



On the relationship between intellectual capital and financial performance: A panel data analysis on SME hotels



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ABSTRACT

This paper analysed the effect of intellectual capital on small and medium-sized hotel financial performance for the period between 2007 and 2015. Using a sample of 934 Portuguese small and medium-sized hotels, this study adopted the GMM system (1998) estimator, to analyse a dynamic panel data. The findings suggested that intellectual capital components, i.e., human capital, structural capital and relational capital provide a positive impact on hotel financial performance. Human capital and relational capital seemed to be key elements for the success of hotels, being the basis of service quality in the hotels sector. Furthermore, the results showed that human capital and structural capital are capitalized by the establishment and maintenance of long-term relationships with key stakeholders. These findings indicated that the interaction between intellectual capital components enhances the hotel financial performance. Herein, it is highlighted the importance of intellectual capital in small and medium-sized hotel financial performance.

1. Introduction

Resources, such as knowledge and skills (operant resources (OR)), are the foundation stone for competitive advantage (Vargo and Lusch, 2016) and when integrated and exchanged with one another provides a high generated value. Value co-creation (VCC) is therefore the process of integrating and transforming resources that require interaction and imply various network actors (Lusch and Vargo, 2006). In this regard, the greater amount of OR a firm possess the greater is its capacity to co-create value which enhances its competitive advantage.

Resources are what actors can draw on for support (Lusch and Vargo, 2014), and they are generally classified as operand (i.e., tangible, static resources, such as physical objects) or operant (i.e., usually intangible, dynamic resources that can create value) (Arnould et al., 2006; Constantin and Lusch, 1994; Vargo and Lusch, 2008). OR are not exhaustible but are rather scalable, re-usable, renewable, and creatable, and they are applied in support of the service supply (Lusch et al., 2007).

According to FitzPatrick et al. (2013), intellectual capital (IC) can reflect the kind of OR that a firm can use to create value and innovation. IC is a source of value propositions that allow firms to outstand competitors and enhance firms' financial performance (FitzPatrick et al., 2013) when embed in a VCC network (Tynan and McKechnie, 2009; Vargo and Lusch, 2016). The IC generally contributes for the firms'

growth opportunities and value creation (Liu, 2017) and therefore it is considered the core concept of strategic resources to assure firms competitive advantage (Liu, 2017). IC can contribute to answer the changes in customer needs, as well as to respond to the market opportunities (Liu, 2017). Thus, IC has a relevant role for value creation and innovation in the tourism sector, which is a grouping of a variety of interconnected industries, such hotels, accommodation, lodging, transportation, food and leverage industry. There is no tourism product or tourism destination without interconnection of all actors (Macchiavelli, 2001).

Previous studies indicate that the profitability of small and medium-sized (SME) hotels is sensitive to several factors, such as experience, skills, education level of the employees and owners/managers, volatility of revenues, and capital structure decisions (Sharma and Upneja, 2005; Poorani and Smith, 1995; Kaufman et al., 1996; Romer, 1986). An enhanced IC can act as an internal factor that contributes to firms' performance and competitiveness. However, there are few studies focusing on IC as key factor of innovation, competitiveness, and performance in the hotel industry (Bontis et al., 2015; FitzPatrick et al., 2013). Furthermore, according to Marzo and Scarpino (2016), the study of IC in small and medium-sized enterprises has not deserved much attention of researchers. This study attempts to fill these gaps by analysing the impact of IC on the financial performance of SME hotels.

The synergetic value of IC is rooted in the interaction between its

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different components (Bontis et al., 2015; Sydler et al., 2014), i.e., human capital (employees' talent, skills and expertise), structural capital (organizational capabilities, culture, processes, patents, copyrights, trademarks, databases) and relational capital (creation and maintenance of relationships with stakeholders). Therefore, this study first research objective is to analyse the relationship between each IC components, i.e., human capital, structural capital and relational capital and SME hotel financial performance. Previous tourism and hospitality literature focuses on how IC improves firm performance (Sainaghi and Baggio, 2014; Zeglat and Zigan, 2014), but there are few studies analysing the inter-relationships among the different components of IC and its effects on hotels' financial performance. Therefore, the second research objective of the current study, is to analyse how the IC components inter-relationships between, human capital, relational capital, and structural capital impact on SME hotel financial performance. Additionally, this study, different the previous studies, using dynamic panel data models, captures the dynamic character of the relationships between IC and SME hotel financial performance.

In Portugal, small and medium-sized enterprises play a vital role in its economy. According to the National Statistical Institute (INE, 2017), small and medium-sized enterprises represent 99,9% of total business activity, contributing with 59,9% of total sales in Portugal and employ 79,9% of total workforce. The sector of Accommodation, Restaurants and similar accounts for a total of 91.826 firms, and the majority of these firms are considered micro-sized (89% of total firms). The remaining firms are considered small and medium-sized enterprises (10,5% of total firms), where these employ 46,5% of the total workforce of the sector (INE, 2017). The accommodation sector accounts for 17,1% of total firms (1.591 hotels) where Restaurants and similar, contributes with 36,2% of total sector revenues and employs 26,2% of total sector workforce (BdP, 2016).

The analysis of IC on Portuguese SME hotel financial performance was performed with data collected for the period between 2007 and 2015. This study resorts to the GMM system (1998) estimator, which allows to consider the heterogeneity of firms and their evolution over time. Therefore, this study uses a dynamic panel data model.

The results obtained reveal that all the components of IC, i.e., human capital, structural capital and relational capital have a positive impact on SME hotel financial performance. Human capital and structural capital appear to be key elements for the success of hotels and are the basis of service quality in the hotel sector. Additionally, human capital and structural capital are capitalized by the establishment and maintenance of long-term relationships with key stakeholders, i.e., relational capital. Structural capital and relational capital in the previous period positively affect SME hotel financial performance of the current period. These results indicate that investment in structural capital, such as, databases and processes, and, the long-term relationships with key stakeholders as employees and customers contribute to future financial performance of hotels. Findings also reveal that the interaction between IC components enhance hotel's financial performance.

This study contributes to the IC and hotel's literature by enhancing: i) the importance of each of components of IC components for the SME hotel financial performance; ii) the impact of the interrelationships between IC components on the SME hotel financial performance; iii) the importance of the methodology, using dynamic panel data models, to capture the dynamic nature of the relationships between IC components and SME hotel financial performance.

The current paper is structured as follows: Section 2 presents the theoretical framework and hypothesis development; Section 3 describes the methodology; Section 4 and Section 5 presents the results discussion; and Section 6 presents the conclusion and implications of the study.

2. Literature review and hypotheses development

2.1. Intellectual capital and tourism industry

The tourism industry is considered one of the largest and most dynamic industries in the world (Wang, 2015), in which the supply side of tourism must constantly adapt to the tourists demands (Weiermair, 2006), being a powerful generator of innovation (Omerzel and Jurdana, 2016).

Previous studies have shown the importance of IC in the hotel industry (Engström et al., 2003). IC is a fast-evolving concept (Ilyin, 2014; Mehralian et al., 2012) that has been capturing the attention of researchers and practitioners over the last two decades. It is a multi-disciplinary and an interdisciplinary concept (Bontis, 1999; Marr and Chatzkel, 2004; Morariu, 2014). Consequently, due to different backgrounds and perspectives amongst researchers, there is no generally accepted definition of IC (Choong, 2008 Mehralian et al., 2012; Mondal and Ghosh, 2012; Morariu, 2014; Scafarto et al., 2016). Considering the current study's purpose, IC is defined as the knowledge-based activities and processes which contributes to firms' innovation, value creation, competitive advantages and future benefits by adding value for firms' stakeholders.

The synergetic value of IC is rooted in the interaction between its different components (Bontis et al., 2015; Sydler et al., 2014), i.e., human capital (employees' talent, skills and expertise), structural capital (organizational capabilities, culture, processes, patents, copyrights, trademarks, databases) and relational capital (creation and maintenance of relationships with stakeholders). The three-dimensional classification of IC provides the clearest and the least ambiguous categorization of IC (Sydler et al., 2014). According to Zeglat and Zigan (2014) it is not clear how the different IC components contribute for hotel's financial performance. Therefore, below, we present a brief description of each of components of IC as well as its role in the tourism industry, particularly, in the hotel sector based in previous studies.

Human capital is considered one of the core dimensions of IC and the most important firm's asset since it is the source of firm's strategy renewal, creativity, innovation capacity and, consequently sustains a major competitive advantage (Chi et al., 2016; O'Sullivan and Schulte, 2007; Bontis et al., 2007; Bontis, 1998; Brooking, 1997; Edvinsson and Malone, 1997; Nonaka and Takeuchi, 1995). Based on the employees' talent and skills (Ghosh and Mondal, 2009; Cater and Cater, 2009, Sydler et al., 2014; Tsakalerou, 2015; Ilyin, 2014), human capital provides uniqueness to the firms (O'Sullivan and Schulte, 2007) in the development of added value of goods to reach key stakeholders' loyalty (Bontis et al., 2007; Ghosh and Mondal, 2009; Cabrita and Bontis, 2008).

Structural capital remains in the firm after employees have left (Cabrita and Bontis, 2008; St-Pierre and Audet, 2011; Nazari and Herremans, 2007; Bontis et al., 2015; Curado, 2008; Stewart, 1997). It comprises the organizational capabilities, culture, processes, patents, copyrights, trademarks, databases, and so on (Ahangar, 2011; Denicolai et al., 2015, Janosevic and Dzenopoljac, 2012, Johnson, 1999). Structural capital supports and empowers human capital (Lee and Mohammed, 2014; Curado et al., 2011; Edvinsson, 1997; Tsakalerou, 2015; Ilyin, 2014; Bontis, 1998; Díez et al., 2010), which is a vital factor to structural capital development (Nazari and Herremans, 2007) and to reach its full potential in the firm's value creation and performance (Lee and Mohammed, 2014; St-Pierre and Audet, 2011; Sveiby, 1997; Bontis, 1998). Structural capital and human capital are interdependent and interact in the creation of IC (Cabrita and Bontis, 2008). Structural capital is also pointed as the supporting infrastructure for the establishment of external relationships (Molodchik et al., 2014; Schiuma and Lerro, 2008).

Relational capital is the ability of firms to create value through complex relationships with external stakeholders (Tsakalerou, 2015; Cabrita and Bontis, 2008; Meles et al., 2016; Joshi et al., 2013; Sydler

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