

Chapter 7:

ESG Reporting: Ethical Concerns for Tourism Industry

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ABSTRACT

Tourism industry offers a broad range of services including hospitality, transportation, food and beverage, and entertainment. To protect Malaysia's natural and cultural resources the industry is increasingly required to adopt sustainable practices. By focusing on ESG concepts, tourism businesses can reduce their environmental footprint, generate positive social outcomes, and enhance their governance practices. ESG reporting is the mechanism usable to convey their practices publicly. However, in preparing ESG reporting, tourism industry might face several conflicts such as conflict of interest between stakeholders who might demand different requirement. They also in dilemma to balance between transparency dan confidentiality. A pursuit of important financial gains often conflicts with sustainable business practices, leading to decisions that undermine environmental and social responsibility. To mitigate the risk of such conflicts clear policies are necessary and regular reviews and training are recommended. Integration of ESG into tourism is important toward sustainability and responsibility in the tourism industry. The tourism industry nowadays must adapt to meet those expectations as environmental and social awareness grows.

Key Words: ESG Reporting, Tourism Industry, Transparency

1. INTRODUCTION

Malaysia's tourism sector plays a significant role in the country's economy, drawing millions of tourists each year. From luxury resorts on immaculate beaches to ecotourism in verdant jungles, the industry offers a broad range of services including hospitality, transportation, food and beverage, and entertainment. As a result, the industry is increasingly required to adopt sustainable practices in order to protect Malaysia's natural and cultural resources. The industries can lessen their environmental impact by using eco-friendly procedures including protecting biodiversity, cutting carbon emissions, and managing trash responsibly. Strong governance, openness, and adherence to sustainability rules can boost investor confidence and business resilience. To maintain long-term sustainability and worldwide competitiveness, the tourist industry must include ESG concepts. Adopting ESG guarantees the industry's economic and environmental sustainability for coming generations while also enhancing Malaysia's standing as a responsible tourist destination.

2. LITERATURE REVIEW

The Three Pillars of ESG

The ESG framework comprises of three key pillars—environmental, social, and governance—which collectively guide businesses in achieving sustainability, ethical responsibility, and long-term success.

The environmental aspect of ESG assesses how businesses impact the natural world, including their role in climate change mitigation, pollution control, and resource conservation (IMD, 2024). Companies that prioritize sustainability often focus on reducing water and energy consumption, utilizing renewable energy sources, implementing waste management and recycling programs, protecting biodiversity, and encouraging eco-friendly transportation solutions. By adopting these environmentally responsible practices, businesses create a healthier planet and improve operational efficiency and save costs.

The social component of ESG examines how companies interact with their stakeholders, including employees, customers, and communities (IMD, 2024). It encompasses fair labour practices, workplace diversity and inclusion, consumer protection, and corporate social responsibility (CSR) initiatives. Businesses committed to strong social principles strive to uphold human rights, ensure ethical treatment of workers, engage with local communities, and respect cultural heritage. By fostering positive social relationships, companies enhance employee engagement, build consumer trust, and strengthen their overall brand reputation.

The governance pillar focuses on how organizations make decisions, manage risks, and maintain ethical business standards (Anthesis, n.d.). Strong governance practices include transparent leadership, fair executive compensation, diverse and independent board structures, and strict compliance with legal and regulatory requirements. Additionally, effective risk management strategies, climate risk assessment, and the protection of shareholder rights contribute to corporate stability. By upholding robust governance standards, businesses can build investor confidence, reduce exposure to regulatory scrutiny, and ensure long-term sustainability.

The Importance of ESG to Tourism Industry

The components of ESG are particularly relevant to the tourism sector as they foster sustainability, social responsibility, and sound governance (Ionescu et al., 2019). By focusing on these aspects, tourism businesses can reduce their environmental footprint, generate positive social outcomes, and enhance their governance practices. This approach shall benefit the businesses themselves but also promotes sustainable development within the communities and environments that support the tourism industry (Ionescu et al., 2019).

Implementing ESG in the tourism industry is essential for ensuring sustainability, meeting consumer expectations, enhancing brand reputation, and fostering positive relationships with the community and investors (Ionescu et al., 2019). By adopting ESG practices, businesses can effectively mitigate the impacts of climate change and manage resources more efficiently, which helps reduce waste and conserve energy and water—key factors for the future sustainability of tourist attractions (Ionescu et al., 2019). This approach can boost brand reputation and customer loyalty along with attracting eco-conscious travellers and investors.

In the digital era consumers are more informed, often possessing knowledge and experiences that surpass those of the businesses themselves. This shift in consumer preferences presents a unique challenge for companies to adapt. Customers typically conduct thorough research and gather information about a company before selecting them as their travel agent. This indicates that purchasing decisions are closely tied to a company's practices. Therefore, it is vital for businesses to align their financial performance with sustainability efforts, as this not only enhances their environmental impact but also increases consumer preference and ensures long-term viability (Ionescu et al., 2019).

3. DISCUSSION

In preparing ESG reporting for tourism industry several conflicts might arise and need to be addressed by the practitioners as well as the industry players to ensure the integrity of the ESG reports is uphold.

Conflicts of Interest in ESG Reporting for Tourism Industry

Implementing ESG practices in the tourism industry presents inevitable conflicts of interest between stakeholders. Tourism companies must balance environmental responsibility, social equity, and economic sustainability while addressing the competing needs of travellers, local communities, travellers, government authorities, and environmental organizations (Zyznarska, 2022; Jones et al., 2021). As companies struggle to align business profitability with stakeholder expectations and regulatory requirements, ethical challenges may arise to handle the diverse interest (Font & Lynes, 2018).

One main conflict arises from the anticipations of environmentally conscious travellers and the concerns of local communities. While travellers increasingly seek sustainable and eco-friendly experiences, local residents may fear the adverse environmental consequences of tourism expansion which include resource depletion, waste generation, and cultural commercialization (Zyznarska, 2022; Gössling & Hall, 2019). Moreover, tourism can strain local infrastructure, increasing the demand for water, energy, and land use, leading to conflicts over resource allocation (Buckley, 2020). As a result, tourism businesses must navigate these tensions by fostering stakeholder engagement, promoting responsible tourism policies, and implementing transparent sustainability initiatives.

The pressure to present a positive sustainability image can tempt companies to engage in "greenwashing," where they exaggerate or fabricate their environmental initiatives to attract ethically conscious tourists (Font et al., 2021). For instance, some businesses may emphasize economic benefits such as job creation and local revenue generation while limiting long-term social and environmental costs (Higgins et al., 2022). This issue is

further complicated when travel agencies collaborate with hotels and tour operators that claim to uphold ESG principles but fail to meet actual sustainability standards (Jones et al., 2021).

The responsibility of accountants is to ensure that ESG reports provide an accurate and truthful representation of a company's sustainability efforts. However, disclosing negative environmental or social impacts may reveal business relationships, damage reputation, and affect financial stability (Michelon et al., 2015). This ethical dilemma necessitates severe due diligence, adherence to international sustainability standards, and independent audits to verify ESG claims (Gray, 2020). Additionally, regulatory bodies and industry associations must play a proactive role in establishing stricter ESG reporting guidelines and holding businesses accountable for their sustainability commitments (UNWTO, 2023).

Ultimately, balancing ESG priorities in the tourism sector requires a multifaceted approach that integrates stakeholder dialogue, ethical decision-making, and transparent reporting practices. By prioritizing long-term sustainability over short-term gains, businesses can foster greater trust among stakeholders and contribute to a more responsible tourism industry.

Balancing Transparency and Confidentiality

One of the key challenges encounters by accountants in ESG reporting is equalizing transparency and confidentiality. Due to the nature of their businesses, travel companies often have access to sensitive information from their partnerships with hotels, tour operators, transportation providers, and other stakeholders. The necessity of protecting proprietary data while ensuring stakeholder transparency creates a complex dilemma, as increased disclosure can sometimes lead to unintended consequences, including reputational risks and competitive disadvantages (Bae, 2022).

The tension between confidentiality and transparency is particularly evident when ESG disclosures include metrics such as energy consumption, waste management, or labour practices. For instance, revealing specific environmental data about a resort's energy use might expose inefficiencies, potentially damaging stakeholder trust and negatively impacting brand perception (Bae, 2022). In some cases, stakeholders may take ESG data out of context or misinterpret it, leading to undue criticism or misinformed conclusions about the company's sustainability efforts (Michelon et al., 2015). To address this challenge, accountants must ensure that disclosures are contextualized appropriately, providing a comprehensive and accurate representation of

Maintaining transparency without damaging business interests requires accountants to exercise significant professional judgment. They must determine the appropriate level of aggregation for ESG data, ensuring that key insights are communicated effectively without exposing proprietary details (Gray, 2020). Furthermore, ESG disclosures must align with ethical standards, regulatory requirements, and stakeholder expectations. Striking this balance is crucial, as premature or misleading disclosures can lead to legal risks, activist scrutiny, and competitive disadvantages (Higgins et al., 2022).

Ultimately, ESG transparency must be pursued without compromising ethical considerations or exposing the company to undue risks. This requires a dynamic approach that incorporates ethical reporting frameworks, robust data verification processes, and strategic stakeholder communication (UNWTO, 2023). Accountants play a critical role in ensuring that ESG disclosures reflect a company's sustainability efforts while safeguarding its competitive standing and stakeholder relationships.

Misalignment of Short-Term Profit and Long-Term Sustainability

Many travel agencies focus on short-term profits over long-term sustainability goals, creating a continual ethical challenge in the tourism sector (Bae, 2022). The pursuit of important financial gains often conflicts with sustainable business practices, leading to decisions that undermine environmental and social responsibility. For instance, companies may choose to promote low-cost, less sustainable travel packages that generate quick revenue but contribute to increased carbon emissions, resource depletion, and potential harm to local communities (Gössling & Hall, 2019). This trade-off between financial performance and ESG commitments raises worries about the credibility of corporate sustainability initiatives (Higgins et al., 2022).

Accountants play a critical role in addressing this misalignment in ESG disclosures. They often face pressure to justify decisions that focus on short-term financial benefits at the expense of long-term sustainability objectives (Bae, 2022; Eccles & Serafeim, 2013). Companies may claim to champion sustainable tourism while simultaneously endorsing unsustainable travel options, creating a disconnect between reported ESG commitments and actual business practices (Michelon et al., 2015). Such inconsistencies can lead to biased reporting and greenwashing, ultimately diminishing stakeholder trust and the integrity of sustainability reporting frameworks (Cho et al., 2015).

Additionally, assessing the long-term impacts of tourism-related activities is inherently complex. While short-term financial benefits are quantifiable and immediate, the environmental and social consequences of tourism, such as habitat destruction, cultural erosion, and resource depletion, often take years or even decades to fully manifest (Gössling, 2021; UNWTO, 2023). This delayed impact complicates accurate ESG reporting and accountability, making it challenging for accountants to provide a holistic assessment of a company's sustainability performance (Higgins et al., 2022).

To bridge this gap, businesses must integrate sustainability into their financial strategies, moving beyond a profit-centric approach to embrace long-term environmental and social responsibility (Eccles et al., 2012; Gray, 2020). Accountants must ensure that ESG disclosures transparently reflect both short-term economic performance and long-term sustainability risks, thereby fostering ethical reporting and responsible corporate decision-making (Jones et al., 2021).

4. RECOMMENDATION

Establish Clear Policies and Regular Reviews and Training

Ethical accountants are essential in reducing conflicts of interest in ESG reporting and promoting ethical standards within organizations. Their role encompasses not only data analysis but also the proactive identification and resolution of potential conflicts while advocating for ethical behaviour. Organizations are required to establish comprehensive policies for the identification, disclosure, and management of conflicts of interest (MSCI ESG Research LLC, 2024). These policies should specifically address scenarios where personal interests or relationships may threaten the objectivity and integrity of ESG data and reporting. Importantly, these policies should not be treated as mere formalities; they must be actively enforced, implemented, and regularly assessed to maintain their effectiveness. A distinct separation of responsibilities between analytical and commercial teams is vital to avoid any undue influence on the outcomes of ESG reporting.

Regular training for all employees is important to foster a comprehensive understanding of conflict-of-interest policies and the significance of maintaining ethical standards (MSCI ESG Research LLC, 2024). It is crucial that employees at every level are informed about the various ways conflicts of interest can arise, both in obvious and subtle forms. Such training should empower staff to identify possible conflicts, comprehend their consequences, and respond appropriately. By implementing thorough policies, ensuring a clear delineation of responsibilities, and offering continuous ethics training, organizations can nurture a culture of integrity and reduce the likelihood of conflicts of interest in ESG reporting. This strategy not only enhances the credibility and reliability of ESG data but also fosters trust among stakeholders and encourages more sustainable business practices.

Information Classification

Organizations ought to prioritize transparency in their ESG rating methodologies, emphasizing the utilization of publicly accessible data whenever feasible (Acuity Magazine, 2024). Such transparency encourages the credibility of ESG ratings by enabling stakeholders to comprehend the construction process and evaluate their reliability. By explicitly detailing the criteria, indicators, and weighting systems employed in their evaluations, organizations exhibit a dedication to openness, inviting scrutiny and feedback from stakeholders. This clarity addresses potential concerns regarding bias or undisclosed agendas and promotes a more informed discussion surrounding ESG performance.

Nevertheless, organizations must find a balance between transparency and the necessity of safeguarding confidential or proprietary information (MSCI ESG Research LLC, 2024). While transparency is vital, revealing certain internal methodologies or sensitive data could grant competitors an undue advantage or expose the organization to various risks. For instance, disclosing the specific algorithms utilized to evaluate a company's environmental impact or the exact data sources employed in assessing social performance could be harmful. Consequently, a strategic approach is required, wherein the overarching methodology is made public, while specific details that can affect the organization's integrity or competitive position remain confidential.

5. CONCLUSION

In conclusion, integration of ESG into tourism is important toward sustainability and responsibility in the tourism industry. The tourism industry nowadays must adapt to meet those expectations as environmental and social awareness grows. Customers are lean for companies that emphasize a sustainable approach to resources and adherence to work ethics, which resulted in the company having better customer loyalty and positive recommendations. It is essential to take care of the interests of the various stakeholders who need transparency and accountability. Implementing ESG practices in tourism businesses can effectively engage with the stakeholder community by building trust and eliciting cooperation for mutual benefit. Having effective mechanisms is needed for companies to monitor progress, report successes, and highlight areas for

improvement to enhance accountability and credibility of the business. Ultimately, effective ESG integration helps tourism businesses to meet and exceed consumer expectations. By focusing on sustainability, the tourism industry can protect natural resources, support local culture, and promote economic growth. In short, ESG integration is the path to a sustainable future in the tourism industry because it improves brand reputation, appeals to stakeholder needs, and gives voice to transparency issues. With a strong alignment of financial performance through sustainability, the sector will continue to thrive.

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