Investing in transferable strategic human capital through alliances in the luxury hotel industry

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Abstract

Purpose – *The purpose of this paper is explore an organizational design that allows firms to invest in transferable strategic human capital. Strategic human capital requires considerable investment in training costs, effective compensation, opportunities for professional development and expectancy of long employment relationship within a firm. A firm can undertake investment in strategic knowledge and workers can engage in learning only in these circumstances. However, there are a number of risks that are associated with investment in strategic human capital within a firm. In this paper, the author argues that providing strategic human capital to other firms within alliances could be a strategy for leveraging resource. Strategic knowledge facilitates transactions between firms possessing co-specialized human capital and tangible resources. Organizational design of an alliance based on co-specialization allows to balance costs and returns for the human capital supplier, as well as for beneficiary and workers. Within an alliance, the human capital supplier provides workers to a beneficiary firm and coordinates their activities. Supplier specialized in human capital investment ensures improved performance, productivity and efficiency of workers. Possibility to form a greater pool of labor force and to centralize training allows optimizing cost and sharing risks associated with investment activity among alliance participants. Human resource practices in an alliance system foster long-term employment relationship. Entering an alliance increases number of job positions, professional development opportunities through horizontal mobility, promotion and learning opportunities for workers. Finally, alliances allow leveraging investment in human capital beyond a single organization.*

Design/methodology/approach – *This paper conceptualizes the use of alliance based on co-specialization as a strategy to optimize investment in strategic human capital resource. It draws upon the resource-based view (Barney, 1991; Wernerfelt, 1995) and transaction cost theory (Coase, 1937; Williamson, 1981) to examine an alliance as a strategy for leveraging the human capital resources for accessing new markets, building reputation and sharing the risks across more than one organization.*

Findings – *First, the paper reviews the theoretical literature on human capital as a strategic resource (Becker, 1962; Coff, 1997), its sourcing on internal and external labor markets and respective employment systems (Delery and Doty, 1996; Doeringer and Piore, 1971). Second, it focuses on the features of human capital resource (Barney, 1986; Chi, 1994; Doz and Hamel, 1998). Third, it conceptualizes the use of alliances based on co-specialization as organizational structures for investment in human capital across organizations and examines respective employment system and HR practices (Delery and Doty, 1996; Doeringer and Piore, 1971). As result, the author argues that an alliance can be an alternative mean to optimize returns on investment in human capital with strategic transferable knowledge. By consequence, the author describes an alliance employment system and illustrates the arguments with a case of human capital trading in a co-specialization alliance under a long-term management contract in the luxury hotel industry.*

Originality/value – *This paper discusses collaborative ventures as a sourcing strategy of the human capital. An alliance strategy is relevant for sourcing the strategic human capital resources. Human capital resource can be accessed by firms through transfer of skills and organizational routines within collaborative agreements, such as alliances based on co-specialization. In this case, alliance is an organizational architecture between organizations that improves the efficiency and productivity, reduces marginal cost on training due to larger scale of operations and reduces risk by splitting investment in human capital and by offering more career and development opportunities for strategic knowledge workers.*

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1. Introduction

According to resource-based theory (RBT), strategic resources are defined as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991, p. 101). A strategic resource should be valuable, rare, inimitable and non-substitutable to sustain the value generation process and, additionally, the firm's competitive advantage (Barney, 1991).

RBT distinguishes three categories of resources: physical capital, organizational capital and human capital. Physical capital resources include the physical plant, property, equipment, raw material access, location and physical technology deployed within a firm. Organizational capital resources consist of the formal reporting structure; planning, controlling and coordinating systems; and the informal relationships in and around the firm. Human capital resources are related to individual employees and pertain to their knowledge, training, experience, judgment, intelligence and relationships.

This research focuses on human capital as a strategic resource that gives a competitive advantage to the firm. Strategic human resource management (SHRM) highlights the idea that knowledge owned by individuals might contribute to firm performances by being valuable, rare, inimitable and non-substitutable (Becker and Huselid, 2006; Colbert, 2004; Kaufman and Miller, 2011; Snell *et al.*, 2001). The rise of the knowledge economy emphasizes the strategic importance of knowledge. In more and more industries, competitive advantage depends on the use of qualified human capital (Campbell *et al.*, 2012; Lepak and Snell, 2002; Master and Miles, 2002). In knowledge-intensive firms, knowledge workers in possession of strategic knowledge underpin the competitiveness of their firms (Starbuck, 1992; Von Nordenflycht, 2010).

However, when RBT scholars consider knowledge as a potential strategic resource, they often omit a particular feature. A firm owns proprietary rights over its physical and organizational resources and it controls their allocation. Knowledge, however, is mainly embodied in people (Grant, 1996; Nonaka, 1994; Simon, 1991). Firms do not legally own the human capital they use, nor do they own the knowledge embodied within their employees. This feature changes the perspective for firms in regards to accessing strategic knowledge. This is not only an issue at an organizational level; an individual dimension has to be considered.

Mobilizing strategic resources is a critical issue for firms pushing to build a competitive advantage. Internal growth (hierarchy) and acquisitions (market) are two major means by which to obtain these resources (Capron and Mitchell, 2012; Williamson, 2010). Alliances have been introduced as an alternative way in which to access strategic resources (Eisenhardt and Bird Schoonhoven, 1996; Yang *et al.*, 2011; Lin and Darnall, 2015). Strategic alliances are voluntary collaborations between organizations, and they involve product exchange, sharing or co-development and technology development of the provision of services that pursue a common set of goals (Gulati, 1998; Teece, 1992). Alliances formed to share physical and organizational assets might be conceptualized as partnerships at organizational levels. The exploration of alliances built to share knowledge and human capital must take into consideration the individual perspective to understand the workers' interests in contributing to the alliance forged by their employers.

Human capital theory (HCT) initiated by Becker (1962), and well-established in labor economics (Cahuc and Zylberberg, 2004; Lazear, 2009), has theorized about investment in human capital. By being non-transferable, specific human capital determines the human resource management (HRM) practices adopted by employers. Since Doeringer and Piore (1971), economists and HR scholars (Lado and Wilson, 1994; Delery and Doty, 1996; Lepak and Snell, 2002) have described a virtuous HRM system based on specific knowledge. By building an internal labor market, the employer invests in training, provides higher salaries and offers career opportunities to trained employees who embody specific knowledge. Specificity induces increased employee stability and provides more opportunity to the employer to reap profit from its investment in human capital.

However, strategic human capital can be transferable. The competition for talent (Cappelli, 2000) describes the competition between employers to recruit talented people. Transferable human capital means that a trained employee might move to another employer before the current employer has reaped profit from any training investment. Transferability reduces the incentive for the employer to invest in human capital. Large firms can take the risk to invest in transferable human capital. They offer job security and career opportunities for the most productive trained workers. However, a question remains that is not addressed by the academic literature: Why and how do employers – more specifically, small and medium enterprises (SMEs) – invest in strategic human capital when knowledge is transferable?

HCT's answer is that there is no reason for small employers to invest in such human capital. Their small internal labor market does not get a critical size necessary to invest in human capital, and it does not provide enough job security and career opportunities to attract and retain talented employees.

This paper argues that small independent firms might obtain competitive advantage by accessing strategic knowledge through alliances. From this perspective, alliance is used to create an interorganizational internal labor market (IILM) that makes it logical for employers to invest in strategic and transferable human capital. In the alliance, an employer-provider runs the IILM by recruiting, training and assigning workers to employer-users that provide jobs and need competencies. By forming such alliances, partners can create and obtain unique access to strategic knowledge. These kinds of alliances not only optimize the interests of the firms, but they also benefit employees by providing more job security and career opportunities. This convergence of interests between employers (employer-user and employer-provider) and employees is critical to making possible investments in strategic and transferable human capital.

Focusing on the hotel industry, this paper describes how firms have designed an organizational structure to invest in, and reap profit from investment in, strategic and transferable human capital. Traditionally, independent hotels are SMEs employing from 50 to 200 employees. They are usually mature businesses. The owner owns the building (physical asset), the booking system and the brand (organizational assets), and employs the staff and line workers mobilized for the business (human assets). In the 1980s, a new type of contract spread throughout the industry: the hotel management contract (HMC) (Eyster and deRoos, 2009; Gannon *et al.*, 2009; Magnini, 2008). Through an HMC, an operator (employer-provider) supplies staff (general managers, marketing director and experts, CFO, food & beverage directors and experts, etc.) to a hotel owner on a long-term basis (from 10 to 20 years). In such an alliance, the firm employer-provider specializes in recruiting, training and managing qualified workers (staff) assigned to hotels owned by firms specialized in real estate management (employer-user). The largest hotel groups in the world – like InterContinental group, Hilton Hotels, Marriott International or Hyatt Hotels – are employer-providers of strategic human capital to a myriad of independent hotel owners that the groups operate through HMC. This governance structure gives the operator's internal labor market the critical size needed to invest in strategic and transferable human capital and offer job security and career opportunities to employees.

This research aims at contributing to the field of strategic alliances dedicated to knowledge management (Grant and Baden-Fuller, 2004; Meier, 2011). It explores how an alliance might be used to create an IILM that fosters investment in strategic and transferable human capital to give a competitive advantage to the alliance partners. It also takes into account the embodied dimension of knowledge by showing why such alliances offer more job security and create career opportunities to attract and retain talented people.

In addition, this paper aims to bring a different empirical perspective on strategic alliance, as it is related to knowledge management. Generally, knowledge management in strategic alliances explores practices in large firms that are industrial and R&D-intense (high-tech companies, pharmaceutical firms, carmakers and/or aeronautic industry). Small mature firms with low R&D intensity are implicitly excluded from the research field. Through exploration of how independent hotels have created settings to invest in strategic and transferable human capital, this research expects to bring new practical perspectives to SMEs regarding the attainment of competitive advantage through alliances. Considering that in Europe, SMEs represent 99 per cent of businesses and 67 per cent of employment (European Commission, 2015), such research might open new practical perspectives to numerous firms.

In the first part, building on HCT and knowledge management theory, this paper conceptualizes how investment in strategic and transferable human capital is a critical issue for firms, and that alliances might be an efficient governance structure that could enable SMEs to do such investment. Then, there is a description of how such alliances aim at creating IILM s wherein one partner specializes in managing strategic and transferable human capital by running the alliance employment system. The final part of the paper explores HMCs used in the hotel industry to provide preliminary evidence of such alliances.

2. Strategic human capital and knowledge transferability

According to RBT, human capital is defined as the knowledge, skills and interpersonal relationships of an individual worker. Based on RBT, SHRM (Becker and Huselid, 2006; Colbert, 2004; Kaufman and Miller, 2011; Snell *et al.*, 2001) argues that human capital might support the competitive advantage of the firm. From this perspective, human capital is a strategic resource if it sustainably contributes to value creation by being valuable (V), rare (R), inimitable (I) and non-substitutable (N) – the VRIN criteria (Barney, 1991).

Knowledge is mainly embodied in people (Grant, 1996; Nonaka, 1994; Simon, 1991). Firms do not legally own the human capital they use, nor do they own the knowledge embodied in their employees. Individuals are repositories for tacit knowledge and a great deal of explicit (codified) knowledge, and knowledge creation is an individual activity (Nonaka, 1994). Individuals are the principal repositories of knowledge (Grant, 1996; Felin and Hesterly, 2007). Simon (1991, p. 125) notes that "all [organizational] learning takes place inside individual human heads; an organization learns in only two ways: (a) by the learning of its members, or (b) by ingesting new members who have knowledge the organization didn't previously have".

A strategic resource has to comply with conditions related to imitability and immobility to support a sustainable competitive advantage. Imperfect imitability is a feature of a resource that is related to causal ambiguity among managers' actions and business outcomes. It occurs when the causal connections of a resource are known better by a firm that possesses it than by firms that may potentially imitate it. Human capital cannot reach perfect mobility in conditions of uncertainty among potential buyers regarding the worker's ability, knowledge and skills (Felin and Hesterly, 2007). However, human capital can be an object of replication of imperfectly imitable resources – a firm can hire away competitor's managers.

The concept of "human capital" was first introduced by Schultz (1961), and included education, on-the-job training, migration and health of individual workers. The concept has been largely developed by HCT (Becker, 1962) to explore the rationality of firms investing in human capital. HCT became a major concept in labor economics (Cahuc and Zylberberg, 2004; Lazear, 2009) and in SHRM (Baron and Kreps, 1999; Pfeffer, 1996). By training employees, an employer accumulates knowledge that is embodied in individuals (Simon, 1991). The turnover of employees is a major threat related to investment of human capital (Coff, 1997). Should an employee leave the firm, potential returns on human capital investment would be lost for the employer. A long-term employment contract is necessary for these investments to be undertaken by the firm and to be paid off.

There are two types of human capital distinguished by knowledge specificity: general-purpose human capital and firm-specific human capital (Becker, 1962). General-purpose human capital is related to transferable knowledge and can be deployed across various firms. General-purpose human capital increases the overall productivity of the worker and is useful to the actual employer as well as to other employers. Firm-specific human capital is non-transferable knowledge and is useful for the actual employer; it only enhances productivity in the employer's organization. By definition, an employee in possession of specific human capital reaches his or her maximal productivity by working for his or her incumbent employer; he or she would suffer a loss of productivity by moving to another firm. A perfectly specific human capital is supposed to be non-transferable and, therefore, immobile.

Thus, if the strategic human capital is specific to the firm and non-transferable, an employer has incentive to invest in training to improve employee productivity and the firm's performance. Conversely, workers invest in general and transferable human capital by paying for their training and putting employers into competition to get the highest salary for their knowledge. Human capital specificity creates a dual labor market in the firm (Doeringer and Piore, 1971). There is the internal labor market dedicated to specific and non-transferable human capital wherein HRM is driven by administrative rules and employer's authority. And there is the external labor market dedicated to general and transferable human capital wherein coordination between employer and workers is based on arm's-length relationships. This distinction is widely used by HRM scholars to define an internal employment system and a market-based employment system (Delery and Doty, 1996; Lepak and Snell, 2002).

Combining RBT that identifies strategic human capital with HCT that distinguishes transferable and non-transferable human capital (depending on knowledge specificity) is useful to frame the rationality for investing in human capital, and reveals a gap in HCT. It is implicitly assumed that the strategic dimension of human capital is related to its specificity and transferability to explain firms' investments in the acquisition of strategic knowledge.

However, the link usually made between specificity and transferability is contestable. If some specific human capital is intrinsically non-transferable, some is transferable and competitors might be eager to recruit it. The competitive environment determines the transferability of the knowledge. A firm wishing to enter a new market will try to recruit employees with specific and strategic knowledge gained from working for established firms in the market (Rao and Drazin, 2002; Gardner, 2005). By nature, the first firm to enter a new market has to create specific knowledge to be competitive. This knowledge is non-transferable as long as the firm is the only one on the market. If other firms want to enter the market, it is easier for them to learn by recruiting from the first-mover than it is to try and recreate the knowledge. The change in the competitive environment converts strategic, specific and non-transferable knowledge into strategic and transferable knowledge.

In reality, firms invest in general and transferable human capital to acquire strategic knowledge. Such investments seem irrational from an HCT perspective. Scholars have justified this practice by pointing out that an individual is a portfolio of competences; some are specific, some are general, but the overall combination is specific. Thus, a worker with a partially specific portfolio of competences cannot be as productive as he or she would be with another employer. This incentivizes him or her to stay with his or her current employer. Another explanation is that large firms offer more job security and career opportunities to attract qualified workers and retain trained employees. Thus, an employer can invest in general and transferable strategic human capital as long as the career opportunities it offers to its employees are less risky and more interesting than those offered by other employers. By isolating the firm from the market, an internal labor market makes it rational for an employer to invest in general and transferable human capital to obtain a competitive advantage through the acquisition of strategic knowledge. This internal labor market argument developed by Doeringer and Piore (1971) is largely mobilized by SHRM scholars to justify investment by large employers in strategic general and transferable human capital (Cappelli and Neumark, 2001; Pfeffer, 1996; Delery and Doty, 1996; Lado and Wilson, 1994; Lepak and Snell, 2002). However, these conditions are only fulfilled by large firms or, eventually, fast-growing companies.

These explanations leave a theoretical gap in the explanation of SMEs' investment in strategic and transferable human capital. Following HCT and labor economics, SMEs have no interest in investing in strategic and transferable human capital. This rationality might explain why SMEs invest less in training than do large firms (Stone, 2010). The small sizes of their internal labor markets do not generate the economy of scale necessary to invest in training, and they do not provide enough job security and career opportunities to attract and retain talented people. Therefore, from an HCT perspective, SMEs should not invest in transferable knowledge and should use the external market to recruit qualified workers. In addition, workers have no interest to invest in human capital just to be recruited by an SME. If they invest in such human capital, it is to obtain a position in a large firm that provides job security and career opportunities.

This paper explores an alternative way by conceptualizing how alliances can be used to create interorganizational labor markets that would make SMEs attractive on the external labor market in attempts to recruit talented people and justify their investments in strategic and transferable human capital. The use of organizational design can be identified as a strategy for coping with management challenges related to human capital – along with retention, rent-sharing and information solutions – in SMEs (Coff, 1997). Knowledge transferability is a feature of strategic human capital that should be taken into consideration with design organization and human resources practices. Table I illustrates how governance structures (market, hierarchy and alliance) are efficiently used, depending on the degree of transferability of strategic human capital. Additionally, each governance structure induces a particular employment system.

Employment systems embody the governance structures for investments in human capital and consist of sets of HR practices. There are two dominant logics in investment in human capital, reflected in employment systems. This paper discusses the employment systems reflecting major strategies of investment in strategic human capital as dependent on the knowledge transferability. Market and hierarchy are two governance structures articulated with specific employment systems: the market-based employment system and the internal employment system (Delery and Doty, 1996). The distinction between the market-based system and the internal system corresponds with the difference between external and internal labor markets.

The market-based employment system is an HR architecture designed to manage workers who represent commoditized knowledge. A firm using a market-based employment system

Table I Employment system, strategic knowledge and labor contract

	Employment system		
	Market-based	*Alliance*	*Internal*
Strategic dimension (VRIN)	Non-strategic human capital	Strategic human capital	Strategic human capital
Transferability of knowledge	Commoditized knowledge	Transferable strategic knowledge	Specific strategic knowledge
Parties	Employer and employee	Employer-user, employer-provider and employee	Employer and employee
Labor contract	Short-term labor contract	Long-term labor contract between the employer-provider and the employee; commercial contract between the employer-provider and the employer-user	Long-term labor contract

would choose minimal development costs as a main strategy of investment in human capital. By minimizing such investments, the employer can use external flexibility to adjust its workforce to the variations of its business activities. Employers tend to recruit employees trained outside of the firm, or they use contractors for temporary access to workers. Human capital is a commoditized good accessible by all firms on the labor market. By being perfectly accessible to all employers, this kind of human capital, by definition, cannot underpin a sustainable competitive advantage.

The internal employment system is an HR architecture designed to manage workers who possess specific knowledge. An internal employment system is particularly consistent with strategic knowledge that is specific to the organization and non-transferable to another firm with the same level of productivity. In this case, the employer can invest in training to increase its efficiency by improving its knowledge. The non-transferability induces the stability of workers and ensures that the firm reaps profits from its investment in human capital. In this case, the employer can invest in training to increase its efficiency by improving worker knowledge. An internal employment system is consistent with investment in firm-specific human capital. The employer uses internal flexibility to adjust its workforce to the variations of its business activities.

The author's conceptual contribution builds on this very established framework to hypothesize that alliances between firms can be used to create an IILM to invest in strategic and transferable human capital. Such an IILM is characterized by a specific employment system – the alliance employment system.

3. Alliances as governance structure to invest in strategic and transferable human capital

3.1 Strategic alliances and knowledge management

A firm needs to access necessary resources to implement its strategy (Barney *et al.*, 2001). However, it might be difficult to independently constitute and control an entire resource base (Doz and Hamel, 1998). Simultaneously, purchase of services from another organization that possesses the resource needed may not be the right sourcing strategy if the aim is to get privileged access to strategic resources (Capron and Mitchell, 2012). Therefore, an increasing number of companies are using alliances for joint deployment of their strategic resources (Chi, 1994; Eisenhardt and Bird Schoonhoven, 1996; Lin and Darnall, 2015; Parkhe, 1993). An alliance is used to coordinate co-specialized firms and to give competitive advantage to its members by providing access to strategic resources that cannot be obtained (or are obtained less efficiently) through arm's-length transactions (market) or internal growth (hierarchy).

An alliance can be broadly defined as a collaborative venture for value creation achieved by pulling together the resources of two or more organizations into a joint or contiguous process (Gulati, 1998; Teece, 1992). Alliances aim to develop interorganizational competitive advantages without limited activity scope (Dyer and Singh, 1998; Jacobides, 2006). The benefits that an alliance creates for each partner determine the economic attractiveness of collaboration between partners (Adegbesan and Higgins, 2011). The benefits that are achieved from exploitation of resource complementarity are one of the key reasons for joining an alliance. The main source of complementarity in this type of alliance is related to the combination of co-specialized resources. Through co-specialized alliances, firms debundle the ownership of their resource combinations to specialize in owning some resources and by outsourcing others. Through alliance, the partners gain sustainable competitive advantage through privileged access to strategic resources that are inaccessible to outsiders.

Complementarity emerges from various sources (Clegg and Hardy, 1999). First, the sources of complementarity may be related to the leveraging of a participant firm's existent resources through economies of scale (Kogut, 1988; Lin and Darnall, 2015), the reduction of costs of entry to new markets (Eisenhardt and Bird Schoonhoven, 1996), the management of strategic uncertainty, the management of costs and risk sharing (McEvily and Marcus, 2005). Second, these sources of complementarity may be related to the development of the resource base by way of learning from competitors (Dussauge *et al.*, 2000; Grant and Baden-Fuller, 2004; Hatch and Dyer, 2004; Meier, 2011).

There is an individual dimension to this kind of alliance. The transfer of resources through collaborative ventures is "the transfer of the skills and organization routines that make up the resource beyond the firm that presently employs it" (Chi, 1994, p. 272). This transfer occurs through "replication of the resource under the guidance of its present employer" (Chi, 1994, p. 272). A strategic alliance to share knowledge between firms presumes to consider the employees owning it and induces HRM issues.

3.2 Strategic alliance to create an IILM

The human capital resource can satisfy both conditions outlined by Chi (1994). First, human capital is subject to high adverse selection in trading. Its being traded through an alliance will be efficient if another partner possesses co-specialized resources that are subject to high transaction costs, such as moral hazard or high adverse selection. Second, human capital can be specialized. The alliance partner providing co-specialized human capital complies with the specialization condition in this case, and, additionally, its resources may be difficult to measure.

Entering an alliance based on co-specialization could be a strategy for leveraging investment in strategic and transferable human capital. In this case, a firm that invests in human capital is providing this resource to another firm that contributes other co-specialized resources within the alliance. Human capital transferability between partners is a required condition for building an IILM by forming an alliance. If strategic knowledge were transferable, a firm would have an opportunity to leverage its strategic human capital as a co-specialized resource within the alliance.

Leveraging the strategic human capital through a collaborative interorganizational structure without losing the possibility to control and benefit from this resource can be a strategy for optimization of returns on investment. Alliances give a long-term perspective for the provider of human capital, which is one of the incentives required to invest in human capital (Baron and Kreps, 1999; Cahuc and Zylberberg, 2004). Simultaneously, a long-term alliance should be created on a well-defined contractual basis, and it should ensure that the beneficiary receives complete information about the ways in which the human capital is going to be deployed within a collaborative venture. As a result of leveraging investment in human capital through co-specialization alliances, firms can enter new markets, build reputation, gain knowledge about new types of customers, diversify the types of revenue streams and optimize investment risks.

This kind of alliance gathers together three types of actors. Due to the embodied dimension of knowledge, an alliance designed to create an IILM has to satisfy not only the utility of the firms forming the alliance, but also the workers' utility. All the partners have to be incentivized to contribute to the collaborative venture. First, the employer-provider that is the legal employer has to invest in human capital and coordinate the IILM. Second, the employer-users must provide qualified positions related to the exploitation of their physical capital. Third, qualified workers must consent to be trained and to consider interorganizational mobility.

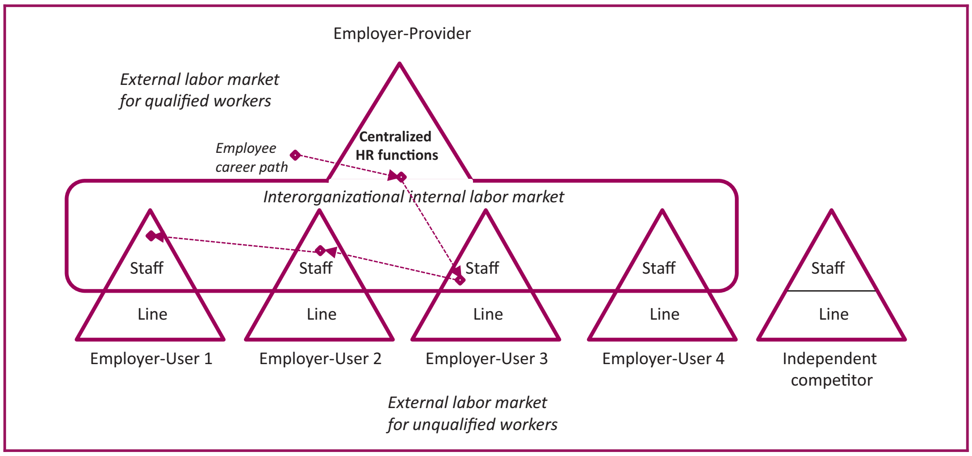
Within an alliance, the human-capital provider receives an opportunity to increase worker productivity and efficiency, as well as to offer longer-term employment perspectives – which are among the main incentives to invest in human capital (Becker, 1962; Doeringer and Piore, 1971; Lepak and Snell, 2002). In the alliance, one partner (the employer-provider) provides strategic human capital and the other provides strategic physical capital. The former invests in training and the latter provides jobs by being an employer-user. The gathering of several employer-users creates an IILM. The employer-provider runs the IILM and organizes the interorganizational mobility of employees between the independent employer-users that belong to the alliance. A firm that specializes in human capital through an alliance can optimize its investment through greater scale of operations to be more cost-efficient, and by building scalable routines for HRM practices in training, recruitment, assessment, compensation and promotion practices.

By belonging to this kind of alliance, a small organization has access to strategic human capital trained by the human-capital provider. Through alliances, the human-capital provider builds an IILM with the different users of the human capital. The larger this labor market is, the more the human-capital provider benefits from economy of scale to invest in training. It can also offer more job security and career opportunities to attract and retain qualified workers. The size of the IILM provides a competitive advantage by making the alliance more attractive on the external labor market. In such an alliance, an employer-user can access the human-capital resource at lower costs and share with an alliance partner risks related to investment in human capital. There is a verifiable record of past performance of employees managed by the employer-provider. Finally, an alliance allows the sourcing of human capital from an organization that directly coordinates individual workers on the basis of a long-term contract with a current employer, which diminishes transaction costs for an employer-user. Given that the contract is concluded with an organization, the turnover problem is offset. This is because an organization has access to a large labor pool and can rapidly provide a replacement or a support solution.

For employees, an alliance employment system allows the provision of long-term career development plans, which is not an option in a market-based system, and which is not always feasible in an internal employment system, especially in SMEs. By joining an alliance that provides strategic physical capital and gets access to strategic human capital, the employer-user changes the implicit employment contract by indirectly providing career opportunities to the workers it mobilizes. An alliance between several small independent firms owning strategic physical capital with a firm that provides strategic human capital creates an interorganizational labor market that offers career opportunities to talented people. By forming an alliance to create an IILM, SMEs acquire attractive features similar to those of the internal labor market of a large firm. They can provide job security and numerous career opportunities to attract and retain talented people (Figure 1).

An alliance is a hybrid governance system between market and hierarchy (Williamson, 2010). Consequently, an alliance employment system is a hybrid employment system between a market-based employment system and an internal employment system. As an

Figure 1 Interorganizational internal labor market



internal employment system, an alliance employment system focuses on a long-term relationship with employees to optimize investments in strategic and transferable human capital. In this system, the firm that invests in human capital through training is the legal employer but not the user. The interorganizational labor market spreads across several small organizations and is run by the employer-provider that trains and assigns qualified workers.

In contrast to the internal employment system and the market-based employment system, alliances establish an employment relationship contract between two firms and workers to build an IILM. An alliance based on co-specialization can provide a governance structure for leveraging investment in strategic and transferable human capital. The alliance takes the form of a legal agreement between two firms, wherein one firm contracts the services of another firm that provides the human capital. The employer-user specializes in investing and managing physical capital. It provides qualified positions to the alliance. The employer-provider selects, recruits, trains and manages qualified workers who are brought to the alliance. It develops and runs centralized HR functions (recruiting, training, compensation and benefits, careers) for the alliance. The employer-provider can use interorganizational mobility to adjust the workforce to the variations of the business activities of the employers-users that belong to the alliance.

3.3 HR practices in an alliance employment system

The HR practices of the market-based employment system and the internal employment system have been described by Delery and Doty (1996), whose HR model is largely used by HRM scholars (Jiang *et al.*, 2012; Kehoe and Wright, 2013; Posthuma *et al.*, 2013). Building on this model, the author's contribution is to conceptualize the HR practices related to the alliance employment system.

An employment system refers to sets of human resource practices for individual employees engaged by a firm. In its turn, it may influence the strategies to deal with management challenges related to human capital. Consequently, the HR practices applied in an alliance can be characterized, drawing upon previous theoretical development. Seven main HR practices are identified in the literature (Delery and Doty, 1996). As Table II below shows, the HR practices in alliance are identified, designed and implemented among the three partners of governance structure (employer-users, employer-provider and employees). The author's conceptual contribution builds on the market-based employment system and the internal employment system to identify HR practices related to an alliance employment system.

Specialization in human capital investment allows the provider to develop in-house training, development programs, integrated employment systems and HR practices. The headquarters, central offices or regional central offices are in charge of coordination, transfer and implementation of HR practices. The alliance creates the required critical organization to justify investment in IT-based HRM systems and knowledge management systems. Internal recruitment and career opportunities are numerous across all the entities under management of the human-capital provider. Career ladders are clear and can include opportunities within the same organization, as well as in other organizations that are under the operator's management. Young graduates go through selective recruitment processes, often comprising assessment in regional assessment centers, and successful candidates enter more or less formalized management development programs that lead to junior management positions. Succession planning is also developed. Managers who are no longer on a graduate level participate in training that is created, organized and implemented by the human-capital provider. On an operational unit level, the human-capital provider appoints key managers with very limited interference by the beneficiary firm. Consequently, these managers may hire their teams, drawing upon the resources of the human-capital provider that is embedded within other organizations under management and internal candidate database.

Table II HR practices in market-based, alliance and internal employment systems

	Employment system		
HR practices	*Market-based*	*Alliance*	*Internal*
Internal career opportunities	Hiring almost exclusively from outside the organization	Clear career ladders	Hiring mainly from within the organization
	Very little use of internal career ladders	Career within one organization and span across several organizations under management of human capital provider	Extensive use of well-defined career ladders
		Selective recruitment	
		Succession planning	
Training	No formal training provided	Extensive in-house training and development programs	Extensive formal training provided
	Little if any socialization taking place within the organization	Importance of corporate culture in training	Great amount of socialization within the organization
Results-oriented appraisals	Performance measured by quantifiable output or results-oriented measures	Regional and central assessment centers	Performance measured by behavior-oriented measures
	Feedback in the form of numbers and evaluative	Formalized performance appraisals	Feedback more for developmental purposes
		Feedback on current performance and for development purposes	
Profit sharing	Profit sharing used extensively	Few profit-sharing schemes are used	Few incentive systems used
			Very little use of profit sharing
Employment security	Very little employment security given	High employment security	Great deal of employment security among those who make it through the initial trial period
		Opportunities for employment in other organizations under management of human capital supplier	Extensive benefits to those 'outplaced'
		International transfers	Formal dismissal policies
		Career management activities	
Participation	Employees given little voice in the organization	Participation for staff employees	Employees likely have access to grievance systems
		Extensive use of lateral communication tools for sharing knowledge	Employees more likely to participate in decision-making
Job descriptions	Jobs are not clearly defined	Standardized job descriptions and operating procedures	Jobs very tightly defined
	Job definitions are loose	Standardized qualifications	

4. Building an alliance employment system in the hotel industry: preliminary evidences

4.1 From independent hotels to alliance of co-specialized partners

Hotels are one of the oldest business activities. They have existed for centuries. Until the beginning of the twentieth century, the hotel industry was atomized and made up of a myriad of independent hotels (Sandoval-Strausz, 2008). Traditionally, the owner of an independent hotel owns the building (physical capital), he or she is the legal employer and user of the people working in the hotel (human capital) and he or she owns the booking system and the brand related to his or her business (organizational capital). The hotel business is a labor-intense activity, especially in the high-end segment (5-star luxury hotels). Usually, labor expenses represent more than 50 per cent of operating expenses.

The close similarity of work organization and process in hotels enables mobility of workers between hotels without decreasing employees' productivity. Job descriptions of the different staff positions (general manager, food and beverage manager, lodging manager, sales and marketing manager, etc.) are very similar and make knowledge easily transferable from one hotel to another. At the same time, knowledge, experience, judgment, intelligence and relationships embodied in employees represent strategic resources in the hotel industry to deliver high-quality services, especially for luxury hotels. A high quality of services delivered by employees is critical to attract and retain customers. The transferability of this strategic human capital inhibits independent hotel owners from investing in training. The small size of their organizations does not represent the critical size needed to generate economy of scale to efficiently invest in training, and does not offer enough career opportunities to attract and retain talented people.

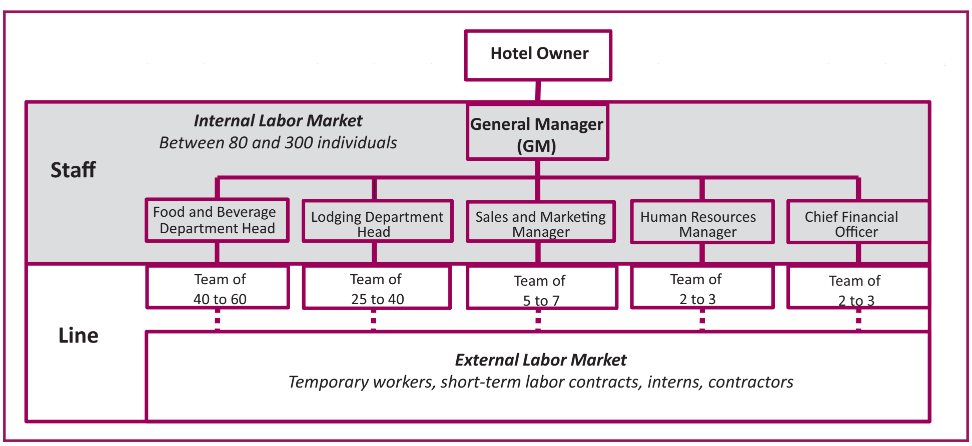
Figure 2 illustrates an example of the organizational design of an independent 100-room hotel. The average number of rooms in a hotel is 130 (MKG, 2015). Usually, independent luxury hotels are characterized by a dual labor market. Staff employees are in the internal labor market with long-term labor contracts. Line employees (housekeeping, waitstaff, butlers, etc.) are in the external labor market with short-term labor contracts. The internal employment system is used to manage staff employees who ensure the productivity, the efficiency and the quality of service expected by the customers. The market employment system is used to provide flexibility and recruit line employees, especially during the high-season periods.

Today, some 5-star luxury hotels are still run as purely independent hotels. The Negresco in Nice, the Beaurivage hotel in Geneva, the Gran Melia Fenix in Madrid and the Hotel Royal Café in London are all typical independent hotels.

Multiple-unit hotel companies appeared at the beginning of the twentieth century. Usually, an independent hotel owner buys new buildings in different locations, becomes the employer of more employees, develops a more sophisticated booking system, creates coordination and controlling systems and invests in branding. This expansion strategy based on acquiring three kinds of resources requires huge financial investments and presumes to master different kind of competences: real estate management for physical assets, brand management, IT management and booking management for organizational assets and HRM (recruiting, training, compensation) for human assets.

Facing huge costs of development that slowed their expansions, large hotel groups have developed a franchise model through which they rent booking systems and brands (organizational assets) to independent hotel owners who own their buildings (physical assets) and directly employ the workers (staff and line). This franchise model appears as an alliance to coordinate co-specialized partners (Barthélemy, 2008) that largely spread in the hotel industry (Eyster and deRoos, 2009). Well-known companies like InterContinental,

Figure 2 Dual labor market of an independent luxury hotel



Hilton, Marriott, Hyatt, Radisson or Best Western expanded through franchising agreements.

However, franchising contracts present some limits to the running of upscale luxury hotels and full-service hotels (5- and 4-star hotels). The franchising firm does not manage franchised hotels and does not control the quality on a day-to-day basis. Being a labor-intense industry means that the quality of service depends on people. Yet, in a franchising system, workers are employed and managed by independent owners. Despite being under the same brand, the quality might dramatically vary between hotels. Poor-quality services in one hotel might damage the brand shared by all the independent owners belonging to the franchised alliance.

In the 1980s, a new form of alliance contract – known as "Hotel Management Contract" – spread in the sector to support industry expansion (Schlup, 2004; DeRoos, 2010). An HMC is a long-term contract, usually lasting for 10-20 years, between a hotel owner and an operator that provides qualified workers. Hotel physical assets play an important role in the gaining of competitive advantage. They require particular expertise in property management, for example the raising of funds for investment and for long-term building maintenance. Competences in real estate management differ from competences in HRM. Thus, hotel owners specialize in real estate management and hotel operators specialize in HRM. The operator is the employer of the staff employees. It pays them, trains them and manages their careers. These employees are physically assigned to work in hotels under management contracts. The hotel owner is the employer of the line employees and focuses on the real estate dimension of the business. The HMC may or may not be linked with a franchise agreement.

The length of the management agreement and the termination conditions define the framework of alliance in the luxury hotel industry (Bader and Lababedi, 2007; Schlup, 2004). The management agreements between parties usually last for 10-20 years, with possible extensions upon agreement. The management fees range from 4 to 10 per cent of total hotel revenues (Bader and Lababedi, 2007). Strategic decisions are taken on at the managerial level between the owner and the operator, especially if the development and technical services are involved. The operator-appointed general manager reports to the operator's headquarters. The owner has to address the operator to get information about the property performance. It is possible to send the owner's representative to the property in accordance with contractual terms. However, the hotel managers cannot take directions from the owner or his or her representatives.

The largest hotel company in the world, InterContinental Hotel Group (IHG), reflects the evolution of alliance structures in the industry. In 2015, through franchising agreements and HMC, the group runs 4,840 hotels worldwide. Of that, 4,096 (84.6 per cent) are under franchised agreements, 735 (15.2 per cent) are under HMCs and only 9 (0.2 per cent) are fully owned by IHG. In the years to follow, the firm plans to open 843 new franchised hotels (+17 per cent), 377 managed hotels (+51 per cent) and 1 owned hotel (+11 per cent)[1]. Even if franchised agreements are the most represented kind of alliance, HMCs are the fastest-growing kind of alliance. In 2002, IHG, out of 3,520 hotels, owned 171 hotels (4.9 per cent), franchised 2,926 (83.1 per cent) and managed 423 (12 per cent)[2]. The same trend is observable in the five other largest hotel firms in the world: Hilton Hotels, Marriott International, Wyndham Hotel Group, Choice Hotels International and Accor (MKG, 2015).

Access to a sufficiently qualified labor force in sufficient quantity to ensure efficiency necessary for quality service are major HR challenges in the hotel industry (Gannon *et al.*, 2012). For these reasons, the hotel owners that leverage their specific expertise and enter into collaborative ventures succeed in the management of dilemmas related to HRM. Thus, alliances based on co-specialization between firms that invest in human capital and firms that invest in other resources are frequently used in the luxury hospitality industry. In other terms, co-specialization in human capital and in tangible assets in hospitality is called a "split of bricks and brains" from the perspective of hotel operators (Gannon *et al.*, 2009).

An HMC constitutes an alliance between a hotel owner (employer-user) specialized in real estate management (physical assets) and an operator specialized in human capital management (employer-provider). There are two kinds of operators. Public franchises like Hilton, Sheraton or Sofitel provide to owners resources such as brands and booking systems, along with human resources. The names of independent, non-public operators are not usually communicated to customers. Davidson Hotel Group, Viceroy and Morgans Group are among the independent operators. They operate hotel real estate on the owner's behalf, supervising and managing daily operations without having their own brands.

Figure 3 illustrates the management agreement, new reporting links and new labor market configuration under an alliance employment system. In the case of alliance, the owner of the hotel does not employ and manage staff employees working in the hotel. The operator does. In this case, the hotel operator (employer-provider) supplies the human capital in which he or she has previously invested through employee training.

4.2 Building IILMs through alliances

The operator proposes its hotel management services to several independent hotel owners. By doing so, it creates an IILM encompassing the different hotels it manages under HMC (Figure 4). The employer-provider agrees not to contract with another hotel owner in the same geographical region. Such alliances build IILMs offering superior professional opportunities to employees. The operator makes rational investments in strategic and transferable human capital.

The main operators represent large IILMs articulated with local external labor markets. For example, in 2015, over 350,000 people work globally across IHG's brands, but only 25,222 are legally IHG's employees. The latter category splits between people in corporate offices and those assigned in hotels[3]. Career evolutions of large operators' employees highlight professional and geographical opportunities offered by interorganizational mobility on the IILM. An employee might start his or her career as the food & beverage assistant in one hotel, then move to another hotel (eventually in another country) to become food & beverage manager and then hold the same position in a larger hotel. Later, he or she may become director of operations for another hotel, then take a corporate position by being regional director of operations and, finally, become general manager of a famous property under management contract with his or her employer. He or she might end up in a position at the general headquarters (marketing director or brand manager)[4].

Figure 3 Organizational design and labor markets within an alliance

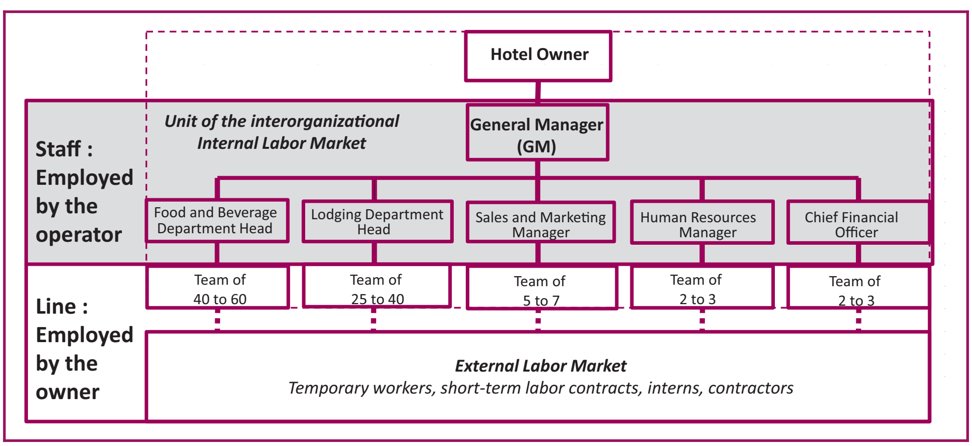
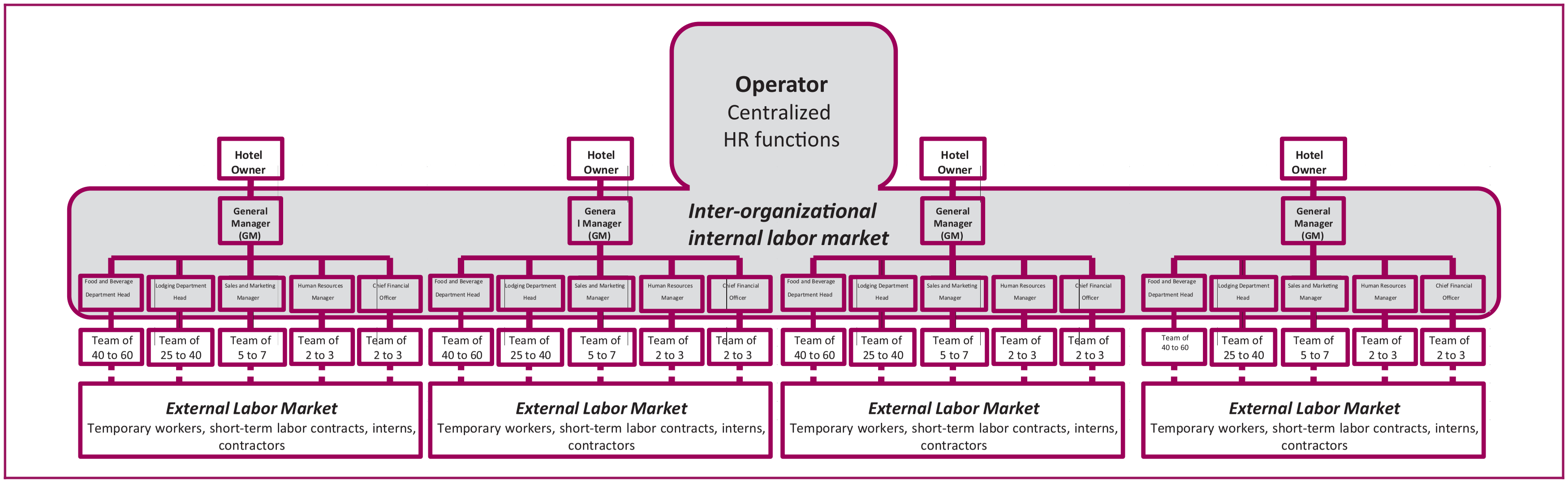


Figure 4 Interorganizational internal labor market and career opportunities



In the IILM, the employer-provider designs and manages the alliance employment system that is dedicated to workers. In the IILM, the employer-provider supplies extensive and formalized training to employees. International transfers and mobility are fostered. Formal performance appraisals regularly take place. Employment security is greater than in an independent hotel, and it is enhanced through career management, promotion and development opportunities. The lateral communication for sharing knowledge between staff employees (general managers, food and beverage managers, lodging managers, etc.) is frequently used. Standardized job descriptions and operating procedures are common, as well as standardized qualifications.

Operators manage several hotel properties. This allows them to have a critical mass of revenues and of human capital under management contracts. An operator fills the managerial positions in the properties, mainly taking from the labor pool of other hotels that it is managing. The owner will pay a fee for the management services, which will cover key training costs as well. The management company can use its central services to provide additional training. In addition to traditional internal and external labor markets, hotels can source employees across other properties under management contract with this hotel firm. This situation allows the hotel firm to provide workers with more learning, mobility and promotion opportunities.

The employees in the human-capital provider's central office:

- provide operational support to teams in operational units;
- provide advice; and
- constitute the problem-solving taskforce teams on the operational level in operational units (hotels under management).

An alliance gives more career opportunities to its employees than does the user of these employees because the employees may be active across more numerous business units. These are true employees appointed by the management company in operational units. Other employees hired in operational units join the management company's labor force pool, benefit from general and firm-specific training and have opportunities for professional development within the unit where they have entered this market, as well as in other entities run by this management group.

To review in greater detail an employment system in an alliance, one can use the example of the hotel real estate firm Pebblebrook, which has engaged through a management agreement the independent hotel operator Morgans Hotel Group to manage daily operations of the hotel Mondrian located in Los Angeles (USA). The employment system in the hotel Mondrian is the object of an alliance based on co-specialization between Pebblebrook and Morgans Hotel Group. Pebblebrook is specialized in hotel real estate ownership and provides the building and financial resources. Mondrian is a 237-room, luxurious, full-service, boutique-style hotel in a prime location that was purchased by Pebblebrook Hotel Trust for $137.0 million. Pebblebrook Hotel Trust has established a contract with Morgans Hotel Group that will provide human capital for hotel management and daily operations. A 20-year management agreement for Mondrian provides a possibility of one 10-year extension at the operator's option. Morgans, consequently, manages and operates Mondrian hotel. This contract brings Mondrian's owner into an alliance. Under the management contract, Mondrian provides the staff positions from the

"This paper argues that small independent firms might obtain competitive advantage by accessing strategic knowledge through alliances."

> “This convergence of interests between employers (employer-user and employer-provider) and employees is critical to making possible investments in strategic and transferable human capital.”

hotel and enlarges the interorganizational labor market run by Morgans. Morgans has provided Mondrian hotel with strategic human capital: general manager, director of finance, director of sales and marketing, director of revenue management, director of human resources as well as some other employees. In total, nearly 200 employees and 12 senior managers are working at Mondrian. The employees report to the property’s general manager (GM). In its turn, the GM reports to the senior vice president of operations of Morgans’ corporate office. The hotel owner can address the management company, but he does not have authority over the hotel’s GM.

The employment security for Morgans’ Mondrian employees is greater than it is in an independent hotel. The operator seeks long-term employment relationships due to high investment in human capital, and this increases the employment security and expectancy of the employment period length. Morgans runs a growing portfolio of hotels in several cities in and outside the USA. It provides solution to employees who wish to pursue career paths across the group’s business units through a relocation program, provided to the employees and their family members as well.

Morgans Hotel Group is currently running 11 hotels in the luxury category. The group directly employs 4,000 individuals. Of that, 2,000 of them are engaged in hotels under management agreements. This hotel management company provides operational hospitality expertise – highly qualified senior and staff employees. People specialized in hospitality skills and coordination expertise represent the main assets of a management company. Company employees provide the client with management, accounting and consulting expertise. Daily hotel operations, revenue management, marketing management and customer service are among the areas of knowledge and skills that firm employees bring to hotel owners.

Investment in human capital is the central activity and core competency of Morgans Hotel Group. The firm invests heavily in the internal labor market, in training and in career development of its employees to provide high-quality service in luxury hotels. Selection, recruitment, extensive training and career development are fully managed by Morgans Group. Morgans undertakes actions to build a talent pipeline starting from early career stage, such as regular campus recruitment in key US hotel schools to stimulate internal career progression. Workers can benefit from internal professional opportunities, as well as from opportunities in other hotels that are under management of the group. Morgans also provides career development and training. Mandatory and optional training is provided to expand employees’ job knowledge and skills base. In-house training programs with certification components are delivered at each hotel on core and additional subjects, depending on the hierarchical progression. For instance, the courses include training in topics like leadership training, revenue management, stress reduction, guest recovery and collective bargaining agreements. There are also specific supervisory training programs for managers, as well as coaching opportunities. Any meeting or training session is mandatory for employees, which highlights the importance of coordination among employees for Morgans.

Value-guided management is used, and corporate culture is one of the key topics in training. For instance, on the first day of employment, all newly hired employees participate in Morgans Hotel Group's EDGE (Engaging Dynamic Guest Experience) training, which introduces the organization's core values and service principles, and provides in-depth exposure to the brand. Desired behaviors are explicitly described and reinforced by storytelling, for example: "We are fun, authentic, gracious and passionate and offer a work environment that both reflects and instills our core values".

Morgans regularly assesses organizational performance of individual employees through formalized procedures. Results-oriented appraisals through an individual assessment system and quarterly recognition programs are oriented toward providing feedback along with formal performance assessments. Compensation includes a vast benefit package as well as wages and legal obligations. Included are non-monetary compensation forms, such as an employee room rate program, food and beverage discounts, discounted gym memberships, an employee purchase program, domestic partner coverage, adoption leave benefits, pet insurance and so on. Additionally, stock-option-based employee compensation may be granted to some directors, officers and employees.

5. Conclusion

The purpose of this research is to build on RBT (Barney *et al.*, 2001) and SHRM (Snell *et al.*, 2001), which present knowledge as a strategic resource for the competitiveness of the firm. The fact that knowledge is embodied in people (Simon, 1991) and that firms can only acquire new knowledge by investing in employee training or by recruiting workers from outside of the organization raises managerial challenges for employers. The embodied dimension of knowledge means that individuals own it, and the employer does not. The acquisition of knowledge to improve a competitive position presumes that the firm must take into account individual strategies of workers.

HCT (Becker, 1962) proposed a largely well-accepted rational argument to explain investment in human capital. If the knowledge acquired by an individual is specific to the firm, the employer can rationally invest in training. Specificity induces non-transferability of knowledge as well as stability of workers who cannot increase their revenues if they move to another firm. Conversely, if the knowledge is transferable by being general, the employer has no interest in investing in human capital. The employer would face the risk of trained employees moving to competitors and would not make any profit from investing. However, the transferability of human capital incentivizes individuals to invest in the acquisition of general knowledge and puts employers into competition so that they (the employees) may obtain the highest possible salary for their investment. HCT describes an equilibrium in which employers invest in specific human capital to accumulate non-transferable knowledge in their internal labor market, and workers invest in general human capital to acquire transferable knowledge they will then offer in the external labor market (Cahuc and Zylberberg, 2004). By being available in the external labor market to any employer and by being transferable, general human capital, by definition, cannot underpin a sustainable competitive advantage.

Reality does not completely fit with HCT. Employers train their employees to acquire general human capital and transferable knowledge. SHRM provides an explanation. Large firms provide enough employment security and career opportunities to attract talented people and to retain trained employees. This explanation still leaves an unaddressed

"The critical size of the interorganizational internal labor market gives it some of the advantages of a large internal market that can attract talented people and retain trained employees."

> **"In the alliance, operators are specialized in human resource management (human capital), and owners are specialized in real estate management (physical capital)."**

question: Why and how would SMEs invest in strategic and transferable human capital? From an HCT perspective, the answer is quite simple: A small firm has no interest in investing in such human capital. This paper explores another explanation built on strategic alliance theory and knowledge management. It hypothesizes that firms might build alliances to create an IILM coordinated by a particular alliance employment system. In such an alliance, a firm (the employer-provider) specializes in HRM to recruit, train, manage and assign workers into the other firms (the employer-users). The employer-provider runs the IILM. Such an alliance creates a critical size necessary to invest in strategic and transferable human capital, and gives a competitive advantage to its members by providing access to strategic knowledge that is not accessible to outsiders. The critical size of the IILM gives it some of the advantages of a large internal market that can attract talented people and retain trained employees.

HMCs that are spreading in the hotel industry illustrate such alliances between SMEs that enable investment in strategic and transferable human capital by forming an IILM. Operators are employer-providers of trained and qualified staff employees who are assigned to manage properties owned by hotel owners (employer-users). In the alliance, operators are specialized in human resource management (human capital), and owners are specialized in real estate management (physical capital). Belonging to such an alliance gives a competitive advantage by providing talented people to run hotels. By creating a large IILM, an operator becomes more attractive on the labor market and provides more job security and career opportunities to employees.

This research faces a couple of limitations. First, the similarity of work organization among hotels makes human capital easily transferable. This condition that is primary to creating an IILM does not characterize all industries. In some industries, products, technologies or processes are truly firm-specific and require specific and non-transferable human capital. Second, evidences based on the hotel industry are exploratory evidences, and more robust empirical evidences are required to more rigorously support the theoretical framework justification for firms to create IILMs to invest in strategic and transferable knowledge.

By suggesting the formation of alliances to create IILM, the author expects to foster deeper research in this field and to open practical perspectives to SMEs that consider investing in strategic and transferable knowledge to acquire sustainable competitive advantages.

Notes

1. Annual Report, 2015.
2. Annual Report, 2002.
3. Annual report, 2015.
4. Numerous LinkedIn profiles of employees working for large operators like IHG, Hilton Hotels or Marriott International illustrate such professional careers.

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