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An Intellectual Capital Perspective of Non-profit Strategy Development

Eric Kong
Charles Sturt University
School of Commerce
Locked Bag 588
Wagga Wagga,
NSW 2678
Australia

ekong@csu.edu.au
Phone: +612 6933 2697
Fax: +612 6933 2790
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ABSTRACT

Very little research has focused on applying the intellectual capital (IC) concept in strategy development in social service non-profit organizations (SSNPOs). After reviewing the literature, my central argument in this paper is that IC is a potent avenue for pursuing social service organizational agendas; that is to reconcile SSNPOs’ social and commercial objectives. Thus, I contribute to the literature by theoretically arguing that IC can be utilized in non-profit strategy development processes. I propose an IC conceptual framework which helps non-profit managers to visualize IC and its components in SSNPOs. Finally, I discuss the framework’s implications for effective strategy development.

Keywords:

Intellectual capital; non-profit strategy development; social service non-profit organizations (SSNPOs)
An Intellectual Capital Perspective of Non-profit Strategy Development

The famous phrase “Knowledge is power” (Kaplan, 2002: 166) which originated by Sir Francis Bacon in 1597 resonates with even more pertinence in today’s knowledge-based economy. Sir Francis Bacon’s phrase is equally applicable within the social service non-profit context. Like their for-profit and public sector counterparts, social service non-profit organizations (SSNPOs) must leverage the knowledge available to them to gain strategic advantage in the competitive non-profit environment (Kong & Thomson, 2006). Strategic advantage is used to describe an organization’s ability to utilize its dynamic and unique resources that determine its strategic renewal in the competitive environment (Chaharbaghi & Lynch, 1999). Within the social service non-profit context, strategic advantage can be interpreted as an SSNPO’s ability to utilize its dynamic and unique resources in strategy development processes to reconcile its social and commercial objectives. Many scholars have explicitly highlighted that knowledge is the only strategic resource that leads to strategic advantage in organizations (e.g., Ambrosini & Bowman, 2001; Massingham, 2004; Mouritsen & Larsen, 2005; Probst, Buchel, & Raub, 1998; St. Leon, 2002; Zack, 2005). Thus accumulated, applied and shared knowledge enables SSNPOs to gain strategic advantage in the non-profit environment. One form of conceptualizing knowledge in strategy development processes in SSNPOs is through the study of intellectual capital (IC).

IC represents the collective knowledge that is embedded in the personnel, organizational routines and network relationships of an organization (Bontis, 2002). IC is therefore applicable to any organization regardless of whether it is profit oriented or not (Kong & Thomson, 2006). In the case of SSNPOs, when the level of IC (or collective knowledge) is increased, non-profit managers are likely to enhance their ability to make better decisions. Improved decision making
can enhance organizational performance (Miller & Lee, 2001). IC is therefore an important resource that SSNPOs need to develop in order to gain sustained strategic advantage. Based on a review of the literature, I argue that SSNPOs can utilize the IC concept in strategic development processes to foster strategic advantage in the competitive non-profit environment. In other words, IC supports the development of strategies in SSNPOs.

I have organized the paper as follows. Firstly, I provide a review of the changing role of SSNPOs in the knowledge-based economy. This is followed by a brief overview of the IC literature and its implications in the social service non-profit context. Then this leads to a discussion of the IC conceptual framework and strategic advantage in the non-profit strategy development. Finally, I discuss how the framework can be used effectively in strategy development processes to advance strategic advantage in SSNPOs.

THE CHANGING ROLE OF SSNPOs

Prior to the 1980s non-profit activities were conducted in the context of traditional public administration, which was characterized as a highly centralized and strictly hierarchical model of bureaucracy under the formal control of the political leadership, relatively limited administrative discretion, engaging relatively limited citizen involvement (Denhardt & Denhardt, 2000). Under the traditional form of public administration, SSNPOs delivered an extensive range of social services such as child welfare, child services, and day care; youth services and youth welfare; family services; services for people with disabilities; services for the elderly; and self-help and personal social services to the community (O’Neill & McGuire, 1999). In return for the provision of social services, SSNPOs were relatively sheltered from the market by enjoying relatively secure, non-competitive financial support through direct grants (Alexander, 1999; Kearns, 2000).
These grants were mainly based on the cost of previous years, with minimal variation from one year to the next and no specific links between funding allocation and program outcomes (O'Neill & McGuire, 1999). Applications for government funds were relatively simple and grants could amount to approximately three-fourths of total non-profit operating expenses (Cage, 1992). Considerable autonomy and independence were given to SSNPOs in managing their operations (O'Neill & McGuire, 1999). One of the critiques of traditional public administration was that it encouraged administrators to be risk-averse rather than risk-taking (Hughes, 2003). Arguably, innovation was shunned and the utilization of knowledge was kept to minimal in the social service non-profit sector before the 1980s.

Since the 1980s the sector has been subject to a series of rapid and far-reaching changes (Courtney, 2002; Hudson, 1999; Kearns, 2000). The major reason for such changes could be traced back to the introduction of new public management (NPM) which was a reform agenda firstly aimed at restructuring the public sector, then later the non-profit sector, according to private sector principles (Bevir, Rhodes, & Weller, 2003; Carney & Ramia, 2002; Hood, 1991). NPM emphasizes a for-profit sector style of management such as performance appraisal and economic efficiency; the use of quasi-markets and contracting out to foster competition; cost-cutting; output targets; limited term contracts; monetary incentives and autonomy of managers to manage their organizations nominally free of political influence (Bevir, Rhodes, & Weller, 2003).

NPM has transformed the way SSNPOs are managed and operated. Whereas SSNPOs once did not compete for the rights to provide services under traditional bureaucratic arrangements, they now compete for contracts with the public and for-profit sectors in order to be able to perform their central activities (Alexander, 1999, 2000; Ramia & Carney, 2003; Ryan,
Managing these organizations today is no longer like “sailing in smoother waters, away from the shocks of the market” (Sandler & Hudson, 1998: 3). SSNPOs are now forced to adopt for-profit competitive strategy concepts and moving towards a competitive posture in order to ensure survival in the competitive non-profit environment (Dees, Emerson, & Economy, 2001; Terry, 1998; Weerawardena & Sullivan-Mort, 2001). The notion of competitive advantage has become a commonly accepted rationale for how SSNPOs can create and maintain extraordinary performance in the non-profit environment. Non-profit managers are expected to manage their organizations strategically. This involves new knowledge and skills in, but not limited to, strategic planning, strategy formulation, and marketing strategies. All these phrases were unprecedented in the social service non-profit sector before the introduction of NPM.

Although competition is a reality to SSNPOs, competitive advantage does not provide all answers to the organizations. Competitive strategy induces SSNPOs to demonstrate, using market logic, their differences from competitors in their field (Barman, 2002; Crouch, 2003; Goold, 1997). They are urged to do a better job of positioning and differentiating their services in the non-profit sector so that they can convince their stakeholders, especially fund providers, that they deserve resources more than their competitors (Barman, 2002). Differentiation leads to the construction of a hierarchy of comparison between SSNPOs and their competitors according to certain measures or criteria such as cost and benefit calculus or bottom-line measurement, in which SSNPOs attempt to come out on the top of the hierarchy (Barman, 2002).

Chaharbaghi and Lynch (1999) argue that competitive advantage, which focuses on an analysis of the existing of resources in an organization, is not sufficient to answer ceaselessly calls of a new generation of resources in a dynamic environment that constantly shifts and evolves. Chaharbaghi and Lynch’s description of dynamic environment also applies to the social
service non-profit sector. SSNPOs are now required to utilize their existing resources and generate new resources effectively in order to create new opportunities and shape the organizations’ future environment. As illustrated in Figure 1, SSNPOs are consistently required to balance the usage of existing resources and generation of new resources for achieving organizational objectives and social mission.

Insert Figure 1 about here

This is not to suggest that SSNPOs should ignore competitive strategy as competition is a fact of life under NPM in the non-profit sector. However, the success of an SSNPO cannot be measured by how closely the organization keeps to budgeted spending (Barman, 2002; Kaplan, 2001). Serving the public is an obligation, not an option, for the non-profit sector. SSNPOs’ mission is perceived as a moral absolute rather than as an economic prerogative subject to a cost and benefit calculus (Guy & Hitchcock, 2000). They have goals that are often amorphous and offer services that are mostly intangible (Forbes, 1998). Thus, a major part of a social service non-profit manager’s responsibility is to consider the effect of strategy on a charitable mission rather than simply on financial performance (Alexander, 1999; Guy & Hitchcock, 2000; Ryan, 1999). However, commercial strategy and social concerns are often not easily reconcilable. Tensions are often built in the non-profit sector. An example of the tensions can be found in the management of charity shops which are increasingly adopting techniques developed in commercial for-profit retailing to manage stock, such as branding and merchandising for maximizing profit (Parsons, 2004). Goodall challenges that many SSNPOs today are too business-like and have lost their primary purpose of being a not-for-profit organization.
… a sector inhabited by hard-headed profit-motivated businessmen [sic], and by retired women [sic] volunteers motivated by friendship and altruism; a sector in which hundreds of thousands of pounds are spent on external consultants of every variety, while at the same time people try to save pennies by using one tea bag for three cups; a sector in which “charity” is often about maximizing sales and profits for the respective cause, but at other times is about providing a warm and happy place for lonely volunteers, or about making cheap clothing available to “the poor” … are they charities, or shops? Do they exist to make money, to recycle clothing, to keep volunteers occupied, or to provide cheap things for the less well-off? There are, fundamentally, issues of purpose. What are charity shops actually for? (Goodall, 2000: 105-106)

As Kristoffersen and Singh (2004: 30) argue, SSNPOs must not only demonstrate “to do the right things, but also do these things the right way”. Given the need to maintain both commercial and social and community activities, SSNPOs require a strategy that can direct them on when to do the right things and how to do things right simultaneously. This strategy should also be able to guide SSNPOs to utilize their dynamic and unique resources for strategic renewal in the competitive environment and provide them with the unique ability to develop strategic directions that create new opportunities and shape the organizations’ future environment. One way of achieving this is to develop strategies through the lens of intellectual capital (IC).

INTELLECTUAL CAPITAL (IC) AND ITS COMPONENTS

The concept of IC

Edvinsson and Malone (1997: 44) describe IC as “the possession of knowledge, applied experience, organizational technology, customer relationships and professional skills that provide … a competitive edge in the market”. Youndt, Subramaniam, and Snell (2004: 337) define IC as “the sum of all knowledge an organization is able to leverage in the process of...
conducting business to gain competitive advantage”. Marr and Roos (2005) argue that organizations often perform more efficiently and effectively if they understand what IC they possess and how to configure their IC to create organizational value. Organizations are often able to create value for long-term success if they implement strategies that respond to market opportunities by exploiting their intellectual resources (Marr & Roos, 2005). According to these scholars, organizations are able to achieve competitive advantage through IC. 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). In other words, IC is the intelligence that can be found in human beings (or HC), network relationships (or RC), and organizational routines (or SC) in organizations (Bontis, 2002).

**Human Capital (HC)**

HC includes various human resource elements, including attitude, competencies, experience and skills, and the innovativeness and talents of people (Bontis, 2002; Choo & Bontis, 2002; Department of Industry Science and Resources, 2001; Fletcher, Guthrie, Steane, Roos, & Pike, 2003; Guerrero, 2003; Roos & Jacobsen, 1999; Roos, Roos, Dragonetti, & Edvinsson, 1997). HC represents the tacit knowledge that is embedded in the minds of people in organizations (Bontis, 1999; Bontis, Crossan, & Hulland, 2002).

Schultze and Stabell (2004) assert that tacit knowledge must be managed if the growth and competitiveness of a firm is to be sustainable. HC helps organizations to effectively respond to environmental changes by sensing the need for changes, developing strategies to meet the
changes and efficiently implementing the strategies for complex and dynamic environments (Wright, McMahan, & McWilliams, 1994). Knowledge can only be created by humans but not by organizations (Nonaka & Takeuchi, 1995; Stewart, 1997; Watson, Stanworth, Healeas, Purdy, & Stanworth, 2005). HC cannot be owned, only rented (Edvinsson, 1997). HC is important to organizations as it is a source of innovation and strategic renewal (Bontis, 2002; Bontis, Keow, & Richardson, 2000; Webster, 2000).

Individuals carry HC when they join an organization (Grasenick & Low, 2004), though their level of HC theoretically increases with time in the organization. A higher level of HC is often associated with greater productivity and higher incomes or compensation (Wilson & Larson, 2002). It is therefore in the interests of human resource managers to recruit and develop the best and brightest employees as a means of achieving competitive advantage (Bontis, Crossan, & Hulland, 2002). On the other hand, a loss of organizational memory due to individuals’ departure may be a threat to the organization. Individuals take their talent, skills and tacit knowledge with them when they leave an organization (Bontis, Keow, & Richardson, 2000; Grasenick & Low, 2004; Roos, Roos, Dragonetti, & Edvinsson, 1997). Thus HC is much more volatile in nature (Edvinsson, 1997) than the other two IC components.

Relational Capital (RC)

Schiuma, Lerro, and Carlucci (2005) argue that all organizational relationships involve a knowledge exchange and these relationships can be considered as organizational knowledge assets. RC represents the knowledge embedded in relationships external to an organization (Bontis, 1998; 2002). RC incorporates: the loyalty of valuable customers; the mutual trust and commitment given by key suppliers and clients; the reliability and reliance partnership from
alliance or contractual partners; and the reputation and relationships that an organization has developed over time in its surrounding community (Knight, 1999). Also, RC covers the concept of formal and informal relationships (Marr & Roos, 2005). Formal relationships may include alliance agreements or distribution arrangements and informal relationships may cover relationships with potential employees or a local community.

RC is about an organization’s relations with its external stakeholders and the perceptions that they hold about the organization, as well as the exchange of knowledge between the organization and its external stakeholders (Fletcher, Guthrie, Steane, Roos, & Pike, 2003; Grasenick & Low, 2004; Marr & Roos, 2005). As defined by Anheier (2005: 227), stakeholders are “people or organizations that have a real, assumed, or imagined stake in the organization, its performance, and sustainability”. Accordingly, RC acts as a multiplying element creating value for the organization by connecting HC and SC with other external stakeholders (Fletcher, Guthrie, Steane, Roos, & Pike, 2003; Ordóñez de Pablos, 2004b). As Knight (1999: 24) argues:

… as investments are made in human capital, more competent and capable people develop better structural capital for an organization. Improved human capital and structural capital go on to create more productive external [relational] capital through the delivery of better products and services to high-value customers … a virtuous cycle begins its upward spiral into further organizational value and growth.

However, owing to the fact that RC is external to the organization, it is possibly the most difficult IC component to codify and thus to understand (Bontis, 1998, 1999, 2002). This makes RC not only difficult to manage, but also impossible to control (Knight, 1999). In short, RC is the flow of knowledge from an organization to the external environment of knowledge, such as reputation and influence over the distribution channel, suppliers, clients as well as governments and industry associations.
Structural Capital (SC)

The third component of IC is SC, which refers to the learning and knowledge that are enacted in day-to-day activities. It is the pool of knowledge that remains in an organization at the end of the day after individuals within the organization have left (Grasenick & Low, 2004; Mouritsen & Koleva, 2004; Roos, Roos, Dragonetti, & Edvinsson, 1997). SC includes all of the non-human storehouses of knowledge in organizations, such as databases, process manuals, strategies, routines, organizational culture, publications, and copyrights which creates value for organizations, thus adding to their material value (Bontis, Keow, & Richardson, 2000; Guthrie, Petty, & Ricceri, 2006; Ordóñez de Pablos, 2004b). SC is the supportive infrastructure for HC and RC. For instance, Cray and Mallory (1998) argue that organizational culture provides guidelines and expectations for members of an organization which likely lead to loyalty or disloyalty to the organization. Thus SC deals with the mechanisms and structures of organizations which, if managed effectively, can assist individuals in their quest for optimum intellectual performance and that may ultimately enhance overall organizational performance (Bontis, 1998, 2002; Department of Industry Science and Resources, 2001).

SC arises from organizational processes and routines, reflecting external and internal foci of the organization at the present time but also stressing strategic renewal and development value for the future of the organization (Bontis, Keow, & Richardson, 2000). Unlike HC and RC, SC can be owned and traded by an organization (Edvinsson, 1997). This is because some of the intellectual assets may be legally protected and become intellectual property rights which are legitimately owned by the organization (Fletcher, Guthrie, Steane, Roos, & Pike, 2003).
Both internal and external aspects of intellectual resources are critical to strategic decisions in organizations (Hickson, Butler, Cray, Mallory, & Wilson, 1986). Bontis (1998) argues that the overall IC of an organization will be significantly diminished if the organization’s SC is poorly developed. If HC and RC are leveraged by SC in organizations, the overall IC of the organizations has the potential to be multiplied (Edvinsson, 1997). Accordingly, managers should go beyond the traditional way of managing knowledge; that is, not only building the SC in information technology systems, but also focusing more on what the systems can do to continuously enhance knowledge.

Defining the three IC components separately does not suggest that the components are completely separated constructs. Rather, the single concept of IC is a multi-dimensional construct and the three IC components are inter-dependent (Subramaniam & Youndt, 2005; Youndt, Subramaniam, & Snell, 2004). Thus, IC is designed to be synergetic. It becomes meaningless to attempt to assess the value of the constituent parts of IC by simply adding them together (Peppard & Rylander, 2001). That is why it is essential to gain a better conceptual and operational appreciation of what it means to strategically manage knowledge in organizations (McCann III & Buckner, 2004).

Although IC is often described as being able to enhance organizational competitive advantage, the characteristics of IC offer more than just competitive advantage to organizations. In fact, the combination, utilization, interaction, alignment, and balancing of the three types of IC, along with knowledge flow between the three components, provide strategic advantage with the best possible value to organizations. In the next session I argue that the IC concept helps SSNPOs to gain strategic advantage by reconciling their commercial objectives and social mission in strategy development processes.
THE IMPORTANCE OF IC IN THE SOCIAL SERVICE NON-PROFIT CONTEXT

IC in SSNPOs

Despite that the concept of IC was first developed as a framework to analyze the contribution of intellectual resources in for-profit organizations, the concept is also applicable in the social service non-profit context. This is because SSNPOs’ primary objective often focuses on investing in people rather than profit; and that objective is in line with the characteristics of IC, which focus on non-financial intellectual resources. Roos (1998) argues that although IC may superficially be concerned with competitive advantage in organizations, it has a deeper purpose.

The deeper purpose of an IC approach is to change people’s behavior, not least through changing the corporate language. The concept of IC brings with it a whole set of new values about what is good and what is bad management, what is the right and the wrong things [sic] to do in corporations [emphasis added] (Roos, 1998: 151).

Values embedded in IC are essential to SSNPOs particularly in times of NPM-type reforms. As emphasized earlier in this paper, NPM carries with it values consistent with value for money and competition, causing threats to SSNPOs’ primary objective of investing in people. Commercial contract environments under NPM have distorted SSNPOs’ objectives to focus primarily on financial performance in their strategy development (Backman, Grossman, & Rangan, 2000). The IC approach, however, forces non-profit managers to rethink their mission and their social raison d’être. This is because IC relates to questions about identity, such as “who you are, and what you want to be” (Mouritsen, Larsen, & Bukh, 2005: 12) and thus, IC is not merely an objective in relation to intellectual resources, but an identity crafted around ability and knowledge of what an organization can and should do (Mouritsen, Larsen, & Bukh, 2005; Roos,
Roos, Dragonetti, & Edvinsson, 1997). In other words, IC helps SSNPOs to address the dilemma of balancing social and commercial objectives by placing social dimension back at the center of their strategy. This is important to SSNPOs under NPM conditions since many of them have forgotten that social dimension is the raison d’être of the organizations’ existence.

IC is concerned with the control and alignment of human and non-human knowledge flow across organizational levels in order to create value for organizations (Choo & Bontis, 2002; Petty & Guthrie, 2000). This conceptualization stresses the internally generated, historically forged efficiencies that have a long term horizon through the knowledge, skills talents and know-how of individuals not only in for-profit organizations (Bukh, Johansen, & Mouritsen, 2002; Mouritsen, Larsen, & Bukh, 2005), but also in SSNPOs. Thus, IC helps to shift SSNPOs’ strategic focus to intellectual resources including knowledge, skills and experience. This is important to SSNPOs because strategic activities and changes that are brought to the organizations will be mainly driven by internal initiatives by paid employees and volunteers rather than external forces such as government agencies. Resistance to those strategic activities and changes by volunteers and employees is likely to be lowered. In other words, IC not only assists SSNPOs to compete for public support and limited resources with organizations within and across the sector for volunteers, employees, funding and donations, but also helps the organizations to utilize their existing resources and generate new resources effectively in the knowledge-based economy.

Most organizational resources have either decreasing or increasing returns through their lifetime (Peppard & Rylander, 2001). For instance, a tangible asset depreciates with usage and each single entity is usually limited to defined tasks (Webster, 2000). IC, on the other hand, does not decrease in value with usage. Peppard and Rylander (2001) argue that IC resources can be
utilized simultaneously by many users in different locations at the same time and therefore they are non-competitive in an economic sense. This is because when IC is articulated and challenged, new knowledge may be developed. Thus, IC is often characterized by “increasing returns”; that is, value generated increases per incremental unit of investment (Bradley, 1997; Peppard & Rylander, 2001). The non-competitive characteristic of IC is important to SSNPOs because IC may encourage resource sharing rather than resource competition.

Nørreklit (2000) asserts that if a model is to be effective in an organization, the model must be rooted in the language of the organization’s people and communicated to all parts of the organization. This draws another important point, that if a model is to apply in SSNPOs, it must be kept simple and easy to use or disseminate through the whole organization. Bontis, Dragonetti, Jacobsen, and Roos (1999) argue that IC is flexible and easy to understand because it represents the collection of intellectual resources and their flows. Accordingly, IC can serve as a simple conceptual framework in strategy development for SSNPOs that requires relatively little interpretation.

The essential role of IC in strategy development is not merely about formulating strategies for resource allocation; for example 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 organizations that have a better understanding of how their intellectual resources interact are more able to create value for long-term success. Their perspective on organizations implies that a better understanding of the interrelationships among the three types of IC will also assist non-profit managers to develop strategies that create value for their organizations in the future. If non-profit managers are provided with accurate and
timely information of what capability their organizations hold and lack, they are able to formulate and implement strategies that best fit their circumstances.

On the contrary, failing to account for IC may lead to a misallocation of intellectual resources and run the risk of making poorly informed decisions, which lead to weak strategy development processes, high employee turnover, inadequate training and development, inexperienced top management teams, and inability to turn data into information in SSNPOs.

**HC in SSNPOs**

HC is important to SSNPOs. Wallis and Dollery (2005: 488) argue NPOs’ “performance depends most crucially on the quality of leadership exercised at the top by their presidents, CEOs, or executive directors”. Hambrick, Finkelstein, and Mooney (2005) also echo this, arguing that top executives often rely on their personal experiences or internalize the knowledge and skills through other leaders’ actions to make strategic decisions. Whether it is personal experiences or internalization, the concept of leadership reflects the professional knowledge, skills and experience that leaders embraced. This is in line with Finkelstein and Hambrick’s (1996) argument that leadership is a unique resource that represents the professional knowledge and skills of individuals (such as CEOs or senior executives), groups (such as top management teams) or other governance bodies (such as board of directors) in organizations. Accordingly, HC is significant to SSNPOs since leaders’ decisions had considerable influence on strategic choices, organizational designs, and ultimately, organizational performance. Thus leadership plays a significant role in strategy development processes in SSNPOs. This connects with research in the area which finds that the performance of SSNPOs is highly dependent on leadership skills (Nanus & Dobbs, 1999; Wallis & Dollery, 2005).
Also, social services required face-to-face interactions and such interactions involve substantial interpersonal skills and tacit knowledge from non-executive members in SSNPOs. Since the ability of SSNPOs to achieve their objectives depends heavily on their non-executive members’ competency, those SSNPOs that have the strongest base of skilled and experienced non-executive members are in the best position to raise the largest sums of funding (Hudson, 1999). In short, SSNPOs rely heavily on HC to achieve their social objectives.

**RC in SSNPOs**

RC is deemed to be critical to SSNPOs. The existence of multiple constituencies in SSNPOs has been acknowledged by a number of scholars in the non-profit literature (e.g., Anheier, 2005; Herman & Renz, 1999; Kanter & Summers, 1987). External relationships are crucial to SSNPOs since the organizations are operating in an environment that has multiple groups of external stakeholders (Kristoffersen & Singh, 2004). SSNPOs rely heavily on outside funding, volunteer support, alliance partnerships and public trust for legitimacy (Alexander, 1998; Balser & McClusky, 2005). The organizations can gain strategic advantage if they are able to nurture or enhance the knowledge that their external stakeholders hold about their organizations. RC helps to create value by connecting HC and SC with external stakeholders (Knight, 1999; Ordóñez de Pablos, 2004b).

As environmental turbulence in the form of social and economic change generates unintended consequences, single organizations can be weak or unprepared (Mulroy, 2003; Selsky & Parker, 2005). SSNPOs may benefit more from collaboration rather than competition (Huxham & Vangen, 2005). Such benefits may include sharing resources and risks, increasing
efficiency, enhancing co-ordinations, facilitating mutual learning and nurturing expertise from working collaboratively with other stakeholders.

An example of how RC may create value to SSNPOs by connecting other IC components can be found in community relationships. Community relationship strategies are essential for SSNPOs because they are critical for achieving legitimacy from the public (Ospina, Diaz, & O'Sullivan, 2002). One justification is that prospective employees and volunteers are more willing to join an organization with a strong community reputation (Hamori, 2003; Martin, Beaumont, Doig, & Pate, 2005). On the contrary, if external relationships are not managed effectively, SSNPOs may end up losing valuable external resources such as volunteers and donations as well as their legitimacy (Alexander, 1998; Ospina, Diaz, & O'Sullivan, 2002).

SC in SSNPOs

Unlike HC and RC, SC is important to organizations because it represents the only knowledge stock that remains in organizations at all times (Grasenick & Low, 2004; Mouritsen & Koleva, 2004; Roos, Roos, Dragonetti, & Edvinsson, 1997). Many IC researchers argue that SC, if positively utilized, adds value to organizations by reducing cost and improving services and/or products and thus, creating a long lasting competitive advantage to organizations (e.g., Brynjolfsson, Hitt, & Yang, 2002; Mouritsen & Koleva, 2004; Ordóñez de Pablos, 2004a; Wang & Ahmed, 2003). Mouritsen and Koleva (2004: 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’”.

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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, 1999). Thus, SC is capable of amplifying the values arising from the other two IC components and multiplying of overall IC (Edvinsson, 1997; Mouritsen & Koleva, 2004). SSNPOs are embedded in an inter-connected network of external stakeholders. Effective management is likely to enhance relationships between SSNPOs and external stakeholders (Balser & McClusky, 2005). To cultivate relationships with a variety of stakeholders with different expectations, Ospina, Diaz, and O’Sullivan (2002) suggest that formal and informal mechanisms should be employed to develop channels for two-way communication between SSNPOs and their stakeholders. Such mechanisms may include organizational culture, missions, values, employee satisfaction surveys, and newsletters. Table 1 provides examples of value creation through interactions in between the three IC components.

In short, IC becomes a valid strategy development conceptual framework to work with NPM drivers. The three IC components assist to create value for SSNPOs in the highly competitive non-profit environment by balancing the utilization and usage of the existing and unborn intellectual resources. This becomes important to SSNPOs in particular in today’s highly competitive non-profit environment.

**AN IC CONCEPTUAL FRAMEWORK AND STRATEGIC ADVANTAGE IN SSNPOS**

Mintzberg, Ahlstrand, and Lampel (1998: 17) argue that strategies are more about what is done than what is written down on paper and thus “[n]o one has ever touched or seen a strategy.”
This means that every strategy can have a misrepresenting or distorting effect. That is the price of having a strategy”. An IC conceptual framework is proposed on the basis of a review of the existing literature. The IC conceptual framework, along with knowledge flow between the three components and with the external conditions in the environment, helps non-profit managers to visualize conceptually where they might put their attention and resources, and provides them broad guidelines on how to seek to maximize the utilization of resources for growth and enhanced performance. Thus, IC is capable of advising SSNPOs when to do the right things and how to do things right concurrently. The framework is shown in Figure 2.

Insert Figure 2 about here

As can be seen in Figure 2, HC, RC and SC frequently interact with each other and that interactions between the three types of IC create value for SSNPOs; that is to reconcile commercial objectives for organizational survival and social mission to meet client needs. Value creation allows SSNPOs to gain strategic advantage in the non-profit environment. The significance of interactions between the three types of IC is evidenced in the argument of Nonaka and Takeuchi:

[K]nowledge is created only by individuals. An organization cannot create knowledge without individuals. [However,] the organization supports creative individuals or provides contexts for them to create knowledge. Organizational knowledge creation, therefore, should be understood as a process that “organizationally” amplifies the knowledge created by individuals and crystallizes it as a part of the knowledge network of the organization. This process takes place within an expanding “community of interaction” which crosses intra- and inter-organizational levels and boundaries [emphasis added] (1995: 59).
The input of new knowledge ("external input" in Figure 2) from external sources, whether they are tacit or explicit in nature, enhances the three IC components in SSNPOs. Examples of new external knowledge may include newly recruited non-profit employees and volunteers who bring in extra skills and experience, an input of novel management concepts from profit-seeking and public sector organizations which lead to renewed policies and work procedures, or newly established relationships with external new stakeholders due to recently explored service areas.

Martin de Holan and Phillips (2004) argue that whenever an organization generates new knowledge, it will likely generate outdated or unwanted knowledge simultaneously. Managers must become skilled at learning new knowledge as well as forgetting unwanted knowledge as managing outdated knowledge can be very costly (Martin, 2000; Martin de Holan & Phillips, 2004; Sirmon, Hitt, & Ireland, 2007). Accordingly, successful SSNPOs should divest themselves of outdated or unwanted knowledge, which applies to the three types of capital. The IC conceptual framework visualizes how outdated or unwanted knowledge is eliminated through an "internal output". From a strategic point of view, internal knowledge may be lost intentionally and unintentionally (Kong, 2003). Some of the examples of intentional reduction of knowledge include throwing out an outdated user manual, terminating an alliance with a partner or reinventing a new organizational image. Voluntary employee turnover (not lay-off), however, is an example of loss of knowledge unintentionally.

In the IC conceptual framework, value is generated through the interactions of the three primary IC components, along with the knowledge flow and the "external inputs" and "internal outputs" of knowledge. Accordingly, the management of IC is not only about knowledge creation, but also knowledge lost (Caddy, Guthrie, & Petty, 2001). SSNPOs need to be able to
remove outdated and unwanted knowledge, plan for the acquisition of knowledge or assess areas of knowledge weaknesses. This would provide non-profit managers with an up-to-date understanding of intellectual resources which would facilitate a better decision-making process.

The IC conceptual framework also highlights the importance of external environment to SSNPOs. External environment is crucial to SSNPOs’ ability to function (Giffords & Dina, 2004). In this paper external environment refers to any factor or trend that is external to SSNPOs but which has direct or indirect impact on the organizations’ day-to-day operations and strategies. SSNPOs might have direct or indirect influence over some of their external environment. For instance, SSNPOs may be able to enhance their public image through their public relations activities. However, more often the organizations have no or very little power to prevent and control external factors. This environment includes global economic crises such as the Asian economic crisis of 1997-1998, change of technology such as online donations through internet, malicious events such as the 9/11 attack on the United States in 2001, natural disasters such as the Asian tsunami in 2004, and unconnected scandals such as sexual abuse lawsuits launched against Roman Catholic priests in the United States.

External environment conditions might be perceived as opportunities as well as threats to organizations (Weihrich, 1982). In the social service non-profit context, external environment might instantly increase the demand for charitable activities which puts immense pressures on non-profit resources or they might create opportunities for SSNPOs to enhance efficiency. Although the influence of the external environment in SSNPOs may not be readily seen frequently, its impact to the organizations can be profound. Sull (2005) argues that major opportunities and threats often emerge sporadically and thus, what executives do during the lulls in external developments often matters more than the dramatic actions taken during times of
crisis. Accordingly, whether SSNPOs are capable of capturing the opportunities (or eliminating the threats) will depend strongly on the capabilities of the organizations. Sull (2005) puts forth that leaders must probe the future and remain alert to anomalies that signal potential threats or opportunities during the lulls. Thus, when an opportunity or threat emerges, their organizations will be in the best position to face the challenges from the threat or concentrate resources to seize the opportunity. The emphasis of external environment in the IC conceptual framework allows non-profit managers to fully recognize the capabilities of their organizations for future challenges.

**STRATEGIC IMPLICATIONS**

The proposed IC conceptual framework provides several strategic implications to SSNPOs. Firstly, the framework helps SSNPOs to maintain a dynamic and flexible strategy. Strategic change is a fact of life, it is unrealistic to believe that non-profit managers can plan everything and the intellectual resources that their organizations embrace will always be sufficient to face future challenges. Thus an effective strategic management framework must be able to reveal the mysterious mechanisms that lead to the formulation of strategy and to its evolution over time (Hafsi & Thomas, 2005). The IC conceptual framework suggested in this paper emphasizes the stocks and flows of knowledge within and outside the organizations in order to maximize value creation. External new knowledge comes into individual IC component one at a time or simultaneously. The knowledge flows from one IC component to the others before it is transformed into value to SSNPOs; that is to reconcile the commercial objectives and social mission in the organizations. Accordingly, the framework realistically offers not only the opportunity for SSNPOs to focus on peripheral vision and broad strategic direction, but also to
maintain flexibility when changes of strategies are needed. In other words, the framework helps to unveil the inner workings of the black box that guides strategy formulation and its development over time.

Secondly, the IC conceptual framework enables SSNPOs to prioritize strategic resources. Even though strategic decisions by definition are important, some are of more importance than others (Cray, Mallory, Butler, Hickson, & Wilson, 1991). Since IC is a dynamic concept (Bontis, Dragonetti, Jacobsen, & Roos, 1999), 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 managers to constantly re-think, re-design, re-organize and review the intellectual resources in their organizations’ strategies for value creation (Klein, 1998). Thus the framework enables non-profit managers to have a complete and up-to-date picture of what capabilities their organizations embrace. With the updated organizational capabilities in mind, non-profit managers are able to prioritize and refocus their organizational resources towards their strategic objectives.

Thirdly, the core value is placed at the center of the model. This enables people in SSNPOs to direct their energy towards the same organizational goals. As argued by Letts, Ryan and Grossman (1999), having the mission and values truly shared is the biggest challenge in NPOs. This IC conceptual framework therefore helps to achieve a strategic alignment between organizational strategy and value creation in SSNPOs.

Finally, the framework emphasizes the importance of external knowledge input and the significance of internal knowledge divestment. This helps to create a learning culture within SSNPOs by realizing the value of acquiring new external knowledge and retaining useful internal knowledge. One could also argue that by creating a culture that assesses their status on a
regular basis and is willing to divest itself of outdated knowledge is more willing to accept change. This implies a greater flexibility within the organization to adapt to crisis or new opportunities. As a result, this learning culture will enable them to better deal with new challenges.

For over two decades, the attention of the non-profit sector has largely leaned towards financial measurement as a result of NPM. Commercialization has increasingly become a key focus in many SSNPOs. The shift has dangerously threatened the social mission of the organizations. This paper takes an initial step to propose an IC conceptual framework which helps non-profit managers to visualize the importance of knowledge as a strategic resource in SSNPOs. The framework also explains how strategic advantage can be obtained through the utilization of knowledge in the organizations. As put forth by this paper, IC redirects non-profit managers’ attention to qualitative intellectual resources rather than quantitative performance measurement; and value creation instead of financial management. Thus, IC aids SSNPOs to refocus their objectives on social questions, which are sometimes distorted by operating in commercial contract environments. In other words, IC helps SSNPOs to reconcile their social and commercial objectives.

CONCLUSION

Knowledge is power and that power has not diminished throughout the ages. The importance of knowledge cannot be understated and is recognized as a key factor in the success of organizations in the knowledge-based economy. This contention has been recognized by researchers in the for-profit environment but too little research has been conducted out in the non-profit environment; particularly in the social service non-profit context. For this reason, I
have taken an exploratory step applying IC as a strategy development concept in SSNPOs. The IC conceptual framework that I proposed in this paper offers non-profit managers a clear and more holistic understanding of the role of IC and the interrelationships between the three IC components. Through the IC components, non-profit managers are able to better conceptualize the strategic significance of their organization’s intellectual resources and knowledge management activities. As IC embraces a comprehensive viewpoint of both internal and external aspects of intellectual resources that are embedded in the personnel, organizational routines and network relationships, the IC conceptual framework provides non-profit managers a better understanding of the internal and external issues in their organizations. The IC conceptual framework suggested in this paper represents a significant addition to our understanding of IC and its components within the social service non-profit context. Further research involving specific non-profit sub-sectors and methodologies needs to be carried out to empirically test the findings in this paper.
REFERENCES


CSU Research Output
http://researchoutput.csu.edu.au


Resource Providers*  
- Resource Provider 1  
- Resource Provider 2  
- Resource Provider 3

Consistent usage of existing resources and generation of new resources  

Social Service Non-profit Organization  

Existing Resource

Beneficiaries
- Beneficiary 1  
- Beneficiary 2  
- Beneficiary 3

* Resource providers may include government grants, corporate and individual donations, volunteer supports and any other form of tangible and intangible resources from any provider.
FIGURE 2
An IC Conceptual Framework in Social Service Non-profit Organizations

Knowledge gained through external input
Knowledge lost due to internal output
Knowledge flows between IC components

Value Creation
Meeting Clients Needs
Strategic Advantage
Meeting Organizational Needs
TABLE 1
Examples of Value Creation through the Interaction of IC Components in Social Service Non-profit Organizations

<table>
<thead>
<tr>
<th>Knowledge transfers from Human Capital to Relational Capital</th>
<th>Knowledge transfers from Relational Capital to Structural Capital</th>
<th>Knowledge transfers from Structural Capital to Human Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non-profit staff members present research papers on behalf of their organization at international seminars/conferences</td>
<td>• Client and donor profiles are input into system databases</td>
<td>• Newly recruited non-profit staff members familiarize internal organizational policies/manuals</td>
</tr>
<tr>
<td>• Non-profit staff members are encouraged to rotate jobs in order to meet customers/suppliers</td>
<td>• Clients/Donors fill in organizational survey/questionnaire</td>
<td>• Existing non-profit staff members analyze client profiles in order to understand client needs</td>
</tr>
</tbody>
</table>

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<tr>
<th>Knowledge transfers from Relational Capital to Human Capital</th>
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</tr>
</thead>
<tbody>
<tr>
<td>• Non-profit Staff members conduct face-to-face survey to clients</td>
<td>• A social service non-profit organization makes organizational information publicly available in their organizational website</td>
<td>• Senior management formulates organizational strategic plans</td>
</tr>
<tr>
<td>• 24-hour online enquiry available to the public</td>
<td>• Organizational publications/newsletters are sent to clients/donors</td>
<td>• Non-profit staff members prepare training manuals for newly recruited employees or volunteers</td>
</tr>
</tbody>
</table>