

# **Alliance, strategic transferable knowledge and human resource management: An example in the Luxury Hotel Industry**

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## **Abstract:**

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This paper on the employment systems examines the nature of human capital deployed through alliances. It stipulates that human capital is characterized by replicability in addition to heterogeneity and immobility features of resources outlined in the Resource-Based View, which influences the strategies of investment in human capital. The degree to which employees' knowledge is transferable and redeployable defines how well the human capital may be used in a firm that is not its current employer and user. By consequence, high replicability can become a source of optimization for strategies of investment in human capital. An employment system based on an alliance between firms can, therefore, be an alternative to internal employment for redeployable strategic human capital with transferable knowledge. This paper outlines the human resource practices in alliance employment system specific to alliances and illustrates the statements by examples from luxury hotel industry.

**Key words:** alliance, knowledge, human capital, employment

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## **Introduction**

The literature on the nature of relationships between economic actors and a firm was among the first streams of research discussing the worker employment and coordination (Coase, 1937; Williamson, 1981). The resource based theory (Barney, 2001; Penrose, 1958; Rumelt, 1984; Wernerfelt, 1984) has renewed the discussion on the human capital as one of key value generating resources of a firm and put under the spotlight the human capital investment theory (Becker, 1962). This theory explaining the benefits, costs and risks associated with employment raises the question of optimization of investment on human capital. Through which employment system can a firm its investment in human capital? Following the resource based view (RBV) (Barney, 1991) and human capital theory, the literature adopting the contingency perspective on human resource management (Delery & Doty, 1996) currently distinguishes two labor markets: internal and external (Osterman, 1982). These two labor markets aim to management two different kind of knowledge used by the firm: strategic knowledge and commoditized knowledge.

Following Simon (1991) and Grant (1996) who state that knowledge resides in individuals, the internal employment system is an HR architecture to manage workers owing strategic knowledge and the market-based employment system is an HR architecture to manage workers representing commoditized knowledge (Grant, 1996; Simon, 1991). While the market-based employment system allows optimizing investment on human capital with commoditized knowledge that is non-strategic to a firm, the internal employment system is consistent with optimization of investment in human capital with non-commoditized knowledge of strategic value.

However, some strategic knowledge used by an organization might be transferable to another organization with the same level of productivity, eventually with a higher one. Furthermore, a firm may be able to coordinate redeployment of its human capital in another organization requiring similar firm-specific capital. In this case, it is not always a rational choice for the employer to invest in human capital by training employees if the latter can move to another firm, if the latter can coordinated, trained and managed more efficiently by another employer, and if, due to this, the human capital can be steadily sourced on external market at a lower price.

By consequence, organizational structures involving more than one firm, such as alliances, may be efficient tools to optimize investment on human capital for participant firms.

An alliance can be defined as lasting collaboration among two or more firms within a delimited scope, during which the partners put together their resources and competencies with a goal to produce a specific output for a given market (Lehmann-Ortega, Leroy, Durand, & Dussauge, 2013: p. 523). Companies that jointly seek to optimize return on investment through alliances are mobilizing their respective specific competencies (Williamson, 1981) within a delimited activity scope. Despite strong similarities, alliances differ from partnership logics between two companies, aiming more explicitly at development of inter-organizational competitive advantages without limited scope limitation (Dyer & Singh, 1998; Jacobides, 2006; Parkhe, 1993; Ring & van de Ven, A. H., 1992). An extensive body of literature on human capital focuses on the employment relationship between an individual employee and a firm (Delery & Doty, 1996; Dyer & Singh, 1998; Gramm & Schnell, 2013; Kalleberg, Reynolds, & Marsden, 2003; Lepak & Snell, 1999). Yet, despite the spread of alliances across various activity sectors (Barthélemy, 2008), it is unclear which is the nature of knowledge mobilized through an alliance and how the human capital is managed when two or more firms put their resources together to produce a common output (Rubery & al., 2002).

Alliance between firms is more and more frequently used and studied as an intermediate organizational structure between market and organization to coordinate resources. We build on this stream of research to explore how alliance is an efficient organizational structure to invest in strategic, transferable and redeployable human capital. In this paper, we conceptualize the employment system between two firms that deliver a joint service to customers.

Several streams of literature was examining alliances, yet transaction cost economics (Williamson, 1981, 2010) and as well as resource based theory framework were frequently used in the analysis of their nature and strategic relevance (Hatch & Dyer, 2004; Lepak, 2003; Pucik, 1988; Ring & van de Ven, A. H., 1992). Drawing upon complementarities of resource based view (RBV) focused value creation within a firm and of transaction cost economics (TCE) focusing on relationships among economic actors (Williamson, 1981), we discuss the nature of human capital, knowledge and human resource practices in alliances. First, the nature of employment relationship in a firm is discussed. Then, this paper discusses the employment system in alliances which we define as the alliance employment system and focuses on the HR

practices characterizing employment system in alliances. Finally, practical cases illustrate the employment systems for strategic replicable human capital on example of luxury hotel industry.

## **The Nature of a Firm and Human Capital**

To start a discussion, let us review the relationship between organizational design and investment in human capital. Research on strategic human resource management has been renewed by the resource-based perspective (Lepak & Snell, 1999; Nyberg, Moliterno, Hale, & Lepak, 2013; Peteraf, 1993). The human capital is defined as “the knowledge and skills of a person has that increase his or her ability to conduct activities with economic value”, acquired through experience and training (Milgrom & Roberts, 1992: 328). Following Simon (1991) and Grant (1996) who state that knowledge resides in individuals, the human capital theory considers individual workers as main unit of analysis. The literature distinguishes firm-specific valued within a specific firm and general-purpose firm capital applicable across various industries (Becker, 1962).

In many industries, the strategies of human capital sourcing have expanded well beyond the boundaries of a firm to include more than one organization, particularly within alliances (Parkhe, 1993; Pucik, 1988). Increasingly extensive use of qualified human capital in a number of industries (Campbell, Coff, & Kryscynski, 2012; Lepak & Snell, 2002; Master & Miles, 2002: 431) reinforces the urge for theoretical understanding of logics linking employment strategy, organizational design and investment in human capital.

The literature on the nature of relationships between economic actors and a firm was among the first streams of research discussing the worker employment and coordination (Coase, 1937; Williamson, 1981). The resource based view (Barney, 1991) has renewed the discussion on the human capital as one of key value generating resources of a firm and put under the spotlight the human capital investment theory (Becker, 1962). This theory explaining the benefits, costs and risks associated with employment raises the question of optimization of investment on human capital and it can be used for explaining which employment system can a firm its investment in human capital resource.

## **Transferability of Knowledge as Distinctive Feature of Human Capital Resource**

To enhance the understanding of the nature of human capital resource that can be sourced through an alliance from the strategic perspective of a firm, we use a resource-based view (RBV) (Barney, 2001). It explains how the resources are used to create value within a firm. The HC can be sourced through alliance as organizational configuration according to the RBV. From the resource-based perspective, alliances represent hybrid forms of employment allowing access to external human capital with specialized knowledge to the lead firm on a semi-permanent basis (Barney, 2001). That is, the lead firm has a semi-permanent access to this resource despite restricted temporal dimension of this relationship. At the same time, as bundle of organizational HR practices, employment of human capital through an alliance falls under the classical definition of a resource controlled by a firm: it “enable the firm to conceive and implement strategies that improve its efficiency and effectiveness” (Barney, 1991: 101).

According to the RBV approach, strategic human capital should correspond to VRIN criteria in order to contribute sustainably to value creation: it should be valuable (V), rare (R), inimitable (I) and non-substitutable (N) (Barney, 1991). These characteristics are determined with regards to value creation potential in a firm. Previously, it was argued that value and uniqueness are two main dimensions differentiating most of human capital with strategic human resource management (Lepak & Snell, 1999, 2002). They define the value as “the ratio of strategic benefits to customers derived from skills relative to the costs incurred” (Lepak & Snell, 1999: 35) and refer to the specialization and rarity of human capital in relation to the lead firm activities in order to assess the uniqueness. However, when all the four VRIN criteria should be taken into consideration in order to assess the mode of human capital sourcing and relevant HR management practices.

According to this criteria, a firm would tend to internalize human capital that is valuable (V), rare (R), inimitable (I) and non-substitutable (N), which corresponds to internal employment system within a firm (Delery & Doty, 1996). On another hand, it would use market-based employment for human capital that is does not correspond to any of these criteria, which corresponds to market-based employment (Delery & Doty, 1996).

Let us review how different resource criteria can be related to the human capital. As for the human capital with various combinations of VRIN criteria when at least one of VRIN criteria is not satisfied, a clear-cut decision would be difficult. For instant, human capital for a specific

activity may not be rare in itself and will not contribute significantly to value creation. However, the activity organized among individual employees may be inimitable due to an established coordination mechanism. Furthermore, wide range of simple tasks that have to be performed in widely varying sequences and in varying physical settings may make the human capital non-substitutable by a machine or by another employee of a firm or from outside.

Next, the rarity of human capital can become relative when not only specialized skills, but also a capability to integrate an organization with specific coordination mechanism is considered. Therefore, generic human capital may become rare, when industry-specific skills are taken into account. Then, there are different categories of positions in a firm, an alliance focused on human capital may provide a tailored solution for a specific employee group.

Finally, the strategic value of a resource – for human capital in our case – can be very high for a firm. However, every resource comes at a price, which may exceed the value expected. Specifically, it may occur in the case when human capital investment requires extensive human resource sourcing, management, development and coordination skills that are specific to a given human capital-intensive industry, such as services. From TCE perspective (Coase, 1937), one entrepreneur can be more efficient in human capital sourcing, coordination and development than another. For this reason, a firm for which the cost of human capital investment would exceed its strategic value may enter into an alliance with a firm providing human capital.

In addition, alliance employment sustains competitive advantage through knowledge co-creation and co-production processes nested within a firm that is human capital supplier. The latter processes, as well as resource bundling, create hardly imitable activity sets characterized by high levels of fit and casual ambiguity. They could act as isolating mechanisms for competitive advantage related to human capital for the supplier firm and sustain it. Therefore, a human capital sourced through an alliance can become a source of competitive advantage from the resource-based perspective.

**Table 1. Characteristics of human capital according to VRIN criteria**

<b>Features of human capital</b>	<b>Market</b>	<b>Alliance</b>	<b>Internal</b>
Valuable (V)	No	Yes	Yes
Rare (R)	No	Yes	Yes
Inimitable (I)	No	Yes	Yes

Non-substitutable (N)	No	Yes	Yes
Replicable HC (RHC)	Partially Replicable HC: Transferable Commoditized Knowledge Non-redeployable generic human capital	Replicable HC: Transferable Strategic Knowledge Redeployable generic and firm-specific human capital	Non-replicable HC: Non-Transferable Strategic Knowledge Non-redeployable firm-specific human capital

Internal and market-based employment systems optimize the investment in human capital under assumption that the human capital resource has the same salient characteristics as other resources of a firm: organizational capital and physical capital. These two characteristics are heterogeneity and immobility: the heterogeneity refers to the state when the strategic resources are not evenly distributed across firms, while the immobility refers a specific location (Barney, 1991). However, contrary to other resources, human capital or, in other terms, individual employees are only partially controlled by a firm. The human capital has a feature that differentiates it from other types of resources that we call replicability.

We suggest that replicability is a property of a worker's activity that allows it to be duplicated at another location or time. Indeed, workers may decide to leave a company in order to deploy their human capital in another company, place or setting. Workers may not perform to their full potential and focus on non-professional activities instead. Workers may not meet the performance standards of a firm and may be muted within a firm. By consequence, the human capital can be used to replicate the activities based on knowledge outside a specific location in a specific firm that employs the worker. Replicability of human capital has two dimensions: knowledge transferability and human capital redeployability. The knowledge transferability refers to the possibility to apply a set of individual worker's knowledge at another time in a different setting. It can be a feature describing generic and firm-specific human capital (Becker, 1962). The human capital redeployability refers to an opportunity to use human capital in another location, while keeping the current employment contract. The features of human capital are rarely measurable in a straightforward. Therefore, we distinguish human capital with high replicability when it is redeployable and possesses transferable knowledge from human capital with low replicability when is hardly redeployable and characterized by non-transferable knowledge.

There are two far-reaching consequences of replicability on strategy of access to human capital resource from the perspective of investment optimization. First, though the mobility of human capital can be restricted to one firm at a given point of time by an individual employment contract, its transferability allows its deployment in other firms. Second, the coordination resources (Barney, 1991) focused on human capital established within a firm can be used within other firms. Third, transferability allows optimizing investment in human capital through specialization in this field. Therefore, the human capital can be a resource used across firms, yet contributing to value creation in a sustained way.

To summarize, we argue that the replicability is a feature that influences the choice of employment system that optimizes investment in human capital. If the replicability is low, the human capital can be used by the employer only at a given time and a given location. If the replicability is high, it means that the human capital legally employed by one firm may be used by another business unit or firm for an activity requiring similar knowledge.

### **Influence of Knowledge Transferability and Redeployment on the Investment Strategy in Strategic Human Capital**

In this part, we discuss the consequences of a replicable feature on investment in human capital and organizational design. The relationship between organizational design and investment in human capital as strategic resource can be revisited, if we include its unique feature in discussion. Investment in redeployable human capital characterized by transferable knowledge can be optimized through alliances. Following the resource based view and human capital theory, the literature currently distinguishes two labor markets: internal and external (Piore and Doeringer, 1971; Osterman, 1981). An employment system refers to sets of human resource practices for individual employees engaged by a firm. By consequence, two main strategies for optimization of investment in human capital are distinguished: internal and market-based employment system (Delery & Doty, 1996). These two employment systems aim two different kind of knowledge used by the firm: strategic knowledge and commoditized knowledge.

Following Simon (1991) and Grant (1996) who state that knowledge resides in individuals, the internal employment system is an HR architecture to manage workers owning strategic knowledge and the market-based employment system is an HR architecture to manage workers representing commoditized knowledge. Internal employment system is particularly consistent with strategic knowledge is specific to the organization and non-transferable to another firm

with the same level of productivity (Becker, 1962). 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 the firm reaps profit from its investments in human capital.

What is the right HR architecture when the strategic knowledge owned by employees is transferable and redeployable? How to invest in transferable and redeployable human capital without taking the risk to face the opportunistic behavior of employees? Is there an alternative organizational structure to optimally invest in transferable strategic human capital? The Table 2 “Characteristics of employment in internal, market-based and alliance employment system” summarizes features of three employment system and their features, depending on how redeployable it is and on the degree to which the knowledge is transferable. In the following two parts of discussion, we consider the influence of these features on strategies for optimization of investment in strategic human capital.

A firm using market-based employment system would chose minimal development costs as main strategy of investment in human capital. External labor market, including placement agencies and temporary employment, has developed together with value chain disintegration across many industries (Lepak & Snell, 1999; Master & Miles, 2002; Rubery et al., 2002; Safizadeh, Field, & Ritzman, 2008). By analogy, market-based employment system is a HR architecture to manage workers representing commoditized knowledge. In the market-type system (Delery & Doty, 1996), the hiring of an individual takes place from outside a firm. Under this system, provides little training. As for performance assessment, output measures are used. A company using this configuration compensates employees for individual performance as measured by them. Also, employees ho not have neither significant employment security, nor voice. Their jobs are usually quite broadly defined (Delery & Doty, 1996).

**Table 2. Characteristics of employment in internal, market-based and alliance employment system**

	<b>Employment system<sup>1</sup></b>		
	<b>Market-Based</b>	<b>Alliance</b>	<b>Internal</b>
Parties	Organization – Individual Employee	Organization – Organization	Organization – Individual Employee

<sup>1</sup> Original classification of employment systems (Delery & Doty, 1996); highlighted column in grey is the contribution of authors

Type of legal contractual relationship	The contractor is the legal employer of the HC and the firm is real user	The long-term contract is concluded between a contractor and a firm; the contractor is the real user of the HC and the firm is legal employer	Individual employment contract  The firm is the legal employer and the user of the human capital
Consistent Type of knowledge	Commoditized knowledge	Transferable strategic knowledge	Specific strategic knowledge
Consistent Type of human capital	Generic	Redeployable generic or firm-specific	Firm-specific
Fit with strategic human capital resource for optimization of investment in human capital	Low fit with all types of strategic HC	Low fit with non-replicable strategic HC  High fit with replicable strategic HC	High fit with non-replicable strategic HC  Low fit with replicable strategic HC

### 1. Market-based employment System, Partially Redeployable Human Capital and transferable Commoditized Knowledge

The market-based employment system is based on external labor market. The user or the human capital is not the legal employer of the worker: there is a legal distinction between the contractor and the used. The worker can also be self-employed. In this case, he is the direct contractor of the firm. The legal contract between the firm and the worker is not a labor contract but a commercial contract. The worker can be employed by a contractor that sends him to the firm. The labor contract is between the worker and the contractor. There is a commercial contract between the contractor and the firm. The latter is the real user of the employee. While the market-based employment system allows optimizing investment on human capital with commoditized knowledge that is non-strategic to a firm, the internal employment system is consistent with optimization of investment in human capital with non-commoditized knowledge of strategic value. In other terms, the human capital will be only partially redeployable in another firm, because only general-purpose human capital is not sufficient for this purpose. By consequence, the market-based employment system is not consistent with investment in any strategic human resource.

### 2. Internal employment System, Non-Redeployable Human Capital and Non-transferable Strategic Knowledge

Internal employment system corresponds to a long-term strategy that a firm employs in order to optimize investment in human capital when it is strategic and firm-specific (Becker, 1962; Delery & Doty, 1996). In internal employment system, the firm is the employer and the user of

the worker at the same time. Its main feature is the existence of an internal labor market (Delery & Doty, 1996). In this case, the human capital is firm-specific: there is extensive training, performance is commonly assessed through behavior, and employees are considered to be valuable sources of information, despite tightly defined individual job descriptions (Delery & Doty, 1996). Therefore, a firm makes long-term investment in human capital and optimizes it (Becker, 1962).

However, there are limits of internal labor market from the perspective of investment in human capital. First, there is a risk that the employee resigns to move to another firm. The risk increases a lot if the employee does not have any career opportunity. In this case, the firm does not reap any profit from its investments. Second, the employer can be obliged to fire the worker in case of a business downturn. In that situation, same, the firm does not reap any profit from its investments.

How is the knowledge non-transferability influencing the investment in strategic human capital? The non-transferability induces the stability of workers and ensures the firm reaps profit from its investments in human capital. Internal employment system is particularly consistent with strategic knowledge is specific to the organization and non-transferable to another firm with the same level of productivity (Becker, 1962). The employer can invest in training to increase its efficiency by improving its knowledge, but it is likely to be non-redeployable. Therefore, replication of strategic human capital in another firm is hardly possible without significant additional resources, and implementation of internal employment system is the most appropriate strategy in this case.

### 3. Alliance employment system within an alliance, Redeployable Human Capital and Transferable Strategic Knowledge

Thus, the market-based employment system, focused on commoditized transferable knowledge, is not consistent with investment in human capital characterized by strategic knowledge. On contrary, the use of internal labor employment system is an optimization strategy for investment in strategic human capital with non-transferable strategic knowledge. The internal employment system is an HR architecture to manage workers owing strategic knowledge. Internal labor market is particularly well suited when strategic knowledge is specific to the organization and non-transferable to another firm with the same level of productivity (Becker, 1962). 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 the firm reaps profit from its investments in human capital. The reasoning of the Transaction Cost Economics (TCE) theory (Williamson, 1981, 2010) can be used to explain why a firm may prefer to draw upon the human capital resource within an alliance with another firm, based on a contract. Firstly, a firm providing human capital within an alliance may exist when “purchasers preferred commodities which are produced by firms to those not so produced” (Coase, 1937: 22). Secondly, a firm specialized in human capital investment may emerge to satisfy the need to establish extensive coordination among employees. The third reason for an entrepreneur to invest in human capital is to develop the coordination skills required to produce a marketable output. Fourth, in sectors that are intensive in human capital, an entrepreneur may be able to replicate developed coordination approaches to human capital across similar activities and, therefore, can foster growth of a firm through alliances with owners of other production factors.

Savings on investment on human capital can provide a reason to a firm to use employees of another partner within an alliance. A firm providing human capital may be more efficient at getting this factor at lesser cost (Coase, 1937) than would have to be invested by another firm to get compatible level of resource quality. Furthermore, acquisition of human capital through an alliance can decrease the transaction costs associated with entering into employment contracts individual employee for a beneficiary firm. Within an alliance, though the contract-related transactions will not be eliminated, their volume will decrease significantly and a firm can concentrate its efforts on other production factors. Finally, a re-negotiation of legal contracts with individual employees that necessarily occurs over time is replaced within an alliance by a situation when “one contract is made instead of several shorter ones” (Coase, 1937: 22).

By contrast from internal and market-based employment system, alliances establish an employment relationship contract between two firms (see Table 2 “Characteristics of employment in internal, market-based and alliance employment system”). From the transactional perspective, is it a contract for an expected output, which should be largely defined especially in the service sector (Coase, 1937). Uncertainty is alleviated through multiple mechanisms related to reporting, performance and termination clauses. Provider of human capital resource becomes an independent contractor whose activity can be organized with more freedom than in an individual contact and whose performance is assessed by organizational results.

Alliance is an alternative to share human capital investment between partners and to reduce risks. An alliance takes form of a legal agreement between two firms in which one firm contract services of another firm providing the human capital without selecting or managing individual employees. The firm-provider of human capital ensures investment, provides employees, coordination and human resource practice. An alliance provides a double opportunity: on one hand, a beneficiary firm in an alliance can access human capital resource at lower costs and, on another hand, a firm specializing in human capital can optimize its investment through greater scale of operations. An alliance gives more career opportunities to its employees than the user of these employees, because they may be active across more numerous business units. Furthermore, alliances give a long term perspective for the provider of human capital, which is one of main incentives to invest in human capital (Becker, 1962). Also, an alliance allows investment in training, be it generic or firm-specific. Finally, performance assessment and compensation forms may vary to a greater extent, thus enhancing the employee motivation. Alliance employment system allows to provide long-term career development plans, which is not an option in a market-based system.

Risks associated with investment in replicable strategic HC might be offset by the firm to invest in human capital by training its employees, thus enhancing knowledge transferability. Indeed, a provider firm can supply in this case both generic and firm-specific human capital using its own coordination structures, which makes it the strategic human capital redeployable. Therefore, an alliance is an efficient organizational structure to invest in human capital with high knowledge transferability and redeployability of both firm-specific and generic human capital.

## **Human Resource Practices in Alliances**

Ensuring fit among these different elements of HR practices and configurations requires better understanding of the nature knowledge and human capital employed through an alliance. On organizational level, strategic human resource management (SHRM) literature has demonstrated that strategic positioning of a firm moderated the relationship between human resource practices and firm performance (Youndt, Snell, Dean, & Lepak, 1996: 851). Recent works on relation between human capital and performance has been focusing on contribution of human resource architecture to strategy implementation (Becker & Huselid, 2006, Campbell

et al., 2012, 2012, Huselid & Becker, 2011; Lepak, Smith, & Taylor, 2007; Wright, Dunford, & Snell, 2001). Results of integrating strategy and strategic HRM have highlighted links among people management practices, human capital pool, employee relationships and behaviors to core competencies (Wright et al., 2001: 715).

Thus, the SHRM literature suggests, that human capital could contribute to strategic competencies of a firm through the focus on business level outcomes rather than on functional HR practices (Becker, Huselid, Pickus, & Spratt, 1997: 45). Therefore, different forms of alliances could be formed to optimize investment in human capital for both partners when the nature of human capital and economic objectives of an alliance are taken into account in HR practices. For purposes of illustration, we will consider a non-capitalistic alliance (Lehmann-Ortega et al., 2013) in which firms contribute their respective resources on a contractual basis without joint capital investments. Depending on the configuration, the employees may be engaged in value creation to different extents within an alliance. Human capital employed in alliances is comprised of employees of participant firms to a different extent, and for illustrative purposes we will consider that all the human resources for a business unit operation. We will consider a case when a firm A (Human capital provider) fully provides human capital on a contractual basis of a Firm B (beneficiary), providing all other resources at a business unit level. Consequently, we can characterize the HR practices applied in an alliance, drawing upon previous theoretical development. Seven main HR practices are identified in the literature (Delery & Doty, 1996). As the Table 3 “HR practices in internal, market-based and alliance configurations” shows, the HR practices in alliance are identified, designed and implemented by the human capital (HC) provider firm. However, the beneficiary firm can influence the HR practices at the stage of contract negotiation and of performance control.

**Table 3. HR practices in internal, market-based and alliance configurations**

HR Practices	Employment System		
	Market-Based	Alliance	Internal
1. Internal career opportunities	Hiring almost exclusively from outside the organization  Very little use of internal career ladders	Hiring an organization on an inter-firm level instead of specific individuals  Career ladders are defined managed by the firm providing the human capital with very limited	Hiring mainly from within the organization  Extensive use of well-defined career ladders

		interference of the beneficiary firm	
2. Training	<p>No formal training provided</p> <p>Little if any socialization taking place within the organization</p>	<p>The supplier provides training and development</p> <p>Importance of corporate culture in training</p> <p>The needs in training are managed through standardization of qualifications by the human capital supplier</p>	<p>Extensive formal training provided</p> <p>Great amount of socialization within the organization</p>
3. Results-oriented appraisals	<p>Performance measured by quantifiable output or results-oriented measures</p> <p>Feedback in the form of numbers and evaluative</p>	<p>Organizational performance is appraised on inter-firm level</p> <p>Individual performance is assessed by the HC supplier</p>	<p>Performance measured by behavior-oriented measures</p> <p>Feedback more for developmental purposes</p>
4. Profit sharing	<p>Profit sharing used extensively</p>	<p>Profit sharing is oriented at stimulation of organizational performance: the HC supplier perceives the fees, then allocates individual salaries</p> <p>Fees are subject to several thresholds on sales, profitability, return on equity and/or debt service</p>	<p>Few incentive systems used</p> <p>Very little use of profit sharing</p>
5. Employment security	<p>Very little employment security given</p>	<p>Defined for the organization taking form of the length of a management agreement and termination conditions</p> <p>Upon termination of an agreement, employees' status is reviewed</p>	<p>Great deal of employment security among those who make it through the initial trial period</p> <p>Extensive benefits to those "outplaced"</p> <p>Formal dismissal policies</p>
6. Participation	<p>Employees given little voice in the organization</p>	<p>Participation is very active and frequent on managerial level between organizations; especially if the</p>	<p>Employees likely have access to grievance systems Employees more</p>

		development and technical services are involved	likely to participate in decision making
7. Job descriptions	Jobs are not clearly defined Job definitions are loose	The outcome of collective activity is defined on the inter-firm level	Jobs very tightly defined

Let us summarize the characteristics of employment in an alliance, as they are presented in the Table 1, 2 and 3. Within an alliance, the human capital becomes a resource available on organizational level instead of individual employee level by contrast with internal and market based systems. Within an alliance, a firm possessing coordination expertise knowledge provides its human capital to another firm possessing the access to other resources necessary against a fee. Regarding the knowledge, the human capital supplier provides expert coordination knowledge on organizational level. In other terms, an alliance employment system allows optimizing investments in human capital when high level of coordination is required to generate and maintain expert organizational knowledge based on coordination mechanisms.

### **Illustrative Cases**

In a service setting, the human capital is the main factor of value generation and we will focus on this case for illustrative purposes. We will use luxury hotel industry to illustrate our propositions. The value chain requires the various resources and competencies, related to hotel real estate and hospitality operations. Physical assets play an important role, as they require expertise in property management, in raising funding for investment and for maintaining buildings in a good state over time. The hotel real estate investment requires a set of key success factors that are different from the ones required in hospitality operations. The human capital is a strategic resource in this business activity due to the importance of quality service and to ongoing interactions among employees across all the departments. When a human capital is a source of sustained competitive advantage in a given industry, a firm should ensure the access to it on a permanent or a semi-permanent basis.

Another specificity of hotel industry are multiple locations of hotel properties, yet oriented at different categories of customers. The nature of the luxury service industry is based on the proximity to customers. Therefore, there are territorial self-restrictions of how far customers

will go to obtain a given service. Thus, geographical location is a factor that facilitates the replication of the strategies in hospitality in general and in luxury hotel industry in particular.

In service sector, the volume, frequency and complexity of operations, which have to be performed by employees is very high, due to high customer expectations and to fact that the service has to be provided every day around the clock in coordination across all the departments. The latter include but are not limited to Housekeeping, Food and Beverage, Accounting, SPA Management, Sales and Marketing, Distribution System Management, Human Resources, Property Management. In this context, even an individual employee whose skills match exactly with position requirements will not contribute to value creation without efficient integration into an organization, which requires from an entrepreneur strong coordination skills. Furthermore, though there is a commonly accepted set of best practices exists in the industry, individual employee's activity and its integration on the organizational level may vary heavily from one hotel property to another. Extensive and ongoing training for development of generic and firm-specific capital is necessary to maintain the service quality standards. Finally, high turnover is a common problem in the industry, and employees need additional motivation to continue working in a given hotel: be it expressed in service climate, training, career growth, international opportunities or attractive compensation.

In terms of human capital allocation, two basic configurations are possible: either the owner of the hotel manages the human capital or they do not. In the latter case, they externalize human capital and human resource management. An alliance is the third option available in the luxury hotel industry.

### **Internal labor market in the luxury hotel industry: the conventional way**

In the first case, the owner of the hotel manages the people working in the hotel. In this configuration, Internal employment system would be the most common for properties catering their serve to more sophisticated markets and encountering a high level of business model complexity, of activity volume and of coordination needs among employees (full service hotels). Hotels fully owned and managed by one owner, such as Lausanne Palace in Switzerland or Negresco Hotel in France, exemplify a traditional hotel value chain on a high end of the market. In these properties, the internal employment system is used to optimize investment in strategic human capital.

### **Market-based employment system in the luxury hotel industry: the precarious way**

The low quality hotel industry mainly use market based HR practices. Contrary to the luxury segment, the properties active in lower segments (for instance, Bed and Breakfast, limited service hotels) would rather adopt external market-based employment system, focused on commoditized knowledge and generic human capital.

Their labor organization is based on generic knowledge. In some hotels of this type such as Formule 1 or Capsule Hotels, there is no employee in the building, not even a reception. The rooms are easy to clean. There is a labor flexibility to adjust to activity. Services are reduced to their minimal dimension and the customers are ready to reduce their expectations on service in order to pay lower prices per night.

The attempts of some luxury hotels to implement a market-based employment system, such as hiring temporary housekeepers at Palais de la Méditerranée or extensive use of interns at Ambassador Resort right after the opening, have failed. Indeed, generic human capital and commoditized knowledge that a firm can contract on external market through this strategy are only partially redeployable. Therefore, there would be important firm-specific, strategic knowledge, which makes the market-based employment system inconsistent with investment in any form of strategic human capital.

### **Alliance employment system in the luxury hotel industry: the competitive way**

The alliance employment system has three parties: the human capital provider, the human capital and the beneficiary firm. Therefore, two employment logics have to be examined, including the employment system of the human capital provider and the alliance employment system emerging between the provider and beneficiary.

In the case of alliance, the owner of the hotel does not manage the people working in the hotel. He use an arm-length relationships to contract short or long management services from a supplier, a hotel operator through an alliance. In this case, the hotel operator will provide the human capital in which he had previously invested its resources against a fee, yet without entering into a joint venture, a partnership or joint employment relationship.

In our example, Pebblebrook Hotel Trust, specialized in hotel real estate investment, is an owner. This firm regularly engages external accounting specialists to perform audits and provide consulting services, but it employs the strategic human capital through alliances with

hotel operators. It owns more than 26 hotel properties with more than 6'000 rooms by the end of 2013. It was the 9th biggest company by capitalization of the market of hotel real estate investment trusts totaling 50 billion dollars in the US market by the beginning of 2013. Its mission is to create and capture value from hotel property acquisition, renovation, repositioning, ownership and sale in prime US locations. Daily hotel operation basis therefore is not its core competency, and internal development of knowledge in this area would not be a strategically relevant investment. A hotel real estate firm Pebblebrook can engage, for instance, an independent hotel operator Morgans Hotel Group to manage daily operations this hotel.

### **Employment System of Human Capital Provider**

Let us describe the employment system of the human capital provider first. For instance, the hotel operator Morgans Hotel Group, referred to hereinafter as “Morgans”, specialized in hospitality management, uses the internal employment configuration. Morgans Hotel Groups is a hotel company that provides management services for hotels: "We manage pursuant to long-term management agreements with no ownership interest (including) ... Mondrian and 3 others..., comprising approximately 1,025 rooms" (Annual Report, 2012). The group employs 5,000 individuals with approximately 37.6% unionized employees, 2'000 of which are engaged in hotels under management agreements. This independent hotel management company provides operational hospitality expertise, highly qualified senior and line management. People, their specialized hospitality skills and coordination expertise represent main assets of a management company. Employees of this company provide to the client management and accounting and consulting expertise, as well as development and acquisition services in hospitality with specialization in 3 and 4 star hotel segments. Daily hotel operations, revenue management, marketing management, customer service are among the area of knowledge and skills that employees of this firm bring with them to target properties.

Investment in human capital is central activity and core competency of Morgans Hotel Group. The group states: "our employees live by the core values, think outside of the box, and work each day to create an Engaging Dynamic Guest Experience" (Careers at Morgans, 2013). It invests heavily in internal labor market, in training, in career development of its employees. Morgans undertakes actions to "to build a talent pipeline" (Careers at Morgans, 2013) starting from early career stage, such as regular campus recruitment in key US hotel schools to stimulate internal career progression. The Group, active in a growing portfolio of hotels in several cities in and outside USE, provides solution for pursuing career across the group's business units

through a Relocation Program, which “serves to simplify and enable the process of relocating from one city, or country, to another in order to pursue career opportunities within our international organization” (Annual Report 2012). The Relocation assistance is provided not only to the employees, but to their family members as well.

Career Development and Training is provided by Morgans as well. Mandatory and optional training is provided to “to expand their job knowledge and skill–base” (Careers at Morgans, 2013). 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 Leadership training, Revenue Management, Stress reduction, Guest recovery, Collective Bargaining Agreement training. There are also specific supervisory trainings programs for managers, as well as coaching opportunities.

At the same time, a typical employee should "attend any meeting or training session as required by management", which highlights the importance of coordination among employees for Morgans. Management by values is used, and corporate culture is one of 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, introducing the core values, service principles of the organization and providing an in-depth exposure to the brand (Career Development at Morgans, 2013). Desired behaviors are explicitly described (“We are fun, authentic, gracious and passionate and offer a work environment that both reflects and instills our core values (Careers at Morgans, 2013)) and reinforced by storytelling.

Results-oriented appraisals through individual assessment system and quarterly recognition programs are oriented at providing the feedback along with a formal performance assessment. As for the compensation, compensation included a vast benefit package besides legal obligations. It includes non-monetary compensation forms, such as Employee Room Rate program, Food and Beverage Discounts, Discounted gym memberships, Employee purchase program, domestic partner coverage, adoption leave benefits, pet insurance and so forth. Additionally, stock option-based employee compensation may be granted to some directors, officers and employees (Annual Report 2012).

Job Descriptions are very detailed, in some cases up to two pages of written text. Interactions with other team members and other departments are described in detail as well.

For example, a Job Description for a Skybar Server for L.A. Mondrian property includes detailed one-page description of Duties & Functions; Specific Job Knowledge & Skills; Physical Abilities.

### **Alliance employment system in the alliance**

At Mondrian, a luxury property in a prime location in Los Angeles (USA), was purchased by Pebblebrook Hotel Trust for \$137.0 million. It is a 237-room, luxurious, full-service, boutique-style hotel. This firm has concluded 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 operator's option (Annual Report 2012). Morgans, by consequence, manages and operates and operate Mondrian, that is staffed Morgans' employee: "with personnel dedicated to each of the properties, including a general manager, director of finance, director of sales and marketing, director of revenue management, director of human resources and other employees" (Annual Report, 2012). In total, nearly 200 employees and 12 senior managers are working at Mondrian. The employees report to the general manager of the property. In its turn, the general manager reports to the senior vice president of operations of Morgans corporate office (Annual Report 2012). In other terms, Pebblebrook Hotel Trust has hired an organization instead of individual staff members and will have career ladders are defined managed by the firm providing the human capital with very limited influence over the human resource management performed by Morgans.

Selection, recruitment, extensive training and career development is fully managed by Morgan's Group, even though the legal employer is Pebblebrook. The user of human capital is Morgans Hotel Group, running the hotel. Career Simultaneously, Pebblebrook will not make notable contribution to employee training, as Morgans Hotel Group coordinates its employees. However, an alliance employment highlights the importance of corporate culture and standardization of qualifications across the Morgans Hotel Group in order to ensure service consistency over time and across properties managed by the group. By consequence, individual employee performance is also assessed internally by Morgans.

Organizational performance of Morgans team of approximately 200 people at the hotel property, their managers and corporate office is appraised on inter-firm level. A 20-year management agreement for Mondrian describes the performance criteria that Mondrian hotel property should meet. The revenue of Morgans is constituted of several types of fees for

Mondrian management: “the Company recognizes base and incentive management fees and chain service fees related to the management of operating hotels in which the Company does not have an ownership interest” (Annual Report, 2012). The profit sharing mechanism is an important part of the management contract and it is integrated with organizational performance assessment. For instance, the management fees, calculated as percentage of sales, gross operating profit and cash flow may be subject to several thresholds on sales, profitability, return on equity and/or debt service. The chain service fees are calculated as a percentage of gross revenue, while incentive management fees represent a percentage of net operating income or Net Capital or Refinancing Proceeds and chain service fees cover costs that are reimbursable to Mondrian (Annual Report, 2012).

The employment security for Morgans’ employees employed at Mondrian depends of commercial and financial performance of Mondrian, as defined in termination conditions in the agreement. It can be related to the comparison of commercial indicators of Mondrian to similar properties in the competitive set across one or several years. The contract termination between Morgans and Pebblebrook will not necessarily result in loss of jobs of individual employees. The contract will be terminated between two organizations: therefore, the employees of Mondrian can be transferred to other properties of Morgans group or they may stay at the property, if the next hotel operator will be ready to hire them.

## **Conclusion**

Two research streams in management have contributed to introduce human capital and human resource management in the field of strategic management. First, the resource based theory (Penrose, 1958; Rumelt, 1984; Wernerfelt, 1984) highlights the competitive advantage of the firm depends on the quality of its combination of resources compared with its competitors. A sustainable competitive advantage depends on the resource endowments controlled by a firm. Resources that might support the competitive advantage are “all assets, capabilities, organizational processes, firm attributes, information and, knowledge controlled by a firm that enable the firm to conceive and implement strategies that improves its efficiency and effectiveness” (Daft, 1983). Barney (1991) gathers together these resources in three forms of capital: physical capital, human capital and organizational capital. To be strategic and support

a competitive advantage, the resources have to be valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991). More, the combination of resources of the firm has to be heterogeneous with respect to its competitors. Finally, the sustainability of the competitive advantage depends on the immobility of the resources under the firm's control (Barney, 1991). Immobile resources are a barrier to entry in the industry. These two conditions, firm resource heterogeneity and firm resource immobility, prevent competitors to duplicate the combination of resources that support the sustained competitive advantage of the firm. By considering knowledge as a potential strategic resource, the resource-based theory (RBT) implicitly introduces human capital and human resource management in the field of strategic management and opens an avenue for strategic human resource management (SHRM).

Second, the knowledge based theory (KBT) of the firm converges with the RBT to point out that knowledge might sustain the competitive advantage of the firm. The KBT asserts that “most explicit knowledge and all tacit knowledge is stored within individuals” (Grant, 1996:111). If knowledge is a strategic resource and if knowledge is stored in individuals, then human capital is a strategic resource.

Furthermore, building on Simon's statement (1991:125) that “all 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”, it appears that any organizational learning involves human resource management practices, especially training and recruiting. Articulating KBT perspective and SHRM induces that HRM practices are major mean to increase the stock of strategic knowledge. SHRM literature elaborates different HR systems to separately manage strategic workers owning strategic knowledge and non-strategic workers.

When the RBT considers human capital as a potential strategic resource, it omits a particular feature of individuals. A firm owns proprietary rights over its resources but not on the knowledge embodied in its employees. The firm legally owns the large majority of its assets (factories, computers, brands, patents, etc.) and decides their allocation. Unlike other resources, the firm does not directly own knowledge and human capital. The knowledge belongs to individuals. The latter have their own strategy and they can legally move to another organization to maximize their interests even if their employer does not want. The freedom of workers introduces the possibility for opportunist behaviors and obliges firms to differently

consider the acquisition of strategic knowledge by recruiting or training people. The firm faces the risk of employees leaving the company with strategic knowledge.

The more knowledge dependent the competitive advantage is, the more the firm faces the risk of losing strategic knowledge through employees leaving the firm. The embodied dimension of knowledge makes improbable the condition of immobility of strategic resource to be respected. Barney (1991) argues that the more mobile a strategic resource is, the less sustainable the competitive advantage is. Competitors can easily acquire strategic knowledge to enter the industry by recruiting from the firm and duplicate its strategy. People are the most mobile asset making knowledge versatile source of competitive advantage.

The distinction done by Becker (1962) between specific and generic human capital can be usefully to explore the human capital mobility and enrich the RBT on HRM issues. For the human capital theory, when the knowledge is specific to the organization, then the worker cannot leave the firm without a productivity drop that induces a wage reduction. In this case, the worker does not have an economic interest in leaving his employer. Then, when the human capital is specific, the firm can invest in training.

Conversely, when the strategic knowledge is transferable and can contribute to the competitiveness of competitors, there is no incentive for the firm to recruit, employ and train individuals that could embody this knowledge. In this case, alliance is an organizational architecture between organization that reduces risk by splitting investment in human capital and by offering more career opportunities for strategic knowledge workers.

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