# Environmental, social initiatives lead to greater returns for hospitality firms in high-income nations

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Global sustainability initiatives like the environmental, social and governance (ESG) investing principle may lead to greater financial gains for hospitality firms in high-income countries but not in low-income nations, according to new findings from researchers in the Penn State School of Hospitality Management.

Penn State doctoral student Samantha Hwang and Professor of Hospitality Management Seoki Lee led a research team that assessed how implementing practices related to ESG impacts the financial well-being of hospitality firms, which consist of hotels, restaurants and casinos.

The researchers identified a significant moderating effect of national economic development between the ESG scores—measuring a company's performance in ESG practices—and return on assets of hospitality firms. This finding indicates that the success of ESG initiatives can depend on a country's gross domestic product.

The research team published its findings in the *International Journal of Hospitality Management*.

Within ESG, the environmental dimension consists of resource use, emissions and innovation; the social dimension encompasses workforce, human rights and community; and the governance dimension includes management, shareholders and corporate social responsibility strategy.

"In terms of ESG, policymakers in low- and middle-income countries can think about improving their infrastructure and better educating their populations about sustainability practices," Lee said. "This will encourage not only the public but also the companies to invest in ESG. Our data suggests this will reward companies accordingly."

The researchers analyzed data from 166 hospitality firms across 36 countries. The team collected data from London Stock Exchange Group, formerly Refinitiv, a global database that contains individual ESG scores and financial data of publicly traded global hospitality firms. The researchers used return on assets—operating profit divided by total assets—to measure firm performance and gross domestic product to measure national economic development.

The team found that if a country's gross domestic product, which can serve as a measure of economic health, is already high, then that country's hospitality firms are more likely to have a fruitful return on assets upon participating in ESG practices.

"Low- and middle-income nations may not have the options to invest in ESG initiatives because their people need to take care of their personal needs first," Hwang said. "This is an example of Maslow's hierarchy of needs—a theory proposed by psychologist Abraham Maslow in the 1940s—in that people first take care of their basic needs before they can invest in their surroundings."

Hwang said an example of this could be an airline collecting donations for a social cause. People in low- and middle-income countries may not be inclined to participate in this social cause, as they may only have the resources to take care of their needs, or, in this case, simply purchase the plane ticket.

While low- and middle-income countries can face resource constraints that make rewarding sustainable practices challenging, consumers in high-income nations can be more inclined to pay extra for environmentally friendly or sustainable goods and services, according to Hwang.

Examples of ESG within the hospitality industry could include businesses volunteering in communities and donating to social causes. Specific efforts can include when casinos implement responsible gambling messaging and campaigns or when hotels invest in human trafficking-awareness programming, according to the researchers.

The researchers also said restaurants could focus on forms of ethical sourcing, such as purchasing food from local farms that follow ESG practices, such as growing crops in an environmentally friendly way.

"Companies should adjust their ESG initiatives in ways the community can participate," Hwang said. "Whether companies are based in high-income or low-income nations, they should have everyone inclusively involved when it comes to investing in ESG activities. ESG can be costly in the short term, but it can turn into a positive investment for companies in the long run."

**More information:** Da Hyun S. Hwang et al, The moderating role of national economic development on the relationship between ESG and firm performance in the global hospitality industry, *International Journal of Hospitality Management* (2024). DOI: 10.1016/j.ijhm.2024.103788

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