A qualitative analysis of intellectual capital in social service non-profit organisations: A theory–practice divide

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ABSTRACT
The paper contributes to debates on non-profit strategy, first by arguing that intellectual capital (IC) can be utilised as a non-profit strategic management conceptual framework and second by highlighting nuances in the meaning and significance of IC. In responding to the public management agendas of government, non-profit organisations (NPOs) have had to commercialise their strategies. On the basis of data from in-depth interviews with 35 senior non-profit managers across 22 large Australian social service non-profit organisations (SSNPOs), the analysis confirms that IC assists SSNPOs in managing the social–commercial divide, but that managers’ understandings of the IC concept are often different to those contained in the IC literature. IC scholars suggest that IC is synergetic with its components being inter-dependent. The managers perceived that very few inter-relationships existed between IC components. Implications of the theory–practice divide for non-profit strategy are discussed. Research limitations and future research direction are presented in the paper.

Keywords: intellectual capital, social service non-profit organisations, non-profit strategy

INTRODUCTION
Historically non-profit activities were conducted mainly in the context of bureaucratic models of public administration. Since the 1980s the non-profit sector in developed countries has been continuously subject to pressures to commercialise, principally through techniques associated with the ‘new public management’ (NPM) agendas of governments (Bevir, Rhodes, & Weller, 2003; Hood, 1991). For-profit strategic management techniques that are brought to the non-profit sector under NPM have called into question non-profit organisations’ (NPOs’) capacity to pursue social missions (Alexander, 2000; Chetkovich & Frumkin, 2003). Among all organisations in the non-profit field, social service NPOs (SSNPOs) are particularly vulnerable. These include those which deliver social and community services, such as: child welfare, child services and day care, youth services and youth welfare, employment services, family services, services for people with disabilities, and services
for the elderly (Australian Bureau of Statistics [ABS], 2002).

Commercialisation and competition have become common characteristics in the sector, attracting many for-profit organisations to enter the social service non-profit market. Whereas SSNPOs were once rarely contested for the right to provide social services under traditional bureaucratic arrangements, they now compete for contracts with both state and for-profit organisations in order to be able to perform their activities (Brown, 2005; Ramia & Carney, 2003).

Managing the social service non-profit sector has become more complex as SSNPOs in many countries are presented with a challenge to formulate and implement strategic management techniques which allow them to keep their independence and continue to invest in social concerns while also enhancing organisational efficiency. Commercial and social objectives can be harmonised, but they can also clash.

The central objective of this paper is to analyse the utility of intellectual capital (IC) in addressing conflicts between the commercial and social objectives of SSNPOs. IC is used to refer to the many and varied organisational resources that contribute to wealth creation through investment in knowledge, information, intellectual property, and skills and experience (Edvinsson & Malone, 1997; Stewart, 1997). IC is generally taken to encompass three primary, inter-related components: human capital (HC), structural capital (SC) and relational capital (RC) (Bontis, 1998; Dzinkowski, 2000; Saint-Onge, 1996).

This paper focuses on the social service non-profit sub-sector in Australia. As the latest available data from the Johns Hopkins Comparative Non-profit Sector Project indicate, the sub-sector in Australia had the highest of all Anglo countries of full time paid and volunteer equivalent as a percentage of the entire non-profit field, constituting 23.6 percent of total non-profit employment (Salamon, Sokolowski, & Associates, 2004). In the UK the figure was 16 percent and in the US, 22.1 percent (Salamon et al., 2004). This indicates the significant financial contribution made by SSNPOs to the Australian economy.

On the basis of data gathered from in-depth semi-structured interviews with 35 senior non-profit executives across 22 of the largest and most prominent SSNPOs in Australia, the analysis confirms that IC provides a conceptual framework that is useful for reconciling commercial and social imperatives. However, problems in the conception and implementation of IC strategy are common. There are different understandings of the concept of IC among SSNPO practitioners and between the practitioner and scholarly communities. Many interviewees perceived that the central IC components – HC, RC and SC – were mutually independent constructs rather than inter-related components. They had a tendency, therefore, not to take a streamlined IC approach and preferred an atomistic one. This suggests that scholarship on IC has largely been disconnected from real-world non-profit management experience.

The original contribution of the analysis is threefold. First, little systematic research has focused on the role of IC in the non-profit sector, and this paper contributes to filling this gap. Second, the paper suggests that IC has the potential to be utilised with greater effect as a strategic management conceptual framework outside of the for-profit or corporate sector. The discussion extends to make broad suggestions on how the IC concept may be utilised more synergetically in SSNPOs, principally through the utilisation of ‘public value’. Third and finally, the paper highlights the differences in understanding of the concept of IC held by managers and scholarly researchers. In this way the analysis may help in the difficult process of bridging scholarship and practical non-profit experience.

The paper is divided into five sections. First, a brief overview of the IC concept and its components is provided. This is followed in the second section by a short outline of the research methodology used. The findings of the interview programme are presented in the third section. Then,
the implications of the analysis for research and practice in non-profit strategic management are discussed. The final section discusses research limitations and future research.

**INTELLECTUAL CAPITAL (IC)**

**The concept of IC and its components**

Intellectual Capital refers to the many and varied organisational resources which contribute to wealth creation through investment in knowledge, information, intellectual property, and skills and experience (Stewart, 1997). Following the work of a number of scholars in the field, IC is most often taken to encompass three primary inter-related 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).

Human Capital 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). It helps organisations to respond to environmental change by sensing the need for and timing of change (Wright, McMahan, & McWilliams, 1994). Accordingly, HC can be a source of organisational innovation and strategic renewal (Bontis, 2002; Bontis, Keow, & Richardson, 2000; Webster, 2000).

Structural Capital refers to the learning and knowledge that is enacted in day-to-day activities. It points to the pool of knowledge that remains in an organisation at the end of the day after individuals have gone home (Grasenick & Low, 2004; Mouritsen & Koleva, 2004; Roos et al., 1997). SC derives from organisational processes and routines, reflecting external and internal focal-points of the organisation at a point in time, but also stressing strategic renewal and development value for the future (Bontis et al., 2000). SC is made up of the supportive infrastructure for HC, including all of the non-human storehouses of knowledge in organisations, such as databases, process manuals, strategies, routines, culture, publications and copyrights (Guthrie, Petty, & Ricceri, 2006; Ordóñez de Pablos, 2004a).

Relational Capital is about relations with external stakeholders and the perceptions that they hold about the organisation, as well as the exchange of knowledge between the organisation and stakeholders (Fletcher et al., 2003; Grasenick & Low, 2004; Marr & Roos, 2005). RC can help to create organisational value by connecting the other two IC components with external stakeholders (Knight, 1999; Ordóñez de Pablos, 2004a). Examples of RC may include: the loyalty of valuable customers, the mutual trust and commitment given by key suppliers and clients, the reliability of alliances and contractual partnerships, and the reputation and relationships that an organisation has developed over time within its surrounding community (Knight, 1999).

What constitutes IC for one organisation may not be the same for another organisation (Roos, Bainbridge, & Jacobsen, 2001; Roos & Jacobsen, 1999; Snyder & Pierce, 2002). IC is compatible with the resource-based view’s four attributes of firm resources: it is rare, valuable, costly to imitate, and non-substitutable (Barney, 1991; Hoskisson, Hitt, Wan, & Yiu, 1999; Wernerfelt, 1984). Accordingly, IC is considered context-specific (Bontis, Dragonetti, Jacobsen, & Roos, 1999; Roos & Jacobsen, 1999) and investments in IC are likely to be different depending on the type of organisation (Subramaniam & Youndt, 2005).

Intellectual Capital becomes a factor informing the strategic position of an NPO or corporation (Kaplan & Norton, 2001; Kong & Prior, 2008; Teece, 2002). It gives rise to income in a knowledge-based economy that focuses on the production, distribution, and use of knowledge and information as compared to an industrial-based economy, which emphasises product manufacturing as the necessity for the economic system (Bettis & Hitt, 1995; Nowotny, Scott,
Gibbons, 2001; OECD, 1996). In other words, the IC literature has its roots firmly grounded not only in the resource-based view, but also in aspects of knowledge-based views of the firm (Kong, 2008; Peppard & Rylander, 2001).

Taking HC, SC and RC together, IC represents the collective knowledge that is embedded in the personnel, organisational routines and network relationships of an organisation. IC is thus applicable to any organisation, regardless of whether or not it is profit-oriented (Kong, 2003, 2008). Defining the three IC components separately does not suggest that the components are mutually distinct. Rather, the single concept of IC is multi-dimensional and its three components are inter-dependent (Subramaniam & Youndt, 2005; Youndt, Subramaniam, & Snell, 2004). Ideally, in order to be effective IC should be synergistic. It is only through the combination, utilisation, interaction, alignment and balancing of the three types of IC that the best possible value from the concept can be realised (Nonaka & Takeuchi, 1995).

Mouritsen, Larsen, and Bukh (2005) argue that strategy is at the centre of the IC concept. This is because IC is concerned with accounting for an organisation’s future prospects and not its past performance (Juma & Payne, 2004). In contrast to financial capital, IC focuses on qualitative processes rather than quantifiable results (Edvinsson & Malone, 1997). It concentrates on intangible rather than tangible resources (Klein, 1998). It stresses competence-enhancement but not cash flow improvement (Mouritsen, 1998), and it promotes the creativity possessed by all organisational members to underpin the future non-financial prospects of an organisation (Stewart, 1997). In short, IC is important to organisations not only because it stresses the transformation of individual knowledge into collective knowledge and vice versa, but also it emphasises the transference and conversion of knowledge, external and internal.

METHOD

By its nature IC involves tacit knowledge, which is often ‘non-verbalised, or even non-verbalisable, intuitive, [and] unarticulated’ (Hedlund, 1994, p. 75). Accordingly, IC is notoriously difficult to quantify and thus it calls for qualitatively, reflective discussion (Roos et al., 1997). In addition, the role of IC in non-profit strategy is a relatively new area of scholarly inquiry in non-profit strategic management. A qualitative, exploratory approach is therefore necessary, as it allows flexibility to tap the expected richness of data (Cavana, Delahaye, & Sekaran, 2000; Lee, 1999). Accordingly, in-depth semi-structured interviews of 45–60 minutes were chosen as the central instrument. Relevant documents and archival data, such as annual reports, strategic plans, organisational websites and mission statements about the organisations were also collected to provide triangulation of reference material for thematic analysis and for post-research inquiry (Creswell, 2003).

As previously mentioned, Australian SSNPOs are the focus in this paper. Potential NPOs were selected on the basis that they were recognised as not-for-profit entities under the income tax, fringe benefits tax (FBT) and goods and services tax (GST) laws in Australia, and thereby received charity concessions for their income. The charity concessions in relation to the potential organisations were and are publicly available from an Australian government website (http://www.abr.gov.au). In addition, the organisations delivered social services directly to their clients in Australia, had at least 5 years of history, a formalised structure and strategic planning processes. As argued by Edvinsson and Malone (1997), and Mayo (2000), a relatively long history of establishment, formalised structures and hierarchies, such as managers and subordinates, organisational websites, mission statements and organisational objectives would allow collective knowledge that was embedded in the personnel (or HC), organisational routines (or SC) and network relationships (or RC) of an organisation to be liberally utilised and accumulated.

Based on the selection criteria, 55 SSNPOs were contacted, first via e-mail explaining the purpose of the study and then by telephone to

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allow potential interviewees to clarify questions. These organisations covered a wide range of social services, which included child welfare, child care services, youth services and youth welfare, family support services, services for people with disabilities, services for the elderly and emergency services.

The study also focused on interviewing senior executives who were 'elite' participants and occupied key strategic management position within their organisations (Welch, Marschan-Piekkari, Penttinen, & Tahvanainen, 2002, p. 613). According to Welch et al. (2002), 'elites are synonymous with top management' (p. 613), who can provide rich, textured and authoritative information on such matters as an organisation's policies, history, plans for the future, legal and financial structures, and its relationship to other organisations, as elites are often considered to be influential, prominent, and/or well-informed people in their organisation (Marshall & Rossman, 1999; Welch et al., 2002). All this information is critical to the research study.

In total 35 senior executives (16 women and 19 men) from 22 organisations agreed to participate. To maintain confidentiality, all interviewees' names, contact details and titles were omitted (Chell, 2004). Instead each interviewee was assigned a code (e.g. Exec-1, Exec-2, and so on) and the numerical order is not indicative of interview chronology. A summary of the participant inventory as well as the key funding sources of all the participating SSNPOs is available in Appendix 1.

An interview guide was developed for the interviews, which is available in Appendix 2. The guide was divided into three sections: (1) participant background, (2) NPM and existing strategic management and (3) IC and its components. Before each interview was conducted, interviewees were explained the definitions of the key terms that would be used in the interview and given sufficient time to ask questions prior to the commencement of the interview. Then interviewees were asked a range of questions regarding the role of IC as well as each of its components as a strategic management conceptual framework in their organisation and in their experience. The interview questions necessarily ranged widely and were organised with flexibility, stemming from a broad review of the contemporary literature and secondary source documents such as annual reports, organisational websites and newsletters from SSNPOs themselves. All interviews, including telephone interviews, were audio-taped. To maximise validity and reliability of the interview data, all interviews were conducted and later transcribed by the first author of the paper only (Grindsted, 2005). However, the second author had access to the interview data at all times during the research process. Interviews were conducted over a 10-month period.

Consistent with Strauss and Corbin (1990, 1998), data analysis was ongoing through the interview process with the objective of theoretical saturation. Systematic, detailed comparisons across all interviews were made, employing matrices to identify theoretical saturation point (Charmaz, 2003; Richards, 2005; Strauss & Corbin, 1998). Earlier analyses provided focus for later interviews. The saturation point was reached after 27 interviews, meaning little or no pertinent or new data emerges from further discussion; 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). A further eight interviews were conducted to allow an objective view to test the level of saturation and validate the emergent categories. No new data emerged from the eight interviews.

FINDINGS AND DISCUSSION

The role of IC in SSNPOs under NPM

Social service non-profit organisations are becoming more business-like under the influence of NPM, with executives often torn between their social missions and commercial realities. The
result of the dilemma is demonstrated in the words of one interviewee:

… what I am doing everyday is walking the fine line between being a business and charity. [Many of the] things that can happen in the business world … are unacceptable in our environment. We do not reduce our headcount by 10% because we want to generate more profit. There is a conflict of values in there [for us] in terms of being more business-like and being a not-for-profit. (Exec-27)

Many of the participants (e.g., Exec-7, 8, 21 and 29) perceived that under NPM conditions they were powerless to alter the government’s policies on competitive tendering and contracting out:

When you look at the effect of competitive tendering on our sector the way that the government decides who can speak and who can’t and the way that the government speaks about the sector, we can do nothing because they define who we are and how we are related with each other and the government. (Exec-29)

We want to have a relationship and integrity and not the kind of things that you think you hold on the money and so you hold on the power. [But] the reality in Australia is that the Federal government has outsourced so much in service delivery in the community … we’ve got to do what they [the government] say. (Exec-8)

Social service non-profit organisations’ charitable purposes and altruistic beliefs are sometimes challenged under NPM. The challenge is demonstrated in the following quote:

We want to compete for government contracts but at the same time we have lost our passion … the sector has become so business-like that it doesn’t capture the passion … it doesn’t capture the reason why people want something to be happening in the area … it just changes the whole nature. (Exec-17)

As SSNPOs’ objectives on social questions are sometimes distorted by NPM conditions, rethinking and refocusing of the organisations’ identity may assist non-profit managers to prepare for future challenges. IC is embedded within questions of identity, such as ‘who you are, and what you want to be’ (Mouritsen et al., 2005; Roos et al., 1997). It is not merely an objective in relation to intellectual resources, but an identity crafted around ability and knowledge of what an organisation can do. The development and harnessing of IC in SSNPOs may encourage non-profit leaders to continuously re-think, re-design, re-organise and review intellectual resources with a view to value creation. The following quote demonstrates the point:

The [non-profit] sector has grown exponentially through the contract culture but what we need to do is probably to re-think about what we do best, re-group ourselves and re-build our relationships with governments and corporations. (Exec-29)

Quantitative financial measurement has become a common approach of many SSNPOs. This is a common element of NPM (Pollitt, 1995, 2002). IC may help to balance financial management and human concerns because it stresses qualitative, non-economic indicators for future strategic prospects (Edvinsson & Malone, 1997; Roos, Pike, & Fernström, 2005). It redirects non-profit leaders’ attention to qualitative intellectual resources for value creation, to provide an accompaniment to quantitative performance management:

Clearly if you haven’t got any good ideas or what you call intellectual capital, you won’t know what you are doing and you’re not respecting the rights and the needs of your service users. So even if you have got money you may not fulfil your social objectives. (Exec-21)
Under commercial contracts, SSNPOs are often surrounded by demands to campaign for change and to deal with mandated tedious administrative procedures, such as filling out tedious tendering applications (Cunningham, 2001; Hudson, 1999). The need to invest in learning in these organisations can be neglected:

There are a lot of issues to do with compliance and reporting accountability under the contract culture. We end up under pressure to deliver an evaluation or a report that ticks the box to say we’ve delivered what you want us to deliver as the provider. Whereas in a true partnership everybody would be interested in learning experiences and if things weren’t delivered, people would want to know about that and they’d want to know what went wrong and learn from their mistakes so that they could do better next time. The current evaluation or reporting frameworks really don’t allow that. (Exec-28)

Intellectual capital helps to cultivate individual learning, aiding the organisation to realign its primary objectives towards a social mission through knowledge acquisition:

It’s important that we build the capacity of our organisation through learning and development strategies. We build our capacity not just in direct service delivery but also in social advocacy. We build skills and relationships with the community so that we focus upon social change as well as resolving individual problems that people might come to our services with. (Exec-19)

Intellectual capital is concerned with the alignment of human and non-human knowledge flow across organisational levels for value creation (Kong & Thomson, 2006, 2009). Thus it provides non-profit leaders a more holistic picture of what capabilities their organisations embrace:

It is the understanding of the holistic nature of intellectual capital. Getting the greatest integrated systems and a bigger picture in order to get a grasp of what the assets that the organisation has and not just in terms of human capital, but also all other things and … without those infrastructure capacities we just can’t do what we need to do. (Exec-16)

In sum, managing the effects of NPM requires attitudinal shifts, and IC can help. Roos (1998) argues that ‘[t]he 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 … [and thus] the deeper purpose of an IC approach is to change people’s behaviour’ (p. 151). IC helps to better inform non-profit managers of what is important to them and what they are capable of accomplishing now and in the future:

Knowing your intellectual resources gives you the opportunity to do an environmental scan. Not only that you know what could happen internally and externally in a range of areas, but also it gives you an opportunity to look at government policy and look at what is happening in states and overseas, what are some of the trends might be and where things might be going in the future. (Exec-5)

Understanding of the three IC components
The interviewees had understandings of the three IC components that were substantially different to conceptions offered by scholars in IC field. The scholarly literature on IC stresses that the three IC components are similarly important and interdependent. The interviewees, however, often perceived that HC stood out on its own as the most important IC component, and that SC was the least significant. RC was seen as important, though mainly in relation to equipping organisations to compete.

Interviewees’ perceptions of HC
For most participants (e.g., Exec-1, 5, 8, 15 and 21), HC constituted the collective tacit knowledge, competencies, experience, leadership skills
and talents of paid staff members and volunteers at all levels. Tacit knowledge was viewed as being embedded in the minds of non-profit employees’ knowledge:

… the knowledge that our staff have in dealing with issues such as homelessness … and because they have been doing that for so long they are totally involved with the issues of homelessness. They can advise on various strategies on the issues of homelessness and why those strategies are important. In other words, our strategic planning is informed by precisely what is happening on the ground rather than being detached from what is happening on the ground. (Exec-15)

Contributions from volunteers were also deemed important HC ingredients, particularly in a changing environment:

The whole volunteering concept has changed. … Now volunteering is much more an intellectual thing. We have railway and road signs and posters, but all the design is done by volunteer basis … People [volunteers] are very creative and they volunteer all kind of expertise. It distinguishes them from the older kind of volunteering such as folding envelopes and stamps. It is a totally different concept now. (Exec-8)

Leadership, a key component of HC, is a unique resource that represents the professional knowledge and skills of staff in influential positions, as one interviewee reflected:

Leadership represents the knowledge that enables leaders to do strategic planning as well as the analysis, the assessment, and then the dissemination of the plans. All these are about human capital and that is why human capital is essential to the strategic development and management of the organisation. (Exec-21)

Many interviewees (e.g., Exec-2, 8, 9, 14 and 35) argued that social services required face-to-face contact, and thus called for a high degree of interpersonal skills and tacit knowledge. These participants believed that their sector consisted of ‘people organisations’, and thus HC was crucial to organisation and sector performance:

Human capital plays a significant role because we are a people based organisation. Without people we can’t deliver. … All of our services are based on people delivering services at the front line of caring for people. Whether it’s in a nursing home or a welfare office, whether it’s a volunteer working in a specific area, it’s all about people and their knowledge in the front line, that’s what we do. We’re a people organisation. (Exec-35)

At the end of the day we are a people organisation and we don’t sell products. We deliver services to the community and the interface between the community and us is through our people. The skills of people that we have in order to achieve outcomes are critical. (Exec-14)

Some stressed that HC was remarkably important and thus it was the key to the other two IC components:

The reason that would make me go for human capital first is you can’t have relational and structural capital unless the knowledge of individuals is in place and that knowledge is truly the only asset the organisation has. (Exec-10)

Consequently, investment in organisational resources should be geared primarily to HC rather than either of the two other IC components:

Any money that is extra and is not something that is out of the existing budget, we will use it for hiring more workers [non-profit employees] or training existing staff. (Exec-18)

… When NPOs have funding available, the money tends to go to human capital. (Exec-15)

This perspective, as argued in the fourth section of the paper, can displace IC as a whole. As
 interviewees generally suggested, it can result in under-emphasis on SC.

**Interviewees’ perceptions of SC**

By definition, SC includes all of the non-human storehouses of knowledge in an organisation (Bontis et al., 2000; Guthrie et al., 2006; Ordóñez de Pablos, 2004a). Remarkably, only two out of the 35 interviewees indicated that SC was important to their organisations:

Structural capital to us is about having systems in place to do what we do. We are a large organisation with turnover [$$] million dollars a year. Having appropriate financial management systems and databases can help us to effectively manage our finance. (Exec-16)

We make decisions based on a computerised database program. That is important to us. (Exec-11)

However, the rest of the participants generally perceived that SC was inconsistent with SSNPOs’ branding and self-image as ‘people organisations’. Thus interviewees were generally not motivated to invest in their SC, suggesting that it might be inconsistent with the pursuit of social service agendas:

We are not in the game to say we would invest in organisational [structural] capital so that we could raise profits and pay our shareholders more money. That is not our basis. The whole function of our organisation is to deliver services and we just need simple tools to do that. (Exec-24)

Structural capital remained in a complementary rather than central role for most participants (e.g., Exec-2, 6, 10, 14, 18, 23 and 24), and in some cases it was ascribed a minimal role in non-profit strategic management as it diminished other key resources such as time (e.g., Exec-2, 5, 6, 7, 13 and 24). As one interviewee put it:

They [structural capital elements] are generally unnecessary and will only cost more time and paperwork ... you know all the manuals are on the shelf and no one uses or updates them. In my area, some programs are mandatory to have these [written policies and manuals] in order to receive government funding. In other areas, we are just talking about doing them. So we have a different level of acceptance. (Exec-5)

The interviewees’ views of SC generally differed to perceptions of SC in the scholarly literature. According to some writers, 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’ (Mouritsen & Koleva, 2004, pp. 178–179). Thus for IC scholars, SC adds value to organisations by minimising operating costs and improving services and/or products and is consistent with the pursuit of long-term strategic advantage (Agndal & Nilsson, 2006; Mouritsen & Koleva, 2004; Ordóñez de Pablos, 2004b).

As discussed in the fourth section of the paper, attempting to leverage HC participants’ different understanding of the SC concept may present significant challenges to SSNPOs. They also have important implications for the leveraging of RC.

**Interviewees’ perceptions of RC**

Relational capital represents the relationships between an organisation and its external stakeholders as well as the exchange of knowledge between them (Fletcher et al., 2003; Grasenick & Low, 2004; Marr & Roos, 2005). These relationships can be defined according to a number of dimensions including commitment, collaboration, communication, influence and mutual adaptation (Agndal & Nilsson, 2006). By utilising RC, SSNPOs can potentially gain benefits, such as those associated with sharing resources and risks, increasing efficiency, enhancing coordination, facilitating mutual learning among partners and nurturing expertise from working collaboratively with external stakeholders.
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The interviews also revealed that relationships with the local community were sometimes casually developed rather than carefully nurtured. In many cases the SSNPOs passively waited for the community to approach them:

Well … I guess they [the general public] know where they can get [our information] from. We keep a lot of copies stuff at our office. If people ring us at our office we can hand out our information. Also, [our organisation] has got a website and a lot of information is available there. (Exec-10)

The community can come to us if they want to run events to raise money. We then sanction to that. We have an official process for them to raise money and use our brand name. (Exec-27)

In short, collaborative practices were not widely adopted and external relations mainly made sense in the context of enhancing competitive advantage. As discussed in the fourth section, this mindset may impede SSNPOs’ capacity to acquire vital external resources and has implications for inter-relations between the three IC components.

Interviewees’ perceptions of inter-relationships among the IC components

As noted in the first section, the scholarly literature suggests that IC is synergetic with its three components being inter-dependent. The data, however, indicates that the vast majority of interviewees (29 out of 35) perceived little conceptual crossover existed between the three types of IC, but that inter-relationships mainly represented the flow of knowledge from HC to the other IC components; that is, HC should lead and should be the central component of IC:

Human capital has significant impacts on the entire organisation. It helps to create new teams in the organisation. And then it drives relational capital which is the direct result of the new marketing activities that the teams are

(Huxham & Vangen, 2005). Interviewees generally agreed, as one reflected:

If we can share the same infrastructure with [other SSNPOs] to do the same sort of things, the money we save by sharing resources can go back to deliver more beds for the aging population … I argue that we are going to get cost efficiency in there that you wouldn’t believe. (Exec-23)

In addition, many interviewees (e.g., Exec-16, 17, 22 and 27) perceived that external relations primarily meant establishing partner relationships with organisations that did not deliver social services. These relationships arguably assisted the participating SSNPOs to be more competitive, principally by harnessing the strategic strength provided by different types of organisations:

We seek a lot of inputs from outside. Being a not-for-profit and one good profile like [our organisation] we get help and advice from some big consultancy firms and IT [information technology] companies so that we can stay on the top of the game of competition. (Exec-27)

We partner with the [educational institution]. One of the good things with the program is that we are consistently having the program evaluated by the [institution] so it is consistently backing the program and making our program the best in the area. (Exec-16)

For some (Exec-16 and 27), relationships with funders were most important:

Our immediate clients are the funding bodies that fund our projects or services we provide. A lot of companies give us money for particular things so we see them as clients. We see organisations in our community centres or schools which purchase a lot of our resource materials or curriculum materials as clients. We have to manage our relationships with them and deliver whatever it is to the people who provide funds to us. (Exec-4)
doing now. And then it drives structural capital as new database systems have been installed recently and everything has changed. Human capital can make an enormous difference. (Exec-12)

Intellectual capital can be seen in a structured approach. The foundation is human capital, and then you work out your relationship, and structural capital is what you build up from that point. (Exec-20)

Knowledge may flow from one IC component to another, which creates value greater than the total sum of the three IC component parts (Edvinsson & Malone, 1997; Peppard & Rylander, 2001; Roos & Jacobsen, 1999). Thus, the three IC elements are closely inter-related and the flow of knowledge should be multi-directional (Leliaert, Candries, & Tilmans, 2003; Watson, Stanworth, Healeas, Purdy, & Stanworth, 2005). This suggests that the concept of IC was understood differently by interviewees.

Intellectual capital helps to reconcile the social and commercial objectives of SSNPOs, however, imperfectly. The essential role of IC 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. As demonstrated here, SSNPO practitioners’ perception of how IC could be utilised to add value was substantially different to IC scholars. The next section discusses the implications of the different IC understandings for SSNPOs.

**IMPLICATIONS FOR NON-PROFIT STRATEGY AND PRACTICE**

The attention of the non-profit sector has largely leaned towards financial measurement in the last two decades, as a result of NPM. IC redirects non-profit leaders’ attention to qualitative intellectual resources rather than quantitative performance measurement; and value creation instead of financial management. In these ways, IC aids SSNPOs to refocus their objectives on social questions. The flows of knowledge among the IC components help to create value in the organisations. Table 1 presents such a schema in a six-square matrix.

The Table shows specific, emblematic examples of how NPOs’ IC strategies may enhance knowledge flows from HC to RC and vice-versa, from RC to SC and vice-versa, and from SC to HC and vice-versa. Possibilities range from non-profit employees presenting research and position papers on their organisational practices in national and international conferences (which enhances knowledge flows from HC to RC), to non-profit employees preparing training manuals for newly recruited employees and/or volunteers (which represents flows from HC to SC). As Lynch (2009) highlights, by integrating face-to-face contact (or HC) with online social media (or SC), organisations are more likely to establish positive relationships with external stakeholders (or RC) in more places at one time and attract opportunities for future challenges. This notion suggests that the three components are inter-related. At the broadest level these inter-relationships call for the utilisation and creation of ‘smart networking’ (Lynch, 2009). At a more elementary level they recommend the binding of each IC component to the two others through common avenues for knowledge flow, as represented in Table 1. In other words, non-profit leaders who seek to specifically relate each of the three IC components to each of the two others in systematic ways might create greater value for their SSNPOs.

However, the interview data employed by the paper also suggest that SSNPOs may face significant challenges in their leveraging of IC. First, the synergetic aspect of IC, prescribing organic inter-relations between the three primary IC components, seems largely disconnected from the experience of non-profit practitioners. Second, though SC, RC and HC are theoretically equal and mutually reinforcing partners, practitioners prioritised HC and
difficult strategic environment within which SSNPOs operate. While SSNPOs are gradually losing volunteer support due to the competitive nature of non-profit activities (Jamison, 2003) and with suggestions that non-profit employee commitment is decreasing (Kim & Lee, 2007), effective combination of all organisational resources becomes an ever-greater imperative (Hussi, 2004; Koruna, 2004). Numerous studies hint that within the overall resource combination, knowledge is important to NPOs in managing the tension between traditional altruistic values and the competitive nature of contemporary service delivery (Boz & Palaz, 2007; Eisenberg, 2000; Hume & Hume, 2008; Lyons & Fabiansson, 1998). As interrelationships between the IC components help to create and facilitate value that is greater than the total sum of value in the three IC component parts, a more conscious utilisation of IC may provide non-profit leaders a greater pool of

### Table 1: Value creation through interactions of IC components in NPOs

<table>
<thead>
<tr>
<th>Knowledge flows from HC to RC</th>
<th>Knowledge flows from RC to SC</th>
<th>Knowledge flows from SC to HC</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Non-profit employees present research papers on behalf of their organisations in national/international conferences</td>
<td>- Client and donor profiles are input into system databases</td>
<td>- Internal organisational policies/manuals are available to newly recruited non-profit employees</td>
</tr>
<tr>
<td>- Non-profit employees are available for comments on government policies publicly</td>
<td>- Clients/donors fill in organisational survey/questionnaire</td>
<td>- Existing non-profit employees analyse client profiles in order to understand client needs</td>
</tr>
<tr>
<td>- Non-profit employees demonstrate their knowledge and skills in community-based activities/projects</td>
<td>- NPOs formalise strategic alliances with partners</td>
<td>- Organisational culture is shared through job rotations or formal and informal meetings</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Knowledge flows from RC to HC</th>
<th>Knowledge flows from SC to RC</th>
<th>Knowledge flows from HC to SC</th>
</tr>
</thead>
<tbody>
<tr>
<td>- NPOs learn specific client information via client surveys</td>
<td>- Organisational information is made publicly available in organisational website</td>
<td>- Knowledge from all levels is gathered before strategic plans are formulated</td>
</tr>
<tr>
<td>- NPOs work collaboratively with Universities for potential research ideas</td>
<td>- Organisational publications/newsletters are sent to clients/donors</td>
<td>- Prior to launching programs relevant non-profit employees are fully consulted and their knowledge is documented</td>
</tr>
<tr>
<td>- Non-profit employees capture knowledge from volunteer/donor meetings</td>
<td>- Strategic partnerships are reviewed and updated regularly</td>
<td>- Learning culture and knowledge sharing are cultivated as part of organisational culture</td>
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</table>

Indeed, some interviewees largely equated IC with HC alone. Third, though RC played a major role in practice – albeit one subsidiary to HC – interviewees ascribed a highly limited role to SC. In extreme cases, where a complete lack of recognition of SC was in evidence, the organisational memory is endangered with too few storehouses of knowledge embedded in key documents and information technologies. As one interviewee reflected:

> We don’t have a lot of hard copies, policies or manuals. I guess I probably have most of the knowledge that we need to function here [in this section]. People have other stuff [hard copies] but they don’t have what I have. If a question comes up, I am required to put an answer in it. If I am not here, no one can do anything. (Exec-17)

Taken together, the different understanding of the IC concept adds complexity to the already
knowledge to make strategic decisions and ensure that their organisations are better prepared for future challenges.

However, IC is less likely to be fully harnessed in SSNPOs if non-profit managers perceive that IC components are inter-independent and HC should be the central component of IC. Non-profit practitioners’ perception of the IC concept may prioritise one or two IC components. For example, one of the interviewees (Exec-17) indicated that some non-profit employees were consistently burned out and left their SSNPO as a result of lack of proper systems support (or SC) in the organisation. As indicated from the interview data, the organisation constantly lost valuable HC and had to spend extra resources on hiring and training new employees. This prompts questions over drains in organisational resource use in the long run.

Combining the challenging strategic scenario for SSNPOs with their perception of the IC concept, SSNPOs are called upon to conceptualise or re-think IC practice. To the time of writing, very few studies have employed conceptual or empirical analysis to the question of IC utilisation in the non-profit sector. One framework within which IC may be more effectively leveraged in practice is that of ‘public value’ (Alford & Hughes, 2008; Moore, 1995; Stoker, 2006), which may assist NPOs and public sector organisations in transcending the most commercialist aspects of new public management by calling for more genuinely collaborative cross-sectoral solutions to the provision of services. As Moore (1995) argues, services provided by the public and non-profit sectors tend to be of a ‘collective’ rather than private or individual nature. Taking this logic, SSNPOs accordingly need to maximise their RC.

In particular, they can both utilise and create long-term value if they are able to nurture and enhance the knowledge that their external stakeholders hold about their organisations (Kong, 2008; Kong & Thomson, 2006). Such knowledge is inherently adaptable simultaneously to commercial as well as social ends. With more collaborative interaction with a wide variety of stakeholders, SSNPOs are more likely be able to utilise intellectual resources that are available to them for value creation. For instance, a high level of RC likely assists SSNPOs to attract more funding, donations and non-monetary resources, potential employees and volunteers, and other forms of legitimate support. Yet, consistent with the organic view of IC, RC cannot be used alone as IC strategy is three-pronged.

RESEARCH LIMITATIONS AND FUTURE RESEARCH

There are a number of limitations in this study. Since the social service non-profit environment is complex and dynamic, it is not possible to provide a complete strategic picture for all SSNPOs. This is because in the process of describing the environment, some of the richness of reality is inevitably lost. In addition, the changing non-profit environment during the period while the paper was being written has generated many additional issues. An example that could not be raised at the time the interviews were conducted includes the global economic downturn that began in October 2008. Many SSNPOs have been pressured to provide more services and be more efficient during times of higher demand. Simultaneously, organisations are facing sharply lower charitable contributions as many corporations and individuals are struggling with financial difficulties themselves (Brock, 2008). How SSNPOs utilised their IC to deal with these recent challenges was not recorded in the interviews.

A further limitation is that NPOs are not a homogeneous group. The social service NPO sector is only one of the sub-sectors in the non-profit world and there are many others, such as health care, culture and recreation, environment, economic, social and community development and political organisations. The unique characteristic that each sub-sector embraces renders the non-profit sector even more ambiguous, complex and dynamic. For instance, organisations such as those in health care, with better access to paying clients,
A qualitative analysis of intellectual capital in social service non-profit organisations

generally do best in response to government budget cuts, while SSNPOs as defined here, with the least access to paying clients, do not fare well (Kearns, 2000; Salamon, 1986). Although a better understanding of the IC concept may assist NPOs other than SSNPOs in their strategic management processes, this paper makes no attempt to generalise conclusions to NPOs in other sub-sectors.

Despite these limitations, the paper contributes to the understanding of the role of IC in non-profit strategic management within the scope of Australian SSNPOs, providing insight into the utilisation of IC as a strategic management conceptual framework in SSNPOs. It also helps to increase the awareness of IC research among both scholars and non-profit leaders.

Since IC is a relatively new research stream in relation to the non-profit sector, the development of IC concepts for social service provision is likely to be an ongoing agenda. Future research on IC in SSNPOs needs to be further expanded, using all qualitative and quantitative methods available to researchers. The use of case studies might highlight the important elements of each IC component, which may help to address whether IC has the same effect on other non-profit sub-sectors such as health care and education. It is also important to note that IC is a robust concept capable of cross-sectoral application. A better understanding of IC utilisation likely benefits not only NPOs, but also for-profit and public sector organisations. This paper recommends that this agenda progressively incorporate both scholarship and practice.

CONCLUSION

For over two decades the attention of the non-profit sector has been dominated by the imperative to commercialise as a result of increasing inter-sectoral competition. SSNPOs in particular 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 simultaneously enhance organisational efficiency and effectiveness. This paper has argued that the concept of IC provides one means to address this tension. As put forth by the literature reviewed, and as confirmed by in-depth interview data gathered from 35 senior executives from 22 Australian SSNPOs, the importance of IC to SSNPOs was reaffirmed, with all interviewees attaching high status to the concept and its application in everyday organisational practice and strategy. However, the conceptions of IC held by interviewees were counterpoised against those commonly contained in the IC literature, which suggests that the three IC components are synergistic. SSNPOs often perceived that HC was the most important IC component. While RC was valued, SC was not, and indeed some executives did not identify any utility in SC for their sector. As already discussed in the fourth section of the paper, non-profit leaders’ perception of the IC concept may affect how IC is harnessed. Non-profit leaders are called upon to make decision on IC utilisation.

Overcoming the different understandings of IC requires education and heightened awareness of the IC concept among practitioners and scholars alike. Practitioners are primarily concerned with the accuracy of prediction of a concept or model and whether that concept or model can guide decision making (Wright & McMahan, 1992). A better understanding of the IC concept offers more insights to non-profit leaders to avoid uncertainty and ambiguity when engaging in IC discourse, which can lead to changes in strategic decision making. Researchers naturally have a role in informing debates on an emerging concept such as IC. It is therefore scholars’ responsibility to simplify, translate and reshape the IC concept into a format that is more easily useful to non-profit practitioners. However, researchers need to have a better understanding of the theory–practice divide and what causes the theory–practice divide. A two-way flow of knowledge between practitioners and scholars can enhance the understanding and utilisation of the IC concept in value creation. Examples of how this may be facilitated...
include scholars working closely with non-profit practitioners to extract more insights about their understanding of the IC concept, publishing more academic and practitioner-oriented papers to better inform IC concepts, engaging debates and discussions of IC in the non-profit sector, and transferring knowledge by teaching potential non-profit leaders through appropriate courses. This paper opens the opportunity to bridge the gap in thinking between scholars and non-profit practitioners.

References
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introduction. Management Accounting, 78(2), 32–36.


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**APPENDIX 1: PARTICIPANT INVENTORY**

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APPENDIX 1: Continued

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\(^a\)Names of the organisations have been changed to protect the confidentiality of the participants.
\(^b\)Years of experience of the participants in the current position.
\(^c\)Years of establishment of the organisations.
\(^d\)Government funds may come in the form of grants or contracts and donations may include corporate sponsorships or individual donations.
\(^e\)M = Male; F = Female.
\(^f\)Multi services represent more than one social service is offered by the organisations.

APPENDIX 2: INTERVIEW GUIDE

Background of the participants:
- How long have you been working in your organisation?
- What is your role and what are your job responsibilities in your organisation?
- Would you like me to briefly explain to you some of the key terms that we will be using in the interview to you?

New Public Management (NPM) and existing strategic management:
- How does the management of public sector affect the way you deliver your services in your organisation? What are the implications of the management of public sector on your sector as a whole? Can you give some examples?
- How would you define strategic management and what does it mean to you?
- How do you plan strategy and why is it important to have strategic management in your organisation?
- What internal and external factors do you consider when planning strategy for your organisation? Why are these factors important to the strategic management of your organisation?

Intellectual Capital (IC) and its components:
- What do you understand by the term – intellectual capital (IC)? Can you give me some examples?

Human Capital (HC):
- What do you understand by the term – human capital? Can you give me some examples of human capital in your organisation?
- How important is human capital in the strategic management of your organisation?
- What role does human capital play in the strategic management of your organisation?
- Why is it important to involve human capital in the strategic management of your organisation?
How can the role of human capital be strengthened in the strategic management of your organisation in the future?

Structural Capital (SC)
- What do you understand by the term structural capital? Can you give me some examples of structural capital in your organisation?
- How important is structural capital in the strategic management of your organisation?
- What role does structural capital play in the strategic management of your organisation?
- Why is it important to involve structural capital in the strategic management of your organisation?
- How can the role of structural capital be strengthened in the strategic management of your organisation in the future?

Relational Capital (RC)
- What do you understand by the term relational capital? Can you give me some examples in your organisation?
- How important is relational capital in the strategic management of your organisation?
- What role does relational capital play in the strategic management of your organisation?
- Why is it important to involve relational capital in the strategic management of your organisation?
- How can the role of relational capital be strengthened in the strategic management of your organisation in the future?

Inter-relationships between the IC components:
- How important is the inter-relationships between the IC components in your organisation? Can you provide some examples?
- How can the inter-relationships be strengthened in your organisation? Can you provide some examples?
- Which is the most important IC component in your organisation and why?
- What else can you tell me about the role of the three IC components in your organisation?

CALL FOR PAPERS – EXTENDED DEADLINE

Healthcare Management: Progress, Problems and Solutions

DEADLINE FOR PAPERS: 5TH DECEMBER 2011

A special issue of Journal of Management & Organization - Volume 18 Issue 5

Guest Editors: Yvonne Brunetto (SCU), Kate Shacklock (GU), Rod Farr-Wharton (USC) and Cary L. Cooper (Lancaster University)

The Journal of Management & Organization (JMO) is currently seeking academic papers for this Special Issue. Submitted papers should provide a greater understanding of the complexity of healthcare management in either the public or private sectors, with particular emphasis on capturing the HRM issues emerging for healthcare managers in the 21st Century.

Included below are examples of possible topic areas:
- The challenges associated with managing different age cohorts of healthcare workers
- The challenges associated with attracting, recruiting and/or retaining healthcare workers
- SHRM issues in healthcare management practice
- The link between healthcare workers’ level of job satisfaction and clients’ level satisfaction
- The quality of management practices in healthcare