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EFFICIENCY OF INTELLECTUAL CAPITAL IN HOTEL BUSINESS*

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Abstract: The strategic goal of Croatia is "to become a knowledge-based economy and society." However, many companies, which includes hotels as well, still do not have any idea of how to cope with the challenges imposed by knowledge economy in everyday business practice. Therefore, it is vital that managers receive education on that matter, so that they can understand in which way economy is changing and how this effects them, why intellectual capital is becoming a key factor of business success and what they can do in order to create value and not destroy under the new circumstances. The Croatian IC Center has developed the PIENIC program and worked on its implementation with over 60 companies, private and state owned, from different sectors and regions.

Key words: Knowledge economy, intellectual capital, strategy of IC management in companies/hotels, evaluation of human capital performance.

INTRODUCTION

A major strategic goal, set by the EU, is the transition into knowledge based economy, in order to ensure global competitiveness in the 21. ct. In accordance with

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this are the guidelines set by Croatian government and featured in Croatian strategy: *development of knowledge based economy and transition into knowledge society.*

However, many Croatian managers do not see any connection between the above and their current business, referring it to education and school reform. This is a weak base for the realisation of strategic guidelines, and makes it an imperative to inform and educate as many managers as possible, including those working in hotel business and in the development of Croatian tourism.

They have to learn about knowledge based economy, understand in which way global economic changes affect business and how they can cope with it.

In this context, knowledge, that is, intellectual capital is considered key economic and development factor. The former editor of «Fortune» magazine, Thomas Stewart, described it as «Something that cannot be touched, although it slowly makes you rich». According to Dr. Ante Pulic, an IC pioneer, intellectual capital represents the sum of all knowledge and capabilities existing in companies, regions and nations, enabling efficient value creation.

Managers, who have focussed on tangible assets primarily, now find themselves facing a true challenge: in the future, it will be their ability of managing intangible assets that will determine business success of their companies/hotels.

In general, the term «intellectual capital (IC)» is used to refer to intangible assets or intangible business factors of the company, which have a significant impact on its performance and overall business success. As the name already implies, the source of IC is intellect, that is knowledge, whereby we refer to applied knowledge, which is in the function of value creation.

1. CLASSIFICATION OF INTELLECTUAL CAPITAL

Since we are dealing with a non material/intangible resource it has to be visualised in order to be successfully managed. Any classification of intellectual capital (IC) creates a base for understanding, talking and doing. Although various models have developed during time, the following basic classification is popular in European/Croatian business practice.

Human Capital (HC) encompasses all the employees with their individual and collective knowledge, capabilities, attitudes, capacities, behaviour, experience and emotions. All the employees represent a certain potential but do not represent human capital per se for the employer. Only in the case, when they are able to apply their knowledge and capabilities at work and thus contribute to corporate value creation. Therefore, even the most intelligent people could be dead capital if they do not know how to do that.

Due to characteristics like intellectual agility, creativity, innovativeness, capability of solving problems, persistency and initiative, human capital becomes the

key value creator of knowledge based economy. Therefore it is not appropriate to treat employee expenditures (salaries, taxes, bonuses, training, motivation programs) as cost, since it is actually investment, which should be expressed not only in words but also in accounting terms, through the balance sheet.

Some companies had to come to terms with the painful fact that employees are not just business inventory like machines, computers and real estate the company owns, when it was too late. During the reengineering process, aiming at cost reduction and achieving competitive advantage, they had made numerous employees redundant and consequently lost precious knowledge, experience, capabilities - precious capital they were unaware of.

With regard to the changing economic conditions, characterised by fast advancing technology, strong national and international competition as well as increasingly better informed customers, it is vital to continuously increase corporate knowledge and capabilities in order to be able to create value efficiently. In accordance with this, managers have to work on their capability to change the classic way of doing business. As for employee's capability to create value for the company/hotel, it is of vital importance that they do not only possess professional competence but also social competence, which assures adequate behaviour at work, with colleagues (team work), subordinates (management) and clients (all who are in direct contact with the guests).

With regard to human capital management (HCM) it is important to highlight, that the focus moves away from employee control to recognizing and developing employee's capabilities and creating a supporting business environment, in order to utilize employee's intellectual potential in an optimal way.

Structural Capital (SC) is the supporting infrastructure of human capital, being actually the result of human capital activity of the past. SC refers to all intangible factors, which enable business success and competitiveness when the people go home. In fact, human capital activity can either improve or destroy SC. Employees can leave the company at any moment (e.g. retirement, change to competition, sickness), this way depriving the company of certain knowledge (the worse if it is relevant and unique). On the contrary, knowledge shared with colleagues, applied and incorporated into business processes, programs, products and services, remains in the company and becomes its structural capital, which is owned by the company. There are two basic components of structural capital: organizational and customer capital.

Organisational SC encompasses the org. structure of the company, the ways of running the business, management sub-systems, drafts, means of control, information and communication systems, value management systems (finances, investments, accountancy), development, relationship with other employees, database, documentation and intellectual assets: patents, copyright, licences etc. The most prominent and acknowledged part of this capital is intellectual property.

Innovation SC includes the ability of a company to continually innovate at all areas of business activity (with products/services, way of organizing things, approach towards customers, managerial tools). It also applies to bigger and smaller

improvements of production and service processes, which have been proposed by the employees at all levels of the hierarchy, not only by top management, or the R&D department. Innovation capability of a hotel depends on the intellectual agility of employees characterised by flexibility, creativity, innovativeness, capability of controlling fear of new things). It is also supported by corporate culture, which encourages new ideas and concepts, enabling their realisation with minimal resistance. In knowledge economy, the innovation capability of companies is key for competitiveness and therefore requires attention of management.

Process SC includes the various business processes, techniques, quality, personnel programs etc. – everything that increases the efficiency of production or providing of services as well as quality. According to Dr. Tominovic, the first IC director in Croatia, it is in processes that value is either created or destroyed and therefore processes require constant improvement and, if necessary, redesigning in order to satisfy the needs and requirements of the customer. In times when knowledge has become a key factor of business, it is important to establish a process of continuous learning and improvement of professional knowledge and skills.

Corporate culture can be described as an aggregated sum of individual opinions, common value systems, attitudes, norms and behaviour. In principle, the culture reflects whatever is being rewarded (and thus is encouraged) or punished. Although so invisible, it is a determining factor of business success, since it provides a lever for the realisation of goals. Achieving competitive advantage in KE is not possible without a corporate culture which supports continuous learning and improvement, innovativeness and efficient communication and collaboration at the corporate level and at the individual one.

Leadership is a vital component of IC, that is based on the actions of human capital (top management) and it is reflected in the vision, mission and goals. It is up to management to direct the company /hotel in the right direction, by setting adequate goals and communicating them throughout the entire company/hotel, and thus mobilizing the entire workforce in achieving competitiveness and value creation in the future. In order to achieve this, it is important for management to investigate into economic trends, create various scenarios and apply modern management and measurement tools in order to be capable of facing the challenges of an insecure business environment. All employees must be able to identify themselves with corporate vision and goals, knowing how they can support its realisation in everyday work. Otherwise there will be no synergy effect and vision and mission will remain pure words on a piece of paper.

Customer Capital (CC) is treated as an independent position in some of the IC models, while in others it is seen as relationship capital. However, in countries, in which the provider of services still do neither see nor treat their customers as a sort of capital, it is more useful to use the term customer capital, since it brings the customer more clearly into focus of attention. Customer capital consists of the relationships with customers (buyers, clients and guests) and data bases with relevant information on customers. CC refers also to the value that is derived from and created through continuous relationships with customers. Serious and systematic customer focus

enables the company to react in time to new trends, to develop innovative products, to educate and train their staff in the right way (e.g. sales, reception) and to build up the company image. The ultimate goal is customer satisfaction and his loyalty towards the company/hotel, which is achieved by anticipation and satisfaction of customer/guest needs and wishes. It is therefore of uttermost importance that all employees, at all hierarchy levels, understand that and act accordingly. Image is a form of customer/relationship capital.

Relationship Capital encompasses relations with suppliers and partners, who are direct participants in the value creation system for the end users, i.e. the customers. These systems go beyond limits of individual companies but influence value creation efficiency of the company/hotel in a positive or negative way. We can say that business partners influences the company's/hotel's business success by their capability of satisfying customer/guest needs and requirements.

Value added for the company/hotel is being created through the interaction of IC -components, which make it vital to continuously work on improving efficiency of each of the mentioned factors as well as of their interaction. Business practice has already proved that today, intangibles are the determining factor of either, business success or failure.

2. STRATEGY OF IC-MANAGEMENT IN SERVICE INDUSTRY

Many years ago P. Drucker already stated that the service sector does not increase its productivity fast enough, whereby, today, this is one of the dominant sectors, with a major share in total value creation of world's economy. Drucker addressed the managers, working in this industry with following words: "There is great urgency. If we want to increase productivity in service industry we can not rely on government or politics. It is the task of managers and decision makers in the company. Actually, this is the highest social responsibility of management in knowledge intensive society."

The increase of productivity, addressed by Drucker, has become more and more the Achilles heel of contemporary business. However, increase of productivity is actually quite simple to achieve, by managing intellectual capital and measuring its performance – due to the fact that IC is the key factor of value creation in knowledge based economy. Another argument in favour of intellectual capital management (ICM) initiatives in companies/hotels is given by research, which proves, that this is easiest done and results can fastest be seen in service industry. However, having refined the skill of managing tangible assets for years, most managers continue to focus on money and buildings for two reasons: once, they do not understand the need for change of focus and on second, they just do not know how to deal with the management and measurement of intellectual assets.

Probably due to same reasons, Croatian managers too, are not fond of introducing initiatives that aim at increasing productivity by utilizing intellectual assets more efficiently. And hotel business is no exception to that. In this context it is good

news that in Croatia a globally unique program (PIENIC) was developed by internationally acknowledged Croatian experts and successfully applied in more than 60 companies nationwide. APENIK features a unique approach combining management education, team work with regard to improving efficiency of resources, as well as the application of new and modern management and measurement tools, which focus on intellectual capital.

The Croatian “Program of Increasing Efficiency of National Intellectual Capital” (PIENIC)

In cooperation with the Ministry of Economy (providing financial support) and the Croatian Chamber of Commerce (providing its infrastructure) the IC Center in Zagreb has initiated "The Program of Increasing Efficiency of National Intellectual Capital". On the one hand, PIENIC helps in achieving strategic goals set by Croatian government and, on the other hand, contributes to the development of future European standards with regard to management and measurement tools, which can meet the needs of KE. In this context, upon invitation of the organizers, PIENIC was presented at many international conferences: McMaster IC Congress in Canada, World Bank conf on IC of nations, regions in France, IC conf. organized by the Intellectual Assets Centre in Scotland, Knowledge Based Development conf. in Mexico, PolyU conf. in Hong Kong and the Polish Banking Association annual conf devoted to IC. Although PIENIC was initially designed for state and city owned companies, who, most of all, need to make a major shift in thinking and doing, it was successfully applied in more than 60 companies in different sectors and ownership structures, among others in the service industry, hotels included.

The managers, who applied PIENIC in their companies, confirmed that it is exceptionally useful providing relevant knowledge and new insights, encouraging the use of internal intellectual potential in the development of a unique and tailor made business recipe.

The main features of PIENIC are as follows:

- a) **Fast** - one month, depending on dynamics of realization
- b) **Simple** - no pre work, pre knowledge or complicated data collection necessary
- c) **Educative** - with regard to value creation in KE and the role of IC
- d) **Efficient** - an 5-10% increase of business efficiency possible
- e) **Explicit focus on value creation** - in addition to cost control, value added and efficiency of IC introduced as new indicators of business success
- f) **Focus on Intellectual Capital** - as the prime factor of modern business
- g) **Introduction of new management and measuring tools** - (VAIC® and ICAP® software) used in order to measure efficiency of resources, in particular, intellectual capital and assessment of IC
- h) **Cheap** - due to financial support of Croatian Ministry of Economy

In principle, the realisation of PIENIC is the same in all companies, but modifications can be made if necessary. The first step after the CEO gives his approval,

is the formation of a multidisciplinary team, who is in charge of IC efficiency improvement. It consists of 3-6 experts from different departments: HR, finance, production, sales and marketing, and other experts, chosen according to their expertise, interest or motivation. It is of great importance that the team members are people that are open towards new issues, that they are good team players and respected colleagues with a solid reputation in the company/hotel. During two workshops they receive basic education on the economic context and knowledge economy basics, intellectual capital and productivity in KE, domestic and international case studies, management of non material factors, that is IC, as well as measuring business success/efficiency in new economy.

During the next stage theory is applied in practice. Team members are trained to be capable of working on their own on the issues of increasing IC efficiency by using modern software tools (VAIC™ & ICAP™). Guided by consultants, the IC of the company/hotel is visualized and assessed with help of 260-IC related questions. Areas of interest are: HC - professional competence, social competence, Intellectual agility, values, emotions, SC – organisational: innovation, processes, management/leadership, corporate culture, working environment, relationship with others, customers (information, relationships). By highlighting critical as well as positive areas, endangering or strengthening corporate value creation capability, a base for future improvements and company's/ hotel's competitive positioning is created.

A substantial part of PIENIC is financial measurement with help of the VAIC™ analysis. This is done in order to find out the value creation capability and efficiency of IC of the company/hotel at various levels of business: at company/hotel level, but also inside the company/hotel with units or products/services. Areas are detected where value has been created more or less efficiently, reasons for such a situation ought to be found and, if possible improvements have to be initiated. The company/hotel benchmarks with competitors and sector average in order to position itself in the business environment. This is in accordance with Lord Kelvin's words: "If you can measure what you are talking about, and express it in numbers, then you know something about it."

A key element of the program is education of other employees and knowledge transfer. The point is not that a privileged group of people gets to know something about a new issue, but to educate as many people throughout the entire company as possible, (according to possibilities and qualification level), so that they might know what to do and how to do it in order to create value efficiently. Only this way efficiency that is productivity of human capital can be increased.

After PIENIC is over, the company/hotel has its own, internal consulting team, that can advise on IC and KE related matters and perform the afore mentioned analysis on a continuous basis.

The last task of the IC team, before the program is finished, is to make an action plan that encompasses the following: creation of an encouraging climate for education and transfer of key knowledge, work on the improvement of IC, based on

ICAP™ analysis and workshop as well as increase of value creation efficiency of resources based on the VAIC™ analysis.

PIENIC is a program that encourages transformation into value-oriented business, which basically means, thinking more about creating value and less about cutting costs. Experience has shown that most managers are preoccupied with cost control and current business problems. Only few take the time for thinking and talking about the future, new concepts and opportunities, which could enable more successful value creation based on existing resources. The greater the created value is, the more there is to share for all participants, and the less energy is wasted on unproductive battles between departments. As with any process, the transformation into value oriented business takes due time and effort until the existing mind set changes.

The above is absolutely not possible without explicit focus on intangibles, due to the already described role of IC and has to be accompanied by an adequate rewarding and incentive system. When the work of employees is assessed, it is important to take into consideration in which way they have contributed to value creation by utilizing their personal knowledge and capabilities. Not only quantity but quality matters. The focus is shifting from the issue of how much time employees have spent at work towards the question of what they have done during working hours. It is not enough that assignments are done formally correct, but it is of great interest in which way their tasks are executed and whether that is done in a way that creates or destroys value for the company. As for now, in Croatia it is still rare that flexibility, innovativeness, creativity, proactive thinking, capability and kindness of employees are being rewarded – the features of true human capital, which distinguish people from machines and make them an indispensable key resource of knowledge economy.

3. INHIBITING FACTORS IN INTRODUCING IC-RELATED PROGRAMS

Each company disposes of certain intellectual capital and therefore has great potential to improve business performance without heavy investments. If it is so easy where is the catch? The problem is the following: Each serious initiative requires questioning of the existing and changes. Furthermore, an open mind for the new, learning, team work, good will, enthusiasm, time, organization as well as readiness for facing mistakes of the past and continuous change and improvement are a must. It seems that this is a greater problem for management to deal with than making financial investments and therefore it is avoided. There is no unified way of managing IC, each company has to find its own ways and create their special recipes. However, experience with over 100 companies has shown that certain inhibiting factors are common to many companies/hotels and should be taken into consideration when starting an IC-related initiative.

The following can represent inhibiting factors:

Corporate culture: if it does not support new ways of thinking and doing as well if there is no room for change, readiness for learning, analysis of mistakes, team

work and knowledge sharing. In companies that in some way support or ignore employee's intolerance, gossiping, over competitive behaviour, retaining information, psychological pressure, lobbying and similar, resistance will be considerable.

Employees: if they boycott the project in an active or passive way, due to lack of awareness and understanding, inertia, fears of change and tendency to keep the well known.

Top management: if it is uninformed, inert, self centred, unpopular, does not understand what motivates subordinates, refuses positive changes, offering verbal support only, without really backing up the project,

Vision: if it is non existent, vague, unclear or badly defined (makes it hard to align IC goals to, which serve the support of vision)

Organisation of the project: if coordinator and contact person, responsible for project realisation, are not clearly assigned by top management

Communication: if it is not transparent, effective, clear and pleasant

Rewarding system: if it does not reward employees, who develop and advance continuously, but if it supports mediocrity, non creative ways of approaching things and year long established routine.

Measuring system: if it fails to measure and control that what is important in new economy

Technology: if it does not meet requirements or turns out to be too complicated.

CONCLUSION

In most companies/hotels there is an enormous intellectual potential, which is utilized only to a small extent, but holds the key to major business improvement. The problem here is that knowledge/IC management is different from managing money and other tangible assets. Therefore, the time has come for all those managers, who understand the necessity of change, who are ready to learn and apply new concepts and tools in everyday business in order to ensure themselves and their co-workers a secure future, in so far as that is possible. In doing so, they do not only contribute to the well being of their company/hotel but also help achieving the strategic goals set by Government – become a knowledge based economy and society. As a renowned economist said in similar times and in a similar occasion: "In times of economic turbulences, there will always be creative managers, who adapt fast to new circumstances, while, on the other hand - as usual - there will be the so called practitioners, who are slaves of outdated economic theoreticians." Knowledge economy is not the time for mere practitioners but the time for a class of creative, innovative and proactive value creators.

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