

## 8. Intellectual Capital Reporting and Managing an Ageing Workforce at NSW Department of Lands

The NSW Department of Lands was the first public sector organisation in Australia to produce an Intellectual Capital Statement in 2004. With a large proportion of its workforce scheduled for retirement over the next five years, the intellectual capital statement was introduced to assist the organisation respond to this challenge.

We follow the organisation on its journey and learn about the challenges, activities and benefits associated with producing an intellectual capital statement and managing an ageing workforce. Specifically, we learn about how the intellectual capital statement assists senior management 'make visible' intangible resources; inquire into the 'strategic significance' of such resources; start discussions about how to best measure, value and account for intangibles; and bring about organisational reflection, change and learning.

### Partnering Organisations:

NSW Department of Lands; Sydney University; UNSW

## 9. Managing, Measuring and Reporting Intellectual Capital at Westpac Banking Corporation – Intangibles as 'Value Drivers' or 'Value Diluters'

This project examines intellectual capital management, measurement and reporting practices within the Business and Technology Services and Solutions (BTSS) of Westpac Banking Corporation. The project is done in collaboration with Macquarie Graduate School of Management

BTSS oversees the management of Westpac's IT architecture; major projects; infrastructure support for cash management; fraud; physical security; business services; records management; property portfolio and outsourcing contracts. BTSS employs about 4,000 people, approximately 16% of Westpac's staff.

Management is interested in illustrating how BTSS creates value for its partner business divisions and end customers. The problem is two-fold. First, value is difficult to measure. Second, internal accounting systems allocate the cost of BTSS services to the users of these services. Both of these factors combine to potentially promote a 'cost-based' rather than 'value-based' image of BTSS.

The main findings of the project were:

- Internal customers of BTSS do not regard BTSS as only a cost centre. Rather, they consider BTSS to be an important element in the provision of economic, utility and community value to customers and broader stakeholder groups.
- The Westpac DNA model appears to be embedded amongst BTSS employees; structural capital impacts the delivery of customer and shareholder value specifically communication, technology and knowledge workers; human capital impacts value creation specifically via an engaging work environment and staff development opportunities including knowledge sharing and training.
- Performance reporting needs to better demonstrate the value creation of BTSS and how it is responding to the IC management challenges it faces.

### Partnering Organisations:

Westpac Banking Corporation and Macquarie Graduate School of Management

### Contact us:

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Productivity & Prosperity through Knowledge & Innovation

## The SKE Industry Partnering and Research Program

The SKE Industry Partnering and Research Program brings together diverse parties to debate, evolve and collaborate on issues of concern to the leaders of the Australian knowledge economy and Australian knowledge based organisations.

Designed to help Australians create sustained prosperity in a world increasingly fuelled by knowledge, capability and innovation, the Program is cross-sectoral and brings together representatives from diverse areas, including public, private and third sector organisations, academia, industry associations and public policy experts.

Running since June 2006, the Program consists of several interrelated projects, some of which date back to the pilot projects run by the Australian Government Consultative Committee on Knowledge Capital.

## Our Work

- 1. New Pathways to Prosperity.**  
A report proposing a National Innovation Framework to assist Australia to boost innovation outcomes and meet the fast-emerging economic challenges of the 21st century.
- 2. International Trends and Developments in Extended Performance Management, Measurement and Reporting.**  
A review commissioned by the Department of Finance.
- 3. Recognising the Intangible Value of ICT Investments at the Australian Department of Finance.**  
A review of current mainstream ICT evaluation methods and their treatment of intangibles and an ICT investment appraisal model.
- 4. Capital Market Valuations of Sustainability Information.**  
An investigation into how sustainability information is used in company valuations by institutional investors.
- 5. The Knowledge Economy – Measuring Intangibles in National Accounts.**  
Enquiry into the measurement and treatment of intangible assets in national accounts.
- 6. Economic Justification of Sustainability Practices in Australian Organisations.**  
Econometric model of the financial impacts of companies' sustainability practices.
- 7. Human Capital – Australian Capability.**  
An enquiry into the sources and drivers of human capital productivity and innovation in Australian organisations.
- 8. Intellectual Capital Reporting and Managing an Ageing Workforce at NSW Department of Lands.**  
Study into producing an intellectual capital statement and managing an ageing workforce.
- 9. Accounting for Intangibles at Westpac Banking Corporation – 'Value Drivers' or 'Value Diluters'.**  
A study into intellectual capital management, measurement and reporting practices.

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## 1. A National Innovation Framework for Australia

New Pathways to Prosperity: A National Innovation Framework for Australia

In November, 2006, the Society for Knowledge Economics in conjunction with the Business Council of Australia, launched the results of a five-month collaborative project on innovation. The report, 'New Pathways to Prosperity: A National Innovation Framework for Australia', was prepared under the guidance of the SKE Advisory Committee of 25 innovation experts and thought leaders from industry organisations, the public sector, academic and industry associations.

The report proposes a National Innovation Framework to assist Australia boost innovation outcomes and meet the fast-emerging economic challenges of the 21st century. It highlights that while Australia has always compared well with other countries on scientific output, we have a lower proportion of investment in education and research as a proportion of GDP when compared with developed nations. The report outlines five priority areas for achieving greater innovation outcomes, including:

- elevating innovation to a national priority and better aligning innovation efforts;
- strengthening collaboration across the many contributors to Australia's innovation;
- boosting support for research networks and institutions;
- developing workplace capabilities and cultures of innovation through education, training and leadership development; and
- creating a business environment which 'cultivate' and strengthen innovation.

The project was chaired by Steve Vamos, Managing Director, Microsoft. Professor Roy Green, Dean, Macquarie Graduate School of Management provided expertise and guidance on the report content, assisted by the participating members of the SKE Advisory Committee.

### Partnering Organisations:

Australian Business Foundation; Australian Information Industry Association; Australian Institute for Commercialisation; Australian National University; Australian Society of Certified Practising Accountants; Department of Communications Information Technology and the Arts; Eclipse/Deloitte; Ernst & Young; Howard Partners; Intellectual Capital Services; Macquarie Graduate School of Management; Macquarie Institute of Innovation; Microsoft; Minter Ellison; NSW Department of Lands; Office of the Innovation Economy Advisory Board (Victorian Government); TCG; University of New South Wales; University of Queensland; University of Sydney; University of Tasmania; Urological Society; Westpac Banking Corporation.

## 2. Extended Performance Management, Measurement and Reporting – A Review of International Trends and Developments

New Pathways to Prosperity: International Trends and Developments in Extended Performance Management, Measurement and Reporting – commissioned by the Department of Finance

This report reviews trends and developments in Extended Performance Management, Measurement and Reporting in Australia and internationally. Part One raises questions as to 'what are intangibles?' and 'why are they important?'. Following Scandinavian practices, a Tripartite Model, classifying intangibles into relational, structural and human capital is suggested. Part one also proposes a definition of EPM:

*Extended Performance Management, Measurement and Reporting refers to the strategic management of organisational intangible resources, be they relational, structural or human, with a concern for external social, economic and environmental impacts, emphasising stakeholder relations, reciprocity and sustainability.*

Part Two summarises contemporary international developments in Extended Performance Management, Measurement and Reporting, at a global, national and organisational level. Sixteen initiatives are reviewed, such as the UN's Global Reporting Initiative, the IASB's Management Commentary and the United Nations' Global Compact.

The report concludes that a plethora of frameworks and guidelines exist to assist organisations better measure and report on intangibles and sustainability issues, leaving open the question as to what the future holds in regards to Extended Performance Management, Measurement and Reporting and specifically what needs to be done to advance the uptake of EPM amongst Australian organisations.

### Partnering Organisations:

This report is the outcome of a project commissioned by the Department of Finance. Participating organisations included CSC, University of New South Wales and University of Sydney. Thanks to the Department of Finance for granting permission to the Society for Knowledge Economics to publish this report.

## 3. Recognising the Intangible Value of ICT Investments at the Australian Department of Finance

This project evaluates ICT investments appraisal methods and finds that most methods fail to consider the intangible costs and benefits that accrue from ICT investment. An ICT investment evaluation model, which considers the intangible capital value of ICT investments, is proposed. The model makes use of the Tripartite Model of intangible resources, derived from Scandinavian practices, as recommended by the Society for Knowledge Economics.

The report is structured into two sections. Section One presents a review of current mainstream ICT evaluation methods and their treatment of intangibles and attempts to translate the benefits associated with a given ICT investment into cash flow or financially recognisable and recoverable forms.

Section Two outlines the ICT investment appraisal model. The model considers the intangible value of the 'system' itself, one of the missing elements in existing investment appraisal models.

The Department of Finance has adopted the ICT investment appraisal model and is currently testing it within the Department.

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## 4. Capital Market Valuations of Sustainability Information

Sustainability information is gaining increased prominence in the 21st century and touted as critical to assessing and valuing organisational performance. However, most studies to date have focused on organisational practices in regards to managing, measuring and reporting sustainability practices, ignoring the extent to which capital markets incorporate sustainability information in their company valuations. This study seeks to address this gap.

We investigate how sustainability information is used in company valuations by institutional investors, and whether usage differs across information types (human, structural, relational capital, and socio-environmental information). We also research whether usage differs between Specialist Sustainability Fund Managers and Generalist Fund Managers (who are generally perceived to continue to value organisations based on historical and financial data).

Furthermore, we inquire into the sources and channels through which sustainability information travels and is reported (annual reports, company briefings, social impact reports etc), and what effects different channels have on usage. Last, we inquire into the role of 'trust building mechanisms', such as assurance. Does assurance matter and does the assurance provider matter?

This study is the first in a series of studies intended to open up the 'black box' of how capital markets value sustainability information. The study is particularly relevant at this point in time when Australian communities are taking an active interest in sustainability issues and the United Nations' Principles for Responsible Investment have just been issued.

### Partnering Organisations:

To be advised

## 5. The Knowledge Economy – Measuring Intangibles in National Accounts

This study inquires into the measurement and treatment of intangible assets in national accounts. Published macroeconomic data traditionally exclude most intangible investment from measured GDP. A recent study by the US Federal Reserve suggests that as much as \$800 billion is still excluded from U.S. published data (as of 2003), and that this leads to the exclusion of more than \$3 trillion of business intangible capital stock. Adding intangible capital to the standard sources-of-growth framework makes a significant difference in the observed patterns of U.S. economic growth, increasing the rate of output per worker. We undertake a similar study investigating the treatment of intangibles in Australian national accounts and the implications for assumptions underpinning the drivers of labour productivity.

### Partnering Organisations:

To be advised

## 6. Economic Justification of Sustainability Practices in Australian Organisations

Managers responsible for corporate social responsibility often face challenges justifying investments into sustainability practices and programs. Specifically, demonstrating the financial returns of CSR and tracking the economic benefits that accrue from CSR investments is often a concern to business leaders and senior managers. Without articulating the financial returns that accrue from CSR, sustainability budgets may face sustainability challenges of their own.

This project seeks to model the financial impacts of companies' sustainability practices. Using an econometric model, we seek to identify the financial benefits that accrue from CSR activities looking specifically at changes in risk exposure, risk premium, costs incurred and benefits realised. We move from 'perception' through to 'activity' and 'impact' and model the financial flow-through effects in this cross-industry empirical study with Australian organisations that consider themselves leaders in CSR.

Our aim is to create a methodological framework, based on cross-sectional and longitudinal empirical evidence, that can assist Australian organisations better estimate the financial impacts of their sustainability practices and make better sustainability investment decisions.

### Partnering Organisations:

Ernst & Young

## 7. Human Capital – Australian Capability

The Karpin report of 1995 presented the outcomes of a three-year research study by the Industry Task Force on Leadership and Management Skills established by the Australian Government in 1992. The twenty-seven reports resulting from the study provided a comprehensive insight into the way Australia prepares its managers for work and leadership, also presenting policy recommendations and options based on the Task Force findings.

Now, over a decade later, with a changed business environment, the Society for Knowledge Economics believes is an appropriate time to revisit and reassess the recommendations outlined in the original Karpin report. Specifically, we wish to inquire into the sources and drivers of human capital productivity and innovation in Australian organisations, as related to leadership, organisational culture, ICT, management paradigms and philosophies, with a particular focus on the workplace conditions and management skills and practices that result in better working lives, economic prosperity and satisfaction for individuals.

### Partnering Organisations:

To be advised