



ROOMS WITH A VIEWPOINT: Hospitality through the Lens of Shared Value

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| Industries and Services

Caribe Hospitality, S.A.



CASE STUDY



Rooms with a Viewpoint: Hospitality through the Lens of Shared Value

The Inter-American Development Bank has been working with the developers of a hotel under construction in Kingston, Jamaica, to maximize the project's value to the community and the shareholders.

To the weary traveler, a hotel's value is transitory—a hot meal, a little comfort away from home, a good night's sleep. But to the surrounding community, a hotel has the potential to provide far more lasting benefits—steady jobs, regular meals on the table, overall peace of mind.

With a new hotel taking shape in New Kingston, the Jamaican capital's business district, the Inter-American Development Bank (IDB) has been studying how to build in long-term benefits to the community in ways that also make good business sense. That means looking for shared value.

The premise of shared value is that capitalism is most effective and sustainable when companies try to align their own goals with societal needs, according to a landmark 2011 article in the Harvard Business Review by Michael E. Porter and Mark R. Kramer. "Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face," the authors wrote.

That idea resonates with the IDB, which works throughout the Caribbean and Latin America to promote economic development and reduce poverty and inequality. It provides financing for many private development projects, large and small, with "Private Sector with Purpose" as its motto. Within this framework, the IDB has created a mechanism—called a Shared Value Appraisal—to assess the potential for adding value to the private sector projects it supports.

Applying the Shared Value Appraisal to the hotel being built in New Kingston, the IDB looked for ways to create more value both for the companies involved and for the community. One key goal was to ensure that small local businesses—particularly women-owned enterprises—could become an integral part of the supply chain in a way that also maximizes profit for the hotel operator. Another aim was to find employment opportunities for at-risk youth and to professionally connect them with the hotel's construction firm.

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The IDB brought together different stakeholders to identify interests, needs, and concerns. It then implemented a rigorous cost-benefit analysis to determine what investments or initiatives would be most beneficial, feasible, and sustainable long after the construction dust has settled. Bettina Boekle-Giuffrida, who managed the Shared Value Appraisal, said the end result of the process will be a “win-win,” benefiting the hotel, local businesses, the community, and the IDB, by making more effective use of its development resources.

The appraisal process involved a large cast of players. First there is Caribe Hospitality, the Costa Rica-based developer and owner, which is financing the hotel in part through an IDB loan. Then there is Marriott International, which will operate the hotel, under contract to Caribe, as a Courtyard by Marriott. Prime Development, meanwhile, is the Jamaican contractor handling the construction. In addition to engaging the various corporate players, the IDB has been working with several governmental and nongovernmental Jamaican organizations that provide job training and small-business development services, which will be essential to the project’s enduring success. “This is a complex project that involves many different stakeholders with sometimes diverging business priorities,” Boekle-Giuffrida said. “By bringing everyone to the same table, we were able to get a holistic perspective and determine where there were opportunities to align priorities and add value.”

PATHWAY TO SUSTAINABLE TOURISM

Jamaica is the largest English-speaking Island in the Caribbean and one of the region’s top destinations for tourism, especially along the beaches of its northern coast. But beyond the sun-splashed image most tourists come to see, it is a country with high rates of poverty, unemployment, public debt, and crime. At the end of 2013, overall joblessness was over 15 percent, with significantly higher rates for young men and even higher for young women.

Tourism is a mainstay of the economy, but its local roots don’t always run deep. While some of the country’s upscale, all-inclusive tourist destinations make a point of investing in neighboring communities—Sandals Resorts International, in Montego Bay, is particularly known for its efforts along these lines—others tend to operate almost as economic islands. Some largely bypass local suppliers, viewing them as too small and unreliable, and instead fly in most of what they need from Miami. Yet, these hotels miss out on a good business opportunity to source locally.

“It’s very easy to build a hotel and completely leave out Jamaica and Jamaicans,” said IDB investment officer Stefan Wright, who is based in Kingston and who managed the loan with Caribe Hospitality.

The Courtyard by Marriott, which is slated to open in mid-2015, will primarily serve business travelers. It is going up across the street from Emancipation Park, a seven-acre public oasis in a part of Kingston that is home to many banks, office buildings,

“For the IDB, it’s ‘part of our DNA’ to look for ways to enhance the development benefits for the local economy”

and other hotels. This is the second hotel being built under a \$44 million loan facility the IDB extended to Caribe Hospitality in 2010 to help finance several hotels in Central America and the Caribbean; the first of these was built in Costa Rica. The IDB loan for the Kingston hotel is close to \$12 million, just over half the cost of construction.

For the IDB, it’s “part of our DNA” to look for ways to enhance the development benefits for the local economy, Wright said, and this project seemed to provide promising potential for shared value: “Can we generate value with the local business sector that in turn improves returns for the hotel’s sponsor and operator?”

One natural focus was on how to integrate micro, small, and medium-sized enterprises—especially those owned or run by women—into the supply chain. It can be particularly challenging for a small business to meet an international company’s demands for consistency and reliability, and women-owned businesses in Jamaica tend to be very small. A 2006 study done by the University of the West Indies Mona School of Business found that 95 percent of women-owned businesses in Jamaica had fewer than 15 employees.

It’s worth making an extra effort to ensure that women entrepreneurs have a chance to participate, Boekle-Giuffrida said. “Studies show that women can have a significant impact on long-term economic and social development, because they tend to invest in their children’s future,” she said. “At the same time, women tend to have a harder time gaining access to the financing and training support they need to grow their businesses. The IDB has a strong, ongoing commitment to help overcome those barriers.”

Looking at the other side of the gender coin, the IDB sought to address a different challenge: how to improve the job picture for economically disadvantaged young men. In a slow economy with high unemployment, many youth in Kingston engage in marginal hustling activities—perhaps as street vendors, windshield cleaners, or “bus-loaders” who round up passengers—or turn to outright crime. The IDB wanted to strengthen social inclusion for this segment of the population too.

The Shared Value Appraisal, then, looked at how to maximize the potential benefits for female entrepreneurs and at-risk youth in ways that would also add value, over time, for the companies involved. The IDB retained the international consulting firm Deloitte to assist in carrying out an intensive assessment process over a period of several months in late 2013 and early 2014.

After interviews with the multiple players, as well as an extensive cost-benefit analysis, the IDB-Deloitte team was able to identify the various interests and calculate many of the potential tangible and intangible returns on specific investments over a period of several years. The team broke down the costs and benefits of particular actions—for the construction company, the hotel’s developers and operators, local training organizations, and the community at large—and came up with recommendations for actions that would produce sustainable shared value.



FOCUSING ON THE
INTERSECTION
OF BUSINESS
DRIVERS AND
SOCIETAL NEEDS

“The key to success in this mutual cooperation project was coordinating regular meetings with several key players, always trying to make efficient use of time,” said Daniel Campos, general director of Caribe Hospitality. He said the process was a positive experience for the company—and most importantly, he added, it will have a positive impact in Jamaica and Caribe’s business success there.

“BUSINESSES ACTING AS BUSINESSES”

While many companies make a commitment to corporate social responsibility, one element that sets “shared value” apart is its focus on the intersection of business drivers and societal needs. Its pragmatic premise is that companies by nature act in their own interests and are more likely to invest in society over time if they can see a benefit to the bottom line.

In the case of the hotel in Kingston, the investor and the operator share an interest in the property’s long-term financial success. Under their 20-year, renewable agreement, Caribe Hospitality will pay Marriott a base fee to manage the hotel, plus a higher incentive fee on any profits. In other words, any steps that improve efficiencies and increase profit margins will benefit both companies.

When such steps also benefit society, shared value is created. Porter and Kramer put it this way: “The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.”

The IDB appraisal process aims to find those overlapping interests, tease out ways to add value, and reveal the business case for social investment. The most promising opportunities for the project in Kingston—both in terms of efficiencies for the hotel and benefits to the community—revolved around increasing the involvement of locally owned businesses.

For the community, the advantages are obvious. By becoming suppliers to the new hotel, small businesses can add jobs and support more families, while improving their skills, experience, and competitiveness. There are less tangible benefits too: local ownership in the project’s success contributes a sense of purpose and community pride.

For the companies involved, some of the costs and benefits are relatively straightforward. For example, by sourcing a certain percentage of fresh food locally, a hotel can shrink its carbon footprint, reduce outsourcing headaches, and save money in shipping and handling costs, insurance fees, and customs duties. Of course, this value diminishes if the supply chain is not reliable, so part of the calculation involves figuring out the quantity of goods and services local suppliers might provide, and how much training might be needed to bring them up to international standards.

Incorporating local suppliers also benefits a hotel in terms of flexibility. If a local supplier is on the spot, the hotel kitchen can accommodate a last-minute conference without worrying about whether a shipment can clear customs in time. Even less tangibly, having deep local roots can benefit security. Marriott International—which puts a premium on investing in the community, earning high marks from organizations that rank social responsibility—has seen examples of this around the world, according to Andrew Houghton, the company's area vice president for the Caribbean and Latin America. During the 2011 popular uprising in Egypt, for example, employees of the Cairo Marriott stood outside the hotel and shielded it from looters until military backup could arrive. "We see associates protecting guests and the facility because it's part of that community," Houghton said.

In Kingston, the Shared Value Appraisal looked at a broad range of costs and benefits, tangible and intangible, to determine steps to add economic and social value. For Marriott, Houghton said, the process of quantifying the end result to the community was especially insightful.

"If you support a local, woman-owned bakery, how many suppliers benefit? How many families? How many children are then able to go to school and move on to good jobs? We have always understood this process anecdotally but are working more diligently on metrics, and the IDB-Deloitte shared value team was able to show how to do so in greater detail, including dollar value," Houghton said. "This was a great learning opportunity for us."

"Even using conservative assumptions, the model showed that including local small and medium businesses in the supply chain will bring economic benefits to the hotel's owners and operators."

MEANINGFUL METRICS

The IDB-Deloitte team created a detailed economic model to predict the costs and benefits of various courses of action, based on assumptions that can be tweaked to accommodate different circumstances. The model is structured conservatively. For example, it assumes that in the first two years of the hotel's operation the percentage of locally sourced food will be in the single digits, even though Marriott expects it can do much better than that, given Jamaica's experience in agriculture and in the hospitality industry.

Even using conservative assumptions, the model showed that including local small and medium businesses in the supply chain will bring economic benefits to the hotel's owners and operators. These would come primarily from lower costs of local versus imported goods, as well as of logistics and process efficiencies, beginning in the first year of operations. Tangible returns on providing job training and experience to at-risk youth were harder to quantify, but the IDB-Deloitte team concluded—based on its interviews in Jamaica and research elsewhere—that efforts in this area would pay off in the long run, by fostering community goodwill, improving neighborhood security, and in general contributing to the broad goal of social inclusion



YOUTH AT RISK
GAINED JOB
TRAINING IN
CONSTRUCTION

Construction was already underway when the appraisal process began, but the team felt it was important to try to include at-risk youth in this stage of the project. Prime Development was open to incorporating several paid interns into its crews, and Caribe Hospitality agreed to cover their stipends as a way to contribute to the project's social component.

In mid-March 2014, Prime welcomed five young men on the construction site. The interns were selected from a pool of participants who had gone through training offered by the Citizen Security and Justice Programme (CSJP), a crime-prevention organization run by Jamaica's Ministry of National Security with support from the IDB. The CSJP provides internships, workshops, vocational training, and other services in 50 "vulnerable and volatile" communities across eight parishes in Jamaica.

Since 2012, CSJP has partnered with the Jamaica Defense Force (JDF) to provide paid, on-the-job training in basic building construction for several hundred youth. Participants also learn critical life skills, through classes in subjects ranging from workplace etiquette, teambuilding, and conflict resolution to personal budgeting, parenting, and self-esteem.

CSJP community action officer Denise Adams said many of the participants come from deeply dysfunctional families and lack the personal tools they need to obtain and hold a job. Through the life-skills classes, many have been able to turn their lives around, and through the on-the-job training, they have learned work discipline along with technical skills. The initiative has also improved relations between the country's security forces and the young people, she said.

"We've had tremendous success," Adams said. "What youngsters need is that push, and for someone to believe in them."

Because they had been through the CSJP-JDF training program, the interns selected for the hotel project already had the skills and certifications they would need to be productive members of a crew. The plan was to rotate them to different tasks, so that they could learn the latest techniques involved in building with concrete.

This part of the project brought visible added value, according to Caribe's Daniel Campos. "We believe it gave the construction company the chance to connect with training programs and find dedicated employees who want to better themselves," he said.

Although the hotel contractor has made no commitment to take on more interns or hire the young people after they complete their internships, Denise Adams said she hoped the youth would gain enough experience and skills to get full-time jobs. "At the end of the day, hopefully they'll get employed. That's sustainability."

One need, going forward, is for more robust evidence about the long-term impact of these types of employment initiatives, the IDB's Boekle-Giuffrida said, adding that the Bank is investing additional resources to track the results. "We

want to make sure we have enough data and can provide a solid foundation for implementation,” she said, “so that we can replicate and improve the model we have developed to benefit other companies in Jamaica and in other countries.”

NEXT STEPS

As the Marriott’s Andrew Houghton said, hotels are much more than just a destination for visitors. “When you plant a flag somewhere,” he said, “you start becoming a catalyst for business.”

An important player to realize the shared value opportunities identified will be the Jamaica Business Development Corporation (JBDC), part of the Ministry of Industry, Investment and Commerce. The agency provides a gamut of services—including product development support, marketing assistance, and general handholding—to the small-business sector.

Althea West-Myers, manager of business advisory services at JBDC, said a central task will be to assemble strong clusters of local suppliers to meet the hotel’s needs for specific products or categories of products, whether milk, bananas, salad greens, or Jamaican spices. In other words, instead of having just one business supply milk, the hotel might be able to draw from a group of several.

“There’s no other way to guarantee sustainability,” West-Myers said. “An individual company wouldn’t be able to provide the levels that Marriott would want.”

A project such as the Courtyard by Marriott provides a chance for entrepreneurs in Jamaica to reach another level in professionalism and quality, West-Myers said. “It is important because it will provide opportunities for development, especially as it relates to the global value chain.”

Eventually, the hotel will have about 60 permanent employees, as well as a wider network of suppliers of goods and services—whether florists or fishmongers or furniture makers. As the Marriott’s Andrew Houghton said, hotels are much more than just a destination for visitors. “When you plant a flag somewhere,” he said, “you start becoming a catalyst for business.”

For both Marriott and Caribe Hospitality, the Shared Value Appraisal complements an already firm commitment to support the community and promote sustainability. “We will be following the shared value program closely during operations to see the results of implementing these initiatives in different phases of the project,” said Caribe’s Daniel Campos.

The Costa Rican company, founded in 2000, has always been conscious of its responsibility to be a good corporate citizen, but since it became involved with the IDB a few years ago it has focused more closely on both environmental and social sustainability, said Mariano Bonilla Arias, Caribe’s development director. “It became part of our internal thinking,” he said.



WHITLEY
RECEIVED ONSITE
JOB TRAINING

YOUTH SEARCHING FOR A BETTER FUTURE

While the Kingston hotel project is expected to bring considerable benefit to the community, some returns on social investments won't be evident until the hotel opens for business. But one modest step forward—taken as a result of the IDB Shared Value Appraisal—has already made a difference in the lives of five young men. They are gaining valuable work experience on the hotel construction site, under a six-month paid internship for at-risk youth.

For 22-year-old Herbert Whitley, this is a promising turn in a long struggle to turn his life around. After finishing high school, he said, he ended up “searching and searching” for a job without success. Eventually, he fell into a pattern of partying, smoking ganja, and hanging out on the corner with friends. One day, the realization hit him that things had to change: “I thought, I can't let myself go on like this. I need to do something, make something of myself. That's exactly what I did.”

Whitley was able to study construction skills through a private development agency called Operation Friendship, which aims to open doors of opportunity for urban youth. He also received onsite construction training through an initiative run by the Citizen Security and Justice Program in partnership with the Jamaica Defense Force. That set the stage for the latest chapter, doing steelwork on what will become a 129-room, six-floor Courtyard by Marriott.

“Since I started in construction work, I always wanted to work on a *real* construction site, something as big as the Marriott,” he said in a telephone interview. “The experience has been tremendous.”

Whitley, who lives in a household that includes his girlfriend, their toddler, and several other family members, hopes the experience he's gaining on the construction project will help him find more work once the internship is over. His daughter has helped him gain a new perspective, he said.

“I look at life very differently now,” he said. “I have a very big responsibility, as a father, a family man.” Even though taking care of a family is not always easy, he added, “I'm happy for it.”

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The **Inter-American Development Bank** (IDB) seeks to create opportunities for current and future generations in Latin America and the Caribbean through sustainable private sector investments. Through its Structured and Corporate Finance Department (SCF), the IDB partners with private sector entities to achieve breakthrough financial results with high development impact. The IDB works with large- and medium-sized businesses, including private utilities and infrastructure operators, banks and financial institutions and state-owned enterprises in a broad range of economic sectors.

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Rooms with a Viewpoint: Hospitality through the Lens of Shared Value narrates how an international hotel operator, a Costa Rica-based developer and Jamaican construction company are putting shared value into practice in Kingston, Jamaica through IDB's support.

Coined by Harvard professors Michael E. Porter and Mark R. Kramer in 2011, the concept of shared value is being discussed among businesses, governments and development practitioners alike as a way for businesses to increase financial returns while simultaneously delivering social and climate impact in the community. It is a new way of doing business responsibly.

While many companies in Latin America and the Caribbean appreciate shared value investments, many do not have the capacity, time or resources to identify opportunities independently. The Inter-American Development Bank (IDB) has created Shared Value Appraisals to assist clients in designing an actionable business strategy to optimize resource allocation that enhances both competitiveness and social value in the community.

This case study discusses how the IDB partnered with the developers of a hotel under construction in Kingston, Jamaica, to maximize the project's value to the community and the shareholders. It describes how the IDB worked together with Caribe Hospitality, Pan-Jamaican Investment, Marriott International and Prime Development to identify shared value opportunities for the community and for the companies. One key goal was to ensure that small local businesses –particularly women-owned enterprises– could become an integral part of the supply chain in a way that also maximizes profit for the hotel operator.

The case study is also available online at www.iadb.org/sharedvalue