



Untangling intangibles

'Soft' assets such as employee skills are the key creators of company value but they still haven't found their way into international accounting standards.

Tamara Plakalo reports.



When Macquarie Equities downgraded National Australia Bank stocks in favour of ANZ Bank, it said the key factor influencing its recommendation was the “people score”. NAB employees, Macquarie argued, scored low on engagement, enthusiasm and commitment, indicating potential for performance problems. ANZ’s highly motivated team, on the other hand, was enough of an asset to push the junior bank up the list of value buys.

This was an encouraging development for ANZ chief executive John McFarlane, who has long argued that the performance of “soft” assets should be seen as a hard measure of business performance.

The trouble is that neither analysts nor chief executives have a clear view of how to translate this hardly tangible value into numbers, data or market reports. Yet, as McFarlane pointed out, soft – or “intangible” assets, as they are known in the parlance of the accounting world – hold the key to a company’s long-term performance.

It is not surprising McFarlane’s view is a hot potato that few are ready to start chewing on. In the world of numbers and metrics, the annual report, dominated by financial performance information, is still king. Its language is the language of accounting, its narrative the story of the management’s performance with a heavy bias towards capturing, interpreting and manipulating data related to the management of tangible assets. And although those assets often represent less than a third of organisational market value in modern economies, focusing on the performance of tangible assets is the short cut most managers choose to take on their path to compliance and performance bonus collection.

“Managers are not very good at managing the future value of their companies, which is the intangible part of business,” argues Goran Roos of the Centre for Business Performance at Cranfield School of Management in the United Kingdom. Roos has researched the issue of intangibles management for almost 15 years.

“Regulators require them to report on the current value of their tangible assets. What this does is focus management efforts on managing resources, rather than on extracting value from those resources, of which people are the most important part.”

Like McFarlane, Roos is alarmed by the fact that managers, analysts and hence the rest of the investment community know a lot about the current value of a company but not enough about its future growth. The issue is highlighted by data that reveals 60 per cent of aggregate US stockmarket value represents future rather than current value of all listed companies. But what do we know about the metrics used to arrive at their valuation?

In an ideal sense, market capitalisation is a value established by investors. In making their decision, they consider a number of factors including company performance, future profitability, potential capital gains, management profile and any risks. The company’s share price, then, is supposed to capture investor expectations of the business performance of their investment. However,

Financial statements do little to enlighten the investor on the performance of intangible assets as the key creator of company value

only one aspect of their investment decision has a set of structured, hard metrics attached to it – and that is past financial performance. Driven by international accounting standards and buried in the complex verbosity of annual reports, financial statements do little to enlighten the investor on the performance or value of intangible assets as the key creator of company value.

In an address to the GAP Congress on Knowledge Capital last November, Special Minister of State Eric Abetz highlighted the problem when he asked the audience to account for the difference between the book and market values of some of the world's largest companies.

"Research has highlighted that a company like Microsoft is valued by the stockmarket at a price 10 times the value of tangible assets, while General Electric is on a 5:1 ratio and Coca-Cola on about 12:1," he said. "If buildings, machinery and other physical assets are not the only elements the

stockmarket values when it looks at these companies, what is it that makes them so valuable? Yes, there is brand value and what we know as goodwill. But these elements only account for a portion of the gap between tangible assets and stockmarket valuations."

Abetz found it curious that, "while the stockmarket can see all this value in a company like Microsoft or Google, international accounting standards do not". He is not alone in calling on the accounting profession to own up to the problem and adjust its 500-year-old reporting system to the realities of the 21st-century economy.

"Accountants have had a historical perspective on reporting and have had a narrow focus on the financial aspects of reporting," says Alex Malley, chairman of Australasian Reporting Awards, an independent non-profit organisation concerned about the quality of financial and business reporting.

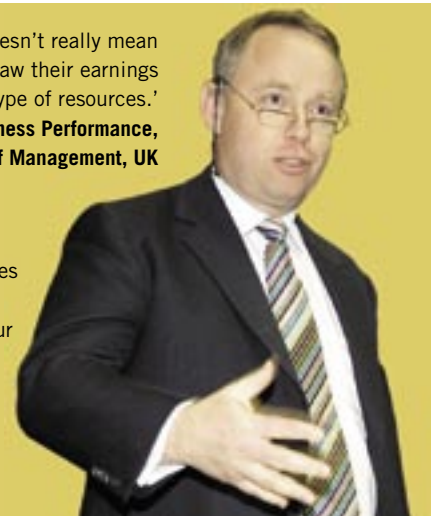
"We've taken short-term horizons and in our reporting processes we've tended to

TALKING INTANGIBLES



'If you look at the balance sheet of eBay, it doesn't really mean a lot. [Tangible assets] are not where they draw their earnings from. They draw it from a different type of resources.'

Goran Roos, Centre for Business Performance, Cranfield School of Management, UK



'We have a system that measures capital and asset structures that existed in earlier times. We need to think about what businesses do, what the value drivers are, and reorganise our classification systems so that we actually collect data that reflects the activities that business engages in.'

Keith Besgrove, chief general manager, information and economy, Department of Communications, Information Technology and the Arts



'Soft or "intangible" assets ... hold the key to a company's long-term performance.'

John McFarlane, ANZ chief executive



'Our research has continually shown that transparency in corporate reporting not only provides stakeholders with the information they need to understand and assess corporate performance, but also leads to fairer market values, reduced stock volatility and enhanced credibility for the management team.'

Nick Ridehalgh, partner, PricewaterhouseCoopers

look into short spaces, not to give people a sense of the future, not to have the strategic perspective. It's about time that we broaden our minds and use some of our collective knowledge capital to be a little bit more scientific than that," says Malley.

The bulk of the intangible value, according to Malley, is illustrated by global statistics indicating "that at least 70 per cent of the economy these days is knowledge intensive". He believes stakeholders want information on this resource as the driver of business value.

What that would mean in practice is a daunting prospect for businesses and the community of practice itself. Initiatives to capture the performance of intangible assets have been around in one form or another for quite a while.

They range from balanced scorecard and corporate social responsibility indices to informal internal audits, but their complexity and cost make business wary of implementation in what is seen as an already demanding compliance environment. In its principles on good corporate governance, the Australian Stock Exchange specifies 10 recommendations it expects listed companies to follow in order to reach the satisfactory level of corporate accountability and disclosure.

"The real issue today is that many of us are driven by external compliance demands ... the reporting process is increasingly becoming detached from the management of the organisation," Malley says.

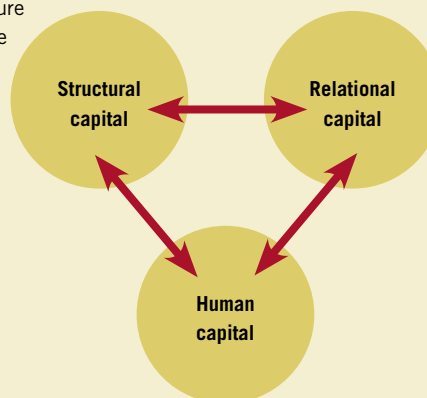
This is not to say that managers are not aware of the problems related to unsatisfactory accounting and reporting frameworks. The uproar over the introduction of the international financial reporting standards (IFRS) last year had barely abated when the executives of Australia's top 100 companies cried that shareholders faced massive confusion as profit reports increased in volatility due to a \$7.5 billion intangible asset write-off in the June reporting period.

Foster's Group alone experienced a net asset drop of \$1.2 billion because it wasn't able to keep internally generated intangible assets – such as its brand names – on the balance sheet.

The short-term problem, as shareholders of Foster's and other companies have found out, is that IFRS recognise intangible assets only if they have a purchase value attached to them. "Intangibles measurement is based on a transaction system – in other words, if there is no transaction, there is no value to be attached to that asset, explains Roos. "Under

KNOWLEDGE-INTENSIVE RESOURCES

- Information systems and processes
- New product development
- Management philosophy
- Management processes
- Organisational structure
- Organisational culture
- Intellectual property
- R&D



- Company name and brands
- Alliances and partnerships
 - Licensing/franchising
 - Government relations
 - Community relations
 - Distribution channels
 - Favourable contracts
 - Customer relations
 - Financial relations
 - Industrial relations
 - Supplier relations

- Employee diversity
- Employee demographics
- Employees' innovative capacity
- Learning and development abilities
- Educational and work-related qualifications
- Leadership and top-management quality

WHAT IS AN INTANGIBLE ASSET?

Under IFRS, intangible assets are defined as non-monetary assets without physical substance. To be recognised on the balance sheet, they must be identifiable, controllable, reliably measurable and produce future economic benefits such as revenue. An intangible asset is identifiable when it is separable from the business and can be transacted.

EXAMPLES OF INTANGIBLE ASSETS

Trademarks, brands, trade names, domain names, mastheads, customer databases or contracts, plays, operas, ballets, books, magazines, films, television programs, licenses, royalties, franchise agreements, broadcasting rights, patented technology, software.

WHAT IS A KNOWLEDGE-INTENSIVE ASSET?

Knowledge-intensive assets can be explicit or tacit in nature. Explicit-knowledge assets are made operational when knowledge is applied to them. For instance, a computer is a tangible asset made operational by an employee. Tacit-knowledge assets exist on their own and are not tied to tangible resources.

MAIN CHARACTERISTICS OF A KNOWLEDGE-INTENSIVE ASSET

- Not easily identifiable
- Not easily controllable or separable from the owner or object
- Often a source of competitive advantage
- Often a core competency
- Often unique to an organisation and hard to compare
- Often qualitative and value-laden, thus difficult to show in dollar terms

SOURCE: AUSTRALIAN GUIDING PRINCIPLES ON EXTENDED PERFORMANCE MANAGEMENT, 2005

the current standard, if you can engineer a transaction you can then show the value of an intangible asset.”

This effectively means that some intangible assets can be recorded if they have a purchase or sale price, but generally cannot be shown on the balance sheet if the asset is a result of internal innovation or otherwise impossible to value due to its non-transacting nature.

Intangibles crusaders quip that including the most overmentioned, and most valuable, asset – people – on your balance sheet becomes a simple matter of reintroducing slave trade under the guise of IFRS.

However, recognising the value of people, their knowledge, relationships, innovation and productivity in an economy where 73 per cent of workers are employed in knowledge-incentive services contributing more than 50 per cent to the national economy, is a serious long-term imperative.

Some intangible assets can be recorded if they have a purchase or sale price

Except that to do so requires both accountants and managers to adapt to the demands of an entirely new world view in which assets and performance value are going to have to be measured in more ways than by simple accrual accounting arithmetic. And that spells revolution in anyone’s mind. Which is probably why ANZ’s McFarlane prefaces some of his observations reported in the media with the reassuring: “I’m not a socialist!”

In reality, though, the issue is more scientific than ideological in nature. As a Melbourne Business School lecturer once observed: “Accounting is like law – you make a position and you defend it.” And having been successfully defended for the past few centuries while the industrial era went through its natural evolution, the position is in dire need of change to reflect the realities and the pace of the knowledge-based economy. “Yesterday’s rules may not be the rules we need today. And are almost certainly not the rules that we will need tomorrow,” says Abetz. “It took centuries for contract law to

GLOBAL LEGISLATION FOR DISCLOSING INTANGIBLES

LEGISLATION	
Australian Corporations Act/ CLERP 9	Requires public listed companies to report on their operations and financial position, business strategies and prospects, and performance in relation to environmental regulations.
Australian Financial Services Reform Act	Requires fund managers and financial product providers to disclose the extent to which labour standards or environmental, social and ethical considerations are taken into account in the selection, retention or realisation of the investment.
Austrian Universities Organisations and Studies Act	Mandates Austrian universities to produce intellectual capital reports. The reports must be structured into human, structural and relationship capital. For each category, an obligatory set of ratios is required to be reported.
Belgium Bilan Social	Requires organisations to report data on the evolution of employment (that is, training).
Canadian Securities Commission	Requires public companies to report the operating and financial effects of environmental protection requirements, either future or current.
Canadian Bank Act	Requires financial institutions with equity of \$US1 million or more to report their contributions to the national economy.
Danish Financial Statement Act	Requires intellectual capital resources and environmental aspects to be reported if it’s material to providing a fair view of the organisation’s financial position.
Finnish Accounting Act	Requires certain public companies to report material non-financial issues in their annual report.
EU Integrated Pollution Prevention and Control Directive	Member states are required to register emission data from large companies.
French Law No. 2001-420	Requires public listed companies to report their environmental and social impacts.
Germany Bilanzrechts-reformgesetz	Requires Germans to report non-financial performance indicators such as environmental and employee issues.
Japanese Law	The Law of Promotion of Environmentally Conscious Business Activities requires certain entities to publish an annual environmental report.
Japan’s Pollutant Release and Transfer Register Law	Requires organisations to report releases to the environment of certain chemical substances.
Norwegian Accounting Act	Requires inclusion of social, environmental and health and safety issues and the implementation of measures to prevent or reduce negative impacts and trends.
Spain’s Resolucion de 25 de marzo de 2002	Requires reporting of environmental assets, provisions, investments and expenses in financial statements.
Sweden’s Annual Accounts Act	Requires certain companies to include a brief disclosure of environmental and social information in the annual report.
The Netherlands Environmental Protection Act	Requires the “largest polluters” to report on their environmental impacts.
UK Operating and Financial Review	The OFR requires publicly listed UK organisations to report on environmental, competitive and regulatory factors, risks and uncertainties, business objectives, and strategies for achieving the objectives. To the extent necessary, organisations must also report on stakeholder relations, social and community issues, environmental matters, employees, customers and key performance indicators.
US Sarbanes Oxley Act	Imposed new reporting requirements for public listed companies to increase corporate transparency and governance.
US Securities and Exchange Commission	Requires appropriate disclosure of environmental impacts and expenditure on control facilities and legal proceedings on environmental matters.
US Toxic Release Inventory	Requires companies with more than 10 employees to submit data on specific toxic chemicals to the Environmental Protection Agency.

mature fully as a foundation of industrial capitalism. Now, legal frameworks have to be developed and implemented in a short time-span of maybe a few years to keep up with the pace of knowledge economy.”

Although his view may sound like a lot of political pamphleteering, our economic reliance on intangible and knowledge-intensive resources as key drivers of growth points to the need to bring the accountants’ and economists’ world views together.

For while accountants believe in recording a purchase price and performance of already valued assets from a historical point of view, economists look at the future using growth as a true measure of value. One could say that the key differentiator between the two is a quantitative versus qualitative approach to the management of organisational performance and economic growth.

Measuring and managing intangible assets is a relatively easy concept for economists to grasp

This is why measuring and managing intangible assets – and, more specifically, knowledge-intensive resources – is a relatively easy concept for economists to grasp, says Michael Potter, chief economist with the Australian Chamber of Commerce.

“Why is knowledge everything? Why are labour, capital and other [quantifiable inputs] not also part of this long-term driver of economic growth?

“The answer is that you can’t increase labour, capital and land indefinitely.

“There is a boundary on the amount of labour or capital or land that you can actually use in production processes ... so there are fixed upper limits on the quantity of other inputs you can put into production. But there is one thing which [doesn’t have] an upper limit, and that is knowledge,” Potter explains.

“Knowledge does not necessarily have to be abstract and independent from the inputs to production. It can actually be embodied in the inputs to production: it can be embodied in labour, you can have more knowledgeable staff. It can even be embodied in capital. That sounds a bit odd but what you could say

GLOBAL STANDARDS FOR DISCLOSING INTANGIBLES

GUIDELINES, CODES OF CONDUCT AND STANDARDS	
AA1000 Accountability Guideline	The guideline shows how to establish a systematic stakeholder engagement process. This is used to identify indicators, targets and reporting systems to enhance overall organisational performance.
Australian Greenhouse Challenge Program	Members commit to preparing emissions inventories and forecasts, identify and undertake abatement plans and reporting progress against the action plan.
Australian Guideline for Triple Bottom Line Reporting	Consistent with Global Reporting Initiative principles, the guideline provides principles for reporting environmental performance.
Australian Minerals Industry	The industry has issued a framework for sustainable development “enduring value”. Members commit to publish sustainability reports on an annual basis. Metrics are informed by the GRI. Independent verification of reports is required.
Australian Securities Institute’s Disclosure Guidelines	Guideline for product issuers to disclosure about labour standards or environmental, ethical, and social considerations in product disclosure statements.
ASX Principles on Good Corporate Governance	Provides a comprehensive guide to listed entities on best practices in corporate governance and disclosure. Emphasises the need for corporate accountability and transparency.
Danish Guideline on Intellectual Capital Reporting	Provide a structured framework for organisations to manage, measure and report their knowledge resources and knowledge management activities within a strategic context.
Dow Jones Sustainability Index	The Dow Jones Sustainability Index was the first index to try to assess the ability of businesses to create long-term shareholder value. It focuses on identifying future value potential and uses a defined set of criteria to assess the opportunities and risks deriving from economic, environmental and social developments.
EMAS	The EUR Eco-Management and Audit Scheme enables organisations to evaluate, reports and improve their environmental performance.
Global Reporting Initiative	Encourages organisations to report on their environmental, social and economic dimensions of their services products and activities.
Italy’s CSR-SC project	Encourages organisations to produce social statements according to predefined guidelines and criteria.
International Standards Organisation	Has developed a wide range of standards, including corporate responsibility in the areas of quality and the environment (ISO 9000 and 1400 series).
Japanese Guidelines for Environmental Reporting	The Ministry of the Environment has issued two sets of guidelines. One on environmental reporting and one on environmental performance indicators.
Japanese ‘Keizai Doyukai’	Japanese association of corporate executives has issued its 15th corporate white paper on corporate social responsibility. A draft CSR standard: “Practical tools for evaluating the current situation and setting goals to enhance comprehensive corporate value”.
Japanese Guidelines on Intellectual Property	These guidelines has been issued by the Ministry of Economy, Trade and Industry. It focuses strategic IP related issues for principles for disclosing information on IP, technology, business strategy, R&D.
Sweden’s Accounting Standards Board	Provides guidelines on environmental reporting in the directors’ section of the annual report.
UK Public Environmental Reporting Initiative	Provides tools for organisations to produce a balanced perspective on their environmental policies, practices and performance.
United Nations Global Compact	Encourages companies to adhere to 10 guiding principles in the areas of labour, human rights, environment and anti-corruption.
Danish Social And Ethical Accounts	Provides guidance on how to report social and ethical initiatives and activities.
MERITUM Guideline	MERITUM stands for Measuring Intangibles to Understand and Improve Innovation Management.
OECD Multinational Enterprise	Provides voluntary principles and standards for responsible business conduct.

COMPARATIVE SUMMARY OF NEW FRAMEWORKS FOR MANAGING PERFORMANCE

	Identifies management activities	Links activities to strategy	Reports non-financial performance measures	Reports performance against target	Facilitates stakeholder consultation and feedback	Considers external impacts	Considers internal management of knowledge intensive resources	Used for both internal and external reporting purposes
Balanced scorecard	Y	Y	Y	Y	Y	N	Y	N
GRI – sustainability reports	Y	Y	Y	Y	Y	Y	Y	Y
Intangible asset monitor	N	N	Y	N	Y	N	Y	Y
Intellectual capital statements	Y	Y	Y	N	Y	N	Y	Y
Skandia Navigator	Y	Y	Y	N	Y	N	Y	Y
Triple bottom line reports	Y	N	Y	Y	Y	Y	Y	Y
Value reporting	Y	Y	Y	Y	Y	Y	Y	Y

SOURCE: AUSTRALIAN GUIDING PRINCIPLES ON EXTENDED PERFORMANCE MANAGEMENT, 2005

is that more technologically advanced items of capital have more knowledge embodied in them.”

Technical as it may sound, Potter’s view is shared by segments of the accounting and management communities, who are nevertheless leaving it to academia to lead the way in dreaming up the right solution.

Until recently, these efforts were led internationally and focused mainly on new types of performance accounts (for example, intellectual capital statements, corporate social responsibility reports, triple bottom line) with a view to create more visibility around the performance and management of non-financial and, more specifically, knowledge-intensive resources.

The federal government-initiated establishment of the Society for Knowledge Economics last year has seen the publication

of the first attempt to formulate a local position on the issue. Although far from offering a blueprint for full-blown reform, the *Australian Guiding Principles on Extended Performance Management*, authored by Christina Boedker, propose a first step in the classification and performance assessments of intangible, knowledge-intensive resources.

Boedker, a University of NSW lecturer in accounting with extensive private sector management experience, believes that recognising and describing the nature of different intangible resources is inherently difficult. This is because as these resources “have very different characteristics to traditional tangible resources”. For this reason, Boedker is not a proponent of the idea that intangibles should have a dollar value attached to them.

She identifies 25 descriptions of intangible resources, grouping them into three essential

types of organisational capital: structural capital (the structures and processes employees develop and deploy to increase productivity and performance); relational capital (the organisation’s relationship assets); and human capital (as a sum total of employees’ skills, attitudes, abilities and competencies).

Boedker’s classification, illustrated on page 29, is to be used in providing a snapshot of organisational performance assessed against the company’s strategic objectives and management activities structured around those objectives to meet key performance indicators. In simple terms, this means that the table will show organisational progression of an objective such as “develop profitable customer relations” relative to its use of knowledge-intensive resources used to get there. It is a descriptive but structured audit of the performance of structural, relational and human

TALKING INTANGIBLES

‘The real benefit we can make going forward is to improve the way organisations manage their environments, create and encourage innovation and the sharing of knowledge.’

Steve Vamos,
managing director,
Microsoft Australia
and New Zealand

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Michael Potter, chief economist,
Australian Chamber of Commerce

capital, whose performance is usually not assessed or transparently reported in relation to organisational objectives.

Several private and public organisations, Westpac and Microsoft among them, have already tested the guiding principles with different objectives in mind. The extended performance account produced by the NSW Department of Lands for the 2004-05 financial year (see pages 36 and 37), for instance, was created with both internal and external reporting in mind.

The project was initiated in 2003 by the department's director-general, Warwick Watkins, who was eager to understand the performance of its knowledge-intensive resources in light of problems it was facing due to the scheduled retirement of 44 per cent of its staff. At the time, Watkins said he wanted to understand "what constitutes the value of the organisation" and how he could use that information to bring about better decision-making. His motivation was, however, of a more practical kind.

"At the moment, organisations are undervaluing their true wealth. We need to develop a greater sense and appreciation and awareness of the true value of what the intangibles are, and in doing so be able to better allocate financial and other related resources. We need to be able to, in a structured sense, have an objective discussion about where we should be cutting or increasing resource allocation," he said.

Watkins had another internal reason for embarking on the journey: his executives raised the question of how they could "adequately judge, value, assess and make forecasts about organisational performance without having access to critical information about knowledge-intensive resources and activities that underpin value creation".

What the report gave them, according to the department's CIO, was an insight into the organisational "DNA" and a "way of envisioning the future and assessing where we can go, how we can change and how we can better organise ourselves to move forward".

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DIFFERENCES IN REPORTING CATEGORIES AND CONTENT

	TRADITIONAL FINANCIAL ACCOUNTS		EXTENDED PERFORMANCE ACCOUNTS		
	Monetary	Physical	Structural	Relational	Human
Tangible resources	Cash Receivables Payables Securities	Property Plant Equipment Inventory	<i>Intellectual Property</i> Documented operating policies and procedures	<i>Customer lists</i> Licensing/franchising contracts	Employment Contracts In-house learning and development programs
Knowledge-intensive resources	Credit rating Borrowing capacity Strength of balance sheet	Plant flexibility Tradability of assets Quality of inventory Infrastructure Working capital management	Organisational structure Management philosophy Organisational culture Information systems and processes Software programs New product development Management processes	<i>Company name and brands</i> Alliances and partnerships Government relations Community relations Distribution and supply channels and relations Favourable contracts Customer relations Financial relations Industrial relations	Employee demographics (age, gender, etc) Employees' innovative capacity Employee diversity Learning and development abilities Educational and work-related qualifications Leadership and top management quality

SOURCE: AUSTRALIAN GUIDING PRINCIPLES ON EXTENDED PERFORMANCE MANAGEMENT, 2005

The blue area in the upper left hand corner of the table shows the resource traditionally reported on the balance sheet. All other resources are not featured on the balance sheet. The text highlighted in italics shows the resources which according to the IFRS may be recorded on the balance sheet when purchased externally. The table is adapted from Ballou, Burgman, Roos and Molnar's (2004, exhibit 4, page 7).

The NSW Department of Lands developed its first extended performance account for the financial year 2004-05.

The Department of Lands has three separate operating divisions: Land and Property Information (LPI), the provider of land and property information for NSW; Crown Lands, the administrator of all crown lands comprising more than half of all land in NSW (which includes about 29 million hectares of land valued at more than \$8.3 billion); and Soil Services, a specialist conservation earthmoving and soil consultancy business.

Reasons for starting the Extended Performance Management Project

1. To better understand the value and performance of the organisation's knowledge intensive and other intangible resources, to better understand resource allocation and the need for long-term planning.
2. Ageing workforce: 44 per cent of the department's staff is scheduled for retirement over the next three to five years. Critical questions have been raised as to how to capture and transfer the knowledge held by the retiring staff to sustain the existence of the department.
3. The need to provide better performance information to external stakeholders and executives in order to adequately judge, value, assess and make forecasts about organisational performance.

Project aims

Measuring: identify, agree and assign metrics to assess the efficient use of organisational knowledge-intensive resources.

Reporting: develop a framework to communicate the value created through the knowledge-intensive resources.

Managing: identify and prioritise management challenges in creating sustainable value.

Approach and methodology

- Review existing management, measurement and reporting practices within the department and recommend a possible extended performance account and action plan for the agency.
- Involved the creation of an Organisational Capabilities Project Team responsible for consulting and driving forward the project across the operating divisions and support functions.
- Involved leadership and engagement of managers and staff through participation and consultation.
- Involved primary research through semi-structured interviews and secondary research by means of content analysis and review of internal documents.

Actions

1. Agreement on what knowledge-intensive resources are and why they are important.
2. Agreement on an extended performance management framework.
3. Development of divisional projects and project teams.
4. Implementation of data-gathering systems.
5. Agreement on the content of the extended performance account.

Outcomes and deliverables

1. Identified key management challenges and initiatives from a knowledge perspective.
2. Identified the gap between "perceived importance" and "actual management" of the organisation's knowledge-intensive resources.
3. Created an extended performance account.
4. Raised awareness of issues surrounding the management of knowledge within the department.

Lessons learned

1. The project raised awareness of knowledge-intensive resources within the three divisions and the importance of viewing the money spent on the development of knowledge intensive resources as an investment in the future and not a current cost.

NSW Department of Lands draft extended performance account

	OBJECTIVES (BUSINESS ORIENTATION)	MANAGERIAL EFFORTS		INDICATORS (EXTERNAL OR INTERNAL)					
		Current activities	Planned actions	Indicator	02-03	03-04	04-05	Trend	Target*
Relational capital	Better management of external stakeholder relationships	Collaborative research with universities	Stakeholder consultations	Number of significant committees with statutory bodies	40	32	36	↗	
		Liaison and collaboration with professional associations interagency committees	Customer survey	Research partnerships	2	2	6	↗	
Structural capital	Improve service delivery	Development of marketing tools	Assessment of distribution methods (face-to-face versus web based)	Average number of (monthly) internet feedback requests	-	-	285		
		Analysis of client profiles	Ongoing transition to web-based technologies	Average number of hits on website (monthly)	-	-	1.8mn		
		Quality management methodology							
		IT							
Human capital	Better management of employee demographics	Learning and development	Identification of tacit knowledge in the workforce	Number of full-time staff	1458	1441	1427	↘	
		Training	Mentoring program	Average age of employee	-	-	45		
		Apprenticeships	Employee satisfaction survey	Number of staff attending external courses	-	246	-		
		External studies		Number of staff attending internal courses	-	462	-		
		Internal seminars		Number of staff as being NEBS	15.3	15.7	15.3	↗	
		IT		Women as a percentage of total staff	34.8	35	36.4	↗	

* This organisation has chosen not to specify target indicators.

2. The project facilitated the initiation of “strategic conversations” which involved discussions about organisational identity, strategic priorities and management challenges. It helped management reflect on the way in which the organisation addresses its strategic issues and how these issues are viewed through the lens of knowledge.
3. The project was at times hampered by difficulties in breaking down organisational barriers that prevented the communication of important information and impeded progress. Clear objectives, strong leadership and the communication of practicable outcomes, both in regards to engaging staff and measuring results, are prerequisites for project success.
4. “The process is iterative; as we learn more about knowledge and how it creates value, our assumptions concerning appropriate measurement and reporting are challenged.”
– Senior policy officer, NSW Department of Lands

SOURCE: THE AUSTRALIAN GUIDELINES FOR EXTENSIVE PERFORMANCE MANAGEMENT, SOCIETY OF KNOWLEDGE ECONOMICS, 2005

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Hardly the stuff of financial statements, but a measure that looks into creating value nevertheless. Under Boedker's guidance, the Society for Knowledge Economics is looking to roll out the pilot across some 150 organisations nationwide in an effort to raise awareness about the need for recognition of the new factors of production on – or off – the balance sheet.

The effort, however, will not stop with the external performance accounts. In co-operation with founding partners CPA Australia, the Institute of Actuaries and the Australian Government Consultative Committee on Knowledge Capital, the society is planning to develop a strategic research and co-operation program across sectors and disciplines in an effort to facilitate a debate and, eventually, offer a solution to the problem.

Similar efforts are underway around the world. Some are under the auspices

of national governments (as in Denmark, Sweden, the United Kingdom, Germany and Japan) and some as disparate initiatives under the umbrella of economic co-operation (as in those led by the Organisation for Economic Co-operation and Development). What their combined brainpower will produce is anyone's guess. But the big-picture imperative is there for all to be seen.

As Abetz puts it: "The new economy needs new ground rules [and] new accounting rules to measure intangibles are among the ground rules we need to create." Even if they do smell slightly socialist to some. ■

'Knowledge does not necessarily have to be abstract and independent from the inputs to production'

Tamara Plakalo is a former editor of MIS Australia and a director of the Society for Knowledge Economics.

MIS WILL BE RUNNING A HALF-DAY SUMMIT ON MANAGING KNOWLEDGE CAPITAL IN SYDNEY ON MARCH 21, 2006. FOR DETAILS VISIT WWW.MISWEB.COM.AU/KNOWLEDGECAPITAL OR CALL 02 9282 2951.

TALKING INTANGIBLES



'[Recognising and describing the nature of different intangible resources is inherently difficult as these resources] have very different characteristics to traditional tangible resources.'
Christina Boedker, University of NSW lecturer in accounting



'If there is a way to overturn the revenue less expense debate, if you can convince people that expenses are the seeds of revenue and productivity, and you can prove that conclusively – not with balanced scorecards, which mean nothing realistically – then you are really going to get somewhere.'
Ken Standfield, chairman, the International Intangible Management Standards Institute



'Research has highlighted that a company like Microsoft is valued by the stockmarket at a price 10 times the value of tangible assets, while General Electric is on a 5:1 ratio and Coca-Cola on about 12:1.'
Eric Abetz, Special Minister of State



'[Accounting] has focused on a building being empty or a building being full, but not on the people within it ... no one's ever thought we may be measuring the wrong thing.'
Alex Malley, chairman, Australasian Reporting Awards