in this study is from a small sample size. Secondly, the sample size is small primarily because we sought to make as direct comparisons as possible within the study. Yet, although the samples are similar, there remain marked differences in each market. Finally, we looked at upper upscale and luxury market segments and only in Canada. Each of these could be an outlier in a greater sample size. A larger sample size is not currently available. STR and HVS have significant restrictions on the data that can be used. Yet, this study is the initial foray into whether certain comp sets see a change in Rev PAR, ADR, Occupancy, Supply, or Demand based on earning green certification.

Results

The data founded in this study does not show that consumers pay more for a Green Key certified product. The results of this can be seen in Table 4 for the Vancouver comp set since 2009. The data depicted in the table is problematic though due to the large percent difference in supply, the brands (e.g. Green Key hotels are branded and there are independents and boutique hotels in the non-Green Key segment), and trends in year-over-year alterations to the market. It should also be noted that Green Key hotels achieve a higher percent occupancy even with the large supply. Tables 5 depicts a larger segment than just one city it includes Toronto and Montreal as well as Vancouver for the 2013 year. It should be noted the trends in Montreal and Toronto are identical to what is noted in Vancouver's hotel market. Occupancy is higher at Green Key properties by just over 20% in the Toronto market and 5% in the Montreal market. The ADR is $121.32 and Rev PAR is $28.69 better in non-Green Key properties in Toronto while this same data for Montreal is $155.19 to $186.35 for ADR and $107.02 compared

Year	Green Key	Non-GK	Difference
Occupancy (%)			
2009	67.70	64.90	2.80
2010	72.90	70.90	2.00
2011	71.90	66.80	5.10
2012	72.00	69.90	2.10
2013	71.20	70.60	0.60
ADR (CAN $)			
2009	166.91	186.58	-19.67
2010	181.42	209.06	-27.64
2011	175.00	198.24	-23.24
2012	170.06	202.79	-32.73
2013	172.19	210.52	-38.33
RevPAR (CAN $)			
2009	112.95	121.03	-8.08
2010	132.30	148.31	-16.01
2011	125.74	132.39	-6.65
2012	122.37	141.80	-19.43
2013	122.66	148.57	-25.91
Supply			
2009	1,533,365	187,245	1,346,120
2010	1,534,589	187,245	1,347,344
2011	1,534,825	215,765	1,319,060
2012	1,534,733	244,185	1,290,548
2013	1,534,460	244,185	1,290,275
Demand			
2009	1,037,630	121,461	916,169
2010	1,119,057	132,838	986,219
2011	1,102,814	144,091	958,723
2012	1,104,344	170,738	933,606
2013	1,093,045	172,331	920,714
Revenue (CAN $)			
2009	173,188,987	22,662,610	150,526,377
2010	203,024,386	27,771,060	175,253,326
2011	192,990,279	28,565,149	164,425,130
2012	187,805,686	34,624,218	153,181,468
2013	188,212,750	36,278,488	151,934,262

Table 4: Vancouver Comp Set STR Analysis.

City	Green Key	Non-GK	Difference
Occupancy (%)			
Toronto	78.30	55.70	22.60
Vancouver	71.20	70.60	0.60
Montreal	69.00	65.10	3.90
AVERAGE	**72.83**	**63.80**	**9.03**
ADR (CAN $)			
Toronto	171.87	293.19	-121.32
Vancouver	172.19	210.52	-38.33
Montreal	155.19	186.36	-31.17
AVERAGE	**166.42**	**230.02**	**-63.61**
RevPAR (CAN $)			
Toronto	134.51	163.20	-28.69
Vancouver	122.66	148.57	-25.91
Montreal	107.02	121.38	-14.36
AVERAGE	**121.40**	**144.38**	**-22.99**
Supply			
Toronto	1368385	463020	905365
Vancouver	1534460	244185	1290275
Montreal	1,055,580	283,189	772,391
AVERAGE	**1319475**	**330131**	**989344**
Demand			
Toronto	1070935	257728	813207
Vancouver	1093045	172331	920714
Montreal	727,926	184,445	543,481
AVERAGE	**963969**	**204835**	**759134**
Revenue (CAN $)			
Toronto	184,056,454	75,563,090	108,493,364
Vancouver	188,212,750	36,278,488	151,934,262
Montreal	112,969,629	34,372,343	78,597,286
AVERAGE	**161,746,278**	**48,737,974**	**113,008,304**

Table 5: City markets, 2013.

to $121.35 for Rev PAR, both in favor of the non-Green Key affiliated properties. Like Vancouver, there is a marked difference of supply in the Toronto market between Green Key and non-Green Key upper upscale and luxury properties.

Finally, it should be noted that the data trends are identical in all three markets. This is a small sample size, but larger sample sizes in the Canadian urban market are not possible. These are the three largest markets and are thus naturally representative. It is clear that occupancy is higher at Green Key hotels. It is also clear that Rev PAR and ADR are not higher at Green Key hotels. This is perhaps aligned with supply figures.

Recommendations and Conclusion

Green certification in the hotel industry is important. The certification is young and being molded currently though. There are more than 100 options in North America for certification. This has confused consumers. Consumers are likely not making purchasing decisions based on green certification currently, at least not Green Key certification. Yet, the greening of the industry has been identified as important. Generation Y turnover figures are lower when they believe a hotel company is green, brands have a higher marketplace awareness, and most importantly, electricity, water, and other metrics are improved upon when meeting certification standards. The data in this study is consistent: occupancy is higher at Green Key properties but Rev PAR and ADR are lower. Hoteliers should focus on being sustainable and earning certification for reasons beyond ADR and Rev PAR growth.

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