

Using an AHP Rating Model to Select a Suitable Approach to Intellectual Capital Management: The Case of a Not-for-Profit Welfare Service

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ABSTRACT

Although a large number of models and tools for managing Intellectual Capital (IC) have been introduced in the literature, the practical operationalisation of IC management still remains challenging. In particular, how managers can better evaluate and select a proper IC management approach represents a critical issue. Selecting a suitable IC management approach is a complex decision-making problem which involves a set of factors affecting the choice. As many factors should be taken into account in that decision, the problem can be tackled using multi-criteria methods. Through a synthesis of management literature regarding the approaches to IC management and the factors affecting their choice, the paper develops an AHP rating model, which keeps in focus the most meaningful elements to be considered in making decision on IC management. The paper presents the results of the application of the model within a not-for-profit organization.

Keywords: Analytic Hierarchy Process, Intellectual Capital, Management, Practice, Rating Approach

INTRODUCTION

The Intellectual Capital (IC) of an organisation consists of the immaterial sources of value related to employees' capabilities, the organisation's resources and processes and the relationships with its stakeholders (Edvinsson & Malone, 1997; Lönnqvist, 2004; Sveiby, 1997). IC is an important source of wealth creation in companies and other organisations and must therefore be managed. However, as a concept IC manage-

ment is quite theoretical and heterogeneous. In the literature IC management is used to refer to several different activities in identifying, measuring, controlling and developing intangible resources in business (Kujansivu, 2008 a, b). In practice, IC management can refer to different things in different organisations, e.g. to a way of thinking (a philosophy), to concrete tools or to a comprehensive management system (Nordic Industrial Fund, 2003). To support IC management, tens of models have been introduced in the literature.

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In spite of the huge number of studies on IC management carried out in recent decades, managers frequently appear disoriented when they have to deal with IC management. One of the most common managerial problems concerns the choice of the most suitable IC management approach. In other words, managers seem unaware of how to start IC management at the appropriate time. This is mainly due to the fact that when companies need to evaluate and select the IC management approach to implement, they usually face a complex decision-making problem which involves a panel of alternative solutions and a set of factors affecting the choice. Against the undeniable complexity embedded in the choice of the best IC management approach to adopt, this paper proposes a model for assisting managers in dealing with this relevant strategic decision. The model is grounded on the Analytic Hierarchy Process (AHP) method and is basically aimed to enhance managers' ability to make decision about IC management. It supports the selection of the most suitable IC management approach by facilitating the combination and coordination of different views of decision-makers (Holsapple & Whinston, 1996). The model has been applied within a not-for-profit organisation.

Nowadays non-profit organisations represent a very interesting context where to investigate IC management. Generally, during the last few years the interest in the intangible aspects of health and social services has increased. The crucial role of intangibles in this sector has been recognised and there is wide interest in their linkage to long-term effectiveness of services (Levy et al., 2009; Spohrer & Kwan, 2009; Vargo & Lusch, 2004). Not-for-profit organisations have distinctive characteristics. There are notably some key features which distinguish them from for-profit organisations. "The social orientation of these organisations is the basic difference between profit and non-profit organisations" (Grigoroudis et al., 2012; p. 105). As outlined by Frumkin (2002) they perform important societal functions that neither the government nor the market is able to match. Other differences concern e.g. widespread use

of volunteers instead of paid managers to run operations; provision of service to those in need instead of creation of shareholder value, getting financial sources from donation and government funding instead of from revenues from sales of products/services, and so on (see e.g. Euske, 2003). Services provided by not-for-profit organisations, as well as the majority of their outputs, are intangible in nature. Additionally their production inputs, such as the competence and motivation of personnel, seamless processes and co-operation between service provider and customer, are basically intangible. These characteristics make IC management particularly significant to non-profit organisations (Kong, 2008). Recently several scholars have noted that IC management may provide a novel and very promising managerial approach in non-profit organisations (Kong, 2007; Kong & Prior, 2008).

The paper is organised as follows. In Section 2, the necessary background in the form of an IC management literature review is presented. In Section 3, first, reasons for choosing the AHP method are evinced and, second, the proposed model based on the AHP is developed. In Section 4, an empirical study is illustrated to demonstrate the feasibility of the model. Finally, according to the findings of this research, discussion and conclusions are presented.

COMPLEXITY OF INTELLECTUAL CAPITAL MANAGEMENT APPROACHES

Approaches to IC Management

The literature includes tens of definitions for the concept of IC management (e.g. Edvinsson, 1997; Marr et al., 2003a; Nickerson & Silverman, 1998; Roos et al., 2005; Ståhle & Hong, 2002; Sullivan, 1999; p. 42; Wiig, 1997). This is natural, since IC covers so many different intangible resources (e.g. employees' competences, business processes, company's image and relationships with customers) that can be managed in various ways. In addition,

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