

# Intellectual Capital in Malaysian Non-Profit Organisations

**Amrizah Kamaluddin<sup>a</sup>, Siti Zafirah Baiza Abu Bakar<sup>b</sup>**, <sup>a</sup>Faculty of Accountancy, Universiti Teknologi MARA, Bandar Puncak Alam, Selangor, Malaysia, <sup>b</sup>School of Accounting & Business Management, FTMS College, Persiaran Semarak Api, Cyber 4, Cyberjaya, Selangor, Malaysia,

Non-Profit Organizations (NPOs) have received an increase in demand for services from the society responsible for the highly competitive environment in which they operate. This is due to the increasing competition in securing resources, less volunteers and limited government funding. It is suggested that the existence of intellectual capital can lead the NPO to become a leader in the social network. Intellectual capital can be a new lens for the NPO to increase and sustain its performance. A review of existing literature demonstrates that most studies in the field of intellectual capital literature have focused on profit organisations. This has left the link between intellectual capital and NPOs largely unexplored. This study aims to examine the relationship between intellectual capital and the performance of the Malaysian NPOs. Specifically, this study examines three components of intellectual capital, namely, human capital, organisational capital and relational capital. A quantitative approach using a questionnaire survey was applied to the study. Sixty-seven representatives from various NPOs in Malaysia were participants in this research. The results of this study demonstrate that intellectual capital provides a significant effect on the performance of the NPOs. The results indicate that organisational capital and relational capital significantly influence the performance of the NPOs, whereas, human capital does not stimulate the performance of the NPOs. Organisational Capital which includes organisation routines, structure, values and practices, proves to increase NPO's performance. Relational capital focuses on both internal and external relationship and communication. When there is effective internal communication, it leads to a satisfaction and successful of external communication.

**Key words:** *intellectual capital, human capital, organisational capital, relational capital and non-profit organization (NPO).*

## Introduction

The primary goal of Non-Profit Organisations (NPOs) is not to make money, but to serve society's demand. NPOs are formed for charitable, artistic, scientific, religious or educational purposes, and are relevant to the society and individuals (Benevene et al., 2017). NPOs are the third sector after public and private sectors. All NPOs share a common characteristic which is non redistribution of profit (Sillanpää et al., 2010). NPOs are different from private or profit-making organisations where the focus is on value rather than profit. Their focus is on a local dimension. The services provided by them are based on needs and their priority is to engage in community work. Most of the staff are volunteers that have to be trained, and have a specific approach in their services such as for social, religious purposes and value goals (Borzaga & Santuari, 2003).

NPOs have to deal with the increasing demand for services from the society. In order to meet these demands, the NPOs need to have funds. Balancing the demand and funding is what defines the NPOs and separates them from profit-making organisations. The NPOs need to compete with the profit-making organisations in delivering services, and yet, they encounter internal problems in terms of volunteers and financial resources from the government and donors (Kong, 2007, Mansor et al., 2013, Mansor and Ilias, 2013, MAPHARING and BASUHI, 2017, Md. Wahid Murad et al., 2019, Mohamed et al., 2018, Mohammed, 2017).

A significant body of the Intellectual Capital (IC) literature has examined the IC among NPOs (Fletcher, Guthrie, Steane, Roos, & Pike, 2003). These studies found that the services provided by NPOs are often intangible by nature. Thus, it is important for the NPOs to understand which intangible resources need to be sustained as knowledge is an important source of competitive advantage (Drucker, 1988). In NPOs, the wellbeing of customers and other stakeholders is more important compared to financial performance, thus signifying the importance of operating IC (Sillanpää et al., 2010).

Many organisations have adopted the IC approach in their management. particularly, in developing and managing innovation. Following this, studies have also started to focus on knowledge resources of the economy and knowledge resources in the organisations. In highlighting knowledge resources, intangible assets of the organisations need to be identified, measured and reported (Bontis, Dragonetti, Jacobsen, & Roos, 1999). Organisations can use IC to measure organisational wealth in terms of intangible resources. In addition, IC can also be used as a key to boost organisational strategies and analyses (Roos, Bainbridge, & Jacobsen, 2001).

## **Problem Statement**

IC was originally developed to study the contribution of intangible resources in profit-making organisations (Roos et al., 2001). Intangible resources are also crucial in NPOs, although their primary goal is not to make profit. NPOs raise their revenues through various sources including fundraising, membership fees, and funds from the government (Lyons, 2001). They depend on their employees' and volunteers' skills, knowledge and experience to achieve their goals (Hudson, 1999). Therefore, NPOs believe that they also need to invest in their employees and volunteers to improve their competencies. A number of studies have suggested the strategies adopted the NPOs are ineffective and may cause organisational failure. These issues however, can be improved by adapting and understanding the IC approach in NPOs (Reddy et al., 2012).

IC is important in NPOs because NPOs are responsible to different constituencies including the government, contributors, customers, administrative bodies, employees, board of directors, and society (Bennett, 1998). NPOs rely on these constituencies for funds. IC is distinctly vital to NPOs as it helps the NPOs to avoid goal displacement and refocuses their goals on social dimensions, especially now when the goals are misallocated due to the public sector reformation (Kong, 2012). It is important for the NPOs to achieve performance measurement due to scarce donations, and funding from the government. Therefore, identification of the IC components can assist the NPOs in identifying the areas that they need to be improved. NPOs should not only focus on financial measurement such as the amount of donations and expenditures, but also on fulfilling the needs of their constituencies (Kaplan, 2001). Thus, it is vital to examine how IC can contribute to achieve sustainable performance in Malaysian NPOs.

## **Literature Review**

### ***NPOs' Performance***

Lack of financial performance measurement in NPOs pose an issue for both researchers and practitioners in identifying the type of activities that can contribute to NPO performance. The difficulty in identifying the type of activities contributing to NPO performance is attributed to the inability of the organisation to assess their performance effectively. This is particularly relevant for identifying the best measurement in comparing their performance to similar organisations. For example: managerial routine activities used to determine optimum allocation of scarce resources and communicating effectively on organisational legitimacy to the stakeholders may be difficult when the stakeholders do not agree on the performance criteria (William J. Ritchie & Kolodinsky, 2003).

NPOs are regularly being asked to provide more frequent measurement of outcomes and performance (Buckmaster, 1999). However, performance measurements for NPOs are still questionable and have become a widely debated topic. This is because NPOs are evaluated

based on their efforts and formative criteria, which is difficult to measure. The difficulty in identifying the type of activities contributing to NPO performance is also attributed by goal ambiguity of the NPOs (Mcgill & Wooten, 1975). Since the primary goal of NPOs is to meet the needs of their customers and beneficiaries, these needs become the key indicators of their performance (Kaplan, 2001).

Hishamuddin and Roland (2009) noted that NPOs can collect sufficient donors by indicating that they have sustainable programs and services. When NPOs are able to collect large amount of donations, this indicates that society has trust and confidence in the NPOs ability to manage the donated funds. NPOs' annual reserves indicate that they are committed in their targeted programs, services and their internal operations, however, NPOs are facing problems in measuring the evaluation and consensus of performance. A review of the NPO and strategic management literature shows that the NPOs fail to obtain a set of common category of financial ratios that can be used to determine their strategic management when comparing to other similar organisations. Studies that have examined the link between NPOs and their strategic management were not able to collect a set of common financial ratios that can be useful in determine organisational outcomes with other similar organisations (William J. Ritchie & Kolodinsky, 2003)

### ***Intellectual Capital from NPOs context***

Stewart and Ruckdeschel (1998) defined IC as wealth creation by an organisation through knowledge investment, information, intellectual property and employees' experience. IC refers to the intangible assets such as "knowledge", "information", "intellectual property" and "experience" that an organisation can use to create wealth. There are three components of IC, namely, human capital (HC), organisational capital (OC) and relational capital (RC). HC is related to human skills, motivation and employees' experience while OC comprises of organisation process, patents, databases and management system. RC relates to relationship networks that the organisation is able to form (Kianto, Ritala, Spender, & Vanhala, 2014).

NPOs are able to enhance their performance by using IC. With IC, NPOs can provide valuable information to their stakeholders (Kong, 2012). IC is suitable for managing NPOs' resources and products since intangible assets are an important resource in NPOs (Benevene et al., 2010). Using IC, NPOs would be able to avoid goal displacement and resource diffusion and assist them in focusing on their goals to help the society (Kong, 2012).

IC is useful to NPOs due to regular changes in the public sector reformation, the encouragement of competition, and "value for money" posing a threat to the NPOs. This is because their primary goal is to fulfil the society needs rather than being concerned about competition. Thus, IC is valid for NPOs as it becomes a conceptual framework of strategic management in the knowledge economy (Kong, 2012). By adopting IC, NPOs can implement strategies that focus

on intellectual resources such as knowledge, skills and experiences. NPOs should emphasise on the intellectual resources since their strategic activities and changes depend on their permanent employees and volunteers, and not on external parties such as the government.

IC assists NPOs to better understand their strategic position and optimum organisational resource allocation. IC also provides meaningful information to NPOs which can be transpired to their stakeholders. IC acts as a conceptual framework for NPOs that requires relatively little explanations and interpretations. Moreover, IC can be valuable to NPOs since IC can help in changing the society's behaviours and values. Based on the study by Benevene et al., (2010), it was found that the NPOs required more specialised training for their employees and volunteers compared to profit-making and public organisations. This is because most of the employees were not familiar with IC.

It was found that there are limited studies on IC and NPOs performance by previous researchers. A study by Arshad, Ab Samad, Kamaluddin, & Roslan (2016) defined the role of IC in terms of HC, OC and RC and the sustainability of social enterprise. The sample of this study consisted of 210 social enterprises in Malaysia. The information regarding IC and sustainability of the social enterprise is gathered by analysing their financial report. The study found that IC and OC have significant positive relationships with the sustainability of social enterprise. The impact of HC and RC to social enterprise sustainability also shows significant positive relationships, however, the impact is weak. The weak relationship between HC and sustainability of social enterprise is due to lack of value added efficiency. This study reveals that OC or Structural Capital is the most vital factor in determining the sustainability of social enterprise compared to HC and RC. This is because OC remains in the organisation regardless of the changes that take place within the organisation.

Mesa (2010) examined the composition of IC in a Non-Profit orchestra. The study aimed to explain how IC could help in the success of Non-Profit Orchestra performances. The study targeted two orchestra companies in Denver. In collecting the data, the author implemented observations on rehearsal processes and also interviews individuals who were involved with orchestra performances, such as musicians and instructors. The result of the study demonstrated that, by describing HC in NPO orchestras which related to script, identities and personal goals, the competencies and motives of the individuals could be understood. It is important to recognize IC in NPO orchestras as the relatedness between HC and OC will determine the success of the orchestra performance. HC in orchestra performance is related to musician skills and techniques while OC is related to orchestra processes and conductor signals. Understanding the relationship between HC and OC is vital in determining the smoothness of the orchestra performance.

In a study by Arshad, Ab Samad, Kamaluddin, & Roslan (2016), the impact of IC in terms of HC, OC and RC on the sustainability of social enterprise was investigated. The sample of the study consisted of 210 social enterprises in Malaysia. The information regarding IC and sustainability of the social enterprise was gathered by analysing their financial reports. The study found that IC and OC have significant positive relationships with the sustainability of social enterprise. The impact of HC and RC on social enterprise sustainability is also shown as a significant positive relationship, however, the impact is weak. The weak relationship between HC and sustainability of social enterprise is due to lack of value added efficiency. This study revealed that OC or Structural Capital is the most vital factor in determining the sustainability of social enterprise compared to HC and RC. This is because OC remain in the organisation regardless the change that take place within the organisation.

### **Hypotheses Development**

HC is the most important component of IC (Clarke, Seng, & Whiting, 2011; Kalkan et al., 2014). Clarke et al. (2011) found that Australian companies would invest to improve their employees' skills and knowledge to ensure the companies would benefit from the investment. However, physical capital and financial performance provides the strongest effect over organisational performance, compared to intangible aspects. This indicates that organisational success is not only influenced by intangible values that are embedded in the organisation, but is also influenced by financial indicators. Peña (2002) also agreed that HC comprising of education, experience in business, and motivation level, is the most important IC component in determining organisation performance.

IC components are interdependencies with each other (Andriessen, 2004). HC, which is related to skills, interacts with OC such as process. For example: in an orchestra, the musician skills and techniques are highly depending on the signal provided by the conductor, regular feedback, and listening to others in the orchestra team. The relationship between HC and OC can be explained when the individuals continuously participated due to their feeling of being part of the process. The study on non-profit orchestra showed that the individuals continuously become part of the orchestra when they feel that they are important in the orchestra process (Mesa, 2010). Such finding indicates the importance of HC in organisational success. Arshad et al. (2016) found that HC efficiency provides positive impact to sustainability of social enterprise. However, the positive impact is weak due to the lack of value added efficiency. By promoting HC, it is considered as a fundamental factor that can help the continuity, innovation and brings value to the services. HC also improves efficiency and the quality of the NPOs which help in improving their performance (Benevene et al., 2017). Therefore, the following research hypothesis is developed:

H1: There is a significant relationship between HC and NPOs performance.

Sustainability of social enterprise often increased when OC increased. Compared to HC, OC can independently exist in an organisation through structure and culture (Arshad et al., 2016). OC is important to organisational performance regardless of the industry. OC is even more important for service industries compared to non-service industries (Bontis, Keow, & Richardson, 2000). With OC, organisational development could be achieved by avoiding wasted time and resources and increasing productivity. OC contributes to quick decisions making, which improves efficiency (Benevene et al., 2017). It is very important for the members of the NPOs to communicate their social mission which directly helps them to understand the organisational objectives. This can instigate the members of the NPOs to develop effective and efficient teams (Akingbola, 2013). Managing organisational structure, which is part of OC, is essential as it can effect the service delivery quality and the ability to reach the organisational mission. Therefore, this study develops the following research hypothesis:

H2: There is a significant relationship between OC and NPO performance.

Creating a positive “brand name” for the organisation is not only the role of senior managers, but also employees and volunteers in order to create a link with the external environment and forge external relationships. Thus, HC and RC react with each other to provide better organisational performance. With RC, the organisations would be able to learn from their external parties to improve their services to their customers. It is also noted that RC provides positive impact to sustainability of social enterprise, although the impact is weak. This indicates that RC may not be able to significantly assist in the sustaining social enterprise (Arshad et al., 2016). RC is a key factor in developing a good image to the NPOs that can help bring “advantages”, “economic return”, and “resources”. This suggests that RC has the power to build partnerships and external contracts, thus indirectly bringing more resources and funds to the NPOs. (Benevene et al., 2017). Increasing in resources and funds indicate improvement in NPO performance (Mahmoud & Yusif, 2012)

Sillanpää et al. (2010) conducted a study on customers’ satisfaction in a NPO that takes care of the elderly. This study used questionnaire surveys to measure customers’ satisfaction, organisation, and activity success. The researchers received consistent feedback from their customers after distributing the questionnaires after each short-term rehabilitation period. They measured their performance by continuously analysing their customers’ physical and mental conditions after each rehabilitation period. Monitoring the number of contributors and sponsors was also used as an indicator to measure organisation outcomes. One of their aims is to reduce the number of suicides among the elderly. Thus, the number of suicides among the elderly was the key point to measure organisation outcomes. Upon completion of the study, Sillanpää et al. (2010) suggested that the NPO should develop soft evaluation measurement such as level of happiness and well-being of the elderly in evaluating their organisation success. They have also suggested that the level of satisfaction among the volunteers and the elderly should be

taken into consideration. This study proves the importance of satisfying external party and beneficiaries which is part of RC is a key element to organisation success. This study develops the following research hypothesis:

H3: There is a significant relationship between RC and NPO performance.

## **Research Design**

### ***Population and Sample***

In 2017, there are 60484 registered NPOs in Malaysia. NPOs must register with the Registry of Society in order for them to run their organisation legally. NPOs are divided into 12 categories, namely: politics, welfare, social, recreation, mutual benefit, culture and art, trade, professional, human right, security and religion. Out of 8574 NPOs in Wilayah Persekutuan, 2723 is concentrating and focusing on welfare services. Target population for this study consists of 2723 NPOs in Wilayah Persekutuan under the welfare category. The welfare category is further divided into disability, senior citizen, children, single mother, member's welfare, and society's welfare.

Sekaran and Bougie (2010) noted that an appropriate sample size is larger than 30 and less than 500. This study chose a simple random sampling technique. For 2723 population size in this study it is sufficient to obtain 350 sample size of NPOs under welfare category in Wilayah Persekutuan Kuala Lumpur.

### ***Data Collection***

The unit of analysis for this study is individual. The questionnaires were distributed to the managers and officer of NPOs or any other relevant representatives that have a strong understanding of their organisations. Organisation members that are qualified to participate in the questionnaire survey other than the managers or officers are the presidents, founders or committee members.

The questionnaire was adapted from Bontis (1998) with some modifications. The actual amount of distributed questionnaire was 350 questionnaires. The questionnaire was divided into 5 sections which started with the brief explanation on IC. The second section contained basic information on respondent profile which include gender, race, position in the organisation and the category of their NPO. In the third section, the respondents were asked to respond on question related to their organisation economic performance. The last section contained questions about non- economic performance measurements. The questionnaire was distributed directly and also through emails to the organizations.

To validate the questionnaire, this study approached the experts. Discussions were conducted with three founders of NPOs and academics on IC indicators. After confirming the indicators, it was deemed suitable to use the indicators by Bontis (1998) as these indicators are more appropriate for Malaysian NPOs. Three hundred and fifty questionnaires were distributed to the representatives of the NPOs. Out of 350 questionnaires distributed, only 67 questionnaires were returned and completed to be used in this study. Hence, the response rate is only 19%.

### *Measurement of variables*

The independent variables in this study is IC, HC, OC and RC. The respondents were required to provide their opinion on their organisations IC and its components using 5 point Likert scale, ranging from 1 which is strongly disagree, to 5 which is strongly agree. In measuring IC, the perceptual measurement is used. Sharabati et al. (2010) also used perceptual measurement in measuring IC in the organisations. Intangible assets are not easy to be measured objectively, thus it is common to use perceptual measurement and proxy metrics methods (Kannan & Aulbur, 2004). Table 1 presents the measurement for the independent variables.

**Table 1:** Measurement of Independent Variables

<b>Independent variables</b>	<b>Items</b>
Human capital	<ul style="list-style-type: none"><li>- Experience and expertise</li><li>- Ability to follow organisation process</li><li>- Communication</li></ul>
Organisational capital	<ul style="list-style-type: none"><li>- Training</li><li>- Organisation structure</li><li>- Recruitment process</li></ul>
Relational capital	<ul style="list-style-type: none"><li>- Relation with customers</li><li>- Relation with contributor/sponsor</li><li>- Customers satisfaction</li><li>- Knowledge about customers and contributors</li><li>- customers satisfaction</li></ul>

The dependent variable in this study is NPO performance. NPO are often asked to provide the measurement of their performance, however their performance measurement is still questionable. In measuring NPO performance, this study follows the measurement used in studies by Carmen & José, (2008) and Mahmoud & Yusif( 2012). The performance is measured based on the economic and non-economic indicators as shown in Table 2. Economic indicators included increasing in acquisition of resources such as increasing in the number of visitors and fund raising efficiency. Economic indicators related to benefit obtain by the individual or

community. Non- economic indicators are overall related to beneficiaries satisfaction, service quality and program effectiveness (Mahmoud & Yusif, 2012)

**Table 2:** Measurement of Dependent Variables

<b>Dependent variables</b>	<b>Indicators</b>
Economic performance	<ul style="list-style-type: none"><li>- Ability to meet financial target/ financial goals</li><li>- Ability to collect more funds from donors</li><li>- Improvement in the revenue reserves</li></ul>
Non- economic performance	<ul style="list-style-type: none"><li>- Contribution to a greater awareness.</li><li>- Effectiveness of the programs and performance</li><li>- Satisfaction of donors and the beneficiaries</li><li>- Increasing in the number of beneficiaries</li></ul>

## **Results and Discussion of findings**

### ***Respondents' Profile***

Most of the respondents were female which recorded at 54 respondents out of the 67 respondents. the majority of respondents are Malay consisting of 49.3% of the respondent, followed by Indian (26.9%), Chinese (22.4%) and other races (1.5%). In regards to organisational position, the majority of the respondents are Officers in the organisations comprising of 31.3%. Even though the main targeted respondent is the Managers of the NPOs, they were not always available to complete the questionnaire. Thus, the questionnaires were completed by individuals who best represented the Managers, such as the Founders, Officers and Committee Members. The majority of the respondents are from the children category of NPOs representing 32.8%, followed by disabled (29.9%), society welfare (25.4%), care centre (10.4%) and lastly senior citizen (1.5%).

### ***The Analysis Results***

The testing of integrity of the data included reliability test, normality test, correlation test and multicollinearity analysis have been conducted. The results signify that the data are normal and reliable for further advance analyses.

### ***Correlation Analysis***

Table 3 indicates that RC has the highest correlation with NPO performance ( $r = .550, p = .000$ ) and it is a positive moderate correlation. Positive correlation indicates that any increase in relational capital contributes to the increase in NPO performance and the relationship is significant. The result also shows that there is a positive low correlation between IC ( $r = .466,$

$p = .000$ ) HC ( $r = .327$ ,  $p = .007$ ) and OC ( $r = .394$ ,  $p = .001$ ) with NPO performance. Even though the variables have low correlation, it is still a significant relationship.

The result also shows that HC does not provide significant impact to RC ( $r = .151$ ,  $p = .223$ ), an indication that HC does not foster RC. The result is consistent with Najafbagy, Ghaffari, & Araghi (2017) who found no significant interaction between HC and RC. The result also shows no significant effect between OC and RC ( $r = .134$ ,  $p = .279$ ). This implies that any change in the unit of OC would not affect to the unit of RC and vice versa.

**Table 3:** Correlation of IC components and NPO Performance

	RC	HC	SC	NPO Performance
RC	1			
HC	0.77**	1		
SC	0.134	0.151	1	
NPO Performance	0.394**	0.327**	0.55**	1

\*\*significant at  $p < 0.00$

### Regression Analysis

This section explains the relationship of HC, OC and RC as the predicted variables and NPO performance. The model summary for the relationship between HC, OC and RC and NPO performance is shown in Table 4. R square measures how much is variability in outcome can be explained by the variability in predictors (Field, 2013). The result shows R Square value = .407, an indication that 40.7% of variation of NPO is explained by the variation of HC, OC and RC.

**Table 4:** Multiple Regression for NPO Performance- Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.638 <sup>a</sup>	.407	.379	.54399	.407	14.403	3	63	.000

a. Predictors: (Constant), HC, OC, RC

b. Dependent Variable: NPO Performance

Table 5 displays the F- Test result for the overall significance of the Model. There is a significance F value = 14.403, p- value < .001 implies that there is significant linear relationship between variables.

**Table 5:** Multiple Regression for NPO Performance- ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.786	3	4.262	14.403	.000 <sup>b</sup>
	Residual	18.643	63	.296		
	Total	31.430	66			

a. Dependent Variable: NPO Performance

b. Predictors: (Constant), HC, OC, RC

As referred to Table 6, H1 implies the relationship between HC and NPO performance is not supported ( $\beta$ : -0.001, t: -0.007, p value= .994). This implies that HC does not increase the Malaysian NPO performance. Even though the NPOs have good HC, this does not help increase their performance. Most of the Officers and Managers admitted that they have excellent employees, but they cannot guarantee that they would be able to obtain more funds from donors and improves their revenue reserves. This result contradicted the study by Arshad et al. (2016), where they found that there is significant impact of HC to social enterprise sustainability however the impact is weak. Even though HC does not give significant relationships to NPO performance, it still contributes a significant impact to OC and IC as stated in correlation result in previous section. Based on the result, HC is not significant to NPO performance, thus H1a is rejected.

**Table 6:** Multiple Regression for NPO Performance- Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	.973	.506		1.925	.059	-.037	1.983
OC	.361	.168	.327	2.147	.036	.025	.698
HC	-.001	.183	-.001	-.007	.994	-.368	.365
RC	.378	.073	.507	5.158	.000	.231	.524

a. Dependent Variable: NPO Performance

H2 establishes the significant relationship between OC and NPO is supported ( $\beta$ : 0.361, t: 2.147, p value= .036). This indicates that any increase in OC leads to increasing NPO performance. OC, in this study, with wider elements of intangible assets such as creativity of the employee, relationship with beneficiaries and the system of the organisation can increase NPO performance. This result is consistent with the research of Benevene et al., (2017) which implies that OC contributes to quick decision making thus improve organisation efficiency. Arshad et al. (2016) also found that OC is the most important factor in determine the sustainability of a social enterprise. Based on the result, OC is significant to NPO performance, thus H1b is accepted.

H3 on the other hand, addresses significant relationship between RC and NPO performance is supported ( $\beta$ : 0.378, t: 5.158, p < .001). This implies that increase in RC help NPO to increase their performance. This result is consistent with Sillanpää et al. (2010) where it was found that RC is most crucial factor in satisfying external parties and the beneficiaries which they believe that by satisfying external parties is key element for organisation success. However, this result is not consistent with Arshad et al. (2016) which implies that RC will not helping social enterprise in achieving sustainability. Based on the result, RC is significant to NPO performance, thus H1c is accepted. Based on the results of the multiple regression analysis, the linear model is as follows:

$$\text{NPOP} = 0.973 - 0.001(\text{HC}) + 0.361(\text{OC}) + 0.378(\text{RC}) + \varepsilon$$

Where:

<i>NPOP</i>	= <i>Non- Profit Organisation Performance</i>
<i>HC</i>	= <i>Human Capital</i>
<i>OC</i>	= <i>Organisational Capital</i>
<i>RC</i>	= <i>Relational Capital</i>
$\varepsilon$	= <i>Random error</i>

## Discussion of findings

The objective of this study was to examine the relationship of IC components with NPO performance. NPO is believed as the sector that has been overlooked by many studies and management theories (Benevene et al., 2017). However, there is an increasing demand by the society for the NPOs to provide community services. By identifying and understanding IC in NPOs, it could be a new form of strategy that potentially may help the NPOs to increase their performance.

The first hypothesis is to test the relationship between HC and NPO performance. The result of the study shows insignificant result, thus H1a is not supported. This finding indicates that HC cannot boost the performance of the Malaysian NPOs. This is quite surprising because based on the literature, HC is the most crucial IC component compared to OC and RC. This finding contradicts with Mesa (2010) that found HC is part of the contribution to the organisational success. Study by Arshad et al. (2016) also revealed a positive impact of HC to the social enterprise. The result of study by Benevene et al. (2017) revealed that HC is very essential to the social enterprise workers which is also not consistent with the finding of this study.

The second hypothesis is to examine the relationship between OC and NPO performance. The result shows that there is a significant positive relationship between OC and Malaysian NPOs. This finding implies that any increasing in OC would lead to increase in NPO performance. OC which includes organisation routines, structure, activities, transaction, values, practices and efficiency proves to increase NPO performance. This finding is consistent with Arshad et al. (2016) and Benevene et al. (2017)

The third hypothesis is to examine the relationship between RC and NPO performance. The result shows a significant positive relationship between RC and NPO performance. This finding indicates that if NPO could increase their RC, it would improve their performance. RC focuses on both internal and external relationship and communication. When there is a successful internal communication, it will also bring a satisfaction and successful of external communication. RC in this study is about working together and practice of information sharing within the employees that can improves internal communication and contributes to the effective external communication. Based on informal discussion and interview with few of the managers and founders of NPOs in Malaysia, RC is the most crucial component of IC for them to sustain and survive in the social network. No matter how good is their HC, it cannot guarantee the success to their organisation. Having more external connection, popularity and excellent internal and external communication provides more advantages for the NPOs to improve their performance. Most of the donors which comprise of private companies, government and individuals are more interested to contribute donors to well-known, better reputation, better popularity and bigger NPOs. Thus, this finding provides strong evidences that high RC leads to higher NPO performance.



### **Conclusion and future research direction**

For the IC components which comprises of HC, OC and RC, only HC is not significant in influencing NPO performance. In the Malaysian scenario, OC and RC seem to be the most important IC components for NPO. Thus, it can be concluded that Managers of NPOs need to strengthen their OC which related to organisation procedures, routines, creativity, ideas and activities in order to sustain in the social networks. Under the RC context, NPOs need to figure out how to improve their internal communication and connection within the employees so that they can improve their reputation and image. With better reputation and image NPOs would gain better external connection and contract.

This study contributes to the organisation and management research on the role of intangible assets in value creation and organisation process. Organisation process, which forms part of the OC can help in increasing NPOs performance. Thus, this can be guidance for the NPOs to improve the area that they are lacking. Since HC is the only component that is not significant to the NPO performance in Malaysia, thus it can be a starting point for the NPOs to improve their HC so that it also can contribute to increasing their performance.

The current study only focuses on the welfare category of NPO in Malaysia. Hence, future study could examine IC in other categories of NPO. NPO in Malaysia is divided into 11 categories which are politic, welfare, social, recreation, mutual benefit, culture and art, trade, professional, human right, security and religion. IC indicators could be different due to the different nature of organisation, mission and objective of the NPOs. Since there are many categories of NPO in Malaysia, thus future study can be conducted to compare the IC in different categories of NPO. ANOVA test can be used in comparing the mean differences of IC in each category.

## REFERENCES

- Akingbola, K. (2013). Resource-Based View (RBV) of unincorporated social economy organizations. *Canadian journal of nonprofit and social economy research*, 4(1), 66.
- Andriessen, D. (2004). IC valuation and measurement: classifying the state of the art. *Journal of Intellectual Capital*, 5(2), 230-242.
- Arshad, R., Ab Samad, N. H., Kamaluddin, A., & Roslan, N. (2016). Intellectual Capital, Accountability and Sustainability in Non-profit Organizations. *Asian Journal of Scientific Research*, 9(2), 62-70. doi: 10.3923/ajsr.2016.62.70
- Benevene, P., Benevene, P., Kong, E., Kong, E., Barbieri, B., Barbieri, B., . . . Cortini, M. (2017). Representation of intellectual capital's components amongst Italian social enterprises. *Journal of Intellectual Capital*, 18(3), 564-587.
- Bennett, R. (1998). Charities, organisational learning and market orientation. *Journal of Marketing Practice: Applied Marketing Science*, 4(1), 5-25.
- Bontis, N. (1998). Intellectual capital: an exploratory study that develops measures and models. *Management Decision*, 36(2), 63-76.
- Bontis, N., Dragonetti, N. C., Jacobsen, K., & Roos, G. (1999). The knowledge toolbox:: A review of the tools available to measure and manage intangible resources. *European management journal*, 17(4), 391-402.
- Borzaga, C., & Santuari, A. (2003). New trends in the non-profit sector in Europe: The emergence of social entrepreneurship. *The non-profit sector in a changing economy*, 31-59.
- Buckmaster, N. (1999). Associations between outcome measurement, accountability and learning for non-profit organisations. *International Journal of Public Sector Management*, 12(2), 186-197.
- Carmen, C., & José, G. M. (2008). The role of technological and organizational innovation in the relation between market orientation and performance in cultural organizations. *European Journal of Innovation Management*, 11(3), 413-434.
- Clarke, M., Seng, D., & Whiting, R. H. (2011). Intellectual capital and firm performance in Australia. *Journal of Intellectual Capital*, 12(4), 505-530.
- Drucker, P. F. (1988). The coming of the new organization.
- Fletcher, A., Guthrie, J., Steane, P., Roos, G., & Pike, S. (2003). Mapping stakeholder perceptions for a third sector organization. *Journal of Intellectual Capital*, 4(4), 505-527.



- Hudson, M. (1999). *Managing without profit: The art of managing third-sector organizations*: Penguin Uk.
- Kannan, G., & Aulbur, W. G. (2004). Intellectual capital: Measurement effectiveness. *Journal of Intellectual Capital*, 5(3), 389-413.
- Kaplan, R. S. (2001). Strategic performance measurement and management in NPOs. *Nonprofit Management & Leadership*, 11(3), 353-370.
- Kianto, A., Ritala, P., Spender, J.-C., & Vanhala, M. (2014). The interaction of intellectual capital assets and knowledge management practices in organizational value creation. *Journal of Intellectual Capital*, 15(3), 362-375. doi: 10.1108/JIC-05-2014-0059
- Kong, E. (2007). The strategic importance of intellectual capital in the non-profit sector. *Journal of Intellectual Capital*, 8(4), 721-731.
- Kong, E. (2012). The strategic importance of intellectual capital in the non-profit sector. *Journal of Intellectual Capital*, 8(4), 721-731. doi: 0.1108/14691930710830864
- Lyons, M. (2001). *Third Sector: The contribution of nonprofit and cooperative enterprises in Australia*: Allen & Unwin.
- Mahmoud, M. A., & Yusif, B. (2012). Market orientation, learning orientation, and the performance of nonprofit organisations (NPOs). *International Journal of Productivity and Performance Management*, 61(6), 624-652.
- Mansor, A., Darus, A., & Dali, M. (2013). Mediating effect of self-efficacy on self-leadership and teachers' organizational citizenship behavior: A Conceptual framework. *International Journal of Economics Business and Management Studies*, 2(1), 1-11.
- Mansor, N. H., & Ilias, A. (2013). Goods and services tax (GST): A new tax reform in Malaysia. *International Journal of Economics Business and Management Studies*, 2(1), 12-19.
- MAPHARING, M., & BASUHI, E. (2017). Electronic Banking and Bank Performance: Botswana Context. *Journal of Accounting, Business and Finance Research*, 1(1), 84-93.
- McGill, M. E., & Wooten, L. M. (1975). Management in the third sector. *public administration review*, 444-455.
- Md. Wahid Murad, Md. Mahmudul Alam, Abu Hanifa Md. Noman, Ilhan Ozturk (2019) Dynamics of Technological Innovation, Energy Consumption, Energy Price and Economic Growth in Denmark. *Environmental Progress & Sustainable Energy*. 38(1), 22-29.
- Mesa, W. (2010). The composition of intellectual capital in non-profit orchestras. *Journal of Intellectual Capital*, 11(2), 208-226.



- Mohamed, B. M., Rasheli, G. A., & Mwangike, L. R. (2018). Marginal Effects of Factors Influencing Procurement Records Management: A Survey of Selected Procuring Entities in Tanzania. *International Journal of Social and Administrative Sciences*, 3(1), 22-34.
- Mohammed, Z. (2017). Impact of Sexual Lifestyle on Hormone-Related Health Decline Case Married Teachers. *International Journal of Social Sciences Perspectives*, 1(1), 1-5.
- Peña, I. (2002). Intellectual capital and business start-up success. *Journal of Intellectual Capital*, 3(2), 180-198.
- Reddy, S. A., Krishna, N. S. R., & Rao, R. S. (2012). Intellectual Capital : An empirical study of Non-Profit Organizations. *Journal Of Contemporary Research In Management*, 1-9.
- Roos, G., Bainbridge, A., & Jacobsen, K. (2001). Intellectual capital analysis as a strategic tool. *Strategy & Leadership*, 29(4), 21-26. doi: doi:10.1108/10878570110400116
- Sekaran, U., & Bougie, R. (2010). *Research methods for business A skill-building approach* (5th ed.). Haddington John Wiley & Sons.
- Sharabati, A. A. A., Naji Jawad, S., & Bontis, N. (2010). Intellectual capital and business performance in the pharmaceutical sector of Jordan. *Management Decision*, 48(1), 105-131. doi: 10.1108/00251741011014481
- Sillanpää, V., Lönnqvist, A., Koskela, N., Koivula, U.-M., Koivuaho, M., & Laihonen, H. (2010). The role of intellectual capital in non-profit elderly care organizations. *Journal of Intellectual Capital*, 11(2), 107-122.
- Stewart, T., & Ruckdeschel, C. (1998). *Intellectual capital: The new wealth of organizations*: Wiley Online Library.
- Wang, W.-Y., & Chang, C. (2005). Intellectual capital and performance in causal models. *Journal of Intellectual Capital*, 6(2), 222-236.
- William J. Ritchie, & Kolodinsky, R. W. (2003). Nonprofit Organization Financial Performance Measurement: An Evaluation of New and Existing Financial Performance Measures. *Nonprofit Management & Leadership*, 13(4), 367