**Materiality: Stakeholder accountability choices in hotels' sustainability reports.**

**International Journal of contemporary Hospitality Management**

**Vol 31, nº 6, 2019, 2321-2338**

**Purpose:** This paper examines the choices made by the hotel industry about what to include and who to be accountable to in their sustainability reports, a process defined as materiality assessment.

**Design/methodology/approach:**
The paper is based on the findings of semi-structured interviews with eight sustainability managers (from eight of the world's 50 largest hotel groups) to explore their understanding of, and use of, materiality and any barriers to its uptake and eight industry sustainability experts to assess the general industry-wide application of materiality

**Findings:** Sustainability managers from large hotel groups are evasive when disclosing their materiality criteria, their decision-making processes and how they aggregate stakeholder feedback; they limit their disclosure to the reporting process. Sustainability managers are disempowered, with limited resources, time, knowledge and skills to apply to materiality assessment. Experts confirm that hotel groups are unsystematic and opaque about their decision-making, and how they their materiality assessment.

**Practical implications:** Materiality assessment is concealed from the public, and may be constructed around business imperatives with high managerial capture. The hospitality industry needs to extend its sustainability reporting to embrace materiality, to examine how it defines and applies materiality, and to address the barriers identified if it is to demonstrate an enduring commitment to sustainability and organisational legitimacy.

**Originality/value:** This study addresses the limited knowledge of how hotel groups undertake materiality assessments. It identifies gaps in the conception and application of materiality by pinpointing barriers to its uptake and recommending areas in need of further research.

**Key words:** hospitality industry, transparency sustainability reporting, materiality assessment, accountability,.

**Article classification:** Research paper

## Introduction:

Materiality assessment is the "process of determining the relevance and significance of an issue to an organisation and its stakeholders" (AccountAbility, 2015, p. 11) with the objective to inform the organisation's sustainability strategy and report (GRI, 2013a). The principle of materiality is central to reporting frameworks, such as the G4 Global Reporting Initiative, Integrated Reporting, and the AA1000 Stakeholder Engagement Standard, in order for organisations to demonstrate accountability to stakeholders. While materiality is in the research agenda (de Villiers, Rinaldi, & Unerman, 2014), it remains understudied (Unerman & Zappettini, 2014). Research on sustainability reporting by the hospitality and tourism industry has focussed on analysing report content (de Grosbois, 2012; Guix et al., 2018) but has omitted the internal decision-making that shapes the reports, with the exceptions of a few case studies (Adams and Frost, 2008; BT, 2014/2015).

The purpose of this exploratory study is to examine the concept of materiality, in particular its application and any barriers to uptake within the hotel industry. This study responds to the call for further research on the development of sustainability reports (Searcyand Buslovich, 2014) and on the criteria of materiality determination (Unerman and Zappettini, 2014). The article is structured in five sections. First, it explains the sustainability reporting context and the materiality approach. Second, it presents the findings from 16 semi-structured interviews that provide insights into the hotel groups' materiality adoption. Third, it uses the evidence from these interviews to identify the materiality approaches adopted and also, the cognitive, organisational and technical barriers that hinder implementation approaches that stay true to the original concept of materiality. Fourth, it discusses how an organisation's level of sustainability integration may contribute to its management or mismanagement of material issues, and how the disclosure of materiality may be perceived as a greenwashing tactic or as an instrument togain legitimacy. Finally, this article reflects on the contribution of this study to the literature and suggests further research.

## Literature review

Materiality is a traditional concept in financial reporting used to justify the inclusion and exclusion of a certain item in a financial report. Sustainability reporting has followed suit: from the outset, the global reporting initiative (GRI) framework incorporated the materiality principle to shape the content of sustainability reports so that these would provide relevant information to accomplish the expected features of completeness and clarity. AccountAbility (1999) also has promulgated the principle of materiality in its Assurance Standard. However, sustainability reports among big companies have shown flaws related to the selection of the information disclosed (GRI, 2015), which have led to the need to revisit how materiality is applied (KPMG, 2014).

The materiality approach adopted in preparing financial statements is shaped by a market logic explained by a shareholder focus and sustained by assurors' professional logic to protect investors (Edgley, Jones, & Atkins, 2014), which can be understood as a narrow approach. At the other end of a continuum, we find a materiality concept shaped by a stakeholder logic aligned with an assurors' professional logic to protect society. Not too far from traditional financial conceptions of materiality are those adopted by IAPS 1010 (IFAC, 1998) or by SASB standards who have extended the range of transactions that can affect operating and financial performance such as certain social and environmental issues under an investor's approach. The SASB released in 2014 industry briefings providing evidence of material sustainability issues of different industries and a set of sustainability provisional standards intended to assist companies in fulfilling existing regulatory requirements (SASB, 2017a) related to the measurement and reporting sustainability information on topics reasonable likely to be material to investors as likely to affect the financial condition and operating performance of the organisation through direct impacts on revenues and costs, assets and liabilities and cost of capital and risk (SASB, 2017b).

The GRI principle of materiality adopts a stronger stakeholder-based approach than that of SASB, as the former considers how relevant some impacts are to stakeholders' assessments and decisions, subject to the adoption of the stakeholder inclusiveness principle (x-axis in the materiality matrix); in GRI reporting, organisations must consider the significance of their economic, environmental or social impacts to identify material aspects (y-axis), as some impacts may not be recognised by stakeholders as they are "slow and cumulative” and “causal links may not be clear” (GRI, 2013b, p. 36).

Although the organisation will incorporate different tests to each of these two variables to assess the relevance of an issue to be reported, a high score solely on one of these two variables justifies its inclusion in the report. However, most organisations reporting under GRI framework adopt a different materiality matrix (Guix et al., 2017; Jones, Comfort, et al., 2016a; Morrós, 2017) that lessens the relevance of this stakeholder logic by two actions. Firstly, organisations substitute the GRI proposal for an x-axis by “success to the organisation” or similar, with the risk of omitting relevant impacts with little effect on the organisation’s success. Secondly, they substitute the GRI proposal of acknowledging as material both the impacts that either are relevant to stakeholder assessment **or** that are of significance, and instead consider as material only those issues that are score highly on both tests. This requires an issue to be plotted on the top right quadrant of a materiality matrix to be reported, essentially omitting responsibility to deal with significant issues for which the organisation claims to have limited capacity to act although being relevant to stakeholders (top left quadrant).

AccountAbility has a similarly strong materiality principle as GRI, although for AccountAbility materiality is mainly intended to shape an organisation’s strategy to respond to emerging environmental and social issues. The impact of materiality in the content of a sustainability report depends on the extent to which sustainability issues can influence stakeholders’ decisions and actions that affect business performance in the long-term (Murninghan & Grant, 2013). The prioritisation of issues rests on external and internal criteria, reflecting the interests of those stakeholders that can influence the business and those issues deemed as most relevant to the organisation’s strategy. This approach differs from that adopted by the GRI, and this reflects in a different materiality matrix that considers issues important to both the organisation (x–axis) and its stakeholders (y-axis).

These differences in the cognitive approach affect what an organisation chooses to report and for whom the materiality decisions are intended. They are also key to understand why the lists of material issues per industry, provided by SASB and GRI, differ. The “hotels and lodging” provisional standard issued by SASB (2017a) includes six metrics referring to three topics (energy & water management, ecosystem protection & climate adaptation and labour practices) while the SASB Materiality Map (SASB, 2018) rearranges them in three issues (environment, human capital and business model and innovation). However, neither of SASB’s two documents considers social capital issues relevant for the hospitality industry. The GRI list of 21 material issues for the tourism sector is much wider than SASB’s, both because tourism is broader than hotels, and also because GRI includes additional issues (such as indirect economic impacts, impacts on local communities and impacts on natural and cultural heritage) that are important to economic stakeholders such as business and financial markets, and information users.

*The materiality analysis process*

Materiality analysis requires companies to define and outline the approach adopted. Firstly, companies must define their position on the purpose of the analysis to fit the purpose of their sustainability reports.

For example, undertaking analysis for purely accountability purposes justifies reporting on material issues because of their relevance to stakeholders or own salience. The results of such a materiality assessment can be used directly or refined to shape an organisation’s strategy. Alternatively, an organisation may choose to identify material issues of strategic interest to powerful stakeholders and report on these alone. Organisations can always respond flexibly to the results of their analysis, which in itself reveals their stakeholder culture. For example, BT reported about its economic impact on society, despite the fact that its materiality analysis plotted this issue in the top left quadrant of their materiality matrix, meaning that the issue was of significance to stakeholders (y-axis) but not to BT (x-axis) (BT, 2014/2015). Second, companies have to operationalise materiality. This involves taking multiple decisions, since materiality is based more on principles than rules. The interpretation of these principles impacts on the quality, quantity and completeness of sustainability reports (Adams, 2002). Key operational decisions are outlined below.

Stakeholder engagement is a critical part of obtaining materiality information, which involves:

- identifying a preliminary list of issues relevant to the industry,
- mapping and prioritising stakeholders that will be engaged,
- selecting engagement methods,
- defining the extent to which stakeholders solely or combined with other internal or external criteria feed into the process,
- defining and operationalising thresholds, and finally
- listing material topics.

Guidelines have dedicated some effort to define stakeholder engagement: AccountAbility has a step by step guidance and GRI requires companies to disclose in detail the methodology used. Academics have proposed stakeholder engagement steps (Manetti, 2011) and analysed the quality of different approaches taken by industry (Green & Hunton-Clarke, 2003). However, these guidelines do not avoid the need for organisations to take subjective decisions such as how to score and weigh the information obtained. When conflicting stakeholder demands appear, the organisation is expected to define its own ethical and instrumental logic rationale (Bundy, Shropshire, & Buchholtz, 2013).

After we obtain this information, the organisation needs to manage it. Different multi-criteria decision-making methods exist, with different degrees of computational complexity, depending on the feasibility of:

- prioritising stakeholders,
- ii) differentiating stakeholder salience for different aspects,
- iii) determining ex-ante materiality thresholds and
- iv) solving inconsistencies (Calabrese, Costa, Ghiron, & Menichini, 2017).

Even when companies decide to outsource most of this process to consultants, who offer advice and guidance and provide methodologies, the organisation's values will determine many of the choices made (Edgley et al., 2014).

Stakeholder engagement is not the only challenge in materiality. Information is also needed i) on the environmental, economic and social impacts (GRI) and ii) on their relevance to the organisation's value creation process (AccountAbility). The materiality filter needs to be applied in a two-step process. Firstly, there is no one single set of standards to ascertain what the most material issues are, therefore the content of an organisation's report is conditioned by organisations' activities, impacts, stakeholders' demands, and the organisation's wish to be accountable to society. Financial reporters and financial auditors have clear materiality standards, unlike their sustainability counterparts (Adams & Evans, 2004). Secondly, there is no requirement to provide complete information on those issues considered material. It is necessary to consider an organisation's context before suggesting that decisions to exclude information are deliberate attempts of misinformation (Unerman & Zappettini, 2014), both in sustainability and financial reporting. In fact, the International Accounting Standard Board has recently amended its definition of materiality to make it easier for companies to make judgements (IASB, 2018). However, sustainability reports are expected to cover broader and more complex issues than financial accounts, for some of which there are no common indicators, nor agreed metrics. This requires a higher investment of time from sustainability teams, which are already seriously under-resourced (Adams & Frost, 2008). Sustainability data collection is not a routine task for most business units within companies, and data collection is not consistent, which create additional burdens for the small sustainability departments (Searcy & Buslovich, 2014).

In summary, the organisational values applied to define materiality, the processes to engage stakeholders, the multiple options to define in practice what is material, and the limited resources available to collect sustainability data, all together determine the relevance of the information generated, and the risk of omitting important information. The methodology used to take each of these decisions is not specified in reports (Guix et al., 2017; Morrós, 2017). These omissions from the companies' sustainability reports are not picked up by sustainability accounting assurors, who analyse the reliability of quantitative data, at the expense of considering the adequacy of issues included in the reports to results achieved after doing a materiality analysis (Edgley et al., 2014). Conequently, the mismanagement of material issues legitimises that organisations dedicate their resources to improve the performance on immaterial issues, unintentionally or intentionally (Maniora, 2018). An intentional mismanagement of materiality results from 'managerial capture,' a notion borrowed from the social auditing literature that refers to:

"the management taking control of the whole process (including the degree of stakeholder inclusion) by strategically collecting and disseminating only the information it deems appropriate to advance the corporate image" (Owen, Swift, Humphrey, & Bowerman, 2000, p. 85).

Sustainability assurors have been criticised for endorsing such managerial capture, as these assurors are appointed and paid by the organisation's managers, not by their stakeholders (Adams & Evans, 2004).

## Methodology

The methodology is designed to fulfil the aim of this research to understand the sustainability materiality decision making processes in hotel chains. The study responding to previous calls to adopt an interview approach, as "bringing about change requires an understanding of what happens within organisations, of the complexity and interdependency of organizational processes and structures and organisational participants" (Adams, 2008:368). This study takes an exploratory qualitative approach, through the use of 16 semi-structured interviews, to gain insight into the rationale behind the hotel groups' approaches, how these shape their strategies and the contents of their sustainability reports (see Figure 1).

Data was collected in two stages. First, eight corporate sustainability managers acquainted with sustainability reporting were interviewed, from the 50 largest hotel groups in the world according to Hotels Magazine (2018). The interviews explored the concepts, uses and processes of materiality among the eight hotel groups, plus the barriers to its full adoption. Social desirability may have influenced interview responses, such as impression management (namely the calculated attempt to be portrayed in a favourable light about social norms) and/or self-deception (namely the tendency to believe overly positive terms for self-description) (Zerbe & Paulhus, 1987). Hence, a second set of eight interviews was conducted with sustainability experts, selected based on their expertise and close involvement with sustainability reporting in the hotel industry. They were selected for their ability to portray an external view of the approaches and barriers for materiality in the hotel industry. Interviews were conducted until theoretical saturation was reached, when no new issues arose (Miles & Huberman, 1994). Because of the geographically disperse location of interviewees, those were conducted by phone, taped and later transcribed. Interviews lasted between 60 to 90 minutes.

**Insert Figure 1**

The interviews were semi-structured and the rationale for the questions was adapted from the sustainability reporting literature. Interviewees were encouraged to talk generally about sustainability reporting, and in particular, about stakeholder engagement, materiality assessment, and challenges experienced. Stakeholder engagement questions explored the identification and engagement process, accountability approach and the underlying values driving identification and engagement, reflecting issues raised by the literature (e.g., AccountAbility, 2015; Green & Hunton-Clarke, 2003; GRI, 2013b; Manetti, 2011). Materiality assessment questions explored the purpose, process (criteria, methods and decision-making) and communication of results (as seen in Guix et al., 2017; Jones, Comfort, et al., 2016a; KPMG, 2014; Zhou, 2017). Lastly, interviewees were asked about current and future industry practices and challenges experienced in sustainability reporting (as seen in Jones, Hillier, Comfort, & Okumus, 2016; Melissen, van Ginneken, & Wood, 2016). The interview questions were pilot-tested with several sustainability reporting specialists from the United Nations Environmental Programme.

Data analysis started with the lead author familiarising herself with the data by noting themes while transcribing the interviews, which informed the subsequent coding and analysis (Taylor, Bogdan, & DeVault, 2015). Thematic analysis was employed, identifying the themes and patterns with an inductive approach (not trying, a priory, to fit codes into pre-existing coding frames) and identifying the themes at a latent level (examining the underlying ideas, assumptions and conceptualisations) as recommended by Braun and Clarke (2006). The lead author applied a 'holistic coding' procedure to capture a sense of the overall content and possible categories. Three data analysis cycles followed,:

1) *in vivo coding* to prioritise the participants' voice;
2) ii) *process coding* to identify codes that connoted action in the data;
3) *pattern coding* to search for themes across the grouped codes from all interviews.

Themes were reviewed against Patton's two judging criteria (1990) of internal homogeneity –coherent data within themes- and external heterogeneity –clear and identifiable distinctions between themes. Finally, themes were named and reorganised in three dimensions for sustainability integration (cognitive, organisational, and technical). Early studies deemed cognitive and organisational dimensions to be crucial to understand sustainability in action and to explain barriers to change (Hoffman & Bazerman, 2007). While later work studying management controls to integrate sustainability into organisational strategy has added a technical dimension (Gond, Grubnic, Herzig, &

Moon, 2012; Moon, Gond, Grubnic, & Herzig, 2011). To classify and discuss the barriers identified in the adoption of materiality, these three dimensions are deemed appropriate in that the cognitive aspects inform about the shared understanding and beliefs about materiality, the organisational dimension about the formal structures and roles to facilitate common practice, and the technical dimension about the methodologies deployed for materiality assessment.

**Results**

Essentially, the interviews have provided some explanation for the opacity of materiality assessment reporting (as seen in Moratis and Brandt, 2017), as we will go on to explain.

Overall, interviewees are seen to be reluctant to disclose their processes and criteria for assessing materiality. Materiality is undertaken mostly to redefine the hotel groups' sustainability strategies and to select content for their sustainability reports, with the stakeholder engagement process being either ad hoc or outsourced. The prioritisation of issues and decisions about materiality remains in-house and is tied to an instrumental approach to sustainability.

*Materiality: from conceptual understanding to application*

The *conceptualisation* of materiality by hotel groups can be inferred from these corporate sustainability managers' definitions of materiality, or in the absence thereof, by comparing the criteria employed to determine materiality to the criteria in reporting guidelines. All the interviewees were invited to define materiality, and yet only two provided a definition. For C8, materiality meant that "different stakeholders give their opinion on what matters are most important to them regarding our business," while for E7 materiality was about "identifying stakeholders that are affected the most and the issues that are important for those stakeholders." Both interviewees referred to the importance of the information for stakeholders, thus echoing the first part of the GRI materiality definition (x axis). For the remaining six interviewees, when asked to define materiality, two used a combination of organisation and stakeholder focus criteria, which reflected the duality of AccountAbility's definition; C7 included as criteria for materiality assessment "where we affect the environment most" and "[issues] of interest to the owner"; C5 included "issues helping our business to thrive" and "issues that have been brought to our attention by our stakeholders, in some cases, in a negative way." The last two interviewees defined materiality using only one approach, either the impact on the organisation's economic performance (C1: "frequency of the issue and importance or impact for the business"), or the stakeholder impact (C2:"the impact on stakeholder expectations from the hotel business financially and on reputation"). These definitions evidence the subjectivity of judgments embedded in materiality decisions. It is noteworthy that most interviewees were not willing to disclose actual criteria used todetermine materiality.

Regarding the *application* of materiality, four of the hotel groups acknowledged having performed a formal materiality assessment (C1, C2, C3, C8), three of which used an external consultant. Only one of the eight was not interested in formalising the assessment (C6), while the remaining three organisations had informally assessed materiality, and intended to formalise it in the future (C4, C5, C7). All the interviewees claimed to employ materiality to redefine their sustainability strategy, and two interviewees (C4, C5) explained (modestly) that they employed an informal materiality assessment to inform their sustainability reports. Four of the hotel groups employ the industry materiality assessment developed by the International Tourism Partnership for its members as the starting point for their organisation's materiality assessment (C1, C5, E1, E3).

Hotel groups are motivated to report and to use materiality to improve their sustainability performance and transparency, regardless of their level of sophistication in determining what is material. C1 and C5 exemplified how assessing materiality was a means towards performance improvement. For them, this was a strategic decision, whereby the assessment of sustainability risks and opportunities influenced the reporting of sustainability. C3, C6, and C8 exemplified materiality as transparency when they spoke about sustainability reporting in relation to reputation, regulation and stakeholder pressure. However, although these three hotel groups referred to respond to stakeholder pressures, the experts believed that such pressures were currently low, and argued for a need to increase stakeholder pressure (C7, E4, E6, E7, E8). The remaining interviewees (C2, C4, C7) had mixed motivations.

Five interviewees acknowledged intuitive, ad hoc and informal stakeholder engagement, despite coming from hotel groups ranging from no intentions to undertake materiality through informal materiality assessment to formal materiality. They reported that stakeholder engagement is reactive, to appease external pressures from society (E2 and E8),competitors (C5), nongovernmental organisations (C6, C7 and C8), customers (C1 and E7),and investors and shareholders (C5, E1, E2, E3, E4 and E5). Stakeholder engagement remains reactive, more tied to "how [hotel groups] operate their businesses [. . .] how good[the hotel groups] look" (E1). For example, for C4 "stakeholder engagement is more of aninformal discussion", while for C5 stakeholder engagement "is not formalised in somedocument but [employees] are aware of whom they need to be working with". C5 argued thattheir intention to formalise materiality the coming year would bring about more formalstakeholder engagement.Only the three organisations already using external consultants for materiality also demonstrated more advanced stakeholder practices that consisted of having formal commitments, channels, and tools for engaging stakeholders (C3) or using a stakeholder map (C1, C8).

Interviewees referred to a lack of materiality standardisation (E1, E3, E6 and E7), and non-aligned and imprecise guidelines (C1, C4, C5, E3, E4 and E8). The lack of consensusamong reporting guidelines, with respect to the report's audience (E1, E3 and E7) andpurpose (E1, E4, E7 and E8), was believed to impact the usefulness of theguidelines whenmaking judgements about the relevance of issues (C8, E1, E4 and E8). Experts argued that the guidelines are "flawed", with unclear stakeholder and issue prioritisation, and lack oftransparency on the overall methods (E1, E4 and E7). For example, E4 questioned,"if every stakeholder has its own view, how do you prioritise your stakeholders?" Then, E7strengthened the need to increase the "requirements for transparency in the process to see how [material] issues are identified". Sharing these concerns, interviewees highlighted the need to gain consensus on the methods and called for increasing convergence between reporting standards (C4, C5, E1, E6, E7 and E8), with some even advocating mandatory reporting (E2, E5, E6 and E7).

*Materiality barriers: cognitive, organisational and technical*

This section now analyses the cognitive, organisational and technical barriers encountered by sustainability managers and witnessed by experts in the attempts of hotel groups to implement materiality.

*Cognitive barriers* can be understood by studying an organisation's managerial attitudes, internal commitment and endorsement; and the economic drivers that guide its sustainability practices. The interviewees explained that their managers perceived sustainability as an expense (C1, C7, C8) and failed to link it with the value proposition of their product (E1, E6, E7). E6 reflected on how hotel groups may be deciding sustainability priorities:

“What can [hotel groups] do that does not cost much? That gives [them] the image they would like to show, and it is easy? So [they address] the low hanging fruits.”

These managerial attitudes reflect value-laden decision-making (C6, E4, E6), whereby the sustainability strategy depends on what makes sense for the sustainability manager, and the short-term industry thinking (E6). Reacting to external pressures as they emerge leads the managers to not prioritise issues according to their overall importance (E4, E6). The results acknowledge that low internal commitment to sustainability hinders materiality assessment as owners, investors and top management do not endorse the materiality principle (C5, E2, E4 and E5) and employees have limited involvement in the process (C1, C6 and C8). As E5 explained, “Unless you have senior management endorsement [materiality] is not going to happen.” A limited awareness of materiality assessment may partially explain this lack of endorsement. C1 explained that materiality “is pretty new in the management of a company… it is just out of this world” and “not everybody understands its importance; people are not aware.” A lack of senior endorsement leads sustainability managers into a ‘battle’ to convince them on the need for reporting and materiality (C1, C5, C8, E5, E7, E8). Interviewees used expressions as ‘knocking on the doors,’ or the need to ‘figure out how to gain importance.’ C1 explains, “we need to be very practical… we prioritise what is more practical.”

The prioritisation of economic outputs ahead of environmental or social values (C7, C8,E4 and E6) was raised. E4 explained:

“How do [sustainability managers] gain the people’s attention? How do [they] do it on a low budget? How do [they] make the biggest impact? They focus on the financial costs as energy reduction costing, so they help save money to the company.”

Additionally, unwillingness to share sustainability information (C5, E7, E8) and fear of exposure (C2, C3, C7, E1, E7, E8) also support an economic driver in guiding sustainability practices of hotels. Interview quotes illustrating such concerns were **“**sharing information is seen as increasing vulnerabilities… it can backfire the organisation” (E7) or “[the organisations] can feel on the spot” (E1). C1 explains:

“the important thing is that we work with suppliers on the material issues that we have at a company level, more than disclosing what is important for our suppliers... Because involving them and having a target on their issues but not solving them, probably it’s for nothing.”

these cognitive barriers are manifested in *organisational barriers*, in relation to the formal structure, resource allocation and roles required to facilitate materiality assessment. The separation of hotel ownership from management inhibits sustainability integration (C3, E4, E7), because of an excessive focus on portfolio growth and profits margins (E4, E7, E8), which contributes to lessen the stakeholder logic in materiality choices. Regarding resource allocation, sustainability departments are somewhat disempowered with lean human and financial capacity, which hinders their ability to implement an extensive engagement with stakeholders and then respond to feedback received through a formalised materiality assessment (C1, C2, C5, C6, C8, E1, E6). The interviewees also identified a lack of management capabilities, including knowledge and skills of employees to conduct stakeholder engagement (C2, C5, E1, E6, E7) to engage stakeholders (C2).For example, illustrative quotes for the knowledge barrier include “we

have to learn… we expect more about how to work with stakeholders" (C2), "We are trying to embark on this robust stakeholder engagement, and understanding exactly how that works (C5) or "knowing where to start" (E1). In addition, while corporate sustainability manager roles seem to be defined, E4 argued that such managers may not be empowered to make final decisions on sustainability issues because the latter have cross-departmental implications.
The cognitive and organisational barriers outlined above have a knock-on effect on the process of implementing the assessment of materiality within the sustainability reporting, in the form of technical barriers. These are evidenced in the limited stakeholder representativeness, the poor procedural quality, the low quality and quantity of stakeholder feedback collectedand the low quality of stakeholder outcomes attributable to the consultation process, as seen below.

Interviewees questioned the representativeness of the chosen stakeholders to engagewith (C3, E1 and E7). Selective stakeholder choices are used to play down the needs of thevulnerable groups affected by their actions (E7); legitimate stakeholders then have littlepower to affect the hotel group and guarantee its accountability. Furthermore, proceduralquality in stakeholder engagement may not be consistent with the declared purpose, forexample, stakeholders cannot speak about potentially material issues when they areexpected to respond to pre-specified surveys. C3 revealed:

We provide a list of topics; it is not left open because we would lose focus and the dispersion of themes would be such that it would not make sense to analyse materiality.

E1 acknowledged that, "By having a set of questions in a questionnaire you steer people to look at it from that perspective rather than the perspective that they might have". Also, the quality of the feedback refers to the focus of the engagement, which is reactive and focuses on canvassing sustainability performance viewpoints (C1, C3 and E1). E1 explained:

Stakeholder engagement for the business is a little bit more tied to how you operate and that's the most introspective piece; what do you think we are doing? What is this company doing well?

Inevitably, this limits the breadth of stakeholders engaged and reduces stakeholder representativeness. As E1 explained, "[Organisations have] to engage with people who know [the topic] and know the company quite well".

There are also issues around the quantity of feedback collected, namely that it is often less than optimal because of the stated difficulty of getting stakeholders to participate in the consultation process (C1, E1). C1 said, "The difficulty is just to get others to answer".

The final issue is the quality of the materiality assessment outcome, which is the tangible evidence of materiality decisions adopted resulting from the process of stakeholder engagement. Interviewees shared evidence that the aggregation of stakeholder feedback, and the subsequent prioritisation of issues, lies in the hands of the hotel groups' head offices, without transparency (C8, E1 and E7). C8 detailed this issue:

There was a workshop with the top management team where they had a presentation ofstakeholder priorities and, from that, they analysed and decided what to aggregate, what results should be and what the priorities for the organisation were.

Only C1 explained that using external consultants reduced managerial capture. The interviewees that represented hotel groups avoided responding to questions relating to the underlying methodologies used, the scoring mechanisms and the weighting systems used for decision-making.

The findings of this study identify barriers in the conception of materiality and in its application by hotel groups. The next section discusses the implications of those barriers for managing and disclosing material issues.

**Discussion**

This research identifies internal contextual variables including aspects of attitudes and processes towards materiality, that influence the inclusiveness, quality, and completeness of sustainability reports. Despite the small sample size, some tentative conclusions can be drawn from this research. The disclosure of material issues seems to be more of a strategic issue in response to the interests of influential stakeholders, rather tan an accountability exercise. A short-term, instrumental approach to sustainability influences:

- resource allocation to it;
- the approach to identification of, and engagement with, stakeholders; and
- the conceptualisation of, and methods for, materiality assessment.

A lack of top management awareness of the need for, and value of, stakeholder engagement and materiality constrains the financial and human resources dedicated to it and thus, also, the knowledge and skills needed to undertake the robust stakeholder engagement that is required for materiality assessment. Management capability is low and organisations lack formal processes to identify, and engage with, stakeholders; engagement is ad-hoc, informal and reactive to external pressures, which suggests the organisations are at the very early stages of stakeholder engagement (AccountAbility, 2015). This lack of capabilities may explain why half of the corporate sustainability managers interviewed stated that they undertake informal materiality assessments to inform report content. Some companies choose to outsource the process to a consultant, which may affect how the results of the assessment are incorporated within the organisation's governance, strategy, performance management systems and overall decision-making. Three hotel groups have more planned and systematic stakeholder engagement that includes formal stakeholder mapping and defined processes and channels. While their higher stakeholder management capability enables them to undertake formal materiality assessment, they have not yet integratedstakeholders into their organisational governance. One possible explanation is the lack of power, resources and legitimacy of the corporate sustainability departments, as perceived by the corporate sustainability managers interviewed.

The identification and prioritisation of stakeholders determines the issues presented as material; stakeholder engagement, therefore, may represent only the viewpoints of a subset of an organisation's stakeholders. Legitimate stakeholder needs may remain unheard throughout the materiality assessment and, consequently, go unanswered in the reports.

The disclosure of material issues is likely to be directed to influential stakeholders, as most hotel groups identify a narrow group of stakeholders in their reports (Guix et al., 2018). The feedback gathered may not be representative of the heterogeneity of concerns from all stakeholders, but it may respond to the agenda of the stakeholders engaged and their aim to influence the organisations' sustainability practices (Collins et al., 2005); an issue that has received limited attention in the reporting literature.

Similarly, it is unclear whether the stakeholder engagement undertaken is consistent with the purpose of materiality. Reporting guidelines suggest that organisations should develop a list of potential material issues (GRI, 2013b; KPMG, 2014), but they also explain that "proper stakeholder engagement process is two-way in nature, systematic and objective" (GRI, 2013b, p. 36).While guidelines do not provide details about "how" to engage stakeholders, they do state that organisations should:

- consider existing, ongoing and specific stakeholder engagement for materiality; and
- determine the methods and levels of engagement (AccountAbility, 2015).

Despite these guidelines, the hotel groups interviewed use mostly pre-specified surveys that limit the ability of stakeholders to bring up new issues material to them. Hence, it is "unlikely the reports reflect all issues of importance to key stakeholder groups if there is no dialogue" (Adams, 2002, p. 244).

One possible explanation for such behaviour, provided by the experts interviewed, is that corporate sustainability departments are constrained in their resources and, therefore, stakeholder engagement may "put people off" as it entails an "obligation to act" on the issues identified. This echoes the fear of "opening up" identified in other industries (Searcy and Buslovich, 2014). Pragmatically, some corporate sustainability managers acknowledged that it is more important to identify issues material to the organisation and then engage stakeholders on tackling those, than to identify issues material to stakeholders, but not be able to solve them. For example, materiality analyses to identify strategic risks and opportunities used criteria to assess materiality solely related to the organisation's performance. Those organisations that modify the purpose of the engagement and lessen the stakeholder logic of the GRI definition (despite producing GRI reports) take a rather narrow approach to materiality. Other corporate sustainability managers, instead, explained that reputation, regulation and stakeholder pressure drive their adoption of materiality, and they seemed to employ a broad materiality approach taking into account more stakeholders.

Organisations are expected to bring their own values to interpret the reporting principles (Edgley et al., 2014) because sustainability reporting lacks agreed guidelines (Edgley, 2014) and offers little to no guidance on how to implement them (Behnam and MacLean, 2011). Inevitably, interpretative frames influence the filtering process of information (Finkelstein et al., 2009) and the instrumental importance of issues to the pursuit of rational objectives, may be a frame for interpreting the salience of those issues (Bundy et al., 2013). This study exemplifies these points by showing how the decisions involved in defining and operationalising the thresholds for materiality, and negotiating conflicting demands among stakeholders when aggregating their feedback, are expected to be biased by the instrumental logic. That is, managers determine the issues' salience based on whether or not they are consistent with the ability of the organisation to achieve their economic goals. This may explain the common adaptation that organisations, including hotels, make to their GRI materiality matrix, which is to favour corporate rather than sustainability goals (Guix et al., 2018; Jones et al., 2016a; Morr os, 2017).

Our research shows that materiality decisions in sustainability reports are just as opaque in the hotel sector as in other industries (Jones and Comfort, 2017; Jones et al., 2016a; Jones et al., 2016b; Moratis and Brandt, 2017; Morr os, 2017). Some interviewees concealed the aggregation of stakeholder feedback, arguing confidentiality, while others justified that using consultants makes materiality an objective and systematic process. Nonetheless, the expert interviewees were sceptical and argued that the lack of disclosure of the processes may be an intentional strategy to legitimise sustainability reports without providing too many details.

At this point, because of the subjectivity of the materiality assessment and the barriers encountered by hotel groups, two sets of issues merit further discussion and reflection, namely, unintended versus intended misclassification of material issues that leads to mismanagement and substantive versus symbolic adoption of reporting guidelines.

First, with regard to mismanagement, arguably, the barriers identified can lead to unintended mismanagement of sustainability, particularly for those hotel groups that have limited stakeholder management capability, resources and knowledge to manage the process. These hotels undertake materiality assessment informally, and may misclassify material and immaterial issues, resulting in reports that omit important information.

Alternatively, intended mismanagement may lead to the use of materiality to further the interests of the reporting organisation, rather than those of sustainability or the stakeholders. Experts suggest that some hotel groups deliberately manipulate the process. Because of the limited disclosure of materiality decisions, this research is unable to differentiate between the hotels' management or mismanagement of material issues based on the staff interviews. Likewise, and pertinently, anyone reading the final sustainability report will be unable to differentiate between unintended or intended mismanagement of material issues based on the reported information.

Second, the adoption of reporting guidelines may be substantive, which requires organisations to be willing to make significant organisational changes and embed stakeholder and materiality considerations into their core business practices, or it may be symbolic, by which organisations subscribe formally to the guidelines but decouple the guidelines' principles from their day-to-day practices. Interview results suggest few hotel groups are taking an active approach to reporting according to GRI guidelines; the majority are more reactive, to avoid being perceived as lagging behind industry peers; this is similar to findings in other industries (MacLean and Rebernak, 2007). Reasons given for not disclosing the process were:

- unwillingness to disclose more than competitors; and
- inability to reach stakeholder-agreed targets.

The "non-specific time-frame for compliance opens the door to decouple the GRI from actual work practices" (Behnam and MacLean, 2011, p. 58). The internal practices and thinking about stakeholder engagement and materiality evidenced in interviews suggest symbolic adherence to the reporting guidelines.

There is a significant gap between signing up to, and adhering to, voluntary reporting guidelines (Adams, 2004). First, because there is no sanctioning for non-compliance and, second, because there is limited assurance of compliance (Behnam and MacLean, 2011). Moreover, organisations can report under GRI without following the GRI guidelines. For example, although stakeholder and materiality processes are addressed in G4 indicators, most internal decisions remain hidden from public scrutiny (Morr os, 2017) yet organisations can still obtain the highest GRI score ('In accordance-comprehensive') for their reports (Guix et al., 2018). In addition, GRI requires little assurance that a report meets its principles, external assurance is voluntary and its scope is left to the organisation's discretion.

Organisations assure that the disclosed information is correct but they do not audit the completeness, or scope, of their reports (Adams, 2002, 2004). Therefore, external assurance does not enlighten the materiality principle, as it does not assess the adequacy of issues (Edgley et al., 2014). As a result, voluntary reporting does not currently lead to accountable and transparent reporting, neither for the content (Adams, 2004; Hahn and Lülfs, 2014) nor for the process of reporting (Guix et al., 2018; Manetti, 2011; Moratis and Brandt, 2017; Morr os, 2017). This lack of enforcement mechanisms arguably leads to hotel groups adapting the guidelines to their own purpose, without any need to justify their choices. In turn, this lack of transparency of organisational activities hinders an organisation's accountability because it limits the ability of their stakeholders to make reasonable judgments, based on the materiality disclosure, on whether or not the organisation is addressing their needs.

## Conclusions

This study provides the first published account in detail of how the hotel sector sets, justifies and operationalises its sustainability agenda in terms of analysing who these hotel groups choose to be accountable to. It reveals that hotel groups symbolically adopt reporting guidelines, without embedding stakeholder and materiality considerations into their core business practices. The predominance of ad hoc stakeholder engagement, and instrumental logic, to judge the salience of issues show a narrow application of the concept of materiality.

Opaque sustainability reporting prevents stakeholders from being able to assess how hotel groups make decisions and to what extent the hotels make a credible attempt to tackle the impacts that are significant to their stakeholders.

The study has identified internal determinants to materiality assessment, perceived by those preparing sustainability reports and industry experts, which provide insights into the symbolic adoption of reporting guidelines found in the industry. Cognitive factors (such as managerial attitudes and organisational culture) are seen as critical barriers for substantive adoption of the materiality principle; this complements existing research that found those same factors affect CSR management and reporting (Pistoni et al., 2018; Weaver et al., 1999).

Furthermore, this study identified that organisational determinants (such as a hotel's ownership structure, resource allocation and stakeholder management capability) that were earlier found to constrain sustainability management and reporting (Melissen et al., 2016; Moratis and Brandt, 2017), seemed to influence decision-making within materiality practices.

Finally, the study provides some explanations for the opacity of materiality assessment decisions in reports (as seen in Moratis and Brandt, 2017) through the identification of technical determinants. The research extends the managerial capture earlier identified in social auditing (Owen et al., 2000) by characterising five factors: stakeholder representativeness, procedural quality, the quantity and quality of stakeholder feedback and the quality of the outcomes of the materiality assessment [some of which have been studied in isolation in prior research (Zadek and Raynard, 2002)]. The inability of reporting guidelines and assuror providers to highlight these issues (because the former lack sanctions for non-compliance and the latter do not assess materiality-decisions), ultimately restricts the report readers' abilities to judge the degree of accountability and transparency of the reports.

## Theoretical implications

This study contributes to the literature on sustainability accounting. It has responded to the need to gain greater depth of understanding about the materiality assessment than that available from disclosure in sustainability reports (Unerman and Zappettini, 2014), by complementing earlier research on the reporting processes based on information disclosed through interviews (Manetti, 2011; Moratis and Brandt, 2017) and case studies (Lai et al., 2017). Specifically, the article answers the calls for evidence on how organisations conceptualise and apply the materiality principle, thus advancing knowledge on the hotel sector, for which only one prior empirical study has conducted research on the disclosure ofmateriality (Guix et al., 2018).

## Practical implications

The research findings have several practical implications. The results may help report readers to develop a more critical view of, and be cautious when interpreting, the reported information, based on an improved awareness of how the principle of materiality is interpreted and applied by an organisation directly impacts the quality of the sustainability report. Similarly, the study could also be of interest to organisations setting sustainability reporting standards and stakeholder facilitators of the materiality process. A better understanding of the determinants of materiality adoption in hotel groups may serve to develop industry guidelines further.

**Limitations and further research**

Despite the exploratory nature of this research, because of the small sample size and the novelty of the materiality approach in the hospitality literature, it helps to lay foundations for new lines of research. Further qualitative research may provide an understanding of the issues contributing to managerial capture, including the judgment process and power dynamics of materiality determination from the perspectives of both managers and stakeholders. In addition, the opaque materiality considerations in sustainability reports, and the interviewees' responses during this research, suggest a methodological challenge to research the quality of materiality determination processes by organisations. A case study approach may provide opportunities to elucidate the internal organisational factors that influence decision-making, leading to the management or mismanagement of material issues and the symbolic or substantive adoption of sustainability reporting.

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## About the authors

Mireia Guix is an Assistant Professor at the School of Management at Universidad del Rosario, and a
PhD candidate at the University of Surrey. Her research focuses on sustainability accounting and

corporate social reporting for the tourism industry. Mireia Guix is the corresponding author and can be contacted at: guixnavarrete.m@gmail.com
Dr Xavier Font is a Professor of Sustainability Marketing in the School of Hospitality and Tourism Management, University of Surrey. His research focuses on understanding reasons for prosustainability behaviour and market based mechanisms to encourage sustainable production and consumption.
Dr Maria Jesus Bonilla-Priego is a Senior Lecturer in the Accounting Department at Rey Juan Carlos University. Her research focuses on environmental management accounting and corporate social reporting for the tourism industry.