

## CHAPTER 2

### RELATED CONCEPTS, THEORY AND LITERATURE

#### 2.1 Introduction

It is a well established fact that tourism is a huge global industry with strong growth with Thailand in Asia and the Pacific as on major player (Nicholson-Lord 1997; Tourism Authority of Thailand 2004; World Tourism Organisation 1995, 2005; World Travel & Tourism Council 1993, 2004). Thailand's Phuket, one of the major tourist destinations, has seen an explosive development of hotel resorts to accommodate the masses of tourists visiting the island, making it important to have a sound strategy in order to become and stay successful. One strategy may be to differentiate oneself through environmentally friendly development and operations of a hotel resort.

#### 2.2. Strategy

Corporate strategy can be defined as *“the match an organization makes between its internal resources and skills and the opportunities and risks created by its external environment”* (Grant, 2001). It is what the companies do with their assets to create a profitable business. Assets in the hospitality industry include both tangible, such as buildings and facilities, and intangible, such as service, human resources, know-how and reputation. Particularly the intangible assets are important because of the service nature of the industry. It consists of experiences of these services, which are being recognised as difficult to describe, measure or standardise (Lovelock 1991; Mills and Moberg 1982). Nevertheless, a strategy is a comprehensive master plan stating how a company will achieve its mission and objectives (Wheelen and Hunger, 2006).

Typically three types of strategies are considered: Corporate, Business and Functional. Corporate strategy's three main categories include stability, growth and retrenchment. Business strategy is on product level, i.e. individual hotel resorts, and has two categories, competitive and cooperative. Functional strategy, i.e. departments of the hotel resorts, may chose

different approaches such as pioneering or imitation. These three levels of strategies are set up in a hierarchical way in which functional strategies support business strategies and business strategies supports corporate strategies (Wheelen and Hunger, 2006).

For the purpose of this research paper competitive business strategy, i.e. competitive advantage, will be looked upon.

### **2.3 Competitive Advantage**

Many theories have tried to explain competitive advantage, which has been recognized as most important goal of a company (Porter, 1980). The reason for this strong quest of answering how to achieve competitive is because it is essential in become profitable and stay profitable in an ever changing and increasing competitive market. The increasing competition makes it hard to become profitable and even harder to stay profitable over time, which at the end the day is essential for business survival.

Two ways of gaining competitive advantage appears: cost leadership or differentiation (Porter, 1985). Despite the importance and relatively simple terms there seems to be little understanding in how to achieve competitive advantage in the hospitality industry (Yong Kim and Oh, 2004). The industry is differing from conventional manufacturing in several ways. Most importantly is the nature of the product, which despite the presence of tangible assets such as hotel buildings, is intangible. It is a service that is sold, an experience of being accommodated and catered for, and this experience is very much dependent on the service provided by a large number of people. The human factor is essential.

The little understanding in how to achieve competitive advantage can be explained by the difficulties in measuring competitive advantage, particularly within the hospitality industry. Three approaches, which are commonly used to measure competitive advantage, are:

1. Porter's five-forces approach
2. The resource-based approach
3. The relationship approach

Arguably the most important developer of competitive advantage theory is

Michael Porter, and his five-forces approach and value chain analysis are important contributors (Porter, 1980; 1985). Porter's five-forces approach is the traditional approach (refer to appendix 1), which involves threat of new entrants, threat of replacing products, bargaining power of customers, bargaining power of suppliers and rivalry amongst competitors. Intensity of these aspects varies from industries, but for a company it is important to position itself in two ways: cost leadership or differentiation. To evaluate and classify different activities one may use the Value Chain (refer to appendix 2) (Porter, 1985).

There has been done a lot of research on competitive advantage in the hospitality industry over the last decade. Several are questioning the five forces approach appropriateness for the hospitality industry opting for the resource based approach (Aung and Heeler 2001; Carmeli 2004; Fahy 2002; Fensterseifer and Oliveira Wilk 2003; Grant 1991; Rangone 1999). It has been argued that there is a lack of appropriateness in measuring hotel performance and that looking at traditional measurements such as return on investment is not sufficient. The five-forces approach is mostly suitable for manufacturing industries and has been criticised for not being suitable for the hospitality industry's intangible service nature (Phillips, 1999). Due to the intangible service nature of hospitality industry a resource based approach is seen as more appropriate with its valuable, rare, imperfectly imitable or not substitutable resources/capabilities as characteristics (Barney, 1991).

With the shift towards and preference of the resource approach physical resources, human resource and organisational resources are identified as a more suitable method of measuring competitive advantage. For instance, human resources are crucial for hotel resorts in order to establish competitive advantage as they operate in the service industry (Aung and Heeler, 2001). The hospitality industry is unique as the human factor plays an important part in the production of its products as it sells experiences. Just as a smiling staff can have a positive effect on a guest's experience it can negatively affect the experience if the staff act rude or with no sense of service in mind. Without high quality staff an experience may be severely damaged. Empowerment is identified as crucial. Staff need to be able to take quick decisions and not wait for superiors, who might be busy with other encounters, to decide. Well trained staff are also more likely to take the right decision as they have first hand knowledge of the issues.

Hospitality products are about experiences. This intangibility makes it important

for hospitality companies to focus on intangible resources (Carmeli, 2004). Planning capability, know-how, ability to learn, managerial competence and human capital were identified as essential to gain competitive advantage. The common value of all these factors is that they represent resources to the company. The resource approach says the more resources a company has the stronger position it has in regards to gaining competitive advantage. Other resources have been identified such as value added as an important way of differentiating a hotel, thus gaining competitive advantage (Glaser et.al., 2002). This can be seen in many of the top international hotel chains, such as Four Seasons, Marriott, Hilton, Accor, InterContinental and Peninsula, which focus on high standards and customer loyalty. Furthermore, it is argued that transformation to a learning organisation is one way to gain competitive advantage (Bayraktaroglu and Kutanis, 2002). The demand from guests are continually changing and in order to keep the guests satisfied the hotels need to listen and learn from customers' feedback and be able to adapt and change in order to meet the guests' satisfaction.

A third approach, relational approach, may also be used to gain competitive advantage. Here, companies are seeking alliances in order to expand business and compete with their rivals. The alliances can be equity-based, such as joint ventures, or non-equity-based, such as franchising and licensing. Franchising is particularly seen in the fast food industry with McDonald's as the most well known, and in the hotel industry joint ventures, due to large investments needed, and management contracts, whereby hotel management companies run the operations of the buildings owned separately, are common forms of alliances. These alliances have seen a steady growth since the 1980's and is likely to continue to grow in the future (Beamish and Deliosh, 1997). This approach is applicable especially in very unstable markets with rapid expansion in order to get quick access to market with less risk (Prebel et.al., 2000).

No matter what approach is chosen it can be argued that the worst form of strategy is to choose none. Furthermore, it is difficult to create competitive advantage, but it is even harder to preserve it (Passemard and Kleiner 2000). The three approaches have similarities and all are designed to identify what makes some companies more successful than their competitors. It has been argued that the three approaches are very interlinked and complement each other. For this reason they could be looked upon in an integrated way (Yong Kim and Oh, 2004). Despite several ways to gain competitive advantage has been researched, none of them have identified

environmental sustainable development as one way.

For the purpose of this research, competitive advantage will be looked upon from the perspective of Michael Porter's (1985) proposed strategies of how a company can develop competitive advantage, which is:

- overall cost leadership
- differentiation

As mentioned a company can chose two strategies to position itself: cost leadership and differentiation. Added to this is the scope in which the company is operating (refer to appendix 3). Through choosing either to focus on a small market niche or a broad audience leaves the company with four possibilities of gaining competitive advantage. If the company chooses cost leadership it can either do it by attracting a broad target market or can try attracting a narrow target niche through cost focus. If the company is choosing differentiation it can either do it by attracting a broad target market or can try attracting a narrow target niche through differentiation focus. Though there are four possibilities of gaining competitive advantage the two principles of cost leadership and differentiation remain the same. Furthermore, the resource based approach will be looked upon in the context of physical resources, human resource and organisational resources.

## **2.4 Emergence of Sustainability**

It has been recognized that the tourism and hospitality industry is huge and continuously growing, and along with this growth and economic development in general a growing concern on the environment has evolved. 80-85% of world's energy consumption is based on fossil fuel; coal, oil and gas, which all are causing environmental damaging green gas emissions (CO<sub>2</sub>) (Biesiot and Noorman 1999; Palm et.al., 2000). The world's consumption of energy will from present days measures increase by 50 percent within 2030 and the green gas emissions (CO<sub>2</sub>) will increase by 52 percent (Hellestol, 2005). This will be a solid increase in pollution in a world that not only will have a negative impact on the environment, but also socially and economically. Asia is the region, which has seen the most dramatic increase in energy consumption growing from 16% of total world's energy consumption in 1980 to 26% in

2002 (Western Oregon University, 2003), and it can be believed to continue its growth or the world market share as the region is experiencing a huge economic growth.

Tourism is often associated with being a major polluter with the hospitality sector as one of the major consumer of energy, water and waste production. The hospitality sector and the hotel industry comprise many different activities, which, in itself, do not have a huge negative environmental impact (Dobers, 1997). However, these various components, which put together compromises the hotel industry including hotel resorts has also been identified as a big polluter with severe negative environmental impact on global resources (Kirk 1995; Rada 1996). In a study it was estimated that within the hotel industry 75% of all environmental impacts were caused by use of non-durable goods, energy and water, which leads to emissions released to air, water and soil (APAT, 2002). Particularly in the luxury segment of hotels and hotel resorts this will be evident as the nature of these hotels is about guests pampering themselves with luxury, thus using large amount of energy and water. Luxury hotel resorts also generally occupy larger areas, which is particularly seen in the tropics, where lands is relatively cheap leading to construction of large resorts (Gossling, 2002) The negative environmental impacts of a hotel resort is thus substantially greater than those caused by other types of buildings of similar size (Rada, 1996). Given the size of the service sector, which the hospitality industry is part of, reportedly counting for 60% of the GDP in developed countries, some blame it for the majority of the global pollution (Hutchinson, 1996).

For destinations, which already are experiencing water shortages and where energy is produced environmentally unfriendly, the potential damage is severe. Many countries are facing serious water problems with shortages in clean ground water resources and heavily contaminated surface water (Postel 1992; United Nation 1995). Phuket Island is experiencing, from heavy use of water by the hospitality industry, shortages of public distributed water as most of the ground water on the island is in private hands (Keodsom, 2006).

Along with the growth in tourism and hospitality industry, as well as economic development in general in the world, there has been a growing concern on energy consumption and environmental damage (Hellestol 2005; International Energy Agency 2005; World Bank 2005). Already major implications are seen today. Oil prices hit record high \$ 70.85 late August 2005 (Wikipedia, 2006) and the prices will continue to be high due to rising demand, volatility in

the world. Numerous events such as the Iraq war, Hurricane Katarina 2005 and Nigerian unrest 2005 amongst others have disturbed the supply of oil, which supported by a steady rising demand is making oil prices continuing to stay high in the future (Abercrombie 2006, International Energy Agency 2006; Smith 2006). Furthermore, demand and development of renewable energy resources is expected to have a faster growth than ever with 6.2 percent, but will only count for less than 2 percent of total energy consumption in 2030 (International Energy Agency, 2005).

The concept of sustainable development is relatively new, only becoming an important issue in the end of 1980's. Much has been written about sustainability (Goodwin and Francis 2003; Green Globe 21 2003; International Energy Agency 2005; Nicholson-Lord, D. 1997; United Nations Environment Programme and World Tourism Organisation 2005; World Bank 2005; World Travel & Tourism Council 1993), but the area is very wide involving individuals, companies, industries and governments (Brundtland 1987; United Nations 2002) making it difficult to specify and define. Though, it may be difficult to specify and define due to its wide context it has certainly become more and more important as economic development has happened around the world with following environmental degradation. Environmental problems have been pointed out by a growing population with an increased demand on a shrinking resource base (Robinson, 1991). And the importance of sustainable development is likely to continue and grow.

Sustainability is also a wide issue in the context of tourism and hospitality (Bohdanowicz 2005; Commission on Sustainable Development 1999; United Nations and World Tourism Organisation 2005). This has to do with the tourism and hospitality industry being very fragmented, consisting of transport, accommodation, restaurants, attractions, tour operators, travel agents etc. Considering the great variety of products and businesses there are also considerably variations within the industry. For example, within the hotel sector amount of energy consumed varies as well as the environmental impact. In general, hotels use more energy per visitor, due to energy intense facilities, such as bars, restaurants and pools, than "pensions" (Gossling, 2002). Furthermore, there are not many standardised rules to follow, mainly guidelines, which may be interpreted differently. Laws exist, but are very general and wide and may differ around the world. Some even argue that environmental regulation neglects the hospitality industry, and that it is characterised by comprehensive initiatives such as the International Hotel Environmental

Initiatives (Cespedes-Lorente et al.), now called the International Tourism Partnership (ITP) (ITP, 2005).

Sustainable development has many definitions, but a widely accepted is the one of The Brundtland Commission given in the World Commission on Environment and Development in 1987:

*“a process to meet the needs of the present without compromising the ability of future generations to meet their own needs.”* Brundtland (1987)

It is a very wide definition, but the importance of meet the needs of future generations is strongly emphasised because it enables benefits to be sustained over a long period, thus not destroying what is being used and consumed. This is the basis of sustainability, that consumption is fine as long it is not destroying the resources so that others can enjoy it. For a hotel resort, this is particularly important in that the guests do not only come to enjoy the resorts facilities, but also the destination it is in. Therefore, by not polluting the water, using up fresh ground water and using unnecessary amounts of energy causing large green gas emissions (CO<sub>2</sub>) the destination will stay beautiful and continue to attract visitors in the future. This not only ensures environmental sustainability, but also economic and social by ensuring income to last for long without destroying for the local community. The World Summit on Sustainable Development in Johannesburg 2002 recognized that sustainability involves three aspects, which was named as three special pillars; Economic-, Social- and Environmental sustainability. (United Nations, 2002).

The economic growth is demand driven and relies on a growth in consumption. However, a growth in consumption may not necessarily mean that it cannot be sustained. The key is to facilitate economic growth, which uses materials and products that minimize negative impact on the environment, thus, making it environmentally sustainable. Energy efficiency is recognised as an easy way to reduce green gas emissions (CO<sub>2</sub>) as well as saving costs. Along with energy efficiency, cleaner fossil fuels and renewable energy sources is ideal ways (Palm et al. 2000). Studies have shown that EU could save 20% of its energy consumption through efficiency equivalent of 60 billion Euros per year (European Commission, 2005). Furthermore, it is important that the economic growth is benefiting a wide number of parties, and a growing demand is not having a negative social impact. This means that also the local community should

benefit from increasing number of visitors and they should not feel intruded by their presence.

The wide and unspecified definition leaves room for individual interpretations, which may vary depending on cultural background. The hospitality industry is a global industry with owners, employees and customers coming from different cultural background, which makes it difficult to establish a set of practices. For instance, in one study US hotel managers were found to be less concerned about environmental issues than international managers (Stipanuk & Ninemeier, 1996). There has only been a few studies on environmental impact in tourism. Some areas studied are for example energy use in tourism (Gossling, 2002), CO<sub>2</sub> emissions in international air travel (Olsthoorn, 2001) and environmental impact of hotels (Deng & Burnett 2000; Trung and Kumar 2003; Isaacs and Crocker 1996). Furthermore, there has not been done much academic research on sustainable developments of hotel resorts, especially in the context of gaining competitive advantage. This again strengthens the notion of topic being difficult to categorize.

This research will focus on the environmental aspect, which is believed to be the most relevant factor in differentiation process. It is believed that ultimately it is the key to being sustainable. It is also the most obvious part of hotel resort operations, making it easier to see as well as using it in marketing. However, it will also touch into economical and social factors as these often are interlinked and will be affected by each other.

## **2.5 Neglected Environmental Concern**

One reason for the economic growth and the steady growth in tourism, despite numerous problems such as the 26<sup>th</sup> December 2004 tsunami, bird flu, SARS, wars, terrorisms, Bali bombing, September 11 bombing etc., is the World Bank's view of tourism being a passport to development for Third World countries (Nicholson-Lord, 1997). It is seen as a relatively easy industry to develop as it is a service industry not necessarily requiring large investments and can be developed quickly. It is also an industry, which with international tourism instantly brings in foreign exchange in form of hard currency. Especially, for developing countries and other countries with soft currencies it is seen as a very important factor. Furthermore, it is a labour intensive industry, which means jobs for a large portion of the population. For this reason, many

countries around the world, including developed countries such as Thailand, favour tourism. Thailand has promoted tourism as a major source of income (Rattanasuwongchai, 1998). With campaigns such as Amazing Thailand and Unseen Thailand by the Tourism Authority of Thailand, Thailand has managed to attract 11.7 million international tourists generating US\$ 9.6 billion in 2004 (Tourism Authority of Thailand, 2004). With successful locations such as Pattaya and Hua Hin developed in the 1980's, Phuket was chosen in the 1990's become an important tourism destination (Smith, 1991).

Tourism can, therefore, be said to be of great importance generating large sums of foreign exchange as well as generating a large number of jobs. However, some argue that the positive effects are not as glamorous as they may sound. The economic effect has mainly had a positive effect in urban areas through investors coming from the cities, food and drink products being imported, taxes and fees going to centralized government and employment only at low level, leaving rural communities with little benefit (Rattanasuwongchai, 1998). Furthermore, the large number of visitors gives negative environmental impacts through exploitation of natural resources, deforestation, waste and sewage disposal, congestion due to development of infrastructure and superstructure to cater for the tourists (Bohadowicz 2005; Gossling 2002; Rattanasuwongchai 1998; Smith 1991). Thus, tourism and hospitality activities have a major impact on the environment, both ecologically, economically and socially.

One of the reasons for the critical views on the growth in tourism is that the tourism and hospitality industry for long has neglected the importance of sustainable development. This can be seen in many developed tourism destinations around the world. Cancun (Mexico), Caribbean, Benidorm (Spain), Bali (Indonesia), Batu Feringgi (Malaysia) Pattaya and Phuket (Thailand) are a few examples, which all have various environmental, social and economical problems. Lack of planning or lack of implementation of plans is a unifying factor resulting in problems (Smith 1991; Wong 1998). In some Caribbean countries up to 80 percent of the nominal inflow of foreign currency flow straight out. The same can be seen in beach holidays in Kenya where they experience 70 percent leakages (Nicholson-Lord, 1997). In other words, the foreign exchange that comes in with the tourists goes out of the country again together with the tourists. The destination is then left with only exploited areas, degradation and waste brought by the tourists. Developments of many hotel resorts in the Asia-Pacific region suggest degradation

will happen (Smith, 1991). In Thailand, Pattaya is seen as the worst negatively environmental affected tourist area, but Patong, which is the most developed tourist beach on Phuket Island, is in danger of becoming the same (Wong, 1995).

Despite many lessons to be learned can be seen around the world the tourism and hospitality industry does not seem to change drastically. The nature of tourism is often spontaneous and fast changing, encouraging developers to pursue fast profits with ignorance of the physical environment. There are many options in terms of improving environmental management practices through energy saving, water saving and waste reduction. For instance, one study showed hotels consuming ten times more energy as others to accomplish the same activity (Wight, 1994). However, there does not seem to be an industry wide commitment to improving environmental management practices, which can be partially explained by a lack of environmental regulative and legislative pressure (Cespedes-Lorente et al., 2003). Although legislation may be present the slow response by governments and lack of enforcement hinders development to happen sustainable (Wong, 1998). Even though strict environmental laws exist in the manufacturing industry, the hotel industry experience that there is little environmental regulation to stop environmental degradation (Cespedes-Lorente et al., 2003). With the lack of laws, regulation and enforcement ultimately developers will be looking into generating as much profit as possible in short term and ignoring the long term consequences.

The lack of environmental laws can be seen in that only 1 percent of European accommodations are eco-labelled (APAT, 2002). Similarly, in Thailand only 1 percent of Thailand's hotels are registered with the government sponsored eco-label Green Leaf Foundation (Tourism Authority of Thailand, 2003). One reason for this can be explained the industry mainly consists of independently owned small-medium enterprises (SME), which lack knowledge about sustainable development. And effort to improve this lack of knowledge is not likely to be improved if not legislative pressure from the government arrives, as increasing competition leaves most businesses with enough short term worries than to think long term sustainability. Planning is, therefore, essential, and tourism planning is primarily a government activity undertaken to minimize the negative impacts in a sustainable manner (Smith, 2000).

Though the hospitality industry is experience lack of governmental pressure the industry is experiencing comprehensive environmental initiatives such as the ITP, which included

international hotel chains such as Inter-Continental, Ramada, Forte, Accor, Hilton International, Holiday Inn Worldwide and the Marriott (Chan and Wong, 2004) and Green Leaf Foundation, which includes hotels Dusit Hotels & Resorts, Mayfair Inn & Suites and Hilton International Bangkok (Green Leaf Foundation, 2005). These organisations have set environmental standards, which aims at protecting the physical environment. Despite still having little support within the hotel industry, the experience of these and other hotels has showed that hotels can protect the environment through implementing energy, water and waste management programs (Iwanowski and Rushmore, 1994). However, as the demand for tourism and hospitality products are getting more and more sophisticated along with an increasing awareness of environmental issues, the industry is likely slowly to change.

## **2.6 Environmental Demand**

One of the reasons sophistication in hospitality products is seen is probably because the customers are demanding more. The level of knowledge amongst tourists and information available, especially from the Internet and travel programs on TV, are growing, thus making the customers more sophisticated in their demands. Especially has an awareness regarding environmental, cultural and social responsibility been growing Ecotourism markets have been identified as among the fastest growing in tourism and consumers are interested in environmentally friendly products (Wight, 2003).

Consumer pressure is identified as a common reason that encourage hotels to become environmentally friendly along with the reduced costs associated with improved efficiency, the reassurance of regulatory compliance and reduced insurance premiums (Peattie 1995; Welford 1998), the two latter probably not so evident in Thailand. Though, there is a demand from customers, the temptation from some managers favouring short-term and easy solution over comprehensive long-term strategies may lead them to do aesthetic environmental practices such as urging customers to re-use towels for “environmental reasons”. Although there is a genuine environmental argument many hotels do it just to save laundry costs (Cespedes-

Lorente et al. 2003). This indicates that hotels are more likely to adopt environmental practices when there are positive financial reasons for it, mostly in terms of cost savings (Berman et al. 1999; Cespedes-Lorente et al. 2003; Walley and Whitehead 1994).

Several studies have confirmed a growth in demand for environmental products within the tourism and hospitality sector (Association of British Travel Agents 2002; Cook, Stewart and Repass 1992; Goodwin and Francis 2003; Travel Industry Association of America and National Geographic Traveller 2002; Wight 1996, 2003). 61 percent of US tourists value well-preserved natural, historical or cultural sites in their travel experiences. Furthermore, 53 percent state they would like to learn as much as possible about their destination's customs, geography and culture (Travel Industry Association of America and National Geographic Traveller, 2002). Another study supports by stating “65 percent of British tourists feel that the reputation of the holiday company on environmental issues is important” (Goodwin and Francis, 2003). More studies showed even higher commitment with 75% expressing support and willingness to eco-labelled hotels (Bohanowicz, 2003), and yet in another study nearly 70% of individuals indicated that they were likely or extremely likely to stay in an environmentally friendly hotel (Gustin and Weaber, 1996).

Furthermore, environmental conscious tourists are willing to pay a premium, spending on average 8.5% more for services and products from environmentally responsible companies (Cook, Stewart and Repass 1992). Other studies showed that 25% of hotel guests were willing to pay premium for eco-labelled hotels (Bohdanowicz, 2003). From these figures it could be argued that it is essential and preferable for tourism and hospitality companies to be developed and operated sustainably. However, whether or not environmental conscious tourists will pay a given premium can be questioned. It is not uncommon that there is a gap between what people say they will do and what they actually are going to (Clarke and Critcher, 1985). It is easy to say that you are willing to pay a premium to sound politically correct, but when it comes to action not all may hold what they say. Gustin and Weaber's (1996) study somewhat confirms this in that only a small percentage of the 70% environmental conscious individuals admitted willingness to pay a premium for environmentally friendly hotels. The reason for this result may be that people are happy to see energy conservation and recycling going on, but will not for example reduce their level of comfort by cutting down on towel/linen changes. Though there seems to be

uncertainty of people's willingness to pay a premium, it can be argued that a large amount of people prefer environmentally conscious businesses, thus will choose them if other differences are not significant.

One of the more expanding aspects of the tourism and hospitality industry, and in particular South-East Asia, is the development of hotel resorts. This trend has gone towards catering for the luxury/upscale market segment with more integrated resorts providing a wide range of recreational activities (Tan, 1995). Despite the growing concern and demand for environmental products and issues, not many operators get their hotel resorts eco-labelled with reports of only 1% of hotels both in Europe and Thailand indicating that not many of these hotel resorts are developed environmentally friendly (APAT 2002; Tourism Authority of Thailand 2003). There can be many reasons for hotels choosing not to become environmentally friendly. One of them is fear of it being expensive, thus decreasing profits (Bohdanowicz, 2003).

Given the growing concern for energy consumption and environmental damage, it can be argued that companies that do commit to improvement of environmental management practices may get a unique selling point. By identifying and minimising the adverse environmental effect by developing and operating environmentally friendly hotel resorts it may be possible to differentiate itself. Therefore, in light of increasing demand it is believed that a hotel resort can through environmentally friendly development gain competitive advantage through differentiation.

## **2.7 Determining Environmentally Friendly Hotel Resorts**

What defines whether or not a hotel resort develops and operates environmentally friendly? As identified, there are numerous definitions of sustainable development, which makes it difficult to justify whether or not a particular hotel resort can claim sustainable operations. The key is the three pillars; Economic-, Social- and Environment sustainability. For the purpose of this research paper environmental sustainability will be explored. Management of environmental sustainability may be defined as "*the study of all technical and organizational activities aimed at reducing the environmental impact caused by a company's business operations*" (Cramer, 1998). For hotel resorts, which comprises a number

of business activities such as accommodation, restaurants, bars, swimming pools, kids clubs, sport and water activities, and spas amongst others, it is the sum of these business activities that will justify whether or not the hotel resort is operating environmentally friendly. Thus, just looking at certain areas such as re-use of towels to reduce laundry, is not sufficient. Instead, one should look at the hotel resorts activities as a whole, where the main factors, Key Sustainable Indicators (KSI), concerned are Energy Consumption, Waste Management and Water Consumption (Green Globe 21, 2003). Figures from these areas should be looked upon in regards to size of property and number of guest nights.

Obviously, it is difficult to set an exact standard or benchmark for hotel resorts as they vary in size and types of services offered. Also location will influence measures as climate will to a great extent affect for example energy and water consumption. Even types of energy consumed will vary depending on available sources (Bohdanowicz 2005; Gossling 2002). What is evident is that implementing environmentally friendly practices will give financial benefits through reduction in energy, water and other operational costs (Forbes 2001; Hemenway and Hale 1995; Shrivastava 1995). For example, the energy-saving potential in hotels has been estimated at 10-25% by various studies (West and Elliot 1996; Blank 1999; Tourism Authority of Thailand 2003). This means a substantial reduction in energy costs, which will benefit the operational performance and financial results. Furthermore, popular measures such as reducing laundry through re-use of towels and linens are reported to save US\$ 6.50 per day per occupied room (Green Hotel Associations, 2002). But operating environmentally friendly is not just about saving operational costs. It is also used to improve corporate image (Hemenway and Hale 1995, Taylor 1992) as well as increased number of guest-nights (Martinac et al. 2001). In the light of increased environmental awareness and demand this should also indicate increased revenues.

One way to justify environmental friendly operations for hotel resorts is through obtaining independent third party recognitions, such as environmental rewards or eco-labels from Green Leaf Foundation, Green Globe 21, ITP, Nordic Swan, EU Flower, ISO 14001 amongst others, the first being a Thai recognition and the others regional or worldwide recognitions. With an eco-label hotel resorts can legitimate their claims for being environmentally friendly with more than just their own words. The eco-labels require the companies to think about their actions through requiring an environmental and social responsibility policy. Also the standards set by

these eco-labelling institutions are structuring the hotel resorts work, which gives them more control over their operations (Christensen and Rasmussen, 1998).

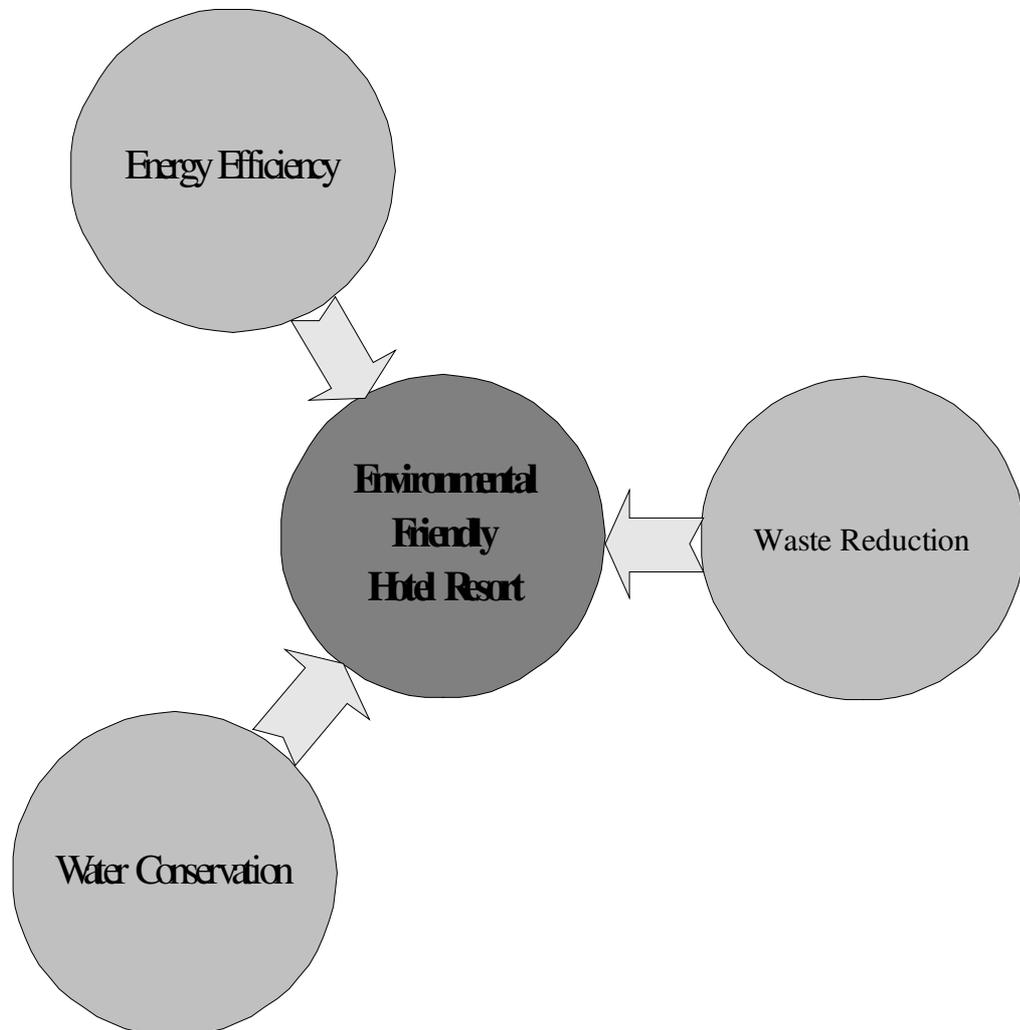
## **2.8 Environmental Differentiation**

The roots of the resort concept traces back 2000 years to the Romans extending the public baths to pleasure retreats for Roman legionnaires and consul (Mill, 2001). Like the spas, the resorts primarily met the medical demands of the visitors, though they also became important socially (Smith, 1991). A resort can be defined as *“a place that provides recreation and entertainment”* (Chon and Sparrowe, 2000), which can be accommodation in the form of hotel, time-share and second home developments. Luxury hotel resorts can be defined by *“the 15% highest charging hotel resorts in the region”* (Chon and Sparrowe, 2000).

The concept of differentiation stems from the belief that on way to gain competitive edge over rivals a company is to make itself stand out through looking different from its competitors (Porter, 1980). Differentiation can be in terms of physical appearance, packaging, design, service, image, identity, technology and dealer network amongst others (Wheelen and Hunger, 2006). In the hospitality industry, which is a service industry whereby it is the intangible aspects play a more important role than the tangible, traditional manufacturing methods such as design and packaging do not play a crucial role. Arguably, one could say design of the hotel resort as well as interior design can differentiate the hotel resort, but without the intangible aspects such as service and human interaction it will not sustain.

In terms of differentiation through environmentally friendly hotel development, there are many ways of doing that. Energy efficiency, waste reduction and water conservation are the main physical areas of environmental development (refer to figure 1). Depending on technology available, climate of operation, infrastructure and available sources it may vary greatly and no exact specifications may be set. What is obvious is that the hotel resorts needs to do more than just asking the guest not to change towels and linen every day or using energy efficient light bulbs.

**Figure 2.1** Energy, Water and Waste



Source: Author

Investments need to be done in for example efficient hotel infrastructure such as chillers, gas boilers, double isolated glass, isolated construction materials and monitoring systems. These areas are well-known today, but a further step would be to move into renewable energy sources. Furthermore, water reducing equipment such as dual toilet flush and water saving shower heads as well as waste water treatment plants and reuse of gray water for watering garden. Waste separation is a minimum with preferably composting done as well as agreements with suppliers to reduce packaging. Though these areas requires investments there are operational savings through reduced energy usage (Peattie 1995; Welford 1998), and some of the increased

cost may be passed on to customers through higher prices (Wheelen and Hunger, 2006).

Specifically what should be done is impossible to say as it depends on many factors. Also, what might work one place may not be suitable another, and in order to achieve some environmentally friendly aspect one may have to cause environmental damage in another. For example use of electrical buggies implies use of batteries with polluting chemicals when changed.

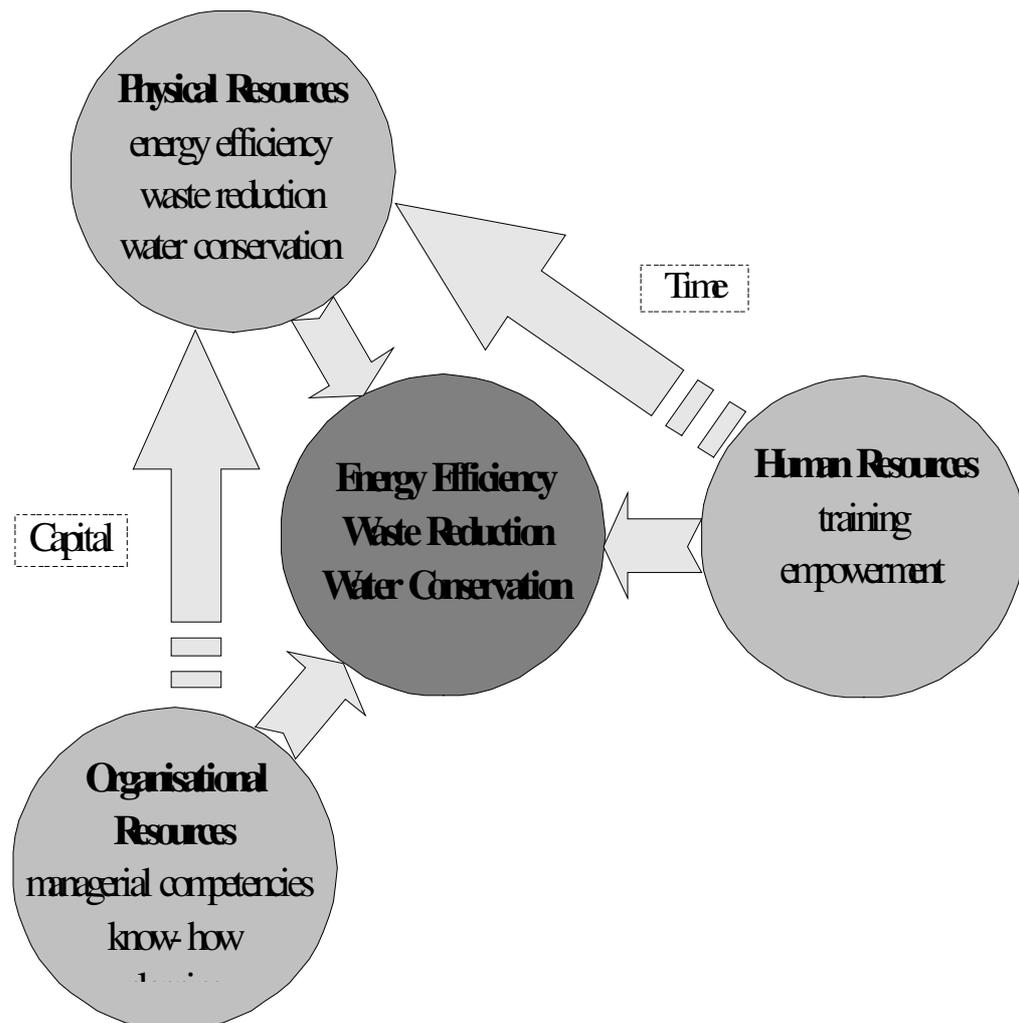
What further needs to be done is to invest both time and money in human resource through training and empowerment as well as organisational resources by obtaining managerial competencies and know-how in the field (refer to figure 2). Awareness and knowledge about environmental issues need to be trained and nurtured in order for staff to understand and do correctly. Empowerment is also important in letting staff take action where necessary without having to ask a superior all the time. Proper documentation needs to be made in order to both monitor impact as well as storing know-how, as the environmental technology often is in its infancy. In order to achieve so, money has to be allocated and capital invested into physical resources.

## **2.9 Summary of Chapter 2**

There is a lot of existing literature covering competitive advantage. Research papers such as Aung and Heeler 2001, Barney 1991, Carmeli 2004 and Phillips 1999 has looked at competitive advantage within the hospitality industry. Furthermore, there is a lot of existing literature covering environmentally friendly hotel development such as Bohdanowicz 2003, Cespedes-Lorente et al. 2003, Chan & Wong 2004 and Wong 1995, 1998. A few studies on environmental demand, such as Cook et. al. 1992, Gustin & Weaber 1996, Wight 2003, has been identified.

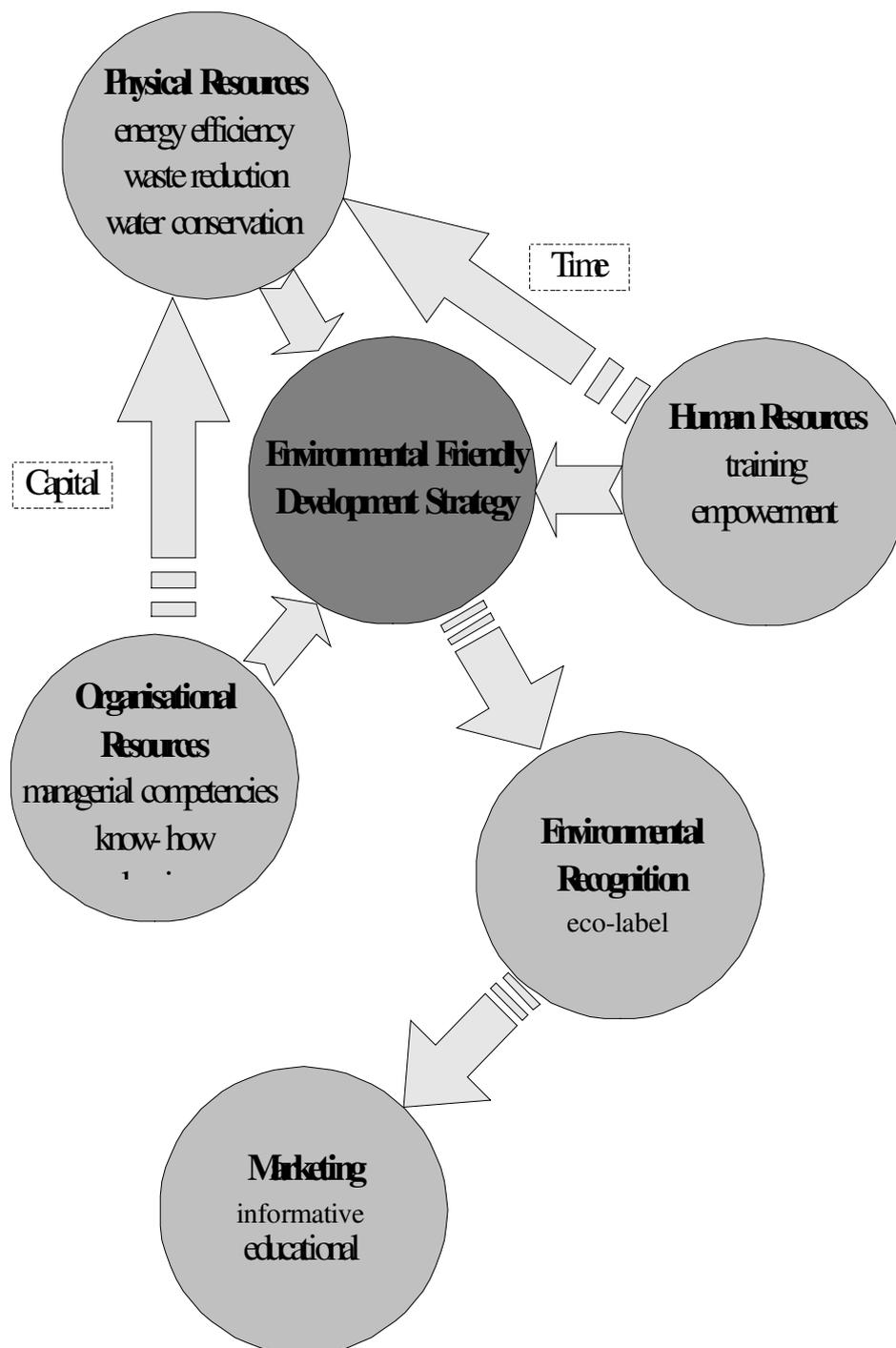
However, none of these has linked environmentally friendly hotel resort development with competitive advantage, and, to the best knowledge of the author there has not been done research on gaining competitive advantage through environmentally friendly hotel development.

**Figure 2.2** Use of Resources



Source: Author

**Figure 2.3** Environmentally Friendly Development Strategy



Source: Author