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Research Article

Intellectual Capital, Accountability and Sustainability in Non-profit Organizations

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Abstract

Background: In order to successfully accomplish the social and business mission, social enterprises need to identify the appropriate elements of resources that affect their performance since the management of resources is important to ensure organizational accountability and in turn sustainability in the future. **Objective:** Thus, this study aims to examine the role of intellectual capital, in terms of human capital, structural capital and relational capital on the sustainability of social enterprise. **Methodology:** Information on the sustainability of social enterprise and intellectual capital were obtained from the content analysis of the annual reports of 210 social enterprises registered under the Registry of Societies (ROS) in Malaysia for the financial period 2010. **Results:** The results from the statistical analysis revealed that on average, most of the social enterprises in Malaysia would be able to survive in the future. In addition, the results also highlighted that of the intellectual capital and structural capital has the most significant positive influence on the sustainability of social enterprise while, human capital and relational capital have weaker significant positive relationship with the sustainability of social enterprise. **Conclusion:** Overall, this study concludes that efficient management of human capital is critical as it can act as a catalyst in converting the bundle of intellectual capital possess by an entity into market value.

Key words: Sustainability, intellectual capital, social enterprise, non-profit organizations, resource-based view theory

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Data Availability: All relevant data are within the paper and its supporting information files.

INTRODUCTION

The development of social entrepreneurial non-profit organizations (NPOs) is triggered by the increase in demand for sustainability among NPOs due to a lack in funds to support core activities, as well as increases in competition for scarce resources^{1,2}. In general, integral concept of sustainability refers to the interrelationships among the society, environment and economic^{3,4}. This concept also infers that NPOs is accountable to various stakeholders. Following this proposition, sustainability for NPOs can be defined as the ability to continue serving the community and the related stakeholders⁵ and in return, have trust in the organization's ability to fulfil its commitments placed onto them by the stakeholders^{6,7}.

One important aspect of sustainability in social enterprise is related to the management of resources, in order to accomplish the organization's mission, as well as ensuring its long-term survivability. This is consistent with the resource-based view theory that emphasizes the role of a firm's resources on the organization's performance and sustainability⁸ by having the ability to acquire, develop and manage the resources in order to gain competitive advantage⁸⁻¹⁰. In addition, the success of social enterprise is no longer dependent mainly on tangible assets. Instead, intangible assets, which are represented by intellectual capital are claimed to be vital for an organization's success due to its attributes that could provide competitive advantages over the long-term¹¹. Intellectual capital refers to organizational resources that involve wealth creation through investment in information, knowledge and intellectual property, takes into consideration the qualitative and non-financial indicators for future prospects¹².

Thus, management of intellectual capital can be used as a managerial approach in social enterprise to measure the sustainability of the organization. However, there is a lack of evidence in organizations applying intellectual capital management models, especially in NPOs. In addition, most NPOs seem to manage intellectual capital without using specific management models¹³, as they face difficulty in determining which intellectual capital is relevant to the organization, thus indicating a gap in knowledge on relevant intellectual capital that affects organizational performance and sustainability.

There are numerous studies that evaluate the relationship between intellectual capital and organization's performance^{14,15}. However, only limited studies have been carried out to determine the effect of intellectual capital on the sustainability of organizations, especially those concerning

social enterprise. Several sustainability management models only point out the significance of intangible resources whereas very limited assessment and management approaches reveal the contribution of intellectual capital on the sustainability of social enterprise^{16,17}. Hence, this study aims to fulfil this gap by determining the relationship between intellectual capital and sustainability of social enterprise.

Specifically, this study examines the relationship between the sustainability of social enterprise and registered under the Registry of Societies (ROS) in Malaysia, in relation to the intellectual capital of organizations.

Resource-based view theory explains that organizations represent heterogeneous bundles of tangible and intangible resources at a given time and can be regarded as strength or weaknesses since they are tied to the organization^{8,18-20}. In terms of social enterprise, it relates to the ability of entrepreneurs to acquire, develop and manage resources in order to gain competitive advantage^{8-10,21} through the creation of resources that are valuable, rare and imperfectly imitable, which cannot be substituted¹⁸.

For social enterprise, intangible aspects which relate to intellectual capital, such as improvement in the well-being of related stakeholders are considered to be more important than financial success¹³. The process of creating value by combining resources in new ways is consistent with the management of intellectual capital and relates closely to the concept of social enterprise²². By measuring the impact of intellectual capital on sustainability, social enterprises can have a clear picture of resources, activities and the achievement of organizations, thus assisting in making more informed discussions and decisions²³.

Hence, this study focuses on the role of three types of intellectual capital, human capital, structural capital and relational capital on the sustainability of social enterprise. These three types of intellectual capital is chosen since these resources are relevant in the context of social enterprise²⁴.

Human capital which consists of the knowledge, skills and capabilities of members acts as social enterprise's core resource as it permeates the activities and operation of the organization^{8,25-27}. In social enterprise, human capital may include members, employees, as well as volunteers, who are either involved directly or indirectly in the organizational activities.

Consistent with the resource-based view theory, their skills, attitude, knowledge and values provide the resource mix that contributes to the success of an organization^{22,25,26}. The combination of both salaried employees and volunteers can be perceived as an innovating production factor that serves as a valuable resource for the organization²⁸. As a result, this will

indirectly improve the organizations performance and sustainability in the long-run due to the matching of human capital and social enterprise activities.

A study carried out by Jiao²⁹, investigating conceptual models for social entrepreneurship found that higher levels of human capital was positively related to the success of social entrepreneurship activities since human capital represented the ability to integrate resources of the organization. Social enterprise often relies on volunteers to deliver services to assist in fundraising as well as managing the organization through the provision of professional services.

This indicates that human capital is a prevailing element in social enterprise, thus managing human capital efficiently is crucial in order to ensure the sustainability of social enterprise. All the above arguments lead to the development of the hypothesis as stated below:

Hypothesis 1: There is a significant positive relationship between human capital efficiency and sustainability of social enterprise.

The knowledge that remains in an organization regardless of change in the management team is referred to as the fundamental core of the structural capital¹². It involves all the structures and processes needed by members of the organization in order to be productive and innovative¹⁶. The structural characteristics, in terms of ability to communicate the social mission are important in order to attract the members of the organization in understanding the objectives of the organization, hence, resulting in the core resource of the organization through an effective and efficient management team²⁵. The high level of structural capital in social enterprises shows a proper organizational culture and the willingness of employees to share knowledge and integrate it in formal structures and systems²⁴.

A study by Overall *et al.*³⁰ found that structures and processes must be aligned with the cultural norms of organization, in order for the social enterprise to achieve sustainability. Thus, managing the organization's structure is important as it also affects the quality of service delivery and the achievement of an organization's mission⁶. This is imperative since quality is viewed as a significant factor in improving the efficiency and effectiveness of a social enterprise^{13,31}. In fact, organization's cultural practices could help organizations sustain themselves through clear descriptions of their mission, leadership, structure and alliances³².

It is insufficient for the organization to expand the service and program's delivery without having sufficient knowledge, appropriate program management as well as improved

service delivery models and practices³³. This is referred to as the "Double halo" effect whereby the malpractices or the failure of a social enterprise is always blamed on the people surrounding the organization, instead of looking into the weaknesses of the system and the organizational practices that may affect organizational sustainability^{34,35}. Hence, from this study, structural capital may affect the performance of organizations, thus indirectly influencing organizational sustainability. All the above arguments leads to the development of the hypothesis as stated below:

Hypothesis 2: There is a significant positive relationship between structural capital efficiency and the sustainability of social enterprise.

Relational capital which is often referred to as social capital is found to be a critical resource in the operation and survivability of social enterprises^{25,36}. While, social entrepreneurs are focusing on searching for resources, they depend heavily on their network of contacts that provide them with access to funding, board members management and staff among other resources. Thus, in order to attract these resources, social entrepreneurs must have a strong and good reputation that stimulates trust among stakeholders especially funders, in order to convince them in relation to the financial health and stability of the organization^{26,33,37}.

This is true especially in relation to the building of relationships and networking which represents the people-to-people aspect of the community^{6,26,36}. Relationships between members, employees and volunteers in social enterprises which are based on norms of trust and cooperation can help to improve the knowledge sharing and an organization's activities towards better outcomes⁹.

In line with the notion of social enterprise, these relationships serve as vital components in entrepreneurship such as helping social enterprises to obtain resources for start-ups⁹. These relationships can take various forms such as strategic alliances, joint ventures, as well as virtual networks which open up the access of resources to a more wider group of stakeholders⁹. Thus, social enterprise needs to be properly selected, managed and prioritized, regarding its relationship with related stakeholders in order to meet strategic objectives within limited time and resources³⁸. Social enterprises are claimed to be the most successful in achieving organization objectives when it engages with multiple stakeholders, it intends to serve¹.

Consistent with the results of the study carried out by Salehi *et al.*³⁹, it shows that capital employed efficiency which represents relational capital has a significant positive relationship with organization performance, thus

leading to sustainability of an organization³⁹. All the above arguments lead to the development of the hypothesis as stated below:

Hypothesis 3: There is a significant positive relationship between capital employed efficiency and sustainability of social enterprise.

MATERIALS AND METHODS

Sample and data collection: The sample consists of 210 social entrepreneurial NPOs registered with the Registry of Societies (ROS) in Malaysia for the financial year of 2010. The nature of the selected NPOs meets the notion of social enterprise, which prioritizes social goals over trading objectives have multiple strategies to generate income such as involves in the contract to deliver services, set up by controlled organisations with an explicit aim to benefit the community and operate business in the public welfare field². This study involves the content analysis of social enterprise's annual report, as well as information under the requirement of form 9, in order to obtain data on the sustainability index and intellectual capital. Content analysis offers a useful approach to study the content of documents in a systematic, objective and quantitative manner⁴⁰. This method allows the researchers to analyze a large amount of textual information and systematically identifies its attributes, such as the presence of certain words, concepts, characters, themes or sentences⁴¹.

The content analysis of this study has been conducted through several processes. First, this study observed the contents of the annual reports and identified the documents that have been submitted by NPOs to ROS which includes the information under requirement of form 9 such as details about the organization's members. Second, the annual report and available information is read thoroughly July 27, 2016 and carefully. Third, each information on sustainability index is identified to determine whether measured indicator is available or not. Indicators are measurement factors which show quantifiable circumstances in compressed form and significant for sustainability reporting because they have a documentation and performance control function^{16,17}.

For each indicator that is available and meet the measurement criteria, the score one ('1') is given, but if otherwise, the score zero ('0') is given^{40,42}. The score ('1') indicates that the organization is sustainable in relation to the measured indicator while the score ('0') indicates otherwise.

However, it is important to note that three indicators under financial viability element of sustainability index for social enterprise, which refers to financial vulnerability are

measured with different interpretation. Surplus margin is considered as sustainable if the ratio exceed 40% while for debt ratio, it is considered as sustainable^{43,44} if ratio less than 30%. The score is then converted to score ('1') if sustainable and ('0') for otherwise.

For the independent variable, Value Added Intellectual Co-efficient (VAIC) method developed by Pulic⁴⁵ is used to measure intellectual capital by effectively monitor and evaluate the efficiency of value added by organization's resources¹⁵. Intellectual capital comprised of three main interrelated non-financial components, which are, human capital, structural capital and relational capital¹² which then being represented by human capital efficiency, structural capital efficiency and capital employed efficiency, respectively.

As for the control variable, this study includes the size of the organization based on the arguments that the size of the organization would influence the sustainability of social enterprise²⁵. The definitions and measurements of variables used in this study are showed in Table 1.

Sustainability index of social enterprise: The measurement of a social enterprise's sustainability has become more complex due to the intangible nature of social enterprise's output^{44,46}. This leads to the development of a comprehensive sustainability index as a measurement tool to evaluate the social enterprise's performance and survivability from financial and non-financial perspectives.

In social enterprises, the financial aspect is perceived as the most important element for sustainably, which reflects that poorly managing financial resources may impair an organization's performance^{1,33,47}. Variability of income in terms of donation, as well as profit from business ideas represents the financial viability of the organization⁴⁸. A study carried out by Chang and Tuckman⁴³ found that financial vulnerability also reflects the survivability of organizations in term of its ability to persevere and overcome crises.

Besides financial aspects, non-financial aspects have also been integrated into the sustainability index by referring to the reliable and valid Core Capacity Assessment Tool (CCAT) developed by TCC Group, which evaluates social enterprise effectiveness on the basis of four key elements, which are leadership capacity, adaptive capacity, management capacity and technical capacity³³. For the past 15 years, TCC Group has provided strategic planning, program development, evaluation and consulting services to NPOs specifically to social enterprise. Thus, CCAT can serve as basis for analysis of organizational sustainability since this tool is developed based on thorough review on non-profit effectiveness and performance in previous years. In addition, these four elements have also been further described by other

Table 1: Definition and measurement of variables

Variable acronym	Definition	Measurement
Dependent variable		
SSE	Sustainability of social enterprise	Self-constructed sustainability index Sustainability index, $I_j = \frac{\sum^n X_{ij}}{25} \times 100$ n = Number of indicators disclosed $X_{ij} = 1$ if the indicator is disclosed and '0' if otherwise Dichotomous scores of '1', if sustainable and '0' if otherwise
Independent variables		
HCE	Human capital efficiency	Value added divided by human capital (Total salaries and wages) Value added = Revenue-expenses (Not included salaries and wages)
SCE	Structural capital efficiency	Structural capital divided by value added Structural capital = Value added minus human capital
CEE	Capital employed efficiency	Value added divided capital employed Capital employed = Total assets
Control variables		
Size	Organization size	Natural log of total revenue

Table 2: Elements of the sustainability index

Element	Description
Leadership capacity	Leader vision, leader influence, board's corporate profile, statement of core values, board's competency and financial expertise
Adaptive capacity	Program's objectives, program resource adaptability-staff, trading idea adaptability, program's success, stakeholders relationship, risk and opportunities
Management and technical capacity	Staff development, volunteer management, facilities, marketing skills, technology capacity, governance practice, occupational health and safety
Financial viability	Grant funding support, mixed income model, audited financial statement, bank accounts, surplus margin and debt ratio

organizations actively involved in the non-profit sector, such as new level group (LLC), centre for charity effectiveness, RAND corporation, third sector research centre and Global Reporting Initiative (GRI).

In addition, the construction of sustainability index for social enterprise is also enhanced by referring to guidelines set out by FATF^{49,50} on "Methodology for assessing technical compliance with the FATF recommendations and the effectiveness of AML/CFT systems" (2013) and "Best practices combating the abuse of non-profit organisations (Recommendation 8)" (2013) in order to take into consideration the effectiveness of social enterprise in dealing with money laundering as well as countering the financing of terrorism. Any involvement with terrorism financing and money laundering may impair the sustainability of social enterprise in the future. The elements of sustainability index are showed in Table 2.

RESULTS AND DISCUSSION

Descriptive statistics: Table 3 shows that descriptive statistics on the dependent variable of sustainability for the social enterprise, with further descriptions on the four elements in the sustainability index, which are leadership capacity, adaptive capacity, management and technical

capacity as well as financial viability. The results of the descriptive statistics for independent variables and control variable are showed in Table 4.

Table 3 shows that from 210 samples of social entrepreneurial NPOs selected, the mean value of the sustainability of social enterprise was 57.71%, with the minimum value of 24% and a maximum value of upto 96%. The mean value indicated a fairly high percentage of sustainability by the social enterprise in the sample of the study. This showed that on average, social enterprises in Malaysia are likely to survive in the future. Leadership capacity ranged from 0-100% with the mean value of 66.34%. Most of the leaders in the social enterprise are able to direct and manage the organization towards achieving the mission of the organization.

Adaptive capacity ranged from 0-100% with the mean value of 62.04%, which indicated that most of the social enterprises were able to adapt to the current environment. It is important for the organization to be able to adjust their operations and activities according to changes in the environment, while fulfilling the visions, in order to ensure sustainability in the future. Management and technical capacity ranges from 0-100% with the mean value of 42.09%. On average, the majority of the social enterprises in the sample did not have adequate resources and facilities to

Table 3: Descriptive statistics of the sustainability of social enterprise

	Minimum	Maximum	Mean	Standard deviation
Sustainability of social enterprise	0.24	0.96	0.5771	0.1294
Leadership capacity	0.00	1.00	0.6634	0.2148
Adaptive capacity	0.00	1.00	0.6204	0.2674
Management and technical capacity	0.00	1.00	0.4209	0.2329
Financial viability	0.17	1.00	0.6223	0.1401

Table 4: Descriptive statistics for the independent and control variables

	Minimum	Maximum	Mean	Standard deviation
Human capital efficiency (%)	-111.35	68.32	1.6482	16.7749
Structural capital efficiency (%)	-15.00	17.62	0.7240	2.0242
Capital employed efficiency (%)	-5.72	12.74	0.5867	1.7914
Organization size	2.19	7.02	4.9082	0.8230

adapt to current changes. They seemed to face difficulties in acquiring and managing resources such as insufficient facilities and equipment to run the operation and activities. Financial viability ranged from 17-100% with the mean value of 62.23%. On average, the majority of social enterprises have financial viability through diversified income in order to ensure sufficient funds to conduct the programs and activities.

Among these four components, management and technical capacity scored the lowest mean, which was 42.09%. This highlighted that social enterprises need to give special attention to management and technical capacity issues, in order to sustain into the future.

Table 4 shows that in relation to human capital, the mean value of human capital efficiency was 1.6482% with the minimum value of -111.35% and a maximum value of 68.32%. On average, most of the social enterprises were capable of generating 1.6482% of value added efficiency from human capital. The 2nd independent variable was structural capital, which was represented by the structural capital efficiency value. The mean value for structural capital efficiency was 0.7240% with the minimum value of -15.00% and a maximum value of 17.62%. On average, most of the social enterprises were able to create 0.7240% value added efficiency from structural capital.

The 3rd independent variable was relational capital, which was represented by the capital employed efficiency value. The mean value for capital employed efficiency was 0.5867% with the minimum value of -5.72% and a maximum value of 12.74%. This indicated that on average, social enterprises were capable to generate 0.5867% value added efficiency from a relational capital. The minimum value of human capital efficiency, structural capital efficiency and capital employed efficiency displayed a negative value, which

indicated that the selected samples created a negative value added efficiency, while the maximum value with positive values implied that the selected samples created value added efficiency for human capital, structural capital and relational capital, respectively.

In relation to the control variable, the results showed a minimum value of 2.19 and a maximum value of 7.02 with the mean value of 4.9082 for the size of the organization. The wide gap between minimum and maximum value indicated the wide gap in total revenue of the selected sample. This implied that the total revenue of the selected samples vary differently between each other.

Multivariate analysis: In this study, multiple regressions were used as the basis of analysis for testing H1 to H3. The hypothesized relationships were modelled as follows.

$$SSE = \beta_0 + \beta_1 HCE + \beta_2 SCE + \beta_3 CEE + \beta_4 SIZE + \epsilon_i \quad (1)$$

where, variable definitions were given in Table 1.

In the above regression model, multicollinearity was tested using the variance inflation factor and tolerance levels and was found to be well within the satisfactory range. In addition to these tests, an analysis of the Kolmogorov-Smirnov (K-S) normality test suggested that the dependent variables and continuous independent variables were not distributed normally. Thus, these data were transformed using Van der Waerden as well as using mathematical formula in order to normalize the data. Field⁵¹ stated that transformation of data did not change the relationship between variables, instead it was applied only to address the normality problem. The regression analysis was performed with the transformed variables. The results of the regression analysis were showed in Table 4.

Results of the multiple regression analysis in Table 5 shows that the adjusted R² was 0.156 with an F-value of 8.502. Therefore, these values provided evidence that the model in this study was valid. Hypothesis 1 predicted that there was a significant positive relationship between human capital efficiency and sustainability of social enterprise. Referring to the regression result in Table 5, it can be observed that the human capital efficiency has a positive impact on the sustainability of social enterprise at a significant value p = 0.073. Therefore, hypothesis 1 is accepted. However, the results indicate that human capital efficiency has a weak positive impact on the sustainability of social enterprise due to lack of value added efficiency created from human capital itself.

Table 5: Multiple regression results for factors affecting sustainability of social enterprise

Dependent variable	Sustainability of social enterprise		
R ²	0.177		
Adjusted R ²	0.156		
F	8.502		
Significant	0.000		
Model	Beta	T	Significant
Constant		-1.813	0.072
Organization size	0.365	5.021	0.000***
Human capital efficiency (%)	0.130	1.806	0.073*
Structural capital efficiency (%)	0.156	2.141	0.034**
Capital employed efficiency (%)	0.141	1.953	0.053*

*Significant at p<0.05, **Significant at p<0.01 and ***Significant at p<0.01

This result was consistent with the descriptive analysis that found most of the social enterprises selected in this study were able to generate on average 1.6482% of value added efficiency from the human capital. Inefficiency in managing human capital may jeopardize sustainability of social enterprise since human capital is tied to the related people within organization that creates knowledge and act on it, it is not replicable⁵².

Hypothesis 2 showed that there was a significant positive relationship between the structural capital efficiency and the sustainability of social enterprise. Referring to the regression result in Table 5, it can be observed that the structural capital efficiency has a significant positive impact on the sustainability of social enterprise at the significant value $p = 0.034$. It indicated that an increase in the structural capital efficiency would lead to an increase in the sustainability of social enterprise. This is also consistent with the study by Al-Tabbaa *et al.*³¹ which states that social enterprise need to take into consideration the quality of organization's procedures as these would affect the final outcome of organization's operations, performance as well as sustainability of social enterprise. In contrast to human capital, structural capital can be formally adopted into the organization and can exist objectively independent of human capital, such as organizational structure and culture. Therefore, hypothesis 2 was accepted, which highlighted that the structural capital efficiency has a significant positive impact on sustainability of social enterprise.

Hypothesis 3 showed that there was a significant positive relationship between the capital employed efficiency and sustainability of social enterprise. Referring to the regression results in Table 5, it can be observed that the capital employed efficiency has a positive impact on the sustainability of social enterprise at the significant value $p = 0.053$. Hence, hypothesis 3 is accepted. Even though the relationship observed is positive, the impact is weak and indicating that

relational capital does not significantly help the social enterprise to achieve sustainability. In order to attract resources, such as funding from external stakeholders, social entrepreneurs must have a strong and good reputation that stimulates trust among the stakeholders in order to convince them on financial health and stability of organization^{26,33,37}.

Hence, this reflects that in building relational capital, social enterprise depends on human capital such as leaders, staff and volunteers to create the relationship with the external stakeholders. In line with the result from descriptive analysis, it is found that most of the social enterprise in Malaysia is not efficient in managing human capital. As a consequence, the organization's performance and sustainability is threatened since relational capital which relates closely with human capital is unable to act as catalyst in converting the intellectual capital into market value⁵³.

CONCLUSION AND LIMITATIONS

The objective of this study is to examine the relationships between intellectual capital and sustainability of social enterprise in Malaysia. This study concludes that structural capital is the most influential factor in increasing the sustainability of social enterprises as compared to human capital and relational capital. Unlike human capital and relational capital, structural capital remained with the social enterprise regardless of changes that have occurred in the organization. This is because structural capital such as organizational routines, procedures, culture and databases is embedded within the social enterprise itself.

There are some limitations to this study. First, this study examined only three types of intellectual capital, which are human capital, structural capital and relational capital. Future studies may extend to other categories such as business renewal and development capital. In addition, future studies may also include other methods of data collection to complement the secondary data and content analysis methods to provide more comprehensive data collection.

Regardless of these limitations, this study provides useful insight into understanding the relationship between intellectual capital and sustainability of social enterprise in Malaysia. More importantly, the findings provide feedback to the regulators and the social enterprise regarding sustainability indicators that should be present in the organization in order to survive in the future. By understanding the overall results, this would help social enterprises to appropriately manage resources by tackling the critical issues that affect their organizational sustainability.

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