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**UNIVERSITY OF KRAGUJEVAC
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AND TOURISM IN VRNJAČKA BANJA**



INTELLECTUAL CAPITAL IN HOTEL COMPANIES

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Abstract

The value of modern enterprise is not based only on the physical and financial, but also on intellectual property. Intellectual capital, regardless of the type of activity, is an essential factor in the process of creating value in the companies and makes more than half of its market value. The main components of intellectual capital are human capital (knowledge, abilities, skills, experience of staff), structural capital (business culture, database, trademarks) and relational capital (reputation of the company, brand, and relationships with business partners). The service sector is becoming dominant in contemporary economies which raises the question of whether service companies use "force" of intellectual capital in order to create a better competitive position and high performance. The aim of the paper refers to the analyzing of importance and to a way of management with an intellectual capital in hotel companies.

Keywords: *intellectual capital, services, hotel companies.*

Introduction

Intellectual capital (hereinafter IC) in today's conditions is increasingly preoccupying the attention of managers, owners, investors and financial institutions. The reason is that this capital is identified as a key strategic resource and the primary source of value in companies since it is a capital based on knowledge or, as considered by Edvinsson (1997), it is the main tool for creating value in the contemporary economy. IC makes human, structural and relational capital with which use service companies promote their services and thereby enhance their business performance. Numerous studies have shown that this "hidden value" determines the competitive position of the company at the same time influencing the height of their business performance.

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The service sector in the modern economy is increasingly gaining in importance as evidenced by the following data: the participation of productive activity is gradually reduced to a level below 20% while the share of the services sector for over 70% of the total GDP of OECD countries; employees in this sector accounted for about 65% of total employees (OECD, 2000: 19). In Serbia, the leading growth generators already are the service activities: trade, transport, storage and communication, financial intermediation services, postal services and telecommunications (Serbian Chamber of Commerce, 2013). Hotel industry in the last quarter of the twentieth century progressed rapidly and is recognized as an activity that is being developed at the global level (Jones et al., 2014). IC development should contribute to improving hotel services and the development of innovation in order to ensure hotels continuous sustainable development.

The aim of the paper refers to analyzing of importance of IC and to a way of management with intellectual capital in hotel companies. First, the paper will present the understanding of IC by different authors and its classification. Then will be pointed out the importance of the service sector and the hotel industry in the information society. The third and fourth part of the paper describe the importance of IC in the service sector and in the hotel industry with an overview of works processed so far on this subject.

The concept of intellectual capital

Performance of the companies is confirmed by book-keeping on the basis of financial statements, on the one hand, and capital markets, on the other hand, based on the movement of stock prices. In most cases, these values are not equal. A number of authors (Edvinsson & Malone, 1997; Sveiby, 1997; Lev, 2001) consider that the difference between these two values makes IC. However, the calculation of IC in this simple way has its drawbacks: the value of IC can be accounted for only in open joint stock companies and limited liability companies; the impossibility of perceiving the individual components of IC and their values; IC value might be the result of influence of various factors beyond the very nature of IC (Janošević, 2009). Therefore, Lev (2001) measures the value of IC through the production function (Krambia-Kapardis & Thomas, 2006):

Economic performance = α (physical assets) + β (financial assets) + δ (intangible assets) where α , β , δ are contribution units to the assets performance of the companies.

In the literature numerous synonyms of intellectual capital are used. Based on the *Google* search, the term of intellectual property appears 147 million times; intangible assets 8.7 million times; intellectual capital 17.3 million times; intellectual property 18.3 million times (modeled on Kristandl & Bontis, 2007).

Klein & Prusak, (1994) define IC as intellectual material that can be used to create higher added values. Edvinson (1997) defines IC as the possession of knowledge, professional skills, applied experience, organizational technology and communications to consumers. Authors Edvinsson & Malone (1997) define IC as a knowledge that can be converted into value. Stewart (1997) under the IC includes packaged useful knowledge or intellectual material of companies - knowledge, information, intellectual property and experience - that can be used to create wealth. IC is a capital based on knowledge and is an instrumental in determining the value of the company, as well as national economic performance (Petty & Guthrie, 2000).

Lev (2001) observes IC as intangible value resources generated to innovation, unique organizational design and the experience of employees. Intellectual capital is a combination of human, structural and relational resources of enterprises (MERITUM, 2002). Lonnqvist (2004) under the IC includes non-physical resources relating to employee skills, organizational resources, the manner of performing activities and links with stakeholders of enterprises. Zeghal & Maaloul (2010) view IC as the sum of the whole enterprise knowledge used in the process of running of business towards creation of values.

Based on the explanation of the term IC, authors Petty & Guthrie (2000) point out that IC is particularly important due to:

- Revolution in information technologies and in information society
- The growing importance of knowledge and economy based on knowledge
- Altering the model activities and networking of society
- The emergence of innovation as essential for achieving the competitiveness

Based on the understanding of the concept of IC, its characteristics and significance, the conclusion can be summarized as follows: IC is a key driver of value creation in the enterprise by combining human, organizational and relational capital. Intellectual capital comprises the knowledge, experience and skills of employees, business culture, databases, company's reputation and relationships with business partners. Hence, it can be said that it is concerned to an intangible, a rare resource, difficult to imitate in which its value increases with a greater intensity of use.

Classification of IC

In addition to physical and financial capital, intellectual capital is the third resource of the company that contributes to creating competitive advantages and high performance. Strategically important resources in the company can be divided into two components: the material and the intangible. The human, structural and relational resources make intangible component while physical and financial resources make material component of strategic resources (Komnenic & Pokrajcic, 2012).

The answer to the question of what causes the difference between market value and book value should be sought in defining the components of IC. According to the *Guidelines for Managing and Reporting on Intangibles* – MERITUM (2002), Bontis, N. (1998) and Roos, J.i Roos, G. (1997) IC includes human, structural and relational capital whose classification was adopted for the purposes of this study.

Intellectual capital is a generator of creativity in the company. Bontis (2001) defines this category of capital as a combination of knowledge, skills, innovation and employee skills to solve business tasks. There are three categories of human capital: the ability of employees (knowledge, skills, working experience), intellectual agility (innovation, the ability to adapt to changes) and attitude of employees (behavior, motivation and code of ethics) (Bontis et al. 1999). It's concerned the capital of which is being built by employing skilled workers, capital that is based on knowledge and capital whose growth provides a constant training and development of employees.

Structural capital or as it further is called *organizational or intern capital* is the basis for the functioning of a learning organization. According to the *Guidelines for Managing and Reporting on Intangibles* – MERITUM

(2002), structural capital is defined as knowledge that remains in the company at the end of the working day. This definition simultaneously points out the main difference between the human and structural capital, human is owned by employees and structural capital owned by enterprises (Edvinsson, 1997).

Relational (external) capital or capital of customers refers to the way that the environment views the company. This category of capital includes cooperation with customers and with all participants in the value chain, from suppliers to consumers. The value of this category of capital is determined by how well the company solves business problems where uncertainty is always present (Sveiby, 1997).

Table 1: *Intellectual capital of the company*

| Intellectual capital | | |
|--|--|---|
| Human capital | Structural capital | Relational capital |
| Knowledge and skills Training Talent Education Learning ability Personal characteristics (creativity and entrepreneurial spirit) | Business culture and values Trademark I&R, patents, software Copyright Internal database Management process Working atmosphere | Brand Reputation Relations with customers Cooperation with partners Licences Sales channels Contracts |

Source: *Janošević, S. (2009). Nematerijalna aktiva i stravanje vrednosti. Ekonomika preduzeća. Savez ekonomista Srbije, Beograd, No. 9-10, p. 402 and Lonngqvist, A., Kujansivu, P. & Antola, J. (2006): Are Management Accountants Equipped to Deal with Intellectual Capital. The Finnish Journal of Business Economies. Vol. 55 No. 3, p. 356.*

Table 1 shows the elements of each of the components of IC. Human capital emphasizes the intellectual side of each employee in order to improve the final output of the company. Structural capital makes up the "invisible" infrastructure which allows the operation of employees while relational capital should with its business activities to create the image of the company and loyal customers. It should be noted that intellectual capital is not just a simple sum of the three components, but also involves the creation of value and knowledge of the business activities (MERITUM, 2002).

Features of the hotel industry

Barrows & Bosselman (1999:22) catering view as a set of activities where "people dealing with people." The hotel can be defined as a physical facility offering accommodation and food services while respecting the respective hotel standards. More demanding users, conditioned the need for the creation of new and improvement of existing hotel services. Today hotels, in addition to accommodation and food services, also offer many other services such as recreation, entertainment, health services, renting of rooms, etc.

Successful hotel business requires a high level of commitment to the job. We are talking about an industry that generates billions of dollars and "products" goods that consumers do not see (Barrows & Bosselman, 1999). DeFranco & Lattin (2007) point out that the hotel business is workable and capital-intensive and involves a large number of segments. Hotel business requires a low level of supplies but requires high levels of capital and relies on income that results from their guests. Lee-Ross & Ingold (1994) similarly define the characteristics of the hotel industry: labor-intensive nature of the job, invisible problem when measuring products, difficulties in the introduction of equipment and fluctuation of hotel demand.

Hoteliers when creating services start from the perception of services by consumers. Hotel services need to be experienced by consumer as something that provides an attractive added value whereby the value of the services is measured as a ratio between the quality of services and the level of costs of their production (Sandstrom et al., 2008). Creation of services is based on the interaction between people with the involvement of the employee creativity and respecting of certain standards. Technological support can accelerate the performance of some routine tasks, but it should be noted that the employees, respectively the human capital are the basic element of hotel business (Barrows & Bosselman, 1999).

Brady et al. (2005), Moeller (2010), as well as, Rodie & Martin (2001) single out intangibility, heterogeneity, lack of storage and inseparability of production and consumption as the most important characteristics of services. Intangible services cannot be seen, touched or tested but are evaluated on the basis of work, events or experiences. Heterogeneity means that there are no two exactly the same service unit. Inability of

storage indicates that services cannot be accumulated and the revenue is lost every time when demand exceeds the ability of service companies to satisfy their users. Inseparability of production and consumption means that the services at the same time are product and used with the presence of customers and service providers (Rodie & Martin, 2001). Both production and service activities require knowledge and skills with what the provision of services depends on the individual possibilities and capabilities.

The management of the hotel business is a real challenge for managers in modern, turbulent environment. The desire for success and the creation of new services requires knowledge of the business and the monitoring of competition. Burgess et al. (1995) highlights two basic formulas of success of hotel companies. First, the success of a hotel depends on formulating long-term plans, their implementation and monitoring of the implementation plans. Second, the success of a hotel will depend on the proper configuration of the structure, strategy, environment and other factors. Ropeter & Kleiner (1997) provide three recommendations for the efficient and profitable management of the hotel: managers must have a clear mission and defined goals to the hotel; organize training programs and ongoing construction of new buildings, acquisition of equipment but also the creation of new ideas and concepts.

Numerous authors have dealt with researches on the most important factors affecting the success of hotel business. Mathews (2000) points out the location as a key dimension in the hotel industry because the location is the only attribute of the hotel "product" that is completely fixed and only variable in analyzing the feasibility during the construction of a new hotel. On the basis of the carried out research Ropeter & Kleiner (1997) as a decisive factor, when choosing a hotel is cleanliness while other important factors are price, location, value, conditions and services. Key & Russette, (2000) consider that hotel managers are key factors for successful business. Managers must possess the following skills: identifying customer problems, possession of enthusiasm, respect of professional and ethical standards, fostering a climate of trust and creative adaptation to changes. Employees and managers of the hotel, especially those who are in constant contact with clients, working to develop complex processes in order to create information and knowledge and their transmission, as well as the creation of trust among customers. Hotels use the opportunities and resources through people and organizations and try

to mobilize them to their advantage. Mobilization of external resources is a skill possessed by employees at hotel (Casanueva et al., 2015).

Intellectual capital in the service sector

The service sector dominates the industrial landscape. The success of service companies is not dependent on fixed assets, moreover, the value of equipment and facilities becomes trivial. The business model of these companies is mainly based on invisible assets such as brand, knowledge, skills and capabilities of employees of enterprises to innovate (Krambia-Kapardis & Thomas, 2006).

Invisible services become visible through the encounter of users with employees who participate in the creation of services. Namasivayam & Denizci (2006) define the value for the user as follows:

Human capital * structural capital = value for service users

Human capital appears as decisive in providing services that meet the requirements and create new needs for users. Therefore, employees must be managed carefully, provide training programs and specialization, carefully assign tasks to them according to their needs, wishes and requirements. Knowledge and experience of our employees are important but not crucial to achieving high performance in service companies. In addition, there is a need for implementation of motivation and enjoyment at work that can be achieved through meaningful work, good relationships with colleagues, employees, etc. (Edvardsson & Olsson, 1996). Some characteristics of employees, such as creativity and emotional intelligence, should be paid more because they have a high impact on the perceived value of the service user (Namasivayam & Denizci, 2006). Acting of the human capital is not possible without the proper "invisible" infrastructure or structural capital. However, the full effect of using IC is expressed by using the appropriate relational capital as creating a good relationship with customers, creating loyal customers, the construction of company image.

On the influence of human, structural and relational capital on the business of service companies have dealt the authors Edvardsson & Olsson (1996), Namasivayam & Denizci (2006), as well as, Kianto et al. (2010), Bontis (2000), Lim & Dallimore (2004). These authors conclude, on the basis of the performed tests, that in service company's human

capital play an important role. In these enterprises there is a pronounced demand for multiple and complex skills of employees in relation to the production companies. The role of human capital is much more important in the service sector as evidenced in the fact that the hotel activity is characterized by high labor intensity (Kianto et al., 2010). Namasivayam & Denizci (2006) consider that consumers are 'dependent' of employees, because they are able to create a service of the adequate dimensions and the specific functions or it is important that employees are "trained" to create services. Employees must know how to combine the different elements of services to substitute the same as creating new elements of service in order to provide value for users.

Research on the impact of structural and relational capital on the business of service companies are not much represented in the literature. Kianto et al. (2010) considers that the role of these two categories of the IC essential for service companies. The introduction of information technology and other elements of structural capital greatly have accelerated, facilitated and increased the reliability of management of hotel business. Elements of relational capital, such as relationships with customers and other stakeholders of service companies, positively influence the position of the company and its performance (Lim & Dallimore, 2004). Brand, as an essential component of relational capital, should be emphasized specifically when it comes to choice of hotel services. Branded hotel services make the user choice is easier but also requires strict compliance with hotel standards. Bontis et al., (2000) analysis of the impact of IC on business of services and non-service companies have found that the relational capital has a greater impact on business performance than the structural capital.

Intellectual capital in hotels

Intellectual capital is seen as a key driver of corporate value. Since hotels product intangible services, owning and managing of IC is of great importance. Focusing on and tracking of IC in hotels is important for the following reasons (Engstrom et al., 2003): extensive information of stakeholders, investors; a larger amount of information for decision making; support for the management of human resources and support in the process of customer relationship management.

Impact of IC to performance of hotels is achieved through components: human, structural and relational capital.

Human capital includes knowledge, skills, abilities and kindness to service users. Investment in education and training of hotel staff is the right way to create satisfied customers (Kianto et al., 2010; Namasivayam & Denizci, 2006; Edvardsson & Olsson, 1996). Knowledge work, kindness and availability of staff consist of features that hoteliers must have. Krambia-Kapardis & Thomas (2006) point out that the most important indicators of successful use of human capital management quality are training, employee development and employee satisfaction.

Structural capital includes databases, business culture, hardware, software and all other "invisible" infrastructure without which the employee could not work. Zigan & Zeglal (2010) believe that information and communication technologies, as essential structural components of capital in the hotels play a very important role not only for optimum process control (e.g. a reservation system), but also enable the achievement of a high level of satisfaction among customers (e.g. provision of services via the Internet).

Relational capital includes links with service users and other stakeholders, as well as the brand and image of the hotel, which may seem the most essential component of relational capital. Strong brand has a positive impact, directly or indirectly, on the perceived quality of service of the consumer. Krambia-Kapardis & Thomas (2006) consider that the indicators of relations with service users satisfaction of users, loyalty and high retention rates.

Table 2 provides an overview of works whose authors have analyzed the impact of IC operations of hotel companies and its performance.

Engstrom et al. (2003) on the basis of the performed study point out that there is a connection between the human, structural and relational capital. There is a weak link between structural capital and profits from food and beverage (F&B profit). The results indicate the possible existence of a link between relational capital and the rate of room occupancy and between human capital and costs of employees.

Table 2: *Overview of papers on the impact of the intellectual capital on performance of hotel companies*

| Authors | Source of data | Description of samples | Variables |
|----------------------------------|---------------------------------------|--|--|
| Engstrom, T. et al. (2003) | Questionnaire and financial statement | 13 Norwegian hotels within two hotel chains (Radisson SAS and Resorts hotel chain) | <i>Dependent:</i> business performance <i>Independent:</i> human, structural and customer capital |
| Rudež, H.N. & Mihalic, T. (2007) | Questionnaire and financial statement | 69 hotels in Slovenia, 2003 | <i>Dependent variables:</i> ROA, ROE, profit, profit growth, sales growth, revenue, revenue per employee, value added per employee <i>Independent variables:</i> human, structural and relational capital |
| Laing, G. et al. (2010) | Financial statement | Two groups of hotels analyzed in Australia from 2004 to 2007 | Dependent variables: ROA Independent variables: ICE, CEE, SCE, HCE |
| Bontis, N. et al. (2015) | Financial statement | 34 hotels in Serbia covering the period of time 2009-2012. | Dependent variables: ROA, ROE, profit, profitability and productivity of employees Independent variable: ICE, HCE, SCE, CEE |

Legend: *HCE* – human capital efficiency; *SCE* – structural capital efficiency; *CEE* – capital-employed efficiency; *ICE* – intellectual capital efficiency *ROA* – return on assets; *ROE* – return on equity; *VAIC* – value-added intellectual coefficient

Rudež & Mihalic (2007) distinguish between the two categories of relational capital: end-customers-relationships capital and non-end-customers-relationships capital. End-customers-relationships capital includes links only with the end users of hotel services while non-end-customers-relationships capital include relations with all other users/partners. Rudež & Mihalic (2007) come to the conclusion that the improvements of human capital - the knowledge of employees, increase in satisfaction and creativity of employees is the focus of management challenges for the development of high quality hotel products. With the analysis of structural capital authors conclude that the infrastructure of the Slovenian hotels is at a satisfactory level. On challenges, hoteliers need to respond by improving the business of culture through innovative business processes. Based on the analysis of end-customers-relationships capital,

as the most important conclusion, highlights the importance of the development of direct distribution channels while non-end-customers-relationships capital focus is on knowledge built on the basis of different connections to the hotel, which significantly affects the value creation of hotel services. There was proven impact on the financial performance of IC on Slovenian hotels where the dominant factor is capital relations with non-end-customers.

Laing, Dunn & Hughes-Lucas (2010) point out that the higher value of the return on assets (ROA) indicates higher efficiency of assets and greater efficiency can be achieved through less use of resources to achieve a greater profit due to higher sales. On the basis of the performed research, the authors point out to a link between intellectual capital efficiency (ICE) and human capital, which emphasize human capital as a key element of achieving high performance of the hotels. Growth in the value of the coefficient value added intellectual coefficient (VAIC) indicates the great contribution of IC creating added value. Also, research indicates the contribution of the structural capital of the hotel performance.

Bontis (2015) have dealt with the exploration of the impact of IC on the performance of hotels' performance in Serbia. Financial performances of the Serbian hotels are mostly influenced by physical and financial capital. Exceptions are indicators of profitability and productivity, which are influenced by human and structural capital. The impact of structural capital (business culture) is statistically significant but the intensity of its effect is reversed.

The impact of intellectual capital is reflected in the height of the performance of hotel companies and to the functioning of the human, structural and relational capital. In the future, we should work to grow IC because it will be a source of creation of new services and ways to differentiate the hotel over the competition.

Conclusion

The difference between market value and book value of the company points to the positive impact of intellectual capital on business operations as evidenced by the numerous studies done at this topic. IC is viewed as a collection of intangible resources that contribute to creating value. Its effect is observed through three components: human, structural and

relational capital. Human capital as the most important component of IC is particularly important in the process of creating services. In order to meet customer expectations, we need people with knowledge, experience and skills, appropriate infrastructure (business culture, databases, business processes) and building strong relationships with service users, of which, to a large extent, depends on the quality of the provided service. It can be concluded that IC and its components represent a very important factor in the development of hotel companies as they contribute to the creation of differentiated, different services. IC growth should be a priority to all service companies as it is the resource of the future and long-term business sustainability.

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