

Balancing between Profitability and Sustainability: A Holistic Examination of the Tourism Industry's Environmental and Social Impacts

By

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Abstract

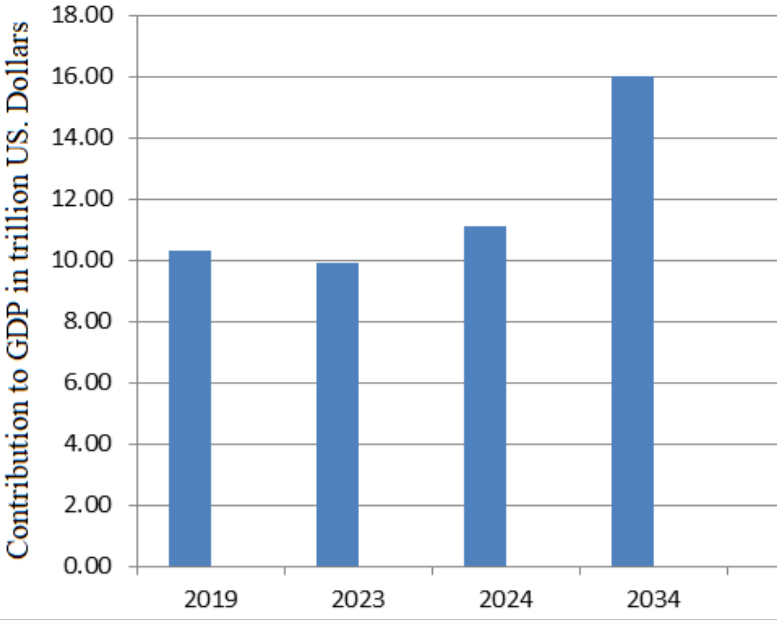
This article examines the tourism industry based on the concepts of sustainable development, highlighting the importance of prioritizing social development and environmental conservation. As more nations focus on this sector as a key driver of economic advancement, increasing concerns have arisen regarding the environmental and social impacts of this growth, which cannot be disregarded in the context of sustainable development principles. This article aims to take a holistic look at the tourism industry, albeit briefly, and highlight potential challenges that could significantly impact its profitability. The article not only presents verifiable data on tourism industry revenue generation, but also discusses factors that could potentially diminish this income due to the lack of adherence to sustainable development principles.

Keywords: Tourism industry, sustainable development, GDP, supply, demand, carbon footprint, systematic approach.

Tourism and sustainable development

The tourism industry has become one of the key sources of economic growth by generating income and employment around the globe, especially among those countries that do not have fossil fuels. The global tourism market size is expected to surpass 2019 by 2023, reaching an estimated \$2.29 trillion (Naisbitt et al., 2020). As can be seen in Figure 1, travel and tourism have a significant contribution to the gross domestic product (GDP) around the world, and according to predictions, this contribution will reach 16 trillion US dollars in 2034 (Statista, 2024).

Figure 1: Total contribution of travel and tourism to gross domestic product (GDP) worldwide in 2019 and 2023, with a forecast for 2024 and 2034 (in trillion U.S. dollars)

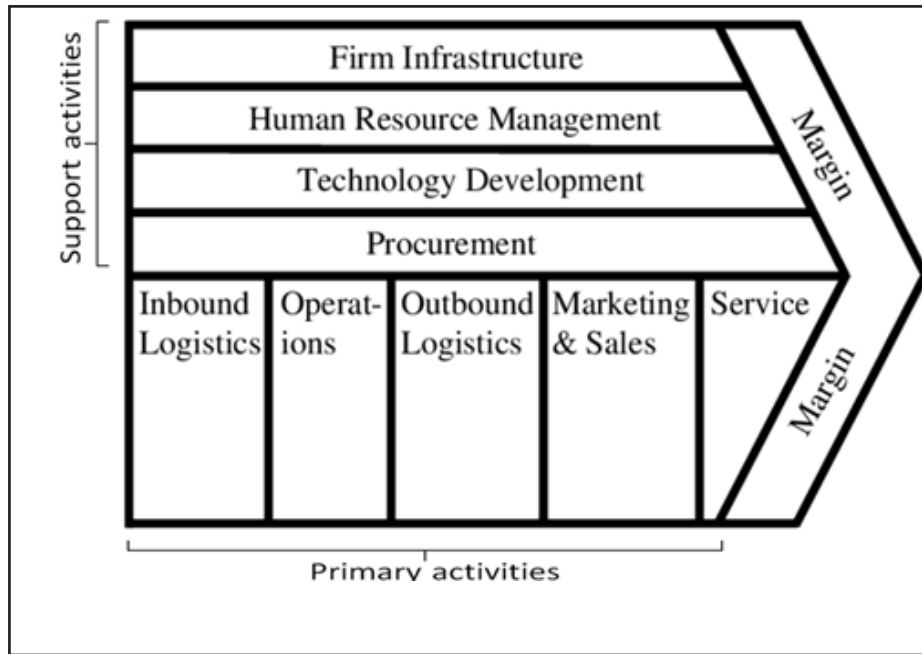


Note: *Total contribution of travel and tourism to GDP worldwide, 2019-2034.* by Statista, 2024 (<https://www.statista.com/statistics/233223/travel-and-tourism-total-economic-contribution-worldwide/>).

Leakage in Tourism: The Hidden Drain of Foreign-Controlled Profits

In those countries, another harsh truth in the tourism industry is known as “leakage” (Becken, S 2017a). This term signifies that the tourism industry is predominantly controlled by foreign investors, with profits expatriating the country instead of benefiting local government or citizens. She (2017b) points out that Thailand, ranked as the fourth most popular tourist destination globally, should be wealthy if tourism effectively distributed wealth and alleviated poverty. In 2016 alone, international tourism generated a staggering \$54 billion in revenue for the country. The less control on such an industry’s value chain, the more leakage would be inevitable. According to Porter (1985a), the value chain concept is rooted in the process-oriented approach to organizations, viewing a manufacturing or service organization as a system consisting of subsystems handling inputs, transformation processes, and outputs. These activities involve resource acquisition and consumption such as money, labor, materials, equipment, buildings, land, administration, and management. The way value chain activities are executed impacts costs and influence profits. As seen in Figure 2, a generic value chain consists of two main activities: support and primary.

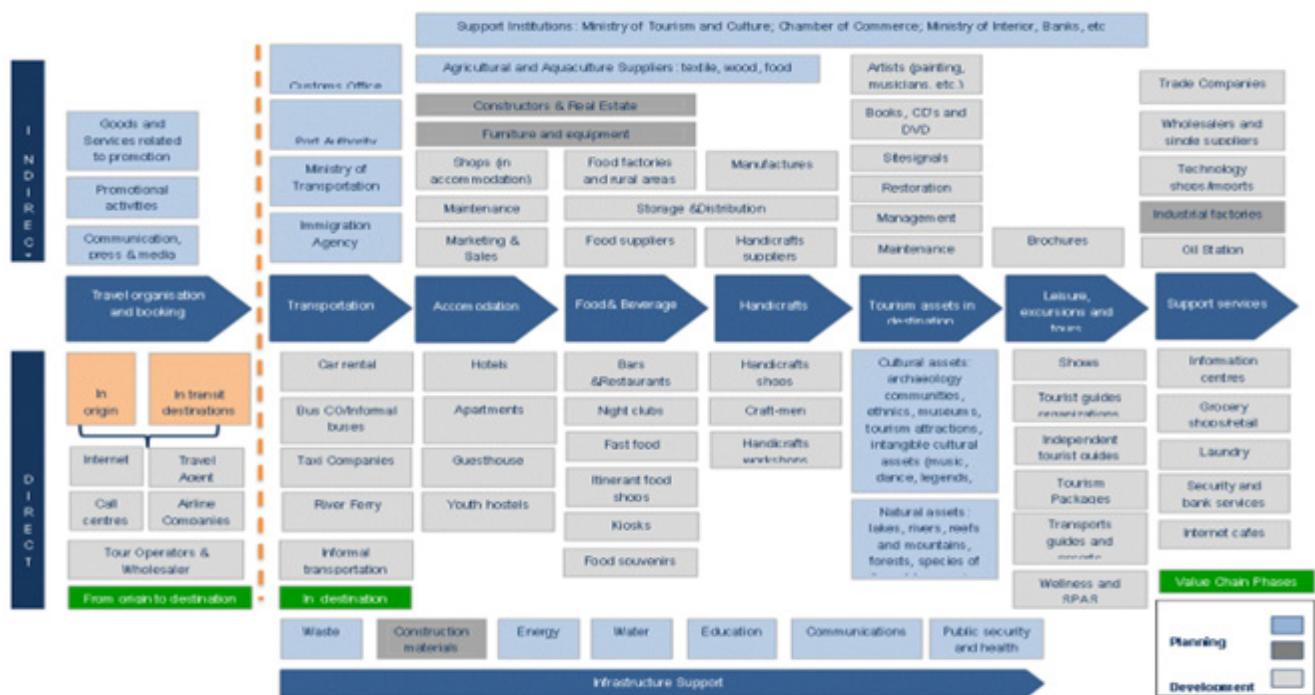
Figure 2: The generic value chain



Note: From *Competitive Advantage: Creating and Sustaining Superior Performance* (p. 37), by M. E. Porter, 1985, Simon and Schuster.

He (1985b) claims that primary activities center on physically creating the product, selling it, and delivering it to the customer. Meanwhile, support activities aid primary activities and each other by furnishing purchased inputs, technology, human resources, and various functions across the company. With a better understanding of each industry, through Tailoring, the generic value chain model can be changed according to the desired industry and the sub-branches of primary and supporting activities can be defined more accurately. There are various proposed tourism value chain models, one of which can be seen in Figure 3 (WTO, 2024).

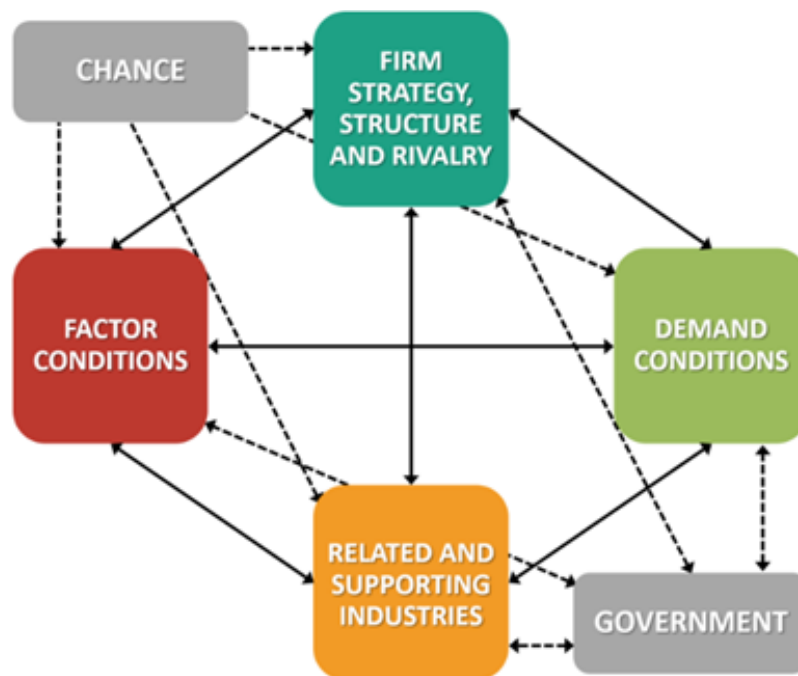
Figure 3: Tourism value chain



Note: From *Aid for Trade and Value Chains in Tourism* (p. 45), by Organisation for Economic Co-operation and Development, World Trade Organization, & WorldTourism Organization, 2013, OECD/WTO/UNWTO.

Only reading the titles of the above model boxes shows the breadth and complexity of the primary and supportive activities involved in the tourism industry. For instance, consider a scenario where a country lacks the essential infrastructure and administration in the hotel sector. This encompasses various subcategories like lodging services, food and drink offerings, tourism, transportation, and events. Consequently, it may need to outsource the necessary services in these areas. Outsourcing such services can also result in reduced profit share, diminished control, and decreased bargaining power. The country's other value chains can compensate for the deficiencies in the tourism-related value chain through strategies like vertical (backward/forward) or horizontal integration, then the profit can nationally be retained or else it will expatriate. The mentioned items lead us to Porter's (1990) diamond model, in which four main forces include demand conditions, supporting and related industries, the nature, and intensity of local competition, as well as factor conditions, and two peripheral forces including chance and government (see Figure 4) play vital roles in increasing the competitiveness of a country.

Figure 4: Porter's Diamond Model of National Competitive Advantage



Note: From *The competitive advantage of nations*, by M. E. Porter, 1990, Harvard Business Review.

According to the model, without related and supporting industries stemming from commercial and professional infrastructure, the tourism industry will lack essential support and is likely to fail. Factor conditions also could refer to climate, distance to the coastline, landlockedness, availability and type of natural resources, and land features, which can flourish or stifle the tourism industry. The strategy, structure, and competition of companies refer to the market situation in which the closer the market is to a competitive free market, for example, the companies in the tourism industry will be better equipped to endure market disruptions like COVID-19. Furthermore, when there is a strong demand for domestic tourism, companies in the industry will be better equipped to offer competitive services in international tourism. Governments should also provide the conditions for the flourishing of the tourism industry with appropriate policies, such as shortening the time for issuing tourist visas. Chances for boosting tourism revenue should not be overlooked, and discovering historical artifacts in a country is one such opportunity. So far, we have focused on the profitability aspect of the tourism industry and the importance of increasing social welfare simultaneously. Next, we will shift our attention to the environmental issues arising from the tourism sector. Because neglecting environmental issues strongly affects economic growth and social welfare.

Going Green: Measuring Environmental Impact Through Carbon Footprint Analysis

To determine whether an industrial activity is environmentally friendly, the carbon footprint can serve as a direct and valuable indicator. This is due to the fact that carbon is recognized as the primary factor in causing global warming, resulting in events such as fires, floods, drought and super storms, as well as high heat and sea level rise. There are different definitions of this index and some scientists consider methane emissions and use the term greenhouse gases. According to Wright (2011), “A measure of the total amount of carbon dioxide (CO₂) and methane (CH₄) emissions of a defined population, system or activity, considering all relevant sources, sinks and storage within the spatial and temporal boundary of the population, system or activity of interest. Calculated as carbon dioxide equivalent using the relevant 100-year global warming potential (GWP100).” World Economic Forum (2024a) states that the travel and tourism sector contributes 10% of the worldwide GDP, provides employment for 320 million individuals, and is responsible for generating one out of every five new jobs. However, recent research suggests that this industry’s influence on global carbon emissions stands at around 8% (WEF, 2024b). As a case in point, the contribution of the aviation industry, one of the major components of the global tourism sector, to global greenhouse gas emissions is 1.9 percent. Apparently, the higher the income from industrial activities, the higher the costs caused by natural disasters and the reason for that is not observing the environmental effects of such activities. While at the UN Climate Change Conference (COP21) in Paris (United Nation climate change, 2024), 196 members pledged to prevent the average global temperature from rising above 1.5 degrees Celsius above pre-industrial levels, observations show that this pledge, due to countries’ irresponsible focus on economic growth, has not been achieved. Therefore, companies active in any industry, including tourism, should pay attention to the environmental consequences of their economic activities and try to reduce their carbon footprint. Such an approach is called corporate social responsibility. That is, as White and Bruton (2017) claim, “corporate social responsibility (CSR) is the inclusion of public interest into corporate decision-making.” For this reason, companies must carefully monitor the surrounding environment. A systematic approach should be taken. According to Bertalanffy (1950), every system consists of interconnected and interdependent components that are supposed to pursue a common goal. Therefore, in a systemic view, all industrial activities such as the tourism industry are parts of a system, the purpose of this system is to make a profit on the condition of social development and environmental preservation, otherwise the system will fail.

Conclusion

The tourism industry has been the magnificent engine of economic growth in many countries and gained significant priority among economic growth strategies. However, it is a double-edged sword. If such a growth pattern does not pay attention to sustainable development, its cons will be more than its pros. Its disadvantages could be rooted in environmental issues or negligence on social welfare. When the income from tourism is not fairly distributed and the local people do not have a share of it, the opposition is formed against this industry, which can affect its profitability. Also, the inadequacy of infrastructure such as accommodation in tourist destinations can increase prices due to increased demand over supply, affecting local people. Moreover, the local government’s lack of control over the value chain of the tourism industry will cause the income to flow out and the local people will not benefit from it. Therefore, for the sustainable exploitation of the tourism industry, social development should be considered in addition to economic growth. On the other hand, environmental factors should be integrated into all tourism-related activities, with a specific focus on evaluating the extent to which each activity may contribute to environmental degradation, particularly in terms of greenhouse gas emissions and global warming. Overall, in the light of a systematic approach, communities can have a profitable tourism industry, while the environment is preserved and citizens are more prosperous.

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