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The Determinant of Nonprofit External and Internal Effectiveness: The Role of Knowledge Sharing, Collaborative Culture, and Beneficiary Participation

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Determining the factors that contribute to nonprofit effectiveness is a problematic and puzzling task. In that respect, utilizing the intellectual capital (IC) concept, this paper proposes an analysis of knowledge sharing, collaborative culture, and beneficiary participation as determinants of nonprofit effectiveness. Drawn from quantitative research strategy, a cross-sectional survey and a structured questionnaire have been employed. The final valid data consist of 271 participants from Malaysian nonprofits located in the Klang Valley area, Malaysia. The main analysis used structural equation modeling (SEM). The findings revealed that knowledge sharing and beneficiary participation significantly predict both external and internal effectiveness. However, collaborative culture fails to act as a predictor of either nonprofit external or internal effectiveness.

Keywords: beneficiary participation, collaborative culture, external effectiveness, internal effectiveness, knowledge sharing, nonprofit organization (NPO)

Across the world, nonprofits have grown rapidly in number, size, and influence. In Malaysia, for example, based on an annual report produced in 2012, there are 14 categories of nonprofits that amount to almost 120,000 parent and branch nonprofits all over Malaysia. Interestingly, the expanded number of nonprofit sector entities has been accompanied by several challenges and management difficulties. Nonprofits nowadays face competition with regard to securing resources such as funds, public support, and volunteers (Hopkins & Hyde, 2002; Salamon, 1996) and also have been criticized for inefficient and ineffective management (Wuenschel, 2006). These perceived challenges and weaknesses present a major threat to the sustainability of the nonprofits.

Owing to these issues, nonprofits nowadays must adapt a strategic approach for maintaining their organizational survival (Kong & Ramia, 2010; Veltri, Bronzetti, & Sicoli, 2011). Originally derived
from strategic management techniques, intellectual capital (IC) incorporates the intelligence found in organizational assets such as human beings, organizational routines, and network relationships within organizations (Bontis, 1999), which can serve as an important framework for nonprofits to cope with new challenges as well as to achieve effectiveness. Benevene and Cortini's (2010) study, for example, has revealed that IC can be an active tool to address Italian nonprofits' problem of nonoriented knowledge culture and overcome unexpected barriers in managing human resources. Meanwhile, seminal work from Kong's (2003) study of five key strategic management concepts (i.e., industrial organization view, resource-based view, knowledge-based view, balanced scorecard, and intellectual capital) within the nonprofit context has shown that the IC concept is more effective than other concepts. Therefore, it is vital to apply IC as a strategic tool in nonprofits if they want to survive in the competitive environment.

While reviewing the literature on IC, the present study has identified significant research gaps that need to be bridged. Firstly, despite the recent growing interest in IC, the concept remains unclear to many nonprofit scholars and practitioners. Research on IC within the nonprofit context is rare and has so far been only on a conceptual basis. Many studies have indeed shown the application of IC within the private sector (Asiaei & Jusoh, 2015; Yu & Humphreys, 2013) and the public sector (e.g., Ramirez, 2010). To date, in Malaysia, there is no information in survey results or even in reports that supports the claim that the IC is important for nonprofit effectiveness. This paper aims to add knowledge of these issues in the Eastern setting (Malaysia), as previous studies have revealed that non-Western literature on IC is scarce (Andriessen & van den Boom, 2007). Secondly, very little research has investigated the role of IC in nonprofit effectiveness (Maditinos, Chatzoudes, Tsairidis, & Theriou, 2011). Thus, we aim to examine the IC concept and focus on its impact on nonprofit effectiveness.

IC can be classified according to three components as described by Stewart (1994): human capital (e.g., attitude, wisdom, and experience); structural capital (e.g., organizational culture, technology systems, and organizational capabilities); and relational capital (i.e., interaction of organization with the customer). In relation to our study, we focused on three specific factors representing each component of IC. These include (1) knowledge sharing (human capital), (2) collaborative culture (structural capital), and (3) beneficiary participation (relational capital). Each factor is selected based on our observation from previous empirical studies in which these factors have been portrayed as essential components of IC. For example, previous scholars such as Kim and Hancer (2010) and Huang (2013) have revealed that knowledge sharing helps to enhance IC. Meanwhile, survey data collected from chief financial officers in 128 companies within Tehran Stock Exchange have revealed that organizational culture plays a significant role in developing structural capital (Asiaei & Jusoh, 2015).

In addition, we proposed beneficiary participation as an important component to represent relational capital because traditional relational capital does very well in measuring the organizational relationship with respect to for-profit organizations; however, existing measures are unable to be sufficiently incorporated into the nonprofit context. Our research interest is to contribute to a better understanding of the complexity of IC by not restricting the perspective of IC metrics on public or private organization alone. Instead, we extend the research on IC components from the nonprofit context by offering a new model for nonprofits to fill this research gap. We hope that this present study contributes to the current corpus through the empirical assessment of three components of IC that identify salient intangible resources and show how they influence nonprofit effectiveness. The following sections (1) provide a review of relevant literature, hypotheses underpinning this study, and research framework; (2) outline the research methodology of the study; (3) present the results; and (4) discuss the implications of the study.
THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

Intellectual Capital (IC): Definition and Classification

From the vast pool of models of organizational effectiveness, we have drawn from the concept of intellectual capital (IC) in order to develop a framework for the determinant of nonprofit effectiveness. As previously highlighted, nonprofits nowadays are operating in a highly competitive environment and are required to utilize their existing resources in order to increase their effectiveness (Kong, 2003). In exploiting those existing resources, a plethora of studies have asserted the importance of utilizing IC since it concentrates on intangible resources rather than tangible ones, which could become the main differentiating factor that creates a competitive advantage (Clarke, Seng, & Whiting, 2011). Several perspectives on IC have been put forward by previous scholars. In general, the term intellectual capital is often used interchangeably with intangibles. Using a broad definition, scholars such as Kong and Ramia (2010) and Kehelwalatenna and Premaratne (2013) have used IC to refer to knowledge-related intangible assets that help to achieve competitive advantage. Specifically, Stewart (1994) defines IC as relating to the knowledge, information, technologies, intellectual property rights, experience, organization learning and competence, team communication systems, customer relations, and brands that are able to improve the performance of an organization. Drawing upon previous studies, we can conclude that IC is an accumulation of intangible assets of an organization that enable the organization to achieve targeted goals and remain relevant within the industry.

Following the work of a number of scholars in the field of IC, together with physical and financial capital, the IC concept encompasses three primary interrelated components: (1) human capital, (2) structural capital, and (3) relational capital (see Figure 1). Human capital includes attitude, competencies, experience and skills, tacit knowledge, and other related human resource elements (Choo & Bontis, 2002). On the other hand, structural capital relates to organizational structure and systems such as databases, process manuals, strategies, routines, organizational culture, publications, and copyrights of the organizations (Ordóñez de Pablos, 2004). Meanwhile, relational capital refers to an organization’s relationship with its external stakeholders. The relational capital is created when the knowledge gained from those relationships can create advantages to an organization (Grasenick & Low, 2004). The three components of IC are interrelated and can add value to the organization (Kong & Ramia, 2010).

The Relationship Between Intellectual Capital (IC) and Nonprofit Effectiveness

In this section, we synthesized the past empirical studies for each factor in helping us to develop the study’s hypotheses.

Knowledge Sharing (Human Capital)

Lee and Al-Hawamdeh (2002) define knowledge sharing simply as a thoughtful act that creates value to be used by others. Empirical research studies have agreed that sharing knowledge is crucial because knowledge has been identified as the most strategic organizational resource (Huang, 2013; Kim & Hancer, 2010). A study conducted by Radaelli et al. (2014), for example, provided evidence that employees who share knowledge engage more in creating, promoting, and implementing innovations. As knowledge is being shared, it can help others to develop new or enhance existing competencies and, as a result, help to increase job performance and facilitate new knowledge creation (Shanks, Lundstrom, & Bergmark, 2014). In relation to the nature of nonprofit work, since nonprofits deal with numerous projects and programs, knowledge sharing is believed to be the most important tool for managing project information and knowledge (Landaeta, 2008; Ragsdell, Espinet, & Norris, 2014). Based on the above empirical findings, it is expected that
FIGURE 1 Examples of components of intellectual capital (IC).

Note. Examples of IC components. I.e., replace caption with [Examples of components of intellectual capital (IC).] Also Adapted from Marr (2008).

H1a: Knowledge sharing has a positive impact on the external effectiveness of nonprofits.
H1b: Knowledge sharing has a positive impact on the internal effectiveness of nonprofits.

Collaborative Culture (Structural Capital)

Generally, collaboration refers to a degree of dynamic support and help in an organization (O’Dell & Grayson, 1999). Specifically, collaboration involves “exchanging information, altering activities, sharing resources, and enhancing the capacity of another individual or organization, for mutual benefit, and to achieve a common purpose” (Himmelman, 1993, p. 1). Collaborative culture facilitates the innovation of service and product and helps to retain the intellectual capital (Christopher, 2014; Ketter, 2015). Collaborative culture also leads to a cost reduction strategy. When employees are working together, they will be able to share resources and perform the task efficiently and effectively (Wu, Wang, & Tsai, 2010). In a similar vein, Leana and Van Buren (1999) also discovered that collaboration saves cost by acting as a substitute for formal monitoring systems and mechanisms. Writing for a guest editorial article titled “The 7 C Approach to Conceptualizing Administration: Executive Leadership in the 21st Century,” Tropman and Wooten (2013) strongly affirm that collaboration is an important approach for leaders because it affects leadership magnitude and decision-making improvement. Based on the above empirical findings, it is expected that:
**Beneficiary Participation (Relational Capital)**

A beneficiary refers to one who receives and uses the services provided by nonprofits. Beneficiaries are sometimes known as customers, clients, patients, and so forth. Participation refers to “a process through which stakeholders influence and share control over development initiatives and the decisions and resources which affects them” (World Bank, 1996, p. 3). Past studies have argued that many nonprofits tend to ignore their beneficiaries need (O’Dwyer & Unerman, 2010; Wellens & Jegers, 2014), and we believe this matter potentially affect nonprofits performance since beneficiary could help to deliver several benefits to the nonprofits. For example, using a multiple case study of eight Belgian nonprofits with 35 semistructured interviews, 13 focus groups, organizational documents, and 713 questionnaires, Wellens and Jegers’ (2014) study has discovered that beneficiaries are recognized as very important stakeholders and it has become clear that a stakeholder theory that does not acknowledge the role of beneficiary is incomplete. Furthermore, a body of study also has revealed that the relationship between a nonprofit and its beneficiaries is a foundation to facilitate more effective project management. For example, in a cross-country statistical study of 49 countries and using evidence from 121 rural water projects, the World Bank has discovered that there is a significant relationship between participation and project success (Narayan-Parker, 1995). Thus, based on the preceding literature review, the following hypotheses are developed:

H3a: Beneficiary participation has a positive impact on the external effectiveness of nonprofits.
H3b: Beneficiary participation has a positive impact on the internal effectiveness of nonprofits.

The research framework is shown in Figure 2.

**METHODOLOGY**

**Procedure and Participants**

We recruited participants who represent nonprofits located in the Klang Valley area, Malaysia. Klang Valley is an area of Malaysia comprising Kuala Lumpur and its suburbs and the adjoining cities and towns in the state of Selangor (see Figure 3). The participants are 271 employees with 99 (36.5%) from Kuala Lumpur and 172 (63.5%) from Selangor. They consist of 122 females (45%)
and 149 males (55%), with 55 single (20.3%) and 216 married (79.7%) individuals. Half of the participants held a bachelor’s degree (n = 131, 48.3%) or higher degree (n = 11, 4.1%). Of the actual participants, 129 (47.6%) were full-time employees and 142 (53.4%) worked on a part-time basis. We targeted 400 participants, and the final data consisted of 271 participants (a response rate of 67.8%). A comprehensive list of nonprofits was used first, which was compiled by cross-referencing database listings provided by several local websites (i.e., Malaysia Central Network and HATI Serving the Community).

Measures

A self-administered survey was deployed to gather data. The constructs in this study were measured using Likert scales drawn from existing studies. To measure knowledge sharing, we adapted a 10-item scale developed by van den Hooff and de Ridder (2004). For example, the respondents were asked to evaluate based on a 5-point scale statements such as “When I have learned something new, I find that colleagues in my department/unit can learn it as well” and “I share the information I have with my colleagues within my department/unit.” Then, collaborative culture was measured using a 5-item scale drawn from Lee and Choi’s (2003) study. Examples of the statements are “There is a willingness to collaborate across nonprofit units within my nonprofit” and “There is a willingness to accept responsibility for failure.”

Beneficiary participation with a 7-item scale was adapted from Mango’s (2010) checklist, which is based on main core benchmarks in the Humanitarian Accountability Partnership (HAP) 2007 Standard, the One World Trust’s Global Accountability Project, and a review of academic literature. For example, the respondents were asked to evaluate statements such as, “My nonprofit involves people in setting the program’s goals” and “My nonprofit involves people in designing specific activities such as contents of aid packages, design of shelters, and others.” Finally, to measure our first independent variable, which is nonprofit external effectiveness, we used a 7-item scale developed by Espirito (2001). Examples of statements are “Specific objectives are met within budget constraints” and “Overall goals are accomplished” (as cited in Mussalam, 2011).
Then, internal effectiveness was measured using a 13-item scale, also developed by Espírito (2001). For this purpose, the respondents were asked to evaluate their nonprofit’s current level of internal effectiveness based on statements such as “Goal clarity” and “Clarity of program activities” (as cited in Mussalam, 2011). Cronbach’s alpha reliabilities for all scales were acceptable according to Nunnally’s (1978) criterion of .70 and range from .85 to .88.

Data Analysis

First, using IBM SPSS 20, we conducted descriptive statistics analyses in order to inspect several assumptions such as reliability, validity, and a normality of the data (Sekaran, 2003). Since we collected data from a single source—namely, a self-administered survey—common method variance (CMV) might have occurred (Spector, 1987). The CMV is a potential source of measurement error that may create a serious threat for the validity of conclusions about the associations among measures. Thus, we employed a Harman’s test procedure, recommended by Podsakoff and Organ (1986), to evaluate whether our data had a significant bias. Then, we employed structural equation modeling (SEM) for our main analysis. For this analysis, we used a two-step modeling approach, examining the measurement model and the structural model.

In examining the measurement model, we conducted the confirmatory factor analysis (CFA). CFA primarily explores the fit between a variable’s factor and its measurement item in the questionnaire. For this purpose, Hair, Black, Balin, and Anderson (2010) have recommended the use of at least three fit indexes from each category of model fit. The three fitness categories are absolute fit, incremental fit, and parsimonious fit. Thus, in this study, we referred to four indexes representing each category. These include Root Mean Square Error of Approximation (RMSEA) for absolute fit, Comparative Fit Index (CFI) and Tucker-Lewis index (TLI) for incremental fit, and Chi square/Degree of Freedom (Chisq/df) for parsimonious fit. According to Kline (1998), a value of RMSEA between .05 and .08 are considered acceptable. Then, for both the CFI and TLI, a value of .90 was considered acceptable (Kline, 1998). Finally, a value of Chisq/df less than 3 indicated a reasonable fit (Kline, 1998). In evaluating the validity and reliability of the constructs, Fornell and Larcker (1981) suggested that (1) all item loadings should be significant and exceed .70, (2) an acceptable composite reliability (CR) value for each construct should exceed .70, and (3) average variance extracted (AVE) for each construct should exceed .70. Finally, we verified the discriminant validity of our instrument by looking at the square root of the average variance extracted, as recommended by Fornell and Larcker (1981). Discriminant validity shows the extent to which a construct is truly distinct from other constructs (Hair et al., 2010). After we completed the analysis of the measurement model, we conducted the assessment of the structural model.

RESULTS

Descriptive Statistics and Normality Results

Based on Table 1, all mean scores were above the midpoint of 2.5. This indicates an overall positive response to the constructs in the study. In other words, the perception of nonprofits staff on the level of occurrence and effectiveness in their nonprofit IC components is high and positive. In evaluating the normality of the variables, the value of skewness should fall within the range of −1.0 to 1.0 to indicate normal distribution; otherwise the data distribution for the respective items departs from normality (Hair et al., 2010). Based on results shown in Table 1, this study fulfills the assumption of normality.
TABLE 1
Descriptive Statistics and Normality Results

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>SD</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
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<td>1.24</td>
<td>−.99</td>
<td>−.54</td>
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<td>Collaborative culture</td>
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<td>1.20</td>
<td>−.99</td>
<td>−.05</td>
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<td>Beneficiary participation</td>
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<td>1.27</td>
<td>−1.19</td>
<td>.07</td>
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<tr>
<td>External effectiveness</td>
<td>3.57</td>
<td>1.31</td>
<td>−.80</td>
<td>−.46</td>
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<tr>
<td>Internal effectiveness</td>
<td>3.23</td>
<td>1.14</td>
<td>−1.10</td>
<td>−.53</td>
</tr>
</tbody>
</table>

Harman’s Single Factor Test
The unrotated principal component factor analysis with varimax rotation revealed the presence of five distinct factors, rather than a single factor, with eigenvalues greater than 1.0. Consistent with the expectation, all items are loaded with high-standardized coefficients onto their respective factors and with substantially lower standardized coefficients in other factors. The five factors together accounted for 64.2% of the total variance; the first factor did not account for a majority of the variance. Thus, not a single factor had been dropped out under this circumstance, which means the factor analysis ran on an ultimate success.

Assessment of Measurement Model
The result of confirmatory factor analysis (CFA) with the fitness index is shown in Figure 4. Our proposed model meets the acceptable requirement for the model fit. Table 3 shows the overall measurement results for the proposed model. All factor loadings for the construct were above .70. Thus, no items were deleted from the original model. Cronbach’s alpha reliabilities for all scales were acceptable, ranging from .85 to .88. Moreover, the composite reliability of the variables was above .70. The final column showed that all latent constructs AVE values were above .70. Thus, according to Fornell and Larcker’s (1981) suggestions, the assumptions for the measurement model are fulfilled (see Table 2).

Next, we conducted a discriminant validity test. The discriminant validity is achieved when a diagonal value in bold is higher than the values in its row and column. Based on Table 3, this study fulfills the assumption of discriminant validity.

Assessment of the Structural Model
Based on Table 4, the results of regression analysis show that knowledge sharing ($\beta = 0.67, p < 0.001$) and beneficiary participation ($\beta = 0.20, p < 0.01$) are positively related to external effectiveness. Therefore, H1a and H3a are supported. Only the path between collaborative culture and external effectiveness ($\beta = -0.05, p > 0.05$) shows an insignificant relationship. This implies that the participants do not relate the conditions of collaborative culture to external effectiveness. Thus, H2a is rejected. Next, the results of regression analysis show that knowledge sharing ($\beta = 0.32, p < 0.001$) and beneficiary participation ($\beta = 0.30, p < 0.001$), are positively related to the internal effectiveness. Therefore, H1b and H3b are supported. Only the path between collaborative culture and internal effectiveness ($\beta = 0.06, p > 0.05$) shows an insignificant relationship. This implies that the participants do not relate the conditions of collaborative culture to internal effectiveness. Thus, H2b is rejected. The summary of the research model is presented in Figure 5.
The purpose of this study is to examine the impact of three specific IC components—namely, knowledge sharing, collaborative culture, and beneficiary participation—on the external and internal effectiveness of nonprofits. Relying on the IC concept, we proposed the framework because we believed that certain organizational intangibles assets could help in achieving organizational effectiveness. Data analysis using structural equation modeling confirms that knowledge sharing and beneficiary participation contribute to the effectiveness of Malaysian nonprofits, except for collaborative culture. Theoretically, this study empirically confirms the role of beneficiary participation in representing relational capital for nonprofits, and in doing so, this study provides a new dimension for researchers to further examine the framework. Based on the findings, the first variable (knowledge sharing) and third variable (beneficiary participation) significantly determine nonprofits’ external effectiveness ($\beta_1 = .67$ and $\beta_3 = .32$) and internal effectiveness ($\beta_1 = .20$ and...
$$\beta_3 = .30$$). In addition, based on beta value, this study also has revealed that knowledge sharing is the strongest positive influence on external effectiveness of Malaysian NPO, while beneficiary participation is the strongest positive influence on internal effectiveness of Malaysian NPO. Thus, both variables need to be considered as important IC components among nonprofit practitioners and scholars.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items</th>
<th>Factor Loading</th>
<th>Cronbach’s Alpha</th>
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<td>IN12</td>
<td>.96</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>IN13</td>
<td>.95</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
TABLE 3

Discriminant Validity Analyses

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Knowledge sharing</td>
<td>.89</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Collaborative culture</td>
<td>.60</td>
<td>.88</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Beneficiary participation</td>
<td>.77</td>
<td>.57</td>
<td>.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. External effectiveness</td>
<td>.63</td>
<td>.41</td>
<td>.72</td>
<td>.97</td>
<td></td>
</tr>
<tr>
<td>5. Internal effectiveness</td>
<td>.67</td>
<td>.49</td>
<td>.66</td>
<td>.55</td>
<td>.97</td>
</tr>
</tbody>
</table>

Note. N = 271. Values in boldface are the square root of AVE; lightface values are correlations.

TABLE 4

Path Analysis of the Hypothesized Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>β</th>
<th>SE</th>
<th>CR</th>
<th>p</th>
<th>Hypothesis</th>
</tr>
</thead>
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<tr>
<td>External effectiveness</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge sharing</td>
<td>.67</td>
<td>.08</td>
<td>7.98</td>
<td>.000</td>
<td>H1a = Supported</td>
</tr>
<tr>
<td>Collaborative culture</td>
<td>-.05</td>
<td>.06</td>
<td>-0.88</td>
<td>.380</td>
<td>H2a = Rejected</td>
</tr>
<tr>
<td>Beneficiary participation</td>
<td>.20</td>
<td>.07</td>
<td>2.95</td>
<td>.003</td>
<td>H3a = Supported</td>
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<tr>
<td>Internal effectiveness</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge sharing</td>
<td>.32</td>
<td>.07</td>
<td>4.55</td>
<td>.000</td>
<td>H1b = Supported</td>
</tr>
<tr>
<td>Collaborative culture</td>
<td>.06</td>
<td>.05</td>
<td>1.27</td>
<td>.200</td>
<td>H2b = Rejected</td>
</tr>
<tr>
<td>Beneficiary participation</td>
<td>.30</td>
<td>.06</td>
<td>5.06</td>
<td>.000</td>
<td>H3b = Supported</td>
</tr>
</tbody>
</table>

Note. N = 271; p < 0.001, p < 0.01.

FIGURE 5

Hypothetical result of the impact of knowledge sharing, collaborative culture, and beneficiary participation on nonprofit effectiveness.

However, in discussing our second variable, the study does not reach the same conclusion as previous studies, which is that collaborative culture is a key factor to nonprofit external effectiveness ($\beta^2 = -.05$) and internal effectiveness ($\beta^2 = .06$). In explaining these results, we believe that certain nonprofits are practicing different approaches of collaborative technique. In our study, we collected data across different categories of nonprofits and we did not specify any particular category. As debated by previous nonprofit scholars, different nonprofit orientations might influence the way a nonprofit operates (Ebrahim, 2003). In other words, culture is a subjective matter,
which may depend on the individual organization itself. Despite the unexpected results, in line with Ketter (2015), Christopher (2014), and other scholars, we still believe that collaborative culture acts as an imperative factor to organizational achievement. Providing evidence, Lee and Choi (2003) discovered that collaborative culture helps to leverage knowledge throughout the organization, facilitates the completion of work activities, and increases openness among members. Thus, we strongly suggest that nonprofits need to consider collaborative culture as a vital element in achieving organizational success.

Managerial Implications

Based on the research framework and empirical analyses, this study facilitates a better understanding of the relationships among proposed variables. Thus, we delivered value as a reference for nonprofit management regarding the importance of focusing on IC components. Based on the findings, a number of salient managerial implications are suggested for the nonprofit. First, nonprofit needs to continuously and actively identify, acquire, organize, share, apply, and assess its IC components. In this case, nonprofit needs to answer the following questions:

- How important are the existing IC resources in creating the value?
- How strong are the existing IC resources?
- How can nonprofits utilize IC more effectively?

In order to help in answering those questions, Barney and Hesterly (2010) have suggested that the organization could assess its organizational resources using the VRIO framework. This framework provides evaluation guidance based on the four questions which are: 1) the question on Value (V), 2) the question on Rareness (R), 3) the question on Imitability (I), and 4) the question on Organization (O). Barney and Hesterly (2010) further specified that the assessment of the framework can be done by answering the following questions:

- Value = Do resources and capabilities enable a firm to exploit an external opportunity or neutralize an external threat? (p. 69)
- Rareness = How many competing firms already possess particular valuable resources and capabilities? (p. 75).
- Imitability = Do firms without a resource or capability face a cost disadvantage in obtaining or developing it compared to the firms that already possess it? (p. 76).
- Organization = Is the firm organized to exploit the full competitive potential of its resources and capabilities? (p. 81).

As assistance, nonprofits also can conduct the assessment through a variety of methods or techniques such as staff or stakeholder interviews, facilitated workshops, surveys, and management evaluation procedures. By continuously evaluate its organizational resources, nonprofit will able to maintain the value of its IC resources.

Second, nonprofit management needs to develop an atmosphere that will support the development of IC components. As stressed by McBeath and Austin (2014) and Hopen (2014), management needs to create an environment that promotes innovation, facilitates the growth of learning, and creates space for staff communication. In addition, the nonprofit’s leaders need to encourage its staff to embrace IC and view it as part of its strategic resources. Good NPO leaders must lead by example; this notion is supported by Taylor’s (2013) study, which has discovered that leadership impacts the creation and maintenance of IC. Nonprofits also can employ several supportive technologies such as email, instant messaging, chat rooms, discussion boards, shared whiteboards, mobile communication, media spaces, and video conferences in order to enhance the development of IC components (Hopkins, 2010); for example, in order to promote collaborative culture and knowledge sharing,
the World Bank had begun to develop an internal structure across its regional unit and this initiative has led to the establishment of internal communities of practice, known as thematic groups. These groups act as a main driver or medium for work collaboration and communication (Kasper, 2007). Next, nonprofit staffs should receive training and support in managing the IC components; for example, an American multinational technology company, Cisco, manages its IC through a comprehensive e-learning infrastructure offered on the Web. The company’s website comprises a variety of learning resources such as white papers, CD-ROMs and books, live broadcast events, moderated chats, online assessments and tests, and so on (Kelly & Bauer, 2002).

CONCLUSION

In general, nonprofits play an important role in pursuing social welfare functions, and similar to public organizations, nonprofits pursue their mission and vision without returning any financial gains to their stockholders or individual owners. However, contrary to public and private organizations, the nature of nonprofit operation is more complex and challenging. The results of the qualitative study of the National Survey of Nonprofit and Voluntary Organizations (NSNVO), for example, indicate that a majority of nonprofits face significant challenges that affect their ability to fulfill their missions. The study also discovered that a majority of nonprofits report difficulties in recruiting skillful volunteers, obtaining board members, and planning for the future (Hall et al., 2004).

In addressing these problems, without a doubt, nonprofits need to have competitive internal resources. Realizing the importance of internal resources, especially intangibles assets, this research has explored the importance of specific IC components concerning effectiveness for the third sector economy, nonprofits. Although IC was purposely developed as a framework for strategic approach for profit organizations, it is also vital in nonprofits. This is because the ability of nonprofits to achieve their objectives depends almost entirely on intangible assets such as knowledge, skills, and experience of their workforce. Thus, IC can serve as an important framework for nonprofits to cope with existing and future challenges.

Limitations of Study and Future Research

The main contribution of this study is to advance the current literature about the potential effect of certain IC on nonprofit effectiveness. Although this study provides some valuable elements for future research, several limitations have been discovered. First, our sample consists of only 271 respondents from one geographic area—Klang Valley area, Malaysia. Future research could extend the sample to other areas. Next, as the study focused only on the nonprofit sector of a developing country, a comparative study could be undertaken among nonprofits in other countries to uncover the effects of organizational capabilities in improving nonprofit effectiveness. Such a study is also important to determine whether the findings can be replicated. In addition, the current study examines a direct relationship between the predictor and the criterion. Hence, future research could add to or modify our framework by including any moderating or mediating variable so as to investigate the cause-effect relationship; for example, variables such as demographic profile of the nonprofit, leadership style, and personality of employees could potentially moderate or mediate the relationships. Since our study has discovered that collaborative culture did not significantly predict nonprofit effectiveness, we advise that future studies conduct a substantial examination of this issue through the adoption of a mixed method approach or exploratory research. This could provide in-depth knowledge and understanding on the phenomenon. Finally, this study focuses only on three specific IC components. Future research could examine other possible IC components that are relevant for organizational effectiveness.
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