

## Chapter 12

# Harnessing Knowledge for Innovation in Social Enterprises: An Intellectual Capital Perspective

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### ABSTRACT

*Very little research has investigated the role of intellectual capital (IC) in innovation processes in social enterprises. After reviewing the literature, the central argument in this research study is that IC assists social enterprises to harness knowledge that leads to innovation for the pursuit of social and commercial activities. Thus the study contributes to the literature by theoretically arguing that IC can be utilized in innovation processes in social enterprises. An IC conceptual framework is proposed which helps social entrepreneurs to visualize IC and its components in their organizations. Finally, the framework's implications for the development of effective innovation-based strategies in social enterprises are discussed.*

### INTRODUCTION

Social enterprises are not purely commercial and yet, they are not purely philanthropic (Borzaga & Defourny, 2001; Dees, 1998). They “enact hybrid nonprofit and for-profit activities” (Dart, 2004: 415) all “under one roof” (Fowler, 2000: 645). Social enterprises accomplish their social missions through the development of innovative ventures or by reorganizing existing activities to improve operational efficiency (Pomerantz, 2003; Weerawardena & Sullivan-Mort, 2006; Zappala,

2001). Thus they represent a step forward of the concept of traditional nonprofit organizations in achieving social needs (Manfredi, 2005). Indeed, social enterprises 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 & Mair, 2005).

Although social enterprises involve adopting innovative business approaches for dealing with complex social problems, their primary objective is to create social value for the community that they serve for (Pomerantz, 2003; Thompson & Doherty, 2006). Economic value creation through commercial revenues and business activities is

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often perceived as a strategic means that allows the organizations to achieve sustainability and self-sufficiency, generate income to support their mission, and carry out mission-related functions expeditiously (Seelos & Mair, 2005; Young, 2001). Social enterprises that rely on for-profit strategic management techniques for strategic decisions may find themselves uneasy to reconcile commercial objectives for organizational survival and social mission to meet client needs. This is because for-profit strategic management methods that emphasize profit maximization are arguably compromising the principle of investing in human and social concerns in mission-driven nonprofit organizations (Alexander, 2000; Chetkovich & Frumkin, 2003; Eisenberg, 1997; Kong, 2008; Mulhare, 1999; Weisbrod, 1998). Social enterprises must be managed strategically through innovative approaches, with the social dimension being central. Thus these organizations 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.

Based on a review of the literature, this study argues that intellectual capital (IC) can be utilized as a valid strategic management framework in the innovation process in social enterprises 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; Kong & 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 research study is threefold. First, little systematic research has

examined the application of the IC concept as a strategic management conceptual framework in innovation processes in social enterprises. Therefore the study contributes to fill this gap in the strategic management literature. Second, suggestions on how the IC concept can be utilized effectively in the unique context of social entrepreneurship are presented. Finally, 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 chapter is organized as follows. Firstly, a review of the emergence of social enterprises and the need for a valid strategic management method in 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. Then this leads to a discussion of an IC conceptual framework and strategic advantage in social enterprises' innovation strategy development. Finally, a discussion of how the framework can be used effectively in the innovation process to advance strategic advantage in social enterprises is presented.

## **SOCIAL ENTERPRISES AND STRATEGIC MANAGEMENT METHODS**

Social entrepreneurship is an emerging area of investigation within the entrepreneurship and not-for-profit marketing literatures (Hitt, Ireland, Camp, & Sexton, 2001; Weerawardena & Sullivan-Mort, 2006). The emergence of social enterprise can be linked to resource constraints in the nonprofit sector (Dees, 1998; Gray, Healy, & Crofts, 2003). Traditional nonprofit organizations are now facing challenges stemming from diminishing fiscal supports in the form of public funds and donations (Alexander, 1999; Craig, Taylor, & Parkes, 2004; Eisenberg, 1997). In addition, growing competition for service deliv-

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