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Tri Hita Karana's Philosophy and Intellectual Capital: Evidence from The Hotel Industry in Indonesia

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ABSTRACT

This study aims to examine the relationship of local culture (represented by the elements of Tri Hita Karana—THK, i.e. parhyangan, pawongan, palemahan) and intellectual capital—(IC, i.e. human capital, customer capital, structural capital) in Indonesian hotel industry. Data were collected from 139 questionnaires sent to the general managers of three-, four- and five-star hotels in Bali Province, Indonesia. The returned questionnaires, amounting to 114 (82% response rate), were used for further analysis. Analysis was conducted by variance-based SEM (SEM PLS) with WarpPLS 5.0 software. The findings show that all elements of THK (parhyangan, pawongan, palemahan) are positively and significantly associated with IC (human capital, customer capital, structural capital). The findings also show a mutual, positive relationship among IC elements. This study contributes to the importance of considering local culture when discussing IC. Another contribution of this study is to enrich the conceptualisation of IC that has been developed by previous researchers, by proposing local culture as an important variable that underlies the practice of IC in an organisation.

INTRODUCTION

Discussions about knowledge in organisations, without reference to cultural contexts, tend to be misleading (Long and Fahey, 2000). The metaphor used in the conceptualisation of knowledge will be different when there are cultural differences. Thus, the conceptualisation of Western knowledge inherent in IC cannot simply be transferred to Asian business without considering the local views of knowledge (Andriessen and Boom, 2007). Individuals learn in the social context and develop cognitive maps that are appropriate to local resources, so individual behaviour will tend to follow the local context's emphasised values (Navarro and Polo, 2010).

It is important to recognise that the connections used to create and improve IC are never context-free, but are always created, shared and utilised in the context of national history, national resources and national attributes (Navarro and Polo, 2010). The findings highlight that importing the IC paradigm, without reference to the surrounding community's value, may be ineffective in some countries. The national culture in which an organisation is located can contribute to the success or failure of its IC management system, because the national culture influences the way IC management manifests itself and how far it is communicated to the outside world (Lynn, 1999). Franc et al. (2013) found that the performance of IC is correlated with national culture. A country's national culture can, in turn, be influenced by local cultural heritage, such as tradition, folklore, legend, indigenous language, oral history, creativity, adaptability and local uniqueness (Galla, 2001).

Indonesia is an Asian country that is characterised by various local cultures, and one of them is *THK*. *THK* is a philosophy, as well as the way of life, of the Balinese people in Indonesia. It covers all aspects of business or life without exception (Peters, 2015), symbolises three aspects that bring prosperity, balance of life and happiness, which are: to maintain harmony and balance between humanity and God (*parhyangan*), between human and human (*pawongan*) and between humans and the environment (*palemahan*) (Wardana and Manrique, 2015). The philosophy is related to the values and wisdom of local culture, so the values contained therein are universal, applicable to all religions and has the spiritual flexibility that makes it suitable for introduction everywhere in the world (Peters, 2015). The application of the *THK* philosophy is very important for tourism organisations in Bali, as Bali is a tourist destination, but, on the other hand, tourism has nourished exploitative, individualistic and materialistic mental attitudes with a tendency to destroy the ecological, socio-cultural and aesthetic subsystems (*THK* Foundation, 2012).

Peters (2015) claimed that since 2000, booming tourism has become mass tourism in Bali and result in the ignorance of *THK* and Balinese culture. The local culture are just a justification for planning, but many investors did what was actually prohibited by law, such as building hotels higher than the coconut trees, without license, within a forbidden distance from a temple or on a cliff, which is sacred in Hindu belief. The government remained passive as long as the numbers of tourists and the revenue kept increasing. Matters are settled between the government and investors (mostly from outside Bali), which is profitable for both the government (income) and investors (profit), but makes no contribution to the welfare of the Balinese. Tourism development 'quantity' was clearly prevailing over 'quality'; business over philosophy. It is a paradox that Bali is facing a bright future as a prime tourism destination, but it is losing its identity. Mass tourism is a major threat to the identity of the Balinese and their culture. The only effective remedy against mass tourism is the implementation of *THK*, the philosophy of life of the Balinese. The investors have to accept beforehand the *THK* as reference for their projects. *THK* is not only implemented in hotels, but also other institutions in Bali such as schools, universities, government offices, etc.

Previous researchers, such as Bontis (1999), emphasised the organisational culture as a driver of IC. Although some researchers (e.g., Navarro and Polo, 2010; Franc et al., 2013; Holmen, 2014) have also examined national cultural differences in the practice of IC, it is not easy to find a study examining the relationship between local culture and IC. Local culture characterizes daily life experiences in certain areas and reflects the feeling of conformity, comfort, and truth of ordinary people-attributes that determine personal preferences and changing tastes. Meanwhile national culture is more concerned with a set of norms, behaviours, beliefs and customs that exist in the population of a sovereign country. In Indonesia, national culture is dominated by Javanese culture (Chariri, 2008). Hofstede's (1982) study concluded that local culture has influenced the behaviour of the Indonesians both in business and government institutions. Therefore, the role of local culture especially *THK* in organizations cannot be ignored.

Based on the above arguments, we are interested in investigating the relationship of the local culture (*THK*) and IC in the hotel industry. Knowledge of how to manage IC effectively is crucial, especially in service-oriented and non-manufacturing industry sectors, since these sectors have more intangible resources than tangible ones (Bontis and Fitz-enz, 2002). Hotels are in the service-sector industry, where IC results from the knowledge and skills of employees, processes and systems and customer relationships (Zeglal and Zigan, 2014). Both the individual knowledge of employees and the overall organisa-

tional knowledge portrayed in routines, systems, customer databases, etc., are considered essential elements to running hotels effectively in a competitive environment (Engstrom et al., 2003).

The results of this study confirm that the local culture, in this case represented by *THK* (*parhyangan*, *pawongan*, *palemahan*) has a significant positive relationship with IC (human capital, customer capital, structural capital). This research contributes to creating awareness of the relevance of local culture when discussing IC. This study also provides an important contribution in enriching the conceptualization of IC developed by previous researchers, demonstrating that IC can not only be influenced by organizational culture and national culture, but also local culture where the organization is located.

1. LITERATURE REVIEW AND HYPOTHESES

1.1 THK philosophy

Epistemologically, the Sanskrit term *THK* is derived from the individual words ‘*tri*’, ‘*hita*’, and ‘*karana*’. *Tri* means ‘three’, while *hita* means ‘happy/prosperous’, and *karana* means ‘cause’. Thus, *THK* is defined as three causes of happiness/prosperity and prosperity of human life. The Government of the Republic of Indonesia and the United Nations World Tourism Organisation (UNWATO) have officially recognised the *THK* philosophy as a concept that can lead to sustainability (Peters and Wardana, 2014).

THK teachings emphasise the three human relationships in this life, which are interconnected with one another (Suwetha, 2015), include (1) human relationships with their God (*parhyangan*); (2) human relationships with others (*pawongan*) and (3) human relationships with the natural environment (*palemahan*). In the context of *parhyangan*, human beings are expected to have spiritual closeness with God; each activity is based on the spirit of devotion to God. A person realises his/her true identity as an *atman*, or spiritual being, who must always be associated with the source, that is God (Suwetha, 2015).

Pawongan is a concept of harmonious relationship between human and human, as fellow beings who have the same rights and obligations. It is expected that such connection produces a universal brotherhood—universal bonds between humans, free from racial elements (Suwetha, 2015). A simple way to implement the concept is to do three good things: thinking, talking and doing good things, which, together, are known as *Tri Kaya Parisudha*¹. *Tri Kaya Parisudha* is a philosophical synergy governing the universe, spirituality, humanity and the natural environment (Peters, 2015).

In the concept of *palemahan*, human beings are expected to responsibly manage nature (Suwetha, 2015). Nature should be utilised by not neglecting sustainability. The Balinese people believe that a good environment will provide them with a better life. Making the three elements harmonise is the foundation for creating a comfortable and peaceful life, both outwardly and inwardly. *THK* not only illustrates cause and effect, but also the process of welfare achievement through dynamic interaction with the three elements, related to harmonisation in and between *parhyangan*, *pawongan* and *palemahan*. When the balance is achieved, humans will live by avoiding bad actions, and their lives will be balanced, calm, and peaceful. Peters (2015) put forward some of the values contained in *THK*, i.e. respect and togetherness, integrity, self-control, compassion, and harmony.

1.2 IC concept

There is no universally-accepted definition of IC in the literature. IC can be viewed as the intellectual material (knowledge, information, intellectual property, experience) that can be used to create wealth (Stewart, 1997). In essence, all information that can be transformed into something of value is IC (Edvinsson, 2000).

Three elements are widely accepted in the classification of IC: human capital, customer capital and structural capital (Farsani et al., 2012). Human capital is defined as the knowledge, skills and experiences that employees take with them when leaving a company (Starovic and Marr, 2003). Human capital

¹ *Tri* means ‘three’; *Kaya* means ‘activity’; *Parisudha* means ‘good/holy’. So, *Tri Kaya Parisudha* are ‘three good/holy activities/behaviours’.

encompasses the individual knowledge of an organisation that exists in its employees (Bontis et al., 2002).

Customer capital represents the current value of the organisation's relationship with its customers and the potential future value of that relationship (Engstrom et al., 2003). The core of customer capital lies in the knowledge embedded in the marketing channels and customer relationships developed by an organisation during its existence (Bontis et al., 2000). Roos et al. (2001) argue that customer capital should include all value relationships, whether they relate to customers, suppliers or other stakeholders.

Structural capital is defined as knowledge that will remain within the company, includes organisational routines, procedures, systems, cultures and databases (Starovic and Marr, 2003). The capital is described as what is left to the company when an employee returns home at night (Roos et al., 1997). Some of the structural capital is legally protected and becomes part of the organisation's intellectual property rights, legally owned by the company.

1.3 Hypotheses Formulation

1.3.1 Parhyangan and IC

Rational thought, in Asian philosophy, is inseparable from the mind's emotional activity (Andriessen and Boom, 2007). Knowledge is gained from examination and inquiry, and it depends on a conscious drive and motivation to know deeper. Knowledge also depends on a disciplined, pure and alert mind. Hence, awareness to keep harmony with God can bring new knowledge. In the context of *parhyangan*, then, all the activities of a company and the individuals in it are a form of offerings to God and always get control from God. In this case the law of *Karma* (*Karma Phala*²) is believed to be valid. *Karma Phala* is a law of causality stating that every action will bring results.

Parhyangan is a belief that humankind has an obligation to do something for nature and for fellow human beings, as a manifestation of respect for God (Windia and Dewi, 2011). Individuals should commit to good conduct to create harmony, including within the company. This is because of a strong belief that God always controls their actions. By doing so, then, with God's permission, individuals will be awarded good results. All actions should be done with pleasure because they are solely sacrificed to God. Based on the concept of *parhyangan*, the individuals within a company will respect one another, share with each other and voluntarily give all efforts to the company. The company will strive to provide the best for its customers by paying attention to the customer's wishes so that the customer will be satisfied with the services provided. The concept of *parhyangan* will eventually spur the company to develop a comfortable culture and atmosphere, respond quickly to changes, develop accessible information systems, etc.

Based on this, we formulate the following hypotheses.

H1: *Parhyangan* is positively associated with structural capital.

H2: *Parhyangan* is positively associated with customer capital.

H3: *Parhyangan* is positively associated with human capital.

1.3.2 Pawongan and IC

In the epistemology of Asia, knowledge is dynamic and full of life because it arises in social interaction among individuals, groups, nature and the surrounding social context (Andriessen and Boom, 2007). In Asian philosophy, the notion of knowledge is very symbolic. Asian philosophy considers a unity of knowledge and action and strongly refers to natural and social phenomena because of the unity between humans and being. In this regard, the concept of *pawongan*, which wants harmony between human beings, can encourage knowledge creation in the IC context. Aspects of *pawongan* are directly linked to the

² Derived from the word *Karma*, which means 'deed,' and *Phala*, which means 'result'. *Karma Phala* means 'the result of the deed', both what has been done and will be done.

harmony of relationships among human beings through the implementation of activities together (Wandia and Dewi, 2011). With the realiation that people are essentially creatures of God, and the awareness of *Tat Twam Asi*³, individuals within a company will support each other. *Tat Twam Asi* is a concept of love and considers the lives of all living things to be one unified whole. The concept characterises the recognition of empathy, compassion and mutual respect among human beings. Attention given by the company to maintaining harmony with customers can bring customer capital in the form of customer satisfaction and customer loyalty. The concept of *pawongan* can also spur a company to develop structural capital. For example, based on the need to realise internal and external harmony between fellow human beings, companies are encouraged to develop cultures and atmospheres that are comfortable and supportive, not only for individuals working within the company, but also for individuals who engage in transactions with companies.

Based on this, we formulate the following hypotheses.

H4:*Pawongan* is positively associated with structural capital.

H5:*Pawongan* is positively associated with customer capital.

H6:*Pawongan* is positively associated with human capital.

1.3.3 Palembang and IC

Andriessen and Boom (2007) suggest that, within the context of Asian thought, knowledge arises from the unification of the universe and the human self. Therefore, the concept of *palemahan*, which wants harmony between humans and the surrounding natural environment, can encourage knowledge creation in the IC context.

Based on the *palemahan* philosophy of, companies provide various facilities that support the implementation of employee duties and responsibilities. If a conducive atmosphere is created, accompanied by adequate work facilities, then it will be easier for the employee to initiate new ideas, meaning that, ultimately, the company will receive the best from its employees. A conducive atmosphere created by the beauty and cleanliness of the environment around a hotel, as well as hotel buildings and rooms designed and arranged in such a way, will create a sense of comfort for guests, so guests will be willing to stay again at a later time. In addition, maintaining and taking care of the security and continuity of work as a reflection of *palemahan* implementation will make the company more efficient and make it easier for the company to respond to changes.

Based on this, we formulate the following hypotheses.

H7:*Palemahan* is positively associated with structural capital.

H8:*Palemahan* is positively associated with customer capital.

H9:*Palemahan* is positively associated with human capital.

1.3.4 Human capital and structural capital

Bontis et al. (2000) found a non-significant relationship between human and structural capital in the service sector. However, previous research conducted by Engstrom et al. (2003), Kim et al.(2012) and Sharabati et al.(2013) in hotels and the broader tourism industry identified strong positive impacts and relationships between human capital and structural capital. In the hotel industry, organisational structure, routines and management, as well as employee behaviours, are interrelated (Zeglat and Zigan, 2014). Kim et al. (2012) found that trained employees can, for example, improve operational processes and, therefore, positively influence structural capital creation. Previous research has shown a significant, positive relationship between human capital and structural capital in the Korean hotel industry (Kim et al., 2012) and in the Jordanian hotel industry (Zeglat and Zigan, 2014).

Based on this, we formulate the following hypothesis.

³ *Tat* means 'it' ('he'), *Twam* means 'you' and *Asi* means 'it is'. *Tat Twam Asi* means 'you are me'.

H10: Human capital is positively associated with structural capital.

1.3.5 Human capital and customer capital

Employees with right skills, knowledge, attitudes and motivation will attract customers (Kooistra and Zijlstra, 2001). Chen et al. (2004) found that employees with high levels of human capital encourage customers and other stakeholders to connect with companies, helping the companies ultimately generate more profit. If employees have the appropriate knowledge and skills, they can serve customers better by, for example, providing more information to them (Hsu and Fang, 2009). Zeglat and Zigan (2014) argue that, specifically in service organisations such as hotels, the relationship between human capital and customer capital is very strong. This is evidenced in their research, which found a significant positive relationship between human capital and customer capital in the Jordanian hotel industry. The findings are further supported by Bontis et al. (2000) and Kim et al. (2012), who also found a significant positive relationship between the two elements of IC.

Based on this, we formulate the following hypothesis.

H11: Human capital is positively associated with customer capital.

1.3.6 Customer capital and structural capital

Companies that can effectively manage customer relationships will be able to generate innovative ideas to respond to customer demand (Kheng et al., 2013). Structural capital arises from the process and value of the organisation, reflecting the company's internal and external focus, coupled with the value of renewal and development for the future (Bontis et al., 2000). Bontis et al. (2000) support this, finding that there is a significant positive relationship between customer capital and structural capital, both in the service industry and in non-services.

Based on this, we formulate the following hypothesis.

H12: Customer capital is positively associated with structural capital.

2. METHODOLOGY

2.1 Research setting and sample

To test the hypotheses, we used sample from three-, four- and five-star hotels in Bali Province, Indonesia. The hotel industry is one of the participating organisational groups in the *THK* Tourism Awards & Accreditations (*THK* Awards) program. This program is an activity as a form of community awareness, which strives to implement *THK* in the real life of development in Bali Province. According to the Bali Government Tourism Office (2016), a total of 181 hotels are classified as three-, four- and five-star hotels operating in Bali Province. Using Slovin's formula, the sample size should be 125, with a 5 percent sampling error.

We expected a high response rate (up to 90%) because the data were collected by a self-administered questionnaire method. Thus, a total of 139 questionnaires were sent in sealed envelopes. The questionnaires were accompanied by a request letter explaining the study's purpose, requesting that the general managers fill out the questionnaire and assuring the participants about confidentiality. We sent questionnaires directly to each member of the research samples. Within two months after the questionnaires were submitted, we began to retrieve the completed questionnaires. Of the 139 questionnaires submitted, 114 were returned (an 82% response rate). The results of the non-response bias test of the respondents who returned the questionnaire answers on time and late, showed that there is no problem of non-response bias⁴. The respondent's demographic analysis showed that most of the re-

⁴ We divided the responses into two groups based on the time of arrival. We then did a t-test to test the difference between answers for all research variables. We found no significant differences between the two groups.

spondents who participated in the study were male (63%), had a working life of more than 5 years (94%), had an undergraduate educational background (76%) and came from a five-star hotel (38%).

2.2 Instruments

THK consisting of *parhyangan*, *pawongan*, and *palemahan*, are measured in our study using a five-point Likert scale, ranging from 'strongly disagree' to 'strongly agree'. The questionnaire contained 12 statements to which respondents indicated the extent of their agreement on the five-point Likert scale. Indicators for measuring *parhyangan* consisted of five items adopted from Suardikha (2013) and the *THK* Foundation (2012). Our research also adopted four items from Suardikha (2013) and the *THK* Foundation (2012) to measure *pawongan*, while *palemahan* was measured by three items adopted from Suardikha (2013). The 12 indicators are adopted from Bontis (1998)—with a five-point Likert scale ranging from 'strongly disagree' to 'strongly agree', to measure IC.

Variance-based SEM (SEM PLS) was used to test the study's hypotheses because variance-based SEM (SEM PLS) is able to test multiple dependent and independent variables simultaneously. In addition, the limited theory of structural relationships among variables is another reason for using variance-based SEM (SEM PLS) here, in combination with WarpPLS 5.0 software.

3. RESULTS AND DISCUSSIONS

When we place all the variables into the model (see Table 1, Figure 1), the results show that hypothesis H1, claiming that *parhyangan* is positively associated with structural capital, was supported ($\beta = 0.487$; $p < 0.001$). The findings illustrate that three-, four- and five-star hotels in Bali are encouraged to develop organisational knowledge, such as corporate culture, a conducive working atmosphere and efficient operating procedures. They are also encouraged to respond to change rapidly, based on the belief that what they do is an offering to God to create harmony.

Table 1. PLS results for full model

Variable	Path to		
	Human capital	Customer Capital	Structural capital
<i>Parhyangan</i>	0.364 ($p < 0.001$)*	0.246 ($p = 0.003$)*	0.487 ($p < 0.001$)*
<i>Pawongan</i>	0.509 ($p < 0.001$)*	0.179 ($p = 0.024$)**	0.381 ($p < 0.001$)*
<i>Palemahan</i>	0.159 ($p = 0.040$)**	0.176 ($p = 0.026$)**	0.155 ($p = 0.044$)**
Human capital		0.386 (< 0.001)*	0.317 ($p < 0.001$)*
Customer capital			0.213 ($p = 0.009$)*
R-squared	0.784	0.724	0.991

*Significant at $p < 0.01$; ** Significant at $p < 0.05$

Other findings showed a significant positive relationship ($\beta = 0.364$; $p < 0.001$) between *parhyangan* and human capital as well as a significant positive relationship between *parhyangan* and customer capital ($\beta = 0.246$; $p = 0.003$). Therefore, both H2 (*parhyangan* positively associated with human capital) and H3 (*parhyangan* positively associated with customer capital) were supported. The results revealed that humans in three-, four- and five-star hotels in Bali, as homo-religious creatures, believe that there is a supernatural power of God that controlled their activities. Such strong beliefs encourage individuals in three-, four- and five-star Balinese hotels to create human capital in the form of good attitudes and deeds, such as mutual respect among fellow employees, a willingness to share experiences, knowledge and creativity and the emergence of sincerity in giving all their efforts for the company. This is because, for the people in some Asian countries (such as Indonesia, India, China, Japan and other regions), knowledge is spirit, wisdom and truth (Andriessen and Boom, 2007). So, the knowledge formed results from the values of spirit, wisdom and truth that are believed.

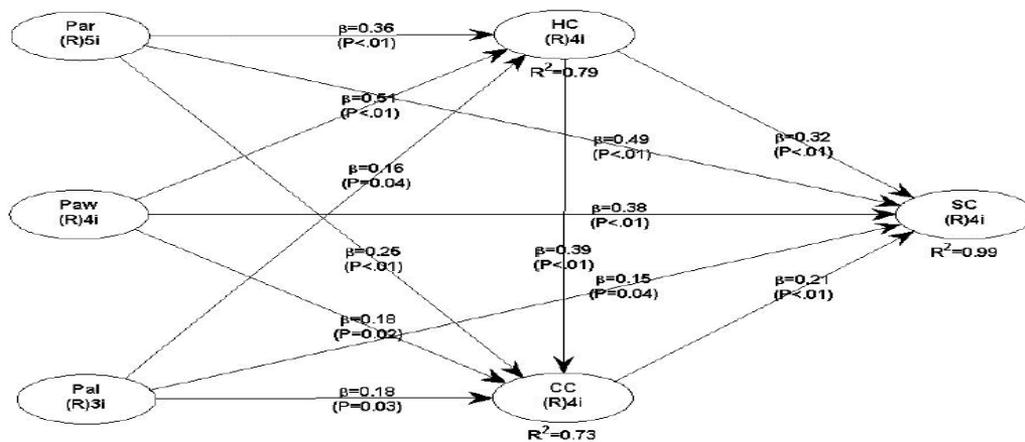


Figure 1: PLS results

The belief that there is God's control over an action has spurred individuals in three-, four- and five-star Balinese hotels to give their best service to customers. The three-, four- and five-star hotel employees in Bali carry out their duties and responsibilities based in *yadnya* (selfless sacrifice) because of the inner awareness that, as God's creatures, they always get control from God. They uphold the values of harmony and togetherness, bringing satisfaction to the customer so that customer loyalty can be maintained. The belief within the individual that the law of cause and effect (*Karma Phala*) will always prevail also spurs the emergence of good values that are IC, because each individual will compete in doing good deeds. These findings are supported by Andriessen and Boom (2007), who claim that Asian thinking is holistic and considers reality as an integral whole where there is interdependence and relationship between objects and events.

Table 1 above shows a significant positive relationship between *pawongan* and structural capital ($\beta = 0.381$; $p < 0.001$), *pawongan* and human capital ($\beta = 0.509$; $p < 0.001$) and *pawongan* and customer capital ($\beta = 0.179$; $p = 0.024$). Similarly, empirical data supports H4 (*pawongan* positively associated with structural capital), H5 (*pawongan* positively associated with human capital) and H6 (*pawongan* positively associated with customer capital). H4 results illustrate that the creation of harmonisation between individuals in three-, four- and five-star Balinese hotels causes willingness to cooperate with one another, so that efficient processes and systems can be developed. In addition, a comfortable and supportive culture and atmosphere for employees, customers, or related parties can also be built and developed. This shows that the concept of *pawongan* has been transferred into organisational knowledge.

The results of the H5 test indicate that understanding of the concept of *Tat Twam Asi* encourages human capital emergence in three-, four- and five-star Balinese hotels. For example, employees operate with attitudes that do not hurt others and they do not consider other employees as less than themselves. *Tat Twam Asi* teaches unlimited sociality because it means that 'he is you', 'I am you' and all beings are the same as having an *atman* that comes from God. Therefore, full awareness of it encourages individuals to respect other individuals. However, this respect for other individuals is not only in the context of fellow hotel employees, but also of hotel customers, because customers are also creatures of God who must be respected. For example, by understanding *Tat Twam Asi*, a hotel is also encouraged to better appreciate customers who have physical limitations by providing special facilities for them. This will encourage the formation of customer capital, such as the fulfilment of customer desires and the emergence of customer loyalty. Likewise, giving equal opportunities for employees to excel and have their achievements rewarded can further motivate employees in their jobs, so that customer satisfaction increases even more.

This study found a significant, positive relationship between *palemahan* and structural capital ($\beta = 0.155$ and $p = 0.044$), so that H7 (*palemahan* positively associated with structural capital) is supported. H8 (*palemahan* positively associated with human capital) is also supported by a significant, positive relationship ($\beta = 0.159$; $p = 0.040$), as is H9 (*palemahan* positively associated with customer capital) ($\beta = 0.176$; $p = 0.026$). These findings indicate the efforts of three-, four- and five-star Balinese hotels to

maintain relationships with the environment, such as designing buildings and hotel rooms so as to maintain the beauty and cleanliness of the environment around the hotel, making the hotel's culture and atmosphere supportive and comfortable for both hotel employees and overnight customers.

Table 1 shows that the relationship between human capital and structural capital is positive and significant ($\beta = 0.317$; $p < 0.001$). The study also found a significant, positive relationship between human capital and customer capital ($\beta = 0.386$; $p < 0.001$). Therefore, H10 (human capital positively associated with structural capital) and H11 (human capital positively associated with customer capital) are empirically supported. The hotel industry is a labour-intensive industry, so employees, along with their knowledge, motivation, and attitudes, become the fulcrum of structural capital development and customer capital. Finding strong relationships between human capital and structural capital indicates that three-, four- and five-star hotels in Bali are well able to transform individual knowledge into non-human knowledge. Hotels can transform individual, unarticulated knowledge into something more concrete—for example, into a written or electronic document.

The results of the H10 test provide an overview of the ways three-, four- and five-star hotels in Bali explore existing knowledge in employees to develop effective processes, such as responding to any changes that occur quickly, developing efficient operating procedures and developing easily accessible information systems. The findings supported the opinions of Yeung and Leung (2007), which suggest that the knowledge and skills of hotel staff should be effectively utilised to improve operation and service quality. The findings also support previous research from Zeglat and Zigan (2014) and Kim et al. (2012).

The significant positive relationship between human capital and customer capital in this study indicates that human capital in the three-, four- and five-star hotels in Bali and its tacit knowledge create company value. With their tacit knowledge, employees give all their efforts to make an individual hotel different from other hotels. A hotel's investment to improve employee competency by constantly improving the employees' skills and education enables the hotel to maintain its value-added services and meet customer needs, thus creating its own loyalty to customers. These findings provide a good management of human capital, making the three-, four- and five-star hotels in Bali capable of transforming the tacit knowledge—which is personal and difficult to formulate, communicate and share with others—into the knowledge embedded in the company's external relationships. These findings support the research of Zeglat and Zigan (2014), Bontis et al. (2000) and Kim et al. (2012).

This study found a significant positive relationship between customer capital and structural capital ($\beta = 0.213$; $p = 0.009$), and, based on these results, H12 (customer capital as being positively associated with structural capital) is supported. Customer loyalty has spurred three-, four- and five-star hotels in Bali to always develop a culture and atmosphere of comfort for guests. In addition, three-, four- and five-star hotels are also encouraged to develop information systems that are easily accessible, by both guests who stay and prospective guests who will stay. The findings indicate that three-, four- and five-star hotels have been able to transform external knowledge, obtained from the relationship with their customers, into the company's knowledge well. The results of this H12 test support the findings of Bontis et al. (2000), who found that customer capital and structural capital relations were positive and significant in the service industry. The high value of R-squared (see Table 1) shows that the model tested in this research is a good model. The roles of human capital and customer capital as the mediating variables in the relationship are also shown in Table 2, which evidences significant p value.

Table 2. The indirect effects of *THK's* philosophy on IC

Path	Indirect effects	P value
Par-HC-CC	0.141	0.015**
Par-HC-CC-SC	0.168	0.032**
Paw-HC-CC	0.197	0.001*
Paw-HC-CC-SC	0.200	0.013**
Pal-HC-CC	0.061	0.174
Pal-HC-CC-SC	0.088	0.170
HC-CC-SC	0.082	0.103

*Significant at $p < 0.01$; ** Significant at $p < 0.05$

To test the practical significance of this study and to estimate the extent to which statistical findings in this study are also present in the population, we performed effect size tests.

Table 3. Effect size test results

	Par	Paw	Pal	HC	CC
HC	0.279	0.421	0.090		
CC	0.179	0.135	0.101	0.318	
SC	0.341	0.252	0.071	0.187	0.140

The effect size can be grouped into three categories, which are weak (0.02), medium (0.15) and large (0.35) (Kock, 2014). The largest effect size belongs to the relationship between *pawongan* to human capital, which is 0.421 (see Table 3). This value belongs to a large group, indicating that *pawongan* has an important role from a practical perspective in driving human capital.

This study provides us with an important implication. Local contexts provide the environment for learning, which in turn enables adequate practices of IC in an organization. Social learning theory suggests that individuals can learn vicariously, and future behaviors are guided by vicarious learning (Bandura, 1977). According to the value theory of culture, the impact of cultural values on individual's beliefs and behaviors depend on how the cultural values are exposed (Hofstede, 1980). Similar to findings of previous studies (Lynn 1999 and Franc et al. 2013) on how national culture and organizational culture determine the successful implementation of the IC management, this study includes more specifically the importance of local culture underlying the practice of IC in manifesting itself. Culture can influences knowledge-related behaviors with shapes assumptions about which knowledge is important; mediates the relationship between levels of knowledge; and creates a context for social interaction (Long and Fahey, 2000). The findings infer that the practice of IC is not value-free, but is created, shared and used in accordance with the underlying cultural context, whether national culture, organizational culture, or local culture.

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

This study found a significant, positive relationship between the elements in the *THK* philosophy (*parhyangan, pawongan, palemahan*) with elements in IC (human capital, customer capital, structural capital). The findings indicate that local culture can play an important role in the practice of IC in an organisation. Local culture that fits the context of the environment in which the organisation is located, such as *THK*, become one of the basic motivation of individuals in the practice of IC in an organisation. This study provides us with new insights in IC areas. When we discuss IC, we cannot give up the role of local culture. This research also contributes to the development of the existing IC conceptualisation by proposing local culture as a variable that underlies the practice of IC in an organisation.

This study has several limitations. We only examine one service sector, the hotel industry, and we have only taken samples from top-class hotels (three-, four- and five-star). This will reduce the generalisability of the findings. Due to the research focus on upscale hotels, items in the survey instrument may be irrelevant when used to research hotels with lower scales.

Further academic research is needed to verify the research instruments' rationality when applied to different types of hotel organisations, as well as their suitability to the research's country context. To test the extent to which the research findings can be generalised to other industries and countries, we recommend that this research model be replicated in other service industries and in other countries by replacing *THK* constructs with other local cultures, according to the country of research. Expansion of the IC element, especially customer capital, must be done in further research to better fit the hotel industry's needs. Future research should test customer capital broken down into end-customer-relationship capital and non-end-customer-relationship capital. End-customer-relationship capital refers to the company's relationship with the end-customer only concerning a hotel product, while non-end-customer-relationship capital refers to the company's relationships with partners who are not the final customers for hotel products. Non-end-customer-relationships can be divided into two sub-categories, namely relationships

with commercial partners in the private sector, and relationships with other partners, such as governments, associations, non-governmental organisations and the media. Taking these other aspects into consideration will allow future research to expand upon and verify this study while continuing to contribute to the present literature on IC.

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