



UNIVERSITY
OF WOLLONGONG
AUSTRALIA

University of Wollongong
Research Online

Faculty of Commerce - Papers (Archive)

Faculty of Business

2006

Managing human capital in a privately owned public hotel chain

Indra Abeysekera

Macquarie University, indraa@uow.edu.au

Publication Details

This article was originally published as Abeysekera, I, Managing human capital in a privately owned public hotel chain, *International Journal of Hospitality Management*, 25(4), December 2006, 586-601.

Research Online is the open access institutional repository for the University of Wollongong. For further information contact the UOW Library:
research-pubs@uow.edu.au

Managing human capital in a privately owned public hotel chain

Abstract

This study analyses human capital (HC) management practices in a small privately owned public hotel group, in the context of intellectual capital (IC). Previous studies have highlighted how firms measure and report HC, however few studies have examined the HC management practices of firms. This study analyses these practices using multiple data methods – namely, observation, interaction with staff, examination of internal financial and management reports, and semi-structured case study interviews - on a continuous basis over a one-year period. The results of this study indicate that, through HC management practices, this group of hotels engaged in value extraction rather than value creation as a way of maximizing the value of the firm. The study identifies several possible reasons for this and presents a number of ways of encouraging value creation.

Keywords

human capital, intellectual capital, hotels, management, small firms

Disciplines

Accounting | Business | Social and Behavioral Sciences

Publication Details

This article was originally published as Abeysekera, I, Managing human capital in a privately owned public hotel chain, *International Journal of Hospitality Management*, 25(4), December 2006, 586-601.

Abeysekera, I. 2006, Managing human capital in a privately owned public hotel chain, *International Journal of Hospitality Management*, December, Vol. 25, No. 4, pp. 586-601.

Managing human capital in a privately owned public hotel chain

by

Indra Abeysekera

Macquarie University, Sydney, Australia

Name and mailing address of the institution from which the work originates:

Department of Accounting and Finance

Macquarie University NSW 2109, Australia

Correspondence details

Address: Dr Indra Abeysekera

P.O. Box 5

Eastwood NSW 2122

Australia

Phone: +61 417 405 399

Email address: iabeysek@efs.mq.edu.com

Managing human capital in a privately owned public hotel chain

Abstract

This study analyses human capital (HC) management practices in a small privately owned public hotel group, in the context of intellectual capital (IC). Previous studies have highlighted how firms measure and report HC, however few studies have examined the HC management practices of firms. This study analyses these practices using multiple data methods – namely, observation, interaction with staff, examination of internal financial and management reports, and semi-structured case study interviews - on a continuous basis over a one-year period. The results of this study indicate that, through HC management practices, this group of hotels engaged in value extraction rather than value creation as a way of maximizing the value of the firm. The study identifies several possible reasons for this and presents a number of ways of encouraging value creation.

Key words: human capital, intellectual capital, hotels, management, small firms

Managing human capital in a privately owned public hotel chain

1. OVERVIEW

Several factors inherent in the current global situation have highlighted the importance of human capital (HC). Contemporary forces such as globalization, new technology, the relatively free flow of capital, increased competition, the demand for innovation, changes in customer demands, changes in economic and political structures, and the growing role of the state in supporting knowledge economies are constantly reshaping the way business is carried out (Buckley & Carter 2000; Thorne & Smith 2000; Volberda, Baden-Fuller & van den Bosch 2001). Previous research has claimed that firms have begun to realise that technology-based competitiveness is transient, and that sustainable advantage lies in managing intangible resources such as HC (Johanson, Martensson & Skoog 2001) and in a firm's ability to create value through managing knowledge (Lev 2001; Sveiby 2001).

This paper presents the findings of research into the HC management practices of a group of privately owned small hotels in the public hotel industry in Australia. Four major factors motivated this study. First, although substantial research has previously been carried out into the HC measurement and reporting practices of firms (Bart 2001; Zsidisin, Ogden, Hendrick & Clark 2003; Abeysekera & Guthrie 2004), there is a dearth of research into HC management practices, and in particular into the practices of small firms. Second, there is a serious lack of case-based research that addresses the HC management practice of firms on a longitudinal basis. Third, stricter state government legislation relating to patrons consuming alcohol and playing gaming machines in Australia (Australian Hotelier 2003) has heightened the importance of managing HC within the public hotel industry. Fourth, salaries

and wages comprise a substantial cash outflow in proportion to the overall turnover of a public hotel, which highlights the financial impact of staff and staff-related costs on the profitability of a public hotel.

In examining the HC management practices of a privately owned group of public hotels in Australia, the current research focuses on the process of value creation or value extraction in the context of intellectual capital (IC). Value creation can be described as making profits without the exploitation of labour, while value extraction can be described as making profits through the exploitation of labour (Macve 1999). To put it another way, one could argue that HC management practices in value creation treat HC as an asset, and in value extraction HC management practices treat HC as cost.

The paper is organised as follows. The second section provides a brief review of the IC literature, focusing on the management of the HC of a firm. Section three briefly outlines the research site and describes the research method employed to collect and analyse disclosures in the study (document analysis; data gathering through observation and interaction with staff). Section four presents empirical evidence and a discussion from the data analysis. Finally, section five presents concluding remarks, noting the limitations of this study and providing suggestions for future research.

2. LITERATURE REVIEW

In defining IC, several authors take the view the benefits of IC being long-term rather than short-term. However, the definitions of these authors vary significantly (Edvinsson & Sullivan 1996; Brooking 1997; Edvinsson 1997; Edvinsson & Malone 1998; Klein 1998; Nasserri 1998; Saint-Onge 1998; Ulrich 1998; ASCPA & CMA

1999; Knight 1999). Petty and Guthrie (2000, p. 158) define IC as the value creation arising from two categories of the intangible assets of a company: (a) organisational (structural) capital; and (b) human capital (HC). Structural capital refers to elements such as business processes, software systems and supply chains, and HC refers to staff competencies and the competencies of external stakeholder human resources available to the firm.

It is increasingly understood that HC and IC are, in general, invaluable assets in contemporary knowledge-driven economies (Edvinsson & Sullivan, 1996; Graham & Pizzo, 1998; Chen & Lin 2004). For instance, Edvinsson and Sullivan (1996) have argued that managing IC is about managing knowledge and leveraging and harnessing HC to create value. HC is a component of IC, for a firm's knowledge is stored within its employees, and organisational assets flow on from the firm's ability to utilize its employees. HC is vital to a firm, as it is the component of IC that is transformed into value through the medium of structural capital (Edvinsson & Sullivan, 1996). However, according to an Australian study, the often-stated claim in annual reports that HC represents the most important assets of the firm is not, in fact, supported by the nature and extent of IC reporting in the annual reports of these firms (Guthrie, Petty, Ferrier, & Wells 1999).

There are both common and distinct factors between knowledge management on the one hand, and HC and IC management on the other. According to Wiig (1997), knowledge management has a more detailed focus on activities such as the creation, capture, transformation and use of knowledge. In the context of Wiig's definition, HC management predominantly concerns maximizing and renewing the value of the intellectual assets of a firm. It is argued that the greatest benefit of managing HC in the context of IC is that, by doing so, the company is in fact managing the value

creation of the firm (Roos, Roos, Dragonetti & Edvinsson 1997, p. 77). The conceptual position taken in the literature is that a firm can manage knowledge by ignoring HC, but managing HC by ignoring knowledge is unlikely to be feasible (ASCPA & CMA 1999, pp. 6-11).

Early definitions of HC (Mincer 1958; Johnson 1960; Marshall 1961; Schultz 1961; Lev & Schwartz 1971, 1972) drew on the definition of capital proposed by Fisher (1930). HC has been described by different names, such as 'human assets' (Likert 1967), 'human resources' (Hekmian & Jones 1967; Brummett, Flamholtz & Pyle 1968; Dalmahoy 1996), 'cultural capital' (Thompson 1998), 'worth of employees' (Roslendar & Dyson 1992) and HC (Liebowitz & Wright 1999).

Although several different definitions of HC are found in the literature (Edvinsson & Sullivan 1996; Grojer & Johanson 1996; Roos 1998), the notion of HC has not been operationalised for accounting and reporting purposes (Bassi, Lev, Low, McMurrer & Siesfeld 2000). However, it is generally accepted that HC refers to a combination of assets possessed by individuals in, and by the collective workforce of, a firm. HC can encompass knowledge, skills and technical ability; personal traits such as intelligence, energy, attitude, reliability, commitment; the ability to learn, including aptitude, imagination and creativity; and the desire to share information, participate in a team and focus on the goals of the organisation (Fitz-enz 2000). Several authors have pointed out that HC is important because it is what creates value and becomes transformed into structural capital and is then used to extract value (Edvinsson & Sullivan 1996; Graham & Pizzo 1998).

One popular framework for analysing HC practices is that proposed by Brooking (1996; Brooking & Motta, 1996). Brooking's framework has since been expanded

by other researchers (IFAC 1998; ASCPA & CMA 1999; Dzinkowski 1999, 2000; Abeysekera & Guthrie 2004). The present study uses this expanded framework, but with further modifications with regard to the equitable treatment of employees, HC relations, and training and development. The use of Brooking's framework is helpful in that it: (i) provides an analytical foundation; (ii) enables HC attributes to be identified in more detail, that is, by firm; and (iii) recognises both HC assets and HC liabilities so as to avoid overstating HC by ignoring HC liabilities.

Until recently, few firms have attempted to measure and assess HC management practices in the context of the value creation of a firm (Guthrie & Petty, 2000). There is a notable absence of research examining HC practices in the public hotel industry. Yet such an examination is pertinent and significant because public hotels in Australia and in many other countries have come under increasing pressure from regulators who have increased taxes on public hotel takings, and have attempted to limit gambling and the consumption of alcohol through various laws and regulations, resulting in a reduction in the client base of hotels.

Engstrom, Westnes and Westnes (2003) were one of the first to study the hotel industry. However, the present study differs from that of Engstrom *et al.* in three respects. First, the previous study examined a large hotel chain in Norway, whereas this study examined a small hotel chain in Australia. Second, the previous study examined a resort hotel group where the main source of income was on the provision of room accommodation and food service, whereas this study examined a public hotel group where the main source of income is from the retail sale of alcoholic beverages and from patrons playing gaming machines. Therefore, in contrast to resort hotels, public hotels depend on a customer base that uses the hotels for entertainment rather than accommodation. Third, the previous study examined

the nature of IC and why firms should measure it, whereas this study examines HC management practices.

Some authors argue that the number of unemployed and underemployed people worldwide is about one billion, the largest number since the Great Depression. At the same time, governments are reducing their commitment to the social wage and focusing instead on assisting owners of businesses to further their profit-making interests. Employees are increasingly working longer hours for lower wages, resulting in a process of value extraction rather than value creation (Esposito, Aronowitz, Chancer, DiFazio, & Yard 1998). Townley (1995) states that various organizational practices, such as accounting, have contributed to this shift towards the value extraction of labour.

The literature on managing HC in the context of value creation can be classified into three areas. The first area consists of studies demonstrating that managing HC has an impact on the financial performance of a firm (Pena 2002). Second, there are studies dealing with how organizations are structured to manage IC (SubbaNarasimha 2001; Skoog 2003). Third, there are studies that deal with HC management practices that maximize the value creation of a firm (Sullivan 1999; O'Regan, O'Donnell & Heffernan 2001; Das, Sen & Sengupta 2003).

Pena's (2002) empirical study concluded that, regardless of the financial performance of a start-up firm, its performance is positively influenced by its HC. Pena's study showed that the entrepreneur's HC elements, such as education and business experience, were positively related to the venture performance of 114 start-up firms. This was true regardless of whether the firm was at a growth, stable or declining stage of financial performance. Although this study provided useful

information in relation to small firms, Pena's findings may not be applicable to firms that are well established.

SubraNarasimha (2001) has argued for the importance of organizational design in meeting the changes in technology, product and consumer needs that are involved in managing HC. They have suggested that pooling the knowledge of employees could contribute to the development and adoption of products, processes and technology in fresh and creative ways. This conceptual study requires empirical validation. Skoog (2003) studied a large Swedish bank and identified factors in the structure of management control systems that facilitated the creation of HC. Skoog identified the frequency of measuring value creation, the time span covered by HC measurement methods and reports, and the ability of managers to legitimize value creation activities as having an impact on value creation within firms. However, the findings of Skoog are limited as they are confined to a single large bank.

Sullivan (1999), and Roos, Fernstrom and Pike (2004), demonstrated that the effective management of HC to enhance value creation requires supplementing HC with structural capital recognised in the balance sheet. Sullivan states that a planned and progressive approach to managing HC produces the best results. However, there is an issue with generalisability here, since Sullivan's findings are based on large firms. In another study, O'Regan *et al.* (2001) interviewed CEOs of the Irish software and telecommunications sector and found that almost one half of their IC was derived from their employees. Based on their findings, O'Regan *et al.* argued that there is a shift in the corporate governance model to one that proposes that employees control the capital of firms. Since software and telecommunications firms are knowledge-intensive firms, and are usually large, once again the applicability of

the findings of O'Regan *et al.* are limited in the context of small and less knowledge-intensive firms.

The above literature review highlights the dearth of studies in relation to small established firms. Madsen, Mosakowski and Zaheer (2002) emphasise that it is important to examine variables over a period of time to understand the evolving nature of the relationship between staff and management. Past studies also have not focused on managing HC in an ongoing context (Pena 2002; SubraNarasimha 2001). In other words, the majority of these studies are 'snapshot' studies rather than longitudinal ones. These 'snapshot' studies include case study interviews and questionnaires (Skoog 2003; Sullivan 1999). However, a more in-depth analysis of the management of HC could be obtained by the researcher being located within the firm on a continuous basis over a period of time, during which he/she would interact with the staff and directors and analyze the firm's internal documents. This study uses such a model and in so doing aims to fill a gap in the existing literature.

3. THEORETICAL BACKGROUND

The human capital theory argues that that an individual's skills, experience, and knowledge bring economic value to the firm (Becker 1964). According to Becker (1964), individuals enhance their human capital through education and training. Empirical research has consistently indicated a positive relationship between the economic value of education and training, and its return on investment (World Bank 1998). Training ranges from formally organized activities, such as apprenticeships and other training programs, to the informal processes of learning through on-the-job experience. Becker states that there is normally a gap between an employee's educational background and the skills required for any particular job. Therefore, for a school graduate, entering the labour force marks the transition from the possession

of general and preparatory skills to the possession of more specialized and occupational skills (Becker 1964).

Becker states that human capital becomes the foundation for the wealth-creating capacity of a firm or nation and should therefore be invested in. Therefore, research into HC management practices should examine the link between HC management and the process of value creation within the firm. Studies indicate that productivity levels can be enhanced by increasing the levels of HC among the employees (Flamholtz & Lacey 1981; Gee & Nystrom 1999). As mentioned earlier, one way of developing HC is through training. Brockner and Lee (1995) state that, due to an increase in the downsizing activities of firms, the responsibility for career management activities such as training has shifted from employers to employees. Thus it is suggested that employees should take the initiative to update their skill levels, in order to achieve economic gain through greater earnings or enhanced job security that result from increased productivity (Heyes & Stuart, 1996; Griffith, 1998). At the same time, employers also need to be proactive in developing the HC of their employees, in order to make the most of changing technology and to be able to more effectively restructure business processes (Lee, Phan, & Tan 2003). If firms do not invest in their employees, they will struggle to compete effectively or may even face bankruptcy.

4. RESEARCH METHODS

The research site comprised six hotels in a family-owned public hotel group where two blood-related brothers are active directors of the group in the state of New South Wales, Australia. Over a period of one calendar year, the researcher visited the research site an average of three days a week and spent a minimum of three hours

with the firm during each visit. The researcher used multiple methods to gather research data.

First, the researcher used the participant observation method. The researcher spent time with the staff, speaking, joking and sympathizing with them, and sharing their concerns and accomplishments, with a view to understanding how the staff perceived the management of HC within the firm. These prolonged times of interaction allowed the researcher to view the dynamics of conflict and change in the management of HC in the hotel chain (Bogman 1972). The researcher was also given permission to sit in on both internal meetings (i.e. with staff) and external meetings (i.e. with clients).

During these times of interaction, in order to reduce any bias with regard to the participants, the researcher made formal and mental notes relating to the study. Following the meeting, when transferring mental data into formal notes, the researcher recorded the notes as soon as possible after the observation period, and avoided talking to participants any further about the observations until after they were recorded.

Second, the researcher analysed the firm's internal documents. The chain of hotels also provided open access to the accounting system to the researcher, on the basis that no absolute financial information would be reported in any publication.

Third, the researcher carried out interview case studies with four senior staff. These were the general manager, the senior manager of bottle shop operations, a hotel manager overseeing the operations of a hotel, and the senior owner-director. These respondents were selected since they represented different aspects of the operation

of the hotel chain and had experience and involvement in managing HC. The interviews were semi-structured in style. The purpose of using this approach was to obtain the 'operational' rather than 'official' view of managing HC. The minimum total time per interview was two hours.

The researcher took an active role in terms of guiding the interview format and directing the conversation towards specific topics or in a way that would help to clarify the meaning of events and comments whenever they were unclear. Probing questions are a powerful tool for ensuring the reliability of the information collected, and in this sense are more helpful than questionnaire surveys. The answers were probed in non-directive ways so as not to lead the respondent towards a particular answer (Fowler (Jr.) 1988). The probing questions helped clarify problems arising from the complexities and limitations of human thought processes, while minimizing researcher bias (McKinnon 1988).

A semi-structured questionnaire was used for the interview and answers were recorded by the researcher. The questionnaire used the same framework as that used in coding content analysis data, so as to ensure comparability between the interview data and the content analysis of the annual reports. The interview had a broad structure within which questions were asked and a conversational approach adopted, so that respondents could air their views in a relatively free and informal manner. The idea was to put the respondents at ease so that they would reveal their honest opinions. The interviewer took active control in directing the respondent towards relevant questions and in managing the time. Whenever an answer was inadequate, the question was simply repeated and the interviewer avoided suggesting a possible reply. Interestingly, although the emphasis varied with each respondent, depending on the specific concerns and priorities they had regarding the firm, the interviews

covered broadly comparable areas for each aspect of the firm, though in a flexible order and context (Goddard & Powell 1994).

The researcher took notes during each interview. The researcher made sure that the collection of data was kept separate from the analysis of data, by delaying the data analysis and asking third party researchers to critically comment on this analysis. These steps ensured that the results had a high level of validity and reliability. The interviewer transcribed answers in an abbreviated form while the respondent answered the questions, and if necessary the interviewer asked for extra time before proceeding to the next question. The interviewer avoided paraphrasing, adding, deleting or amending the respondent's replies, in order to retain the original meaning and emphasis and to avoid interviewer bias. Soon after completing the interview, the interviewer reviewed the transcript to ensure that it was accurately and comprehensively completed, and if necessary went back to the respondent for any missing information (Selltitz, Jahoda, Deutsch & Cook 1967).

Before embarking on the research, the researcher devised two methods to increase objectivity in the recording and analysis of the data. The first method involved predefining the coding framework. Since the notes taken were coded by the researcher, the researcher's frame of reference could affect the ascertaining of content. The researcher therefore defined each HC item before analysing the content of the internal and external reports of the hotel chain. Secondly, after some time had passed, the researcher re-examined the notes taken during the interview, to confirm that the content had been consistently and clearly identified. This process forced the researcher to examine his or her underlying assumptions in analysing the content and, consequently, ensured a greater quality of the data produced by such analysis (Carney 1972, pp. 197-200).

According to McKinnon (1988, pp. 36-52), the validity and reliability of case study interviews can be undermined by five factors, all of which were relevant to the present study. First, observer-caused effects can cause respondents to change their behaviour in interviews, or the respondent may have 'hidden agendas' in answering the interview questions (Goddard & Powell 1994). Second, interviewer bias can affect the registering, interpreting and coding of responses and events during the interview. Third, since data gathering through the interview method is restricted to the time frame of the interview, there are limits to the quality and quantity of data that can be obtained. Fourth, in recognising the complexities and limitations of human thought processes, it is acknowledged that statements made by respondents cannot always be taken at face value. Respondents can consciously seek to mislead or deceive the researcher, and even if respondents provide honest and accurate responses, their statements can be still affected by natural human tendencies and weaknesses. Fifth, the interview method relies heavily on the integrity and intellectual honesty of the researcher, as the experience cannot be replicated and tested.

Since the researcher's approach can have a strong influence on the measurement instrument, one of the critical factors in minimizing observer-caused effects in the interview process is the behaviour of the researcher when interacting with respondents and with other members of the firm. If the interaction is managed badly, it can pose a serious threat to the validity and reliability of the data (McKinnon 1988). This researcher overcame such barriers by creating conditions for social relationships and by winning the trust, confidence and respect of the respondents. The researcher was perceived as a person genuinely interested in them. Wherever possible and appropriate, the researcher used social connections to effect an

introduction to each respondent before the initial contact (Schatzman & Strauss 1973). The researcher then contacted the respondents by phone to inform them about the interview and their selection as a respondent, and to explain that they would receive a letter with details about the interview. When seeking an appointment, the researcher explained to the respondents the purpose of the interview. The letter to respondents included information provided by the University about the research. The letter outlined the rights of the respondents, the duration of the interview and the nature of the questions that would be asked at the interview. Once the respondent had a chance to examine the letter, the interviewer contacted the respondent by phone to set up a mutually agreed time for the interview at the respondents' office.

To undertake analysis of the data collected through participant observation, the analysis of internal documents and the interview case studies, the HC items were coded into the modified Brooking's framework.

5. RESULTS AND DISCUSSION

Over the period examined, it was found that the HC management of this group of companies was characterised by value extraction rather than value creation of HC. The management of HC in this hotel chain is analysed in the light of human capital theory, and is presented under three main headings: training, know-how, and entrepreneurial skills.

Training

By and large, the group of hotels was not proactive with regard to training its employees. Although the senior director acknowledged that a lack of off-the-job training and trained employees was a major issue in the industry (Pratten 2004), the group did not encourage off-the-job training. This situation can be attributed to three

factors. First, the long working hours demanded from employees meant little time was left for employee training. Second, the group employed a high proportion of casual staff and naturally the management was not interested in providing any off-the-job training for them. The only training provided was on-the-job, and even that was approached in an *ad hoc* manner. Although in the interviews the respondents agreed that off-the-job trained staff are a scarcity in the industry in general, hotel managers stated that some managers preferred junior staff with no previous hotel training, and indeed that such staff could be better trained through on-the-job training. Third, the directors believed that staff come and go, and that therefore the only way to retain knowledge was through on-the-job cross-training, not through off-the-job training. While this group of senior staff acknowledged that knowledge was important for providing a competitive advantage to the firm, as suggested by SubbaNarasimha (2001), there was a clear lack of willingness to invest in such knowledge.

The research showed that the group was motivated to train employees only when they could use those employees to create additional cash flow for the firm. For example, when a group trains employees who lack formal qualifications through a training organization registered with the Department of Education, Science and Training (DEST), the group is entitled to receive funding, and so the cost of training is borne by the state government. In this way, the group being researched used its employees as a means for enhancing short-term profits. However, perusal of the accounting data revealed that the group had not maximized the cash inflow from training employees through DEST, due to a lack of formal processes in place to initiate and monitor ongoing training for the employees. These findings reinforce the findings of Sullivan (1999), who found that firms use structural capital (capital recognized in the balance sheet) to complement IC value creation and extraction.

According to the Australian Bureau of Statistics (ABS) (2003), the predominant reason for employers providing off-the-job training is to meet industry standards or professional status. Although ABS data does not offer industry averages for different staff categories of public hotels, it is understood that public hotels are not required to employ staff with certified training experience. The ABS also reported that, on the whole, employers did not want to provide off-the-job training because they felt that employees were already adequately trained. However, as already discussed, the reason that off-the-job training was not being provided by the hotel chain was in fact the indifference of directors towards training their employees.

Know-how

The ability to hire knowledgeable staff is constrained by the unwillingness of the hotel group to offer remuneration in line with industry standards. As a result, know-how is compromised for the sake of reduced salaries and wage-related costs. For instance, security staff of the hotels, who are hired from a security firm, are required to double up as bar staff in the hotel while performing their duties, in order to minimize the number of staff working in the hotel at a given time. However, the desire of the group to minimize staff numbers has in fact resulted in cash shortfalls in the cashier's till. Since the security staff are not employees of the group, any cash shortfalls occurring while a security staff member is looking after the till are unrecoverable and treated as bad debts. This is because the agreement between the security firm and the hotel group does not allow the firm to recover any cash shortfall unless the hotel chain can explicitly prove that the security staff member stole money from the till.

The lack of knowledgeable and trained staff also leads to poor decision-making within the group. For instance, the junior director's personal assistant proposed that the group of hotels should not accept card transactions that need to be manually processed. If that proposal had been implemented, the hotels would have lost legitimate sales due to an ill-conceived policy. However, a senior manager who overheard the discussion pointed out that obtaining prior authorization from the card issuer to ensure that it is a valid transaction could allow the processing of manual transactions. The junior director subsequently agreed to accept the senior manager's approach.

There is also a lack of competent staff in the head office. For instance, the general manager claimed not to be aware of the law that requires an employee to be compensated for working on public holidays. When an assistant manager's tenure was terminated without being compensated for the public holidays on which he or she had worked, the Office of Workplace Relations had to explain the law to the management of the hotel chain in order to ensure that the required payment was made.

The compromising of the number of knowledgeable employees for the sake of reducing salaries and wages costs has also led to the hiring of dishonest employees. Staff at hotels constantly handle cash, since the nature of the business is that products are mostly sold on a cash basis. Several staff members were dismissed at more than one hotel for embezzling cash. Also, from time to time, the incompetence of managers has cost the group through mistakes such as the overpayment of cash to patrons. Although the general manager has indicated that the group should pay market-based salaries to attract competent staff, the directors have not responded to this request. Despite it being pointed out that the firm is losing money due to the

hiring of incompetent staff, the junior owner–director has argued that it is too costly to pay a manager the required sum of money. Hence, this is perhaps more an HC issue rather than an accounting control system one, since the effectiveness of accounting control systems is influenced by the level of staff competence. Therefore, the findings of this study contrast with those of O'Regan *et al.* (2001), who found that HC was perceived by firms as a primary source of capital for value creation through IC. Instead, the findings of this study suggest that firms consider employees as a cost to be minimized rather than capital to be maximized.

Entrepreneurial skills

The general manager argues that some managers in the hotel are not capable of generating new business ideas, and that some others are not motivated to do so. Employees who generate profitable ideas anticipate a higher remuneration as a reward, but the owner–directors are not inclined to offer additional remuneration. The general manager states that this situation results in his needing to take all the responsibility for generating new ideas and drawing up marketing plans for each project, which according to him could be successfully carried out by each hotel manager.

The general manager believes that the lack of entrepreneurial initiative among hotel staff is also due to the quality of new staff hired. The hotel chain hired staff with little or no expertise with a view to keep their costs down. For instance, the hotel chain had no staff member with legal expertise. Further, in order to keep the cost of salaries and wages down, staff with little know-how and entrepreneurship were hired. However, the result was that a large portion of the work time of owner–directors was consumed with responding to frequent requests by staff for guidance and direction regarding delegated tasks, forcing directors to focus on issues of

business management rather than on business growth. Consequently, at present, any entrepreneurship within the firm lies largely with the owner–directors. The general manager states that the senior director has vision, and is able to visualize that holding an asset such as a property over an extended period of time would increase the overall profits of the firm. The senior owner–director has proven this through several transactions (such as buying, operating then and selling properties). However, this is where the entrepreneurship ends.

As argued by Pena (2002), greater entrepreneurship within a group can increase the performance of the business. The cause for the lack of entrepreneurship in this group appears to be inadequate reward and recruitment. It is suggested that the owner–directors reward staff for entrepreneurship and consciously select staff who could be entrepreneurial in the work environment.

6. CONCLUDING REMARKS

The findings presented in this paper suggest that the management control systems (including HC management systems) in place in the hotel chain under examination are geared towards the value extraction rather than the value creation of HC. The monthly management reports of the group showed that employees are used as a resource base for value extraction, through funding received from the government for off-the-job training. Further, the owner–directors keep a close eye on salaries, wages costs and employee numbers, ensuring that these are kept to a minimum, often at the expense of the long-term growth of the firm.

These findings contrast with the current management thinking that promotes the notion of competitive advantage through the management of people as assets rather than as liabilities. Yet the findings of this study are consistent with the studies of

Olsson (2001) and The Economist Intelligence Unit (1998), which point out that, although most firms assert that people are their most important asset - making it reasonable to expect that firms would do all they can to enrich that asset for value creation - in fact the converse is true. This may be because, in a rapidly changing business environment where employment mobility has become the norm, firms expect employees to take a greater responsibility for enhancing their own HC value.

Thus the study highlights two issues in relation to the training, know-how and entrepreneurial skills of employees in public hotels. First, it highlights that employees need to continually upgrade their skills by taking opportunities for skills training, if they are to attain job security. Second, employers need to recognize the positive value that training has on employee productivity and should invest in both on-the-job and off-the-job training.

This study also has policy implications for HC value creation. The findings suggest that the government should take a proactive role in ensuring that employees are trained, by providing incentives and implementing monitoring systems. The government could also set minimum qualifications and a lead time period to ensure that employees are formally trained through both on-the-job and off-the-job training programs.

This study has several limitations. First, the ownership structure, level of gearing, group size and industry type of the hotel chain under examination may limit the generalisability of the findings. Second, the validity and reliability of the method and outcomes of the study was strengthened by the use of multiple data-collection methods, the research setting cannot be replicated, as business processes and systems change over time, and access to this privately owned group of firms is

restricted. Third, since the same researcher both collected the data and analysed the data, there may have been some observer-caused effects and interviewer-bias effects on the interpretation of the data.

Despite these limitations, the insights and practical suggestions of this study provide a foundation for further research. Future studies could be undertaken to validate the present findings in relation to different ownership structures (such as partnerships, sole traders), different sizes of firms, and other industries. For example, the question of how firms still survive in the long term under circumstances of HC value extraction could be examined. Alternatively, a study could be undertaken on the relationship between HC value extraction or creation and the firm achieving its stated business goals. Another study could analyze the relationship between employee training and customer satisfaction, in which customer satisfaction could be measured using customer evaluation or complaint forms as the source documents.

REFERENCES

- Abeysekera, I., Guthrie, J., 2004. Human capital reporting in a developing nation. *The British Accounting Review*, September, 36(3), 251-268.
- ASCPA and CMA (Australian Society of CPAs and The Society of Management Accountants of Canada), 1999. *Knowledge Management: Issues, practice and innovation*. Australian Society of Certified Practising Accountants, Melbourne.
- Australian Bureau of Statistics, 2003. 6362.0 *Employer training expenditure and practices*, Australia. Australian Bureau of Statistics, Canberra.
- Australian Hotelier, 2003. No more pokies says Wagga Mayor Wales. *Australian Hotelier*, November, 25. National Publishing Group, Potts Point.
- Bart, C., 2001. Measuring the mission effect of human intellectual capital. *Journal of Intellectual Capital*, 2(3), 320-330.
- Bassi, L.J., Lev, B., Low, J., McMurrer, D.P. & Siesfeld, G.A., 2000. Measuring corporate investments in human capital. *The New Relationship, Human capital in the American Corporation*, ed. M.M. Blair, & T.A. Kochan. Brookings Institution, Washington, D.C.
- Becker, G.S., 1964. *Human capital*. National Bureau for Economic Research, New York.
- Bogman, R., 1972. *Participant observation in organizational settings*. Syracuse University Press, New York.

Brockner, J. & Lee, R.J., 1995. *Career development in downsizing organizations: A self-affirmation analysis. Employees, careers and job creation: Developing growth-oriented human resource strategies and programs*, ed. M. London. Jossey-Bass, San Francisco, pp. 49–70.

Brooking, A., 1996. *Intellectual capital; Core assets for the third millenium enterprise*. International Thomson Business Press, London.

Brooking, A., 1997. The Management of intellectual capital. *Long Range Planning*, 30(3), 364-365.

Brooking, A., Motta, E., 1996. A taxonomy of intellectual capital and a methodology for auditing it. *17th Annual national business conference, McMaster University*, Hamilton, Ontario, January 24-26.

Brummet, R.L., Flamholtz, E.G., Pyle, W.C., 1968. Human resource measurement- A challenge for accountants. *The Accounting Review*, XLIII(2), April, 217-224.

Buckley, P.J., Carter, M.J., 2000. Knowledge management in global technology markets applying theory to practice. *Long Range Planning*, 33(1), February, 55-71.

Carney, T.F., 1972. *Content analysis: A technique for systematic inference from communications*. University of Manitoba Press, Winnipeg.

Chen, H.M., Lin, K. J., 2004. The role of human capital cost in accounting. *Journal of Intellectual Capital*, 5(1), 116-130.

Dalmahoy, M., 1996. Putting a value on people. *Management Accounting (UK)*, 74(2), February, 27-28.

Das, S., Sen, P.K., Segupta, S., 2003. Strategic alliances: a valuable way to manage intellectual capital?. *Journal of Intellectual Capital*, 4(1), 10-19.

Dzinkowski, R., 1999. Intellectual capital: what you always wanted to know but were afraid to ask. *Accounting & Business*, 2(10), November/December, 22-24.

Dzinkowski, R., 2000. The measurement and management of intellectual capital: an introduction. *Management Accounting (UK)*, 78(2), February, 32-36.

Edvinsson, L., 1997. Developing intellectual capital at Skandia. *Long Range Planning*, 30(3), 366-373.

Edvinsson, L., Malone, M.S., 1998. *Intellectual capital*. 1st edn. Judy Piatkus Publishers, UK

Edvinsson, L., Sullivan, P., 1996. Developing a model for managing intellectual capital. *European Management Journal*, 14(4), 356-364.

Engstrom, T.E.J., Westnes, P., Westnes, F.S., 2003. Evaluating intellectual capital in the hotel industry. *Journal of Intellectual Capital*, 4(3), 287-303.

Esposito, D., Aronowitz, S., Chancer, L., DiFazio, W., Yard, M., 1998. The (in) spectre returns! Global capitalism and the future of work. *Critical Perspectives on Accounting*, February, 9(1), 7-54.

Fitz-enz, J., 2000. *The ROI of human capital, measuring the economic value of employee performance*, Amacom, New York.

Fisher, I., 1930. *The Theory of Interest, as determined by impatience to spend and opportunity to invest*, Macmillan Company, New York.

Flamholtz, E.G., Lacey, J.M., 1981. *Personnel management, human capital theory, and human resource accounting*, Institute of Industrial Relations, University of California, Los Angeles.

Fowler, F.J. (Jr.), 1988. *Survey research methods: Applied social research methods series, 1*, revised ed. Sage, Newbury Park, California.

Gee, M.V., Nystrom, P.C., 1999. Strategic fit between skills training and levels of quality management: An empirical study of American manufacturing plants. *Human Resource Planning*, 22, 12-23

Goddard, A., Powell, J., 1994. Accountability and accounting: using naturalistic methodology to enhance organizational control – a case study. *Accounting, Auditing and Accountability Journal*, 7(2), 50-69.

Graham, A.B., Pizzo, V.G., 1998. A question of balance: Case studies in strategic knowledge management. *The Strategic Management of Intellectual Capital*, ed. D.A. Klein. Butterworth-Heinemann, Woburn, MA.

Griffith, C., 1998. Building a resilient work force. *Training*, 35 (1), 54–60.

Grojer, J-E, Johanson, U., 1996. “*Human Resource Costing and Accounting*”, 2nd ed. Joint Industrial Safety Council, Stockholm

Guthrie, J., Petty, R., 2000. Intellectual capital: Australian annual reporting practices. *Journal of Intellectual Capital*, 1(3), 241-251.

Guthrie, J., Petty, R., Ferrier, F., Wells, R., 1999. There is no accounting for intellectual capital in Australia: A review of annual Reporting practices and the internal measurement of intangibles. *OECD Symposium on Measuring and Reporting of Intellectual Capital*. Amsterdam, June 9-11.

Heyes, J., Stuart, M., 1996. Does training matter? Employee experiences and attitudes. *Human Resource Management Journal*, 6(3), 7–21.

Heckmian, J.S., Jones, C.H., 1967. Put people on your balance sheet. *Harvard Business Review*, 45, Jan-Feb, 105-113.

IFAC (International Federation of Accountants) 1998. *The measurement and management of intellectual capital: an introduction*, study 7. October, IFAC, New York.

Johanson, U., Martenson, M., Skoog, M. 2001. Mobilising change through the management control of intangibles. *Accounting, Organizations and Society*, 26, 715-733.

Johnson, H.G., 1960. The political economy of opulence. *The Canadian Journal of Economics and Political Science*, November, 26, 552-564.

Klein, D.A., 1998. *The Strategic Management of Intellectual Capital*. Butterworth-Heinemann, Woburn, MA.

Knight, D.J., 1999. Performance measures for increasing intellectual capital. *Planning Review*, 27(2), March/April, 22-27.

Lee, S-H, Phan, P.H., Tan, G.Y.W., 2003. Impact of the Asian economic crisis on training intentions and outcomes. *Human Resource Management Review*, Autumn, 13(3), 467-486.

Lev, B., 2001. *Intangibles. Management, measurement, and reporting*. Brookings Institution Press, Washington.

Lev, B., Schwartz, A., 1971. On the use of the economic concepts of human capital in financial statements. *The Accounting Review*, January, 103-112.

Lev, B., Schwartz, A., 1972. On the use of the economic concepts of human capital in financial statements: A reply. *The Accounting Review*, January, 153-154.

Liebowitz, J., Wright, K. 1999. Does measuring knowledge make “cents”? *Expert Systems with Applications*, 17(2), August, 99-103.

Likert, R., 1967. *The Human Organization: Its Management and Value*. McGraw-Hill, New York.

Macve, R., 1999. Capital and financial accounting: A commentary on Bryer’s “A marxist critique of the FASB’s conceptual framework”. *Critical Perspectives on Accounting*, 11, 591-693.

Madsen, T.L., Mosakowski, E., Zaheer, S., 2002. The dynamics of knowledge flows: human capital mobility, knowledge retention and change. *Journal of Knowledge Management*, 6(2), 164-176.

Marshall, A., 1961. *Principles of economics*. Vol, II, 9th edn. (Variorum). Macmillan Company of Canada, Toronto.

McKinnon, J., 1988. Reliability and validity in field research: Some strategies and tactics. *Accounting, Auditing and Accountability*, 1(1), 34-54.

Mincer, J., 1958. Investment in human capital and personal income distribution. *The Journal of Political Economy*, LXVI(4), August, 281-302.

Olsson, B., 2001. Annual reporting practices: Information about human resources in corporate annual reports in major Swedish companies. *Journal of Human Resource Costing and Accounting*, 6(1), Spring, 39-52.

O'Regan P., O'Donnell, D., Heffernan, M., 2001. Recognition and management of intellectual resources: preliminary evidence from indigenous Irish high-technology firms. *Journal of Industrial Training*, 25(2/3/4), 109-115.

Pena, I., 2002. Intellectual capital and business start-up success. *Journal of Intellectual Capital*, 3 (2), 180-198.

Petty, R., Guthrie, J., 2000. Intellectual capital literature review. *Journal of Intellectual Capital*, 1(2), 155-176.

Pratten, J. D., 2004. Those who serve drinks: a study of barstaff. *International Journal of Contemporary Hospitality Management*, 16(5), 315-320.

Roos, J., 1998. Exploring the concept of intellectual capital (IC). *Long Range Planning*, 31(1), 150-153.

Roos, G., Fernstrom, L., Pike, S. 2004. Human resource management and business performance measurement. *Journal of Business Excellence*, 8(1), 28-37.

Roos, J., Roos, G., Dragonetti, N.C., Edvinsson, L., 1997. *Intellectual capital, navigating the new business landscape*. Macmillan Business, London.

Roslender, R., Dyson, J.R., 1992. Accounting for the worth of employees: a new look at an old problem. *British Accounting Review*, 24, 311-329.

Saint-Onge, H., 1998. How knowledge management adds critical value to distribution channel management. *Journal of Systemic Knowledge Management*,

January (online). <http://www.free-press.com/journals/knowledge/issue1/article1.htm>

[Accessed 27 March 2000].

Schatzman, L., Strauss, A.L., 1973. *Field research, strategies for a natural sociology*. Prentice-Hall, Englewood Cliffs, New Jersey.

Schultz, T.W., 1961. Investment in human capital. *The American Economic Review*, LI(1), March, 1-17.

Selltiz, C., Jahoda, M., Deutsch, M., Cook, S.W., 1967. *Research methods in social relations*, revised one-volume edn. Holt Rinehart and Winston, Inc., New York.

Skoog, M., 2003. Visualizing value creation through the management control of intangibles. *Journal of Intellectual Capital*, 4(4), 487-504.

SubbaNarasimha, P.N., 2001. Saliency of knowledge in a strategic theory of the firm. *Journal of Intellectual Capital*, 2(3), 215-224.

Sullivan, P.H., 1999. Profiting from intellectual capital. *Journal of Knowledge Management*, 3(2), 132-142.

Sveiby, K-E., 2001. A knowledge-based theory of the firm to guide in strategy formulation. *Journal of Intellectual Capital*, 2(4), 344-358.

The Economist Intelligence Unit, 1998. *Knowledge workers revealed, new challenges for Asia, researched and written with Andersen Consulting*. December, The Economist Intelligence Unit, Wanchai, Hong Kong.

Thompson, G.D., 1998. Cultural capital and accounting. *Accounting, Auditing & Accountability Journal*, 12(4), 394-412.

Thorne, K. & Smith, M., 2000. Competitive advantage in world class organisations. *Management Accounting (UK)*, 78(3), March, 22-26.

Townley, B., 1995. Managing by numbers: accounting, personnel management and the creation of mathesis. *Critical Perspectives on Accounting*, December, 6(6), 555-575.

Ulrich, D., 1998. Intellectual capital = competence x commitment. *Sloan Management Review*, 39(2), Winter, 15-26.

Volberda, H.W., Baden-Fuller, C., van den Bosch, A.J., 2001. Mastering strategic renewal, mobilising renewal journeys in multi-unit firms. *Long Range Planning*, 34, 159-178.

Wiig, K.M., 1997. Integrating intellectual capital and knowledge management. *Long Range Planning*, 3(3), 399-405.

World Bank, 1998. *World Development Report 1998/1999: Knowledge for Development*. Washington, DC: World Bank.

Zsidisin, G.A., Ogden, J.A., Hendrick, T.E., Clark, M.A., 2003. Chief purchasing officer compensation: An analysis of organizational and human capital effects. *Journal of Physical Distribution & Logistics Management*, 33(6), 477-499.