Effectiveness of Social Enterprise in Managing Intellectual Capital

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Abstract

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 the effectiveness of social enterprise. Thus, this study aims to examine the role of intellectual capital, in terms of human capital, structural capital and relational capital on the effectiveness of social enterprise which is represented by the financial viability. Information on the financial viability 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. The results from the statistical analysis revealed that on average, most of the social enterprises in Malaysia would be able to financially sustain in the future. Based on the multivariate analysis, the results highlighted that human capital has a significant positive influence on the financial viability of social enterprise while structural capital and relational capital do not have significant positive relationship with the financial viability of social enterprise. Overall, the findings concluded that human capital was the most influential factor in enabling the effectiveness of social enterprise.

Keywords: effectiveness, financial viability, intellectual capital, social enterprise, resource-based view theory

1. Introduction

Currently, there is a significant growth in the “third sector” which neither classified as public sector, nor the private sector. This “third sector”, often called as “non-profit organizations (NPOs)” is important to serve the needs of society which is not fulfilled by public or private sector (Austin, Stevenson, & Wei-Skillern, 2006; Defourny, 2001). Following the development of third sector, social enterprise, the NPOs with the entrepreneurial spirit, emerged as a sub-division of the third sector which is not under the priority to neither seek profit nor serve as part of the public sector (Connolly & Kelly, 2011; Teasdale, 2010; Chang, 2017).

The development of social entrepreneurial non-profit organizations (NPOs) is triggered by the increase in demand for sustainability among NPOs due to lack in funds to support core activities, as well as increases in competition for scarce resources (O’Connor, Elson, Hall, & Reimer, 2012; Teasdale, 2010; Velti & Bronzetti, 2015; Chang-Sheng, 2018). It is important to highlight that resources available in social enterprise are not in term of tangible resources only. Instead, intangible resources, which are represented by intellectual capital, are seen to be significant to an organization’s performance due to its attributes that could provide competitive advantages over the long-term (Pedrini & Matteo, 2007; Velti & Bronzetti, 2015). Intellectual capital refers to organizational resources that involve wealth creation through investment in information, knowledge, and intellectual property, and takes into consideration the qualitative and non-financial indicators for future prospects (Kong, 2007; Chima & Kasim 2018).

There are numerous studies that evaluate the relationship between intellectual capital and organization’s performance (Dadashinasab & Sofian, 2014; Swartz, Swartz, & Firer, 2006). However, only limited studies have been carried out to determine the effect of intellectual capital on the organizational effectiveness, especially those concerning social enterprise. It is essential to measure the effectiveness of social enterprise since the main revenue is from donors while the main goal is to fulfill the social missions. Organizational effectiveness refers to the ability of an organization to effectively accomplish its goals and objectives through management of resources.

Hence, this study aims to fulfill this gap by determining the relationship between intellectual capital and effectiveness of social enterprise which is represented by financial viability. Financial viability indicates the ability of the organisation to sustain in term of fund availability, cost effectiveness as well as cost efficiency (Barclay, 2006; York, 2014). Besides, under financial viability, the social enterprise’s financial vulnerability was also being emphasized.
since a high level of financial vulnerability would reflect a low level of survivability for the social enterprise (Chang & Tuckman, 1991b).

Overall, this study examines the relationship between the financial viability of social enterprise, registered under the Registry of Societies (ROS) in Malaysia, in relation to the intellectual capital of organizations. This paper will proceed by reviewing the past literature from which hypotheses will be developed. The paper will then proceed to the empirical stage of variable measurement, sampling, data analysis and the discussion of results. The final part of this paper presents the conclusion, limitations and suggestions for future research.

2. Literature Review and Hypotheses Generation

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 (Barney, 1991; Boyd, Bergh, & Jr., 2010; Coleman, Cotei, & Farhat, 2013; Wernerfelt, 1984). In terms of social enterprise, it relates to the ability of entrepreneurs to acquire, develop and manage resources in order to gain competitive advantage (Chisholm & Nielsen, 2009; Coleman et al., 2013; R. Hall, 1993; Kraaijenbrink, Spender, & Groen, 2010) through the creation of resources that are valuable, rare, imperfectly imitable, and of which cannot be substituted (Barney, 1991; Chi, 2018).

This study focuses on the role of three types of intellectual capital; human capital, structural capital and relational capital on the financial viability of social enterprise. These three types of intellectual capital are chosen since these resources are relevant in the context of social enterprise (Agoston, 2014) as it is the key drivers for the creation of competitive advantage (Veltri & Bronzetti, 2015).

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 (Akingbola, 2013; Akinlade & Shelack, 2016; Austin, Stevenson, & Wei-Skillern, 2006; Coleman et al., 2013). In social enterprise, human capital may include members, employees, as well as volunteers, who are either involved directly or indirectly in the organizational activities (Gazzola & Amelio, 2015). 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 (Akingbola, 2013; Austin et al., 2006; K. Hall, Miller, & Millar, 2012). As a result, this will indirectly improve the organization’s performance and financial viability in the long-run due to the matching of human capital and social enterprise activities.

A study carried out by Hao Jiao (2011) 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 towards achieving organization’s goals (Akinlade & Shelack, 2016; Castro, 2018). This indicates that human capital is a prevailing element in social enterprise, thus, managing human capital efficiently is crucial in order to ensure the financial viability of social enterprise. The above arguments thus lead to the development of the hypothesis as stated below:-

Hypothesis 1: There is a significant positive relationship between human capital efficiency and the financial viability 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 capital (Kong, 2007). It involves all the structures and processes needed by members of the organization in order to be productive and innovative (Mertins & Orth, 2011). 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 team (Akingbola, 2013). 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 systems (Agoston, 2014; Canh & Liem 2018).

Thus, managing the organization’s structure is important as it also affects the quality of service delivery and the achievement of an organization’s mission (Weerawardene, McDonald, & Mort, 2010). This is imperative since quality is viewed as a significant factor in improving the efficiency and effectiveness of a social enterprise (Al-Tabbaa, Gadd, & Ankrah, 2013; Sillanpää, Sillanpää, Lönnqvist, Koskela, Koivula, Koivuaho & Laihonen, 2010). The above arguments thus leads to the development of the hypothesis as stated below:-

Hypothesis 2: There is a significant positive relationship between structural capital efficiency and the financial viability of social enterprise
Relational capital, which often referred to as social capital, is found to be a critical resource in the operation and survivability of social enterprises (Akingbola, 2013; Runyan, Huddleston, & Swinney, 2007). 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, and employees, 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 on the financial viability and stability of the organization (Austin et al., 2006; Schöning, Noble, Heinecke, Achleitner, & Mayer, 2012; York, 2014).

Social enterprises are claimed to be the most successful in achieving organization objectives when it engages with multiple stakeholders it intends to serve (O’Connor et al., 2012). Consistent with the results of the study carried out by Mahdi Salehi, Gholamreza Enayah and Parisa Javadi (2014), it shows that capital employed efficiency, which represents relational capital, has a significant positive relationship with organization performance, thus leading to the financial viability of an organization (Salehi, Enayati, & Javadi, 2014). The above arguments thus lead to the development of the hypothesis as stated below:

Hypothesis 3: There is a significant positive relationship between capital employed efficiency and the financial viability of social enterprise

3. Methodology

3.1 Sample and Data Collection

In this study, the data was collected using the content analysis since this method offer an useful approach to study the content of documents in a systematic, objective and quantitative mode (Zainon, Atan, & Wah, 2014). 210 samples out of the 400 organisations registered under Registry of Societies (ROS) in Malaysia were randomly selected based on the available annual reports and data of the registered organizations under ROS for the year ended 2010. Simple random sampling was chosen because it will provide high generalizability of findings for this study (Sekaran & Bougie, 2013). The data were obtained from annual reports as well as from Form 9. Annual report was chosen for the year of study since this was the latest year that data was available due to voluntary disclosure of annual report by the organization registered under the ROS. Annual reports contain of information in term of financial and organization’s program while Form 9 consists of essential information given every year by registered organization which is pursuant to Section 14 (1), the Societies Act, 1966 (Official Portal : The Registry Of Societies Malaysia, 2014). The organization will be classified as social enterprise if it met any one of these following criteria; it delivered services under contract, charged beneficiaries fees for some of the services, offered products or services such as training, have had some other trading income, and have had separate trading company which has contributed its profits to the enterprise (Akingbola, 2013; Barclay, 2006; O’Connor et al., 2012). Beneficiaries were those people who have received or enjoyed the services provided by the social enterprise by paying a certain amount of money such as membership fees.

The content analysis of this study has been conducted through several processes. First, this study observed the contents of the annual reports and has identified the documents that have been submitted by the NPOs to the Registry of Societies (ROS). Secondly, the annual report and available information were read thoroughly and carefully. Third, information on the financial viability index was identified to determine whether the measured indicator was available or not.

Based on the previous research, the disclosure index has been applied within the diverse settings in the not-for-profit disclosure studies (Chow and Wong-Boren, 1987; Ghazali, 2008; Haniffa and Cooke, 2002; Ho and Wong, 2001). It can be segregated either by dichotomous scoring or assigning each item some weightage in computing the index numbers (Zainon et al., 2014). Due to limited and inconsistence disclosure of data in the annual report by the organization, the dichotomous score was chosen for this study. For each indicator that was available and met the measurement criteria, the score of one (‘1’) was given, but if otherwise, the score zero (‘0’) was given (Bepari, Rahman, & Mollik, 2014; Zainon et al., 2014). The score of (‘1’) indicated that the organisation was financially viable in relation to the measured indicator while the score of (‘0’) indicated otherwise. It was important to highlight that three indicators of the financial viability index, which referred to the financial vulnerability were measured with different interpretations. Surplus margin was considered as financially viable if the ratio exceeded 40 percent while for debt ratio. It was considered as financially viable if the ratio was less than 30 percent (Chang & Tuckman, 1991a; Trussel, 2002). The score was then converted to score (‘1’) if financially viable and (‘0’) otherwise to ensure consistency in data analysis.
In this study, the Value Added Intellectual Co-efficient (VAIC) method developed by Pulic (1998) was used to measure intellectual capital by monitoring and evaluating the efficiency of value added (VA) of the organization’s resources (Swartz et al., 2006). VAIC model was intended to measure the extent to which an organization produces value added based on intellectual capital resources or efficiency (Pulic, 1998). This method has been used in various regional and national analyses to study the performance of individual companies (Ali Ibrahim, 2015) thus consistent with the nature of social enterprise that have both social and financial objectives. In overall, intellectual capital comprised of three main interrelated non-financial components; human capital, structural capital, and relational capital (Kong, 2007) which was then being represented by the human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE) respectively.

As for the control variable, size of the organization was chosen based on the arguments that the size of the organization would influence the financial viability of social enterprise (Akingbola, 2013). For example, small organization indicated limited and restricted access to the resources. Revenue was chosen as the measurement for the size of the organization because under the context of the not-for-profit organisation, revenue supports the activities of the organization and form part of the resources for the organization (Akingbola, 2013).

The definitions and measurements of variables used in this study are listed in Table 1.

Table 1. Definition and measurement of variables

| Variable Acronym | Definition | Measurement | Sources |
|------------------|------------|-------------|---------|
| **Dependent Variable** | | | |
| FV | Financial Viability of Social Enterprise | Self-constructed financial viability index | (Bepari et al., 2014; Orth & Kohl, 2013; Zainon et al., 2014) |
| | | Financial Viability, I_j = \sum x_{ij} / 100 | |
| | | n= Number of indicators disclosed | |
| | | X_{ij} = 1 if the indicator is disclosed and ‘0’ if otherwise | |
| | | Dichotomous scores of ‘1’, if financially viable and ‘0’ if otherwise. | |
| **Independent Variables** | | | |
| HCE | Human Capital Efficiency | Value added divided by human capital (total salaries and wages). | (Dadashinasab & Sofian, 2014; Pulic, 1998; Salehi et al., 2014; Swartz et al., 2006; Tan et al., 2008) |
| | | Value added = Revenue – expenses(not included salaries and wages) | |
| SCE | Structural Capital Efficiency | Structural capital divided by value added. | (Dadashinasab & Sofian, 2014; Pulic, 1998; Salehi et al., 2014; Swartz et al., 2006; Tan et al., 2008) |
| | | Structural capital = Value added minus human capital | |
| CEE | Capital Employed Efficiency | Capital employed efficiency = Value added divided capital employed. | (Dadashinasab & Sofian, 2014; Pulic, 1998; Salehi et al., 2014; Swartz et al., 2006; Tan, Plowman, & Hancock, 2008) |
| | | Capital employed = Total assets | |
| **Control Variables** | | | |
| SIZE | Organization size | Natural log of total revenue | Akingbola, 2013 |
3.2 Financial Viability of Social Enterprise

Financial viability indicated the ability of the organisation to sustain in term of fund availability, cost effectiveness as well as cost efficiency (Barclay, 2006; York, 2014). Cost effectiveness indicated the quality of services delivered while cost efficiency referred to the number of stakeholders that can enjoy benefit from services delivered by the organisation. In social enterprise, the financial viability was perceived as important aspect for effectiveness because poor in managing financial resources may impair the organization’s performance (O’Connor et al., 2012; Organizational Readiness, 2014; York, 2014).

Variability of income in terms of donation as well as profit from business idea represents the financial viability of the organisation. In terms of funding sources, social entrepreneurs depended on a wide range of sources such as individual donations, government grants, member fees, and any other donations from others. A study by Eibhlín Ní Ógáin, Tris Lumley and David Pritchard (2012) have specified that the social enterprise’s main funding resources were earned income (fees and other direct charges), government grants and contracts (from local or central government), individual donors, foundations/philanthropists, corporate donors and other sources such as investments.

Under financial viability, the social enterprise’s financial vulnerability was also being given attention since a high level of financial vulnerability would reflect a low level of survivability for the social enterprise (Chang & Tuckman, 1991b). An organization with relatively high surplus margin might be less vulnerable to financial problems, thus ensuring financial viability. On the other hand, higher debt ratio might trigger financial issues such as default in payments, thus initiate the organization to financial problems.

It was impossible to achieve organization’s objectives and mission if the financial viability was absent in the organization (O’Connor et al., 2012). Basically, social enterprise needed to demonstrate good financial management in order to gain confidence of the stakeholders. Financial transparency would become the main interest of the donors, organizations, and authorities since social enterprise has entitled for grants and donations (FATF, 2013). Obviously, the fund’s giver was interested to know how well the fund was managed for charity and social purposes. One of the alternatives for social enterprise to show transparency was by having registered and proper bank accounts. This could be achieved by keeping the funds received in the accounts and utilizing the proper and formal financial channels for transferring funds. Besides, the financial transparency could also be enhanced through audited financial statements by appointing external auditors to audit the organization’s financial statements.

Table 2. Financial viability index for social enterprise

| Core Element            | Description                                                                 | References                        |
|-------------------------|----------------------------------------------------------------------------|-----------------------------------|
| Financial Viability     |                                                                            |                                   |
| 1) Grant funding support-government | The income of the organizations comes from funds given by government | (Barclay, 2006)                  |
| 2) Mixed income model   | The income of the organization comes from various resources                | (Sontag-Padilla, Staplefoote, & Morganti, 2012) |
| 3) Audited financial statement | Financial statement is audited by the auditors                              | (FATF, 2013)                     |
| 4) Bank accounts        | The organization has formal and registered bank accounts                   | (FATF, 2013)                     |
| 5) Surplus margin       | Organization with relatively high surplus may be less vulnerable to financial problems | (Chang & Tuckman, 1991a; Trussel, 2002) |
| 6) Debt ratio           | The lower the debt ratio, the less vulnerable the organization to the financial problems | Annual reports, (Trussel, 2002) |

4. Results and Discussions

4.1 Descriptive Statistics

Table 3 presented the analysis on the dependent variable of the financial viability of the social enterprise. The results of the descriptive statistics for the independent variables and the control variable are presented in Table 4.
Table 3. Analysis on financial viability

| Financial Viability                  | Number of NPOs | %  |
|--------------------------------------|----------------|----|
| 1) Grant funding support- government | 48             | 23 |
| 2) Mixed income model                | 197            | 94 |
| 3) Audited financial statement       | 124            | 59 |
| 4) Bank accounts                     | 201            | 96 |
| 5) Surplus margin                    | 32             | 15 |
| 6) Debt ratio                        | 181            | 86 |

Table 3 showed that of the financial viability, majority of the social enterprises have multiple sources of income, audited financial statements and proper bank accounts. In compliance with the best practice of social enterprise, most of the social enterprise handled funds by maintaining it in registered bank accounts, so their financial system is indirectly monitored under relevant controls or system of related financial institution (FATF, 2013). Besides, most of them took less debt, thus reducing the risk of financial issues such as default payment. However, in term of grant funding support from government as well as surplus margin, only 23% and 15% of the social enterprises showed that they were financially viable in term of getting government grant and having more surplus on revenue over the expenditure. This situation highlighted that the government grants are limited, thus social enterprise need to find another sources of income to ensure continuous flow of income in the future. Social enterprise may face difficulty to achieve breakeven and financial viability without the support of some donor (Austin et al., 2006; Teasdale, 2010) due to the uncertainty and nature in funding that usually covers limited period of time.

Table 4. Descriptive statistics for the independent and control variables

| Statistics                          | Min  | Max  | Mean  | Std. 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         |

Table 4 reported 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 second 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 third 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. Results from these descriptive study indicated that value added efficiency may or may not be created from the human capital, structural capital and relational capital, depending on how well the social enterprises managed these resources.

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 varied differently between each other.

4.2 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.

\[
FV = \beta_0 + \beta_1 \text{HCE} + \beta_2 \text{SCE} + \beta_3 \text{CEE} + \beta_4 \text{SIZE} + \epsilon_t
\]

where variable definitions were given in Table 1.

Table 5. Multiple regression results

| Dependent Variable | Financial Viability of Social Enterprise |
|--------------------|----------------------------------------|
| R²                 | 0.214                                  |
| Adjusted R²        | 0.182                                  |
| F                  | 6.795                                  |
| Sig                | 0.000                                  |

| Model                          | Beta  | t     | Sig.  |
|--------------------------------|-------|-------|-------|
| Organization size              | 0.238 | 2.671 | 0.009 |
| Human Capital Efficiency (%)   | 0.396 | 3.749 | 0.000 |
| Structural Capital Efficiency (%)| -0.028| -0.269| 0.789 |
| Capital Employed Efficiency (%)| -0.132| -1.485| 0.141 |

Results of the multiple regression analysis in Table 5 reported that the adjusted R² was 0.182 with an F value of 6.795. Therefore, these values provided evidence that the model in this study was valid. Low value of R² was because of the data points that fell further from the regression line and it still indicated an actual relationship between the variables (Frost, 2014). Thus, the findings were acceptable. By measuring the influence of intellectual capital on the financial viability, the social enterprise can have clear view on how the management of resources may affect the activities and success of organization, thus assisting them in making more informed discussion and decisions that leads to financial viability in the future (Connolly & Kelly, 2011). This was imperative since intellectual capital played a critical role in improving the organization’s performance as well as achieving sustainable profitability (Dadashinasab & Sofian, 2014; Mertins & Orth, 2011; Salehi, Enayati, & Javadi, 2014) by providing competitive advantage over the long term period (Pedrini & Matteo, 2007). Hypothesis one predicted that there was a significant positive relationship between human capital efficiency and the financial viability 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=0.000. This means that the human capital efficiency has a strong positive impact on the financial viability of social enterprise. Among all the components of intellectual capital, human capital was viewed as the most important asset in social enterprise as it formed a basis for innovation and strategic renewal of organization (Salehi et al., 2014; Sillanpää et al., 2010). Since social enterprise refers to “human-change agents” with the social and economic purposes, human capital was vital to achieve these goals (Mesa, 2010). Besides, under the context of social enterprise, human capital involved employees and volunteers that were highly mobile, thus they can be managed to work under the activities that gave the most impact on organization’s performance (Chisholm & Nielsen, 2009; Defourny, 2001). As a result, it will influence the financial viability of the social enterprise.

Inefficiency in managing human capital may jeopardize the financial viability of social enterprise since human capital was tied to the related people within organization that created knowledge and acted on it (Bronzetti & Veltri, 2013) and it may affect the business’s overall performance. Therefore, hypothesis one is accepted, which highlighted that the human capital efficiency did have a significant positive impact on the financial viability of social enterprise.

Hypothesis two predicted that there was a significant positive relationship between the structural capital efficiency and the financial viability of social enterprise. Referring to the regression result in Table 5, it can be observed that
the structural capital efficiency has no impact on the financial viability of social enterprise at the significant value p=0.789. It was important to highlight that structural capital related closely to human capital since human capital was an influential factor of the organizational form. However, once influenced by human capital, structural capital can exist objectively independent of human capital such as organizational structure and culture that can exert foundational effects on its own (Chen et al., 2004). As a result, it does not influence the financial viability of the social enterprise since structural capital can be formally adopted into the organization (Tan et al., 2008). Therefore, hypothesis two was rejected, which highlighted that the structural capital efficiency did not have a significant positive impact on the financial viability of social enterprise.

Hypothesis three predicted that there was a significant positive relationship between the capitals employed efficiency and the financial viability of social enterprise. Referring to the regression results in Table 5, it can be observed that the capital employed efficiency has no impact on the financial viability of social enterprise at the significant value p=0.141. Relational capital, represented by capital employed efficiency referred to social structures such as networks and relationship that ties between members of organization and stakeholders (Chisholm & Nielsen, 2009; Jiao, 2011). Consistent with the result of the descriptive study on capital employed efficiency, in term of generating value-added efficiency, most of the social enterprise generated only 0.5867% value added efficiency. This indicated that relational capital did not help the social enterprise to achieve financial viability since most of them were not able to create value added efficiency from the relational capital. Therefore, hypothesis three was rejected, which indicated that the capital employed efficiency did not have a significant positive impact on the financial viability of social enterprise.

5. Conclusions and Limitations

The objective of this study was to establish an understanding on the role of intellectual capital on the effectiveness of social enterprise in Malaysia which is represented by the financial viability. This study concluded that human capital was the most influential factor in increasing the financial viability of social enterprises, as compared to structural capital and relational capital. As supported by the study carried out by Hao Jiao (2011), human capital represented the ability to integrate resources of the organization. Regardless of the fields, whether social services, health care, community housing, environment, sports, religions or culture, human capital which consists of employees and volunteers, share the common goals which is to make the world as better place (Gazzola & Amelio, 2015). As a result, they will indirectly contribute their best to ensure the organisation is financially viable so that they can effectively deliver the services to the neediest one in the future.

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. Intellectual capital is not limited to only these three categories, but may be extended to other categories such as business renewal and development capital. Thus, in future studies, the researchers may observe other categories of intellectual capital that could possibly influence the financial viability of social enterprise.

Besides, this study focuses on financial aspects only. It is important to highlight that effectiveness of social enterprise does not depend solely on financial viability due to changes in characteristics, nature, and operation of social enterprise. Instead, in order to comprehensively evaluate the effectiveness of social enterprise, non-financial aspects need to be taken into consideration as well (Overall, Tapsell, & Woods, 2010; York, 2014).

Regardless of these limitations, this study provides useful insight into understanding the relationship between intellectual capital and the financial viability of social enterprise in Malaysia. Besides, this study serves as new literature for future academicians and researchers to investigate further into this area. In conclusion, this study provides a significant contribution, in terms of knowledge, to the public at large.

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