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Intellectual Capital as a Strategic Tool for Organising Social Services: A Qualitative Analysis of the Australian Non-profit Sector

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ABSTRACT: The organisation and delivery of social services have been profoundly affected by the ‘new public management’ agenda of governments. Social service non-profit organisations (SSNPOs) have had little choice but to respond to commercial imperatives which may compromise the principle of investing in human and social concerns. This paper analyses the usefulness of intellectual capital (IC) - organisational resources contributing to knowledge, information, intellectual property, and human skills and experience - in addressing the conflicts between commercial and social objectives. On the basis of data gathered from in-depth interviews with 35 non-profit managers across 22 large Australian SSNPOs, the analysis confirms that IC assists SSNPOs in managing the social-commercial divide. However, the data also revealed that managers’ understandings of the IC concept were often different to those contained in the IC literature. This paper contributes to the social services management debate by, first, arguing that IC can be utilised as a non-profit strategic management conceptual framework. Second, it highlights slippages in the meaning and significance of IC. Third, it prescribes ways the concept may be utilised more effectively in SSNPO practice.

KEYWORDS: Intellectual capital; social service non-profit organisations (SSNPOs); strategic management.

INTRODUCTION

Social service non-profit organisations (SSNPOs) have changed significantly since the commercialisation of public and non-profit management through the introduction of ‘new public management’ (NPM). For-profit strategic management techniques that are brought to SSNPOs under NPM to enhance organisational efficiency and effectiveness are compromising the principle of helping in people in need and social concerns. Thus SSNPOs are presented with a challenge to formulate and implement non-profit strategic management techniques which allow them to keep their independence and their ability to pursue social missions, and at the same time enhance organisational efficiency and effectiveness.

SSNPOs must be managed strategically, with the social dimension being central. The need to adapt strategic management methods appropriate to non-profit activities has become a priority (Backman; Grossman & Rangan, 2000; Bryson, 1995; Courtney, 2002; Nutt & Backoff, 1992; Nutt & Backoff, 1993; Salamon; Anheier; List; Toepler; Sokolowski & Associates, 1999; Stone; Bigelow & Crittenden, 1999). Originally derived from for-profit strategic management techniques, intellectual capital (IC) provides a conceptual framework for social service non-profit strategic management. IC encompasses three interrelated components, namely human capital (HC), relational capital (RC), and structural capital (SC). On the basis of data gathered from in-depth interviews with 35 senior non-profit executives across 22 Australian SSNPOs, the paper argues that IC assists SSNPOs in their attempts to reconcile their social and commercial objectives under NPM and thus represents a valid...
non-profit strategic management conceptual framework. However, the interview participants’ understanding of the IC concept is substantially different to that contained in the literature. Participants often perceived that the three IC components (HC, RC, and SC) were mutually independent constructs rather than interrelated components. They had a tendency, therefore, not to take a streamlined IC approach.

The original contribution of the paper is threefold. Firstly, little systematic research has focused on the role of IC in SSNPOs, particularly under NPM conditions. This paper contributes to filling this gap in the non-profit strategic management literature. Secondly, the paper highlights the different understanding in relation to the three IC components and suggests how the concept of IC can be utilised effectively in SSNPOs. Finally, the thesis proposes an IC conceptual framework which provides a different view of non-profit strategic management than currently exists in the literature.

This paper is divided into three main parts. Firstly, it provides a brief outline of the concept of IC and its components. Then it suggests that IC can be utilised as a valid strategic management conceptual framework in the social service non-profit sector. After a short outline of the research methodology, the findings of the interview data gathered from the 35 Australian senior executives are presented. This is followed by a detailed discussion of the interview participants’ understanding of the IC concept as compared to that contained in the existing IC literature.

**INTELLECTUAL CAPITAL (IC) AND ITS COMPONENTS**

According to Stewart (1997), IC refers to the many and varied organisational resources contributing to wealth creation through investment in knowledge, information, intellectual property, and skills and experience. Following the work of a number of scholars in the field, IC is generally taken to encompass three primary interrelated components: human capital (HC), relational capital (RC) and structural capital (SC) (Bontis, 1996; 1998; Dzinkowski, 2000; Roos; Roos; Dragonetti & Edvinsson, 1997; Saint-Onge, 1996; Stewart, 1997).

HC subsumes various human resource elements, including cumulative tacit knowledge, competencies, experience and skills, and the innovativeness and talents of people (Bontis, 2002; Fletcher; Guthrie; Steane; Roos & Pike, 2003; Guerrero, 2003). SC refers to the supportive infrastructure for HC, which includes all of the non-human storehouses of knowledge in organisations, such as databases, process manuals, strategies, routines, culture, publications, copyrights and anything which creates value for organisations (Bontis; Keow & Richardson, 2000; Guthrie; Petty & Ricceri, 2006; Ordóñez de Pablos, 2004a). RC represents the knowledge embedded in relationships external to an organisation (Fletcher et al., 2003; Grasenick & Low, 2004; Marr & Roos, 2005). Examples of RC may include customer and supplier relationships.
This paper argues that the concept of IC is a potent avenue for pursuing social service organisational agendas, particularly given the pervasiveness of commercialised imperatives set forth by public management change. This is because IC stresses qualitative, non-economic indicators for future strategic prospects, which co-ordinates effectively with SSNPOs’ central values concerning the fulfilment of social objectives. Since social value is often the *raison d’être* for the organisations as service providers in the community, IC helps non-profit leaders to refocus their organisational resources toward the principle of investing in people and social concerns rather than profit. This is particular important in SSNPOs as the organisations are often driven to focus predominantly on commercial rather than social objectives under NPM. IC helps to balance the social and commercial objectives in SSNPOs; however imperfectly. To facilitate the research study examining the role of IC in SSNPOs, an in-depth qualitative semi-structured interview approach was adapted. The next section outlines the methods used by this research study.

**METHODS**

IC by its nature involves tacit knowledge, thus extremely difficult to quantify (Roos et al., 1997). In addition, the examination of the role of IC in SSNPOs is a new area of enquiry. Thus, it was very important to allow a high degree of flexibility during the research process in order to explore and examine the role of IC in SSNPOs. A qualitative approach adopting in-depth, semi-structured interviews of 45 to 60 minutes was conducted. The sample population was only chosen from Australian SSNPOs which had at least five years of history, formal structure and strategic planning, which allowed IC to be sufficiently utilised and accumulated in the organisations.

Based on the sampling selection criteria, 55 Australian SSNPOs were contacted via e-mail and telephone, of which 22 organisations agreed to participate. There were 35 senior executives (16 women and 19 men) in total who took part in the interviews. All the senior executives involved in key strategic management positions within their organisations. Accordingly, these participants were able to provide rich, textured descriptions of strategic management in their organisations. To maintain the confidentiality of the participants each participant was assigned a code (e.g. Exec-1) and the numerical order was not indicative of interview chronology.

Interviewees were asked a range of questions regarding the role of IC, as well as its components, as a valid strategic management conceptual framework in their organisations. An ongoing analysis was conducted throughout the entire interview process which ensured the justification of theoretical saturation which determined whether data collection activities should end or carry on (Charmaz, 2003; Richards, 2005; Strauss & Corbin, 1998). Theoretical saturation occurs when no pertinent or new data emerges; the properties and dimensions of emerging categories are well developed; and the relationships between categories have been established and validated through the data collected.
(Strauss & Corbin, 1998). In this case theoretical saturation occurred after 27 interviews and 8 further interviews were conducted to validate the emergent categories. The findings of the interview data are presented in the next session.

FINDINGS

The essential role of IC in SSNPOs is not merely about helping the formulation of strategies for resource allocation; such as sharing knowledge and expertise among existing non-profit employees and volunteers. It is also for resource acquisition such as sustaining a positive image to draw funding from potential donors and to attract potential new employees and volunteers. Marr and Roos (2005) argue that organisations that have a better understanding of how their intellectual resources interact are more able to create value for long-term success. Their perspective on organisations implies that a better understanding of the interrelationships among the three types of IC will also assist non-profit leaders to develop strategies that create value for their organisations in the future. The following section reveals the findings gathered from the interview data.

HC in SSNPOs

The majority of the participants highlighted that HC was the most critical IC component in non-profit strategic management of their organisations because they often perceived that social services required face-to-face interactions and such interactions involved substantial interpersonal skills and tacit knowledge. Thus, as revealed from the interview data, the participants had a tendency to over-emphasise HC in their organisations. The following examples illustrate the point.

Human capital in strategic management is bringing together the knowledge that we have within our people and how to get the most of our people to deliver our strategy. And that will require our assistance in place to make sure we get the best from the people we have and where we don’t have the skills we can source them from outside or something like that when we need to (Exec-16, Paragraph 97).

If you don’t have the right human capital in the first place, sometimes you won’t get the right form of strategic plan because they don’t necessary have the past experience, creditability, skills and talents to identify the opportunities to be coming (Exec-13, Paragraph 65).

HC is important to SSNPOs as it is a source of innovation and strategic renewal (Bontis, 2002; Bontis et al., 2000; Webster, 2000). However, the perception that HC played the most important role in SSNPOs could lead to a significant challenge to the organisations when attempting to leverage HC. This is because the level of HC may decrease when organisational members (both paid employees and volunteers) depart from their organisations, taking with them their knowledge and skills. Thus, SSNPOs may sacrifice long term value maximisation if they adopt an imbalanced IC approach by focusing too much on HC, and even worse, they may become vulnerable when required intellectual
resources (RC and SC) are missing, given turbulent external environment conditions. The negativity of an imbalanced IC approach was clearly illustrated in the following examples.

You know with the turnover, the knowledge goes with them [non-profit employees and volunteers]. We are losing it [knowledge] too (Exec-17, Paragraph 107).

If I leave this organisation and an enormous knowledge goes with me (Exec-2, Paragraph 157).

The above findings have provided strategic insights to non-profit managers in relation to how they utilise their intellectual resources effectively for value creation.

**RC in SSNPOs**

The conception of RC that the participants embraced was fundamentally different to the concept of RC in the IC literature and as a result, RC remained under-developed in the participating organisations. The different understanding of RC started with the perception among the participants that RC was built for the purpose of enhancing competitive advantage. The model of competitive tendering and contracting out as encouraged by NPM in the social service non-profit sector has intensified competitions between SSNPOs and SSNPOs and other for-profit service providers. Exec-4 and 16’ quotes below have demonstrated the point.

... we are competing the government contracts. There are other non-profit providers and for-profit providers doing that [employment services]. We have to tender every three years for doing that. And that is rewarded purely on the basis about performance in that market. So our competitors are [SSNPO A] but there are other profit-making organisations in the market ... obviously if we don’t do well in providing services, someone else can come in and take our place. That is part of the contract (Exec-16, Paragraph 55-56).

... we have to compete against [SSNPO A] or [SSNPO B]. There is a very strong competition there and it is very difficult because some of the big organisations there ... such as [SSNPO C] ... are where most of the charitable money goes. So there is a serious competition out there. They are doing similar things like what we do so there is always some sort of competition but certainly one competition is the charitable dollars (Exec-4, Paragraph 143).

Intensified competitions in the social service non-profit sector have created self-initiated barriers for the participating organisations to engage in collaboration with external stakeholders, particularly those who were perceived as potential competitors. The following examples illustrate the point.

We try to get agencies to do something together. It is, however, very hard for example, [SSNPO A] basically has very similar goals like what we have. I am not aware that they are looking at how we could perhaps join resources and how we could do something together to maximise the impacts (Exec-17, Paragraph 246, emphasis added).

We want to be able to work collaboratively with other agencies. BUT we realise that it is a sort of reality about competitive tendering. Although we don’t see it [the competitive tendering model] as the best way to organise things, there is a reality about it. We want to keep our options open and we want to be able to
work with other organisations but at the same time we don’t want it in an on-going way (Exec-25, Paragraph 195-199, emphasis added).

As a result, employees might be hoarding knowledge and resisting sharing it with other perceived competitors (Hansen; Mors & Lovás, 2005). As a result, the development and management of IC was hindered. The following example echoes this development.

"Competitive tendering has been very difficult here in [one of the Australian State] for the sector. It has created competition between agencies rather than cooperation and discouraged the sharing of knowledge, information and intellectual capital (Exec-17, Paragraph 336-344, emphasis added)."

I know [our organisation] does have relationships with other organisations but that is really a big challenge as each organisation is very much hang on to what they have got. There is a fear of working together most of the time. It is very sad I think (Exec-17, Paragraph 246, emphasis added).

Huxham and Vangen (2005) argue that NPOs may gain benefits such as sharing resources and risks, increasing efficiency, enhancing co-ordinations, facilitating mutual learning and nurturing expertise from working collaboratively with other stakeholders. An under-developed RC in SSNPOs likely causes inefficiency and ineffectiveness in the organisations.

**SC in SSNPOs**

Analysis of data from interviewees exposed the major theme of SC, being the least important IC component. SC was often strongly associated with information technology systems that were perceived to be expensive to implement, lacked long term intrinsic value, were not people focused and designed to increase efficiency and profits. The following four examples have illustrated the argument.

"We do run a large information technology system. That is the structural capital that we have (Exec-13, Paragraph 77)."

"Having good systems will never solve problems. The systems are a means to an end (Exec-6, Paragraph 99)."

"We do have databases but there is nothing terribly over sophisticated by the way it is done (Exec-24, Paragraph 141)."

"It is an enabler; it is not a deliver (Exec-13, Paragraph 77)."

As a result of this perception, SC remained in a complementary rather than central role in the participating organisations, and in some cases SC was ascribed to a minimal role. Emerging from the interview data, over 80 percent of the participants’ view towards SC was less important than the other two IC components. Exec-10’s quote has supported the argument.
I don’t think the structural capital is a big influence to what we actually plan. They are basically to provide information but in our strategic planning for advance things like that they probably don’t play a huge role (Exec-10, Paragraph 185).

... without the structural capital I can still do my job. We don’t need [structural capital] certainty because we don’t build on infrastructure; we build on beliefs and partnerships (Exec-23, Paragraph 191).

Many IC researchers argue that SC, if positively utilised, adds value to organisations by reducing cost and improving services and/or products and thus, creating a long lasting competitive advantage to organisations (Brynjolfsson; Hitt & Yang, 2002; Mouritsen & Koleva, 2004; Ordóñez de Pablos, 2004b; Wang & Ahmed, 2003). SC helps the leveraging of HC and RC because HC is much more volatile in nature (Edvinsson, 1997) and RC, owing to its external nature, is the most difficult IC component to codify and understand (Bontis, 1998; Bontis, 1999). Mouritsen and Koleva (2004, pp.178-179) also assert that SC is not ‘dead, not passive, not waiting, but alive, participating and even dominating the productivity of humans and it may create superior constellations of knowledge resources embedded in “intangible capabilities”, “core competencies” or “dynamic capabilities”’. The findings have revealed that non-profit leaders need to adapt a more balanced IC approach if they are to be successful in the future.

SYNTHESISING IC AND ITS COMPONENTS IN SSNPOS

For over two decades the attention of the social service non-profit sector has largely leaned towards financial measurement, as a result of NPM. Commercialisation has become a common characteristic of many SSNPOs. The shift has endangered the social mission of organisations. The argument put forward by this paper that IC acts as a competent strategic management conceptual framework aids SSNPOs to realign their primary objectives towards a social mission through learning and gaining knowledge. In other words, IC assists SSNPOs in their attempts to reconcile their social and commercial objectives under NPM.

IC is a dynamic concept (Bontis; Dragonetti; Jacobsen & Roos, 1999). Thus the IC level may increase as well as decrease during any given period of time. The strategic development and management of IC which stresses the balancing of the three types of IC components forces non-profit leaders to constantly re-think, re-design, re-organise and review the intellectual resources in their organisations’ strategies for value creation (Klein, 1998). As the interrelationships between the IC components help to create and facilitate values that are greater than the total sum of the three IC components in organisations (Peppard & Rylander, 2001; Roos & Jacobsen, 1999), it is also important for non-profit leaders to understand the interrelationships between the IC components in SSNPOs. The significance of interaction between the three types of IC resonates in the argument of Nonaka and Takeuchi:
Knowledge is created only by individuals. An organisation cannot create knowledge without individuals. However, the organisation supports creative individuals or provides contexts for them to create knowledge. Organisational knowledge creation, therefore, should be understood as a process that “organisationally” amplifies the knowledge created by individuals and crystallises it as a part of the knowledge network of the organisation. This process takes place within an expanding “community of interaction” which crosses intra- and inter-organisational levels and boundaries (1995, p.59).

Also, IC is synergistic. The best possible value creation can only be achieved if the three IC components are considered in the one mindset. Economists Lars Nerdrum and Truls Erikson also argue (2001, p.132) that the whole concept of IC, are often unusually complementary and therefore when ‘one important capital item is insufficient or inadequate … the consequence is often that other abilities or capacities are prevented from expressing themselves. Consequently, the return on investment of other intellectual capital items becomes very low, or even negative’. Nerdrum and Erikson’s view provides a strategic insight to non-profit leaders that SSNPOs need to adapt a balanced and synthesising IC approach is necessary for long-term success.

CONCLUSION

The for-profit management techniques that NPM encourages are arguably compromising the principle of investing in human and social concerns. Thus SSNPOs are presented with a challenge to formulate and implement non-profit strategic management techniques which allow them to keep their independence and their ability to pursue social missions, and at the same time enhance organisational efficiency and effectiveness. This paper argues that the concept of IC provides one means to address these problems. Yet, the IC concept is not fully understood by the interviewees of this research study and thus IC is not effectively utilised. In contrast with the IC literature, which stresses that the three IC components are equally important, in the interview data showed that HC is often perceived as the most important IC component. The importance of RC is seen in the context of competition rather than collaboration. SC is deemed to be the least significant in SSNPOs. Since IC is a relatively new research stream, it needs to be further explored using all qualitative methods available to researchers. This may include a focus group approach which helps to have a deeper understanding of the interview participants’ perception of the IC concept. For instance, why is it that the participants’ understanding of the IC concept is significantly different to the literature? The use of case studies might also be able to highlight the important elements in each IC component, which may help to answer whether IC has the same effect on other non-profit sub-sectors such as health care and education.
REFERENCES