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

<table>
<thead>
<tr>
<th>Business Model</th>
<th>Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Value Chain:</td>
<td>Production: Objective is to produce products and in doing so reduce costs and increase margins. Criticised for being biased towards physical and monetary resources.</td>
</tr>
<tr>
<td>2. Value Shop:</td>
<td>Problem Solving: Objective is to produce solutions to problems which entails capturing knowledge about problems.</td>
</tr>
<tr>
<td>3. Value Network:</td>
<td>Mediation: Objective is to create value through the establishment of connections - the mediation of exchanges. Focus is on managing and developing relationships with actors in value network and finding new actors.</td>
</tr>
</tbody>
</table>
Services & Knowledge driving growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Services % GDP&lt;sub&gt;1&lt;/sub&gt;</th>
<th>Services % Labour&lt;sub&gt;2&lt;/sub&gt;</th>
<th>Knowledge Workers % Labour&lt;sub&gt;3&lt;/sub&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>50%</td>
<td>75%</td>
<td>32%</td>
</tr>
<tr>
<td>1996</td>
<td>45%</td>
<td>72%</td>
<td>27%</td>
</tr>
<tr>
<td>1986</td>
<td>40%</td>
<td>66%</td>
<td>Na</td>
</tr>
</tbody>
</table>

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

But the value is unexplained.....


Source: Accenture, July 2004
... as it is not on the Balance Sheet

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

What we don’t see on the BS

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

- 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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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. 49%
- Intangible and tangible assets are of roughly equal importance to the company for shareholder wealth creation. 26%
- The company has many intangible assets, but relies primarily on tangible assets for shareholder wealth creation. 22%
- The company does not have many intangible assets, and relies primarily on tangible assets for shareholder wealth creation. 3%

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. 5%
- Yes, we apply some measures to assess the performance of our intangible assets/intellectual capital, but they don’t constitute an organised system. 20%
- Yes, we apply some measures to assess the performance of our intangible assets, but these measures are mainly informal or qualitative. 41%
- No, we do not measure the performance of our intangible assets/intellectual capital. 33%

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

Source: Accenture, 2004
Growth/Productivity - our performance …

**Australia’s Declining Growth**
Average yearly GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-99</td>
<td>4.0</td>
</tr>
<tr>
<td>2000-04</td>
<td>3.0</td>
</tr>
<tr>
<td>Latest: Sept 05</td>
<td>2.0</td>
</tr>
</tbody>
</table>

**Australia’s Falling Productivity**
Average yearly productivity growth

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</tr>
<tr>
<td>Latest: Sept 05</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: BCA Reform Action and ABS
Confidential to Society of Knowledge Economics

… and position

**Productivity levels, OECD**

<table>
<thead>
<tr>
<th>Country</th>
<th>Per cent (US=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>130</td>
</tr>
<tr>
<td>Norway</td>
<td>120</td>
</tr>
<tr>
<td>Belgium</td>
<td>110</td>
</tr>
<tr>
<td>Ireland</td>
<td>100</td>
</tr>
<tr>
<td>Netherlands</td>
<td>90</td>
</tr>
<tr>
<td>France</td>
<td>80</td>
</tr>
<tr>
<td>Germany</td>
<td>70</td>
</tr>
<tr>
<td>U.S.A</td>
<td>60</td>
</tr>
<tr>
<td>Austria</td>
<td>50</td>
</tr>
<tr>
<td>Italy</td>
<td>40</td>
</tr>
<tr>
<td>Finland</td>
<td>30</td>
</tr>
<tr>
<td>Sweden</td>
<td>20</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15</td>
</tr>
<tr>
<td>U.K.</td>
<td>10</td>
</tr>
<tr>
<td>Canada</td>
<td>9</td>
</tr>
<tr>
<td>Australia</td>
<td>7</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
</tr>
<tr>
<td>Iceland</td>
<td>5</td>
</tr>
<tr>
<td>Spain</td>
<td>4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3</td>
</tr>
<tr>
<td>Greece</td>
<td>2</td>
</tr>
<tr>
<td>Portugal</td>
<td>1</td>
</tr>
</tbody>
</table>

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

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
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.

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
SKE believes there are four key areas of focus

1. Knowledge Economy
   - Public
   - Private

2. Organisational Practices
   - Public
   - Private
   - Actions

3. Policy Formulation
   - Deliver Enablers

4. Performance Measurement
   - Assess Requirements
   - Communicate Outcomes

Source: SKE
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 to 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**

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Managerial Efforts</th>
<th>Indicators (External and Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current Activities</td>
<td>Planned Actions</td>
</tr>
<tr>
<td>Relational Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Capital</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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)