

An Empirical Analysis of the Relationship between Human Capital and Organizational Performance in Hospitality Sector in Pakistan

Saira Munir¹

Asia Bibi²

Ahmed Faisal Siddiqui³

Qurrat-Ul -Ain Butt⁴

Abstract

Human capital is professed a critical factor and a special resource which can elevate firm's performance, generally, in most of the organizations, and specifically, in labor intensive organizations. It is considered a special resource in hotel industry where employees have direct interaction with customers. Although a lot of research has been done, however the question of how much and what type of human capital is required by the organization to fight in recent rivalry is still unanswered. This study is an effort to answer the aforesaid question about human capital in hospitality sector in Pakistan (involving five star, four star and three star hotels separately). A theoretical framework and a research conceptual model is developed on the bases of an in-depth literature. A cross sectional field survey was conducted through an adopted and valid research instrument. Questionnaires were administered to 300 respondents selected by stratified random sampling, 275 were received and 250 were perfect for further use in SPSS version 22. Statistical analysis shows the results which clearly identify the strong and significant relationship between human capital and organizational performance. Moreover, micro analysis of components of human capital depicts that innovation and creation has the most significant impact among all of the three components, on organizational performance in all types of hotels in Pakistan. Theoretically, current study added knowledge to the literature about the constructs of human capital, organizational performance and

¹ Department of Management Sciences, Lahore Garrison University, Pakistan;

² Department of Management Sciences, Lahore Garrison University, Pakistan;

³ UCP Business School, University of Central Punjab, Pakistan;

⁴ Department of Management Sciences, Lahore Garrison University, Pakistan.

Correspondence concerning this article should be addressed to Asia Bibi, Department of Management Sciences, Lahore Garrison University, Pakistan-mail: asiabibi@lgu.edu.pk

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organization success. Practically, in hotel industry, it contributes to the strategic decision making such as employees' training, human capital investment, regulatory decisions, developing mechanism in order to develop human capital as a unique and valuable resource that leads to competitive advantage of the organizations. Current study is limited to five star, four star and three star hotels in Lahore, Pakistan. It an important and initial step towards establishing a measureable and empirical value of human capital for organizations in hospitality sector. However, It opens new vistas for researchers to further investigate the phenomenon.

Keywords: human capital, organizational performance, hospitality sector, learning & education, experiences & expertise, innovation & creation.

1. Introduction:

Generally, in most of the organizations and particularly, in labor intensive organizations in particular, human capital is considered a critical factor and a special resource which can elevate firm's performance (Marimuthu et al., 2009). It is getting attention in several organizations (Warizin, 2017) and predominantly in service sector (Hitt et al., 2017) where human resource is considered as a fuel for industry (Nowak & Grantham, 2000). It is considered a special resource in hotel industry where employees have direct interaction with customers (Otoo & Mishra, 2018; Rahimi & Gunlu, 2016) Additionally, in order to speed up overall productivity of the organization, it is perceived a fundamental productive factor in service sector (Crook et al., 2011). Competent and qualified individuals are collectively considered a good source of competitive edge when they share their knowledge with one another (Dzenopoljac et al., 2017; Jr et al., 2017; Subramony et al., 2018). These arguments clarify the critical role of human capital in firm's performance particularly in service sector such as hotels industry.

Hotel is defined as a place where people stay as a travelers and become guests (Sheela, 2007). Hotels are categorized as an industry whose prime objective is to earn profit for hoteliers as prime objective of an industry is to make profit (Siddiqi, 2011). Hotel industry is considered as a service sector industry (Siddiqi, 2011). Service is defined as an activity or benefit that can be offered by one party to another as well as it is primarily intangible and does not result in the proprietorship of anything (Kotler & Armstrong, 2010). Also, It might be bounded as an intangibly provided offer by one party to another party in exchange for money (Solomon, 2009). Hotels provide good quality of services to attract customers by

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offering variety of items such as reservations, error free billing, entertainment, facilities operating time (Ramanathan & Ramanathan, 2016). Hotels specifically, five star and four star, are linked with luxury and offer extensive and excellent facilities with a highest level of personal services where elegance and style is mainly focused (Giebelhausen, Chan, & Sirianni, 2016; R. Hallak, Assaker, O'Connor, & Lee, 2018; Ordanini & Parasuraman, 2011). Hotel industry is considered as a part of the building block of service sector which can adapt modified services to earn profit by involving and remaining competitive in its relevant industry by offering variety of services (Ellahi, 2010).

As part of the service industry, hospitality sector is considered the most crucial part of the industry due to its labor sensitive working environment which makes it different from manufacturing sector (A. Kianto, Hurmelinna-Laukkanen, & Ritala, 2010). Direct dealing with clients make this concept (human capital) more important for service industry (Skapska & Samul, 2015). As a labor intensive hotel industry is highly sensitive in relation with managing high turnover and increasing demands of human capital as a challenging task to attain and maintain competitive position (Bagri, Babu, Kukreti, & Smith, 2011; Castelló-Climent & Doménech, 2014; Molloy & Barney, 2015) and in the revival of hotel industry. Human capital is considered a unique resource in accomplishing sustainable competitive benefit in labor intensive service firms such as hotels (Camisón & Munoz Martinez, 2016; Jogaratnam, 2017). Significance of human capital as a special resource in hotel industry create a link with resource based theory or firms' resource based view (RBV).

Barney (1991) explained that the firms' resources are actually the sources of sustained competitive advantage when those resources qualify the strict characteristics of being adding positive value to the business, unique, inimitable and non-substitutable and categorized human capital as one of such resources. (A. J. Nyberg, Moliterno, Thomas P, Hale Jr, Donald & Lepak, 2014) has also investigated the connectivity of human capital with firms' resource based view. RBV provides a framework to analyze the human capital capabilities to accomplish strategies. RBV also explained that it is the capability of the managers, how well they cultivate their human resources as sustained competitive edge of the firm (Amarakoon, Upamali, & Martie-Louise, 2018; John & Björkman, 2015; Wright et al., 1994). Examining the effects of human capital losses, the theorists of RBV analyzed that the results become worst (negative) with the increase in

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human capital losses i.e intangible asset losses to the organizational performance (Shaw, Park, & Kim, 2013).

As far as the performance is concerned, Performance of any organization reflect the firm's ability plus test the applied strategies (Ansoff et al., 2018; Hatten & Schendel, 1978) and the nucleus of the strategic management is in the performance enhancement (Ansoff et al., 2018; Ogunsiji & Ladanu, 2017). Because these are the managers who have to identify, develop and utilize entire resources, policy making, implementation and decision making inside the organization (Trigeorgis & Reuer, 2017; Wright et al., 1994) therefore, executive management is considered a crucial and unique human capital involve in improving performance (Tulung & Ramdani, 2016). The role of managers is considered significant in delegating different tasks among relevant labor, enhancing quality, increasing productivity and managing other resources successfully (Chrisman, Chua, & Vismara, 2016). However, performance measurement has a direct impact and influence on managerial activities in private organizations (Nemlioglu & Mallick, 2017). Therefore, performance related measurement is a way to enhance interactions, collaboration & accountability of the actions (Hall & Buckley, 2017; Walsh, 2017). Many researchers have identified the research studies regarding performance measurements in different sectors specially in industrial sectors (Balfaqih et al., 2016; Verbano & Crema, 2016; Yun & Mulva, 2016) and some service organizations including banks, insurance and retail (Alipour, 2012; Frank & Obloj, 2014; Garg & Punia, 2017; Joshi & Sidhu, 2010) but have neglected the hospitality and tourism industry with some exceptions (Baum, 2018). After 1990's some researchers have studied performance issues in hotel industry (Chand & Katou, 2007; Kusluvan & Buyruk, 2010). According to Afaq et al (2011) performance is very essential for managers in hospitality sector as well as there is a need to explore more investigation and research in this area regarding performance (Afaq et al., 2011). Performance related studies in other sectors have been identified in Pakistan but ignored in this sector specifically (Kusluvan & Buyruk, 2010; Qurat-ul-Ain Talpur & Bukhari, 2017; ul Islam & Shah, 2016; Yousaf, Ali, & Kamboh, 2019).

Prior researches have contributed significantly in the field of customer satisfaction, customer loyalty, brand image, training impact on performance in hospitality industry in Pakistan (Guest, 2017; Hanif, 2013; M. E. Malik, Naeem, & Nasir, 2011; Saleem & Raja, 2014; Shah et al.,

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2012). Still there is a dearth of further research in multitudes of aspects such as human capital, of the targeted sector. Moreover, human capital comprises of some components such as skills, knowledge, abilities, learning, and creativity. Mostly, the research studies have analyzed human capital as a complete construct and have ignored to scrutinize the granular impact of respective component of human capital separately on organizational performance. Furthermore, it is observed that some hotels gain the fame of five star categories while others, working in the same economic conditions and under same cultural factors, fail to gain the same standard. It may be due to different potential of human capital in different categories of hotels.

Revealing the significance of human capital, previous research studies have been accomplished to plaid the relationship between human capital (skills, knowledge, abilities and values) and organizational performance (Greer, Lusch, & Hitt, 2017; Hee & Jing, 2018; Khalique, Bontis, Shaari, Yaacob, & Ngah, 2018; Mahmood & Azhar, 2015; Ozkan, Cakan, & Kayacan, 2017; Sunday, Ahmad, Fauzi, Hamid, & Azhar, 2018; Tan, 2014) but the emphasis of these researches remain in limited dimensions, hotel industry was greatly ignored in literature. In this regard, literature evident a long effort to develop new theories and methods to measure role of human capital in firm's performance but unfortunately there exists a divergent and insufficient level for satisfaction and significance for practitioners (Skapska & Samul, 2015). This makes a room for further research and exploration. Only a few studies of human resource practices in hotel industry (Nieves & Quintana, 2018) have been found. Service sector is pondered a prominent feature in the economy of countries globally (Barrientos & Gereffi, 2011; Feenstra, 1998) as well as it is also considered important in economic growth of Pakistan (Komal & Abbas, 2015). Even though, the level of research studies in this area is very low in Pakistan (Abbasi et al., 2010).

Current research paper is an effort with the main objective that human capital acts a significant role in organizational performance of hotels in Pakistan and a micro analysis of the granular impact of each component of human capital separately on organizational performance. Specified objective of the study is to focus the attention of the executive management towards the alternating angle for competitive edge such as human capital in hotels. Resultantly, they would be able to attain sustainable competitive advantage in today's complex rivalry. This

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research paper is an effort to shed light towards a new dimension for managers to use human capital as a source of sustained competitive edge in hospitality sector especially. In the absence of new concepts and researches, no industry can move ahead. There is always a need to research and development in new dimensions to gain competitive edge with maximum output through minimum input.

1. Theoretical background

Human capital is distinguished as a primary factor at macro & micro level according to the theory of economic growth and theory of human capital respectively to offer and retain as a competitive edge to the organizations (Gordon, Lee, & Lucas Jr, 2005; Oetomo, Satrio, & Lestariningsih, 2016). In order to comprehend the process of organizational performance through human capital, three specific domains of theories have been used, namely, resource based theory (RBT) of organizations which emphasizes on human resource as an intangible asset essential for firm's performance (J. B. Barney, 2001; Grant, 1991); Positional advantage theory (PAT) which explain human resource as unique resources and capabilities of the firm produce positional advantage in the marketplace of the firm (Day & Wensley, 1988); human capital theory (HCT) which explains human resource as a capital good in terms of its affective components (Becker, 2009; Schultz, 1961, 1993). "*Firms' resource based view (RBV) or resource based theory (RBT)*" is the most commonly used and recognized theory in management (Kellermanns et al., 2016; Nyberg et al., 2014). It considers the firm's internal resources & capabilities as valuable resources, and consequently, sources that offer competitive advantage (Barney, 1991; Wernerfelt, 1984).

Resources are considered those factors that are possessed and controlled by a firm while *capabilities* are firms' capacity that can install those resources (Amit & Schoemaker, 1993). The RBV perceives organizational resources as the combination including both tangible, and intangible assets such as "all assets, capabilities, organizational processes, firms' attributes, knowledge, information etc are controlled and used by the firm to formulate and implement strategies with the objective of improving efficiency and effectiveness of the firm" (Barney, 1991). Such strategic resources must be rare, valuable, non-imitable, and non-substitutable can enable to endure the process to generate value, to attain sustainable competitive advantage that ultimately enhance firm's outcomes (Barney, 1991; Lonial & Carter, 2015). RBT identifies three major types of

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strategic resources; Physical capital (physical plant, machinery, equipment, location, raw material etc), organizational capital (formal reporting structure, planning, non-formal relationships within and outside the organization etc) and human capital (employees, their knowledge, judgment, training and experience etc) (Youndt & Snell, 2004).

Human capital is considered as a valuable resource while observing it through the lens of RBV. Firms can attain outstanding performance through developing different types of resources. A good human capital in any organization can be a valuable, rare, unique, and difficult to imitate resource and can be a source of sustainable competitive advantage and improved firm performance. Knowledgeable and qualified human capital is a critical resource to add value to industries (A. S. Kianto, Josune & Aramburu, 2017; Lepak & Snell, 2007; Z. Wang, Wang, Nianxin & Liang, 2014). Moreover, resource heterogeneity through firms proposes that some of the firms equipped themselves better than others on the bases of having distinct resources (Kozlenkova et al., 2014), for example, in hotel industry, diverse human capital with different learning & education capabilities, different experiences & expertise and with different levels in innovation and creativity capabilities. Additionally, human capital as an intangible resource tend to be tough to imitate and is rare in nature (Hitt et al., 2001; Peteraf & Barney, 2003).

In addition, “*Positional advantage theory (PAT)*” proposed by Day and Wensley (1988). It offers that distinct resources & capabilities of a firm produce positional advantage within the marketplace for the firm. In the form of unique resource, human capital provide a positional advantage to hotels by improving their performance and differentiate different categories of hotels i.e five, four and three stars hotels in the marketplace . Uniqueness of human capital is based upon collective contribution of its components or factors (innovation & creation, learning & education, experience & expertise). These are considered three potential capabilities of a unique human capital that collectively harvest positional advantage for hotel industry. In addition to positional advantage, human capital also contributes in economic distinction of the organizations (Hitt et al., 2001; Wright et al., 1994).

Human Capital Theory (HCT) introduced by Becker (2009) and entrenched in the domain of labor economics has theorized that organizations should invest in human capital to ensure non- transferable and firm specific human capital for a specific industry in order to

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implement firm/industry specific practices. For instance, from the lens of human capital, resource based and positional advantage theory, human capital, specific to hotel industry can be a valuable and nontransferable resource. It can align industry-specific practices to attain positional advantage and resultantly can influence organizational performance in hotel industry (Becker, 2009; Chadwick, 2017; Lazear & Shaw, 2009).

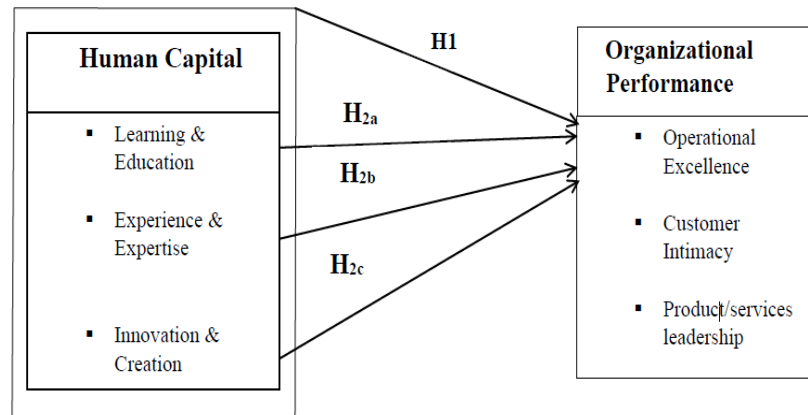
Above mentioned theories and literature instigate to understand the role of human capital in organizational performance (Sharabati, Naji Jawad, & Bontis, 2010). Performance of an organization refers to as the outcome of all processes to attain goals of organization in shape of profit, growth and outstanding sales and market share. Organizational performance can be measured in financial and non-financial analysis (Marimuthu et al., 2009). According to the findings of previous researchers organizational performance involves performance excellence, customer intimacy and product development (Zack, McKeen, & Singh, 2009).

Guerrero (2003) defines elements of human capital as personal traits such as skills, attitudes, knowledge & experience, and competencies (Guerrero, 2003). Literature has evident high level of organization's economic performance is connected to superior degree of human capital (Youndt, Subramaniam, & Snell, 2004). Treacy and Wiersema (1993) suggested three "Value disciplines" like a path towards organizational competitive advantage (i) customer intimacy (ii) product/ service leadership (iii) operational excellence. According to them, organization should excel in one specific area rather than trying to focus on all and then turn to other (Treacy & Wiersema, 1993). At primary level, three "value disciplines" are the elements for competitive business; business itself, business products and customers. Following operational excellence focuses on organization itself and its business process, pursuing customer intimacy focus on customers' needs and demands, following product leadership focus products (Treacy & Wiersema, 1993).

Many researchers (Chen & Tsai, 2007; Evans & Davis, 2005) have identified the research studies regarding performance measurements in different sectors especially in industrial sectors and some service organizations including banks, insurance and retail but have neglected the hospitality and tourism industry with some exceptions. According to Okumus, (2002) after 1999s some researchers have studied performance issues in hotel industry (Okumus, 2002). Moreover, financial approaches only focus on shareholders and have neglected the vital role of

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stakeholders especially customers (Mohsin & Lockyer, 2010) and employees (Anitha, 2014; Clark, Hartline, & Jones, 2009). During the time of 2005-2007, another interesting study was conducted to investigate the efficiency of intellectual capital in 11 Australian banks (Jung, Hiltunen, Joshi, Schlichting, & Pu, 2010) and the results specifies that on human capital efficiency has the ability of value creation, structural and physical both capitals didn't have the same ability. According to Bontis et al, (2015) these indicated results are in line with the previous studies conducted in India (Barathi Kamath, 2007), Malaysia (Chen Goh, 2005) and in Japan (Mavridis, 2004). Bontis et al (2015) clearly explained that there is a research gap exists in regard of intellectual capital analysis specifically in hotels of developing countries (Bontis et al., 2015). Previous researchers (Bontis et al., 2002; Bontis, 2001a; Curado & Bontis, 2011; Erik Sveiby, 1997) reveal that intellectual capital is composition of three components: human capital, structural capital and relational capital. Based on intense literature review, current research paper focuses on the role of human capital in hotel industry of Pakistan. Looking into theoretical background cited above, it is clear that the area needs academic investigation to explore hidden issues and problems. The current study fulfills the three main objectives based upon the following critiques observed during literature review. First, the focus of current empirical study is on the role of human capital in firms' non-financial performance choosing hospitality sector in Pakistan because previously conducted researches have shown state of the art regarding other components of intellectual capital (other than human capital) and financial performance but no study has analyzed the human capital and non-financial organizational performance in hotel sector. Second, we want to analyze relationship of different components of human capital in organization performance as literature does not show sufficient evidence on granular analysis of human capital components separately. Third, which human capital component has greater effect on organization performance in Pakistani hotel industry as there is an obvious research gap in this regard? Following conceptual model has been developed, based upon theoretical background of the study.

Fig 1. Schematic presentation of research model

2. Hypothesis development

Building on resource based, positional advantage and human capital theory, this paper conceptualizes the importance of human capital as a valuable resource and source of competitive and positional advantage to influence organizational performance. Literature review and theoretical background evident that highly effective human capital was the principal driving forces for value creation (measured by value added) in organizations (Bontis, Janošević, & Dženopoljac, 2015) and leads to organizational performance. Along with financial performance, literature has buttress the strong relationship between human capital and operational performance of organization as a result of meta-analysis on human capital in specified sectors (Crook, Todd, Combs, Woehr, & Ketchen Jr, 2011). Human capital consists of the skills, knowledge, expertise and experiences of employees throughout all level of the organization and it can be enhanced by the learning process of employees (Dess & Picken, 2000). These are actually the personal attributes of employee's & intelligent agility (Bontis, Chua Chong Keow, & Richardson, 2000; Bontis, Dragonetti, Jacobsen, & Roos, 1999; Guerrero, 2003) which have the supreme objectives to educate workforce and maximize the embedded intellectual ability for value creation and performance of organizations (Hsiung & Wang, 2012; Scafarto, Ricci, & Scafarto, 2016; Z. Wang, Wang, & Liang, 2014). Selim, et al., (2007) has also marked the positive

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relationship between economic development and components of human capital (Selim, 2007). In recent times, studies authenticated that the human capital is the principal condition for sustainable development of hospitality industry (Kurdashvili & Meskhia, 2016). Human capital referred to the best solution to magnitude organizational performance by extracting individualized tacit knowledge as collective capabilities of firm (Sharabati et al., 2010).

H1. Human capital has positive impact on organizational performance.

Human capital theory, according to the work of Schultz (1971), Sakamoto & Powers (1995) and Psacharopoulos and Woodhall (1997), is based upon the assumption that formal education is an effective instrument and essential element to enhance performance capacity of a population. It means educated people are considered as productive one (Sacharopoulos & Woodhall, 1997; Sakamoto & Powers, 1995; Schultz, 1971). Education and learning is considered as a capital good as a major contribution headed for the enrichment to human resources essential for both economic as well as social transformation which ultimately leads to organizational performance. Human capital theory focuses that education and learning multiply efficiency and productivity of workers by increasing productive human capabilities. Therefore human capital in terms of learning and education is as important as or even more important than physical capital of the organization (Olaniyan & Okemakinde, 2008).

According to firms' resource based theory, firm's excellent performance is associated by acquiring such resources, which are valuable, non-imitable, rare, and non-substitutable (Barney, 1991). If learning and education that is a key component of human capital becomes a non-transferable resource due to its specificity in a particular field and not easily appropriable in other organizations and possessed by the organization, leads to gain competitive advantage (Barney, 1991; Minai et al., 2018; Pennings et al., 1998) and according to positional advantage theory, it becomes the source of differentiation in particular industry. Ultimately it adds towards firm's performance (Garcia-Morales et al., 2018; Pennings et al., 1998).

H2.a: Learning and education have significant impact on Organizational Performance

From the lens of human capital theory (HCT), Experience and expertise, either it is industry specific or firm specific, contributes towards development of human capital (Chowdhury, 2014; Schultz, 1961, 1993). Human resource becomes valuable capital, when they gain experience and

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expertise from practical job related learning (Unger, 2011; Wilson-Wünsch, 2015). Industry specific experience, diverse international experience of CEOs and their decisions based upon their expertise significantly impact firms' performance (Volonté & Gantenbein, 2016). Literature highlights that it is crucial for managers working in hospitality organizations to regularly re-evaluate their competencies and skills for better organizational performance (Bharwani & Talib, 2017). It is observed that experience and expertise with the scope of application specific to a particular activity or context i.e firm specific leads to competitive advantage (Becker, 1975; Bontis, Crossan, & Hulland, 2002; Gimeno, Folta, Cooper, & Woo, 1997; E. Webster, 2000).

Based upon resource based theory (RBT), when experience and expertise component of human capital, contribute to human capital in a way that it becomes a valuable, rare, inimitable and non-substitutable resource for the organization, it becomes competitive advantage of the firm (Boon, Eckardt, Lepak, & Boselie, 2018; R. Hallak et al., 2018; Liu, Gong, Zhou, & Huang, 2017; Morris, Alvarez, Barney, & Molloy, 2017; Roberson, Holmes IV, & Perry, 2017). It depicts that human components which are firm specific specifically such as experience and expertise contribute to gain competitive benefits and amplified firm performance.

H2.b: Experiences and expertise have significant impact on Organizational Performance.

Human capital theory explains the importance of innovative and creative human capital (Schultz, 1993; Sweetland, 1996). Researchers have validated that in relation to strategic renewal, innovation and creation, human capital plays an essential role in service organizations as an intangible asset (Bontis et al., 2002; Pasban & Nojede, 2016; D. M. Webster, Larissa, 2000). Business environment has totally become knowledge based and in order to fight competitively, brain power is the most crucial assets for organizations (Cohendet, 2017; Rodriguez Perez, 2003). Knowledge sharing is an important resource and act as a connection between employee's contributions to innovation which leads to competitive advantage for the firms (Jackson, 2006; López-Nicolás, 2011). Accordingly, Human capital is weighty on account of innovation and strategic renovation (Bontis, 2001b).

Additionally, human capital includes innovation and creativity of employee's inside the organization which leads to high level of organizational performance (Litchfield, 2015; Zigan, 2007) A research

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study shows that software organizations having more innovative and creative human capital outperforms as compare to their counterparts (Seleim, 2007). It is the uniqueness of human capital, not its quantity that affect organizational performance. Human resource selected on the bases of innovation and creative abilities enhance organizational performance (Cabello- Medina, 2011).

Resource based theory explains that different firms have different patterns to adopt innovation while early innovators have higher level of competitive performance (Sedera, 2016). Resources and capabilities are very important in formulating innovative strategies for greater firm performance (J. W. Barney, Mike Ketchen Jr, David J, 2001; Bharadwaj, 2000; Grant, 1991). Innovative human capital is considered significantly important resource to gain sustainable competitive advantage as it becomes unique and valuable for the organization (G. Wang & Miao, 2015). Human capital with capabilities of innovation and creativity are particularly important for organizational performance of service organizations (Hon & Lui, 2016; Prajogo & Oke, 2016). Consequently sustainable competitive advantage leads to high organizational performance and become the source of differentiation in competitive market (Dereli, 2015; Martin, 2015). Literature evident that innovation and creation which is one of the components of human capital as an important intangible resource has a significant relationship with organizational performance mainly in manufacturing and technology oriented organizations. We hypothesize it with the reference of hotel industry which consists of labor intensive service organizations.

H2.c: Innovation and creation have significant impact on Organizational Performance.

3. Materials and methods

With presumably human capital in on one end while organizational performance is on the other end of the relationship while components, education and learning, experience and expertise and innovation and creation have different levels of influence on organizational performance. Although the presumption looks quite logical, yet it requires a formal testing for its proclamation. Research design is the frame, layout, design, procedure, techniques & course of action which researcher adopts to conduct a study. It refers to as use of particular methods. It is the brief planning of conducting research (Blaikie & Priest, 2019; Creswell & Creswell, 2017; Neuman, 2007). In current study, cross sectional research

design, self-administered questionnaires to collect data, quantitative research strategy, and statistical data analysis techniques are used.

4. Research Instrument

Research instrument is adapted used in previous researches about the construct used in current study. Five point likert scales has been used in questionnaire. Respondents were requested to specify the extent at number 1 if they strongly disagree, while strongly agree at number 5 which shows the higher degree of agreement with respondents' opinion. 23 items on 5 point Likert-type scale ranging from "strongly disagree" to "strongly agree" were used to measure human capital variable. Out of 23 items, three components of human capital "Learning and education" "Experience and expertise" and "Innovation and creation" were measured using 8, 7 and 8 items respectively.

Learning and Education of employees involves worker's competencies, knowledge & skills development, cooperation and team building among employee's education, continuous training and learning. Experience and expertise include expertise, performance and professionalism of employees, and rate of turnover of workers. Innovation and creation comprises of creativity, opinions, creation of new ideas, and satisfaction with innovation, motivation & commitment of employees (Sharabati et al., 2010). Original human capital instrument is from Bontis (1999) and modified by Sharabati et al. (2010). Its validity and reliability is also tested by pilot study of 30 respondents with Cronbach's Alpha value 0.821 for human capital.

Organizational performance is very difficult to measure in services industry objectively. For intangible assets, perceptual measures can be used (Kannan & Aulbur, 2004). According to Venkatraman & Ramanujam, (1986) there are multiple ways to assess organization's performance (Venkatraman & Ramanujam, 1986). In this study, OP comprises of operational excellence, customer intimacy and product/service leadership. According to Zack et al, (2009), *operational excellence* refers to as a philosophy of leadership involves such tools, techniques, systems, procedures and policies which provides outstanding opportunity to employees to perform their best with the utilization of minimum resources towards maximum output (Zack et al., 2009). *Customer intimacy* refers to as market segmenting and targeting to meet exactly the demands of customers. *Product/service leadership* is a continuous process of producing products and services. It refers to meet

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challenges of creativity, innovation and quick problem solving (Treacy & Wiersema, 1993). Organizational performance was measured utilizing 7 items (3 to show operational excellence, 2 items to show customer intimacy, and 2 items to describe services leadership) on five point Likert-type scale ranging from “strongly disagree” to “strongly agree”. This instrument was developed and validated by (M. A. R. Malik, Butt, & Choi, 2015) and its validity is also checked by pilot study with Cronbach’s Alpha value 0.937 for Organizational performance.

To check the overall reliability of research instrument, Adapted version of questionnaire was first evaluated by the academicians and specialists in this field of study. After that pilot study through 30 respondents was done as well to check the reliability score and consistency of the research tool. Cronbach’s Alpha value 0.908, which is quite sufficient to validate adapted research instrument used in present research study.

Following table shows the reliability scores

Table 1: *Reliability statistics – Pilot study-30 Respondents*

Constructs	Cronbach's Alpha	No of Items
<i>Human Capital</i>		
Learning & Education	.730	8
Experiences & Expertise	.712	7
Innovation & Creation	.857	8
<i>Overall Human Capital</i>	<i>.821</i>	<i>23</i>
<i>Organizational Performance</i>		
Operational Excellence	.890	3
Customer Intimacy	.930	2
Product Leadership	.972	2
<i>Overall of Org. Performance</i>	<i>.937</i>	<i>7</i>
Overall	.908	44

The participants

Sampling frame consists of two stages. First stage include selection of hotels from 83 total hotels in Lahore based on stratified random sampling technique. Three strata has been made five star, four star and three star hotels. In second stage, respondents are selected from each stratum using proportionate random sampling ($\text{No of employees} / \text{total employees}$) \times sample size.

Respondents include directors, managers, Assistant managers and supervisors (Top Level, Middle Level, Lower Level management employees) in different departments of hotels in Lahore, Pakistan. Stratified random sampling is used when there are strata in the population which are internally homogeneous and externally heterogeneous. Stratified random sampling is used to study subgroups in greater detail in order to get more specific information in each subgroup (Creswell & Creswell, 2017; Onwuegbuzie & Leech, 2007). As in current study hotels are classified as five, four and three stars and comprising of three externally heterogeneous stratum. Consequently, stratified random sampling for the selection of hotels is more appropriate. While in each stratum the number of employees are different based upon the size of the organization, therefore proportionate random sampling is used for the selection of respondents to select a representative sample.

Self-administered questionnaires were sent to human resource management department of five and four star hotels, while personal visits to three star hotels were preferred in order to increase response rate. Data for the study was collected by using a sample size of 300 employees and sample size of 200-500 is a normal practice and is considered a good sample size for an explanatory study using linear regression analysis (Israel, 1992). Total number of hotels in Lahore is 83, out of these 35 hotels (i.e 3 five star, 7 four star & 25 three star) are selected as sample through proportionate stratified sampling method. Out of 300 participants, 48 employees from five star, 93 employees from four star and 159 employees from three star hotels were selected by using simple random sampling within each stratum. Our multistage sampling technique and the below mentioned demographics shows that our sample represents the hotel industry in the Punjab province of Pakistan. Following are the demographics of all of the participants selected from three types of hotels. Response rate for five star hotels was 26.5%, four star hotels 32.4%, and for three star hotels was 32.1%. Complete data were collected within six

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weeks from March 1, 2017 to April 15, 2017 from 275 (91%) employees out of which 250 (83%) were suitable for data analysis. Among these employees, 24.7% top level managers, 39.3% middle level managers and 27% lower level managers, 78.3% were male and 12.7% were females, 11.7% were from 46 years & above and 79.3% were in the age bracket of 25-45 years, employees working in current organization for less than 1 year to 10 years were 71.7% and above 10 years were 19.3%.

According to Cooper & Schindler (2010) descriptive study emphasis on answering the questions who, what, where, when and how much (Bakar & Ahmad, 2010; Cooper & Schindler, 2010; Marshall, 1996)). Current study relates to finding out the aforesaid questions that is concerned with descriptive research while explanatory study is concerned with the research about how relationship among different variables has been established and can create changes among each another (Creswell & Creswell, 2017; Edmonds & Kennedy, 2016). Current study is also concerned with the relationship between human capital and organizational performance. Hence, this study follows descriptive and explanatory research methodology. Also, the study is quantitative in nature which is based on primary data collection. Three hypotheses were presented and analyzed through SPSS 22 software. The results after correlation, single and multiple regression analysis tests were added and discussed in the following section.

5. Results and discussions

In quantitative measures correlation coefficient provides the value which shows the extent of linear relationship among different variables. The indicated correlation coefficient value (r) ranges from -1 to +1. If ' r ' value is equal or close to zero, it means there is no correlation. But if ' r ' value is close to -1 and +1, it is meant that existence of relationship is strong. Positive value means if x increases, y also increases whereas negative value indicates that there is a decrease in the value of ' y ' when the value of ' x ' increases. High value of r depicts a strong relationship.

In this study correlation value is .522** with p -value .000 (**significant correlation at level of .01 (two tailed)). The results of correlation clearly indicate a strong and substantial relation between human capital and organizational performance. Correlation is a statistical technique, which helps to measure and analyze the degree of relationship among different variables.

Table 2: *Correlation between dependent and independent variables*

Variables	M	SD	HC	OP
HC	2.20	.55	1	
OP	2.63	.50	.522**	1

** Significance of Correlation is at .01 level (2-tailed).

In above table, results depict that human capital is significantly correlated to organizational performance (.522) having p-value .000. Results show that organizational performance and human capital represent positive correlation with one another and human capital is a factor that can boost organizational performance of hotels. Furthermore, this study requires analyzing the effect of independent variable upon dependent variables under formulated hypotheses.

Hypotheses have been tested strata wise i.e five star, four star and three star separately using linear regression analysis technique implemented in SPSS 22. Human capital was operationalized as a latent variable comprising of twenty three manifest indicators i.e scale items. In the same vein, organizational performance was defined as a latent variable comprising of seven manifest indicators. Respondents gender, age, stay at current organization, and managerial level were employed as control variables among all relationships in the model.

H1. Human Capital has positive impact on organizational performance.

In five star hotels, in order to evaluate and measure human capital impact on organizational performance linear regression analysis shows consistent results with *hypothesis 1* that human capital is positively related to organizational performance.

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Table 3: Regression analysis of five star hotels

Model Summary					Coefficients			
Predictor	R	R ²	Adjusted R ²	F	P-value	Standardized β	t-value	P-value
HC	0.627	0.394	0.381	29.875	0.000	0.627	5.466	0.000
<i>Predictors: (constant), HC</i>								
<i>Dependent variable: OP</i>								

In above table, the value of R^2 (.394) indicates that human capital explains 39.40% change or variation in performance of organizations i.e. learning & education, experiences & expertise, innovation & creation. When there are variables which are based on unpredictable behaviors like human capital, mostly their value of R^2 remains less than 50%, which predicts an adequate, significant relationship (Frost, 2014). R^2 value presents how fit the data points are on regression line. The value of F should lie between 0 to any arbitrary value. F value (29.875) indicates statistically a significant relationship between predictor and dependent variables. *P-value* (.000) shows significance of model.

Standardized co-efficient value ' β ' reflects the proportion of human capital with organizational performance. β -value for the relationship between independent and dependent variables is .627 which shows that if there is one unit change in human capital, it will bring .627 unit change in organizational performance. The p-value is .000, which represents its significance. If the value of significance is below .01 ($P < 0.01$) then it shows higher significant relationship. Above results show a higher significant relationship between human capital and organizational performance.

H1. Human Capital has positive impact on organizational performance.

In four star hotels, regression analysis to analyze the effect of human capital on organizational performance, is given in the following table. We observed support for Hypothesis 1 which shows that human capital is stronger cause behind organizational performance.

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Table 4: Regression analysis of four star hotels

Model Summery						Coefficients		
Predictor	R	R ²	Adjusted R ²	F	P-value	Standardized β	t-value	P-value
HC	0.477	0.227	0.218	23.808	0.000	0.477	4.879	0.000
<i>Predictors: (constant), HC</i>								
<i>Dependent variable: OP</i>								

In above table, the value of R^2 (.218) indicates that human capital explains 21.80% change or variation in performance of organizations .i.e. learning and education, experiences and expertise, innovation and creation as the *Hypothesis 1* is tested for four star hotels. For variables based on unpredictable behaviors like human capital, mostly show their value of R^2 less than 50%, which predicts an adequate, significant relationship (Frost, 2014). R^2 value presents how fit the data points are on regression line and how strongly the relationship among variables in the model is explained. The value of F should lie between 0 to any arbitrary value. F value (23.808) indicates statistically a significant relationship between predictor and dependent variable. P-value (.000) shows the model significance.

The value of standardized coefficient β reflects the proportion of human capital for organizational performance. β -value for the relationship between human capital and organizational performance (in four star hotels) is .477 which shows that if there is one unit change in human capital, it will bring .477 unit change in organizational performance. The p-value is .000, which exhibits its significance. When the value of significance is below 0.01 ($P < 0.01$) then it shows higher significant relationship. Above statistical results clearly identify significant support to hypothesis. This result matches the proof from literature, which reveal strong and significant relationship between human capital and organizational performance. Results show a higher significant relationship between human capital and organizational performance but β value is less than that of five star hotels. Hence comparatively human capital has low prediction for organizational performance in four star hotels than in five star category of hotels.

H1. Human Capital has positive impact on organizational performance.

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To understand the impact of human capital on organizational performance in three star hotels in Pakistan, following regression analysis is being performed.

Table 5: *Regression analysis of three star hotels*

Model Summary					Coefficients			
Predictor	R	R ²	Adjusted R ²	F	P-value	Standardized β	t-value	P-value
HC	0.527	0.277	0.271	44.913	0.000	0.527	6.702	0.000

Predictors: (constant), HC

Dependent variable: OP

In above table, the value of R^2 (.271) indicates that human capital explains 27.1% change or variation in performance of organizations i.e. learning and education, experiences and expertise, innovation and creation as the *Hypothesis 1* is tested for three star hotels. It explains power of independent variable (HC) to dependent variable (OP). According to (Frost, 2014), value of R^2 less than 50% is adequate and significant to explain the relationship among unpredictable variables used in any study like human capital. F value (44.913) indicates statistically a significant relationship between predictor and dependent variable. P-value (.000) shows significance of model.

The standardized co-efficient β -value reflects the proportion of human capital for organizational performance. β -value for the relationship between human capital and organizational performance (in three star hotels) is .527 which shows that if there is one unit change in human capital, it will bring .527 unit change in organizational performance. The p-value is .000 which shows its significance. If the value of significance is below .01 ($P < 0.01$) then it shows higher significant relationship. Above statistical results clearly identify significant support to hypothesis. These results match the proof from literature, which reveal strong and significant relationship between human capital and organizational performance. β value (.527) show a higher significant relationship between human capital and organizational performance in three star hotels than four star hotel but β value is less than that of five star hotels. Hence comparatively human capital has low prediction for organizational performance in three star

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hotels than in five stars categories of hotels but higher value of significance in three stars than in four star hotels. Hypothesis is supported by the results and therefore, accepted.

H2.a: Learning and education have significant impact on organizational performance H2.b: Experiences and expertise have significant impact on organizational performance. H2.c: Innovation and creation have significant impact on organizational performance.

Table 6: Regression analysis of five star hotels

Model Summary					Coefficients			
Predictor	R	R ²	Adjusted R ²	F	P-value	Standardized β	t-value	P-value
HC	0.663	0.440	0.402	11.517	0.000			
L & E						0.313	2.582	0.013
E & E						0.038	1.307	0.001
I & C						0.478	3.824	0.000

Predictors: (constant), HCLE, HCEE, HCIC

Dependent variable: OP

Above table shows the values of standardized β coefficient, Learning & Experience (.313), Experiences & Expertise (.038), and Innovation & creativity (.478). Accordingly, innovation and creation have major, strong and significant impact on organizational performance. After I & C, learning and education has greater impact on organizational performance and then experience and expertise takes place. This means that innovation and creation is the most required component of HC in five star hotels in Pakistan.

H2.a: Learning and education have significant impact on organizational performance

H2.b: Experiences and expertise have significant impact on organizational performance.

H2.c: Innovation and creation have significant impact on organizational performance.

To analyze the impact of components of HC separately on OP, regression statics is as follows:

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Table 7: *Regression analysis of four star hotels*

Model Summary					Coefficients			
Predictor	R	R ²	Adjusted R ²	F	P-value	Standardized β	t-value	P-value
HC	0.518	0.268	0.240	9.651	0.000			
L & E						0.114	1.915	0.013
E & E						0.022	1.147	0.001
I & C						0.438	3.337	0.000
<i>Predictors: (constant), HCLE, HCEE, HCIC</i>								
<i>Dependent variable: OP</i>								

Above table indicate value of standardized coefficient β , Learning and Education (.114), Experiences & Expertise (.022) and Innovation & Creation (.438) which shows that there exist much variation among components of HC. Innovation & creation have strongest significant impact, learning & education have moderate and then experiences & expertise have weak impact on performance of four star hotels in this research study.

H2.a: Learning and education have significant impact on organizational performance H2.b: Experiences and expertise have significant impact on organizational performance. H2.c: Innovation and creation have significant impact on organizational performance.

Table 8: *Regression analysis of three star hotels*

Model Summary					Coefficients			
Predictor	R	R ²	Adjusted R ²	F	P-value	Standardized β	t-value	P-value
HC	0.547	0.299	0.281	16.335	0.000			
L & E						0.144	1.496	0.005
E & E						0.104	1.010	0.001
I & C						0.396	4.217	0.000
<i>Predictors: (constant), HCLE, HCEE, HCIC</i>								
<i>Dependent variable: OP</i>								

Values of standardized coefficient β of components of HC reflect that innovation & creation (.396) have most significant value among all

components of HC. These values also reflected that all factors have different level of impact on OP. Further, they describe the per unit change in factors to OP in three star hotels in Pakistan. Therefore, innovation & creation have the most significant impact on OP, followed by learning & education and then experiences & expertise.

6. Discussion:

This study contributes to the literature about whether or not, intangible assets have an impact on organization performance. Today, a firm's success is not merely dependent upon the financial and physical resources, instead it also depends upon intangible assets like human capital. With the aim of investigating the human capital influence on firm performance; human capital major components i.e Learning & education, experience & expertise, innovation & creation have been studied by conducting research on hospitality industry of Pakistan. Findings of our research indicate positive significant relationship among these components and organization performance. Results of some of the previous studies are consistent with current study results such as Hitt et al. (2017) found in service organizations, human capital performs a significant role in strategy implementation that enhance performance. A few researches in hospitality context, found no effect human capital on organization performance (Lee et al., 2016) and no significant effect of entrepreneurial experiences on performance of small and medium tourism enterprises (Hallak et al., 2011). Multitudes of studies have witness positive relationship. Human capital has been found to enhance performance by bringing newness in ideas, technology and products (Jogaratnam, 2018; Vandenbroucke, 2016; Wadhwa, 2017) and by establishing competitive advantage (Amarakoon et al., 2018; Marimuthu et al., 2009), by improving firm market value (Hajiha & Hasanloo, 2012).

Our results, points that one of the factor human capital i.e innovation and creativity is pivotal predictor of human capital in population under study. Mostly in hotel industry, innovative and new ideas comes out because of interaction among employees and customer. A good extent of human capital may make it conceivable to capture the innovation that will ultimately lead to better organization performance. Micro analysis of each component of human capital also clearly specifies the granular impact of components of human capital that not a single factor alone can contribute effectively to organizational performance. Each component has its own contribution to enhance the overall impact of human capital and is

required for effective organizational performance in hospitality sector in Pakistan. Employees differ from each other on the level of creativity and innovativeness due to their diverse experience, expertise and education, learning practices. Blend of such factors creates a diverse workforce in human intensive organizations like hotels that distinguishes hotel industry from manufacturing organizations.

For developing country like Pakistan, human capital development on organizational level is crucial. By constructing portfolio of different elements of human capital innovative output can be generated that can aid to the economic improvement in developing countries (Capozza & Divella, 2018). For acceleration in growth, Policies should be focus on quality education and development of human capital. With advent of CPEC, investment initiatives have been increased in Pakistan resulting in demand for technical, non-technical, skillful staff (Hongdao, Azam, & Mukhtar, 2018; Mustafa & Qayyum, 2017). Policies should be announced that will add value to human capital in Pakistan to cater this accelerating demand. Moreover, due to strengthening of tourism industry in Pakistan, human capital development has been crucial for the successful operation of Hospitality sector. To maximize the benefits of human capital, it must be taken in consideration at individual, group firm and national level.

Moreover, results suggest that organizations should make strategies to develop employee's learning, education, experiences, expertise, creativity, innovativeness in order to utilize human capital properly consistent with the study recommends that leverage of human capital has a positive effect on firms' performance and critical for firms' survival (DeGeest et al., 2017; Hitt et al., 2017). Organizations should introduce employees' developmental practices such as training, coaching, mentoring, developing skills and capabilities as consistent with literature. Furthermore, different categories of hotels in hotel industry can enhance their performance in regards with operational excellence, customer intimacy and product/services leadership by utilizing its human capital to its high extent.

7. Practical and Theoretical Implications

Current study added knowledge to research literature about three constructs of human capital, organizational performance and organization success. Our research study, and its findings are a worthy contribution towards management literature in many ways. At first, it is an input in the domains of human capital and organizational performance of human

capital and organizational performance on empirical bases in hospitality sector operating in Pakistan. Previously, there are many researches in the areas of HC and organizational performance (Quink, 2008). The scope of the studies is limited to corporate manufacturing sector mostly; service sector had been ignored (McCracken & McIvor, 2018). Our study will contribute to human capital development literature as well as to the large body of literature linking organizational performance and human capital in service sector. The results reflected that the empirical confirmation related to strong and significant effect of human capital and its major components, particularly innovation and creativity, on organizational performance in hospitality sector. *Second*, our findings depicted that human capital has greater impact when its all of components have significant influence as in the case of five star hotels as compared to other two categories, instead of developing any one of the component separately. Human capital is an intangible asset and an abstract construct, hence can be measured with the help of a bundle of different components/dimensions. *Third*, it will contribute uniquely as the study gives the answer to the enquiry of the effect of human capital to organizational performance towards hospitality sector of Pakistan, and how human capital factors individually impact organizations' performance.

The present findings of our research have several practical implications. *Firstly*, Managers can improve performance of their firm by focusing on elements of human capital i.e. education & learning, experience & expertise, innovation & creation. They should finance to improve knowledge, expertise, and learning of their human resource as organizations with better human Capital tends to outperform those who do not invest. *Secondly*, regulators should develop a framework at country level for progress of human capital. *Thirdly*, human capital must be weighed in all firms at all level so that strategies could be established that will result in better relationship with stakeholders. *Lastly*, results demonstrated that human capital is an important component for causal mechanism, which affects organizational performance. Current study is a contribution to bridge the prevailing research gap at contextual level and will be helpful for policy makers in different hotels at different level and they will be able to understand the value of tacit knowledge implanted in employees' minds and take full advantages from the innovativeness and creativity to fight in this rivalry in hospitality sector specially.

8. Limitations and future directions

As it is the common issue with management research, current study also has some limitations and obviously opens vistas towards future research. *At first*, current study researchers used a cross sectional study design along with scope is being limited to only three strata including three, four, and five star hotels, out of five categories which recommends a future research to include all categories of hotels. *Second*, only one level of '*intellectual capital*' that is human capital is explored in current study which opens the door for future research on remaining two levels of '*intellectual capital*' that are structural capital and relational capital with organizational performance.

Third, only management level of employees are included as participants of the study while in future research all other levels of employees can be included and mediating and moderating variables can also be included in model for further explanation and exploration of the phenomenon. In final remarks, this study extends human capital literature, and organizational performance literature via demonstrating positive significant relationships among human capital, its components and organizational performance in the emerging economy context. Current study can be an imperative and initial stride towards investing a measureable and empirical value of human capital for organizations in hospitality sector. It opens new vistas for researchers to further investigate the phenomenon.

9. Concluding remarks

Human capital is considered a unique, rare and special resource from RBT, a capital good from the perspective of HCT, and provide source to sustainable positional advantage from PAT perspective. All of the three theories highlights that human capital adds value to organizational performance. Current study investigates whether or not human capital influence organizational performance within hotel industry from Pakistani context. Subsequently, data from three, four and five stars hotels in Lahore is collected by using self-administered questionnaires consisting items measuring human capital, its components and organizational performance constructs. Data has been quantitatively analyzed to find out results of the study.

Observing the phenomenon from Pakistani perspective, results revealed, that hoteliers should think about some important aspects contributing towards performance improvement particularly non- financial performance of their organization. Those aspects, which require more

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attention are training and education of employees, hiring and retaining more experienced and expertise human resource, and the most important on is to develop innovative and creative capabilities among human resource. Operational excellence, products and services leadership, and customer intimacy may be accomplished through the development of such unique characteristics of human capital. Management of Pakistani hotels should ponder on developing a unique & special, non-transferable human capital to gain sustainable competitive advantage, and distinct positional advantage within the marketplace.

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