

Chapter 68

The Effect of Structural Capital for Human Capital Development and Management in Social Enterprises

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ABSTRACT

Social enterprises are a hybrid form of organizations that enact nonprofit and for-profit activities simultaneously. Like their nonprofit and for-profit counterparts, social enterprises are facing the same challenges, if not more, in a turbulent economy. This chapter aims to examine how structural capital assists social enterprises in the development and management of human capital in today's competitive environment. Based on 22 qualitative in-depth semi-structured interviews across 10 social enterprises and nonprofit organizations that perform social entrepreneurship in Australia, the findings suggest that structural capital helps social enterprises in facilitating human capital development and management for innovation. Thus, the study contributes to the literature by arguing that structural capital plays an essential role in social enterprises. Strategies should be developed for a more balanced development of intellectual capital if an intellectual capital-based view of the firm is to be fully integrated.

INTRODUCTION

Social enterprises are a hybrid form of organizations that 'enact hybrid nonprofit and for-profit activities' (Dart, 2004, p. 415) all 'under one roof' (Fowler, 2000, p. 645). In other words, they are not purely commercial and yet, they are not purely philanthropic (Borzaga & Defourny, 2001; Dees, 1998; Kong, 2010). The organizations characterize an alternative for resourcing new services, particularly service innovations that do not fit neatly within government funding guidelines (Gray, Healy, & Crofts, 2003). The primary objective of social enterprises is to create social value for the community that they serve for by adopting innovative business approaches for dealing with complex social problems (Pomerantz,

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2003; Thompson & Doherty, 2006). The organizations often challenge the status quo and conventional thinking about what is feasible to alleviate social problems and to improve general public well-being (Seelos & Mair, 2005). Economic value creation is perceived as a by-product which allows the organizations to achieve sustainability and self-sufficiency (Fowler, 2000; Seelos & Mair, 2005). Thus, social enterprises represent a step forward of the concept of traditional nonprofit organizations in achieving social needs (Manfredi, 2005). Like their nonprofit and for-profit counterparts, social enterprises need to reorganize their existing activities to improve operational efficiency in today's turbulent economy. Structural capital may provide an answer into the challenges that social enterprises are now facing.

Structural capital is the non-human storehouses of knowledge that remains in an organization at the end of the day after individuals have gone home (Grasenick & Low, 2004; Mouritsen & Koleva, 2004; Roos, Roos, Dragonetti, & Edvinsson, 1997). It is often seen as the supportive infrastructure for innovation in the strategy development in organizations (Kong & Ramia, 2010). Structural capital derives from organizational processes and routines, reflecting external and internal focal-points of an organization at a point in time but also stressing strategic renewal and development value for the future (Bontis, Keow, & Richardson, 2000). Examples of structural capital may include: databases, process manuals, policies, strategies, routines, organizational culture, publications, and copyrights (Guthrie, Petty, & Ricceri, 2006; Ordóñez de Pablos, 2004a).

In the concept of intellectual capital, there are three interrelated components, namely human capital, relational capital and structural capital. Human capital is volatile in nature (Edvinsson, 1997). When individuals leave an organization, they take their talent, skills, tacit knowledge, creativity and innovation with them (Bontis et al., 2000; Grasenick & Low, 2004; Massingham, 2008; Roos et al., 1997). This likely causes a loss of organizational memory, which can be a threat to the organization. Relational capital is external to an organization and thus is difficult to codify, manage and control (Bontis, 1998; 1999; Knight, 1999; Kong & Thomson, 2009). Unlike human and relational capital, structural capital can be owned and traded by an organization (Edvinsson, 1997). Some of the intellectual assets may become intellectual property rights and be legally protected and are legitimately owned by the organization (Fletcher, Guthrie, Steane, Roos, & Pike, 2003). Thus, structural capital represents the only knowledge stock that remains in organizations at all times (Grasenick & Low, 2004; Mouritsen & Koleva, 2004; Roos et al., 1997). It holds the key to amplify the values arising from human and relational capital and thus multiply the overall level of intellectual capital in organizations (Edvinsson, 1997; Mouritsen & Koleva, 2004).

Very little research has been conducted to examine the effect of structural capital for human capital development and management, particularly in the context of social enterprises. The study contributes to fill this gap in the social entrepreneurial and intellectual capital-based view literature arguing that structural capital helps social enterprises in facilitating the development and management of human capital for innovation. Through 22 qualitative in-depth semi-structured interviews across 10 social enterprises or nonprofit organizations that perform social entrepreneurship in Australia, the findings suggest that social enterprises more likely develop human capital for innovation if they implement strategies that responds to market opportunities and environmental dynamics by exploiting and exploring structural capital in the organizations.

The chapter is organized as follows. Firstly, a brief review of social enterprise literature is provided. This is followed by an overview of the concept of structural capital and its implications in the context of social enterprises. A short outline of the research methodology used is presented. The findings of the interview program are provided in the fourth section. Then the implications of the analysis for research and practice are discussed. The final section discusses research limitations and future research.

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