Intellectual capital disclosure in the hotel industry

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Abstract

This paper examines the nature and extent of Intellectual Capital Disclosure (ICD) in the hotel industry. The physical structure of hotels is largely similar but through mechanisms such as branding, technology and customer service, hotels can differentiate themselves in the market place. Many researchers have acknowledged the importance IC within hotel companies however little research has been undertaken on its disclosure.

Due to the difficulty in identifying and measuring IC as it is something of a 'hidden' value, it is largely unreported in the financial statements, hence, qualitative voluntary disclosure throughout the annual report is the primary method of communicating these 'invisible' assets This research analysed the annual reports of ten of the leading hotels in each of Europe and America.

Consistent with prior research, the most disclosed category was external capital largely reflecting the emphasis placed on branding. Human capital was the weakest reported also consistent with literature. The differences in continent were attributed to the slower evolution of the importance of brands in Europe hence being reported less than in North America. The type of the hotel also influenced ICD partially as a result of size and also because the focus of traditional hotels tends to be more brand and franchise orientated. Overall, the study revealed that the hotel industry realises the value of this 'hidden' capital and are willing to report it.

Key words: Branding; intellectual capital, annual reports, hotels

Introduction

This research examines intellectual capital disclosure(ICD), the 'invisible' asset, within the hotel industry. IC is a major part of a business and is traditionally under-reported because of the difficulty in attributing quantitative value to it. The three factors of IC – internal structure(IS), external structure(ES) and human capital(HC) – are not something that can easily be measured yet play a vital role in generating future cash flows. There have been many studies into this area but few have focused on the hotel industry. The hotel industry is greatly influenced by IC, as it needs to be recognised especially through human capital (training), internal capital (efficient processes) and external capital (branding).

Purpose

This research examines the nature and extent of intellectual capital disclosure among hotel companies in Europe and North America, this work also compares casino and traditional hotels, and measures for size effect.

Research Method

This research follows the work of Davey, Schneider and Davey (2008) which provides a base for the measurement of IC in the fashion industry. The instrument used was adapted from the coding framework used by Davey et al. (2008) and the annual reports of twenty hotel companies were coded.

This paper first examines the literature on IC and the hotel industry, this is followed by a methods section, a summary and discussion of the results, then conclusions and implications.

Literature Review

Intellectual Capital – What is it?

There is much debate over the definition of IC (Davey et al. 2008; Engstrom, Westnes & Westnes, 2003). However, there are some common elements such as collective knowledge, enhancement of value, value beyond physical and Intellectual Capital typically is considered to include customer and external capital, human capital, intellectual property, and structural capital. IC is also described as being a hidden value which highlights that typically IC is unseen yet produces great returns (Vergauwen, Bollen & Oirbans, 2007; Garcia-Parra, Simo, Sallan & Mundet, 2009; Davey et al., 2008). Zeghal and Maaloul(2010) identifies IC is a strategic resource unlike financial and physical capital (generic resources) as ”it distinguishes itself from others by the ‘difficulty of imitation, substitution and by its imperfect mobility’ (p39). These core competencies of a firm is what creates the value added as other companies cannot replicate or use it as efficiently and therefore creates their competitive advantage (Zeghal and Maaloul, 2010; Davey et al. 2008; Namvar, Fathian, Akhaven & Gholamian, 2010; Engstrom et al., 2003). On this subject Bontis (1998) says “…knowledge is not just another resource alongside the traditional factors of production – labour, capital and land – but the only meaningful resource today” (p. 63). Thus, it is acknowledged that IC plays an important and vital part in a business's ability to create returns.

Intellectual Capital Components

Within IC there is a common acceptance of three components (although variously named) – Internal Structure (structural capital), External Structure (relational capital) and Human Capital (employee competence).

Internal Structure (IS)

The internal structure refers to the knowledge that a company has, generally created by employees or brought in and is sometimes split between organisational and customer capital (Guthrie and Petty, 2000; Petty and Cuganesan, 2005; Zeghal and Maaloul, 2010). IS includes the following items – patents, concepts, trademarks, research and development, processes and systems, organisational culture and spirit, structure and technology (Guthrie and Petty, 2000; Petty and Cuganesan, 2005; Zeghal and Maaloul, 2010; Engstrom et al., 2003).

External Structure – Relational Capital (ES)

The external structure refers to the value placed on the perceived view of the organisation by and with external parties. ES includes the following items – brand names, reputation, distribution channels and relationships with customers and suppliers (Davey et al. 2008; Guthrie and Petty, 2000).

Human Capital (HC)

The employee competence refers to “the knowledge, qualifications and skills of employees and the fact that companies cannot own or prevent those employees from going home at night” (Zeghal and Maaloul, 2010, p39). HC includes the following items – education, skill, attitude, competencies, training, experiences, skills and values (Davey et al. 2008; Guthrie and Petty, 2000; Engstrom et al., 2003).

Intellectual Capital

Managers Role with Intellectual Capital

With the ‘discovery’ of IC managers are being forced to shift their focus to utilise this new asset through identifying, managing and investing it to create wealth (Garcia-Parra et al., 2009; Vergauwen et al., 2007). Part of the push to this new way of thinking is due to the competitiveness of globalisation and the need for managers to use innovation and technology to their best advantage (Chalhoub, 2010). Chalhoub (2010) highlights that IC is only going to create value when leadership evolves through “new ways to communicate, organize tasks, design processes, and manage people” (p240). The management and understanding of knowledge has immensely increased due to the promise of “increasing returns... new information technology and... the changing role of intellectual property” (Teece, 1998, as cited in Namvar et al., 2010, p. 680.

ICD is increasing over time and the main advantage in disclosure is making the “invisible visible” (Cooper and Sherer, 1984, as cited in Petty and Cuganesan, 2005) to ensure that "what gets measured gets managed" (Stewart 1997, as cited in Petty and

Cuganesan, 2005). This is the classical idea of new age management, where what is measured is important and what is not, does not matter. "Companies measuring and managing their intellectual capital clearly outperformed other companies" (Engstrom et al., 2003). This highlights that management needs to acknowledge IC and start to manage it better if they wish to meet or exceed performance targets.

Intellectual Capital Disclosure (ICD)

Garcia-Meca (2005) demonstrate that the larger the companies are, the more they tend to report. Disclosure of IC has also shown lower cost of equity, better share price, more transparency, improved trust and confidence, reduced uncertainty, more self awareness of IC, better reputation and more credibility communicated to shareholders through IC disclosures (Davey et al., 2008;

Branding

Branding tends to be most reported aspect of IC due to being an important part of the economy, the ability to be a core competency and adding value to expected profit generation (Davey et al., 2008). 'If companies cannot put brands in their financial statements they will most likely put it in qualitative terms in the body of the report' (Wong & Gardner, 2005, p. 19). This highlights how important this one aspect is to companies and that they want to portray this value when communicating with shareholders and future investors. 'The brand differentiates companies, sells their products and increases people's awareness which consequently impacts on customer satisfaction and helps build customer loyalty' (Davey et al., 2008, p13 cited from Iyer and Muncy, 2005).

Measuring Intellectual Capital

The consensus is that IC is under reported in a traditional accounting system and therefore the move has been to represent it in the annual reports in a different way – qualitative (Davey et al. 2008). This is due to the fact that traditional accounting practices tend to only measure physical and financial assets (Zeghal, 2010) and acquired assets that have associated monetary values (Garcia-Parra et al., 2009) like goodwill.

Through the research of Davey et al. (2008), it has shown that companies choose to disclose this information throughout their reports through qualitative measures rather than quantitative measures. This clearly shows that companies recognise this disclosure and want to report it to shareholders, staff and potential investors. It is apparent that these firms tend to report more on what outsiders can see – ES rather than IS and HC.

Variances between Europe and North America

Hotel branding has had different histories in the US and UK. The US started with wanting consistent service and quality for business customers and the UK situating premises near motor routes (Connell, 1992). The hotel branding in the UK has evolved at a slower rate to the US (Connell, 1992) and it would be interesting if this is reflected in the ICD of each region.

British companies do not seen to follow their IC performance, Irish knowledge based companies have little interest in disclosing 'hidden values', higher ICD for larger companies, Canadian companies hardly disclosed any ICD and UK and Italy differences do not relate to place of origin. Vergauwen et al., (2007) highlight 'In Europe, and especially in Scandinavia, initiatives from both firms and governmental institutions try to stimulate organisations to address intangibles in the annual accounts' (p1163). These research findings will be compared to see if external capital is the most reported and human capital the least reported as well as seeing if ICD is higher in Europe compare to North America.

Branding of Hotel Companies

Hotels rely heavily on IC and specifically branding to generate income (Bailey & Ball, 2006; Rubin, 1998; Lee & Back, 2010; Connell, 1992) and create customer loyalty (Lee and Back, 2010; Barsky and Nash, 2003; Connell 1992). No longer is a brand just a brand, but it comes with strategies, personalities and relationships to create large assets and equity. Lee and Back (2010) identify the importance of brand personality defined as 'the set of human characteristics associated with a brand' (Aaker, 1997, p.347 as cited in Lee and Back, 2010). Hotels within each segment tend to be largely similar thus differentiation is driven by brand personality especially in mature markets where hotels need to distinguish themselves to remain competitive (Lee and Back, 2010). O'Neill & Mattila (2004) highlight the fact that US and international branded hotels have 'increasingly evolved away from being hotel operating companies to being brand management and franchise administration organizations.' This shows the movement from owning hotels to managing and franchising them and hence the increasing reliance on the external capital of branding. 'The goal of relationship marketing is to build customers' loyalty based on factors other than pure economics or product attributes ... brand personality is known as a central driver of consumer preference and usage' (Lee and Back, 2010, p. 132). ‘Today‘s lodging guests are seeking consistency and quality at the right price’ (O‘Neill & Mattila, 2004, p. 1) and by operating under a brand name, guests are more likely to stay with them due to ‘awareness of the brand, its quality perception, and overall customer satisfaction’ (O‘Neill & Mattila, 2004, p. 1). These three quotes highlight that the IC of branding and processes help the customer meet there needs which in turn results in greater customer retention and repeat business. Loyal guests contribute far more to overall profits because they are more likely to stay with a brand, are less price sensitive, are more willing to pay a higher price, will buy more and generate positive word of mouth for their brand (Baltescu, 2009; O‘Neill & Mattila, 2004).

Acknowledging IC exists within the hotel industry is obvious – everyone recognises hotels such as the Hilton and Four Seasons (both privately owned). Many studies have proven this link between customers (satisfaction) and profitability. An example is with O‘Neill and Mattila (2004) research – ‘Our results further indicate that brands with higher guest satisfaction levels seem to achieve not only greater revenues per guest room but also achieve higher growth rates in room revenues than brands with lower satisfaction’ (p. 7). This highlights that the value of a brand is only created within the minds of the guest from their perceptions of quality, brand awareness and loyalty (Baltescu, 2009). Therefore, good brands are able to differentiate hotels to the guest‘s attitude (Baltescu, 2009). ‘A traveler's first impression of the hotel is based on the hotel's online presence. The home page for the hotel becomes its virtual lobby as it serves as the consumer's first point of contact with the property’ (Musante et al., 2009, p. 203). This highlights being able ‘to offer a customer an experience that can be recognized time and time again' (Connell, 1992, p. 26) and brings it once again back to brand personality (as discussed by Lee and Back, 2010), to be able to identify the website as meeting their needs which represents the real hotel.

The research into IC for hotels clearly shows that the intangible assets such as branding and customer loyalty generate greater revenues (Barsky and Nash, 2003; Lee and Back, 2010; Connell, 1992; Rubin 1998).

Research Method

Consistent with the research by Davey et al. (2008) into the fashion industry, ICD is measured on the extent of disclosures and the percentage of disclosures across IS, ES and HC. The tool used in this research has been adapted from the prior research of Davey et al. (2008) and differs in a number of ways:

The sample was selected by using the top ten listed hotels and casino hotels in Europe and North America as identified by Factiva. This means that private hotel chains such as Four Seasons Hotels and Hilton Corporation were excluded. . Therefore ten North American companies (five traditional, five casino) and ten European (ten traditional) were chosen to compare similarities and differences between continents and traditional and casino hotel disclosure .

Overview of the Hotel Industry

The hotel industry clearly relies on IC for its competitive edge to attract customers (Table 1). The traditional view of a hotel is that you receive a tangible product –

somewhere to sleep – that is much the same across all hotels (Lee & Back, 2010). However, the whole hotel experience relies on the intangible aspects such as customer service and atmosphere. By implementing IC, each of the hotels studied are able to differentiate themselves. One important way they do this is through the use of branding, which represents 55% of EC which allows them to target a certain market, with the larger companies having many brands to target several markets.

Table 1 – Overall summary Hotel Industry ICD

	Industry ICD	%
Internal Capital (IS)	1,189	24%
External Capital (ES)	2,948	59%
Human Capital (HC)	879	18%
Total ICD	**5,016**	**100%**

Within IS, both financial relations and expansions were highly reported. This is an interesting aspect as the hotel industry is within the mature stage of its life cycle; therefore, it is expected to be less of an issue. Instead, it highlights the fierce competition within the industry. HC is the least reported category with the focus on mentioning the directors/executives. This implies that the directors want to be rewarded for their hard work without acknowledging the work of their front line staff.

America vs. Europe

One of the purposes of this research is to see if there is any difference between disclosure of hotels within America or Europe (Table 2). As suggested by research the main area of difference to be expected is in regards to branding due to USA having 70%

Table 2 – Summary Europe and America ICD				
	Europe ICD	%	America ICD	%
Internal Capital (IS)	524	24%	665	23%
External Capital (ES)	1,094	51%	1,854	65%
Human Capital (HC)	535	25%	344	12%
Total ICD	**2,153**	**100%**	**2,863**	**100%**

branded hotels and Europe only at 25% (Forgacs, 2006 as cited in Kayaman & Arasli, 2007). This is a correct assumption, as ES is the largest disclosed category for both America and Europe, however America discloses much more (65% compared to 51%). This is due to a far greater emphasis on branding and intangible liabilities compared to Europe. Within IS, there is very little difference in total disclosure however; America has a far greater emphasis on financial relations. For HC Europe reported significantly more (25% compared to 12%) which is attributable to more disclosure of directors, in-house training and Employees (Role & Sundry and Cultural/Diversity). These variances can be linked to the different beginnings of the hotel as branding has evolved slower in Europe (Connell, 1992). This could also explain why financial and expansions are similar in Europe as they place a greater emphasis on growing. Surprisingly, America discloses more SI than Europe, which is contrary to Davey et al. (2008) research. This is partially attributed to their size as discussed below.

Traditional vs. Casino (America only)

Casino and traditional hotels were also analysed to see if there were any variances (Table 4). Only American hotels were used in this comparison to ensure no cultural bias. Casino hotels overall disclosed less IC but this can partly be attributed to being smaller

Table 3 – Summary Traditional and Casino ICD

	Traditional ICD	%	Casino ICD	%
Internal Capital (IS)	336	21%	329	26%
External Capital (ES)	1,080	68%	774	60%
Human Capital (HC)	162	10%	182	14%
Total ICD	**1,578**	**100%**	**1,285**	**100%**

and having fewer brands and business collaborations. Casino hotels disclosed more internally placing more emphasis on financial relations and expansions, which is similar to traditional hotels who disclose slightly less in these areas. Within ES, traditional companies place greater emphasis on brands, the guest, franchise agreements and intangible liabilities. Casino companies also emphasised these points but on a smaller scale except for franchise agreements to which none were reported. This is due to each of the casino hotels being wholly owned with some joint ventures. Both types of hotels very poorly represented HC, yet casino hotels disclosed more than traditional. Traditional hotels emphasised directors and employees (sundry) while casino hotels also emphasised entrepreneurial spirit. Surprisingly casino hotels named ten of their employees while traditional only named one. This shows that casino hotels are more willing to acknowledge the support of key employees.

Size of Hotel

The hotels were also analysed on size to discover if it influenced the prior results or showed a clear trend. To measure size, both number of hotels (Table 4a) and turnover (Table 4b) were used.

Table 4a – Summary Size (Hotel Numbers) ICD

	4000+	80-1000	20-40	0-20
(n)	*4*	*5*	*5*	*6*
Internal Capital (IS)	25%	23%	27%	19%
External Capital (ES)	56%	58%	57%	66%
Human Capital (HC)	19%	19%	16%	15%
Total ICD	**1,824**	**1,125**	**1,099**	**968**
ICD per Hotel	*456*	*225*	*220*	*161*

It was assumed that the more hotels the company has the more brands it would have and hence higher ES disclosure. However, this is not the case as 0-20 hotels have the highest ES. A similar result is shown with turnover with the $1b group having the highest

Table 4b – Summary Size (Sales US$) ICD					
	$9b+	$3-5b	$1-2b	$1b-	$40m-
(n)	*2*	*4*	*4*	*5*	*5*
Internal Capital (IS)	20%	24%	32%	17%	30%
External Capital (ES)	60%	65%	45%	67%	48%
Human Capital (HC)	20%	11%	23%	16%	22%
Total ICD	**905**	**1,191**	**895**	**1,312**	**713**
ICD per Hotel	*453*	*298*	*224*	*262*	*143*

disclosure but the categories either side have the lowest ES disclosure. Overall, there is no relationship between each component of IS and the size. The only trend is in the extent of ICD, which generally increases with size. The trend is clear in revealing that size does influence disclosure as well as the region.

Discussion

The following section details selected individual aspects of each IC category and gives examples of ICD throughout the annual reports analysed. It also gives some insight into the reason they are disclosed and to what extent.

Internal Capital (IS)

Table 5 – Internal Capital ICD Industry		
	ICD Industry	**% of subpart**
Internal Capital (IS)		
Trademarks (labels, Brand logo)	36	3%
Management Philosophy	15	1%
Corporate culture	37	3%
Management processes	30	3%
Expansions	220	19%
Relaunch/Restructure	52	4%
Information systems (technology)	97	8%
Financial relations	398	33%
Revenue per Available Room	84	7%
Strategy	112	9%
Promotion Tools	49	4%
Business Awards	59	5%
Internal Total:	**(24%) 1189**	**100%**

Financial Relations

The most represented category of IS is financial relations at 33%, which was disclosed more by the American companies than the European companies (Table 5). This could be party attributed to the rules based approach of America, compared to the principles based approach in Europe. Alternatively, it could be attributed to providing assurance in the unstable economic environment such as the recent recession. For example -

> 'We appreciate the diversity of earnings streams and the operating leverage that hotel ownership provides and, over time, expect to generate strong returns from our owned hotels.' (Hyatts, 2009, p. 8)

> 'Our growth is supported by the application of capital and we have worked hard to build and maintain one of the strongest balance sheets in our industry.' (Hyatts,

2009, p. 9)

'Our cost-savings initiatives resulted in increased operating margins at Mountaineer Casino, Racetrack & Resort and at Presque Isle Downs & Casino' (MTR, 2009, p. 1).

Expansions

Expansions represented 19% of IS and it is not surprising due to the number of expansions currently underway or on hold within the hotel industry. For a mature industry, the hotel companies wanted to show that they still had growth potential within the market and that their expansions were going to create increased shareholder wealth. For example, the constant repetition of the City Centre project by MGM (MGM, 2009) and Macau project by Las Vegas Sands (Las Vegas Sands, 2009). Part of the reason for repeating this ICD is due to justifying the huge expenditure of these expansions. MTR reinforces this point – 'Perhaps most important is the strong return on investment we expect from this expansion and the value it will create for our stockholders' (MTR, 2009, p. 2).

Trademarks

Trademarks were expected to be widely disclosed however it represented only 3% of IS. Within Europe, only IHG disclosed the use of trademarks which can be attributed to it being the largest hotel company or having a huge American presence while several American companies had written disclosure. For example Las Vegas Sands reported 'Our principal intellectual property consists of, among others, the Sands, Venetian, Palazzo and Paiza trademarks, all of which have been registered or allowed in various classes in the U.S.' (Las Vegas Sands, 2009, p. 21). It would have been thought that protecting the companies brand names would be a priority and hence more reported but this is not the case.

Promotional Tools

Promotional tools represented 4% of IS and it was clear how these efforts have created further revenues. For example MTR stated

> 'During the first half of 2009, Mountaineer realized benefits from offering credits to table players, and in the latter part of 2009 the advent of 'free play' allowed us to offer non-taxable promotional credits to our slot players. The introduction of 'free play' in September 2009 helped to further stabilize Mountaineer's competitive position, and we continue to aggressively market our property in the region. (MTR, 2009, p. 1).

This paragraph highlights that the importance of promotional tools to MTR and the need to convey this hidden asset to its shareholders as it is able to generate further revenues both in more playing time and without the taxation burden. This quote also highlights that this should be reported as an asset within the financial statements as it produces future income due to a past transaction.

Strategy

An important aspect for the hotel companies was strategy, representing 9% of IS and how such things as competitive advantage and business strategies are vital to a successful hotel. Strategy is important in regards to brand equity and enabling it to create their competitive edge (Bailey & Ball, 2006). This is shown by the first example followed by several other strategy examples –

> ‘Our business strategy is to create franchise system growth by leveraging Choice‘s large and well−known hotel brands, franchise sales capabilities, effective marketing and reservation delivery efforts, certain training and education programs, RevPAR enhancing services and technologies, and financial strength created by our significant free cash flow’ (Choice, 2009, p. 9).

> ‘Above all, our strongest competitive advantage is our team of associates. It is through their remarkable efforts that we start this new decade in a position of strength’ (Marriott, 2009, p. i).

> ‘Our business strategy is to drive revenues and profits from our core racetrack-based gaming properties in West Virginia and Pennsylvania, while limiting the operating costs or otherwise maximizing our investment in Scioto Downs, thus becoming a diversified, regional racino company’ (MTR, 2009, p. 9)

> ‘Looking back, this performance nonetheless demonstrates Accor‘s superior resilience, thanks to the validity of the strategy introduced several years ago and the battle plan launched in 2008 in response to an increasingly difficult business environment’ (Accor, 2009, p. 2).

Technology

Technology is an important part of running a hotel although it only represented 8% of IS. This is surprising for a number of reasons. Firstly, Chalhoub (2010) acknowledges that technology is an important way for managers to create a competitive advantage to ensure they maintain their market share. Secondly, technology is seen to increase returns (Namvar et al, 2010). Thirdly, Musante et al. (2009) highlights the influence the internet has on travellers both on searching for travel services and booking. Therefore it would seem essential to have an easy to use format that guests would like to use in both their websites and booking systems. In addition, the need to keep each hotel consistent and updated would also require good technology. One way the hotel companies used technology was in attracting guests and ensuring they had an enjoyable stay (once again the link between IC categories confirming the interdependence relationship). Two examples are –

> 'Our innovation, the Link@Sheraton (SM) with Microsoft, encourages hotel guests to come out of their rooms to enjoy the energy and social opportunities of travelling.' (Starwood, 2009, p. 2).

> 'To attract small business meetings, we launched telepresence technology. Now, small groups can connect in separate hotels using high-definition video and real-time audio. Plans call for implementing the technology in up to 25 hotels worldwide through 2011.' (Marriott, 2009, p. iii).

External Capital (ES)

Table 6 below summarises the disclosures.

Branding

Obviously, the most reported IC component was branding as they 'represent a key driver of future profitability' (IHG, 2009, p. 13). It represents 55% of external capital and 32% of total ICD. Clearly, this is their most valuable asset and it was shown throughout the annual reports both visually and verbally. Visual forms (although not analysed) included brand logos, photos of rooms and photos of the whole hotel enticing the reader to stay with their brand. Often each brand was described, often accompanied

Table 6 – External Capital ICD Industry

External Capital (ES)	**ICD Industry**	**% of subpart**
Brands (including company names)	1629	55%
Brand Promotion and Developments	4	0%
Loyalty Programs	74	3%
Guest	278	9%
Guest awareness & satisfaction	34	1%
Guest Loyalty	21	1%
Reservation channels	24	1%
Favourable Supplier	8	0%
Business collaborations & Owner relationships	187	6%
Franchising agreements	131	4%
Reputation	8	0%
Quality Standards	1	0%
Joint Venture	22	1%
Charitable Efforts	66	2%
Intangible Liabilities	461	16%
External Total:	**(59%) 2948**	**100%**

by a graphic. One reason for the larger disclosure is the large amount of brands that some of the companies had. For example IHG highlighted 'the strength of our brands'

(IHG, 2009, p. 4) consisting of InterContinental Hotels and Resorts, Crowne Plaza Hotels and Resorts, Hotel Indigo, Holiday Inn, Holiday Inn Express, Staybridge Suites and Candlewood Suites. Often the companies would highlight how great their brands were for example Accor stated, 'Our brands are strong and most are market leaders. Ibis and Etap Hotel, for instance, are both top-ranked in Europe in their respective segments' (Accor, 2009, p. 83).

Brands are seen as the lifeblood of these hotel companies and implemented many brand management techniques such as discontinuing the relationship of poor performing individual hotels, expanding current operations and creating a new brand. For example Marriott introduced a new brand – 'the Autograph Collection, a new brand of upscale independent hotels with distinctive personalities in major cities and desired destinations worldwide. Member properties preserve their branding and personalities, while reaping the benefits of Marriott's reservation, marketing and technology platforms' (Marriott, 2009, p. iii). This highlighted not only a new brand but identified a 'soft' brand as each hotel was going to be different to the others yet gain the benefits of belonging to a larger group. This is the main factor enticing business collaborations through management arrangements or franchises as adopted by the larger hotel chains such as Accor and IHG. Many of the brands were 'hard' brands offering consistency throughout their brand.

Only through reading the annual reports can the full impact of IC be apparent. Obviously branding plays a major part, but it is what links all the other IC components together. It links to brand management such as strategy, promotions and processes, to technology systems that keep a consistent and reliable network, to employees and the more they are valued the better they treat guests, and the guests themselves with their loyalty and satisfaction. Therefore the brand is seen as creating future profits for the entity.

The results of this study are consistent with the literature confirming branding to be the main aspect if IC (Davey et al., 2008; Bailey & Ball, 2006; Rubin, 1998; Lee & Back, 2010; Connell, 1992). Branding was typically not disclosed in the financial statements due to being internally generated hence they were disclosed qualitatively as suggested by Wong and Gardner (2005, cited in Davey et al., 2008). Branding was also the main area of difference between North American and European countries due to the difference in origin and hence the faster adoption of branding within America as highlighted by Connell (1992). It was also the main difference between traditional and casino hotels reflecting their competitive edge – traditional hotels for their consistency, quality and recognition across many hotels within a brand (harder brands) while casino hotels tend to be unique (softer brands) focusing more on their gaming operations. Bailey and Ball (2006) identified that branding is used to attract guests and each of the hotels examined constantly portray their brand, with the larger companies gaining the largest benefit by having many brands to attract different guests.

One of the areas highlighted by the literature (O'Neill & Mattila, 2004) was the movement away from owning hotels to managing and franchising them. This encouraged higher brand management and more reliance on the brand to ensure consistency especially within quality.

Loyalty Program

Loyalty programs are a strategy many large companies implement to retain customers and ensure repeat business. Most of the hotel companies operated a loyalty program (for example IHG - Priority Club Rewards). Barsky and Nash (2003) believed that loyalty programs were more effective in casino hotels than traditional hotels. Interestingly, casino hotels reported their loyalty program only thirteen times compared to traditional of twenty five times. This suggests that the casino hotels are not portraying their extra value in these programs and that ICD does not always reflect the actual IC of the hotel. The benefits of the loyalty programs were huge. Accor explains the benefits in their annual report:

An invaluable tool for understanding and communicating with customers, A/Club attests to members strong affinity with Accor's hotel brands. (Accor, 2009, p41)

Guest

The most important aspect of IC is the customer relationship. The customer is what creates sales, hence profits (Baltescu, 2009; O'Neill & Mattila, 2004). The traditional American hotel companies did the best job of represented it although total disclosure represented only 11% of ES. This was best described by IHG –'A guests loyalty can never be taken for granted – it is something that can take years to achieve and seconds to lose' (IHG, 2009, p. 5).

Satisfaction is also a major factor in creating great customer relationships, as satisfied guests become loyal guests (Barsky & Nash, 2003). Hyatt's also explains this relationship – 'we achieved improvements in satisfaction among our guests' (Hyatts, 2009, p. 8). O'Neill and Mattila (2004) combine satisfaction with consistency, quality and the right price which is shown by Marriott (2009, p. iii) – 'SpringHill Suites—one of our moderately priced brands with one of the highest guest satisfaction scores in our system.'

Various business collaborations were seen throughout the report other than the ownership/management style. Several examples are from within Marriott:

> 'Bvlgari Hotels & Resorts,® developed in partnership with jeweler and luxury goods designer Bvlgari SpA' (Marriott, 2009, p. 3).
>
> 'We partnered with other travel industry leaders to appeal to politicians to curb the negative rhetoric around group meetings.' (Marriott, 2009, p. iii)
>
> 'We know that our associates are our greatest asset, because it's through their dedication that we deliver exceptional customer service—and why brighter days are ahead.' (Marriott, 2009, p. iii)

Las Vegas Sands highlighted one of their main business collaboration –

We must maintain The Venetian Las Vegas and The Palazzo as well as some common areas and common facilities that are to be shared with The Grand Canal Shoppes and The Shoppes at The Palazzo. The cost of maintenance of all shared common areas and common facilities is to be shared between us and the owners of The Grand Canal Shoppes and The Shoppes at The Palazzo (Las Vegas Sands, 2009, p. 22).

This revealed not only the financial relationship between them but also the benefit of having these shops sharing a common area. Hence guests are able to enjoy shopping with these partners without having to leave the building.

Table 7 – Human Capital ICD Industry		
Human Capital (HC)	**ICD Industry**	**% of subpart**
Employees (Role & Sundry)	150	17%
Employees (Named)	17	2%
Employees (Cultural/Diversity)	24	3%
Know-how/ Awards	7	1%
Education	7	1%
Work-related knowledge	23	3%
Work-related competencies	16	2%
Entrepreneurial spirit	30	3%
Innovation & Creativity	12	1%
In-house trainings	64	7%
Number of employees	42	5%
Directors/Executives	369	42%
Value/Proud/Feedback of Employees	24	3%
Career Development	3	0%
Employee Benefits	55	6%
Employee Safety	8	1%
Career Opportunities	13	1%
Employee Charitable Efforts	9	1%
Retention	6	1%
Human Capital Total:	**(18%) 879**	**100%**

Human Capital (HC)

Human Capital

The most poorly disclosed category was HC, consistent with the literature. However, the main ICD of director and executive‘s are a poor representation to how important staff is to the hotel industry. America valued their employees far less than Europe with the highest percentage of disclosure from Peel Hotels, one of the smaller hotel companies. For example – ‘Our 145,000 employees in 90 countries represent our most important asset, In our new corporate project, the emphasis is on putting people first, on letting our employees know that they are at the heart of our strategy' (Accor, 2009, p. 85).

Training

An important aspect of having staff is providing adequate training and ensuring they know how to deliver the best customer service to their guests. It is an area that competes for funds in an effort to create a larger return (Zeghal and Maaloul, 2010). Representing 7% of HC, Europe put in much more effort in conveying their training schemes. This is consistent with the findings into the fashion industry by Davey et al. (2008) which could suggest that North American companies do not want to be seen as 'wasting' funds

Donations

Surprisingly, donations were a focal point of some hotels from both the employee and hotel company's perspective which also included sustainable practices and promotion. There were many different causes supported around the world for example Accor – 'In early 2010, a partnership was created with the Institut Pasteur to combat emerging diseases through Accor's A|Club loyalty program. The idea is to enable the 3.5 million members to convert their loyalty points into donations for Institut Pasteur' (Accor, 2009, p. 68).

Financial Statements

Financial Statements are a major part of the annual report conveying information to the reader such as revenues and expenses, assets and liabilities. Only items that can be measured with reasonable accuracy can be disclosed. IC items disclosed by the hotel companies were mostly goodwill acquired and loyalty program liability but also included software brought and developed, trademarks, licence rights and customer lists.

These disclosures certainly fail to value the most valued IC component – branding. It is because the financial disclosure is weak in this area that we need to consider the voluntary disclosure in the Annual Report.

Link to Research

It is also important to compare these findings with previous research and literature. Overall, the trend that RS is disclosed most and HC the least is again confirmed in this study. This is also the case that branding is the highest disclosed individual component. Larger companies also reported more IC throughout their annual report which is consistent with the research undertaken by Bozzolan et al. (2003; 2006), Garcia-Meca (2005), Sharef & Davey (2005) and Petty & Cuganesan (2005). Garcia-Parra et al. (2009) showed the importance of the other side of intangible assets – intangible liabilities. Surprisingly, intangible liabilities are acknowledged in depth and therefore it is assumed that managers take precautions to manage the risk. Compared to the ranges Vergauwen et al. (2007) suggested (ES 40-49%, IS 20-37%, HC 22-37%), the hotel industry only falls within the range for IS, which is similar to the fashion industry.

Fashion Industry

The fashion industry research by Davey et al. (2008) provided the basis of the literature and method. Hence it is appropriate to compare the extent of ICD both in total and for the differences between the two regions. Table 8 summarises the results for both the hotel and fashion industry.

The fashion industry analysed thirty companies and showed that the European companies disclosed more than the North American companies. However, within the hotel industry it appears to be the opposite. Although size does influence ICD, based on number of hotels they are both spread equally however based on sales the American companies are higher. Hotel companies disclosed much less on IS due to the fashion industry which places a huge emphasis on trademarks. Within ES, both industries placed a large emphasis on branding and both revealing that North America places more emphasis on branding as well as ES. Interestingly, European companies in both studies have had similar ES disclosure. HC is the poorest disclosed in both studies. The European companies however disclosed more HC within the hotel industry while the American companies being similar.

Table 8 – Fashion Industry (Davey et al., 2008) and Hotel Industry ICD summary per region

	Fashion Industry			Hotel Industry		
	Total	Europe	NAmerica	Total	Europe	NAmerica
Internal (IS)	34%	31%	38%	24%	24%	23%
External (ES)	50%	49%	51%	59%	51%	65%
Human (HC)	16%	20%	11%	18%	25%	12%
Total	2,938	1,588	1,350	5,015	2,152	2,863
(n)	30	15	15	20	10	10
Per company	98	106	90	251	215	286

Suggestions

The hotel industry is very competitive with many established players and very valuable IC that is not disclosed in the financial statements. Although they do disclose their IC qualitatively, there are a number of areas that improvements will contribute to a further competitive edge namely, HC. It was poorly represented in all areas other than directors/executives. There are a number of ways to increase this category including management recognising the value of their staff, increasing training opportunities, increasing employee retention and satisfaction. Due to the large amount of contact staff have with guests such as checking in, room service and help/information, it is essential that they are above the customer's expectation and these small changes will increase profitability.

IS is also lower compared to the fashion industry (Davey et al., 2008) and towards the lower end of the range (Vergauwen et al., 2007). Although this could be increased by focussing more on internal processes and corporate culture, it is likely that hotel companies already do this but prefer not to give away their competitive edge and corporate secrets.

ES being the best disclosed category does not mean there is not room for improvement. Several reasons for it being the largest represented category include that it is more directly related to profits (i.e. the customer), it focuses externally so outsiders can already assess it and it is the most identifiable aspect of IC (brands can be seen easier than management philosophy). Areas of improvement include keeping great business relationships, creating more loyal guests and increasing their reputation.

IC is a new aspect of business and management is only just beginning to recognise the value of it. This means that it cannot be a fad but must be continuously developed to ensure they gain the rewards and remain competitive in the current business environment. No longer can hotel companies just rely on the traditional aspects of a good building in a good location and a brand. They need to implement IC strategies to deal with branding management, customer loyalty, employee satisfaction and innovation.

Conclusion

Clearly, the hotel industry actively discloses IC throughout their annual report. Through content analysis of twenty annual reports, the findings confirm previous research into ICD that ES is the most disclosed while HC is the least disclosed. The principle driver of ICD was branding and the hotel companies showed its importance throughout the annual report both visually and verbally. This was partly due to the number of brands the larger companies adopted to meet their various guest needs. The main IC influencing IS was expansions and financial relations due to wanting to seem efficient and growing to their investors. Within HC, the major IC item was directors/executives who were showing their presence within the company. This is disappointing as all employees are valuable to the company and contribute significantly to overall profit. The secondary purposes were to discover any variances between continent and type of hotel. These both saw considerable differences in the amount of disclosure but not in the order of ICD. The major differences are within ES and HC disclosure while IS is similar between the two continents. North America discloses more on ES, which is attributed to a faster evolution of branding within this continent. Within the variances of traditional versus casino hotels, traditional hotels disclosed far more. The main differences are that traditional hotels focus more on branding, business collaborations and franchises while casino hotels have no emphasis on franchising and more emphasis on financial relations.

In addition, the size of the hotels were analysed to see if they impacted on the level of disclosure as suggested by the literature which assumes larger companies have higher ICD. For the purpose of determining size both turnover and hotel numbers were analysed. These created different orders due to the side activities of some firms (e.g. gaming) and the structure (e.g. fully owned, managed, franchised). The results proved the correlation of ICD with both more hotels and higher turnover resulting in more disclosure. However there was no trend in the category of IC disclosed. Overall, hotel companies do provide adequate disclosure for both IS and ES however; more emphasis needs to be placed on HC. The differences discovered in continent can be related to the slower rate of adoption of branding within Europe, although overall disclosure is partially related to the size of the companies. Size was also a factor for casino hotels but they placed more emphasis on financial relations and traditional hotels stressed the importance of their brands. Evidently, ICD within the hotel industry is present and carefully managed especially the main perceived driver of profitability – branding.

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