

# AN EXPANDED INTELLECTUAL CAPITAL FRAMEWORK FOR EVALUATING SOCIAL ENTERPRISE INNOVATIONS

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**Abstract:** The intellectual capital framework (IC) commonly used for private corporations is not appropriate for social enterprises (SEs), which are social innovations that lie between for-profit corporations and non-profit non-government organizations (NGOs) and charity organizations. This paper proposes an Expanded IC Framework and applies it in evaluating SEs through a checklist-type Value Creation Scale. Evaluating SEs would be required if new forms of “social stock exchanges” would be adopted for efficient capital allocation for more socially and environmentally responsive forms of production. This proposed framework retains the value creation objective but (a) expands the unit of analysis from corporations to society at large, (b) expands the scope of relational or stakeholder capital to relationship capital and (c) proposes the concept of “metacapital” to embrace forms of capital not covered by the corporate IC framework.

## 1. Introduction and Objective

### Growth of the global knowledge economy

The world has evolved from an agricultural to an industrial and now to a knowledge-based economy. We are now living in a rapidly changing and transforming world. The knowledge economy is emerging from two defining forces: the rise in knowledge intensity of economic activities, and the increasing globalization of economic affairs.<sup>a</sup> The nature of production, trade, employment and work in the coming decades will be very different from what it is today. Organizations need to be flexible, innovative and adaptive to global competitions. The competitive advantages in the knowledge economy era are no longer the economy of scale or financial capital strength, but rather organizational knowledge and innovation power. The knowledge economy impacts all walks of life and all forms of organization, inclusive of the traditional non-governmental organizations (NGO) and newly emerging social enterprises.

### Emergence of new forms of social enterprises

Social enterprises (SE) and social entrepreneurship are rather new concepts and have

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<sup>a</sup> Houghton, J. and P. Sheehan (2000). *A Primer on the Knowledge Economy*. Centre for Strategic Economic Studies, Victoria University

recently drawn more attention in Asia. Skeptics may ask why there is a need for SEs, and why not leave it to the charities, NGOs and the government to tackle social problems? The simple answer is that a social enterprise aims primarily to create human capital and social capital<sup>b</sup> and fill the gap between the for-profit corporate sector and the non-profit sector (see Figure 1). Social enterprises not only know their clientele better, they also have sustainable business models that are independent from the unstable sources of income from donation, fundraising and grants in the non-profit sector. The famous Kiva model of peer-to-peer micro-financing in South Asia, the burgeoning venture philanthropy in Europe and the stock-subscription approach tested by Hong Kong's Fullness Centres – these are but a few of the evidence that show social entrepreneurship is growing fast worldwide. *“I like to call this... creative capitalism – an approach where governments, businesses, and nonprofits work together to stretch the reach of market forces so that more people can make a profit, or gain recognition, doing work that eases the world's inequities,”* said Bill Gates in Davos last January 2008.<sup>c</sup>

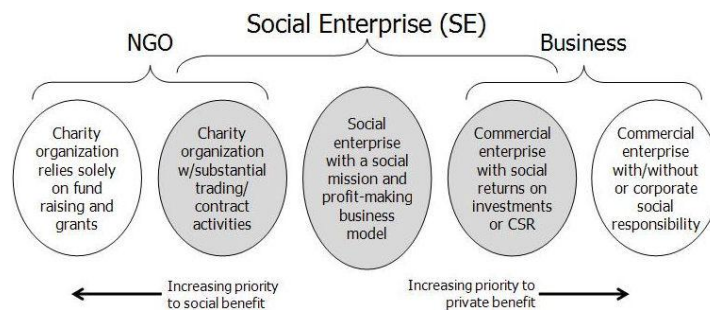


Fig. 1. SEs within the non-profit-SE-corporate enterprise continuum<sup>d</sup>

The objective of this paper is to propose an Expanded Intellectual Capital Framework which is more applicable to the nonprofit-social enterprise-corporate enterprise continuum. It adopts a more generic concept of capital, namely “metacapital,” which embraces IC plus other forms of capital that also contribute to value creation. A Value Creation Scale is proposed for evaluating social innovations including SE innovations. The proposed framework and scale are applied in evaluating some forms of SEs emerging in Asia.

## 2. Expanded Intellectual Capital Framework

<sup>b</sup> Li, Y. (2008). *A Market Place for Asia social Ventures* [presentation slides]. International Symposium on Social Entrepreneurship and Social Change, Hong Kong.

<sup>c</sup> Chambers, S. (2008). *Social Entrepreneurship: the Global Imperative* [presentation slides]. International Symposium on Social Entrepreneurship and Social Change, Hong Kong.

<sup>d</sup> Adapted from Li, Y. (2008) *A Market Place for Asia Social Ventures* [presentation slides]. International Symposium on Social Entrepreneurship and Social Change, Hong Kong.

The widespread observation that market values of corporations far exceed their book values has provided the rationale for managers to pay more systematic attention to managing the gap between market values and book values. Concepts and terminologies used to refer to this gap vary across authors and practitioners.

- (i) Stewart<sup>e</sup> refers to this gap as “intellectual capital” which he decomposes into three: human capital, structural capital and customer capital<sup>f</sup>. Sullivan<sup>g</sup> and a group of practitioners he belonged to, which consisted in 1999 of thirty companies that called themselves the ICM Gathering, also used the same term, but decomposed it into human capital and intellectual assets. The latter term refers mostly to corporate properties that Stewart calls structural capital.
- (ii) Among the earliest knowledge management practitioners to recognize the significance of this gap is Sveiby. He refers to this gap as “intangible assets” or “knowledge-based assets,” a term consistent with accountants’ general usage of the term. He decomposes intangible assets into the same three components as Stewart but gives them different labels: employee competence, internal structure and external structure. Internal structure refers to the same elements as Stewart’s structural capital, while external structure includes brand and customer relationships.<sup>h</sup>
- (iii) Lev<sup>i</sup> calls the gap “intangible assets” and equates the term with “knowledge assets.”
- (iv) MAKE or Most Admired Knowledge Enterprise is a widely-known global award given by Teleos to best-performing knowledge enterprises. Teleos measures organizational performance along eight criteria in managing corporate “intellectual capital.”<sup>j</sup>

Research evidence we have accumulated shows that various factors affecting individual and organizational performance can be clustered into five categories.<sup>k</sup> The first four categories correspond very well with the terms human capital, structural capital, relationship capital and tangible assets. The fifth category cuts across the first four. The

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<sup>e</sup> Stewart, T. A. (1997). *Intellectual Capital: the New Wealth of Organizations*. New York: Currency Doubleday.

<sup>f</sup> The term “customer capital” was first proposed in 1993 by Hubert St. Onge. See: Sullivan, P. H. (2000). *Value-Driven Intellectual Capital: How to Convert Intangible Corporate Assets into Market Value*. Singapore: John Wiley & Sons.

<sup>g</sup> Sullivan, P. H. *op. cit.*

<sup>h</sup> Sveiby, K. A. (1997). *The New Organizational Wealth: Managing and Measuring Knowledge-Based Assets*. San Francisco: Berrett-Koehler Publishers.

<sup>i</sup> Lev, B. (2001). *Intangibles: Management, Measurement, and Reporting*. Washington, D. C.: Brookings Institution Press.

<sup>j</sup> Personal communication with Dr. Rory Chase. See also: Chase, R. (2009). Global Knowledge Management Trends. In: *From Productivity to Innovation: Proceedings of the Second International Conference on Technology and Innovation for Knowledge Management*. Tokyo: Asian Productivity Organization.

<sup>k</sup> Talisayon, S. (2008). *Some stories about how personality and culture come into our knowledge management practice*. Paper read in the Conference on Innovation in Managing Knowledge for the Competitive Edge, Kuala Lumpur, Malaysia.

label appropriate for the fifth category is “motivational factors” but another label that is more neutral and generic is “organizational energy.”<sup>1</sup> This finding implies that intangible assets include non-cognitive or non-knowledge factors and therefore intangible assets cannot be equated to knowledge assets. The term “relationship capital” refers to relationship factors whether internal or external and hence it is preferable over other terms in use such as “customer capital” and “stakeholder capital” which refer only to external relationships. Academic discourse on social capital and corporate discourse on stakeholder capital can be brought together by the introduction of a more generic term “relationship capital”<sup>m</sup> (see Figure 2).

## 2.1 From corporate level stakeholder capital to community or social level relationship capital

Because private enterprise accounts do not include costs and benefits to external parties, private creation of market value can result to sub-optimization if it entails destruction of social value such as through pollution, health risks to the community, depletion of non-renewable natural resources, etc. (see Figure 3). To avoid this, creation of market value must be complemented by creation of social value. SEs are new enterprise forms that pursue both financial and social bottom lines. The concept of stakeholder (or relational) capital from a private enterprise perspective must be broadened to relationship capital from a larger community or social perspective.

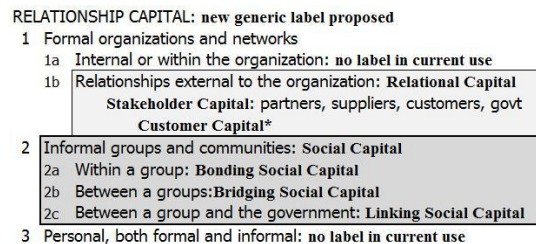


Fig. 2. Disaggregation of “Relationship Capital.” Note that Dr. Chen Yu proposed that customer capital be treated as a completely different category of “consumption capital” (see Section 5.3)

<sup>1</sup> Talisayon, S. (2009). Organisational energy and other meta-learning from case studies of knowledge management implementation in nine Asian countries. *Knowledge Management for Development Journal*, 5(1), 21-38. U.K.: Routledge

<sup>m</sup> Talisayon, S. (2008). *Relationship Capital versus Stakeholder Capital versus Customer Capital*. Blog post in: Apin Talisayon’s Weblog, 16 December 2008. Web site: <http://apintalisayon.wordpress.com/2008/12/16/relationship-capital-stakeholder-capital-customer-capital/>

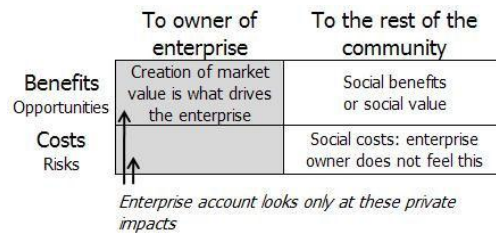


Fig. 3. Market value creation and social value creation from a social benefit-cost analysis perspective

When best practices in community-based anti-poverty projects are analyzed, it was found that: (a) communities own or have access to many other forms of intangible assets than those of private enterprises, and (b) success of anti-poverty projects is attributable more to communities' intangible assets than to their tangible assets.<sup>n</sup>

Other forms of community intangible assets must be considered to better explain success or failure of community-based projects such as:

- Indigenous knowledge
- Social capital: established relationships and roles within the community and between the community and external entities.<sup>o</sup>
- Traditional access to natural resources from the public domain
- Access to natural resources donated by a private party
- Franchise from the national government.

These factors are rightly called assets or capital because they create value for the community.

## 2.2 From IC to metacapital

Besides the various community intangible assets found above, other concepts of capital are gaining currencies in other disciplines. In sustainable development, ecology and environmental management, the concepts of "natural capital," "biological capital," "biodiversity capital" and "energy capital" are appearing in academic literature and in practitioners' discourses. Less common but notable are new concepts in the behavioral sciences such as "integrity capital," "positive psychological capital" and "emotional capital." The generic term "metacapital" (see Figure 4) has been proposed to embrace all factors recognized – whether in corporate or in developmental applications – as

<sup>n</sup> Talisayon, S. and Sumintrado-Rimando, S. (2008). *Community Wealth Rediscovered: Knowledge for Poverty Alleviation*. Quezon City, Philippines: Center for Conscious Living Foundation and Peace and Equity Foundation.

<sup>o</sup> After reviewing many definitions of social capital from the literature, Claridge observed that the meaning common to most definitions is "social relations that have productive benefits." See: Claridge, T. *Social Capital*, Web site: <http://www.gnudung.com/>

contributors to value creation, including IC, natural capital and social capital.<sup>p</sup>

In summary, the proposed Expanded IC Framework consists of (a) adoption of the more generic term “relationship capital” that is applicable both to corporate and to community or social perspectives, (b) adoption of social value creation rather than corporate value creation perspective, and (c) adoption of the concept of “metacapital” to consolidate both the corporate IC framework and the developmental “Triple Bottom Line”<sup>q</sup> framework.

### 2.3 Application of the Expanded IC Framework: Proposed Value Creation Scale for social innovations

An enterprise is a social innovation<sup>r</sup> that has been found to be an effective tool for value creation. However, the enterprise concept is still evolving due to pressures such as globalization and the global environmental crisis.<sup>s</sup> As the next sections of this paper will show, the social enterprise concept itself may be evolving and different forms and models are emerging in Asia and elsewhere.

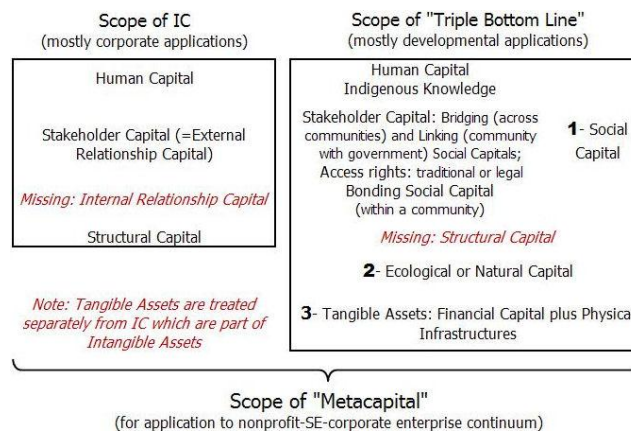


Fig. 4. IC versus “Triple Bottom Line” versus Metacapital

A simple way to evaluate social innovations such as SEs is to check whether or not the

<sup>p</sup> Talisayon, S. and Suministrado-Rimando, J. (2008). *Knowledge for Poverty Alleviation: A framework for design and evaluation of development projects for low-income communities*. Paper read at the Conference on Knowledge Architectures for Development. Singapore: Singapore Management University.

<sup>q</sup> John Elkington originally introduced the term in 1994. He also uses the acronym 3P or “People, Planet and Profit.” The framework has since been adopted widely among NGOs and non-profit corporations. See: Elkington, J. (1997). *Cannibals with Forks: Triple Bottom Line of 21st Century Business*. Oxford: Capstone Publishing Ltd. Also see website: <http://www.johnelkington.com/activities/ideas.asp>.

<sup>r</sup> The concept of social innovation is similar to Stuart Conger’s concept of “social invention” except that the term “innovation” is used here following the standard meaning of innovation according to the World Intellectual Property Organization. See: Conger, S. (1974). *Social Inventions*. Prince Albert, Canada: Saskatchewan Newstart.

<sup>s</sup> Talisayon, S. (2009). *Corporate social responsibility and emergent models in management of stakeholder capital in Philippine conglomerates*. Paper read in the Fifth International Research Workshop on Asian Business, Singapore: Singapore Management University

innovation: (a) is creating or destroying social value, and/or merely transferring resources from one member of society to another without creating value; (b) creates value for all, for many or only for a few, and (c) destroys value from all, from many or from a few. The questions can be arranged into an 8-step Guttman-like ordered checklist, where each step is assessed in a dichotomous yes-no or present-absent fashion (see Figure 5).

The ordered checklist approach can be used to expose the value destruction that results from commonly accepted social innovations, and to highlight and rank the value creation that results from innovations that are socially worthwhile (see Figure 5). The basic assumption behind the scale is that creating value for all or for many is what makes an innovation socially worthwhile.

**Value Creation Scale**  
(An eight-step Guttman-like ordered checklist; answer at each step is a dichotomous "yes/no")

Did it result to value destruction of:	All= present and future generations?	1	Irreversible loss of natural capital; depletion of non-renewable resources
	Many?	2	Loss of metacapital from a substantial segment of society
	Few?	3	Loss of metacapital from a minority
Did it merely transfer resources among:	Few?	4	Resource transfer involving a minority; zero wealth creation
	Many?	5	Resource transfer involving majority; zero wealth creation
Did it result to value creation for the benefit of:	Few?	6	Build-up of metacapital for a minority
	Many?	7	Build-up of metacapital for the majority
	All= present and future generations?	8	Increase in quantity and quality of natural capital available to present and future generations

Fig. 5. A proposed value creation scale for evaluating social innovations

### 3. New Social Enterprise Models

#### 3.1 Concept of “social enterprise”

A social enterprise or SE can be defined as a business with a social mission; it aspires to become self-sustaining by generating income and profit, but its profits are primarily for reinvesting in the enterprise to further fulfill its social mission.<sup>1</sup> It may cover many different types of social mission driven business, including those of private sector and NGOs that run profit-taking operations (see Figure 6). SEs have double bottom-lines. They have a social objective and an economic one. Social entrepreneurs must:

- (i) Accept challenges of the market economy
- (ii) Be innovative in creating business opportunities
- (iii) Acquire business management expertise and skills, and

<sup>1</sup> Tse, K. K. et al. (2009). *Creating a Social Entrepreneurship Movement in Hong Kong*. Official brochure of the Hong Kong Social Entrepreneurship Forum.

- (iv) Aim to be self-supporting and self-sustaining.<sup>u</sup>

The success factors of SE are identifying market niche, creating value added products or services, building networks, partnership, brand and consumer trust, and acquiring management and professional expertise. Since most SEs, same as SMEs, are not strong financially, intellectual and some other forms of capital become their most valuable assets.

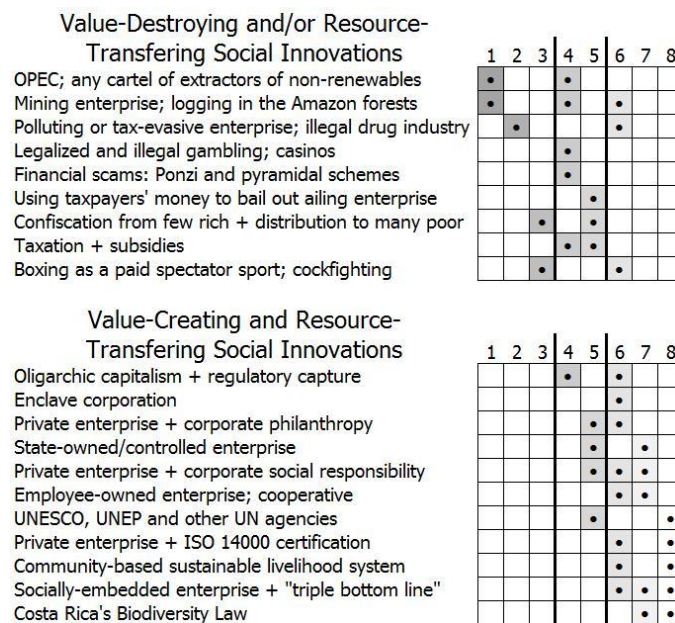


Fig. 6. Examples of applications of the Value Creation Scale

### 3.2 New social enterprises in China

3.2.1. According to Non-Profit Incubator in China, the concept of social enterprise was formally introduced to China around 2004. It went hand in hand with the corporate social responsibility (CSR) movement which is a hot topic now in China.<sup>v</sup> However, awareness of this new concept is still very low, and most people still easily confuse it with NGO or normal business entity. There are only a few successful SEs in China. An example is Huadan which earns income from consulting services to finance its charity

<sup>u</sup> Lee, J. (2008). *Social Entrepreneurship: A Study of the Development of Social Enterprises in Hong Kong*, presentation script at the International Symposium on Social Entrepreneurship and Social Change, Hong Kong

<sup>v</sup> Li, D. (2008). *Incubating Social Entrepreneurs in China* [presentation slides]. International Symposium on Social Entrepreneurship and Social Change, Hong Kong.

activities mainly to help migrant workers and their families in Beijing. Another example is Bright China Foundation which has a mission to “equip people to develop with dignity, to inspire them to help others”, organizes entrepreneurship training for prisoners apart from orphan care and disaster relief activities.

3.2.2. Social entrepreneurship is also a very new concept in Taiwan. It is merely an academic term but not yet a serious advocacy or practice until the first social venture fund, Flow, Inc. was founded June 2007.<sup>w</sup> One of the important barriers to nurture social entrepreneurs is the difficulty to find leaders with both sets of genes: a social heart and a business brain. Some refer this as a combination of Richard Branson + Mother Teresa. The Taichung City Hondao Senior Citizens’ Welfare Foundation through its own R&D produces and sells a product called Peng Zhu experiential packs. The packs contain devices that enable younger persons to simulate experience of an 80 year old, to enable understanding, build empathy and enhance harmonious society as a result.

3.2.3. According to the social enterprise directory published by the Hong Kong Council of Social Service, there were about 110 social enterprises in Hong Kong in 2008.<sup>x</sup> The Hong Kong Council of Social Services (HKCSS), HKCSS – HSBC Social Enterprise Business Centre and the Hong Kong Social Entrepreneurship Forum are the main promoting forces and supporting source of SE movements in Hong Kong. In December 2008, the Social Enterprise Summit was held in Hong Kong, with the presence of speakers and delegates from worldwide. The meeting was said to be of great success.

3.2.4. By studying some SE selectively, it was found that three common and outstanding characteristics existed, namely, knowledge capital, relationship capital and creativity. For example, the Ventures in Development of Hong Kong specifies knowledge management (KM) functions and elements such as knowledge development, case study, training, mentoring and blog in their organization chart (see Figure 7).

The Fullness Christian Vocational Training Centre has openly reported its performance by looking at perspectives on financial capital, social capital and human capital (See Figure 8). Global Institute for Tomorrow in Hong Kong or GIFT ran the Global Young Leaders Programme in India that allows participants who work on globalization projects witness how decisions made in one part of the world have impacts elsewhere. They are also expected to bring technical and commercial expertise to contemporary business and social challenges.

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<sup>w</sup> Chen, R. (2008) *Social Entrepreneurship Movement in Taiwan* [presentation slides]. International Symposium on Social Entrepreneurship and Social Change, Hong Kong.

<sup>x</sup> *Social Enterprise Directory 2008-09*. Hong Kong: Hong Kong Council of Social Service

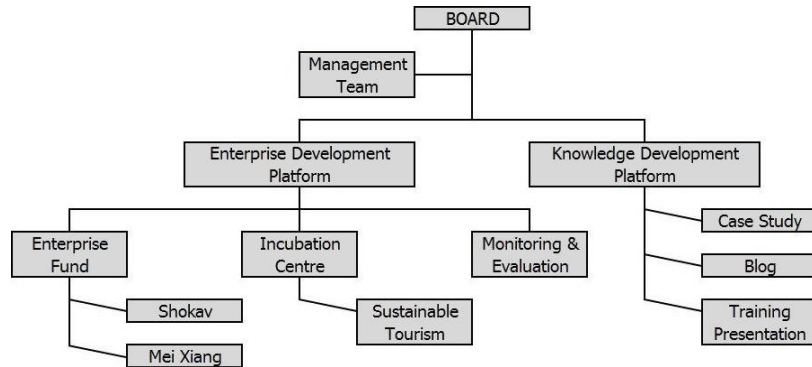


Fig. 7. Organization and Programs of Ventures in Development, Hong Kong<sup>y</sup>

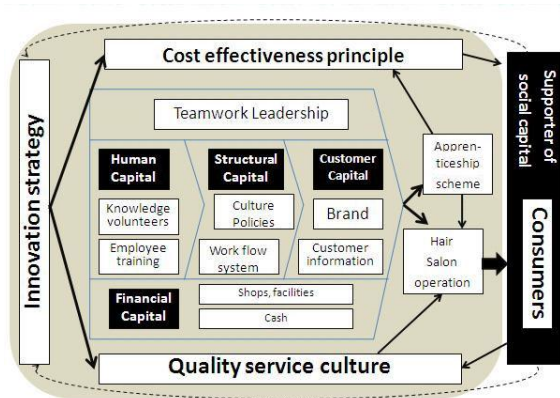


Fig. 8. Service-as-Business Framework of the Fullness Christian Vocational Training Centre<sup>z</sup>

Besides the above sample cases, there are other different ways that IC concepts are applied. Mrs. Siew Mei Cheung Ang the Executive Director of Christian Action highlighted the “intangibles” that investors often look for: the quality of the team – their innovation, problem solving ability, enthusiasm, commitment, skill, the effectiveness of leadership, and the potential for growth.<sup>aa</sup> In other words, in assessing of social enterprises and social entrepreneurs, investors turn to broader behavioral indicators that affect value creation, particularly motivational factors, organizational energy and

<sup>y</sup> So, M. (2008). *Social Enterprise as a New Path for Development in China* [presentation slides]. International Symposium on Social Entrepreneurship and Social Change, Hong Kong; see also website: [www.venturesindev.org](http://www.venturesindev.org)

<sup>z</sup> Kee C. H. (2009). *The Strategy for Creating a Successful Social Enterprise: the Social-Service-as-Business Framework of Fullness*. Translated and reproduced from the Chinese handout from the Hong Kong Social Entrepreneurship Forum Member’s Evening Gathering, May 18, 2009

<sup>aa</sup> Smith Xie, H. (2008). *Bridging the Gap between Business and Social Needs* [presentation slides]. International Symposium on Social Entrepreneurship and Social Change, Hong Kong.

integrity. The broader concept of “metacapital” captures the broader criteria of investors in social enterprises.

All in all, successful social enterprises and social entrepreneurs demonstrate significant applications of intangibles in various forms. They have adopted their unconscious version of Expanded Intellectual Capital Framework which embraces various forms of capital in social value creation.

### 3.3 New social enterprises in the Philippines

Three anthologies were consulted to identify innovative social enterprises in the Philippines: (a) case studies<sup>bb</sup> of seventeen selected innovative development processes in 1991, (b) a 2004 synthesis<sup>cc</sup> of findings from sixteen best practices drawn from over 140 community-based natural resource management projects implemented in 1993-2003, and (c) a 2008 study<sup>dd</sup> of ten best practices drawn from 952 anti-poverty projects implement during the 2003-2008 period. Social enterprises described in the Internet were also examined.

Four cases were selected for application of the Expanded IC Framework and the Value Creation Scale: (a) OLECRAM, a community co-owned and managed mining enterprise, (b) Kalahan Educational Foundation implementing a forest protection agreement between the government and an indigenous cultural group, (c) Center for Bridging Societal Divides using a multi-stakeholder network for training in bridging leadership, and (d) *Botika sa Barangay*, or village drugstores franchised by the government to sell inexpensive medicines.

#### 3.3.1 OLECRAM: community co-ownership and management of a mining enterprise

Olecrum Mining Corporation<sup>ee</sup> in Camarines Norte in southern Luzon Island was formed when a Manila-based investor contributed machinery and former gold panners organized themselves under the leadership of the barangay captain (the elected village political head), to form a unique company based on co-ownership and a fixed ratio of sharing of gold outputs between the people, the barangay captain (who became the Personnel Manager of the company) and the investor.

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<sup>bb</sup> Talisayon, S., ed. (1991). *Innovative Development Processes in the Philippines*. Quezon City: Asian Center, University of the Philippines

<sup>cc</sup> Gois, W. A. (2004). *Summary of Findings: Field Research on Sixteen Best Practice Sites of the UNDP GEF Small Grants Programme* (unpublished).

<sup>dd</sup> Talisayon, S. and Suministrado-Rimando, J. (2008). *Community Wealth Rediscovered: Knowledge for Poverty Alleviation*. Quezon City, Philippines: Center for Conscious Living Foundation and Peace and Equity Foundation.

<sup>ee</sup> Cola, R. (1991). Alternative Corporate Structure and Management Strategies for a Mining Enterprise: a Case Study. In: Talisayon, S., ed. (1991). *Innovative Development Processes in the Philippines*. Quezon City: Asian Center, University of the Philippines

Its innovative features are: (a) many individual, competing and low-technology gold panners were organized into a community-wide corporation using medium-level technology, (b) the village political leader took the corporate role of personnel manager of the corporation, (c) with the consent of the investor, participatory management with employees was adopted, and (d) a ratio was agreed among all parties (investor, personnel manager and employees) for dividing the production of gold.

The village political leader performs the role of mediator between the Manila-based investor and the employees. Because he performs both political and corporate roles, the corporation adapted and blended itself into the power structure of the village. Local cultural practices seep into corporate operations. The overall result is a close articulation between the socio-political system and the production system, and a blurring of distinctions between community and corporation functions. Social capital partly became internal corporate relationship capital.

### 3.3.2 *Kalahan Educational Foundation: forest protection agreement between the government and an indigenous cultural group*<sup>ff</sup>

Before the Philippine Congress passed the Indigenous People's Rights Act in 1997, land tenure of indigenous communities was problematic, spawning violence and insurgency. Traditional or indigenous concepts of ancestral domain clashed with the mainstream system of property rights set up by the colonial Spanish and American governments.

The Ikalahans, an ethnic community in Nueva Vizcaya province in north Luzon Island, after years of such conflicts succeeded in forging a 25-year agreement (renewable for another 25 years upon their option) with the Bureau of Forest Development. This unique agreement assigned them sole rights to develop livelihood systems over more than 10,000 hectares of their ancestral lands and froze private land patenting in the area, in exchange for the responsibility to stop all logging and slash-and-burn farming, and protecting the forest from fires and poachers. This is an innovation in land tenurial system that respects ancestral land rights within the existing legal system. The agreement became a special form of stakeholder capital for the Ikalahans that sanctioned another form of capital: traditional access to forest resources.

To enter such agreement and to create a vehicle for forest management and development, the Ikalahans organized themselves into a foundation, the Kalahan Educational Foundation (KEF) led by their tribal or traditional leaders. This innovation model is a new convention on land tenure and community stewardship over natural resources. It eventually led to a new government policy and program of social forestry. KEF is an example of SE that pursues a triple bottom-line (financial, social and environmental objectives).

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<sup>ff</sup> Beringuela, A. C. (1991). The Kalahan Educational Foundation. *In*: Talisayon, S., ed. (1991). *Innovative Development Processes in the Philippines*. Quezon City: Asian Center, University of the Philippines.

### 3.3.3 *Center for Bridging Societal Divides: a multi-stakeholder network for training in bridging leadership*

TEaM Energy is a Philippine power production company, a joint venture of Tokyo Electric and Marubeni. Jollibee Foundation is the CSR (corporate social responsibility) arm of a big food chain, the Jollibee Foods Corporation. TEaM Energy and Jollibee Foundation financially support an innovative Center for Bridging Societal Divides at the Asian Institute of Management. The Center partners with local academic institutions and local governments to implement capacity building projects in bridging leadership. The Center partnered with CCLFI, a Philippine non-profit foundation dedicated to knowledge management and organizational learning, to develop learning-oriented procedures for replicating the procedures for bridging leadership development. This can be viewed as creating structural capital for the purpose of enhancing bridging social capital in the country.

The Philippines is a nation threatened by many societal divides: ethnic/upland-vs.-mainstream/lowland, Christian-vs.-Muslim, rich-vs.-poor, communist-vs.-free market, insurgents-vs.-government, Manila-vs.-provinces, etc. At the same time personal relationships are important to the common Filipino. These are some reasons why bridging societal divides and training of bridging leaders are needed in the Philippines.

### 3.3.4 *Botika sa Barangay: village drugstores franchised by the government to sell generic and inexpensive medicines to low-income consumers<sup>88</sup>*

“*Botika sa Barangay*” or village drugstores are designed, franchised, resupplied and supported by the national government to distribute cheaper generic drugs to low-income communities. These business ventures are available to local communities according to specified licensing procedures including proper training. A province-wide federation of non-government organizations, AFON or Antique Federation of NGOs, assists in setting up, stocking and training community managers of these drugstores, which they call Health Plus Outlets.

This SE model is made possible by the Philippine Law on Generic Drugs and the program on *Botika sa Barangay* adopted by the Philippine Department of Health (DOH). The Bureau of Food and Drugs under the DOH is the licensing, standardizing and training authority. Supply of drugs is ensured by the DOH. As a result, these enterprises are relatively risk-free. These forms of support from the government constitute stakeholder capital for the drugstore operators.

## 4. Applying the Expanded IC Framework to Social Enterprises

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<sup>88</sup> Talisayon, S. and Suministrado-Rimando, J. (2008). *Community Wealth Rediscovered: Knowledge for Poverty Alleviation*. Quezon City, Philippines: Center for Conscious Living Foundation and Peace and Equity Foundation.

A broader framework is needed to evaluate the new social enterprise forms that combine the business objectives of a Richard Branson and the social objectives of a Mother Teresa. The pursuit of double and sometimes triple bottom lines are enterprise objectives that require an expanded concept of value creation and a similarly expanded concept of the tangible and intangible assets that contribute to such value creation. This is the intent of the Expanded Intellectual Capital Framework proposed in this paper.

Applying the Value Creation Scale to the SEs described in this paper consists of asking eight yes-no checklist-type ordered (or Guttman-like) questions. The results are summarized in Figure 9.

**Application of the Value Creation Scale  
to Evaluate some Social Enterprises**

	1	2	3	4	5	6	7	8
Ventures in Development, Hong Kong SAR						•	•	•
Fullness Christian Vocational Training Centre, Hong Kong SAR						•	•	
Global Institute for Tomorrow, Hong Kong SAR						•	•	•
Olecrum Mining Corporation, Camarines Norte, Philippines	•						•	
Kalahan Educational Foundation, Nueva Vizcaya, Philippines						•	•	•
Center for Bridging Societal Divides, Philippines					•			
Botika sa Barangay, Philippines						•		

Fig.9. Evaluating the SEs using the Value Creation Scale

Three of the seven SEs (Ventures in Development, Global Institute for Tomorrow and Kalahan Educational Foundation) implement sustainable development projects; they pursue a triple bottom-line objective, namely, business profit (6 = value creation for the few), community or social development (7 = value creation for the many), and environmental enhancement (8 = value creation for present and future generations). The Center for Bridging Societal Divides does not engage in for-profit activities but receive grants (5 = resource transfer for the many) to implement their local leadership development projects (7). Olecrum Mining Company extracts a non-renewable resource, gold and so it is checked under 1 (= value destruction from present and future generations); it develops the local community so it is checked under 7. Botika sa Barangay is community-based, but the profit goes only to the few members of the cooperative (6 = value creation for the few). The community benefit of lower costs of drugs is not considered as value creation for the many (7 not checked).

The ordered checklist approach is only an initial way of evaluating value creation of an enterprise. The next step in developing this methodology is to augment the ordered checklist with quantitative information such as number of community members served and estimates of net present value created using cost-benefit analysis and similar methodologies.

SEs employ a wider and different set of intellectual and other intangible assets for value creation. SE employees have to be excellent managers and businessmen, but to pursue its social objectives SE employees must in addition be dedicated, enthusiastic and

committed individuals. The qualities of human capital needed for SEs are different from private corporations. Rural communities are able to employ other forms of intangible assets: traditional or officially sanctioned access to natural resources, indigenous skills and crafts, socially-accepted leadership roles, etc. It is interesting to observe that SEs recognize and employ a wider variety of relationship capital. While private corporations recognize and build only stakeholder, including customer capital, from a competition perspective, SEs create and employ a wider variety of relationship capital, namely, bonding, bridging and linking social capital. The Center for Bridging Societal Divides is an SE that had dedicated itself to leadership development aimed at enhancing bridging social capital.

## 5. Prospects for the Future

### 5.1 Extended Use of Relationship Capital

In China, *guanxi* is one form if not the most important form of IC that who you know is more important than what you know. However, *guanxi* usually refers to mutual beneficial relationship between person(s) of an organization to person(s) of another organization. With good *guanxi*, a company can get results more effectively. *Guanxi* is not a bad thing if integrity is not compromised. One key question for SE and in fact for any organization is how to transform the tacit and invisible *guanxi* that usually go away with the human capital, into structural capital that can be retained by SEs. In the Philippines, *suki* denotes a business relationship of trust that is also a personal relationship; *bayanihan* is a popular form of reciprocal exchange of services. Among equals in a partnership or network, Indonesians and Malaysians adopt relationship building practices, namely, *mushawara mufakat* (dialogue to generate consensus) and *gotong royong* (reciprocal services).

*“There is actually not much difference between the East and the West when we talk about relationship capital,”* said Greg Layton, director of Interviva, a personal coach who dedicates 10% of all his company’s income to charity. The Japanese build up business relations with golf sessions. The British gather for glasses of beer after work. The Chinese treat dinner part of business negotiation process. Today with Web 2.0, people can build up relationships by joining social sites such as LinkedIn, Twitters and Face Book disregarding national and other boundaries. Cultivation of relationship capital in Asia may be facilitated by the value that many Asian societies place on social and group harmony (versus individualism).

Relationship capital can also be in the form of knowledge volunteers who contribute their professional and business expertise free of charge or for a nominal sum to help improve the management of SEs as well as the quality of their products and services. Based on a Harvard Business School study, entrepreneurs have an average success rate of 22% in their first commercial ventures. It increases to 34% in the second venture if the first one was successful. The success rate of a social worker to establish a successful

SE venture can be significantly increased if there is professional assistance from those with proven business track records.<sup>hh</sup>

## 5.2 Consumption Capital and Socially Responsible Consumption

In his book “Consumers Also Can Be Capitalists”, Professor Chen Yu proposed the view that development can be propelled not only by financial capital and by intellectual capital, but also by “consumption capital”.<sup>ii</sup> According to his consumption capital theory, a common consumer can earn continuous profits from the enterprise he patronizes thus his consumption becomes also a kind of private investment. A McKinsey study shows that, in the aftermath of the global financial crisis, China can achieve dramatically faster growth in the medium-term by shifting to consumer-centric policies instead of continuing with export-led and stimulus package growth policies.<sup>jj</sup>

Consumption is also becoming a kind of social investment. Since the emergence of awareness of fair trade, the concepts of ethical consumption and “socially responsible consumption” as a consumer responsibility and as a social movement have started to take shape. The humanitarian message behind the term is the care for the needy people as a criterion in consumption decisions. Based on an Oxfam Hong Kong survey, middle class consumers in Hong Kong are willing to pay a premium for products which have a social value and comparable quality.<sup>kk</sup> Social enterprises should target at winning the “votes” from consumers who are willing to endorse the SE’s social vision through their purchasing power and preference choice.

## 5.3 IC valuation and reporting

A cause of market inefficiency is incomplete information provided to buyers and investors. For example, prices of goods and services do not reflect the social costs incurred in their production. Wide adoption and operationalization of the expanded intellectual capital framework coupled with corporate transparency through expanded IC valuation and reporting can contribute to reducing this kind of market inefficiency. It can also improve capital allocation by providing broader information to investors. The development of a different kind of stock exchange for SEs will create an additional demand for operationalizing the Expanded IC Framework. “Social stock exchange” such as Bovespa in Brazil is a harbinger of this new social innovation.<sup>ll</sup>

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<sup>hh</sup> Chee, C.H., (2009) Socially Responsible Consumption – The Future is Now. *In: Social Entrepreneurs Newsletter*, 27 August 2009. Hong Kong Social Entrepreneurship Forum.

<sup>ii</sup> Chen, Y. (2006). *Consumers Also Can Be “Capitalists” – Consumption Capitalization, Theory and Its Applications*. Guangxi: Science & Technology Publishing House

<sup>jj</sup> Devan, J., Rowland, M. and Woetzel, J. (2009). *A Consumer Paradigm for China*. McKinsey Quarterly, August 2009.

<sup>kk</sup> Chee, C.H. *op. cit.*

<sup>ll</sup> The Social Stock Exchange - a Unique Initiative and a Global First. Web site:

[http://www.unglobalcompact.org/docs/news\\_events/9.1\\_news\\_archives/2004\\_04\\_08/sse\\_bovespa.pdf](http://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2004_04_08/sse_bovespa.pdf)

The task of developing global standards for valuing and reporting the full spectrum of intangible assets is difficult. The World Intellectual Capital Initiatives or WICI was formed about two years ago with members from government departments in economics, international accounting firms and prestige educational institutions.<sup>mm</sup> WICI aims to establish a worldwide standard in IC valuation and reporting format. The US and in some European countries, listed corporations are now required to provide IC-type reports on mandatory or voluntary basis.<sup>nn</sup>

## 6. Conclusion

This paper basically proposes a broadening of the intellectual capital framework to embrace and evaluate many forms of SEs that are now emerging. This means (a) taking a community or social perspective, (b) expanding the scope of intangible assets to include all factors that contribute to value creation and adopting the more generic term of metacapital, and (c) broadening the corporate concept of stakeholder capital to the more generic relationship capital.

According to Mr. Stephan Chambers, Chairman, Skoll Centre for Social Entrepreneurship, Said Business School, Oxford University, UK has reasons for optimism regarding social enterprises. He observed that social entrepreneurs are gaining increasing recognition and venture investment models are becoming more applicable to SEs.<sup>f</sup> From our study of various social enterprises, financial capital is the least important key success factor in SEs. The key success factors associate mainly with human capital, customer capital, relationship capital and other intangible assets.

Under the financial crisis, funding from the government, charity foundations and donations will no doubt be diminishing. NGOs and SEs should start to identify, manage, value, utilize and report all forms of intangibles assets for success and sustainable growth. There are ample of opportunities for growth of social enterprises under the knowledge economy, for them to innovate, contribute to social change and create a new and better world, i.e. value creation f all stakeholders for the present and future generations.

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<sup>mm</sup> See web site: <http://www.worldici.com/>

<sup>nn</sup> The US Securities and Exchange Commission has started experimenting in a form of IC reporting called “colorized approach.” See web site: <http://www.sec.gov/news/speech/speecharchive/1996/spch079.txt>