

Managing Knowledge Capital

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12th April 2006

Objectives of this presentation

- A new world of measurement and management challenges
- Charter and background of The Society for Knowledge Economics
- Introduce the “***Australian Guiding Principles***”

The need for change

- The world has changed – the “connected” age
 - Industrial age systems and approaches are limited
 - Stakeholders have unprecedented visibility
 - Pressure to break down silos
- The population is ageing and the workforce is increasingly constrained
 - Emerging markets pursue knowledge based industries
 - Knowledge is being “retired”
- Productivity – key to sustaining economic growth
 - Need to better leverage people and technology
 - Challenge in determining ROI

New Business Models

Business Model	Capability
1. Value Chain: Tangible and monetary resources form basis of competitive advantage.	Production: Objective is to produce products and in doing so reduce costs and increase margins. Criticised for being biased towards physical and monetary resources.
2. Value Shop: Human resources form basis of competitive advantage.	Problem Solving: Objective is to produce solutions to problems which entails capturing knowledge about problems.
3. Value Network: Relational and organisational resources form basis of competitive advantage.	Mediation: Objective is to create value though the establishment of connections - the mediation of exchanges. Focus is on managing and developing relationships with actors in value network and finding new actors.

Services & Knowledge driving growth

Year	Services % GDP ₁	Services % Labour ₂	Knowledge Workers % Labour ₃
2005	50% ↑	75% ↑	32% ↑
1996	45%	72%	27%
1986	40%	66%	Na

1 Finance, distribution and Other Services

2 Excludes Forestry, Fishing, Mining, Manufacturing, Utilities & Construction

3 Includes Professional and Associate Professional

Source: ABS 1301 Yearbook and 6291 Labour Force Australia

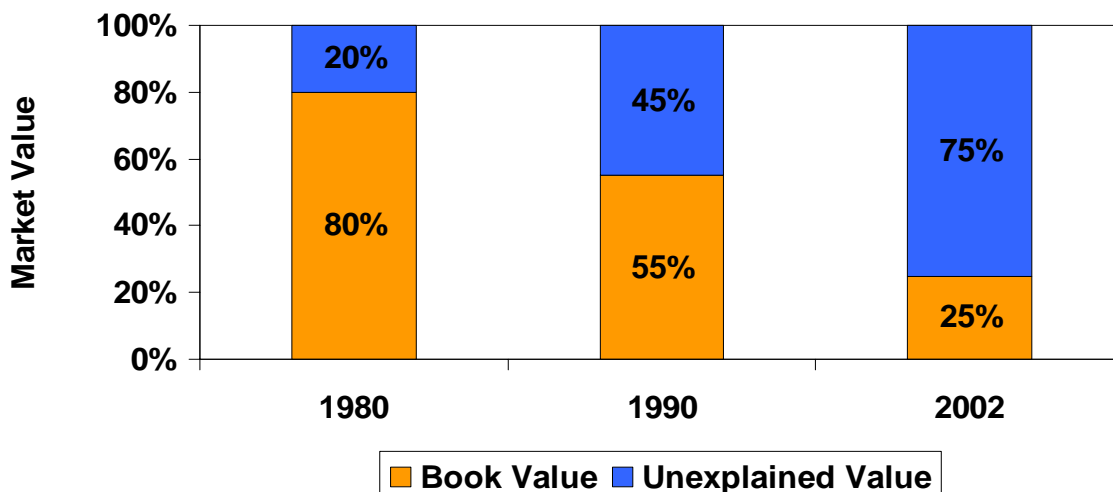
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But the value is unexplained.....

S&P 500, 1980-2002



Source: Accenture, July 2004

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... as it is not on the Balance Sheet

	Traditional Financial Accounts			Extended Performance Accounts		
	Monetary	Physical	Intangible	Structural	Relational	Human
Tangible Resources	Cash Receivables Payables Securities	Property Plant Equipment Inventory	Intellectual Property Customer Lists Brands Contractual Agreements	Documented Operating Policies Documented Company Programmes (i.e. TQM, JIT, Six Sigma, SPC etc).	Contractual Agreements with Alliance Partners and Joint Ventures	Employment Contracts Training Manuals In-house Learning and Development Programmes
Intangible, Knowledge Intensive Resources	Credit Rating Borrowing Capacity Strength of Balance Sheet	Plant Flexibility Tradability of Assets Quality of Inventory	Infrastructure Working Capital Management	New Product Development Management Processes and Programmes Information Systems and Processes Software Programmes Organisational Structure and Culture Management Philosophy	Government Relations Community Relations Distribution and Supply Channels and Relations Customer Relations Financial Relations Industrial Relations Company Name and Brands	Employee Demographics Employees' Innovative Capacity Employee Diversity Learning and Development Abilities Educational and Work-related Qualifications Leadership and Top Mng Quality

Source: Australian Guiding Principles on Extended Performance Management (2005)

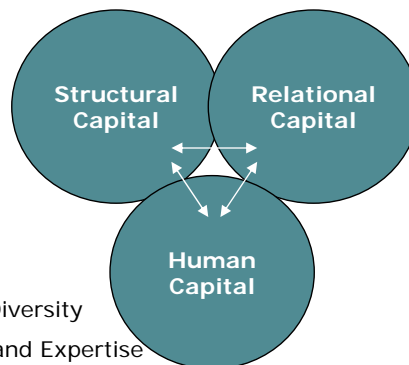
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What we don't see on the BS

- Management Philosophy
- Organisational Culture
- Organisational Structure
- Management Processes
- Information Systems
- Intellectual Property
- R&D
- Etc



- Employee Diversity
- Know how and Expertise
- Employee Demographics
- Employees' Innovative Capacity
- Learning and Development Abilities
- Educational and Work-related Qualifications
- Leadership and Top Management Quality

- Company Name and Brands
- Alliances and Partnerships
- Licensing / Franchising
- Distribution Channels
- Favorable Contracts
- Community Relations
- Customer Relations
- Supplier Relations
- Financial Relations
- Etc

Source: Boedker, Guthrie and Cuganesan (2005)

See also Sveiby (1997) and Petty and Guthrie (2001) articles

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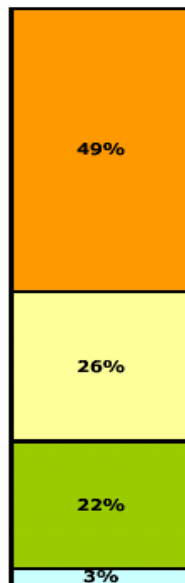
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Intangibles as a Source of Competitive Advantage

How important are intangible assets to your company's long-term shareholder wealth creation?

- Intangible assets are what the company primarily relies on for shareholder wealth creation.
- Intangible and tangible assets are of roughly equal importance to the company for shareholder wealth creation.
- The company has many intangible assets, but relies primarily on tangible assets for shareholder wealth creation.
- The company does not have many intangible assets, and relies primarily on tangible assets for shareholder wealth creation.



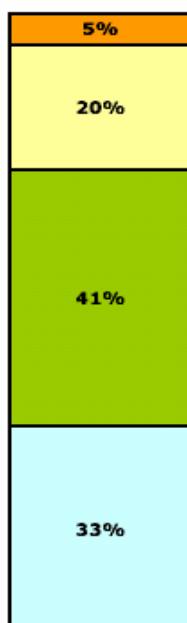
Survey done with over 1200 executives in 27 countries across multiple industries

Source: Accenture, 2004

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Does your company measure the performance of its intangible assets and/or intellectual capital?



- Yes, we have a robust system that measures and tracks all aspects of the performance of our intangible assets / intellectual capital.
- Yes, we apply some measures to assess the performance of our intangible assets / intellectual capital, but they don't constitute an organised system.
- Yes, we apply some measures to assess the performance of our intangible assets, but those measures are mainly informal or qualitative.
- No, we do not measure the performance of our intangible assets/intellectual capital.

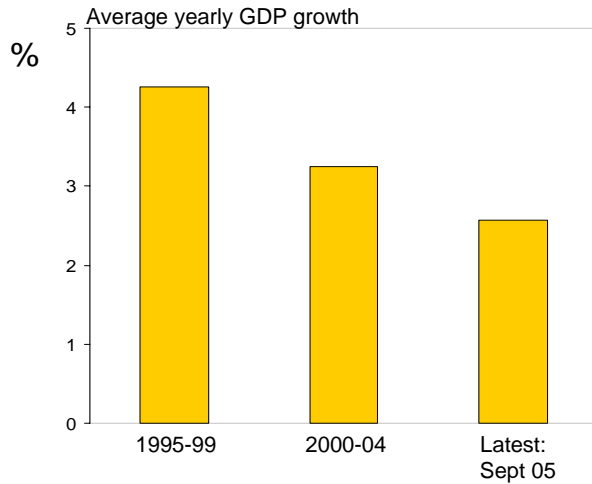
Despite the benefits and relevance of measuring intangible resources there is a lack of practice of such measures in the industry.

Source: Accenture, 2004

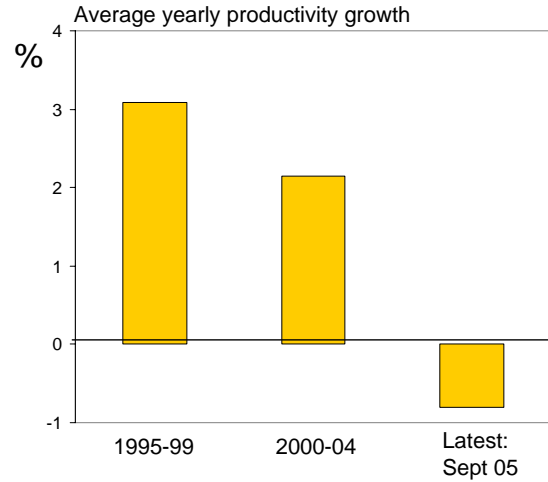
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Growth/Productivity - our performance ...

Australia's Declining Growth



Australia's Falling Productivity



Source: BCA Reform Action and ABS

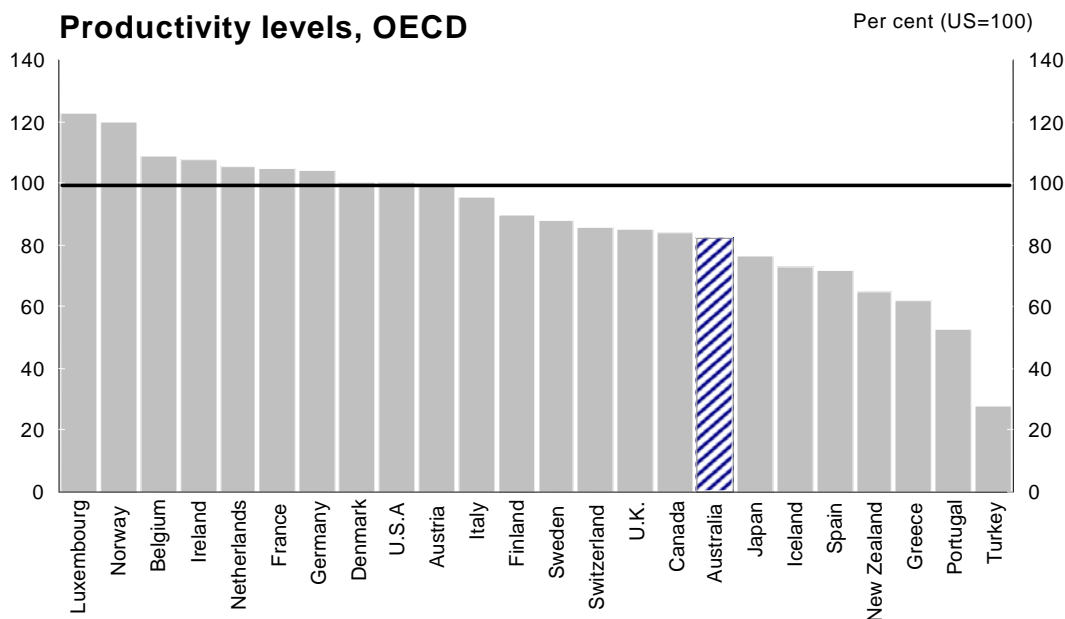
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... and position

Productivity levels, OECD



Source: Dr Ken Henry, Treasury Oct 2004

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The need for change

With greater than 70% of organisational value remaining undefined, unmeasured, unreported, and therefore misunderstood

..... significant problems exist relating to the practical effectiveness and relevance of day-to-day operational management, investment decisions, staff management, and stakeholder management in the Private Sector, Public Sector and globally at the country level

Source: AGCCKC – Need for Change

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The need for change

“There are going to be a lot of problems in the future as accounting is not tracking investments in knowledge assets”

Alan Greenspan,
Federal Reserve Board Chairman

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Significant effort overseas

- The UK Operating and Financial Review
 - Mandatory reporting from April 2005
- The 15th White Paper on Corporate Social Responsibility (Japan)
 - Proposes draft CSR standard
- Danish Guideline on Intellectual Reporting
 - How to prepare and use intellectual statements
- Austrian University Act
 - Intellectual capital reports mandated for universities

What's needed

- An integrated approach involving all key stakeholders to measure and manage knowledge and innovation for productivity and performance in the Australian economy
- A “lighthouse” that enables collaboration so best practice is identified, tested and rolled out across the Australian economy

SKE Charter

To encourage and assist the development and adoption of best practice in the management and measurement of knowledge and innovation in the Australian economy.

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SKE Founding Members

- Microsoft
- Westpac
- CPA Australia
- The Institute of Actuaries of Australia
- Standards Australia

With support from

- AGIMO & Department of Finance
- NSW Department of Lands

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Australian and overseas network

Profession - Australia

Dr. David Fox, Policy Advisor, CPA, Australia
 Dr. Tim Williams, Corporate Social Responsibility, Westpac
 Dr. Ian Woods, Senior Research Analyst, AMP, Sydney
 Dr. Ian Watt, Secretary, Dept Finance and Administration,
 Dr. Steve Hodgkinson, Deputy Chief Information Office for Victoria
 Dr. Derek Binney, Chief Knowledge and Technology Officer, CSC
 Dr. Les Trudzik, Allen Consulting Group
 Mr. Patrick Callioni, AGIOMO, Dept Finance and Administration
 Mr. David Hannan, CEO, Innovation Economy Advisory Board, Victoria
 Andrew Gale, Actuaries, Sydney
 Nick Ridehalgh, PWC, Sydney
 Michael Inglis, the Law Council
 Mark Bezzina, Standards Australia
 Jo Reinhard, Hewitt
 Tamara Plakalo, Fairfax
 Warwick Watkins, NSW Department Lands
 Keith Besgrove, DCITA
 Michael Coomer, Westpac
 Peter Fritz, TCG group

Researchers - Australia

Prof. James Guthrie, University of Sydney
 Prof John Matthews, MGSM, Sydney
 Prof. Roger Simnet, UNSW, Sydney (Board Member UN GRI)
 Dr. Suresh Cuganesan, MGSM
 Dr. Peter Stean, MGSM, Sydney
 Ms. Christina Boedker, UNSW, Sydney

Academics and Others - International

Associate Prof. Illeana Steccolini, Bacconi University, Milan
 Prof. Stephan Zambone, Ferrara University, Italy
 Prof. Karl Eric Sveiby, Stockholm University, Sweden
 Prof. Ulf Johansson, Stockholm Business School, Sweden
 Prof. de Ordonez, Madrid University, Spain
 Prof. Klaus North, Wiesbaden University, Germany
 Prof. John Holland, Glasgow University, Ireland
 Prof. Goran Roos, Cranfield Business School, UK
 Prof. Jan Mouritsen, Copenhagen Business School, Denmark
 Dr. Herwig Schlogl, Deputy Secretary General, OECD, France
 Prof. Baruch Lev, Stern Business School, NY, USA
 Prof. Nicholaj Buck, Aarhus Business School, Denmark
 Dr. Richard Petty, MGSM, Singapore

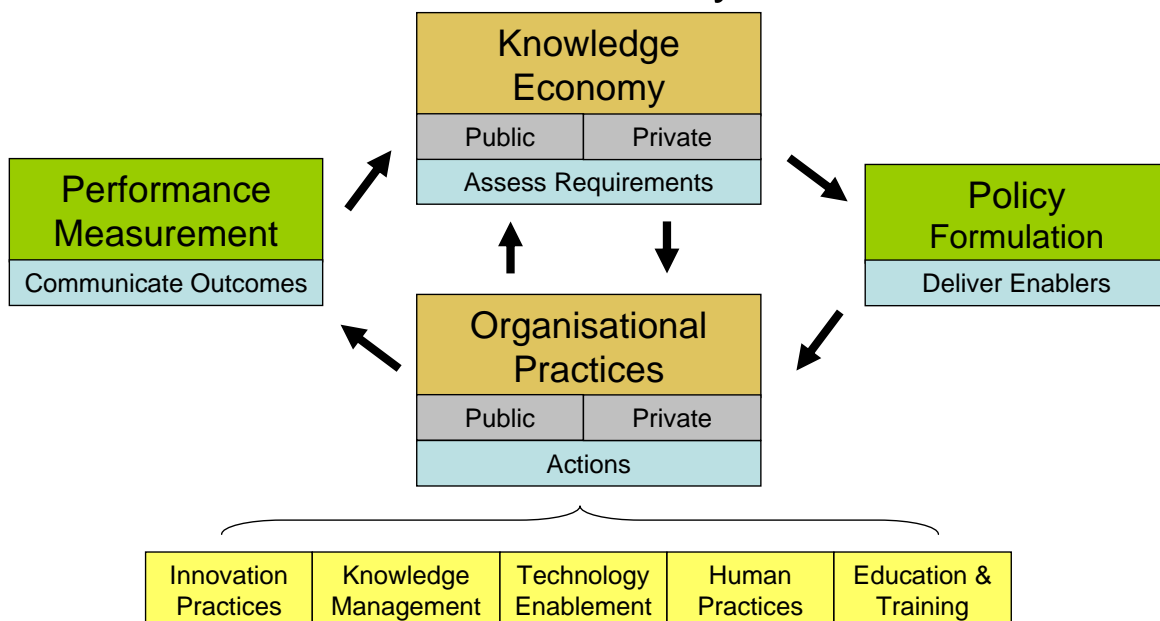
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Action Plan

SKE believes there are four key areas of focus



Source: SKE

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What SKE has done

- Produced the Australian Guiding Principles on Extended Performance Management – a guide to better managing, measuring and reporting knowledge intensive organisational resources
- Run managing, measuring and reporting pilot projects at Westpac, NSW Dept of Lands, Vic Govt CIO Office and Dept of Family & Community Services
- Received Emerald Literati Network Awards for Excellence 2006 for Intellectual Framework

Action Plan

How SKE will deliver stakeholder requirements

- a. **Align research efforts** around practical and pragmatic needs (research co-ordination);
- b. **Develop, promote practical tools and guidelines** for use in the Public and Private Sectors.
- c. **Build network in Australia and overseas;**
- d. **Hold forums and events;**

Resource Categories in EPAs

- **Relational capital** refers the organisation's relationships with external stakeholders be they suppliers, customers or others);
- **Structural capital** refers to the structures and processes employees develop and deploy in order to be productive, effective and innovative; and
- **Human capital** refers to the skills, attitudes, abilities, competencies and qualities of the organisation's employees.

Extended Performance Accounts – An Australian Initiative

	Strategic Objectives	Managerial Efforts		Indicators (External and Internal)		
		Current Activities	Planned Actions	Indicators	Past / Current	Target
Relational Capital						
Structural Capital						
Human Capital						

Source: Australian Guiding Principles on Extended Performance Management (2005, p. 39)

Benefits of Extended Performance Management

- “facilitate a more balanced perspective on resource performance, and provide a **broader scope for strategy formulation and resource allocation**;
- shed light on the drivers of business value, and how these value drivers are currently managed, thus extended the traditional \$-based approach to performance (e)valuation;
- enable managers and others to visualise the value and performance of the organisation’s knowledge intensive resources, not recorded and accounted for in traditional financial accounts;
- provide systematic processes and structures for measuring and reporting the value and performance of knowledge intensive resources;
- **provide opportunities for stakeholder identification**, engagement and dialogue, resulting in reciprocal communication flows, strategic feedback and organisational learning;
- reduce information asymmetry between internal and external stakeholders, thus opening up new opportunities for financial valuation;
- provide new opportunities for organisational learning, development and innovation”.

Source: Australian Guiding Principles on Extended Performance Management (2005, p. 27)

More Information

www.ske.org.au