

## New Perspectives in Economic Value Assessment as an Integration of Social Accountability. A Practical Application in the Spa Industry

by

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*Abstract.* In trying to understand the history of spa activities in Italy from an economic perspective, one could but acknowledge the importance of the efforts spa resorts are making today to differentiate their activities with the purpose of tackling the crisis of the sector that started in the 90's and was worsened by Law no. 323 of 2000 concerning the reorganization of the spa industry. One of the most valuable among the multiple communication tools available for the entities of the sector is the social balance, whose aim is accountability towards all the stakeholders concerning the added value created and distributed, a tool that may find a useful integration in the calculation of the economic impact produced on the reference territory. This work, after a brief overview of the most accredited literature on social reporting and economic impact analysis, with a special reference to the tourism industry, will more specifically investigate the idea of combining these two tools to enhance the social and economic function of corporate information.

*Key words:* social balance, added value, economic impact, spa.

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### 1 Introduction

Spa resorts have played a social function since ancient times, as the Greeks had already created both public and private hot spring baths and Hippocrates devoted large parts of his *Corpus Hippocraticum* to the study of water and its properties in connection with human health. In the Roman age, the spa phenomenon had a great development and the Justinian Edict regulated for the first time the access of persons suffering from some specific diseases to spas (Bonacossa, 1962). In the Middle Age, the use of baths progressively disappeared, but the first crenology studies appeared to investigate the physical, chemical and therapeutic properties of water, and to support their healing value. Starting from 1700, the spa industry developed again following two different paths: the first led to the creation of facilities that became veritable tourist resorts where thermal wellbeing treatments were combined with entertainment and fun activities, with theatres, coffee shops and hotels, and the second characterised by a prevalence of the scientific development of medicine, which exclusively associated hot

spring bathing with its healing function. This dualism persisted until today and still characterises the many Italian spa facilities. Hot spring baths saw a large growth in Italy in the subsequent century thanks to the initiatives of Charles Felix of Savoy, who ordered the construction of magnificent spa resorts in Aquisgran for both civilian and military guests, subsequently expanded by Charles Albert, who also opened a new facility with 120 beds for indigent workers. But it was not until 1852 that Camillo Benso, Count of *Cavour*, transformed spa centres into real public health facilities after presenting a bill in the Piedmont Parliament to improve Savoyard spas and establish their public utility function. After this big change, a law was issued in 1916, Law no. 947, followed by its specific enforcement Regulations in 1919 and Royal Decree in the same year, to regulate the use of spa facilities. The *Belle Époque* was certainly the most flourishing period for the use of spas, with large portions of the new wealthy bourgeoisie flowing to the available resorts, an elitist kind of customer indeed, who spent long holiday periods in resorts that much resembled the European *Villes d'Eaux* (Iannario, 2006).

Subsequently, the two most important events in the sector were primarily the creation, in 1935, of the national health insurance system called "INPS" [*Istituto Nazionale della Previdenza Sociale*], which led to an exponential and unprecedented increase in the use of spas due to the very low State-agreed rates that would be the cause of the limited investment for the modernization of infrastructures. In the second place, the 1993 Finance Act and subsequent Law no. 323 of 2000 reorganised the spa industry by removing the national health insurance support, with the consequent crisis of the sector and need for its competitive repositioning in the market. It is in such a context that corporate social responsibility principles and the new communication campaigns aimed at raising awareness on the economic impact of spa resorts on the local communities have become particularly significant. This work, after a brief overview of the most accredited literature on social reporting and economic impact analysis, with a special reference to the tourism industry, will more specifically investigate the idea of combining these two tools to enhance the social and economic function of corporate information.

## **2 Social reporting and methods for the determination of the economic impact**

### **2.1 The Social Balance**

The issue of Corporate Social Responsibility, defined in the 2001 European Union's Green Book as the voluntary undertaking by private businesses of «social and environmental concerns in their business operations and in their interaction with their stakeholders» has been extensively developed over recent years. Nowadays, being socially accountable or responsible for a private company means to combine the purpose of making profits with a concern for the protection of the fundamental values of collective society. The economic-financial dimension expressed by traditional accounting instruments, the so-called single bottom line criterion, was enriched with new

contents until the new definition of triple bottom line has been reached, as an expression of the simultaneous measurement of economic, social and environmental results. Among the tools that best meet these new reporting requirements we find the social balance, a model of reporting that takes into account the quantity and quality of the relationships existing between the company and its stakeholders, with an aim to outline a uniform, accurate and transparent picture of the complex interdependence between the economic, social and political factors that belong to the very nature and are the natural consequence of the choices made by the company (Hinna, 2002). According to the definition of the term, the content of the Social Balance should be decided independently by each business entity on the basis of the features of its reference community, so that the document may reflect the peculiar strength of the ties existing between the company and its individual stakeholders. Unlike the financial statement, the social balance is not intended to define a defined and codified structure. The most commonly used Social Balance models at national level are the GBS and the GRI, which suggest considering at least two of the fundamental criteria of sustainability, i.e. economic and social sustainability. In Italy, these two dimensions share the basic criteria for the determination of the added value, which stems from the corporate accounting principle of the reclassification of the profit and loss account and allow for a subsequent allocation of the generated value to the different categories of stakeholders (Molteni and Todisco, 2008) This makes it possible to quantify the investments made in the social field, with the consequent implications, at various levels, created by corporate policies. In such a framework, the social balance will play a dual role: an internal role, as information-managerial tool, through the measurement of social performances, and an external role, as a communication tool capable of establishing a dialogue with stakeholders, which over time translates into an increased consensus and social legitimisation. However, for companies operating in sectors that are

strongly related to their surrounding communities, the added value criterion is not always sufficient in itself to express the entirety of social and economic implications to be considered, thus leading to the need for further investigations. The degrees of freedom of the social balance, which are shared by most authors in the current literature, allow us to combine the information provided by the report with more detailed analyses, such as, for example, the economic impact analysis.

## **2.2 A brief overview of the current literature on the economic impact analysis applied to the tourism industry**

There are different ways of interpreting the meaning of «economic impact» in the literature. In fact, this term may be associated to changes in commercial exchanges or salaries, or in the quality of life and living conditions in general, which take place in a given area due to the effect of an activity or event (Weisbrod and Weisbrod, 2007; Frechtling, 1994). The quantification of these «implications» onto the local economy translates into the measurement of direct, indirect and induced effects, which globally define the economic impact. Over the last few decades, there has been a growing interest in the application of these studies to the tourist sector. A positive and significant economic impact may increase the importance of the tourism industry in a specific context and support public resource allocation policies (Stynes, 2009). As regards the methodology selected for this analysis, we should point out that two main approaches are followed in the literature to evaluate the economy of this sector. The first, which is based on the analysis of the offer, consists in identifying all the productive activities that provide the goods and services that are purchased by tourists starting from a break-down of the entire production system into sub-segments. The second method investigates the demand by focusing on the evaluation of the tourism expenditure incurred by consumers, both in terms of absolute global values and of breakdown by consumption item; starting from

the notion of the centrality of the tourist, this investigation method looks back at the production sectors that are most involved in the visitors' consumption behaviours (by considering the typical tourist basket of goods and services), and considers the variability of these behaviours. The demand-side approach is generally preferred, as it allows the investigator to grasp all the activities involved in meeting tourists' requirements. However, evaluating the contribution of tourism to the local economy from the demand side may eventually present some challenges due to the heterogeneity of the sectors that are activated by the tourist activity, as well as to the fact that only a small portion of this activity is actually transformed into value that stays in the territory considered. A correct method for the measurement of the new income generated by tourist activities is the so-called added value principle that is the value of production after subtracting intermediate consumption, for whose measurement economic-statistical studies use models based on "input-output" tables developed by local or national statistics institutions (Bonn and Wanhill, 2008). These tables, which are also called «sector interdependence tables», can be used to break down the global expenditure of a tourist into the different activities that characterize the economy of the area considered and to eliminate, for each sector, the expense items that regard exogenous factors, not belonging to the area examined (typically imports and exports). This method allows the analyst to observe how the tourist expenditure directly affects the local economy that is to what extent it contributes to form its added value. The ratio between the added value and the global tourist expenditure determined a first multiplier that defines the direct impact and which, obviously, will be less than one. The use of the input-output tables to investigate the overall supply costs of the activities involved in the demand and the total private consumption of the related operators allows us to determine the indirect impact, in the first case, and the induced impact in the second case. This method may seem to be poorly effective in the

evaluation of the economic implications of tourism in limited areas for to the complex adjustments required by the processing of the input-output tables. A smaller number of studies have investigated the offer side. No specific case has been identified regarding tourist businesses, so we will mention, by way of example, a study conducted in Italy concerning a large company operating in the national territory (Carlesi *et al.*, 2001). This analysis measured the direct, indirect and induced effects generated by the company with surveys and questionnaires administered to the company staff and its suppliers. The direct impact, which corresponds to the total amount spent by the company for the goods and services supplied by its suppliers based in the area of its main place of business, summed up to locally levied taxes, has been determined by using accounting data. For the indirect effect, which consists in the global supplies generated with a cascade pattern with the production units of the context at issue, the study produced some estimates based on the interviews held with direct suppliers. Finally, the induced impacts have been determined by multiplying the vocation of the area to consumption by the company employees' income and its suppliers' at different levels. Then an economic impact multiplier was defined, expressed as the ration between the global value of the effects produced and the sales turnover developed by the company. While considering amounts gross of external costs, this analysis suggests a method that can be easily reproduced in specific situations to highlight the economic relationships the company manages to develop with its territory. Again, if we consider the tourist segment, evaluating the economic impact of the production unit may produce even more effective results than those that can be obtained by analysing the entire industry.

### **3 The social balance combined with the determination of the economic impact**

Due to its specificity, the Italian spa industry is perfectly fit for the application of a method that

measures social and economic implications, while simultaneously considering the real needs of spa operators and the size of the areas surrounding the resorts, which are usually rather reduced. In fact, the use of sector interdependence tables is particularly difficult precisely due to these territorial limits. The objective of this work was to conceive a method for the determination of the social and economic implications of a spa resort that was easy to use and reproduce, and simultaneously capable of meeting the requirements of the operators of the sector. Two hypotheses have been identified in connection with the economic effects generated by the spa demand and offer, respectively.

#### **3.1 Evaluation of the economic impact generated by the customers of a spa resort**

The direct impact of the spa demand can be obtained by using the input-output tables for the entire expenditure of spa customers. However, as we have previously pointed out, this method is scarcely useful in small size contexts and is not capable of providing qualitative information. In this regard, we would like to recall that the added value of a territory corresponds to the total added values produced by the different local economic units. Based on this consideration, the direct impact may be measured with a simplified procedure by using the results of the interviews held with spa customers and the economic data regarding the operators involved in tourist expenditure. The interviews produce the percentage spent outside the spa resort per individual activity (shops, restaurants, etc.), which will be used to determine the share of added value – in connection with the abovementioned percentages – allocated to each individual operator. The sum of the shares so determined will correspond to the direct impact. The added value of the operators will be determined with qualitative surveys, such as questionnaires, and quantitative surveys, consisting in the use of statutory balance sheets. Similarly, the indirect impact will correspond to the added value

proportion that is generated by “internal” supply relationships that take place within the area, and may be detected, in its turn, through qualitative surveys, as for induced effects. In order to quantify the latter, we should establish a contact with all direct and indirect (suppliers) employees to obtain information about their purchase habits. If one considers the local economic layout, an underestimate of local consumption trends may be applied to the global income, a coefficient that is provided by national statistics. Direct, indirect and induced effects will produce the respective expenditure multipliers that summarize the economic implications of spa tourism in a given area. In particular, the ratio between the global impact and the share of added value of the specific spa resort considered connection with its surrounding territory will give the magnitude of the spa tourists’ contribution to the local economy and the extent to which they are attracted by spa services and the other activities available in the area. This also provides the multiplying effect result that is the value (in euro) generated in the local context by an expense unit (in euro) for spa activities.

### **3.2 Evaluation of the economic impact of a spa resort**

The direct impact of a spa resort corresponds to the share of expenditure incurred in the related area. If we exclude external production factors, which are investigated when the indirect impact is quantified, the item that remains to be identified in the area are the costs incurred for the resident personnel, the taxes paid to local governments, the remuneration of the investors residing in the area, as well as the profit share re-invested in the same spa resort. All these components end up by actually establishing the share of added value produced and distributed in the area by that specific spa resort. Therefore, in order to calculate direct effects one only needs to examine the analytical accounting data of the spa resort. The indirect impact can be determined by using a similar method. Starting from the economic data regarding suppliers, we

will consider the share of added value related to the spa resort’s expenditure for the procurement of goods and services from the surrounding area. Finally, for the determination of the induced impact, we could use the method proposed in the previous section by the involved parties in the spa resort’s expense process (including its employees) residing in the area analysed. The ratio between the global implications generated by the spa resort and direct effects will give the magnitude of the connections between the company and its surrounding community, that is the extent to which its production depends on local resources and which share of its expenditure is transformed into local added value.

### **4 Conclusive remarks**

The criticalities of the development of spa activities and the trends that have characterised this sector of the economy show how spa businesses today need appropriate tools to manage and enhance the value of the many and diversified activities carried out, and to effectively communicate the implications produced on the reference community. The Social Balance is a valuable initiative, particularly if it is combined with the use of profitability indicators to evaluate and analyse spa services, such as the economic impact analysis, aimed, on the one side, at specifying the global value generated by the activities and, on the other side, at investigating the relationships existing between the spa resort and the other local economic operators in depth. Spa resort managers would therefore be provided with a complete tool in support of their communication strategies with their stakeholders, to better qualify and entrench the presence of their resort in a given area. And the social balance would also provide a significant tool for management purposes: a social document that highlights the global economic implications produced on the surrounding territory and community would allow the spa resort to obtain an exhaustive picture of the real performance of the organization, and



consequently a valuable tool in support of a more accurate (effective and efficient) planning for future developments. For example, a moderate or limited economic impact may lead the spa business to review their objectives and make or buy decisions with the purpose of obtaining better results in the local context. Finally, an integrated and complete social balance would provide useful benchmarking indications to help public administrators plan their policies in support of spa activities in the areas where this business is still closely tied to public financing. However, the application of the methods for the determination of the economic impact to the spa industry is still rather complex and time-consuming, in addition to being often characterized by subjective evaluation criteria. As a matter of fact, the main limitations of the methods proposed consists in the non-availability of useful data regarding the entire supply chain and in the impossibility to interview all the subjects involved to obtain information about their consumption patterns. In addition to this, the measurement of offer-side economic implications cannot lead to considerations regarding customers. However, as pointed out in the previous sections of this article, the use of better tools, such as intersectorial tables, may not provide objective results regarding small-size areas and may not always provide qualitative information regarding the relationships between the spa resort, its customers and the local context.

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