

# THE INTERNATIONAL JOURNAL *of* LEARNING

Volume 17, Number 3

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THE INTERNATIONAL JOURNAL OF LEARNING

<http://www.Learning-Journal.com>

First published in 2010 in Champaign, Illinois, USA by Common Ground Publishing LLC  
[www.CommonGroundPublishing.com](http://www.CommonGroundPublishing.com).

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ISSN: 1447-9494

Publisher Site: <http://www.Learning-Journal.com>

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Typeset in Common Ground Markup Language using CGCreator multichannel typesetting system

<http://www.commongroundpublishing.com/software/>

# Knowledge and Learning Capabilities in Nonprofit Organizations: A Relational Capital Perspective

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*Abstract: Relational capital (RC) represents the knowledge and learning capabilities embedded in relationships external to an organization. The primary goal of this paper is to report preliminary findings through qualitative in-depth interviews collected from 35 senior executives in relation to their perceptions of RC in building knowledge and enhancing learning capability in 22 Australian nonprofit organizations. The findings revealed that RC was valued as the concept perceived to be able to assist nonprofit managers to conceptualize the development of knowledge and learning capabilities in external stakeholder relationships. However, the understanding and application of RC were substantially different to those contained in the literature. Scholars suggest that a balanced view of RC is essential when establishing external stakeholder relationships. The nonprofit managers often adopted a more focused relationship with key external stakeholders, which also happened to be primary fund providers for the organizations. Research implications of this theory-practice divide are discussed. Research limitations and future research direction are presented in the paper.*

**Keywords:** Knowledge and Learning Capabilities, Relational Capital, External Stakeholder Relationships, Nonprofit Organizations

## Introduction

**R**ELATIONAL CAPITAL (RC) represents the knowledge and learning capabilities that exist in relationships between an organization and its external stakeholders (Bontis, 1998; Cegarra-Navarro and Sánchez-Polo, 2007; Fletcher, et al., 2003; Grasenick and Low, 2004; Kale, Singh and Perlmutter, 2000; Marr and Roos, 2005). There has been consideration of stakeholder theory applied to nonprofit organizations, but much of the concern has been related to improving stakeholder relationships (See e.g. Abzug and Webb, 1999; Balser and McClusky, 2005; Crittenden and Crittenden, 2000; Krashinsky, 1997). More literature today is pointing to the understanding and building of RC in business corporations (See e.g. Blatt, 2009; De Clercq and Sapienza, 2006; Kale et al., 2000). Very little research, however, has been conducted solely for the investigation of the role of RC in nonprofit organizations, especially through the lens of knowledge and learning capabilities. Organizational knowledge and learning capacities can be defined as an organization's ability to build, organize, and supplement the knowledge and skills of its workforce for organizational efficiency (Dodgson, 1993; Goll, Johnson and Rasheed, 2007). A better understanding of the utilization of RC in nonprofit organizations may assist nonprofit managers to better equip themselves with improved knowledge and learning capabilities for managing external relationships in the knowledge economy. This is particularly important to nonprofit organizations as they are constantly in danger of losing fiscal support, legitimacy and volunteer

support as a result of the public sector reform movement since the 1980s (Bevir, Rhodes and Weller, 2003; Carney and Ramia, 2002; Hood, 1991).

Using data gathered from 35 in-depth qualitative semi-structured interviews from 22 Australian nonprofit organizations, it is confirmed that RC can be utilized in fostering knowledge and learning capabilities in nonprofit stakeholder relationships. Thus, the paper fills the gap by building a nascent body of literature that RC is an important intellectual resource to nonprofit organizations. However, the interview data have also revealed that the interview participants' understanding of the RC concept was substantially different to those contained in the literature. The different understanding of RC started with the participants' perception that the concept was strongly associated with funding sources and thus significant organizational resources often pulled towards building knowledge and learning capabilities with the primary fund providers. Secondly, relationship management strategies with non-fund providers such as the community and service recipients were deemed to be casually developed rather than carefully nurtured. This is different to the literature suggesting that a more balanced approach to the development of RC is necessary if organizations, which include nonprofit organizations, are to attain sustainable external stakeholder relationships. In other words, scholars and nonprofit practitioners have a different understanding of the RC concept.

Since the perceptions of the interview participants have been taken to represent the way other nonprofit practitioners may interpret the RC concept, the findings help to shed light on what might happen in nonprofit practitioners' minds in relation to the RC concept and how their mindsets are different to that of the scholars in the field. As will be revealed in the paper, the findings have significant implications for both nonprofit strategy scholars and practitioners. They help to develop a theory suggesting that not only RC plays a significant role in nonprofit external relationships, but also a better understanding of the theory-practice divide and what causes the theory-practice divide are urgently needed.

The paper is organized as follows. Firstly, a brief overview of the contemporary nonprofit challenge is provided. This is followed by a review of the RC concept and its implications in the nonprofit context. Then a short outline of the research methodology utilized in the study is presented. After that the findings of the interview data gathered from the participating senior executives are presented and discussed. This will lead into a discussion of the different understanding of the RC concept between scholars and nonprofit practitioners. Finally, the paper will conclude with possible explanations and implications of the findings. Research limitations and recommendations for future research will also be discussed.

It is also important to note that RC is a robust concept capable of cross-sectoral application. The findings in the paper likely shed new light on what RC may be perceived by executives in the public and private sectors. A better understanding of RC utilization likely benefits not only nonprofit organizations, but also for-profit and public sector organizations.

## **The Nonprofit Sector and its Change Context**

The nonprofit sector is diverse. It includes philanthropic foundations, large institutions that are involved in the provision of a wide range of services, community-based entities providing services for the specific needs of a community, self-help groups and many others (Lyons, 2001). Historically nonprofit activities were conducted mainly in the context of bureaucratic models of public administration. Financial support for the nonprofit sector was principally through grants from government (Alexander, 1999; Eisenberg, 1997). As a result of this

there is a strong association between nonprofit organizations and administrative burdens, described as similar to those in the public sector (Light, 2002).

Since the 1980s, reforms have been introduced in the public sector and the nonprofit sector is unavoidably under the same influence which emphasizes the use of market-type mechanisms and short-term contracts rather than direct grants (Bevir et al., 2003). Nonprofit organizations are now facing challenges stemming from growing competition for service delivery with for-profit organizations (Brown III, 2005; Chetkovich and Frumkin, 2003; Kong, 2008; 2010a), and diminishing fiscal supports in the form of public funds (Alexander, 1999; Brock, 2008; Craig, Taylor and Parkes, 2004; Eisenberg, 1997).

In addition, many scholars have acknowledged the existence of multiple constituencies in nonprofit organizations in the literature (Anheier, 2005; Herman and Renz, 1999; Kanter and Summers, 1987). This is because the organizations are externally justified morally, ethically, and legally by what they do to address social needs and, in particular, the interests of key stakeholders in accord with the strictures of the law (Bryson, Gibbons and Shaye, 2001). Not only do nonprofit organizations rely heavily on external sources for funding, donations, and other legitimate support (Balser and McClusky, 2005), but also the organizations are in fact operating in an environment that has multiple groups of external stakeholders (Kristoffersen and Singh, 2004). Thus, external relations have always been crucial to nonprofit organizations and managing external relations becomes especially important to the organizations due to high demand for transparency and accountability (Balser and McClusky, 2005; Salamon, 1999a). This has added significant pressures to nonprofit organizations as they are often pressed to become more efficient and effective in dealing with multiple constituents such as fund providers, regulators, service recipients, and volunteers (Brown and Kalegaonkar, 2002; Kaplan, 2001; Lyons, 2001). The concept of relational capital (RC) provides one means to assist nonprofit organizations to address the challenge of maintaining and establishing effective external relationships under the changing public sector environment.

## **The Concept of Relational Capital (RC)**

Relational capital (RC) represents the transfer of knowledge, know-what and know-how from an organization to its external stakeholders, and vice versa, in external relationships (Kale et al., 2000). RC is, therefore, closely linked to external relationships but the two concepts are not identical. External relationships are about connections between an organization and its external stakeholders, and can be formal as well as informal (Marr and Roos, 2005). Formal external relationships may include alliance agreements, distribution arrangements and buyer-supplier relations. Informal external relationships may cover relationships with potential employees, clients or customers, suppliers and a local community. All external relationships involve some form of learning and knowledge exchange, and it is these relationships that likely foster learning capability, knowledge transfer and creation between an organization and its external stakeholders (Christopher and Gaudenzi, 2009; Kong, 2009; Schiuma, Lerro and Carlucci, 2005). To ensure a sustainable external relationship, many scholars have argued that an organizations must take a more balanced approach by seeking knowledge from its external stakeholders and assist external stakeholders to learn and capture its own knowledge (Blatt, 2009; Dewhurst and Cegarra-Navarro, 2004; Pagano, 2009; Theoharakis, Sajtos and Hooley, 2009). RC is about the flow of knowledge between an organization and its external environment (Bontis, 1998; Cegarra-Navarro and Sánchez-Polo,

2007; Fletcher et al., 2003; Grasenick and Low, 2004; Kale et al., 2000; Marr and Roos, 2005). Ensign and Hébert (2010) argue that predictability and reciprocity were positively related to knowledge sharing and thus, positive past interactions between an organization and its external stakeholders are positively related to the likelihood of current and future knowledge sharing occurring between the two parties. Examples of RC may include: loyalty of valuable customers; mutual trust and commitment given by key suppliers and clients; reliability and reliance partnership from alliance or contractual partners; and image and reputation that an organization has developed over time in its surrounding community (Knight, 1999).

More importantly, RC is particularly critical to organizations because it helps to create organizational value by connecting internal intellectual resources such as the innovativeness and talents of employees and non-human storehouses of knowledge, including databases, process manuals, strategies, routines, organizational culture, publications, and copyrights, with external stakeholders (Guthrie, Petty and Ricceri, 2006; Knight, 1999; Kong, 2010a; Ordóñez de Pablos, 2004). For instance, a team of talented employees of an organization learns about the need of their customers and turns their creative ideas into an innovative product. The product is then patented and advertised to customers. The word of mouth spreads among customers, as well as other external stakeholders, likely creates a positive image, reputation, and confidence about the organization. It is this unique knowledge, as well as the learning capability, that likely draws future business, attracts potential alliance partners and develops trust and commitment towards the organization. Organizations are more likely to further nurture their knowledge and learning capabilities if they continuously and effectively engage in relationships with their external stakeholders. This is because the articulation and challenges of existing knowledge in external relationships likely generate new knowledge and learning with external stakeholders (Christopher and Gaudenzi, 2009; Kong, 2009; Kong and Thomson, 2009).

This paper aims to examine if and how RC may be utilized in nonprofit organizations. In order to fulfill that objective, the paper employs a qualitative analysis methodology which utilizes in-depth, semi-structured interviews, including both face-to-face and telephone interviewing approaches, as the primary data collection instrument. The next section outlines the methods used by this research study.

## Methods

RC by its nature involves tacit knowledge, thus extremely difficult to quantify (Bontis, 1998; 1999; Kelly, 2004; Knight, 1999; Roos, et al., 1997). In addition, the examination of the role of RC in nonprofit organizations is a new area of enquiry. Thus, a qualitative, exploratory approach is necessary as it is often considered to be a good way of gaining people's perceptions (Kirkwood and Tootell, 2008), allowing flexibility to tap the expected richness of data (Cavana, Delahaye and Sekaran, 2000; Lee, 1999; Taylor and Bogdan, 1984). Accordingly, in-depth semi-structured interviews of 45 to 60 minutes were chosen as the central instrument. Relevant documents and archival data such as annual reports, strategic plans, organizational websites, and mission statements about the organizations were also collected to provide triangulation of reference material for thematic analysis and for post-research inquiry (Creswell, 2003).

As previously mentioned, the sample population was chosen from Australian nonprofit organizations. All potential nonprofit organizations were recognized as not-for-profit entities under the income tax, fringe benefits tax (FBT), and goods and services tax (GST) laws in Australia and thereby received charity concessions for their income. The charity concessions in relation to the potential organizations were and are publicly available from an Australian government website (<http://www.abr.gov.au>). In addition, the organizations delivered nonprofit services directly to their clients in Australia, had at least five years of history, a formalized structure and strategic planning processes. According to Edvinsson and Malone (1997), and Mayo (2000), this is an important criterion as a relatively long history of establishment, formalized structures and hierarchies such as managers and sub-ordinates, organizational websites, mission statements and organizational objectives usually allow knowledge that is embedded in external relationships (or RC) of an organization to be liberally utilized and accumulated. The rationale for the selection criteria was to ensure that both macro and micro oriented activities in relation to RC in the nonprofit context would be covered in the chosen organizations.

In addition, '*Snowball sampling*' was also adopted to find potential interviewees (Dawes, 1987; Vogt, 2005). This is a technique which is used for finding research subjects. This means that researchers will ask a participant to give a name of another person who is from a different nonprofit organization, who in turn provides the name of a third, and so on.

Based on the sampling selection criteria, 55 nonprofit organizations were contacted via e-mail and telephone, of which 22 agreed to participate. The service provision areas of the organizations covered a wide range of nonprofit services (e.g. child welfare, youth services, family support services, services for people with disabilities, services for the elderly, and emergency services). In total 35 nonprofit executives in key strategic management positions within these organizations agreed to participate (See Appendix I - Participant Inventory). Each was provided with an information statement about the research and a copy of the interview questions. The interview questions were designed on the basis of a vigorous review of existing literature. The information statement explained the purpose of the research project and provided an explanation of all key terms that would be used during the interviews.

Interviewees were offered opportunities to ask questions and explained the definitions of the key terms once more before the interviews started. They were then asked a range of questions regarding the role of RC in their organizations (See Appendix II – Interview Guide). Intensive semi-structured interviews were conducted over a ten month period. An ongoing analysis was conducted throughout the entire interview process which ensured the justification of theoretical saturation which determined whether data collection activities should end or carry on (Charmaz, 2003; Richards, 2005; Strauss and Corbin, 1998). Theoretical saturation occurs when no pertinent or new data emerges; the properties and dimensions of emerging categories are well developed; and the relationships between categories have been established and validated through the data collected (Strauss and Corbin, 1998). In this case theoretical saturation occurred after 27 interviews and 8 further interviews were conducted to validate the emergent categories. In other words, more interviews were conducted but the same or similar data were gathered after theoretical saturation. These extra interviews allowed an objective view to test the level of saturation and offered a firm confirmation of theoretical saturation (Kong and Thomson, 2006).

A digital recorder was used to record conversations for all interviews, which ensured the accuracy of data collection and subsequent interview transcription (Johnson, 2002). All in-

interviewees gave consent for taping. Interview transcripts and research notes were directly input into NVivo, a computer-aided data analysis software program for qualitative research. The data were then coded into units of meaning (known as ‘free nodes’ in NVivo) according to the exact words of the participant (Creswell, 1998), which were then further analyzed to capture the emergent properties and categories of the common themes (Strauss and Corbin, 1998). To maintain the confidentiality of the participants each interviewee was assigned a code (e.g. Exec-1) and the numerical order was not indicative of the interview chronology. The findings of the interview data are presented in the next session.

## **Critical Analysis of Research Findings**

### ***RC in Nonprofit Organizations***

This paper has taken a first step examining the relationships of the multiple groups of external stakeholders of nonprofit organizations through the perspective of RC. As demonstrated in the interview data, all participants agreed that RC was the key to ensuring that their social objectives could be achieved.

I think we are entering into a phase where our organization’s RC is the most important component where we understand the interrelationships between clients, other networks, other welfare organizations, government sector, and corporate and so on. Those kinds of relationships with each of those are mutually exclusive that there is interdependence to almost *all those relationships that we need to come to terms with and understand and develop further*. So I think we actually come to a time that RC of the organization will be the most important thing for us (Exec-25, Paragraph 211, *emphasis added*).

Well ... if we don’t have RC, we will work in a complete vacuum. We will be completely disconnected between what we do. We will find that a whole range of programs won’t be needed. *We are not communicating in an industry which we are working and we won’t be able to do our job effectively* (Exec-16, Paragraph 207-211).

The quotes from the above two nonprofit executives suggest that learning and understanding of external stakeholders was critical to the organizations. However, as will be discussed in the next section, the interview data also revealed that RC was strongly associated with funding sources. This means the participating organizations tended to develop and maintain relationships with external stakeholders that provided financial sources to the organizations. This is significantly different to the literature as put forth by the scholars that a balanced view of RC is essential in establishing external stakeholder relationships.

### ***Government Relationships***

Government agencies have a role in addressing societal issues and in many cases are the fund providers of nonprofit organizations (Huxham and Vangen, 1996). Accordingly, knowledge of governmental impacts to the nonprofit sector was an essential element of RC in government relationships for the participating organizations. In the fieldwork, government relationships were frequently emphasized by the participants, particularly those whose or-



ganizations received funding primarily from the governments at Local, State or Federal levels. Some participants in those government funded organizations highlighted that RC was the most important intellectual resource in their strategic management process. This is not a surprising finding as government relationships do play a significant role especially as a key funding provider and regulator of the nonprofit sector. The importance of government relationships was clearly reflected in the following examples.

We have very strong relationships with the governments. We have formal and informal relationships with them by representational committee and so on. As a lobbying and advocacy organization, we have to pursue those relationships at various levels of the governments (Exec-11, Paragraph 211).

We always have very strong relationships with the government ... we need to have good relationships with the government because it is our funding body. Also, it is the social policy maker and we want to influence social policy (Exec-7, Paragraph 106-109).

Exec-11's comment of 'pursue those relationships' can be interpreted as *seeking knowledge at various levels of the governments*. The statement from Exec-7 suggests that his organization wanted to influence social policy by utilizing the knowledge in relationships with the government. Both quotes suggest that learning and understanding government relationships is a key to their organizational success.

However, working with governments can be difficult. Some participants argued that the relationships that they had with the government were sometimes demanding and uneasy, in particular when the government was the fund provider and the organizations acted as advocates for government policies.

The government makes policies and at the same time is the funding body. And that is a very strange relationship and sometimes that relationship can be very difficult. There might be a policy that we disagree strongly and we advocate in the media, in the community and to the government themselves that we disagree with that policy but they might be funding us to deliver some part of that (Exec-7, Paragraph 111-115).

Quite often, confrontations took place when government policies were not consistent with the organizations' strategic objectives or missions.

The recipient of funding is often expected to behave in a manner consistent with government policy, rather than the ethos of the organization itself. For example, Christian agencies who accept government funding for job seeker programs were told that they could no longer prefer to employ Christian staff in order to carry out the work of linking all comers to jobs as a result of government policies on anti-discrimination. This led to quite a confrontation (Exec-3, Paragraph 188).

Despite the problems, however, more organizational resources had been drawn towards government relationships in the hope that government funding would be secured. This was particularly obvious in the government funding dominated organizations as revealed from the following examples.

Spending time with bureaucrats is particularly related to our [employment service program]. We try to understand their objectives and outcomes (Exec-14, Paragraph 52, Government funds: 87%).

... we have to perform according to the contracts because we don't want to lose our contracts, that means we have to spend more time fulfilling the contract requirements and less resources to provide other services (Exec-16, Paragraph 163, Government funds: 87%).

The above two quotes suggest that governments dominated the attention of nonprofit organizations since they were the key fund providers of the organizations. Some of the organizations even hired senior executives specifically to manage government relationships. The following quote demonstrates that maintaining government relationships was highly emphasized.

[External relationships] are an area that we really emphasize and just over a year ago we appointed a General Manager ... [This] shows how important they are when employing someone at a senior level of management to manage those relationships. And because it is extremely important for us and because of the complexity of our working environment which is the Federal, States and Local governments, *we simply have to get a lot of attentions to that at all [government] levels* (Exec-15, Paragraph 149, *emphasis added*).

More evidences regarding nonprofit organizations' adoption of a narrower perspective of RC were found in donor relationships. The participating organizations that primarily received public donations tended to develop relationships with donors predominantly. The findings are discussed in the next section.

### ***Donor Relationships***

Early studies of the competitive tendering model suggested that many nonprofit contractors were not entirely passive actors in government-nonprofit relationships (Stone, 1996) as they tended to avoid or minimize compliance with government rules and regulations (Bigelow and Stone, 1995). Similar cases were also found in the interview data. In order to avoid being restrained by government policies and actions, some of the organizations refused to take even a proportion of government funds offered them. Instead, they relied mostly, if not entirely, on public donations.

To be able to operate and progress agendas or issues independently, we have not sought government funding here in [our organization in the State] (Exec-17, Paragraph 324-330).

We don't have a lot of relationships with the government because we are not funding by the government ... [Thus,] we are not constrained by the government in any way (Exec-8, Paragraph 211).

Donors were another important stakeholder who facilitated the organizations fulfilling their missions. All the participating organizations emphasized the importance of a positive relationship with their donors.

... if you have a better understanding of the donors, it is easier to get people to donate money (Exec-12, Paragraph 196).

... you might have seen [our organization's] second hand shops all over the place. We have that for many years. We collect goods from all over the place, people donate goods, sometimes ... someone dies and their family gives everything to [our organization] ... (Exec-6, Paragraph 49).

Some of the participating organizations only allowed certain functions to receive government funding.

In [our State], for example, something like 35% of the income of the [organization] has come from the government funding ... But the national council as where I am, we don't get any government funding here (Exec-24, Paragraph 75).

These organizations tended to incorporate donor relationships in their relationship management strategies. Again, developing and nurturing a better understanding of the knowledge of individual donors and corporations was perceived to be essential to nonprofit organizations.

We spend a lot of time of developing and nurturing relationships with potential donors so they might be individual mums and dads in houses or they might be in big corporations. So we sort of understand where they are coming from and what they are doing (Exec-11, Paragraph 211).

Working with corporate sector and trying to understand their objectives and outcomes is important to us. We are developing more and more partnerships and again, it is about getting to know the outcomes at corporations which want to have partnerships. We are working with them and developing very good relationships but at a higher level in the organizations (Exec-14, Paragraph 55).

The importance of donor relationships was also revealed in key organizational documents. Almost all of the participating organizations spent a number of pages, ranging from one to three, in their annual reports to acknowledge the contributions of their donors. Some organizations, which also happened to be receiving funding mainly from the public, placed their acknowledgement to donors within the first 10 pages of their annual reports. This suggested that these organizations not only recognized, but also highly valued the contributions of donors.

However, when asked who their stakeholders were, managers of the nonprofit organizations that received primarily public donations clearly stated that the government was not one of their stakeholders. These findings further suggested that RC was strongly associated with funding sources.

Stakeholders to us are normally the people we work with such as both board members, corporate partners, individuals who donate money to us and community groups (Exec-28, Paragraph 63, Public donations: 98%).

We get no government funding. Our donation is from the good will of the public ... Our stakeholders are staff, volunteers, and donors (Exec-12, Paragraph 37 & 87-91, Public donations: 99%).

We don't have any government funding ... our stakeholders are the children and families, all the hospital and medical staff, the doctors, nurses and social workers, all of that, our donors, whether it is individuals or corporate, and they have very different needs and how you manage individual versus corporate, very different (Exec-27, Paragraph 103 & 205, Public donations: 98%).

Nonprofit organizations are now operating in a highly competitive environment (Kong and Prior, 2008; Sargeant, 2001). In many cases the organizations are relying on a small number of key fund providers due to competition from an increasing number of nonprofit organizations and a decreasing fund provider pool (Pharoah and Tanner, 1997). Despite of this fund providers are not the only key stakeholders in the nonprofit sector. Nonprofit organizations are accountable to many other constituents such as volunteers, service recipients, regulators and the general public (Brown and Kalegaonkar, 2002; Kaplan, 2001; Lyons, 2001). The participants' perception of funding source associated relationships is significantly different to the literature as suggested by the scholars in the field. Nonprofit organizations are assessed morally, ethically, and legally by what they do to address social needs and, in particular, the interests of key stakeholders (Bryson et al., 2001). As fund providers were perceived to play a major part in nonprofit external relationships, attention to other external stakeholders such as the community was deemed to be de-emphasized or taken for granted rather than carefully developed. The interview data revealed the following findings.

### ***Community Relationships***

Community relationship strategies are essential for nonprofit organizations because they are critical for achieving legitimacy from the public (Ospina, Diaz and O'Sullivan, 2002). One justification is that prospective employees and volunteers are more willing to join an organization with a strong community reputation (Hamori, 2003; Martin, et al., 2005). Accordingly, it is reasonable to believe that nonprofit organizations that have well established relationships with the community may attract volunteers and employees. Some of the organizations in fieldwork had begun to adapt approaches that enhance community relationships in the strategic management process.

I think we are now starting to look at particularly the whole community ... So what the community is doing? Where might that actually link our thinking to what they might be thinking? ... So we are taking a whole society approach (Exec-7, Paragraph 19).

We say ourselves working with people and particularly the local community as a whole (Exec-22, Paragraph 81).

However, as revealed in the interview data the community relationships seemed to be more casual than well developed. This notion could be illustrated by the three examples below, where the organizations were waiting for the community to approach them rather than reaching out to establish relationships with the community that they served.

... we run events to raise money and perhaps something is called [nonprofit] fundraising *where the community comes to us*. People and organizations want to raise money and so we sanction to that and we have an official process for them to raise money and use our brand name (Exec-27, Paragraph 103, *emphasis added*).

Well ... *I guess they* [the general public] *know where they can get* [our information] *from*. [Our information] would be available for the general public. We keep a lot of copies stuff at our office and if people ring us at our office and we can hand out our information. And [our organization] has got a website and a lot of information is available there (Exec-10, Paragraph 155, *emphasis added*).

... it is the general transference of ways of doing things that sort of spread from words among workers and there is also a general transference of our vision of things that can become a culture of our organization and *transfer from workers to supporters and people like me and external environment and so on* (Exec-18, Paragraph 127, *emphasis added*).

### **Client Relationships**

Social dimension is and should be the *raison d'être* of nonprofit organizations' existence. However, as revealed from the interview data, some of the participating organizations had shifted their attention from serving service recipients to fund providers.

I think in our organization we tend to focus on service programs, not on the people (Exec-2, Paragraph 139).

... they [the service recipients] are really not the immediate clients. *Our immediate clients we would see as the funding bodies that fund the projects or the services we provide*. Donors ... major donors, a lot of companies give us money for particular things so we see them as clients. We see organizations in our community centers or schools which purchase a lot of our resource materials or curriculum materials as clients. So we are very client conscious and focus and *we have to deliver whatever it is to the people who provide the funds to us* (Exec-4, Paragraph 113, *emphasis added*).

Exec-2 was emphasizing that the organization focused on the overall performance and outcome of service programs. However, the comment also reflected that the organization had shifted towards quantitative measurement such as numbers of clients served, rather than qualitative indicators such as the satisfaction of the clients. In the case of Exec-4, the participant even denied that service recipients were the organization's clients. Instead, the participant saw fund providers as the clients. This not only supports the argument that RC was

strongly associated with funding sources, but also revealed that client relationships were not nurtured in the way RC theory prescribes.

As previously highlighted, the introduction of the public sector reform movement since the 1980s has tightened government funding to nonprofit organizations. This has dramatically shifted the attitude and behaviors of nonprofit organizations. While the organizations have explicit vision and missions, they are now leaning towards financial and quantitative measurements largely, rather than qualitative indicators for the measure of organizational performance. The ability to be able to secure funding has seemed to be at the top of the agenda for many nonprofit organizations (Kong, 2010a; 2010b).

Without doubt funding is crucial to nonprofit organizations. However, the emphasis of funding source associated relationships probably means that the overall level of RC in nonprofit organizations is likely under-valued as the organizations may miss out significant opportunities to develop non-funding source associated relationships.

This is a cause of concern as the organizations' primary social objective is to serve the people in need. In order to maintain support and legitimacy from fund providers and the public, nonprofit organizations have an obligation to develop sound relationships with all stakeholders, not just their fund providers. The organizations must maintain their relationships with fund providers from which they derive resources and with other stakeholders such as the community to which they deliver services. Drucker (1990: 83) argues that nonprofit organizations have 'so many more relationships that are vitally important ... every nonprofit organization has a multitude of constituencies and has to work out the relationship with each of them'. Drucker's (1990) argument suggests that the importance and diversity of nonprofit external relationships and nonprofit organizations must better utilize the knowledge and learning capabilities in external stakeholder relationships if they are to be efficient and effective under this changing public sector environment.

However, nonprofit organizations may not be able to fully enjoy the benefits of the RC concept if the true value of RC is not appreciated. The organizations may end up losing valuable external resources such as volunteers and donations as well as their legitimacy. As challenges from stakeholders are continually intensified, nonprofit organizations must constantly update their knowledge on external relationships as well as educate and keep external stakeholders informed of what they are capable to accomplish (Madhok and Tallman, 1998; Salamon, 1999b).

## Research Implications

The paper has a number of implications. Managing nonprofit organizations today is no longer like 'sailing in smoother waters, away from the shocks of the market' (Sandler and Hudson, 1998: 3). As environmental turbulence in the form of social and economic change generates unintended consequences, single organizations can be weak or unprepared (Mulroy, 2003; Selsky and Parker, 2005). The ability to grapple with factors that govern knowledge sharing and learning across a range of settings may help unlocking a whole new way to collaborate among a nonprofit organization and its external stakeholders. With a more balanced RC concept in mind, nonprofit organizations may gain tangible and intangible benefits such as sharing resources and risks, increasing efficiency, enhancing co-ordinations, facilitating mutual learning and nurturing expertise from working collaboratively with other stakeholders (Huxham and Vangen, 2005). Accordingly, the paper helps to drive a pivotal attitudinal shift

towards a more balance approach of the development of RC through collaborations with external stakeholders, which, if approached properly, can enable nonprofit organizations to attain strategic advantage in the long term.

RC is an emerging concept. Nonprofit practitioners may not have a full understanding of the RC concept in the nonprofit sector and thus the utilization of RC remains under-valued. Since the perceptions of the interview participants have been taken to represent the way other nonprofit practitioners may interpret the RC concept, the paper helps to shed light on what is in nonprofit practitioners' minds in relation to the RC concept and how their mindsets are different to that of the scholars in the field. The paper has also put forth that more vigorous debates is required if scholars are to translate and reshape the RC concept into a format that is more easily useful to nonprofit practitioners. The paper has emphasized that research on the role of RC in nonprofit organizations remains limited. The need for more related research has become a priority. Overcoming the different understandings of RC requires education and heightened awareness of the RC concept among nonprofit practitioners as well as scholars alike. The paper is considered as a starting point only. In other words, the paper opens the opportunity to bridge the gap in thinking between scholars and nonprofit practitioners. This helps to further increase the awareness of RC research among scholars and practitioners in nonprofit organizations.

## **Research Limitations and Future Research**

There are limitations with this research project. Given this study was exploratory in nature the sample size was relatively small. This genuinely means that more analysis and comparisons with larger sample sizes are needed. The paper also offers opportunities for future research. Firstly, the paper serves as a milestone for understanding the importance of a balanced RC concept in nonprofit organizations. Future research on practical activities that are best to assist nonprofit practitioners to concentrate more on doing good rather than increasing funding may be of interest to both nonprofit managers and researchers. Secondly, the nonprofit sector is diverse. The current research study primarily focuses on the nonprofit sector in general rather than a specific sub-sector. RC in nonprofit organizations is a relatively new research stream and it needs to be further explored using all empirical methods available to researchers. The use of case studies probably offers a more complete picture of the role of RC in a specific nonprofit sub-sector. Finally, an improved understanding of the RC concepts from a nonprofit perspective will possibly lead to innovative relationship management strategies not only in nonprofit organizations, but also in business and public organizations. Thus the findings possibly provide significant insights to for-profit and public managers on how they may adapt strategies in order to enhance knowledge and learning capabilities in their organizations. As this is an ongoing study, further findings are expected to be published in journals in the near future.

## **Conclusion**

It is more important than ever to understand the factors that govern knowledge sharing and learning in the context of nonprofit external relationships. Thus there is an urgent need concerning if and how RC may be utilized in the nonprofit context. The paper accomplishes its objective by reporting preliminary findings of 35 nonprofit senior executives' perceptions

of RC in building knowledge and enhancing learning capability in 22 Australian nonprofit organizations. As revealed in the interview data, RC was built mainly with funding providers in mind. This was substantially different to the literature as put forth by scholars. To maintain legitimacy, nonprofit organizations must be perceived as responding to and satisfying the expectations of each of the stakeholders. This means that the organizations must learn and understand their external stakeholders and, at the same time, assist their external stakeholders to learn and understand about themselves. In other words, a more balanced RC approach is essential to nonprofit organizations.

The research has a significant practical implication for nonprofit organizations which are interested in enhancing their access to knowledge and learning capabilities with external stakeholders. For nonprofit organizations hoping to receive knowledge and learn from their external stakeholders, an awareness of a balanced approach of RC could increase the chances of receiving more valuable knowledge from external stakeholders and thus, enhance learning capability. As predictability and reciprocity were likely related to learning and knowledge sharing, allowing RC to be underdeveloped possibly affects current and future learning and knowledge sharing occurring between an nonprofit organization and its external stakeholders. The findings pose a concern that allowing RC to be under-developed or under-valued could do significant harm to nonprofit organizations. It is because over emphasizing selective external stakeholders instead of a holistic and balanced RC approach may endanger the long-term survival of nonprofit organizations. A better understanding of RC in nonprofit organizations likely helps the organizations to nurture or enhance knowledge flow and sharing that facilitates knowledge transfer between the organizations and their external stakeholders.

## Acknowledgement

The authors wish to acknowledge the Centre for Organizational Performance, Ethics and Leadership (OPEL), Charles Sturt University for funding this research project.

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## Appendix I

### Participant Inventory

No. of Nonprofit Organizations	No. of Participants	Gender	Work Experience in Organization	Previous Work Experience	Funding Source(s)
22	35	Male: 19 Female: 16	>1 to 40	For-profit: 8 Public: 9 Nonprofit: 18	Govt: 12 Donation: 10 Govt + Donation: 13

## **Appendix II – Interview Guide**

### ***Questions on the Background of Interview Participants***

1. How long have you been working in your organization?
2. What is your job title?
3. What are your role and job responsibilities in your organization?
4. Before I start the interview I will briefly explain to you some of the key terms that we will be using in the interview to you. Please feel free to ask any questions.

### ***Questions on External Relationships in the Organizations***

5. Who are your external stakeholders in the organization?
6. Why are external stakeholder relationships important to your organization?
7. How would you describe your relationships with those stakeholders?
8. What would you like to see to change in the existing external relationships? Any why are these changes necessary?
9. What are the key characteristics of a successful external stakeholder relationship? And why?
10. What are the factors that may strengthen and weaken external relationships?
11. How would you describe your strategy in building and maintaining external relationships?
12. What practices do you undertake in building and maintaining external relationships? Can you provide some examples?
13. Why are those practices important in building a strong stakeholder relationship?

### ***Questions on Relational Capital (RC) in the Organization***

14. What can you learn from external stakeholders? And how? Can you give some examples?
15. What can external stakeholders learn from your organization? And how? Can you provide some examples?
16. Why is learning important in external relationships? Can you provide some examples?
17. How do you ensure learning occur in external relationships?
18. How does learning from external relationships help knowledge building in the organization?
19. How do you maintain trust with your stakeholders?
20. What activities does your organization undertake to project or promote your organizational image?
21. Does your stakeholders' opinion about your organization influence your organization's strategy? And why?
22. What are the most important factors in building the reputation of your organization?
23. How do you sustain your organization's reputation?

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