Innovation processes in social enterprises: an IC perspective

Eric Kong
School of Management & Marketing, Faculty of Business, University of Southern Queensland, Toowoomba, Australia

Abstract

Purpose – Social enterprises are not purely commercial and philanthropic. They represent a hybrid form of organizations that involve taking business-like, innovative approaches to deliver public services. Very little research has investigated the role of intellectual capital (IC) in innovation processes in social enterprises. This paper aims to address this.

Design/methodology/approach – This paper uses a critical analysis of current literature in relation to the IC concept within the social enterprise context.

Findings – The paper argues that the IC concept can be utilized as a strategic management framework that assists social enterprises to harness knowledge for the pursuit of innovative social and commercial activities.

Research limitations/implications – The paper contributes to the literature by theoretically arguing that IC can be utilized in innovation processes in social enterprises. It also informs social entrepreneurs that the IC concept is a valid strategic management framework that assists facilitating innovation in social enterprises. An IC conceptual framework is proposed using theoretical arguments from the literature. The framework helps social entrepreneurs to visualize IC and its components in their organizations for the development of effective innovation-based strategies in social enterprises. The increased awareness of the IC concept in social enterprises, as a result of this paper, is likely to generate further research from both non-profit practitioners and scholars.

Originality/value – The paper is considered as a starting-point and serves as a milestone in examining the role of IC in innovation processes in social enterprises.

Keywords Intellectual capital, Social environment, Innovation, Management strategy

Paper type Conceptual paper

Introduction

Social enterprises are not purely commercial and yet, they are not purely philanthropic (Borzaga and Defourny, 2001; Dees, 1998). The organizations accomplish their social missions through the development of innovative ventures or by reorganizing existing activities to improve operational efficiency (Pomerantz, 2003; Weerawardena and Sullivan-Mort, 2006; Zappala, 2001). They often challenge the status quo and our conventional thinking about what is feasible to alleviate social problems and to improve general public well being (Seelos and Mair, 2005). Thus they represent a step forward of the concept of traditional nonprofit organizations in achieving social needs (Manfredi, 2005) as they "enact hybrid nonprofit and for-profit activities" (Dart, 2004, p. 415) all "under one roof" (Fowler, 2000, p. 645).

Social enterprises' primary objective is to create social value for the community that they serve through innovative business approaches (Pomerantz, 2003; Thompson and Doherty, 2006). Economic value creation through commercial revenues and business activities is often perceived as a strategic means that allows the organizations to achieve sustainability and self-sufficiency, generate income to support their mission,

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and carry out mission-related functions expeditiously (Seelos and Mair, 2005; Young, 2001). Although for-profit strategic management techniques have been adopted to provide strategic directions in social enterprises, the techniques are arguably compromising the principle of investing in human and social concerns in mission-driven non-profit organizations as they emphasize profit maximization (Alexander, 2000; Chetkovich and Frumkin, 2003; Eisenberg, 1997; Kong, 2008; Mulhare, 1999; Weisbrod, 1998). Social enterprises must be managed strategically through innovative approaches, with social dimension being central for dealing with complex social problems. They require a strategic management method that enhances their ability to pursue social missions, improves their efficiency and effectiveness, and, at the same time, maximizes their capability to constantly generate innovative ideas for sustainable ventures in the competitive environment.

After reviewing the literature, the paper's central argument is that the concept of intellectual capital (IC) is capable of assisting social enterprises to harness knowledge that leads to innovation for the pursuit of social and commercial objectives. IC refers to 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, 2008, 2009; Kong and Thomson, 2006). Social enterprises are likely able to create value for long-term success if they implement strategies that responds to market opportunities and environmental dynamics by exploiting and exploring their IC resources.

The original contribution of the paper is threefold. First, the paper contributes to the literature by examining the application of the IC concept as a strategic management conceptual framework in social entrepreneurial innovation processes. Second, it offers suggestions on how the IC concept can be utilized effectively in the unique context of social entrepreneurship. Finally, using theoretical arguments from the literature, an IC conceptual framework is proposed which assists social entrepreneurs to conceptually visualize how the utilization of IC resources for growth and enhanced performance can be maximized.

The paper is organized as follows. First, a review of the emergence of social enterprises and the need for a valid strategic management method for innovation processes in the organizations are provided. This is followed by a brief overview of the IC literature and its implications in the context of social entrepreneurship. This leads to a discussion of an IC conceptual framework and strategic advantage in social enterprises' innovation strategy development. The paper then discusses how the framework can be used effectively in the innovation processes to advance strategic advantage in social enterprises. Finally, research limitations and future research direction are discussed in the paper.

Traditional non-profit organizations and social enterprises

The role of traditional non-profit organizations is widely recognized as the organizations' activities influence almost every imaginable human need or interest in society (Lyons, 2001, p. xi). However, the organizations are now facing challenges stemming from diminishing fiscal supports in the form of public funds and donations (Alexander, 1999; Craig *et al.*, 2004; Eisenberg, 1997). In addition, growing competition for service delivery with for-profit organizations (Kong, 2008; Ramia and Carney, 2003), declining volunteer support (Jamison, 2003; Lyons, 1999, 2001; Lyons and Fabiansson,

1998) and losing commitment from non-profit employees (Eisenberg, 1997, 2000; Kim and Lee, 2007) are adding significant strategic pressures to traditional non-profit organizations. As volunteering and charitable contributions are unable to fill the financial gaps due to tightened government funding, the organizations increasingly seek alternative financial sources, such as fees or service charges and other essentially commercial forms of income (Fowler, 2000; Liebschutz, 1992; Salamon, 1986, 1996, 1999; Weisbrod, 1997). An example of the alternative financial sources can be found in the Salvation Army. The organization's Store Division has shops in different areas which generate income for the broader social purpose. However, traditional non-profit organizations remain restricted from using trade as a means to raise capital, making them heavily dependent on donations and grants for achieving their social missions (Mason *et al.*, 2007).

The study of corporate social responsibility in more recent times has seen some strategic partnerships between business corporations and traditional non-profit organizations (see, e.g. Husted and Allen, 2007; Lee, 2008; Lichtenstein *et al.*, 2004; Matten and Moon, 2008; Porter and Kramer, 2006). It is, however, important to note that communities require more than just spare cash but long-term commitment and financial support to resolving social problems (Jamali and Keshishian, 2009; Kanter, 1999), particularly in times of global economic crisis. Indeed, traditional non-profit organizations are already facing sharply lower corporate charitable contributions as many corporations are struggling with financial difficulties themselves (Brock, 2008). Corporate social responsibility may not be able to provide long-term solutions to non-profit organizations in particular at a time when the organizations need them most.

The increasingly competitive environment has forced traditional non-profit organizations to place great emphasis on innovation in all their social value creating activities. Social enterprises have emerged as a strategic response to many of the mentioned challenges that traditional non-profit organizations are facing today (Dart, 2004; Dees, 1998; Frances, 2008; Gray *et al.*, 2003; Hitt *et al.*, 2001; Sullivan-Mort *et al.*, 2003; Thompson, 2002; Weerawardena and Sullivan-Mort, 2006). Unlike their non-profit counterpart, social enterprises are not restricted to use innovative business approaches in trading of products and services (Spear, 2001). Therefore social enterprises are more flexible than traditional non-profit organizations in terms of raising capital through commercial revenues and business activities. More importantly, social enterprises can gradually become self-financing through organic growth, making the organizations less dependent on donations and grants (Mason *et al.*, 2007). In contrast to for-profit organizations in which profits are often distributed to their owners and shareholders, economic value creation in social enterprises is perceived as a by-product which allows the organizations to achieve sustainability and self-sufficiency (Fowler, 2000; Seelos and Mair, 2005). The production surplus of social enterprises is reinvested in the development of organizational activities that ensures viability in tackling social problems or to be used for the benefit of people other than those who control the organizations (Defourny, 2001). Adapted from Dees' (1998) "Social enterprise spectrum", Figure 1 clearly distinguishes social enterprises from traditional nonprofit organizations and business corporations.

As shown from Figure 1, social enterprises are neither traditional non-profit organizations nor business corporations (Borzaga and Defourny, 2001; Dees, 1998). They represent a hybrid form of organizations that involve taking business-like,

		Purely philanthropic	Social enterprises	Purely commercial
Motives		Appeal to good-will	Mixed motives	Appeal to self-interest
Methods		Mission-driven	Mission- and market-driven	Market-driven
Goals		Social value	Social and economic value	Economic value
Key stakeholders	**Beneficiaries**	Pay nothing	Subsidized rates, or mix of full payers and those who pay nothing	Market-rate prices
	Capital	Donations and grants	Below-market capital, or mix of donations and market-rate capital	Market-rate capital
	Workforces	Volunteers	Below-market wages, or mix of volunteers and fully paid staff	Market-rate compensation
	Suppliers	Make in-kind donations	Special discounts, or mix of in-kind and full-price donations	Market-rate prices

Source: Adapted from Dees (1998, p. 60)

Figure 1.
The social enterprise spectrum

innovative approaches to deliver public services (Dart, 2004; Fowler, 2000) and characterize an alternative for resourcing new services, particularly service innovations that do not fit neatly within government funding guidelines (Gray *et al.*, 2003). Thompson and Doherty (2006) have concluded that organizations that fall neatly into the category of social enterprises conform to several criteria. These include: having a social purpose, using assets and wealth to create benefit to its community, pursuing social purpose with (or at least in part) trade in a marketplace, being seen as accountable to both its members and a wider community, involving members or employees in decision making and/or governance, being non-profit-distributing to its shareholders and owners, and having either a double- or triple-bottom line paradigm (Thompson and Doherty, 2006). A notable example of this form of enterprises is the Grameen Bank. The Grameen Bank was founded by Muhammad Yunus, an economics professor, in Bangladesh in 1976. The Bank aims to improve the condition of its clientele by extending unsecured loans to the poorest villagers, primarily economically and socially impoverished women, who would not normally qualify as customers of established banks. Not only that the Bank has a unique philosophy towards its clientele, but also it has adopted an innovative group-based credit approach utilizing peer-pressure within groups to ensure that borrowers eventually repay their loans and develop good credit standing (Seelos and Mair, 2005). Today the Grameen Bank is so profitable that it can fund many other social projects. As can be seen from the Grameen Bank example, innovation is not merely related to research and development (R&D) of new products, but can occur through mainstream work activities for the purpose of improving efficiency and tightening control.

More literature today points to the critical role of innovation in social enterprises (see, e.g. Borins, 2000; Sullivan-Mort *et al.*, 2003; Waddock and Post, 1991; Weerawardena and Sullivan-Mort, 2006). There is, however, relatively little written on what adapted strategic management methods are most appropriate in innovation processes in social enterprises for the pursuit of social and commercial activities. As a major part of a social entrepreneur's responsibility is to consider the effect of strategy on a social mission rather than simply on financial performance, for-profit strategic management concepts that embrace profit motivated attitudes are likely less effective in the organizations. In the case of Grameen Bank, it would be extremely difficult to improve the condition of economically and socially impoverished women had financial results been seen as the only focus to the Bank. The success of Grameen Bank suggests that social enterprises should not depend on for-profit strategic management techniques for strategic decisions. The need for an appropriate strategic management method that enables social enterprises to seize marketing opportunities in the competitive environment and develop strategic directions that respond to social needs simultaneously is increasingly pressing.

Many scholars have explicitly highlighted that knowledge is the only strategic resource that leads to strategic advantage in organizations (e.g. Ambrosini and Bowman, 2001; Massingham, 2008; Mouritsen and Larsen, 2005; Nonaka and Takeuchi, 1995; St Leon, 2002; Zack, 2005). Within the context of social entrepreneurship, strategic advantage can be interpreted as the ability to utilize dynamic and unique resources for strategic renewal in the competitive environment and develop innovative strategic directions that create new opportunities and shape the organizations' future environment. Marr and Roos (2005) argue that organizations often perform more efficiently and effectively if they understand what knowledge they possess and how to configure their intellectual resources to create organizational value. McCann and Buckner (2004) also argue that it is essential to gain a better conceptual and operational appreciation of what it means to strategically manage knowledge in organizations. Marr and Roos, and McCann and Buckner's comments are also applicable to social enterprises. Thus, accumulated, applied and shared knowledge likely enables social enterprises to gain strategic advantage. One form of conceptualizing knowledge in innovation-based strategy development processes in social enterprises is through the lens of intellectual capital (IC).

Intellectual capital (IC) and its components

The concept of intellectual capital (IC)

Irving Fisher's capital theory at least partly constituted the founding base of intellectual capital (IC). Fisher (1906, p. 52, his italics) outlined that "[a] *stock of wealth* existing at an *instant* of time is called *capital*. A *flow of services* through a *period* of time is called *income*". Thus, according to Fisher, as long as a stock, including knowledge, gives rise to income, it can be called *capital*. The *stock* in the concept of IC are intellectual resources; in other words, to realize the specific monetary value of intellectual resources in an organization (Boedker *et al.*, 2005). The flow, on the other hand, is about identifying the intellectual resources that can be utilized to add value to the organization (Boedker *et al.*, 2005). Accordingly, the stock of IC is used to help realizing the historical monetary value of IC generated by the organization, and the flow of IC is related to the understanding and managing of the organization's capacity to enhance organizational performance now and in the future (Boedker *et al.*, 2005). Accordingly, any intellectual resource that can contribute to value added for the organization can be categorized as IC (Kong, 2008; Massingham, 2008; Stewart, 1997; Sullivan, 1998).

Edvinsson and Malone (1997, p. 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 *et al.* (2004, p. 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". It is widely accepted that IC is associated with an organization's innovative performance (Anand *et al.*, 2007;

Leiponen, 2008; McAdam, 2000; Nelson and McCann, 2008; Spencer, 2003; Subramaniam and Youndt, 2005; Tsai, 2001; Wu *et al.*, 2008). IC promotes the creativity possessed by all organizational members, indirectly accounting for an organization's future financial prospects (Mouritsen, 1998; Roos *et al.*, 1997). This is because 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 and Bontis, 2002; Petty and 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 in organizations (Bukh *et al.*, 2002; Kong, 2003, 2008; Mouritsen *et al.*, 2005). Organizations are often able to create value for long-term success if they implement strategies that respond to market opportunities by exploiting and exploring their IC resources (Marr and Roos, 2005).

Following the work of a number of scholars in the field, IC is generally taken to encompass three primary interrelated components: human capital, relational capital and structural capital (Bontis, 1998; Dzinkowski, 2000; Kong, 2008; Roos *et al.*, 1997; Saint-Onge, 1996; Stewart, 1997). In other words, IC is the intelligence that can be found in human beings (or human capital), network relationships (or relational capital), and organizational routines (or structural capital) in organizations (Bontis, 2002).

IC components: human capital, relational capital and structural capital

Human capital includes various human resource elements, including attitude, competencies, experience and skills, and, perhaps most importantly, the innovativeness and talents of people (Bontis, 2002; Choo and Bontis, 2002; Fletcher *et al.*, 2003; Guerrero, 2003; Roos and Jacobsen, 1999; Roos *et al.*, 1997). A higher level of human capital is often associated with more innovative ideas, greater productivity and higher incomes or compensation (Wilson and Larson, 2002). Accordingly, human capital is an important organizational resource as it assists organizations to innovatively respond to environmental changes by sensing the need for changes, developing innovative strategies to meet the changes and efficiently implementing the strategies for complex and dynamic environments (Wright *et al.*, 1994). In other words, human capital is a source of innovation and strategic renewal (Bontis, 2002; Bontis *et al.*, 2000; Webster, 2000).

Relational capital represents an organization's relations with its external stakeholders and the perceptions that they hold about the organization (Bontis, 1998, 2002; Fletcher *et al.*, 2003; Grasenick and Low, 2004; Marr and Roos, 2005). Schiuma *et al.* (2005) argue that all organizational relationships involve knowledge exchange. An exchange of knowledge between an organization and its external stakeholders likely enhances the organization's ability to generate more innovative ideas. This is because when existing knowledge is articulated and challenged during knowledge exchange, new knowledge may be developed (Kong, 2009). In other words, an organization is more likely to provide new and/or better products and services to its external stakeholders if the organization has learned what its external stakeholders really needs.

Structural capital is the pool of knowledge that remains in an organization at the end of the day after individuals within the organization have left (Grasenick and Low, 2004; Mouritsen and Koleva, 2004; Roos *et al.*, 1997). It is the non-human storehouses of knowledge in the organization, such as databases, process manuals, strategies, routines, organizational culture, publications, and copyrights which creates value for the organization, thus adding to its material value (Bontis *et al.*, 2000; Guthrie *et al.*, 2006; Ordóñez de Pablos, 2004). Thus structural capital also refers to the knowledge that is enacted in day-to-day organizational activities (Kong, 2009). Structural capital is important to organizations because it deals with the mechanisms and structures of the organizations which, when complemented by individual innovative behavior, can assist individuals in their quest for optimum organizational innovation.

Although the three IC components are defined separately, the components should not be considered as completely separated constructs. Rather, the single concept of IC is a multi-dimensional construct and the three IC components are inter-dependent (Subramaniam and Youndt, 2005; Youndt *et al.*, 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 and Rylander, 2001). It is therefore important to gain a better conceptual and operational appreciation of what it means to strategically manage knowledge in organizations (McCann and Buckner, 2004). It is the combination, utilization, interaction, alignment, and balancing of the three types of IC, along with knowledge flow between the three components, that provide the best possible ingredients for organizational innovation.

The concept of intellectual capital (IC) in innovation processes in social enterprises

The strategic role of IC in social enterprises

The strategic role of IC in strategy development processes is not merely about formulating strategies for resource allocation in social enterprises; for example sharing knowledge and expertise among existing paid employees and volunteers. It is also for resource acquisition such as sustaining positive external stakeholder relationships to draw funding from potential donors and to attract potential new employees and volunteers in the organizations. Thus the IC concept is particularly useful in terms of assisting social enterprises to utilize their existing resources and generate new resources effectively in the knowledge-based economy. In other words, IC is capable to facilitate innovation in social enterprises by shifting the organizations' strategic focus to intellectual resources including knowledge, skills and experience. This is particularly important to social enterprises as the success of the organizations lies with their ability to facilitate innovative approaches to achieve social missions (Fowler, 2000).

Although social enterprises adopt commercial approaches in their day-to-day activities, the organizations are primarily concerned with the fulfillment of social objectives. Weerawardena and Sullivan-Mort (2006) argue that "social mission is central to the organization [social enterprise] because it guides overall strategy: what businesses and services are initiated, what services are grown, how fast they are grown, and which linkages, e.g. through board memberships, are pursued". However, business-like strategy and social concerns are often not easily reconcilable. Social enterprises are risking straying from their social *raison d'être* because they were bound by their more commercially oriented strategies. An IC approach forces social entrepreneurs to rethink their mission and social *raison d'être* in their strategy development processes. IC is related to questions about identity, such as "who you are, and what you want to be" (Mouritsen *et al.*, 2005, p. 12) and thus, IC is an identity crafted around ability and knowledge of what an organization can and should do (Mouritsen *et al.*, 2005; Roos *et al.*, 1997). In other words, IC helps social enterprises to reinforce their social *raison d'être* by placing social dimension at the center of their commercial strategies.

Human capital in social enterprises

Finkelstein and Hambrick (1996) argue 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. This connects with research in the area which finds that unique knowledge created by social entrepreneurs, especially through their idiosyncratic information gathering behaviors, might be used to attract others such as potential employees or volunteers to become involved in their effort, to build more effective organizations, and to attract financial capital for future development (Nanus and Dobbs, 1999; Wallis and Dollery, 2005; West and Noel, 2009). Thus social entrepreneurs' leadership skills and professional knowledge have considerable influence on strategic choices, organizational designs, and ultimately, organizational performance. But more importantly, social entrepreneurs recognize the importance of innovation and seize market opportunities on a continuous basis in social enterprises. Roper and Cheney (2005) argue that social entrepreneurs' ability to offer "[a] balance between the open and democratic generation of ideas and the discerning of genuinely good and feasible ones is crucial" because "[t]oo much openness risks impracticality; too linear and controlled a process can mean a loss of potentiality". Thus social entrepreneurs' leadership skills and professional knowledge can be seen as a critical source of human capital for innovation.

Also, non-profit leadership tends to be more democratic because the ability of not-for-profit organizations to achieve their objectives depends heavily on the knowledge, innovation, experience and skills of organizational members from the top as well as from the lower levels such as non-executive members and volunteers (Hudson, 1999; Kong *et al.*, 2009; Kong and Ramia, 2010; Yanay and Yanay, 2008). New knowledge is likely developed when existing knowledge is articulated and challenged through top-down and bottom-up communication and interaction patterns. In other words, non-executive members and volunteers' professional knowledge, skills and experience act as a crucial source of human capital for novel ideas and new thinking of work practices in social enterprises.

Relational capital in social enterprises

External relationships are crucial to social enterprises since the organizations are operating in a dynamic environment that has multiple groups of external stakeholders (Kristoffersen and Singh, 2004; Mason *et al.*, 2007). External stakeholders are people or organizations which are independent from an organization but have a real, assumed, or imagined stake in the organization, its performance and sustainability (Anheier, 2005). Unlike traditional non-profit organizations, social enterprises rely not only on grants and donations, but also consumers and clients for achieving their social missions. Thus social enterprises are heavily involved in external relationships with, but not limited to, government agencies, traditional non-profit organizations, business corporations, potential employees and volunteers, and customers and end-users. Researchers such as Hamori (2003) and Martin *et al.* (2005) argue that prospective employees and volunteers are more willing to join not-for-profit organizations with a strong community reputation. Chetkovich and Frumkin (2003) also suggest that consumers often choose a charity's products or services over a private firm because any revenue that the charity makes goes to a "good cause".

Since social enterprises' sources of funding are often from grants and donations, as well as trading of products and services, external relationships (or relational capital) become critical to the organizations. In other words, social enterprises can gain strategic advantage if they are able to nurture or enhance the knowledge that their external stakeholders hold about their organizations. Besides, organizational relationships often involve knowledge exchange (Schiuma *et al.*, 2005). For example, organizations that frequently interact with organizations from different industries are more likely to be receptive to novel ideas for new or better practices (Birkinshaw *et al.*, 2008). Accordingly, a frequent exchange of knowledge between a social enterprise and its external stakeholders (that is a higher level of relational capital) helps to articulate and challenge existing knowledge for new knowledge creation in innovation processes.

Structural capital in social enterprises

Structural capital is the supportive infrastructure for innovation in the strategy development in organizations. This is because structural capital helps to amplify the values arising from human capital and relational capital and thus multiply the overall IC (Edvinsson, 1997; Mouritsen and Koleva, 2004). Human capital is much more volatile in nature (Edvinsson, 1997). Individuals take their talent, skills, tacit knowledge, creativity and innovation with them when they leave an organization (Bontis *et al.*, 2000; Grasenick and Low, 2004; Massingham, 2008; Roos *et al.*, 1997). A loss of organizational memory due to individuals' departure may be a threat to the organization. On the other hand, relational capital is external to the organizations and thus is difficult to manage, codify and control (Bontis, 1998, 1999, 2002; Knight, 1999). Unlike human and relational capital, structural capital 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 *et al.*, 2003). Thus structural capital represents the only knowledge stock that remains in organizations at all times (Grasenick and Low, 2004; Mouritsen and Koleva, 2004; Roos *et al.*, 1997). Besides, an organization is more likely to enhance the degree of freedom for change agents to pursue novel ideas when the organization's culture (as part of structural capital) is supportive of new thinking (Birkinshaw *et al.*, 2008). Accordingly, structural capital can assist social enterprises to create organizational value that facilitate organizational learning and knowledge creation that leads to innovation for the pursuit of social and commercial activities (Kong, 2009).

In short, the three IC components assist to create value for social enterprises by balancing the utilization and usage of the existing and unborn intellectual resources. This becomes important to social enterprises in particular in today's highly competitive dynamic environment.

An IC conceptual framework for innovation processes in social enterprises

An IC conceptual framework is proposed on the basis of a review of the existing literature. The proposed IC conceptual framework, along with knowledge flow between the three components and with the external conditions in the environment, helps social entrepreneurs to conceptually visualize where they might put their attention and resources, and provides them broad guidelines on how to seek to maximize the utilization of resources for innovation in social enterprises. The framework is shown in Figure 2.

As can be seen in Figure 2, the three types of capital frequently interact with each other and that interactions between the three IC components likely generate innovative ideas in social enterprises. Birkinshaw *et al.* (2008) argue that external change agents can play a major role in building legitimacy for innovation beyond the boundaries of an organization. This is because most employees have some level of awareness of how their organization is viewed by external stakeholders (through customers and outside partners, friends, or the media) and thus external stakeholders' opinions to some degree help to shape the processes of innovation in the organization (Birkinshaw *et al.*, 2008).

In the context of social enterprises, external change agents may include customers, business partners, volunteers, donors or the media. Their opinions about a social enterprise likely enhance the members' collective knowledge (or human capital) in the organization for innovation. In other words, there is a knowledge transfer from relational capital to human capital. When the social enterprise members make use of their collective knowledge about external stakeholders' needs in the innovation processes to develop new products or services, knowledge is transferred from human capital to structural capital. When the new products or services are publicly advertised, knowledge of the products or services as well as knowledge about the organization likely constitutes a form of knowledge transfer; that is from structural capital to relational capital.

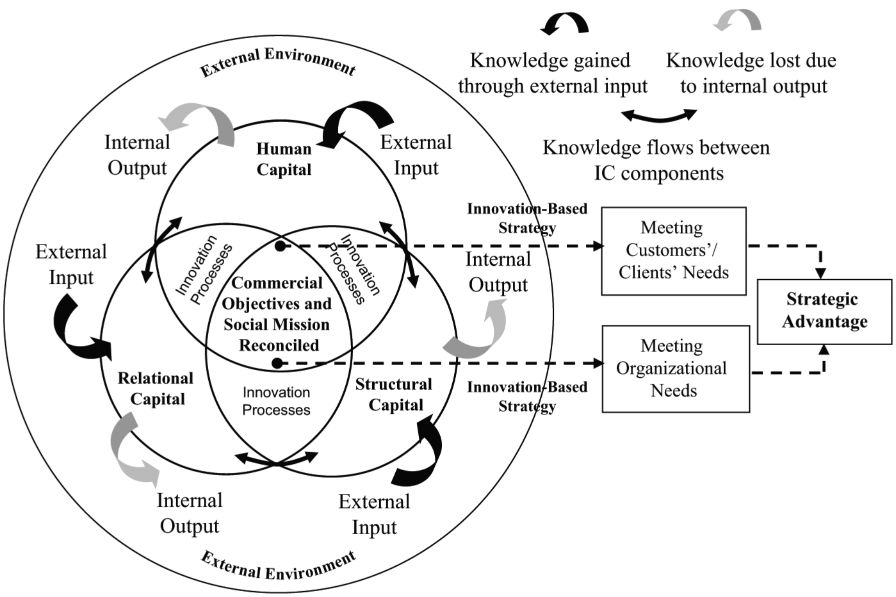

Figure 2.
An IC conceptual framework for innovation processes in social enterprises

New knowledge from external sources, whether it is tacit or explicit in nature, is important in organizational innovation processes (Rigby and Zook, 2002). This new knowledge gained through external sources is indicated as "external input" in Figure 2. For instance, newly established relationships with external new stakeholders due to recently explored service areas can be considered as an external input of relational capital. However, external input of new knowledge also occurs in human capital and structural capital. Examples of external input of human capital may include newly recruited employees and volunteers who bring in new skills and experience. An adoption of novel management concepts from profit-seeking and public sector organizations which lead to renewed policies and work procedures can be seen as an external input of structural capital.

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 and Phillips, 2004; Sirmon *et al.*, 2007). Accordingly, successful social enterprises should divest themselves of outdated or unwanted knowledge, which applies to the three types of capital. In other words, organizations that embrace higher levels of absorptive capacity can manage knowledge flows more efficiently, and stimulate innovative outcomes (Escribano *et al.*, 2009). The IC conceptual framework assists social entrepreneurs to visualize 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 and Prior, 2008). 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, the interactions of the three primary IC components, along with the knowledge flows and the "external inputs" and "internal outputs" of knowledge, help social entrepreneurs to constantly challenge their status quo and conventional thinking about what is feasible to alleviate social problems and improve general public well being. Accordingly, the IC concept is not only about knowledge creation, but also knowledge lost (Caddy *et al.*, 2001). Social enterprises need to be able to remove outdated and unwanted knowledge, plan for the acquisition of knowledge or assess areas of knowledge weaknesses in their innovation processes. This would provide social entrepreneurs with an up-to-date understanding of intellectual resources which would facilitate a better decision-making in innovation processes.

West and Noel (2009, p. 1) argue that "[a] new venture's strategy – and thus its performance – is based upon the knowledge the firm has about its market, its opportunity in that market, and its appropriate conduct to take advantage of that opportunity". However, the authors' view only represents part of the picture of an organization. Organizations do not exist in a vacuum, in that they often interact with their external environment (Kong and Thomson, 2009). External environment is crucial to social enterprises' ability to function (Giffords and Dina, 2004). Examples of external environment may include current global financial crisis, change of technology such as online payment through internet, malicious events such as the 9/11 attack on the USA in 2001, and natural disasters such as the Asian tsunami in 2004.

External environment conditions might be perceived as opportunities as well as threats to organizations (Weihrich, 1982). In the context of social enterprises, external environment might instantly increase the demand for charitable activities which puts immense pressures on organizational resources or they might create opportunities for social enterprises to enhance efficiency. Although the influence of the external environment in social enterprises 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 social enterprises are capable of capturing the opportunities (or eliminating the threats) will depend strongly on the capabilities of the organizations to innovate new ideas that produce new products or services and/or seize market opportunities. 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 IC conceptual framework also highlights the importance of external environment to social enterprises. The emphasis of external environment in the IC conceptual framework allows social entrepreneurs to fully recognize the capabilities of their organizations for future challenges.

Strategic implications

The proposed IC conceptual framework provides several strategic implications to social enterprises. First, the framework helps social enterprises to maintain a dynamic and flexible strategy. Strategic change is a fact of life, it is unrealistic to believe that social entrepreneurs 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 and Thomas, 2005). The IC conceptual framework highlights the important role of internal and external knowledge flows in the innovation processes in social enterprises and the ways these two sets of actors interact with one another. 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 strategic advantage to social enterprises; that is to harness knowledge that leads to innovation for the pursuit of social and commercial activities. Acs *et al.* (2009) argue that knowledge created endogenously leads to a development of new knowledge, which allows entrepreneurs to identify and exploit opportunities. Accordingly, the framework realistically offers not only the opportunity for social enterprises 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 innovation-based strategy formulation and its development over time.

Second, the IC conceptual framework enables social enterprises to priorities strategic resources. Even though strategic decisions by definition are important, some are of more importance than others (Cray *et al.*, 1991). Since IC is a dynamic concept (Bontis *et al.*, 1999), the IC level may increase as well as decrease during any given period of time. For instance, the overall IC level of an organization may decrease significantly when the organization's members depart from the organization, taking with them their knowledge and skills, the organization loses a contract with strategic partner, representing an end of a relationship with the partner, and the organization loses a customer database due to a major system failure. This can be a significant challenge to the organization when it attempts to leverage IC. The strategic development and management of IC, which stresses the balancing of the three types of IC components, forces social entrepreneurs 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 social entrepreneurs to have a complete and up-to-date picture of what capabilities their organizations embrace or lack of. With the updated organizational capabilities in mind, social entrepreneurs are able to prioritize and refocus their organizational resources towards their strategic objectives.

Third, the core value is placed at the center of the conceptual framework. 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 framework is to apply in social enterprises, it must be kept simple and easy to use or disseminate through the whole organization. Bontis *et al.* (1999) argue that IC is flexible and easy to understand because it represents the collection of intellectual resources and their flows. This enables members in social enterprises to direct their energy towards the same organizational goals. As argued by Letts *et al.* (1999), having the mission and values truly shared is the biggest challenge in nonprofit organizations. IC redirects social entrepreneurs' attention to qualitative intellectual resources rather than quantitative performance measurement; and value creation instead of financial management. Thus, IC aids social enterprises to refocus their objectives on social questions. In other words, the IC conceptual framework helps to achieve a strategic alignment between innovation-based strategy and organizational objectives in social enterprises.

In addition, the framework emphasizes the importance of external knowledge input and the significance of internal knowledge divestment. This helps to create a learning culture within social enterprises by realizing the value of acquiring new external knowledge and retaining useful internal knowledge (Kong, 2009). 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.

Finally, this paper takes an initial step to propose an IC conceptual framework which helps social entrepreneurs to visualize the importance of knowledge as a strategic resource in social enterprises. The framework suggests a number of important insights, and it opens up some angles for further research. Since IC is a relatively new research stream in non-profit strategic management research, the development of the concept in social enterprises is likely to be an ongoing agenda. Future research on IC in social enterprises needs to be further expanded, using all qualitative and quantitative methods available to researchers.

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 context of social enterprises. For this reason, the paper has taken an exploratory step applying IC as a strategy development framework in innovation processes in social enterprises. It aims to make a contribution to the debate by reviewing the existing literature to see how the concept of IC relates to social enterprises and from this to review to identify gaps in the literature for further conceptual thinking and empirical study.

After reviewing the literature, the paper suggests that IC can be utilized as a competent strategic management framework in innovation processes in social enterprises. As IC is a relatively new term in strategic management literature and thus the utilization of the concept, particularly in relation to innovation processes, is open to interpretation, a conceptually meaningful and practically useful framework is critical in providing the needed guidance to social enterprises. The proposed IC conceptual framework offers social entrepreneurs a clear and more holistic understanding of the role of IC and the interrelationships between the three IC components. Through the IC components, social entrepreneurs 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 social entrepreneurs a better understanding of the internal and external issues in their organizations. It also highlights the importance of external environment to social enterprises. The framework represents a significant addition to our understanding of IC and its components within the context of social enterprises.

It is also important to note that IC is a robust concept capable of cross-sectoral application. A better understanding of IC utilization likely benefits not only social enterprises and traditional non-profit organizations, but also for-profit and public sector organizations. While the focus of this paper was primarily on examining the role of IC in innovation processes in social enterprises, it is not known if the IC concept in relation to innovation processes is equally important to other types of organizations. Further research involving specific methodologies needs to be carried out to empirically test the theoretical arguments found in the paper.

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About the author

Eric Kong is a Senior Lecturer in the School of Management & Marketing, University of Southern Queensland, Australia. He completed his PhD in Strategic Management at Monash University, Australia. He also holds a Master of Science in Quality Management from the University of Paisley, UK and a Postgraduate Diploma in Training from the University of Leicester, UK. Prior to joining the academia, he worked in Human Resources and Training & Development in the private sector for ten years. His current research interests include intellectual capital, knowledge management, non-profit management, and strategic management. He is a member of Academy of Management (AOM) and Australian and New Zealand Academy of Management (ANZAM). Eric Kong can be contacted at: kongeric@usq.edu.au