Intellectual capital in Malaysian hotel industry: a case study of Malacca

Muhammad Khalique*
Department of Business and Management Sciences, Faculty of Arts, Mirpur University of Science and Technology (MUST), Mirpur Azad Jammu and Kashmir, Pakistan
Email: drmkhalique@gmail.com
*Corresponding author

Shazali Abu Mansor
Department of Economics, Faculty of Economics and Business, Universiti Malaysia Sarawak, 94300-Kota Samarahan, Sarawak, Malaysia
Email: mshazali@feb.unimas.my

Abstract: Intellectual capital is recognised as a crucial strategic asset that provides organisations with a competitive edge and sustainable growth in a cutthroat business environment. There is an increasing comprehension that intellectual capital is critical to organisational performance, this is still an emerging area of inquiry in tourism industry in Malaysia. Therefore, this study was undertaken with the aim to demonstrate the impact of intellectual capital on the organisational performance of hotel industry operating in Malacca, Malaysia. Six components of intellectual capital were used in the study. A total of 193 individuals were involved in this study to test the proposed research hypotheses. The results of multiple regression analysis demonstrated that four out of seven research hypotheses were supported. This study will extend the understanding of the concept and applications of intellectual capital in hotel industry in Malaysia. Moreover, this study will be a milestone for the potential researchers to conduct their further studies in hotel industry.

Keywords: intellectual capital; integrated intellectual capital model; IICM; hotel industry; SMEs; Malaysia.


Biographical notes: Muhammad Khalique is working as an Assistant Professor in the Department of Business and Management Sciences, Faculty of Arts, Mirpur University of Science and Technology Mirpur (MUST), Pakistan. He received his PhD degree from the Universiti Malaysia Sarawak, Malaysia. His teaching and research interests focus on the area of research methodology and report writing, business mathematics, statistics for economics and business, management science, product development strategy and operational management. He has published more than 47 articles in international refereed
M. Khalique and S.A. Mansor

journals, in conference proceedings and as book chapters. His research focuses on intellectual capital management, knowledge management, entrepreneurship, innovation, SMEs and organisational performance. He worked on various research projects sponsored by Ministry of Higher Education (MOHE), Malaysia.

Shazali Abu Mansor is a Professor in the Department of Economics, Faculty of Economics and Business at the Universiti of Malaysia Sarawak, Malaysia. His teaching and research interests focus on the areas of international economics, industrial economics, entrepreneurship, and Islamic banking. He has published many papers in journals and conference proceedings. He is an active researcher and industry consultant.

1 Introduction

Malaysia has a keen desire to shift her national economy into a knowledge-based economy. There is no doubt that the hotel industry is considered as one of the most important contributors in the national economy. In Malaysia, hotel industry is playing a major contribution in GDP, economic prosperity, employment and uplifting the life style of individuals in almost all countries (Cheng and Lu, 2013). Hotel industry contributes significant role to enhance the tourism sector in Malaysia. Tourism sector is portraying a soft, multicultural and peaceful image of Malaysia. Kandampully (2000) has argued that tourism is a unique sector and it is a combination of the tangible and intangible. Tourism is based on hotel industry. Without hotel industry tourism cannot survive. Food, accommodation, and security are very important to develop the tourism industry. Ismail (2013) has argued that food service plays an important role globally, and particularly in Malaysia in the development of tourism. Moreover, Malaysia is one of the wealthiest country in Southeast Asia and its food service market, around US $5.5 billion in 2009, should grow 7–8% annually from 2010 to 2014 (Growing Forward, Agriculture and Agri-Food Canada and International Markets Bureau, 2011; USDA, 2009).

Hotel industry is contributing a crucial role to attract local and international tourists in Malaysia. It contributes a leading role in supporting the Nation’s tourism industry and economy (Su et al., 2013). This industry is inextricably linked to the tourism industry and it contributes in domestic and international trade of a country. This industry acts as a function key to provide temporary living quarters to the local and international visitors. Malaysian government has policy to promote the development of tourism and attract foreign investors in this industry.

The huge challenges for the Malaysian hotel industry are to sustenance in the global competition and satisfaction of the customers’ needs. To fix the global competition and to satisfy the need of the customers are gigantic challenges for Malaysian hotel industry. Therefore, a hotel has to ensure that their services are at the best level so that the customers can feel that their arrival is celebrated and welcomed. In order to stay in a competitive environment, Malaysian hotel industry needs to capitalise their strategic assets for their success and sustainable growth. In a knowledge-based economy intellectual capital is considered as the most crucial strategic asset for the survival of an organisation.
There is no doubt that many researchers have conducted their studies to examine the effect of intellectual capital on the organisational performance of organisations in Malaysia. For example, Bontis et al. (2000) conducted their studies in various organisations and found that intellectual capital has significant effect on the organisational performance. In addition, Ismail (2005), Hamzah and Ismail (2008), Hamzah and Isa (2009), Ngah and Ibrahim (2009, 2011), Daud and Yusoff (2011), Khalique (2012), Khalique et al. (2013a, 2013b) also argued that intellectual capital has significant contribution to enhance the performance of organisations. Most of these studies were focused on high-tech SMEs while the tourism industry in general has lagged behind. Kahle (2002) has stated that tourism industry has all necessary features to be considered as a new economy. Moreover, Bounchen (2002) argues that the knowledge plays important role to improve the quality and competitive advantage in hotel industry. During related literature it was observed that no comprehensive empirical study has been conducted in hotel industry in Malaysian context. Due to significant contribution of hotel industry in the development of national economy, this area cannot be ignored. Therefore, there is an urgent need to conduct a form of study that examines the effect of intellectual capital in hotel industry.

2 Literature review

The main aim of this piece of study is to develop and test a theoretical model of integrated intellectual capital model (IICM) which represents the six components contributing to the formation of intellectual capital in hotel industry.

2.1 Definition of intellectual capital

Intellectual capital is considered as one of the most important strategic assets for the success of organisations in a competitive business environment. Chang and Hsieh (2011) argued that the term intellectual capital was first coined by famous economist of USA, James K. Galbraith in 1969. Intellectual capital is a multidisciplinary nature subject having common, broad and wide definition. Many researchers provided a common answer to define the concept of intellectual capital. For example, Stewart (1999) has defined the intellectual capital as acquired and applicative information and the concepts that he précised include the flow of information in the organisation processes to achieve competitive edge. Klein and Prusak (1994) identified that the intellectual capital can helps to enhance the performance of organisation. Khalique (2012) proposed a comprehensive definition of intellectual capital and he argued that intellectual capital is a combination of intangible assets or resources, such as knowledge, know-how, professional skills and expertise, customer relationships, information, databases, organisational structures, innovations, social values, faith and honesty. These can be used to create organisational values and provide a competitive edge to organisation. The effective management of an organisation can utilise these resources to create values and competitive advantages and to achieve its stated goals.
2.2 Components of intellectual capital

Intellectual capital is generally divided into six components that are human capital, customer capital, structural capital, social capital, technological capital and spiritual capital (Bontis et al., 2000; Ismail, 2005; Bueno et al., 2006; Khalique, 2012; Khalique et al., 2013b). All components have their own characteristics that can influence the development and enhancement of the organisational performance.

2.2.1 Human capital

Human capital can be defined as a set of skills which an employee acquires on the work during the training and education activities. These activities can enhance the understanding employees and it will help to increase their worth in the market (Edvinsson and Malone, 1997). The human capital of tacit nature is complicated to extort and to enforce, so this matter makes it hard to capture (Bontis, 1998).

2.2.2 Customer capital

Bontis (1998) argued that customer capital represent the prospective an organisation has owed to ex-firm. Intangibles customer capital is urbanised from the interaction with consumers and supplier exterior to the firm. Customer capital comprises the process, tools, and technique that sustain the increase in customer justice and the size includes the organisation’s customer support, customer interaction and brand fairness (Duffy, 2000).

2.2.3 Structural capital

Structural capital is the ability of an organisation or enterprise to meet routine business processes and structures that supports the employees to produce optimal intellectual performance and business performance as a whole. It includes all the non-human storehouses of knowledge in organisations e.g. the organisation’s operational systems, processes manufacturing, organisational culture, management philosophy and all forms intellectual property-owned enterprises (Tseng and Goo, 2005).

2.2.4 Social capital

Social capital is defined as the value of the organisation of the relationships which it maintain within organisations and outside in organisations. Social capital is considered as a glue of organisations. Social capital plays a crucial role to establish a mutual trust and respect among the employees and as well as with the external stakeholders (Khalique, 2012).

2.2.5 Technological capital

Technological capital can be defined as a combination of the intangibles directly that are not significant and are directly linked to the development of the activity of technical functions operating system responsible for a series of products with certain attributes (Khalique et al., 2011). Technological capital consists of four basic elements that are – first is the efforts made in technological innovation processes, second is technological infrastructure that consists of knowledge, methods, and techniques, the third is
intellectual and industrial property which is about the volume of legally protected knowledge and the last one is the results of innovation improvements incorporated into existing products, quality processes, and also the management methods (Khalique et al., 2011).

2.2.6 Spiritual capital

Iannaccone and Klick (2003) has argued that spiritual capital is an example of attitude and manners, greater than the life-cycle, involving generation surrounded by relatives and contacts. Spiritual capital adds a measurement of our mutual meaning and vital purpose. Also it addresses individuals’ concerns what it earns to be human being that is the decisive implication and reason of individual existence (Zohar and Marshall, 2004; Ismail, 2005). Liu (2008) has argued that spiritual capital can be created by a person or organisation with the help of spiritual and religious beliefs and knowledge. It is mainly based on two dimensions i.e. religious and ethical values (Khalique et al., 2011).

2.3 Background and research hypotheses

Intellectual capital has got overwhelming response from researchers, academicians, entrepreneurs due to its significant contribution to enhance and sustainability of the performance of organisations in a competitive business environment. It is considered as a prime resource for the success and long life of organisations. In the competitive business environment SMEs require to change their traditional methods of conducting business into updated and technologies base procedures. To fix these challenges, SMEs need to understand and capitalise the most critical strategic asset of a knowledge-based economy which is known as intellectual capital. Intellectual capital is recognised as the nucleus of knowledge-based economy. Many researchers such as Abdullah and Sofian (2012), Bontis et al. (2000), Chen et al. (2006), Hamzah and Isa (2009), Hormiga et al. (2011) and Khalique et al. (2015) convinced that intellectual capital is a prime resource for the success of organisations and it also plays a critical role in order to enhance the performance of SMEs operating in service as well as manufacture sectors. In addition, they also illustrated that the evidences showed in SMEs intellectual capital is existed. SMEs are considered as the main source of innovation in the products and services.

Moreover, the importance of intellectual capital in relation to the tourism industry is well recognised. For example, Sharabati et al. (2010) argued that in competitive business environment intellectual capital is considered as crucial asset for the success of organisations. Moreover, intellectual capital theory postulated that intangible resources are the most important strategic assets for the success of organisations in a competitive business environment. Intangible assets refer to knowledge, skills, professional experience, education and business acumen that help organisations to generate revenue and growth. Intellectual capital theory is based on six components of intellectual capital namely human capital, customer capital, structural capital, social capital, technological capital and spiritual capital (Bontis et al., 2000; Ismail, 2005; Bueno et al., 2006; Khalique et al., 2011, 2013b; Khalique, 2012).

The six components of intellectual capital were treated as independent variables namely, human capital, customer capital, structural capital, social capital, technological capital, and spiritual capital and one dependent variable namely organisational
performance was used in this research. Figure 1 showed the conceptual framework of this study.

**Figure 1** Conceptual framework

![Conceptual framework diagram](image)

Source: ICCM2011, Khalique et al. (2011)

### 2.4 Research hypotheses

Based on the above conceptual model, the following research hypotheses were constructed.

**Hypothesis 1** Human capital has positive relationship with organisational performance on hotel industry in Malacca.

**Hypothesis 2** Customer capital has positive relationship with organisational performance on hotel industry in Malacca.

**Hypothesis 3** Structural capital has positive relationship with organisational performance on hotel industry in Malacca.

**Hypothesis 4** Social capital has positive relationship with organisational performance on hotel industry in Malacca.

**Hypothesis 5** Technological capital has positive relationship with organisational performance on hotel industry in Malacca.

**Hypothesis 6** Spiritual capital has positive relationship with organisational performance on hotel industry in Malacca.

**Hypothesis 7** Intellectual capital has positive relationship with organisational performance on hotel industry in Malacca.

### 3 Research methodology

This study employed a questionnaire and a survey of SMEs from Melaka was conducted. Convenience sampling was used for this research paper. For this research various sources were used to congregate the required data. A sample size of 200 was selected to grasp the perceptions of participants about the employed variables. Finally, after screening the questionnaire, the sample was 193.
3.1 Instrument development and refinement

A questionnaire was constructed for hotel industry in Malaysia. The survey included measure of human capital, customer capital, structural capital, social capital, technological capital and spiritual capital and the background information of the respondents.

3.1.1 Human capital

Human capital generally refers to the professional knowledge, skills, competencies, education, intellectual agility, training and development. The question items regarding human capital were designed based on the work of Bontis et al. (2000), Youndt and Snell (2004), Tovstiga and Tulugurova (2007) and Khalique (2012) who used a multidimensional approach to grasp the construct of human capital. Nine items and a five-point Likert scale (5 = strongly agree, 1 = strongly disagree) was used to measure the construct of human capital.

3.1.2 Customer capital

Customer capital refers to customer’s satisfaction, loyalty and brand image. The customer capital instrument employed in this study is based on the scale developed by Bontis et al. (2000), Brennan and Connell (2000), Bueno et al. (2006) and Khalique (2012). Eight items and a five-point Likert scale (5 = strongly agree, 1 = strongly disagree) was used to measure the construct of customer capital.

3.1.3 Structural capital

Structural capital is considered as the skeleton of organisations. It represents the database, guiding principles, rules, procedures and way of working in organisations. In this study structural capital instrument is based on the scale developed by Bontis et al. (2000), Brennan and Connell (2000), Subramaniam and Youndt (2005), Bueno et al. (2006) and Khalique (2012). Eight items and a five-point Likert scale (5 = strongly agree, 1 = strongly disagree) was used to measure the construct of structural capital.

3.1.4 Social capital

Social capital is a glue of organisation. The questions items regarding social capital were designed on the work of Bueno et al. (2006) and Khalique (2012). A five-point Likert scale (5 = strongly agree, 1 = strongly disagree) was applied to the eight items measuring social capital.

3.1.5 Technological capital

The questions regarding technological capital were based on the work of Bueno et al. (2006), García-Muiña and Pelechano-Barahona (2008) and Khalique (2012). A five-point Likert scale (5 = strongly agree, 1 = strongly disagree) was used to the nine items measuring technological capital.
3.1.6 Spiritual capital

Drawing upon the relevant literature and the attributes of spiritual capital seven questions were established. The seven questionnaire items were based on the work of Ismail (2005), Khalique (2012) and Khalique et al. (2013a). A five-point Likert scale (5 = strongly agree, 1 = strongly disagree) was used to measure the employed items.

3.2 Organisational performance

To measure the organisational performance, this study used Bontis et al. (2000), Youndt and Snell (2004), Ismail (2005), Tovstiga and Tulugurova (2007), Namvar et al. (2010) and Khalique (2012) researches to construct the appropriate items. Ten items with a five-point Likert scale (5 = strongly agree, 1 = strongly disagree) were constructed to measure the organisational performance of hotel industry in Malaysia.

4 Data collection and survey

This study used a questionnaire survey method to collect data from hotel industry located at Melaka Malaysia. Thirty hotels were targeted to gather the required data. The hotels were selected through convenience sampling technique. The targeted respondents, the owners (entrepreneurs) or key managers were approached and the nature of the study was explained to them. A visit was then made to the consented hotels to distribute the questionnaire to the targeted respondents. All questionnaires were distributed directly to the owners/managers. About 193 out of 200 usable responses were gathered. The response rate of 93% was considered very high and thus representative of the population being studied. The high rate was due to the personal contact approach used. Moreover, the researcher convinced the participants about the need and benefit of the study.

4.1 Data analysis

Before data analysis, the data were cleaned and screened. Cronbach alpha was used to check the reliability of all seven measurement scales. The Cronbach’s values were determined for human capital (0.79), customer capital (0.78), structural capital (0.81), social capital (0.85), technological capital (0.83), spiritual capital (0.83) and organisational performance (0.87) showing good scale reliability and internal consistency of the questionnaire. For all scales, the Cronbach’s coefficient alpha score was above the minimum acceptable level of .70 suggested by Pallant (2007) and ranged from 0.788 to 0.86 (see Table 1).

Table 1  Findings of reliability test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of items</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human capital</td>
<td>9</td>
<td>0.797</td>
</tr>
<tr>
<td>Customer capital</td>
<td>8</td>
<td>0.788</td>
</tr>
<tr>
<td>Structural capital</td>
<td>8</td>
<td>0.815</td>
</tr>
<tr>
<td>Social capital</td>
<td>8</td>
<td>0.848</td>
</tr>
</tbody>
</table>
Table 1  Findings of reliability test (continued)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of items</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological capital</td>
<td>9</td>
<td>0.832</td>
</tr>
<tr>
<td>Spiritual capital</td>
<td>7</td>
<td>0.838</td>
</tr>
<tr>
<td>Organisational capital</td>
<td>10</td>
<td>0.869</td>
</tr>
</tbody>
</table>

4.2 Testing of research hypotheses

In this study, multiple regression analyses were used to analyse data. Six components of intellectual capital namely, human capital, customer capital, structural capital, social capital, technological capital, spiritual capital were independent variables, while organisational performance was the dependent variable. Results of the multiple regression-enter method are shown in Table 2. As seen in Table 2, results for the six dimensions of intellectual capital ($R^2 = 0.518$, $F = 33.379$, $p < 0.001$) indicate that they jointly explained 51.8% of the total variance in organisational performance of hotel industry. These findings show that the intellectual capital has significant influence on the performance of hotel industry in Malaysia. On the basis of these findings, research hypothesis H7 is supported.

Table 2  Regression results

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Unstandardised $b$</th>
<th>Standardised $\beta$</th>
<th>$t$-value</th>
<th>Sig.</th>
<th>VIF</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>.056</td>
<td>.17</td>
<td>.86</td>
<td></td>
<td>1.3</td>
<td>.75</td>
</tr>
<tr>
<td>Human capital</td>
<td>.111</td>
<td>.105</td>
<td>1.79</td>
<td>.07</td>
<td>1.3</td>
<td>.75</td>
</tr>
<tr>
<td>Customer capital</td>
<td>.241</td>
<td>.168</td>
<td>2.69</td>
<td>.01</td>
<td>1.6</td>
<td>.62</td>
</tr>
<tr>
<td>Structural capital</td>
<td>.185</td>
<td>.167</td>
<td>2.50</td>
<td>.01</td>
<td>1.7</td>
<td>.58</td>
</tr>
<tr>
<td>Social capital</td>
<td>.275</td>
<td>.285</td>
<td>3.86</td>
<td>.00</td>
<td>2.1</td>
<td>.47</td>
</tr>
<tr>
<td>Techno. capital</td>
<td>.138</td>
<td>.126</td>
<td>1.81</td>
<td>.07</td>
<td>1.8</td>
<td>.54</td>
</tr>
<tr>
<td>Spiritual capital</td>
<td>.096</td>
<td>.091</td>
<td>1.33</td>
<td>.86</td>
<td>1.7</td>
<td>.55</td>
</tr>
</tbody>
</table>

The first finding relates to the independent variable, the human capital. Table 2 showed that the $\beta$-coefficient of 0.105 and $t$-value of 1.79 for human capital are insignificant with $p < 0.05$. The results suggest that human capital does not have positive significant influence on organisational performance of hotel industry. It indicates that Malaysian hotel industry needs to give more attention to strengthen the human capital of their organisations. Therefore, the Hypothesis 1 (H1) is not supported. These findings are contrary with previous studies conducted by Bontis et al. (2000), Younndt and Snell (2004), Ismail (2005), Bueno et al. (2006), Tovstiga and Tulugurora (2007) and Daud and Yusoff (2010), who found that human capital had a positive significant influence on organisational performance.
The result of Hypothesis 2 in Table 2 indicates that the customer capital appears as significant contributor to enhance the performance of hotel industry in Malaysia. The independent variable, which is statistically significant, is indicated by the $\beta = 0.168$, $t$-value = 2.60 and $p > 0.05$. The findings imply that customer capital has positive significant influence on organisational performance. This study is supported by findings of previous studies conducted by Bontis et al. (2000), Youndt and Snell (2004), Ismail (2005), Bueno et al. (2006), Tovstiga and Tulugurora (2007), Ngah and Ibrahim (2009) and Daud and Yusoff (2010) that customer capital had a positive significant influence on organisational performance. Therefore, (H2) is supported.

Table 2 indicates a positive significant relation between structural capital and organisational performance $\beta = 0.167$, $t$-value = 2.5, $p < 0.05$). The findings suggest that increased structural capital in organisation enhances organisational performance. It demonstrates that structural capital is a significant variable in the regression model. The results of this study are in accordance with Bontis et al. (2000), Youndt and Snell (2004), Ismail (2005), Bueno et al. (2006), Ngah and Ibrahim (2009), Sharabati et al. (2010) and Daud and Yusoff (2010), who concluded that structural capital has a positive significant influence on organisational performance. Therefore, the research hypothesis (H3) is supported.

Table 2 shows that social capital has appeared as significant variable. The $\beta$-coefficient of 0.285 with $t$-value at 3.86, the social capital has been found to be significant with $p > 0.05$. The results assert that in a regression model, social capital has significant influence on organisational performance. This study is supported by previous studies conducted by Youndt and Snell (2004), Bueno et al. (2006, 2004) and Huang and Wu (2010). They argued that social capital had positive significant influence on organisational performance. Therefore, on the basis of the present findings, the research hypothesis (H4) is supported.

Technological capital has appeared as insignificant contributor in the regression model. The results depict that technological capital is insignificant with ($\beta = 0.126$, $t$-value = 1.815, $p < 0.05$). The results depict that technological capital has insignificant positive influence on organisational performance. The result of this study is contrary to the earlier studies such as de Pablos (2003), Chang and Hsieh (2010), De Castro et al. (2010) and Chang and Hsieh (2011). These researchers argued that technological capital played a significant role to enhance organisational performance. Therefore, on the basis of finding, we conclude that the research Hypothesis 5 (H5) is not supported.

Table 2 has reported that the spiritual capital has appeared as insignificant contributor in regression model. The findings of Table 2 demonstrate that this variable is insignificant with ($\beta = 0.091$, $t$-value = 1.33, $p < 0.05$). The results demonstrate that spiritual capital insignificantly contributes to the organisational performance of hotel industry. It can be interpreted that the organisational performance of SMEs can be enhanced if the hotel industry has strongly adopted and practices spiritual capital. Therefore, on the basis of the results, research hypothesis (H6) is not supported.

Multicollinearity was also assessed to examine the high correlation issue. Tolerance value and variance inflation factor (VIF) diagnostics were used. Table 2 report that the values of tolerance and VIF, the test of the multicollinearity for human capital (tolerance = 0.754, VIF = 1.32), customer capital (tolerance = 0.628, VIF = 1.59),
structural capital (tolerance = 0.58, VIF = 1.72), social capital (tolerance = 0.478, VIF = 2.09), technological capital (tolerance = 0.540, VIF = 1.85), spiritual capital (tolerance = 0.559, VIF = 1.79) are relatively small and there is no chance of multicollinearity. All values are under the cutoff threshold which is VIF < 10 (Hair et al., 2005).

5 Conclusions and discussion

In contemporary business environment intellectual capital has been recognised as one of the most important strategic asset for the success of business. The prime objective of this study was to examine the influence of intellectual capital on the success of hotel industry in Malaysia. The empirical findings of this study have clearly demonstrated that the intellectual capital has significant and positive impact on the performance of hotel industry in Malaysia. Moreover, the findings show that customer capital, social capital and structural capital have appeared as significant contributors in regression model. Specifically, the findings demonstrate that the customer capital, structural capital and social capital have positive impact on the performance of hotel industry in Malaysia. On the other hand, human capital, technological capital and spiritual capital show insignificant contribution in enhancing the performance of hotel industry. The insignificant contribution of these variables is quite surprising in hotel industry. The insignificant contribution may be due to the factor that the hotel’s management is not giving ample importance to arrange training and educational courses to their employees to enhance their human capital. Similarly, regarding technological capital and spiritual capital, the employees may be unaware to use high-tech system, and practice high ethical and religious values.

The empirical findings of this study have lucidly demonstrated that the hotel industry needs to give ample emphasis on the development of human capital, technological capital and spiritual capital in order to enhance business performance. There is no doubt that the intellectual capital is one of the most and vital asset for the success of business and sustainable growth. In addition this study will improve the understanding of entrepreneurs, executives, managers and knowledge workers in hotel industry in Malaysia. Moreover, this study tested IICM empirically on a sample of 193 individuals from hotel sector. The findings revealed that the intellectual capital is a key driver to create value added products and services in an organisation. The study attempts to create awareness about the concept and applications of intellectual capital in hotel industry operating in Malaysia. However, the findings, conclusions and implications of this research are bounded by some limitations. Due to cross sectional nature and small sample size, the generalisability of findings are limited. In addition, the sample was restricted to a single sector and geographical area in Malaysia. Therefore additional researches will be necessary to understand the concept and application of intellectual capital in various sectors and geographical areas. Therefore, future studies should be conducted with different and diverse samples from various geographic regions to validate the results of this study.
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