

Chapter 6

Human Capital and External Knowledge Acquisition in Nonprofit Organizations: Facilitating Strategic Advantage during an Economic Crisis

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ABSTRACT

Human Capital (HC) is defined as the human knowledge and knowing capability that an organization possesses that provide a competitive edge to the organization in the market. Organizational members' tacit knowledge, abilities, and skills to sense and understand the needs of external stakeholders, and constantly interact appropriately with the stakeholders for the benefits of their organizations, can be seen as a unique set of HC. External knowledge can be acquired through HC for strategic advantage and renewal. A review of the literature and a series of semi-structured in-depth interviews with 15 nonprofit members from 7 Australian NPOs reveal that there is a strong link between HC and external knowledge acquisition. This chapter argues that a better understanding of the relationship between HC and external knowledge acquisition is necessary if knowledge management, organizational learning, and an intellectual capital-view of the firm are to be fully integrated.

INTRODUCTION

Human capital (HC) is defined as the human knowledge and knowing capability of an organization (Nahapiet & Ghoshal, 1998; Wright & McMahan, 1992). It contains various human resource elements including experience and skills, competencies, attitude, and the innovativeness and

talents of people (Bontis, 2002; Choo & Bontis, 2002; Guerrero, 2003; Roos & Jacobsen, 1999; Roos, Roos, Dragonetti, & Edvinsson, 1997). It represents the tacit knowledge that is embedded in the minds of organizational members (Bontis, 1999; Bontis, Crossan, & Hulland, 2002) and the abilities that the organizational members possess to sense and understand the needs of external

DOI: 10.4018/978-1-4666-6457-9.ch006

stakeholders, and constantly interact appropriately with the stakeholders for the benefits of their organizations (Kong, Chadee, & Raman, 2012). HC stresses the creation, diffusion and utilization of collective human intelligence for strategic decision making and thus is a source of knowledge capability, innovation and strategic renewal for all organizations (Bontis, 2002; Bontis, Keow, & Richardson, 2000; Webster, 2000). Accordingly, HC is important to organizations as it helps the organizations to effectively respond to environmental changes through sensing and understanding the need for changes, developing strategies to meet the changes and efficiently implementing the strategies for complex and dynamic environments (Wright, McMahan, & McWilliams, 1994). Organizations with a high level of HC are more likely to be able to sense and understand the need for acquiring external knowledge for facilitating strategic advantage in times of economic crisis. Thus, the importance of HC cannot be understated or organizations may run a risk of making inappropriate or even inaccurate strategic decisions. In short, HC is concerned with the holistic view of understanding of the development of internal intellectual resources in an organization with an emphasis on the macro-oriented perspective of knowledge management and organizational learning related activities such as how external knowledge is strategically acquired (Kong et al., 2012).

Nonprofit organizations (NPOs) are in crisis due to the introduction of new public management (Kong, 2008; Salamon, 1996). The organizations' ability to pursue social objectives is now being challenged (Ramia & Carney, 2003). To sustain in today's competitive nonprofit environment, NPOs urgently need to develop their HC and organizational learning capability for strategic advantage. The need is perhaps even more pressing particularly in times of global economic crisis as NPOs often face sharply lower individual and corporate charitable contributions because many

individuals and corporations are struggling with financial difficulties themselves (Brock, 2008).

Like their public sector and for-profit counterparts, NPOs need a high level of HC in order to improve operational efficiency in today's turbulent economy. This chapter argues that HC is particularly useful in acquiring external knowledge in the nonprofit context and the acquired external knowledge can help to increase the HC stock in NPOs. A high level of HC in NPOs means that nonprofit members are able to sense and understand their external environment and the needs of external stakeholders as well as able to select appropriate behavioral responses in social settings and convey accurate perceptions of social requirements that benefit their organizations most. In this chapter, external environment refers to any factor or trend that is external to an organization but which has direct or indirect impact on the organization's day-to-day operations and strategies. This environment may include global economic crises such as the Asian economic crisis of 1997-1998; change of technology such as easy access of information through the internet; malicious events such as the 9/11 attack on the United States in 2001; natural disasters such as the Asian tsunami in 2004; and diseases such as the severe acute respiratory syndrome (SARS) outbreak in China and Hong Kong in 2002 to 2003 and the avian influenza epidemic in many countries around the world.

HC helps to facilitate a constant flow of external knowledge into internal organizational learning processes and allows new knowledge emerging from interactions within and across networks (Zaccaro, Gilbert, Thor, & Mumford, 1991). New knowledge, then, helps to leverage the level of HC for strategic renewal and strategic advantage. This is critical to NPOs for survival in the today competitive nonprofit environment. Based on a review of the existing literature and a series of semi-structured in-depth interviews with 15 nonprofit members from seven Australian NPOs, this chapter argues that there is a strong

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