

Using Service-Dominant logic to examine hotels' intellectual capital assets: Deriving a disclosure instrument

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Abstract

Although service-dominant (S-D) logic is increasingly debated in the service marketing literature, little empirical research has translated S-D logic principles into practical processes. Research into intellectual capital (IC) in the hotel industry is also limited despite the significance of IC to creating value within the tourism sector. The authors created an IC disclosure instrument (95 items across five categories) and applied it to the voluntary IC disclosures of 30 Asian hotel companies. Our instrument provides a practical interpretation of Grönroos and Gummerus' (2014) platform of cocreation wherein the firm's resources and assets support customers in their value co-creating activities.

Keywords: hotels, service-dominant logic, intellectual capital, annual reports

Introduction

Hotels are experience-dominant service contexts (Shaw, Bailey, & Williams, 2011) reliant on intangible assets for much of their value generation. Disclosing a firm's intangible assets, such as intellectual capital (IC), can enable all stakeholders to appreciate the organisation's characteristics for service quality. Our research purpose was to examine the extent to which hotels disclose their IC assets in support (or not) of the service-dominant (S-D) logic perspective. To do this we developed a content analysis instrument for examining the IC disclosures voluntarily made in the annual reports and sustainability reports (where available) of the 30 largest hotel companies in Asia that report to English-speaking stakeholders.

The instrument included items relating to key concepts in S-D logic (e.g., reciprocity, collaboration, interactivity, resource integration) and specific items (e.g., Information Flows, Information Sharing Systems with Partners, Feedback Systems) devised to reflect the S-D logic focus on the dynamic processes of collaboration, relationships, and networks.

In this paper, we present results that highlight key areas for development by those hotels committed to shifting from a business model anchored in the notion of company-created value to one in which value is created in collaboration with the customer and other stakeholders within a dynamic system of interrelationships.

Intellectual capital

With the emergence of the knowledge economy, intellectual capital is now considered the principal driver of value in increasingly competitive business environments, displacing physical assets such as land, labour, and capital (Campbell & Abdul Rahman, 2010). In addition, scholars generally agree that business growth and sustainable competitive advantage are now driven by investment in and management of intangible and invisible assets such as customer relations, employee know-how, inter-firm alliances, and innovation (Kamukama, Ahiauzu, & Ntayi, 2011; Marr, 2008).

Although there is still no universal agreement on a definition of IC, we use IC as a "comprehensive term to refer to the 'invisible' assets that contribute to a company's value" (FitzPatrick, Davey, Muller, & Davey, 2013, p. 86). IC is traditionally conceptualised as a tripartite schema of internal capital (knowledge embedded in the organisation internalised in the company's structures, processes, and capabilities), external capital (knowledge embedded

in the company's relationships with external stakeholders including customers), and human capital (knowledge embedded in people that cannot be written down or replaced by machines). Most IC measurement frameworks, which are based on this model and its compartmentalised categories, are restricted to static dimensions. However, a growing number of IC researchers and practitioners argue for the development of IC measurement tools that more effectively uncover the complex, dynamic value-creation processes since IC value is created in the relationships between intangible assets rather than in their separateness (Chiucchi, 2013; Mouritsen, 2006). FitzPatrick et al. (2013) demonstrated that Marketing's S-D logic framework offers considerable potential for better understanding the dynamic processes that create value within the resource-integrating networks of the company, the consumer, and other members of the network. Yet, measurement systems of hotel performance rarely capture these intangible drivers of performance (Zigan & Zeglal, 2010) and few frameworks have been developed for measuring, reporting, and managing IC applicable to the hotel industry (Canina, Enz, & Walsh, 2006). In particular, disclosure of IC in hotel company annual reports has received limited attention (Canina et al., 2006; Kim, Kim, Park, Lee, & Jee, 2012).

Service-Dominant Logic

According to S-D logic, value is created from the exchange of intangible resources for the mutual benefit(s) of the actors involved (Vargo & Lusch, 2008). The intangible assets at the centre of such exchange are referred to in S-D logic as operant resources. As the core resource of value, these operant resources are central to an organisation's competitive advantage (e.g., Jaakkola & Hakanen, 2013; Madhavaram & Hunt, 2008), insofar as they can be developed into a "set of strategic capabilities that enable an organisation to cocreate value in service exchanges with... 'value network partners,' such as customers, intermediaries, suppliers, or employees" (Karpen, Bove, & Lukas, 2011, p. 21). Value-creation and the resource integration from which it emerges together highlight the process orientation that distinguishes S-D logic, evidenced in its normative "commitment to collaborative processes with customers, partners, and employees" (Lusch, Vargo, & O'Brien, 2007, p. 5).

While all value-creation is driven by operant resources (Vargo & Lusch, 2008) these resources range from basic intangible resources (e.g., specific policies and procedures of the business, and/or specific skills, knowledge, and experience of an individual employee) through to higher-order competences, capabilities, and dynamic capabilities (Madhavaram & Hunt, 2008). The hierarchy of operant resources is notable because the distinguishing characteristics of the different tiers of operant resources mean that researchers can both identify and measure them. This conceptual work relating to operant resources has been further developed by Melancon, Griffith, Noble, and Chen (2010), who concluded that companies that develop the capability to apply, modify, and coordinate their operant resources are able to achieve and maintain competitive advantage, confirming the synergistic effects of combining resources for strategic conversion into superior capabilities (Line & Runyan, 2014). We extend the work of contemporary S-D logic researchers on explaining the platform for such value cocreation (Grönroos & Gummerus, 2014) through our deliberate design of an IC disclosure instrument based on S-D logic principles.

Method

The disclosure instrument adopted Marr, Schiuma, and Neely's (2004) taxonomy (Relationships as Assets, Human Assets, Culture Assets, Practices and Routines as Assets, and Intellectual Property Assets), expanding the traditional scope of IC disclosure taxonomies.

This also aligned with S-D logic's conceptualisation of a dynamic hierarchy of operant resources being the foundation for a company's value-creation.

In generating the items for each category we drew on existing operationalisations of similar concepts (e.g., Madhavaram and Hunt's 2008 'relational competence', McCann and Buckner's 2004 'knowledge management', Itami 1987 on 'company culture' and Subramaniam and Youndt 2005 on 'human capital'). In addition, we ensured that the instrument included items that addressed the weaknesses and gaps our previous research identified in conventional IC disclosure instruments (FitzPatrick et al., 2013). Each item was reviewed for face validity and relevance to the hotel industry context and finally, practical examples for each item were formulated. A number of detailed changes were made to the descriptors to further clarify the S-D logic perspective, these included phraseology such as honesty (value and beliefs), two way communication (dialogue), knowledgeability and skills, demonstration of responsive behaviours (learning and adaptive organisation) and customer-centric. In developing the instrument, we were mindful of the tension between the length of measurement scales and appropriate explanation of the construct being explored. An excerpt from the survey instrument is added in Appendix A.

Following Cronbach's advice to develop a wide range of measurements of a complex construct (cited in Triandis, Chan, Bhawuk, Iwao, & Sinha, 1995), the instrument had a total of 95 items across the five categories -relationships as assets (23 items), human assets (24 items), culture assets (21 items), practices and routines assets (19 items), and intellectual property assets (8 items). Items included indicators of reciprocated relationships, key company values, communication processes with relationship-building potential within the company, with network partners and with customers.

Our first empirical study applied the instrument to the voluntary IC disclosures of 30 Asian hotel companies. The largest 30 publicly-listed hotel companies in Asia with accessible 2012 annual reports written in English were selected. Three of these hotel companies also had sustainability reports available. The hotel companies were selected using three criteria: the company either was listed on a stock exchange within Asia or headquartered within Asia (including Asia and the Middle East); the company's primary business was the operation of hotels or resorts; and the company's annual reports and sustainability reports were in English. Analysis of the research data initially considered all five IC categories. However, disclosures of Intellectual Property Assets, that is, the tools legally assigned by law enabling a company to achieve an advantage, were less than 5% of the total IC disclosures and are not discussed further here.

Annual reports continue to be an important channel for companies to disseminate non-financial information regarding value-creating company assets (Li, Pike, & Haniffa, 2006) and are established sources of data for IC disclosure research. This research also included hotel company sustainability reports since these typically provide a more complete view of disclosures, insofar as they are less tradition-bound and thus overcome some of the limitations of company annual reports (Oliveira, Rodrigues, & Craig, 2010). Although IC disclosure studies include media forms other than annual reports (e.g., websites, prospectuses, news releases), annual reports and sustainability reports remain highly trusted sources of IC disclosures because they are editorially-controlled means for organisations to communicate with stakeholders.

The instrument relied on content analysis. Despite some debate regarding the value of content analysis in IC research (see Dumay & Cai, 2014), Guthrie (2014, p. 349) asserts that “disclosure studies and content analysis are a legitimate method of collecting data” for IC research, particularly when more complex components of IC are researched and when the research extends beyond replication of previous unchanged disclosure frameworks. The content analysis used a sentence, ending in a full-stop or a question mark, as the unit of analysis (Guthrie, Petty, Yongvanich, & Ricceri, 2004) and a zero-or-one coding scheme.

Two authors coded the annual reports and sustainability reports. Both coders followed a set of decision rules developed in the pilot study. The two coders independently coded 15 hotel company reports. At the start of the coding process, one coder independently verified a selection of the coding decisions made by the second coder to ensure consistent application of the instrument. The decision rules were adjusted to reduce any ambiguity.

Results

Culture Assets, commonly recognised as company-centric intangible assets, accounted for 35.39% of the Asian hotels’ IC disclosures. The Human Assets disclosures accounted for 25.26% of the total IC disclosures. Practices and Routines as Assets accounted for less than one fifth (19.89%) of disclosures and Relationships as Assets accounted for 16.12% of total disclosures. It must also be noted that eight items in the instrument received zero disclosures; four of these zero-disclosed items were in Human Assets, the other four were in Relationships as Assets.

The top 10 disclosed items collectively account for 52.79% of the total IC disclosures and are reported by the majority of the 30 hotels. The Asian hotels’ disclosures emphasised Directors’ Experience (10.42% of total ICD), reflecting both the traditional emphasis on directors in company annual reports and the traditional approach to leadership style, power relations, and management structures in Asian hotels (Chan, Cheng, & Leung, 2011; Chathoth et al., 2014). The majority of the top 10 IC items disclosed were inward-focussed items (such as Strategic Business Goals, Industry Recognition, Financial Competence, Maintenance of Financial Health) that can be represented by verifiable measures. The only outward-focussed IC disclosure item in the top 10 was Sustainable Practices (4.57% of total disclosures). The absence of disclosures of reciprocated relationships with guests, suppliers, referral agencies, or knowledge-sharing with network partners, in the top 10 disclosures reinforces the traditionalism and firm-centricity within the management practices and intangible asset disclosures of these hotels.

Culture Assets

Our new Culture Assets category includes culture-related items that are considered to be more external to the company (e.g., Charitable Efforts, Business-Network Orientation, Corporate Social Responsibility Values), thus reflecting an outward-looking network perspective rather than the inward focus characteristic of firm-centricity.

Culture Assets was the highest disclosed category by these 30 Asian hotels (35.39% of the total IC disclosures). However, disclosures of inward-focused items such as Mission Statements, Strategic Business Goals and Objectives, Financial Competence, and Maintenance of Financial Health accounted for nearly three-quarters of the disclosures in this category. This is not surprising, given that such items historically have been common in company IC disclosures. Certainly, the instrument successfully identified disclosures of Culture Assets items with a distinctive outward focus. These results are noteworthy because

they demonstrate the hotels are declaring activities that are considered valuable competences in the organizational culture of a company, according to S-D logic's externally-oriented philosophy of business (Lusch et al., 2007). For instance, 19 of the hotels explicitly disclosed company values concerning commitment to external stakeholders.

Along with basic, discrete operant resources such as the conventional mission statements, items in the Culture Assets category also measured more interconnected and higher-order operant resources (e.g., Financial Competence and Business-Network Orientation). The instrument registered disclosures such as: "The courage to innovate and an adaptive mind-set that keeps pace with evolving trends and business conditions are integral aspects of our management practices and principles" (Pan Pacific Hotels Group, 2012, p. 6). This quote identifies innovativeness and responsiveness to market conditions as 'soft' non-verifiable cultural competences, both of which are high-order interconnected operant resources regarded by S-D logic scholars as assets critical for overall firm performance and competitive advantage (e.g., Arnould, 2008; Madhavaram & Hunt, 2008).

Overall, the data revealed that the hotels made few disclosures on the more complex Culture Assets items specifically derived from S-D logic (e.g., four disclosures of the composite operant resource Business Network Orientation).

Human Assets

The new instrument developed the Human Assets category to include characteristics (e.g., qualifications and education, work-related knowledgeability, specialised competences) and attributes (e.g., responsive behaviours, customer orientation, relationship orientation) of both employees and directors. Within this category, the Directors' Experience item was the single most disclosed item in the research. The Directors' Experience item is a relatively common and straightforward item that refers to an easily-verified basic operant resource. Despite 12 of the 24 items relating to directors' IC in this category, the Asian hotel disclosures were focussed on three basic directors' IC items - Experience, Qualifications and Education, and Demographic Characteristics of Directors account for 64.96% of the total disclosures of Human Assets. The new S-D logic-derived items that relate to directors' soft skills and higher-order competences recorded low numbers of disclosures. These low or zero disclosures on directors' interactive and relational skills highlight key areas that hotel companies might attend to in order to communicate to stakeholders the value-creating potential of their directors as operant resources.

Employees represent another significant group of human assets in the hotel's IC value-creation networks (Sigala & Chalkiti, 2015). However, the intangible value that employees bring to the hotel service experience is acknowledged to a limited degree by these Asian hotels in their annual report disclosures. Although the same number of items related specifically to employees as to directors, disclosures on the employee items amounted to less than one-third of the total Human Assets disclosures.

Specific items in the instrument were designed to capture disclosures regarding certain aspects of the employees' role in the guest-employee experience, such as employee skills and competences in creative problem-solving, initiating responsive action, relationship orientation, and innovative customization. Following the same general pattern discerned in disclosures relating to directors, the hotels predominantly reported verifiable characteristics of employees, including experience, qualifications, and education. In contrast, the soft employee competences valued by S-D logic were minimally reported (ranging from 31

disclosures down to 2) or not disclosed at all. No disclosures were recorded for the Employee Know-How item; yet according to S-D logic this tacit know-how is a significant barrier to imitation of a hotel's service experience, which can subsequently lead to a sustainable competitive advantage over competing hotels.

Practices & Routines as Assets

Practices and routines, demonstrating how hotel companies configure and use their capabilities as operant resources, are "a fundamental unit of value creation" (Storbacka, Frow, Nenonen, & Payne, 2012, p. 56). The items in this category were designed to reflect how higher-order collaborative resource-integration processes such as interaction and dialogue were configured as operant resources and used in the hotel company's practices (Payne, Storbacka, & Frow, 2008). The category included interconnected communicative and interactive practices along with routines relating to relationships and communication. These items ranged from practices and routines involving both internal actors (e.g., directors, employees, contact personnel) and external actors (e.g., customers, suppliers, franchisees, advisory groups, trade associations, and other stakeholders). Similarly, there was a range of practices and routines - from selection, training, and motivation practices used with staff, to relational practices, and knowledge gathering/sharing with network partners, through to sustainability practices.

The 30 Asian hotels made a total of 2410 disclosures in this category (19.89% of the total number of IC disclosures) and nearly two thirds of these disclosures related to internal actors. These results consolidate our contention that Asian hotels are largely firm-centric. While 12 hotels disclosed communication practices and routines with external network partners, these communications were limited. Certainly, our research instrument revealed well-reported communication processes within the hotels; but based on annual report disclosures these findings reveal considerable potential for the hotels to develop practices and routines beyond the hotel boundaries. For example, these hotels could leverage their within-company competences to proactive practices with suppliers, and knowledge-sharing systems with network partners.

Further evidence of the internal-external divide regarding the hotels' relational practices and routines is provided by the high level of disclosures on the item Relationships with Directors and Employees (569 disclosures representing 23.61% of this category, and the single most-disclosed item in this category), compared with disclosures on the item Relationships with External Stakeholders (26 disclosures, 1.08% of this category). The hotels disclosed training and professional development practices, reward and motivational practices, employee benefits systems, and career pathways. However, regardless of the extent of such practices, if they are embedded in a hotel culture based on firm-centric profit maximisation traditional HR practices like reward schemes inhibit the adoption of the customer engagement platforms necessary to support value co-creation (Chathoth et al., 2014).

Sustainable Practices was the second most disclosed item in this IC category, which can be interpreted as evidence that these hotel companies translate their various IC assets into specific value-creating practices fitting their social and environmental contexts.

Several other items of Practices and Routines as Assets warrant discussion because of their importance in the S-D logic framework. First, knowledge is regarded as a fundamental source of value-creation by S-D logic scholars (Storbacka et al., 2012). In the hotel sector, which is characterised by rapid change, interconnected operant resources such as knowledge

generation, sharing, and application are critical for the renewal and strategic management of the tacit knowledge that distinguishes one hotel from its competitors (Shaw & Williams, 2009). New items in the Practices and Routines as Assets category that are implicit in the dynamic processes of knowledge management typically recorded extremely low disclosures; for example, Information Flows with Advisory Groups (13 disclosures), and Information Sharing Systems with Network Partners (5 disclosures). Second, and directly related to knowledge renewal, few hotels made disclosures on learning- and innovation-related items (e.g., Creation of New Market Offerings). These results might be explained as a reluctance to divulge commercially sensitive information.

However, from the S-D logic standpoint, the results suggest a need for these hotels to modify the disclosures of their current practices and routines, and if absent, introduce improved processes that enhance the experiences of service and value-creation within their networks.

Relationships as Assets

The formal and informal relationships between a hotel organisation and its stakeholders, that facilitate interaction are classified as Relationships as Assets. Included in this IC category then are internal, referral, influence, recruitment, and supplier/alliance relationships. Across this range of relationships, the instrument items include relational characteristics (e.g., the criticality, symmetry, continuity, and complexity of relationships) through to feedback measures on reciprocated relationships (following Lusch, Vargo, & Malter, 2006). In addition, intangible liabilities are included as relationship risks.

Within the Relationship as Assets category, the single item relating to relationship risk was the most disclosed item. These disclosures of intangible liabilities were dominated by three of the hotel companies that filed their annual reports with the US Securities and Exchange Commission (SEC). Our data suggest that the 21 hotels (in total) that voluntarily disclosed Intangible Liabilities are aware of the importance of the risks and consequences of organizational actions to their IC in the tourism and hospitality industries (see Cravens, Oliver, & Ramamoorti, 2003), as acknowledged by those hotels that disclosed weak corporate reputation and negative word of mouth as intangible liabilities.

The Asian hotel companies recognised their guests as valuable IC assets with all but two of the 30 hotels disclosing Guest Capacity and Guest Demand information, corroborating the centrality of the guest in the hotel experience. Customer Satisfaction, recognised as a fundamental source of competitive advantage in the service sector (Weng, Ha, Wang, & Tsai, 2012), was also frequently disclosed by these hotel companies. In total, disclosures made on the four items specifying guests amounted to 38.58% of the total Relationships as Assets disclosures.

However, the hotels' disclosures of stakeholders as valuable IC assets appear to be restricted to a basic appreciation of guests, despite the significance of multiple stakeholders (internal, referral, influence, and suppliers) for hotels' value networks. The complexities and [a]symmetries of dynamic stakeholder relationships beyond the hotel-guest dyad were minimally disclosed in the annual reports. In the instances when hotels did acknowledge wider stakeholder relationship assets, they tended to link such disclosures to IC assets for which reporting systems, key performance indicators, or other verifiable indicators already existed. Specifically, higher-order relationship characteristics such as continuity, reciprocity, and symmetry, which rely on soft or less verifiable identification, recorded markedly lower levels of disclosures.

Four of the items in the Relationships as Assets category received zero disclosures. All of these items related to relationships with external stakeholders other than guests. These zero-disclosed items add weight to the contention that many Asian hotels remain largely firm-centric in their business orientation. S-D logic insists that in the resource-integrating networks of these Asian hotels all stakeholders are operant resources implicit in the processes of integrating and transforming resources and thus, endogenous to the hotels' mutual value-creation processes (e.g., Vargo & Lusch, 2010). This more comprehensive "service-ecosystem" view (Chandler & Wieland, 2010, p. 199) challenges companies to actively manage their network relationships as a means of achieving innovation and maintaining competitive advantage in demand-driven industries such as tourism and hospitality (e.g., Hoopes, Madsen, & Walker, 2003).

The results for disclosures of Relationships as Assets indicate that while the Asian hotels recognise their basic operant resources relating to relationships with guests, they apparently do not yet recognise the strategic advantage of the higher-order competences integral to the interconnected operant resources needed to sustain complex relationships with network partners for competitive advantage. Examining Relationships as Assets through the S-D logic lens provides encouraging conceptual support for hotel management to adopt a network approach in managing their hotel's IC assets, given that "...the locus of value-creation increasingly resides outside the organizational borders" of the hotel (Storbacka et al., 2012, p. 70).

Conclusions, future research, and managerial implications

Using an IC disclosure instrument designed on S-D logic principles, this research found that although more than one-third of the hotels' disclosures of IC assets relate to collaborative processes that support networked value-creation, the majority of the Asian hotels' disclosures demonstrate a prevailing firm-centric orientation. Many disclosures concerned lower-order basic operant resources. By adopting S-D logic's service-centric approach to identifying IC assets, our results highlight opportunities for hotel companies to better report and manage their IC assets.

Compared with conventional IC disclosure instruments that do not account for detailed disclosures of relationship and processual assets, this expanded instrument allows researchers to identify the distinguishing characteristics of the hotels' critical value-creating IC assets. However, the instrument has to date only been applied to textual data in annual reports yet hotels' IC assets are likely to be disclosed across multiple media. Future research will compare the IC disclosures of a sample of hotels using a conventional IC disclosure framework with our S-D logic based instrument and will include media other than annual reports.

Finally, our instrument provides a practical interpretation of Grönroos and Gummerus' (2014) platform of cocreation wherein the firm's resources and assets support customers in their value co-creating activities. Therefore, this instrument makes a unique contribution to measuring the IC disclosure practices of hotels in a way that better accounts for the experiential and value creating dimensions of hotels' intangible assets. Better understanding the application of S-D logic principles in the hotel industry should encourage firms to develop and manage their intangible resources in value creation.

Note: The IC instrument and data tables are available from the authors on request

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Appendix A: Excerpt from survey instrument

ICD Categories and Items	
1.	
Relationships as Assets	
Descriptors	Classification of stakeholder relationships (internal; referral; influence; recruitment; and supplier/alliance, including joint ventures, partnerships, contractors, and other outsourcing relationships).
Characteristics	No. of different relationships within each of the groups of stakeholders. Criticality of relationship (e.g., 'priority' guest, 'preferred' supplier). Continuity of relationship (e.g., duration). Symmetry of relationship (e.g., power relationship in equal partnership compared with an occasional supplier). Formality/informality of relationship (e.g., franchise relationships compared with one-off transaction with supplier). Complexity of relationship (e.g., multiple individuals with different status, organizational roles and personal backgrounds involved). Level of co-creation (e.g., coordination, cooperation, collaboration).
Key attributes of relationships as assets	Hotel's understanding of stakeholders' businesses (e.g., vision, goals, brand identity). Stakeholders' understanding of the hotel's business (e.g., vision, goals, brand identity). Knowledge exchange and building between and among stakeholders.
Indicators of reciprocated relationships	Guest capacity (e.g., available beds/rooms). Guest demand (e.g., occupancy, occupancy %, bookings, guest room nights). Guest satisfaction (e.g., hotel's own satisfaction surveys, external rating agencies such as booking.com).
...	
4. Practices and Routines as Assets	
Relationships	<u>With directors and employees</u> (e.g., selection practices, training and professional development, induction processes, safety records and safety practices, monitoring and performance appraisals, reward and motivational practices including bonuses, career pathways, employee benefits). <u>With external stakeholders</u> (e.g., choosing a new supplier, monitoring performance, maintaining quality expectations/standards).
Communication processes and information flows	<u>Within the company:</u> - Information flows (e.g., knowledge gathering from customer contact personnel, feedback loops). - Communication etiquette (e.g., routines and practices for e-conversations); - Type of communication (e.g. directives, policy changes); - Frequency of communication. <u>With network partners</u> (e.g., active dialog with advisory groups, trade association memberships): - Information flows (e.g., systems and routines for disseminating information). - Communication etiquette (e.g., face-to face); - Type of communication (e.g., casual lunch or organised regular meetings); - Frequency of communication.
...	