

CASE STUDY 1

ESG RISK MANAGEMENT - HOTEL GREENVISTA



INTRODUCTION:

A tourism organization/company should manage its risk for three main reasons, including maximizing the value of the company and ensuring adequate liquidity and solvency.

To address these reasons, a company must create a risk management program that focuses on one or more of three broad strategies: loss control, loss financing, and risk reduction.

Possible actions for companies:

- **Loss of control**; also called risk mitigation, is typically based on rules, regulations, education and safety measures and can be divided into two general categories: avoidance and resistance. Avoidance reduces the financial impact of a threat by prohibiting expansion in threatened areas (e.g. no development or construction in certain zones). The resistance, on the other hand, tries to reduce the effects of the threat by applying safety measures in risky areas (e.g. minimum strength and reinforcement standards for individual buildings).

- **Loss financing;** focuses on risk prevention and transmission. Loss financing includes catastrophe insurance, bonds, derivatives and collateral. Hedging is risk management as a strategy without taking out insurance policies. A tourist company exposed to the risk of losses as a result of catastrophes (e.g. a windstorm) may purchase security that ensures payment in the event of a windstorm and damage to the tourist facility.
- **Risk reduction;** third general risk management strategy available to institutions managing exposures, can be divided into two elements: withdrawal and diversification. Withdrawal refers to the partial or complete abandonment of a company, activity or location that causes particular exposure to risk. If tourist sites are located on an active fault line, this can eliminate the threat of earthquake losses by closure. Plus catastrophe bonds (CAT) can be used; are event bindings that trigger payments when a specific event occurs. If a defined catastrophic event occurs, the bond issuer will repay its claims in full or in part, interest and principal are forgiven. If a defined catastrophic event does not occur, investors receive principal plus interest equal to the risk-free rate (e.g. LIBOR) plus a spread above LIBOR. The typical average maturity of a CAT bond is 3 years. The second form of risk reduction is related to diversification, which should be achieved through cross-sectoral integration. Over the last decade, risk management has come to assume a much more important role in many different business sectors. The risk analysis and management process is essentially the same in most companies.

COMPANY DESCRIPTION:



Hotel GreenVista is a medium-sized hotel facility located in a picturesque tourist region. Sustainable development-oriented, the hotel focuses on minimizing its environmental impact, active involvement in the local community and effective resource management. Before the hotel adopted a sustainable business model, it faced a variety of challenges that posed significant threats to its long-term sustainability.

THE HOTEL'S PROBLEMS BEFORE THE INTRODUCTION OF ESG GUIDELINES:



Before implementing the ESG strategy, Hotel GreenVista struggled with several key problems:

- **High carbon footprint:** The hotel generated a large amount of carbon emissions due to inefficient energy systems and a lack of renewable energy sources.
 - **Lack of integration with the local community:** The hotel was not actively involved in the local community, which led to misunderstanding and lack of support from local residents.
 - **Low ESG awareness in the management team:** The management staff was not sufficiently aware of the importance of ESG, which limited the effectiveness of making decisions in line with the principles of sustainable development.
- **Insufficient employee training:** Hotel employees did not have sufficient knowledge about ESG practices, which made it difficult to effectively implement and maintain sustainable practices.

Faced with these problems, Hotel GreenVista decided to switch to a sustainable business model by implementing ESG risk management strategies. This approach aimed not only to solve current problems, but also to ensure long-term success, consistent with environmental, social and governance values.

MANAGER ACTIONS:



The overall risk management process is tailored to the specific needs and context of tourism. The process has been developed for destinations, but the same principles also apply to businesses or tourism organizations undertaking a risk management process. The following Risk Management Review is a process that is based on two enabling activities: communicate and consult, monitor and review, and five main activities: establishing context, identifying risk, analyzing risk, assessing risk and risk response. Communication and consultation are activities that are fundamental to risk management and should be undertaken at every stage of the process. Appropriate communication and consultation can ensure that stakeholders have a sense of tourism risk and management of the process and risk. Documenting all meetings is essential, including discussions with stakeholders.

Monitoring and reviews are risk observation activities that are essential for continuous improvement. This also includes the need to achieve the expected achievements and ensure the validity and usefulness of the ESG risk management process. Tourism risk management, including ESG, is a continuous process subject to regular monitoring and review of threats, risk elements and progress, results and effectiveness of risk countermeasures.

In order to effectively identify ESG-related risks, the manager of the GreenVista Hotel has undertaken a number of key actions aimed at fully analyzing and understanding potential threats.

Below are the main steps the manager took to identify ESG risks:

- **Carbon footprint audit:** The first step was to conduct a detailed carbon dioxide emissions audit. The manager worked with sustainable energy experts to assess the efficiency of current energy systems and identify areas for improvement. The audit focused not only on assessing carbon dioxide emissions, but also on identifying alternative, more sustainable energy sources. The analysis also included the potential for the use of renewable energy, energy efficiency and the possibility of reducing resource consumption.
- **Consultations with the local community:** The manager established a dialogue with representatives of the local community, organizing open meetings and workshops. He collected residents' opinions and comments regarding the hotel's operation and identified areas where the hotel could cooperate better with local communities. The manager not only listened to the opinions of the local community, but also actively engaged in social activities. As a result, partnerships were established with local businesses and organizations, which resulted in increased community trust and strengthened relationships with the environment.
- **Training for management staff:** The organization of training for management staff was a key element. The manager, together with experts, conducted educational sessions during which they discussed the importance of ESG, the benefits of sustainable practices and specific steps the hotel can take. The educational sessions covered not only general ESG issues, but also practical aspects of implementing sustainable practices in the hotel's daily operations. The manager actively encouraged active participation and involvement of management staff in the transformation process.

- **Surveys and consultations with employees:** The manager initiated surveys and meetings with hotel employees to obtain their perspective on ESG practices. This allowed us to identify potential problems related to the implementation of sustainable activities and obtain suggestions for improvement. Analysis of the results of surveys and consultations with employees allowed for the identification of specific areas where improvements could be made. A reward and incentive program has also been introduced to motivate employees to actively participate in sustainable initiatives.
- **Cooperation with external experts:** In order to obtain support and expertise, the manager established cooperation with external consultants specializing in ESG risk management. Together they conducted a comprehensive analysis of potential threats. Cooperation with external experts continued at the stage of developing the risk management strategy. The consultants not only provided expert knowledge, but also helped in developing specific action plans tailored to the specific nature of the GreenVista Hotel.

SUMMARY:



These activities effectively contributed to the transformation of the GreenVista Hotel from a traditional tourist facility into a modern, sustainable resort. The introduced ESG risk management strategies allowed for the effective elimination or reduction of the impact of potential threats, and the hotel became an example of an innovative approach to sustainable development in the tourism industry. The implemented changes brought benefits to both the hotel and the local community, which was a key element of the company's long-term success.

QUESTIONS FOR THE PARTICIPANT:



1. **Consider** whether your organization has had a carbon footprint audit, and if so, what were the results? Is there a plan to reduce carbon emissions?
2. **How** does your organization engage with the local community? Consider new forms of cooperation to increase social engagement and build a positive company image.
3. **Consider** what actions you can introduce to motivate employees to implement ESG areas?