A Supply-Side Perspective on Extended Performance Reporting in the Australian Public Sector

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Abstract

Keywords: Australian Public Sector, Performance Reporting, Intellectual Capital, New Public Management, Annual Reporting

Australian and international public sector organisations have faced, and continue to encounter, a plethora of reforms under the umbrella of ‘New Public Management’ (Guthrie et al., forthcoming). Underpinning these reforms have been imperatives of budget surpluses and reduced government debt, with NPM reforms generally characterised by budget cuts, accountability for performance and privatisation (Gruening, 2001). Public sector organisations face a number of challenges in responding to these NPM reforms. Specifically, these challenges include demonstrating the realisation of economic and social value in the short term while, simultaneously, investing in organisational renewal and replenishment and value creation capacity in the medium to long term.

Concurrently, traditional financial reporting frameworks used within the private and public sectors are increasingly criticised for their failure to incorporate information on non-financial performance. This criticism is set within a context of socio-economic change, in which organisational performance is increasingly determined by a wider range of knowledge-based resources, also known as intellectual capital (IC). Arguably, the sustainability of organisations is contingent upon investment in its employees’ competencies, its systems, processes and practices, and in its relations with external service providers, clients and customers as well as other stakeholders. Indeed, the application of these ‘intangibles’ to the operations of the organisation is central to service delivery and to its ability to sustain value creation over the medium to long term (Drucker, 1993).

However, explanations as to why organisations should engage in extended performance reporting mainly stem from a ‘demand-side’ perspective. This paper considers a ‘supply-side’ perspective and discusses the motivations of an Australian public sector organisation for engaging in extended performance reporting. In advancing the idea of an ‘emergent’ as opposed to ‘normative’ approach to establishing extended performance reporting practices, the contributions of the paper are two-fold. Firstly, the provision of a supply-side perspective on performance reporting within the public-sector context that contrasts to the dominant demand-oriented narrative in prior literature. Secondly, the examination of how performance reporting might be extended beyond the domain of accrual accounting reports and NPM frameworks of outputs and outcome to measure the activities of an organisation in managing its IC.
1. Introduction

Australian and International public-sector organisations have faced, and continue to encounter, a plethora of reforms under the umbrella of ‘New Public Management’ (NPM) (Guthrie et al. 2005, forthcoming). Underpinning these reforms have been imperatives of budget surpluses and reduced government debt (see Commonwealth of Australia, 2002), with NPM reforms generally characterised by budget cuts, accountability for performance, performance auditing and privatisation (Gruening, 2001). In Australia, evidence of these reforms and their effects are widespread, comprising the rapid proliferation of public-private partnerships (AusCID, 2004) and continued debates about the privatisation of public-sector assets. Greater accountabilities have been simultaneously demanded by funding agencies and the wider community, as reflected by the promulgation of managerialist philosophies and widespread discourse on economic rationality, and the development and implementation of quantitative-based performance measurement frameworks across the majority of government sectors that evaluate the achievement of outputs and outcomes (Guthrie and English, 1997).

As part of the above NPM reforms, changes to performance reporting systems have been implemented (Jones, Guthrie and Steane, 2001a; 2001b). However, while representing incremental improvements on previously existing systems with respect to the quantity and depth of information made available, strong criticisms have been raised against the adequacy of these ‘new’ information sets (Guthrie, Carlin and Yongvanich, 2004). Concerns about the quality of services provided by public sector organisations, and the ability of these organisations to balance social, economic and environmental performance requirements under NPM regimes have resulted in a renewed interest in the capability of predominantly accrual accounting frameworks to provide a more complete account of performance in the areas of both social and economic value creation and sustainability (Carlin and Guthrie, 2001; Walker and Walker, 2002). The need for extended performance reporting in the public sector thus remains a topical question and one worthy of further investigation.

Concurrently, traditional financial reporting frameworks used within both the private and public sectors are increasingly critiqued for not incorporating information on
intellectual capital (IC). This critique is set within a broader socio-economic context in which organisational performance is increasingly determined by a wider range of knowledge based resources. The application of IC to the operations of the organisation is increasingly central to service delivery and its ability to sustain value creation over the medium to long-term (Drucker, 1993). Indeed, the sustainability of organisations is seen as contingent upon investment in employee competencies, systems, processes and practices, and in relations with external service providers, clients and customers as well as other stakeholders. In turn, it is argued that annual report information is of declining relevance in contemporary ‘knowledge’ societies (Holland and Johansen, 2003).

The intersection of these two ‘movements’ poses a significant challenge for public-sector organisations. Specifically, demonstrating the achievement of quantified output and outcome goals within annual budget and reporting periods while, simultaneously, investing in organisational renewal and replenishment and its capacity to create and deliver social and economic value in the medium- to long-term. All too often, however, activities geared towards future-oriented value creation capacity can be marginalised in environments of limited organisational resources and funding, and pressures to demonstrate ‘good’ performance within annual cycles. Considering how these pressures can be mitigated, and whether alternative frameworks and dialogues are required to communicate this longer-term and future-oriented performance, are timely issues for investigation.

However, explanations as to why and how organisations should engage in extended performance reporting are mainly provided from a ‘demand’ side or normative perspective, where commentators and researchers examine how performance should be reported. In contrast, this paper provides a ‘supply’ side perspective on extended performance reporting. Its overall objective is to describe the motivations of an Australian public sector organisation in engaging in extended performance reporting beyond accrual accounting reports and broader than the reporting requirements imposed by the relevant Government Treasury. In advancing the idea of an ‘emergent’ as opposed to ‘normative’ approach to establishing extended performance reporting practices, the contributions of the paper are two-fold. Firstly, the provision of a supply-side perspective on performance reporting within the public-sector context that
contrasts to the dominant demand-oriented narrative in prior literature. Secondly, the examination of how performance reporting might be extended beyond the domain of accrual accounting reports and NPM frameworks of outputs and outcome to measure the activities of an organisation in managing its IC.

The next section of the paper overviews the nature of NPM reforms in Australia. This is followed by a review of the literature on reporting IC in Section Three. Details of the case organisation and research methods are provided in Section Four while the results of the empirical investigation are presented and discussed in Section Five. The paper ends with a synthesis of its main findings and the implications for both research and practice in the area of extended performance reporting.

2. New Public Management Reforms

The public sector in Australia has witnessed an intensive period of reform since the mid-1980s (see, for example, Jones, Guthrie & Steane, 2001a; b). Under the umbrella term of ‘new public management’ (NPM), these reforms have been predicated upon a managerialist philosophies and the virtues of economic rationalism. Accompanying these reforms were several promises; namely: the transition to smaller, less interventionist and more decentralized government; improved public sector efficiency and effectiveness; greater public service responsiveness and accountability to consumers and citizens; increased choice between public and private providers of public services; an ‘entrepreneurial’ public sector more willing and able to work with business; and improved economic performance (Jones, Guthrie & Steane, 2001c, p.5).

Thus, by the mid 1990s, what has been labelled the ‘market model’ of governance (see Considine, 2001: 27-29) had been widely adopted at all levels of government (English, Guthrie and Parker, 2005 forthcoming). Characterised by private ownership, competition and market incentives, the market model has replaced more hierarchical modes of governance that emphasise traditional notions of regulation by statute and reward through the career public service (Considine, 2001: 28). Inter alia, the political emphasis is on ‘small’ government, a reduction in government spending and debt, on ‘doing more with less’, on ‘user pays’, and on the provision of a welfare safety net on a needs basis, as opposed to universal welfare coverage (Osborne and
Gaebler, 1993; VCA, 1993a; b). Associated with this growing philosophy of expenditure restriction has been the desire by a range of federal and state governments to pursue more efficient and effective systems of managing public resources via ‘improved’ public sector management (English and Guthrie, 2001). Organizations within the Australian public sector have been enveloped by major changes in public sector management and imposition of new regimes of performance reporting.

With the implementation of NPM reforms and the transition towards the market model of governance, modes of public sector management have increasingly emphasized quantitative performance measurement. This has predominantly comprised a shift towards the application of accrual accounting and reporting techniques (Guthrie, Carlin and Yongvanich, 2004). In addition, representations of government agency output have been increasingly specified in financial and non-financial measures of organizational activity. Indeed, even in such traditionally qualitatively assessed areas as social welfare, professionals and managers alike found their activities being increasingly represented and subject to scrutiny in terms of quantitative performance indicators, invariably expressed in accounting terms (English, Guthrie and Parker, 2005 forthcoming). Popular accounting pronouncements at the time recommended that governments disclose the following information about performance:

(a) program or function objectives; (b) governments’ effectiveness in achieving their objectives; (c) the efficiency and economy with which governments conduct their operations; and, targets in respect of (b) and (c). (AARF, 1994, p. 120).

Exemplifying the above trend towards regimes of performance reporting in the Australian public-sector is the State of New South Wales (NSW). Here, the NSW Treasury has proclaimed NPM reforms as improving value for money, and tied the resource allocation process to the performance of government agencies in terms of the achievement of outputs and outcomes.
A Financial Management Framework for the general government sector was established by the NSW Treasury in December 2000. The Framework advances five principles for improving value for money: clarity of objectives; proper allocation of responsibility; incentive structures; performance management; and integrity of information. The Framework links resources to performance, promoting transparency in budget resource management. It also facilitates adherence to NSW's fiscal strategy, which sets short, medium and long-term targets for the major Budget operating statement and balance sheet measures and provides the basis for preparing the state's annual Budget. (Source: APS, 2002)

As outlined above, resource provision determined through annual budget cycles is limited to the achievement of performance targets within corresponding short- to medium-term time-frames, a practice commonly referred to as accrual output-based budgeting (Carlin, 2003). NSW public-sector organisations thus need to achieve these pre-determined levels of performance (typically quantified levels of outputs). Adopting a longer-term view to the organisation is arguably more difficult given these impositions and circumstances. Indeed, the imposition of accrual accounting based reporting and budgeting frameworks risks damaging the long-term sustainability and value creation capacity of public-sector organisations, given that strategically important intellectual capital resources are not accounted for in these performance reporting regimes. The manifestation of these challenges, and how organisations might respond to these, has been insufficiently investigated and represents a gap in the extant literature on NPM reforms and consequences. To facilitate an empirical investigation of these issues, the importance of IC resources to organisations and trends towards its reporting are discussed in the next section.

3. The Importance of Intellectual Capital

Developed economies have entered what is commonly referred to as the ‘knowledge age’, where information and ideas have overtaken agricultural produce and manufactured goods as the key commodities (Dunford, Steane and Guthrie, 2001). Nations are being forced to compete in a global information economy where ideas, information and knowledge have no boundaries, but are instead multiplying and growing at a hectic pace (Petty and Guthrie, 2000). In this knowledge-based world, a national economy’s maintenance of the competitive edge increasingly depends on the
management of ideas and innovation. As governments and their employees embrace the ‘knowledge age’, the value of, and demand for, government information and services will increase significantly (OECD, 1999).

Increasingly, intellectual capital (IC) comprising the categories of human capital, relational and structural capital (Sveiby, 1997; Guthrie & Petty, 2000), feature prominently on the agenda of organisations, governments and public policy makers. The growing interest in IC is driven by a broader range of socio-economic changes pertaining to increasingly sophisticated customers, the surge in service based industries, changing patterns of interpersonal activities and the emergence of the network society, being digital, virtual and interconnected (Petty and Guthrie, 2000; Ordonez de Pablos, 2002; Fincham and Roslender, 2003). These broader socio-economic changes have implications for how organisations manage their resources and are causing a shift in organisational value drivers, with knowledge resources taking precedence over traditional physical resources in the pursuit of competitive advantage (Marr, Schiuma and Neely, 2004, p. 312). Reflecting this, in recent years there has been an emergence of IC Reporting (ICR) guidelines and acts, which inform and educate organisations on how to report the efficacy of activities undertaken to maintain, renew and enhance their ability to create value in the long-term.

In Scandinavia, the Danish Ministry of Science, Technology and Innovation (DMSTI) has published ICR guidelines illustrating to organisations the content, structure and format of IC reports (Mouritsen et al, 2003). The Danish guidelines are based on a pilot project, in which over 100 organisations participated in preparing IC reports. Comparable efforts have also been made throughout the European Union with the MERITUM research project that, inter alia, sought to produce guidelines for managing and reporting on intangibles (MERITUM, 2002).² In addition, the UK Department of Trade and Industry has proposed a compulsory reporting requirement for UK organisations to include an Operating and Review section in their annual reports from 2005. The objective is to provide a more strategic and forward looking perspective, highlighting the importance of intangible, largely human, assets (CIPD, 2004). In Austria, the Austrian University Act 2002, which came into force on

² The MERITUM acronym stands for Measuring Intangibles to Understand and Improve Innovation Management
January 1, 2004, requires state universities to prepare and disclose IC reports. The IC report “informs about the past development of the university as well as forecasts of (sic.) performance outcomes” (Schaffhauser-Linzatti, 2004, p. 2). It is designed to provide an inventory of the IC that exists within the university and serves as an important basis for the university’s budgetary reimbursement.

In Australia, no comparable guidelines or requirements exist. However, a renewed attention to knowledge creation and production is evident in most government policies, such as ‘Backing Australia’s Ability’ (Commonwealth Government, 2004) and ‘Invisible Value: The case for measuring and reporting intellectual capital’ (Department of Industry, Science, & Resources, 2001). More recently, an industry working group (the Australian Government Committee on Knowledge Capital) appointed by the Australian Government Information Management Office has been established to develop methods and principles to govern the reporting of ‘knowledge capital’ (Riley, 2004).

Prior literature has enumerated several benefits of ICR. As part of research to formulate IC statement guidelines, the DMSTI reports the results of a survey into the benefits of ICR to external constituents (Mouritsen et al, 2003). Over half of the respondents cited each of the following as benefits of their IC statements (Mouritsen et al, 2003, p.8):

- Showing that human resources are the most important asset
- Showing that the organisation is innovative
- Attracting new employees
- Showing that knowledge is the most important asset
- Showing that the organisation is flexible
- Creating an understanding for the company’s products or services
- Supplementing financial reports
- Setting up a position in relation to competitors
- Attracting and retaining customers

In similar fashion, other authors have described external ICR as: helping to reduce the gap between market and book value of organisations; improving information to
stakeholders about future performance and organisational value; reducing information asymmetry; increasing the ability to secure funding at lower costs of capital; and, reducing the volatility and inaccuracy of firm valuations (Andriessen, 2004; Marr et al., 2003). Overall, it is argued that “the pressure on companies to account for and disclose the value of their IC is growing” (Marr et al., 2003, p.449). However, there are also disadvantages in IC reporting, comprising the revelation of sensitive information important to competitive advantage, both the implicit and explicit costs involved in providing IC reports, and concerns about the ease of manipulation of IC information (van der Meer-Kooistra and Zijlstra, 2001). Overall, evidence from the field of practice suggests little systematic and in-depth IC Reporting (Guthrie and Petty, 2000; Bontis, 2003; Roslender & Fincham, 2004), raising “concern about the effectiveness of present levels of IC management within even the best practice organisations” (Roslender & Fincham, 2004, p.184). Again, however, examinations if ICR have typically analysed annual report disclosures via content analyses methods, commenting on the ICR practices observed in relation to some typically unstated but normative expectation that high levels of IC should be reported (for more detail, see Cuganesan, Guthrie and Boedker, 2005). Thus, presenting a supply-side perspective on why an organisation might shift towards extended performance reporting comprising ICR represents a second contribution of this paper.

4. Case Study Organisation: NSW Lands

This paper presents a case study of external ICR by an Australian public-sector organisation, the NSW Department of Lands. The NSW Department of Lands is an Australian public sector organisation employing 1500 employees throughout the state of New South Wales (NSW). The organisation was created in April, 2003, at which time three previously separate operating divisions were consolidated into one department. The three operating divisions include:

- **Land and Property Information (LPI).** LPI is the provider of land and property information for NSW. LPI provides mapping, titling, valuation, survey and related land information services to individuals, businesses, government agencies and non profit organisations. It is the largest of the three divisions, employing approximately 900 out of 1500 employees. It is a Government Business Enterprise.
- **Crown Lands.** Crown Lands is responsible for the management of state land in the State of NSW. State land accounts for over half of all land in NSW, around 29mn hectares valued at over $8.3bn. Responsibilities include administration and management of land leases and licences, reserves and state parks, caravan parks and other uses. The division employs approximately 230 staff. Crown Lands is in the planning stage of becoming a Public Trading Enterprise, which is expected to commence in 2005.

- **Soil Services.** Soil Services is a specialist conservation earthmoving and soil consultancy business. Services include soil conservation earthworks and consultancy services, farm water supplies, soil and water testing and education and training. The division employs approximately 160 staff.

At the time of the study, the NSW Department of Lands was an organisation facing a number of changes in both its internal and external environments, including an ageing workforce and the introduction of ‘New Public Management’ reforms, resulting in transformations in the organisation’s structure, the instigation of Public Trading Enterprise structures and more stringent financial performance requirements typical of recent reforms in the Australian Public Sector (Guthrie, Parker and English, 2003). In relation to the latter, greater accountabilities have been demanded by funding agencies and the wider community, as reflected by the development and implementation of ‘outcome-output’ and other performance measurement frameworks across the majority of government sectors (Guthrie & English, 1997; English, Guthrie & Parker, 2005). These broader changes inspired the NSW Department of Lands to seek ways in which to improve its performance. Senior management was particularly interested in identifying the organisation’s invisible sources of value creation and making these known to external stakeholders, such as customers, Treasury and the community.

The research project was conducted over a 7-month period. Semi-structured interviews were conducted to examine the motivations of NSW Lands in moving towards extended performance reporting of their IC. The semi-structured interviews were designed (Patton, 2002) to elicit insights into how the organisation and its members enact, manage, measure, report and develop their IC resources within the organisation’s strategic context. Interviewees were required to describe the management challenges that the NSW Department of Lands faced, identify the IC
resources considered to be important in responding to these challenges, how these were being utilised in knowledge management initiatives or activities, and outline the IC indicators, if any, assigned to assess the composition and performance of the IC resources and related initiatives. The interviews were thus important in assessing the role that specific IC resources played in helping the NSW Department of Lands respond to changes in its environment and the challenges it faced, and the extent to which IC was measured and reported upon, and how this was envisaged to be in the future. In total, fifteen interviews with executive and senior management of the NSW Department of Lands were conducted.

5. Results and Discussion

This section discusses the challenges faced by NSW Lands, and its motivations in embracing an IC approach and shifting towards extended performance reporting.

5.1 External Influences: NPM Requires New Ways Of Business

A significant influence in the consideration of IC at NSW Lands was the implementation of reforms and the imposition of ‘private-sector’ oriented values; specifically, the introduction of Public Trading Enterprise and Government Business Enterprise (GBE) structures along with the associated performance requirements. As outlined earlier, NPM reforms carried with them an emphasis on the need to continue activity levels with reduced budgets, resulting in imperatives at NSW Lands for ways of improving revenues and cutting costs. A General Manager (GM) of one of the operating divisions commented:

[The] recent tightening of budget and increased budget control calls for new way of running the business.

As a direct consequence of the imposition of GBE structures, senior management considered that different values were required. In particular, the need for cultural change and conflicts with existing public sector beliefs and processes was often highlighted. The comment of a Human Resource (HR) manager was reflective of this sentiment:

The process of culture change is important along with the introduction of GBE business model. The financial arrangements introduced by the GBE model, where revenue pays wages and where the business is no longer
funded by Treasury is a very significant issue and requires a very different mindset.

Widespread discourse at NSW Lands highlighted the need to shift towards a “more entrepreneurial mindset” as a result of its changed financial environment. A new business model was implemented (see Section 5.2), and new ways of developing revenues and reducing costs were debated at senior management levels, with implementation commencing for a number of these. However, moving towards a more entrepreneurial organisation was seen as difficult, given traditional public sector beliefs and work processes characterised by life long employment, slower decision making processes, a strong reliance on operating policies and procedures, seniority based career advancement, high levels of job security and resistance towards change.

The HR Manager added later:

Many people have been with Lands for many, many years, including some staff for 42 years. Loyalty and stability is the foundation of the organisational mindset. These traditional values conflict with the introduction of GBE structures, which require a higher degree of risk taking, innovation and entrepreneurship.

In summary, NPM reforms had resulted in imperatives for NSW Lands to reconstitute its “way of running the business” if it was to survive within a more financially constrained environment. Responding to this, the organisation sought new ways of generating revenues and reducing costs. However, doing so was to create additional challenges in relation to customer expectations.

5.2 External Influences: Changing Customer Expectations

The need to become more ‘entrepreneurial’ and create new revenue streams made customer expectations and the impacts of these for NSW Lands prominent within organisational discussions. Perceptions that shifting customer expectations required a different mode of operations and different attributes of its processes were widespread throughout all levels of senior management. These revolved around the notion that an increasingly sophisticated customer base required instant, reliable, responsive and value added services. A representative from the Finance department from one of the smaller divisions explained: “we need to change, adapt and employ a different set of criteria in the way in which we deliver service to our customers … we need to become more responsive”. A representative from Policy and Planning supported this argument
and highlighted the need to become more responsive, emphasising that “customers are demanding instant responses and value added services”.

As a result, senior management had instigated a review and redesign of the organisation’s business model, placing increased emphasis on business practices such as marketing management, business development, value added service offerings, e-commerce and online distribution. The new business model was, at the time of the interviews, being implemented and activities pertaining to business development, marketing management and information technology (IT) were in progress across the three operating divisions; for example, the instigation of advertising and customer relationship development activities, and the transition of the organisation’s IT infrastructure and systems towards an online environment that would accommodate customers’ requests for instant and convenient access to the department’s services. Within its new NPM world, the processes performed by NSW Lands had to comply with this ‘new world’ of timeliness, flexibility and convenience demanded by its ‘customers’.

The new business model demanded not only new processes but also new skill sets. The emphasis on new activities and technology-based change meant that employees’ interpersonal, project management, marketing management, communication and creativity skills became increasingly important to the organisation’s value creation processes and abilities. These observations were among others emphasised by one of the Area Managers, who explained:

There is a move away from manual processes towards automations along with increase in use of IT. This has implications for staffing, and is causing an increase in higher value add positions.

This transition towards a knowledge intensive business model and the greater reliance on employee competencies have led to changes in the organisation’s activities in the areas of recruitment and education, training, and learning and development. For example, the GM of one operating division explained that the organisation’s recruitment and promotion criteria are “increasingly based on leadership, management, communication, negotiation, people management skills, and not on internal expertise and technical competencies”. The representatives from HR and
Learning and Development explained that a number of activities have been introduced in the area of training and development in order to develop the organisation’s skills base. Such initiatives include competency based training and participation in courses offered by universities and technical education institutions.

In summary, in response to an increasingly sophisticated customer base, the case study organisation has initiated the design and introduction of a new knowledge intensive business model. This has transformed its business focus and activities, placing increased emphasis on marketing management and business development activities, value added service offerings, e-commerce and online distribution. This transition has had implications for both the way in which work is performed at NSW Lands and the employee competences required. In response, the organisation has implemented a series of activities pertaining to recruitment, education, training, learning and development. Improving and investing in employee competences was made more critical given its ageing workforce. This is discussed next.

5.3 Internal Influences: An Ageing Workforce
The third major challenge faced by NSW Lands derived from internal influences, and related to changes in its workforce, with a high proportion of staff scheduled for retirement in the short to medium term. In one operating division, for example, approximately sixty percent of the workforce was scheduled for retirement. A representative from Finance highlighted the financial imperative of an ageing workforce by stating that “knowledge loss is expensive” and knowledge management was imperative. The interviewee commented:

Knowledge management is extremely important because of what it represents to the organisation as a whole, especially considering the upcoming retirements of senior staff with valuable and possibly irreplaceable knowledge. If we relinquish expert knowledge, we are letting go of a host of things that we need to retain for the health of the business. If we let that knowledge leave us, we can never recover it. If a key person with the background, experience and knowledge leaves without having passed on the knowledge, you might need two people in order to undertake that same task, so there are cost and financial implications involved.
An Executive Manager explained that in his work group, approximately 20 out of 35 managers are scheduled for retirement in the short to medium term. The interviewee highlighted that a key issue pertains to capturing and transferring the tacit knowledge held by senior staff to younger staff, as the value of these key staff members lies in their “relationships and reputations, which are very important to the business and to maintaining confidence with clients and sub-contractors”. Another interviewee, a representative from Policy and Planning, supported this view and explained:

Our main challenge is to capture the knowledge of retiring staff, and transfer the expertise, experiences, networks and relationships that they have built up over a period of life long employment with the organisation. How do we facilitate knowledge sharing and reduce the risk of turnover? [emphasis added].

Whilst all interviewees agreed that KM activities pertaining to knowledge identification, sharing and retention are a strategic priority to the organisation, they also highlighted the difficulties associated with getting staff to engage in knowledge sharing activities. One frequently mentioned aspect was the role of the organisation’s culture in facilitating knowledge sharing. One interviewee commented “the existing environment is not conducive to knowledge sharing. It is characterised by a high number of loyal employees, who often only can be promoted when their superior leaves. Progression has traditionally been based on length of time, not necessarily ability”. This has been compounded by the “tendency towards internal recruitment, which makes people resistant towards sharing knowledge as knowledge is seen as power”. Another interviewee supported this view, highlighting that “knowledge sharing is a threat to job security. Senior staff wants to make sure new comers start at the bottom, as they should go through what I went through”.

One interviewee mentioned that the first step in facilitating culture change and initiating and implementing KM activities to retain knowledge is to:

Get people to understand what we are doing and why we are doing it. Achieving buy in and overcoming employee resistance is a key challenge ... it is a culture thing, where there has to be a willingness within the organisation to share things.
A prime example of this was the initiative to deploy a skills assessment programme, which aimed at identifying and evaluating the skills and knowledge of the work group’s key staff members. The activity entailed reviewing and documenting the competencies of 20 employee with a view to identify what knowledge exist, how such knowledge relates to the business and what needs to be captured. The Executive Manager of this work group mentioned that he has teamed up with the division’s ‘champions’ to build up support and trust among the peers, and that progress had been slow despite such an approach:

What we are doing is we get the ‘champions’, who have credibility amongst the peers, to advocate and push forward the [knowledge sharing and retention] projects. But it is a slow process. We have to tread carefully as staff feel uncertain about the intent of the project and what it will do to their positions.

In summary, NSW Lands had to respond, not only to external pressures to change the way it operated, but was also faced with internal changes in relation to the composition of its workforce, attrition of employees due to age, and the loss of knowledge and organisational memory. This, together with the need for a new ‘entrepreneurial’ mindset, different processes that also complied with changing customer expectations, placed significant pressures on the organisation in terms of sustainability of its ability to create value.

5.4 ICR: The Shift To Extended Performance Reporting
Responding to the challenges faced, NSW Lands required a greater focus on knowledge sharing and managing human capital in terms of retaining and sharing existing knowledge in the face of an ageing workforce, and developing novel skill-sets and competencies that would facilitate the implementation of the new business model. In addition, implementing new business activities and processes, creating a knowledge sharing culture and shifting towards an entrepreneurial mindset necessitated change in the internal structural capital. Finally, in lieu of changing customer expectations and increased accountabilities and ‘tighter’ performance requirements, NSW Lands required more attention towards its relational capital with these external stakeholders. Overall, senior executives at NSW Lands considered a new approach to managing, measuring and reporting on the organisation and its value creating activities was required.
In response, the organisation turned to IC. The highest ranking executive officer, the Director General, provided his perspective on the role of IC information in managerial decision making, emphasising that organisations need to broaden the scope of their information base, managerial philosophy and planning horizon. He commented:

The greatest value of organisations in today’s business environment is in intangible assets. However, in most organisations, senior executives pay little attention to the greatest asset in their organisations, that is the knowledge or intellectual capital. Decision making is skewed towards short term materialistic gains, which undervalues the real value and influences whether an organisation is sustainable or not. At the moment, organisations are undervaluing their true wealth. They don’t know if they are adding value or taking value away, and most businesses are taking value away. We need to develop a greater sense and appreciation and awareness of the true value of what the intangibles are, and in doing that, being 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 our resource allocation. Our objective, at present, is to get a better understanding of what constitutes the organisation, the value of the organisation, and how we can use that knowledge generally, augmented with other tools, to bring about better decision making.

The Chief Information and Technology Office supported these arguments. He also highlighted the role of knowledge management activities in facilitating the re-establishment and re-definition of a shared organisation’s corporate identity given its changed environment, commenting:

IC initiatives will give us the ability to see ourselves, our DNA, what we are made of and help us initiate a process of self-reflection. The process will help us to start to see ourselves differently. It will help us clarify and describe who we are and what it is we are doing. It is a way of envisioning the future and assessing where we can go, how we can change and how we can organise ourselves to move forward. If we can get through that we will have a much healthier organisation.
NSW Lands engaged in a research and consulting exercise whereby an external project team was brought in to examine (for more details, refer to Boedker, Guthrie and Cuganesan, 2005):

i. **IC Management**: How does the organisation prioritise, enact, manage and develop its knowledge resources? Is the management of IC done in a strategic manner relating organisational knowledge resources and KM activities to the organisation’s strategic management challenges? Is the management of IC done in an integrated manner, taking into consideration the direct and indirect relationships that exist between the organisation’s resources?

ii. **IC Measurement**: To what extent does the organisation measure the composition and performance of its knowledge resources and KM activities? Are IC indicators incorporated in strategic planning processes and used to inform decision making and resource allocation?

iii. **IC Reporting**: What is the type and level of IC reported in the organisation’s internal business management and strategy documents and annual reports? Does the organisation inform its external stakeholders about its strategic management challenges, KM activities and the composition and performance of its knowledge resources?

Overall, the project team found that the organisation was not responding fully to all of its strategic management challenges when viewed from an IC lens. Similarly, the organisation did little to measure the composition and performance of its IC resources and activities, while there was also inconsistency between the organisation’s internal IC management issues and practices and its external ICR practices, indicating that external stakeholders are not fully informed about the organisation’s internal IC management issues and practices. As such, the project team recommended a more strategic and cohesive approach to managing, measuring and reporting IC and provided broad templates and frameworks that would allow NSW Lands to commence this process.

Amongst those responsible for defining policy and measuring and reporting organisational performance (albeit in financial terms), the recommendations of the project team were received positively. This was because an IC approach
would make visible the important resources of the organisation. A Senior Policy Office explained:

We have no formal performance management system in place. The first step will be to reach clear understanding and common definition of what IC is all about and define where the responsibility will sit ... the process of identifying measures and understanding value and relative importance and contribution of IC may be more important than the actual measures.

Similarly the Finance Manager at one of the divisions of NSW Lands also explained:

Currently there are no IC measures or strategy in place and these topics have not been on the management agenda... but it is important to start doing it because without knowing what IC we have, there is no way of dealing with the loss or maintenance of those resources.

At a meeting between the NSW Lands Director General and his executive team, the project team presented its findings and recommendations. In response, the Director General highlighted the importance of managing IC effectively if NSW Lands were to successfully respond to the challenges it faced and reconstitute itself. In doing so, he announced that NSW Lands should commence reporting its IC resources and activities to its external stakeholders pointing out NSW Treasury in particular. A Senior Policy Office explained the ICR imperative:

Building an external reporting framework is important to the Director General. Emphasis is on building a framework that we can build on in the future and provide us with something to show to Treasury in an acceptable format. In doing so, we must be able to connect with our own people as well and use language which can be easily understood. We are not necessarily looking at having financial statements in place, more so to start on the process of identifying what we do and which skills we have got.

Thus NSW Lands commenced a process of developing an IC report to include within its broader annual report. It had begun the transition to extended performance reporting that would comprise a perspective on IC in additional to the transactional-oriented accrual accounting statements, and broader than the output-outcome framework that required NSW Lands to focus on the level of services delivered within the current reporting period. Instead, NSW Lands was to report on activities that would enable it to sustain and renew itself, and create social and economic value into
long-term. The extent to which such ICR practices would also transform the organisation and allow it to effectively respond to the challenges it faced remained open however.

6. Conclusion

NPM reforms have changed the environment that Australian and International public-sector organisations operate within. Reduced budgets, values of managerialism and economic rationality, new definitions of accountability and increasingly quantitative performance reporting requirements all characterise the contemporary public-sector context. The achievement of quantified output and outcome goals within annual budget and reporting periods arguably dominates in such environments. Against this backdrop, organisations face a challenge in investing in organisational renewal and replenishment and its capacity to create and deliver social and economic value in the medium- to long-term. An increasingly widespread recognition across both public and private-sector organisations is that their sustainability is contingent upon investment in employee competencies, systems, processes and practices, and in relations with external service providers, clients and customers as well as other stakeholders. Investing in IC for the longer-term may thus require resources and funding that does not translate into either immediate benefits such as those measured by current public-sector performance measurement frameworks.

In examining how these pressures can be mitigated, and whether alternative frameworks and dialogues are required to communicate this longer-term and future-oriented performance, this paper’s overall objective is to describe the motivations of an Australian public sector organisation in engaging in extended performance reporting beyond accrual accounting reports and broader than the reporting requirements imposed by the relevant Government Treasury. In doing so, the contributions of the paper are two-fold. Firstly, the provision of a supply-side perspective on performance reporting within the public-sector context that contrasts to the dominant demand-oriented narrative in prior literature. Secondly, the examination of how performance reporting might be extended beyond the domain of accrual accounting reports and NPM frameworks of outputs and outcome to measure the activities of an organisation in managing its IC. These are expanded upon below.
Presenting the experiences of NSW Lands, the paper details how NPM reforms, and the imposition of a GBE structure specifically, changing customer expectations and an ageing workforce made managing, measuring and reporting IC critical to the organisation’s ability to both survive and become self-funding. However, its existing performance measurement and reporting frameworks did not provide a ‘space’ for either these IC resources or the activities that NSW Lands needed to engage in if it was to respond to the challenges posed by its environment. Concurrent with an emphasis on transaction levels and short-term service delivery, future-oriented activities that would help it sustain and renew its ability to create and deliver economic and social value were silenced.

In response, NSW Lands sought to shift the frame of performance reporting and funding dialogue by embarking on the inclusion of an intellectual capital statement in its annual reporting disclosures to Treasury. Doing so was seen as helping to correct the silence about its IC resources and abilities within the avenues it had to communicate ‘performance’ to its external constituents. Simultaneously, it was envisaged that IC measurements would help transform the organisation and reconstitute its identity as a GBE. IC would help make NSW Lands more ‘entrepreneurial’ and capable of survival in the contemporary public-sector context characterised by NPM reform.

These findings have implications for both policy and research. Firstly, it raises questions about how governments and Treasuries can adequately judge, value, assess and make forecasts about the performance of government departments and agencies without having access to critical information about the IC resources and activities that impact, and drive value creation activities, abilities and processes across the long-term. In this regard, the empirical findings support the need to extend existing reporting practices and requirements to allow a ‘space’ for, and incorporate information on the composition and performance of organisations’ management challenges, knowledge resources and KM activities. Reflecting this, early trend-setters within European governments set an affirmative example of initiatives pertaining to IC reporting, with Denmark leading the way in regard to the formulation of self-reporting IC guidelines (see, Mouritsen et al, 2003) and the UK and Austria leading
the way in regard to public policy legislation requiring organisation’s to disclose information on their IC (see CIPD, 2004; Schaffhauser-Linzatti, 2004).

Finally, this paper also calls for further research on how public-sector organisations respond to NPM reforms. Specifically, it calls for supply-side perspectives on performance reporting rather than the demand-side commentaries which form the dominant narrative within the extant literature. Organisations are not powerless in the face of the imposition of new modes of public-sector management, merely responding to increasing reporting and accountability requirements imposed by Treasury. Rather, contemporary public-sector organisations may actively seek new definitions of what ‘performance’ constitutes, and develop frameworks of extended performance reporting that help to respond to both external and internal challenge faced. However, managing, measuring and reporting extended performance can in itself raise new problems that need to be overcome. Future research thus needs to examine how organisations implement extended performance reporting frameworks, revealing the problems that surface in doing so and how these might be overcome.
References:


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Jones, L. R., Guthrie, J. and P. Steane, (2001c). "Learning from International Public


For more details on the inconsistencies between the client organisation’s internal IC management issues and practices and its external IC reporting practices, please see, Boedker, Guthrie and Cuganesan (2005).