Intangible Drivers of Organisational Productivity and Prosperity

International Trends and Developments in Extended Performance Management, Measurement and Reporting

Society for Knowledge Economics

Background

This report is one part of a study commissioned by the Department of Finance in May 2006 to review trends and developments in *Extended Performance Management, Measurement and Reporting*, highlighting challenges and opportunities in this space in Australia and internationally.

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Executive Summary

Over the past century, national economies have witnessed significant transformations in the factors of economic production. The industrial economy (making tangible goods) has largely been superseded by the service economy (delivering knowledge solutions). Intangible resources, be they business partnerships, customer relations, business processes, information systems and technology, organisational culture and structure, and human capital, are by many touted as the 'new' value drivers and sources of economic growth and sustainability in the knowledge era.

The Australian economy, which traditionally has sustained its wealth from natural resources, farming and manufacturing, is no exception, with over 73 percent of the workforce employed in knowledge intensive services, contributing more than 52 percent to national GDP in 2003. However, despite consensus as to the growing importance of intangible, knowledge intensive resources, there is limited agreement among practitioners, professionals, policy makers and researchers as to how to measure, report and account for these 'invisible' resources. For instance, professional accounting standards have taken a conservative stance and restricted the recognition of intangible resources to those which are identifiable, reliably measurable, controllable, and acquired from external parties, thereby excluding a wide range of important knowledge intensive resources. The result is a continued focus on tangible resources, bottom line results and prioritisation of short-term financial performance, setting aside the qualitative, intangible aspects of organisational wealth and sustainability.

This report aims to broaden the perspectives on, and approaches to, the recognition, management and reporting of intangible, knowledge intensive resources in the knowledge era. Specifically, it reviews trends and developments in *Extended Performance Management, Measurement and Reporting*, highlighting practices, challenges and opportunities in this space in Australia and internationally.

The report is structured into two parts.

Part One contextualises the debate on intangibles and the knowledge economy by considering drivers of change and the 'new' factors of economic production in the knowledge era. It 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 Extended Performance Management (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; the United Nations' Global Compact: the Danish Guideline on Intellectual Capital Reporting by the Danish Ministry of Science, Technology and Innovation; the Japanese Guideline for Disclosure of Intellectual Assets Based Management by the Ministry of Economy, Trade and Industry; the UK Operating and Financial Review (ASB); the PwC ValueReporting™ framework; and Sveiby's Intangible Asset Monitor.

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.

The main contributions of this report are that it:

1. Identifies emerging trends in the global economy towards recognition, management and reporting of intangible resources and organisational sustainability practices.

2. Frames a discussion about how to manage, measure and report on intangibles, informed by global practices and guidelines, and also grounded in the Australian Society for Knowledge Economics (SKE) *Guiding Principles on Extended Performance Management (Draft).*

3. Identifies the emerging trend away from 'narrow' traditional financial methods, and their unsuitability for handling the intangible aspect of organisational performance.

4. Outlines and promotes a Tripartite Model (comprising *relational, structural and human capital* elements) as a conceptual model for identifying and classifying intangible, knowledge intensive resources.

1. Introduction: Drivers of Change and the 'New' Factors of Economic Production

Traditional financial accounts of performance have long been criticised for not recognising critical intangible resources. This may have negative implications for investment decision-making, resource allocation and company valuation. In this introductory section, we seek to contextualise such criticism of traditional financial accounts of performance and provide an overview of contemporary macro-level drivers of economic change.

1.1 Drivers of Change - Economic Transformations

History has witnessed transformations in the structure of the Western economy (Table 1). These transformations have been driven by the growth in service-based industries in which intangible resources, be they *relational, structural or human*[1], constitute the main part of the value creation process. Today, service-based industries comprise over 68 percent of world GDP, up from 61 percent in 1990 (World Bank, 2005). Meanwhile, goods producing industries contribute 28 percent to world GDP, down from 34 percent in 1990; and agriculture contributes 4 percent, down from 5 percent in 1990 (ibid).

Table 1 - Economic Transformations

	Economic Activity	Factors of Economic Production
Agricultural Economy Pre-1800	Harvesting	Land Land owners and workers
Industrial Economy 18th to 20th century	Manufacturing	Labour Machinery Raw material
Knowledge Economy 20th century and onwards	Mediation of knowledge and services	Relational capital Structural capital Human capital

Source: Society for Knowledge Economics, p.19

In Australia, the contribution of service and knowledge-based industries to national GDP is slightly lower than global averages, given the continued reliance on natural resources and manufacturing. The 2005 Yearbook *100 Years of Change in Australian Industry* by the Australian Bureau of Statistics shows that services contributed almost half (48.4 percent) to GDP in 2000-01, up from 31 percent in 1900-01. Agriculture, the

[1] These are the terms that have frequently been used in the literature to describe the categories of 'intangible resources'. These three categories are the focus of this report, and are further discussed and defined in the subsequent section. Other terms used in the literature to refer to intangible resources include, among others: intellectual capital; knowledge resources; and intangible assets. The review in Part Two of the report shows there has been some convergence internationally around the three categories of relational, structural and human capital.

largest individual industry in 1900-01, contributing 19.4 percent to GDP, was only 3.7 percent in 2000-01. Manufacturing, the next largest industry, contributed 11.9 percent, slightly less than its 12.2 percent contribution in 1900-01, but half of its contribution of 22.4 percent in 1950-51.

The growth in service-based industries is also reflected in the changes in employment data with over 73 percent of the Australian workforce employed in services in 2000 (ABS, 2005). At the turn of the century, the four main employment sectors in the Australian economy were: Retail Trade; Property and Business Services; Health and Community Services; and Education.

1.2 The 'New' Factors of Economic Production

The rise of this 'knowledge economy' has led to changes in organisational value drivers, with many organisations and national economies today deriving economic returns from their intangible resources, be they *relational, structural or human*. According to a survey by Accenture (2003), managing relationships, business infrastructure, systems and processes, and employee skills and competencies are commonly

Table 2 - Intangible Resources are the Key Drivers of Wealth Creation in the 21st Century

Facts at a Glance
A 2003 survey conducted by Accenture with senior executives from 27 countries and 19 industries found that intangible knowledge intensive resources increasingly dominate wealth creation: • 49 percent of executives believe intangible resources are the most important sources of shareholder wealth creation. • 26 percent find tangible and intangible resources to be of roughly equal importance. • Only 25 percent of executives find that they rely primarily on tangible assets for shareholder wealth creation.

Source: Inspired by Accenture, 2003

perceived to be the main drivers of organisational wealth creation in the 21st century (Table 2).
This growth in service-based industries has had implications for the nature and structure of contemporary business models and organisational capabilities (Table 3). We see the traditional value chain, in which tangible resources dominated, being replaced by value shops and value networks, in which problem solving (for example, consulting firms) and mediation of exchanges (for example, eBay) comprise the new factors of production. Connectivity, the mediation of knowledge, problem-solving skills and relationship management are increasingly the main dimensions of economic activity.

Table 3 - Changing Business Models and Organisational Capabilities

Business Model	Organisational Capability and Output
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.
Value Shop Human capital forms basis of competitive advantage.	**Problem Solving** Objective is to produce solutions to problems which entail capturing knowledge about problems and applying problem-solving skills and creativity.
Value Network Relational and structural capital form basis of competitive advantage.	**Mediation** Objective is to create value through the establishment of connections and the mediation of exchanges. Focus is on managing and developing relationships with actors[2] in value network and finding new actors.

Source: Inspired by Ballow et al. (2004), p. 13

Human Capital is at the core of such new modes of economic production, as highlighted by a recent study by the Business Council of Australia (2006). The study, which investigated the drivers of performance and innovation at 19 major Australian organisations, found that "a skilled workforce, effective workplace relations systems, management capabilities, and strong corporate leadership" are critical to organisational performance in the knowledge era (BCA, 2006, p. 12). Human capital is indeed the key commodity for many firms, including, for example, management consulting agencies (McKinsey Consulting); accountancy and auditing firms (Ernst and Young, KPMG) and advertising agencies, who derive their competitive edge from the problem-solving, interpersonal, analytical and communication skills of their human capital.

Relational Capital is another increasingly important factor of economic production in the 21st century, as exemplified in the proliferation of strategic alliances, partnerships and mergers and acquisitions (for example, the One World Alliances or AOL Time Warner), the mediation of exchanges and relationships (for example, Ebay), the growing need for managing organisational hybrids and networks, including supply and distribution chains and channels (for example, Dell Computers and Toyota), and the centrality of community and stakeholder relations, as reflected in the notion of corporate citizenship.

[2] The term actor relates to a person or organisation in the value network

Structural Capital, and in particular new technologies, is another key driver of economic output in the knowledge economy. Service-based organisations rely on virtual infrastructures with instant knowledge exchanges and electronic data interexchange. New technologies, such as the Internet and mobile devices, enable knowledge to be exchanged, shared and traded across national and organisational boundaries, in ways thought impossible two decades ago (Table 4). It is the strategic significance of such technologies and their role in building and delivering organisational responsiveness, agility and efficiency, which create new opportunities for economic growth and productivity. A recent series of studies commissioned by DCITA (2005) confirm the growing significance of Information and Communication Technology (ICT) in the Australian economy, highlighting its centrality to the nation's productivity performance and economic activity, as also reflected in the increase in spending on IT infrastructure (Table 4).

Table 4 - The Proliferation of New Technologies

Facts at a Glance
In 1994, Australia had one million mobile phones and almost no homes connected to the internet. Today, there are 20 million mobile devices in the market and the majority of Australian homes are connected to the internet.
Investment in IT has grown strongly for the last decades up from around 3 percent of total market sector investment in 1989-90 to around 19 percent in 2000-01 (Gretton and Gali, 2004, p. 2).

1.3 The Tripartite Model

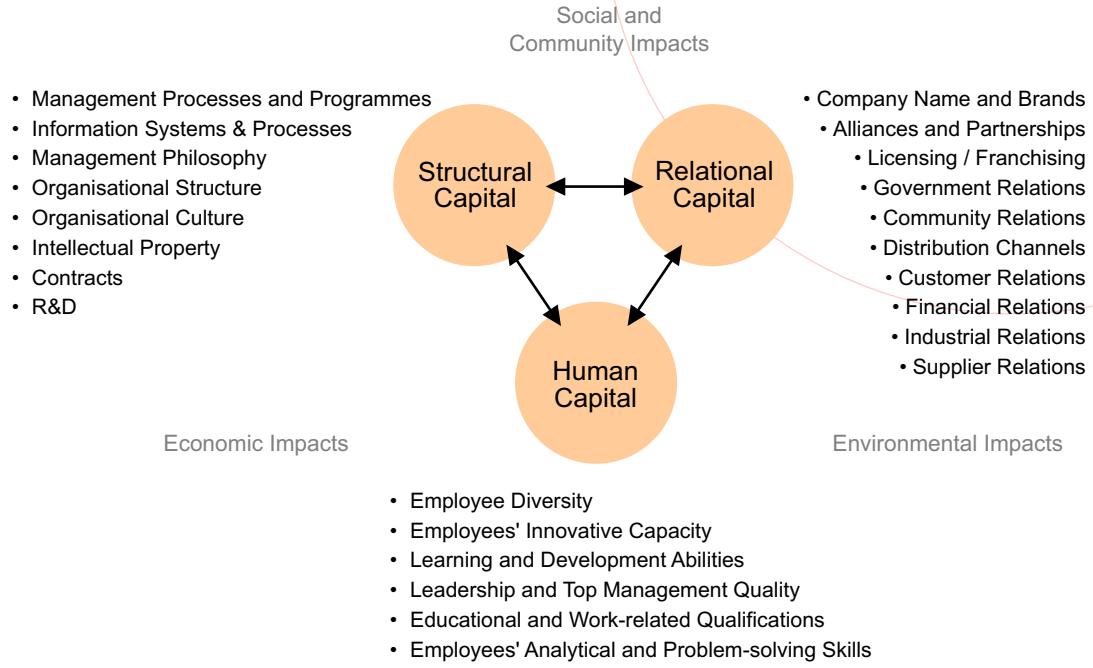
Leveraging from the analysis in the above sections, and based on contemporary trends and developments in management theory and practice, we propose a Tripartite Model of intangible resources (Figure 1), comprising *relational, structural and human capital*, to conceptualise and summarise the 'new' factors of economic production in the knowledge economy. We define the three categories as follows:

- ***Human Capital*** refers to the skills, attitudes, abilities, competencies and qualities of an organisation's employees. It comprises, for example, the knowledge and expertise employees apply to produce products and services, and to the operations of the organisation itself.
- ***Structural Capital*** refers to the structures and processes employees develop and deploy in order to be productive, effective and innovative; it includes the virtual, social, cultural and physical infrastructures that influence and guide the work practices, mindsets and collective philosophies of employees.
- ***Relational Capital*** refers to the better management of stakeholder relations, be they customers, suppliers, governments, distributors, local communities or others, and is particularly concerned with the creation of reciprocal information flows and learning opportunities between the organisation and its key stakeholders.

The Tripartite Model also acknowledges the interconnectedness of organisational management and the environment within which organisations operate, taking into consideration the intangible costs and benefits that flow to the broader community, economy and environment, as a result of organisational performance. Specifically, these pertain to:

- **Social and community contributions and impacts**, including, for example, impacts on social values and conduct, contributions to community activity and welfare, bribery and corruption, etc.
- **Economic contributions and impacts**, including, for example, contribution to GDP through tax payment and total payroll by region or country, etc.
- **Environmental contributions and impacts**, including, for example, levels of omission gases, levels of waste, water and energy consumption, etc.

Figure 1 - Tripartite Model of Organisational Intangible Resources[3]



Source: Society for Knowledge Economics, 2005, p. 25

[3] The model is informed by the Society for Knowledge Economics' (2005) *Guiding Principles on Extended Performance Management - A Guide to Better Managing*, Measuring and Reporting Knowledge Intensive Resources. It is also inspired by the research of Boedker, Guthrie and Cuganesan (2005), whose published paper was the winner of the Emerald Literati Network Award for Excellence 2005.

1.4 Changing Information Requirements

A recent survey of company directors by McKinsey Consulting (2005) investigated the implications of the growing reliance on intangible resources as key factors of economic production and found that company directors' information requirements are changing accordingly (Table 5). The survey, which covered 1016 company directors, showed that company directors are looking for more information about non-financial factors such as customer relations, employee satisfaction, network health and structural and operating health. The survey highlights the current lack of useful performance information concerning these factors and how this lack of knowledge may compromise the ability of company directors to fully understand the objectives and risks of their companies (Table 5).

Table 5 - Changing Information Requirements of Company Directors

Facts at a Glance
In order of importance, the 1016 company directors surveyed in the McKinsey survey wanted to know more about: 1. **Market Health** Customer profitability/satisfaction, competitors' market share and products, suppliers, brands. 2. **Organisational Health** Employee retention/satisfaction, capabilities and skills, organisational structure, culture, values. 3. **Network Health** Regulatory changes, government policies, public opinion, community views. 4. **Financial Performance** Cash, costs, EBITDA, margins, return on capital. 5. **Operational Health** Buildings, inventories, patents, product pipeline, production rates.

Source: McKinsey, 2005

Similarly, a survey by Deloitte (2004), found that 92 percent of survey participants voiced concerns that financial indicators alone cannot adequately capture their companies' strengths and weaknesses. Although financial measurements received a high rating from survey respondents in helping the board and the CEO make short-term decisions and in formulating strategy, such data are considerably less helpful in making mid- and long-term decisions and in achieving what respondents consider an appropriate valuation in the capital markets (Deloitte, 2004).

The findings of the McKinsey and Deloitte surveys raise interesting points and pose a question as to the extent to which existing performance evaluation and investment appraisal methods provide sufficient information for sound business decision making and resource allocation. On what grounds and with what

information do business managers and others make investment decisions in today's knowledge economy? How do they evaluate the intangible costs and benefits that accrue from their human, structural and relational capital, given the riskiness and variability, often associated with such 'invisible' resources?[4]

Traditionally, a company's financial statements have been the cornerstone of investment decision making and performance appraisal. However, recent decades have seen a growing scepticism directed at traditional financial accounts, with directors, organisational stakeholders and policy makers alike starting to question the adequacy of traditional methods of performance appraisal in a changed economy. Critics are particularly concerned about the lack of recognition of the 'new' intangible factors of production on the balance sheet, with many intangibles being expensed, not capitalised, thus acting as a potential disincentive for managers to invest into *relational, structural* and *human capital*. The International Financial Reporting Standard (IFRS) has done little to improve the situation, with the top 100 Australian organisations writing off $7.5bn in intangible assets in 2005 (Buffini, 2005). The result, some argue, is a continued focus on tangible resources and prioritisation of short-term financial performance, setting aside the intangible and often more sustainable aspects of organisational wealth creation.

The remainder of this report reviews international initiatives seeking to address the inherent limitations of the traditional financial reporting paradigm. We use the label *Extended Performance Management, Measurement and Reporting* (Society for Knowledge Economics, 2005) to review trends and developments in the production and proliferation of extended performance accounts in Australia and internationally. Common to these 'new' accounts of performance is a concern that performance appraisal and investment decision making need to look beyond the measurement and reporting of tangible resources and financial inputs and outputs, to also consider intangible resources and societal impacts.

We advocate the need to 'extend' existing perspectives on, and approaches to, performance appraisal and decision making, *complementing* traditional financial performance accounts with 'extended performance accounts' to provide a broader, more complete perspective on organisational performance and allow for better resource allocation and investment decision making. Importantly, we do not seek to reject or overhaul existing financial accounting methods, but merely to augment the information base upon which important investment decisions and performance appraisals are made.

[4] The Society for Knowledge Economics (2005, p. 24) highlights the need to acknowledge that intangible resources have different characteristics and behave in different ways to the traditional factors of economic production, such as tangible resources. In brief, intangibles are:

- "not easily controllable or separable from the owner or object, and thus more risky to invest in than tangible assets;
- not easily identifiable or readily visible, and therefore sometimes taken-for-granted and overlooked;
- often subjective, qualitative and value-laden and thus more complex to quantify and value in $-terms;
- often a source of organisational competitive advantage and core competency; and
- often unique and company specific, and therefore difficult to compare across organisations" (ibid).

2. Contemporary Developments in Extended Performance Management, Measurement and Reporting

In this section, we review international trends and developments in organisational performance appraisal and evaluation. We start off by tracing historical developments in *Extended Performance Management, Measurement and Reporting*, illustrating the shift in notions of value and how organisational performance accounts increasingly 'extend' to look beyond the bottom line to also incorporate aspects of the environment, social impacts and intellectual capital. This is followed by a review of what we believe to be some of the most prominent initiatives at a global, national and organisational level. The section demonstrates the growing acceptance and proliferation of *Extended Performance Management, Measurement and Reporting* across the western world, yet also highlighting the continued fragmentation of existing practices.

A definition of *Extended Performance Management, Measurement and Reporting* is offered in Table 6.

Table 6 - Extended Performance Management, Measurement and Reporting Defined [5]

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

2.1 Historical Developments

The origins of *Extended Performance Management, Measurement and Reporting* go back to human resource accounting in the 1960s, in which concerns were directed at capturing the value of human resources not recognised by traditional financial accounts (Figure 2). The subsequent 40 years witnessed a growing interest in social, economic and environmental impact reporting with new techniques such as the triple bottom line and social and environmental accounting (Figure 2). This was followed by a surge in concerns for stakeholder engagement and sustainability in the 1990s, along with the emergence of the 'global village' and the free flow of goods, services and resources across international borders. The latter part of the 1990s witnessed the rise of the intellectual capital movement (Figure 2), driven by the continued growth of the knowledge economy characterised by 'virtuality', 'interconnectivity', 'boundarylessness', 'customer centricity' and 'empowerment'.

[5] This definition is inspired by the Society for Knowledge Economics (2005, p. 14). The At a Glance table on the Society for Knowledge Economics in section 2.4 provides more details about *Extended Performance Management, Measurement and Reporting.*

Figure 2 - Historical Developments Extended Performance Management, Measurement and Reporting

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Period	1800-	1960s-	1970s-	1980s-	Late - 1990s
Focus	Accrual Accounting	Human Resource Accounting	Triple Bottom Line, Social & Environmental Accounting	Corporate Citizenship and Sustainability	Human, Structural and Relational Capital
Governors	Accountants and Shareholders	HR Managers, Accountants, Shareholders	Communities and Nations	Stakeholders and 'Global Villagers'	Knowledge Workers and 'Intellectual Capitalist'

The key point to note is that over the past 50 years, the notion of value has started to take on 'extended' forms, with organisational stakeholders and global villagers focusing not merely on dollar value recorded in financial statements for the benefits of shareholders, but also more broadly on the 'public good' created for a broader range of stakeholders, be they individuals, communities or nations.

2.2 Overview of Current Initiatives

Grounded in the above introduction to *Extended Performance Management, Measurement and Reporting,* we review a selection of frequently featured initiatives at a global, national and organisational level (see Appendix A for more details on existing initiatives internationally). Table 7 summarises the selected initiatives in table form. Whilst some reporting initiatives are Voluntary (V), others are Mandatory (M).

Table 7 - Contemporary Initiatives in Extended Performance Management, Measurement and Reporting [6]

	Initiative	Requirement	Category
Global Level	IASB Management Commentary	In Discussion	Extended Performance Management, Measurement and Reporting
	OECD Multinational Enterprise	V	Corporate Citizenship & Sustainability
	United Nations Global Compact	V	Corporate Citizenship & Sustainability
	United Nations Global Reporting Initiative	V	Corporate Citizenship & Sustainability
National Level	Australian Parliamentary Inquiry into Corporate Responsibility and Triple Bottom Line Reporting	V	Triple Bottom Line and Corporate Citizenship & Sustainability
	Australian Guiding Principles on Extended Performance Management (SKE)	In draft format	Extended Performance Management, Measurement and Reporting
	Austrian Universities Organisations and Studies Act	M	Intellectual Capital
	Danish Guideline on Intellectual Capital Reporting (MSIT)	V	Intellectual Capital
	German Guideline on Intellectual Capital Statements (FMEL)	V	Intellectual Capital
	Japanese Intellectual Based Management (METI)	V	Intellectual Capital
	MERITUM Guideline (EU Commission)	V	Intellectual Capital
	UK Operating and Financial Review (ASB)	V	Extended Performance Management, Measurement and Reporting
	US Enhanced Business Reporting Consortium	V	Extended Performance Management, Measurement and Reporting
Organisational Level	Balanced Scorecard (Kaplan and Norton)	V	Intellectual Capital
	Intangible Asset Monitor (Sveiby)	V	Intellectual Capital
	ValueReporting™ (PwC)	V	Extended Performance Management, Measurement and Reporting

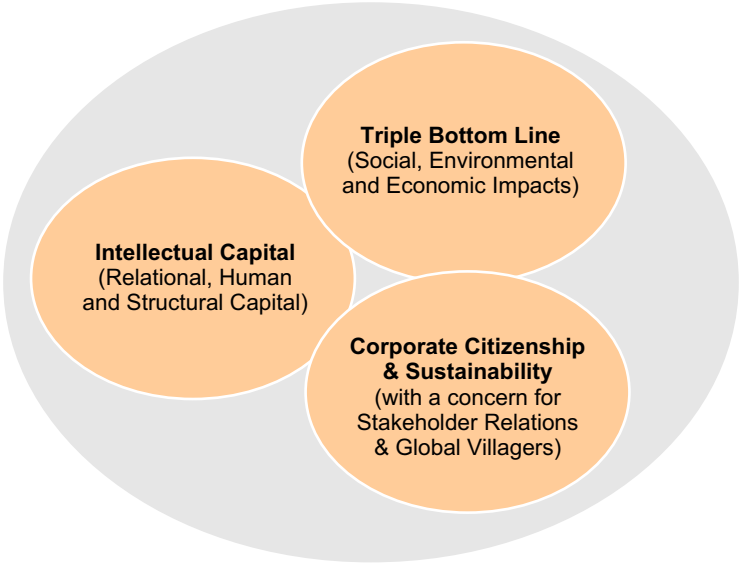
[6] Work continues in this area, as exemplified by Burrow et al's (2004) evaluation method.

The last column in Table 7 classifies the initiatives into four different categories, as follows:

- **Triple Bottom Line (Social, Environmental and Economic Impact)** reports consider the external impacts of organisational activity, including, for example, the contribution of the organisation to the national economy, the community and the environment.
- **Corporate Citizenship and Sustainability** is concerned with stakeholder interests, human rights issues, labour relations and environmental impacts. Focus is largely on multinational enterprises and on minimising the adverse effects of globalisation and ensuring the sustainability of the 'global village'.
- **Intellectual Capital** reports record information about the composition and performance of organisational intangible resources such as relational, human and structural capital. They are primarily concerned with how such knowledge resources are managed, developed and utilised in the pursuit of a company's strategic objectives.
- **Extended Performance Management, Measurement and Reporting,** as defined above, embraces elements of both intellectual capital (including relational, structural and human capital), the triple bottom line (including social, environmental and economic impact reporting), and stakeholder interests and sustainability. It is thus used as an overarching term used to embrace each of the above mentioned categories and concerns (Figure 3 is illustrative).

Sections 2.3, 2.4 and 2.5 provide more details about the initiatives summarised in Table 7.

Figure 3 - Extended Performance Management, Measurement and Reporting



2.3 Global Level

In this sub-section, we take a closer look at contemporary developments in *Extended Performance Management, Measurement and Reporting* at a *global* level. We focus on four initiatives, including the:

IASB Management Commentary;
OECD Multinational Enterprise;
United Nations Global Compact; and
United Nations Global Reporting Initiative.

On the following pages, we provide an 'At a Glance' summary for each of the four initiatives. For each initiative, we investigate the:

1. Origin of the initiative;
2. Management, measurement and reporting categories;
3. Actual or intended level of adoption and use; and
4. The challenges and opportunities associated with the initiative.

At a Glance

Management Commentary Discussion Paper by the International Accounting Standards Board

Origin

In 2002, the International Accounting Standards Board (IASB) and its partner, national standard-setters, recommended that work should begin on a project to examine the potential for the IASB to develop standards or guidance for management commentary (MC) as an integral part of financial reports.

In the 2005 discussion paper (IASB, 2005), the IASB explains that "the IASB Framework for the Preparation and Presentation of Financial Statements acknowledges that financial statements are not, of themselves, sufficient to meet the objectives of financial reporting" (IASB, 2005, paragraph 6) and that "other information" is required. The IASB continues: "financial statements alone are not sufficient to enable users to make economic decisions, because they do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information. We are not suggesting that MC will fill all of the gap, but we believe that MC can add significantly to the information the entity provides to investors in financial reports" (IASB, 2005, paragraph 100).

Management, Measurement and Reporting Categories

Management Commentary is defined by the IASB (2005, paragraph 19) as "information that accompanies financial statements as part of an entity's financial reporting. It explains the main trends and factors underlying the development, performance and position of the entity's business during the period covered by the financial statements. It also explains the main trends and factors that are likely to affect the entity's future development, performance and position".

The IASB discussion paper on Management Commentary also suggests that an entity's MC should include information about (2005, paragraph 100):

"a. The nature of its business;
b. Its objectives and strategies;
c. Its key resources, risks and relationships;
d. Its results and prospects; and
e. Its performance measures and indicators."

The discussion paper provides illustrations of such information in a series of mini-cases (see www.IASB.org for a copy of the paper and the mini-cases).

At a Glance

Management Commentary Discussion Paper by the International Accounting Standards Board

Level of Adoption and Use

The IASB suggests the development of a global standard for the inclusion of MC in financial reports. The requirement, intended for inclusion in the IAS 1 Presentation of Financial Statements, would apply to all organisations who report in accordance with the IAS 1.

The IASB MC project team recommends that a standard is preferred to non-mandatory guidance. Paragraph 196 of the IASB (2005) discussion paper explains that "the IASB calls for a single set of high quality, understandable global standards. This is reinforced by the third objective of the IASB, which is to work actively with national standard-setters to bring about convergence of national accounting standards and IFRSs to high quality solutions."

The IASB discussion paper was issued on 7 November 2005 and included an invitation for feedback and commentary, closing on 26 April 2006. The IASB received 112 commentaries on the suggestion to develop a global standard for the inclusion of MC in financial reports. By the publication of this report, the IASB had not yet released the outcome of the investigation.

Assessment

Although the proposal is currently in discussion and there has been no release of policy recommendations at this time, the IASB MC project team identifies several costs and benefits of the proposed MC.

Benefits pertain to:

1. An improvement in the quality of financial reporting in jurisdictions, which currently do not have the MC.
2. Assistance in the global convergence of MC reporting requirements by improving the consistency and cross-entity comparability of financial reports.
3. An increase in the legitimacy of MC as an appropriate place to disclose information.
4. Better meeting the needs of users with a direct financial interest in an entity.

Costs pertain to:

1. An increase in the size of financial reports.
2. Disclosing of a plethora of MC data rather than meaningful MC information.
3. An increase in preparation costs and proprietary costs, possibly resulting in delisting, and sourcing capital from private sources, or moving to alternative markets.

At a Glance

OECD Multinational Enterprise

Origin

The OECD Guidelines for Multinational Enterprise constitute a set of voluntary recommendations to multinational enterprises in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Adhering governments commit to promote the Guidelines to multinational enterprises operating in or from their territories (OECD, 2006). AccountAbility[7] (2003, p.18) outlines the objectives of the Guidelines as follows:

- "To help multinational enterprises operate in harmony with government policies and societal expectations; and
- To promote the positive contributions multinational enterprises can make to economic, environmental and social progress."

Management, Measurement and Reporting Categories

The Guidelines (2000)[8] state that enterprises should take fully into account established policies in the countries in which they operate, and consider the views of stakeholders affected by their operation. Guiding principles are provided along nine categories, as follows:

- Corporate conduct;
- Corporate disclosure;
- Employment and Industrial Relations; and
- The environment:
- Combating bribery;
- Consumer interests;
- Science and technology;
- Competition; and
- Taxation.

The Guidelines also provide information about procedures for implementation and national contact points.

Level of Adoption and Use

Business compliance with the OECD Guidelines is voluntary. The Guidelines are adopted by national governments, who sign an agreement to implement the guidelines and promote them within their countries. Adhering countries comprise all 30 OECD member countries, and nine non-member countries (Argentina,

[7] AccountAbility is an independent institute of social and ethical accountability for more information see www.AccountAbility.org.uk.
[8] To the author's knowledge this is the latest version of the guidelines.

At a Glance

OECD Multinational Enterprise

Brazil, Chile, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia). AccountAbility (2003, p. 16) explains that "the Guidelines are non-binding for companies, but there are increasing moves to link them to trade subsidies and other incentives".

Following the revision of the Guidelines in 2000, they have become an increasingly prominent benchmark for corporate responsibility. Increasingly, leading companies, including Philips, Intel, Imperial Tobacco and Roche, publicly acknowledge the Guidelines and use them as a basis for their own business principles. Other examples of endorsement include Dutch companies, which have to state that they comply in order to receive export credit guarantees; French enterprises, which have to sign a letter saying that they are aware of the Guidelines; trade unions in the Czech Republic, Finland and Sweden, who are pushing their governments to link export credits to the guidelines; and other NGOs and trades unions, who want the Guidelines to be referenced in bilateral investment treaties between adhering and non-adhering countries and in European Union treaties. The Guidelines have also been used in connection with shareholder resolutions in Canada and the US.

The Guidelines' implementation mechanisms include the operations of National Contact Points (NCP), which are government offices charged with promoting the Guidelines and handling enquiries in the national context.

Assessment

AccountAbility (2003, p. 16) highlights that "the OECD Guidelines for Multinational Enterprises are the closest thing we have to a comprehensive global corporate code of conduct". It is a key reference point of international norms for business. The Guidelines have emerged as one of the most comprehensive benchmarks for codes on corporate responsibility. Despite criticism from business that they are too general to be useful, and from NGOs that they recommend "minimal social and behavioural practices", the Guidelines are the only comprehensive and multilaterally agreed corporate responsibility standard, supported by governments and trades unions alike.

One critique of the Guidelines is that, although they provide a normative framework, there is no practical guidance. Thus, there have been calls to link them with more operational standards such as the Global Reporting Initiative (GRI) and Sustainability Reporting Guidelines. This has resulted in the GRI publishing a user's guide to the OECD Guidelines, which highlights the ways in which it can be linked to GRI reporting.

At a Glance

United Nations Global Compact

Origin

The United Nations Global Compact was announced at the World Economic Forum (WEF) in Davos in 1999 and launched in 2000 at the UN headquarters in New York as a response to concerns about the adverse effects of globalisation. It was derived from the Universal Declaration of Human Rights, Fundamental Principles of Rights at Work, and Rio Principles on Environment and Development.

The purpose of the Global Compact is to create a more sustainable and inclusive global economy by fostering a more beneficial relationship between business and societies, paying particular attention to the world's poorest people. “Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation” (Global Compact, 2006). This is envisioned to be achieved by:

- Making the Global Compact and its principles part of business strategy and operations around the world;
- Facilitating cooperation among key stakeholders and promoting partnerships in support of UN goals; and
- Seeking to add new dimensions to good corporate citizenship by creating a platform based on universally accepted principles to encourage innovative new initiatives and partnerships with civil society and other organisations.

Management, Measurement and Reporting Categories

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption (Global Compact, 2006). It proposes organisations adopt and adhere to the following ten guiding principles:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

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United Nations Global Compact

- Principle 4: eliminate all forms of forced and compulsory labour;
- Principle 5: effectively abolish child labour; and
- Principle 6: eliminate discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Level of Adoption and Use

The Global Compact is purely a voluntary initiative. Membership is based on a high level commitment to its ten principles. The primary target audience is individual businesses.

According to AccountAbility (2005), nearly 1,200 companies (such as ABB, Eskom and Rio Tinto) signed up to adopt the principles in July 2003 (50 percent from developing countries and 30 percent SMEs). AccountAbility (2005) also highlights that the UN plans to report for the first time on its own progress in voluntarily adhering to the principles across two key functions, human resources and procurement.

To participate, a company sends a letter from the CEO to the Secretary-General expressing support. Thereafter, the company is expected to set in motion changes in operations so that the principles become part of strategy, culture and day-to-day operations, and publicly advocate the Compact via communications vehicles.

Assessment

The Global Compact is seen as one of the most significant institutions working to align business and sustainable development. A key strength lies in its ability to convene business and other stakeholders around major policy issues, including how best to evolve the international dimensions of business responsibility in the future. More than 1,200 companies have signed up to the Global Compact, including 200 large multinationals.

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United Nations Global Compact

According to the Global Compact, benefits of the initiative to stakeholders and organisations include:

1. Demonstrating leadership by advancing responsible corporate citizenship.
2. Producing practical solutions to contemporary problems relating to globalisation, sustainable development and corporate responsibility in a multi-stakeholder context.
3. Managing risks by taking a proactive stance on critical issues.
4. Leveraging the UN's global reach and convening power with governments, business, civil society and other stakeholders.
5. Sharing good practices and learnings.
6. Accessing the UN's broad knowledge in development issues.
7. Improving corporate/brand management, employee morale and productivity, and operational efficiencies.

AccountAbility (2005) also highlights that a major strength of the Compact has been its ability to work innovatively outside the UN bureaucracy. The Compact is run from within the Secretary-General's team and has worked as a network without bureaucratic constrictions incorporating six UN agencies: Office of the High Commissioner for Human Rights; United Nations Environment Programme; International Labour Organisation; United Nations Development Programme; United Nations Industrial Development Organisation; and United Nations Office on Drugs and Crime.

At a Glance

United Nations Global Reporting Initiative

Origin

The United Nation's Global Reporting Initiative (GRI) was first launched in 1997 by the Coalition for Environmentally Responsible Economies (CERES), a non-profit coalition of over 50 investor, environmental, religious, labour and social justice groups. The coalition is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with the Global Compact.

The GRI is a "multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines" (GRI, 2005). The objective of the GRI is to "develop, promote, and disseminate globally applicable Sustainability Reporting Guidelines" (GRI, 2005), with the ultimate aim of assisting organisations and stakeholders in articulating and understanding contributions of the reporting organisations to sustainable development. The GRI's vision is that reporting on economic, environmental, and social performance by all organizations becomes a routine and comparable to financial reporting.

The first set of GRI Sustainability Reporting Guidelines appeared as an Exposure Draft in 1999. Following testing and public comment, the GRI released the June 2000 Sustainability Reporting Guidelines. The second version of the Guidelines was released in September 2002. The 3rd version (G3) was released in October 2006 following an inquiry and consultation with representatives from over 31 countries, constituting approximately 275 individuals or organisations.

Management, Measurement and Reporting Categories

The GRI guideline recommends that a sustainability report contains three different types of disclosures:

1. Profile: Disclosures that set the overall context for understanding organizational performance such as its *strategy, profile, report parameters,* and *governance.*
2. Management Approach: Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area. These include *economic, environmental, social, labour practices, human rights,* and *product responsibility.*
3. Performance Indicators: Indicators that elicit comparable information on the economic, environmental, and social performance of the organization. *Economic indicators* include proxies for the organisation's impact on resources at the shareholder and local, national and global level, and encompasses issues dealing with remuneration paid to employees and money received from

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United Nations Global Reporting Initiative

customers to name but a few. *Environmental indicators* deal with the measurement of an organisation's impact on the environment via its products and services and its activities. *Social indicators* deal with labour practices, human rights and broader social issues affecting a broad range of stakeholders.

To help organisations determine what to report on, the GRI guideline also covers the Reporting Principles of materiality, stakeholder inclusiveness, sustainability context, and completeness, along with a brief set of tests for each Principle

Level of Adoption and Use

The GRI database lists 695 organisations, who have registered with it and are committed to reporting in accordance with the GRI guideline (GRI, 2005). The database compiles a list of companies that have informed the GRI that they have released a sustainability report, which refers to the GRI guidelines. Once companies release such reports, they are asked to inform the Secretariat and send a copy to the Secretariat.

A total of 62 reporters (8.9%) published reports 'in accordance' with the guidelines (GRI, 2005). The 'in accordance' requirements are:

1. Report on the organisational profile, governance and management systems.
2. Include a GRI Content Index, linking GRI components to information actually contained in the report.
3. Respond to each core indicator by either reporting on it; or explaining its omission.
4. Ensure that the report is consistent with GRIs reporting principles.
5. Include a statement signed by the board or CEO indicating that the report was prepared in accordance with the 2002 GRI Guidelines.

The adoption of the GRI guidelines varies across geographical continents: Africa: 4.61%; Asia: 22.33%; Europe: 48.41%; Latin America: 3.89%; Northern America: 13.83%; Oceania: 6.92% (GRI, 2005).

Assessment

General themes, upon which feedback was provided by the GRI organisations, include the following:

- Respondents generally welcomed the direction that the G3 was heading, and noted it was an improvement on the 2002 Guidelines, particularly around enhanced user-friendliness and comparability;

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United Nations Global Reporting Initiative

- The reporting principles were highly popular amongst respondents.
- The 'relevance and materiality' principle attracted detailed attention. Many respondents called for increased clarity and a shift to using one word rather than both;
- Many respondents welcomed the addition of the Disclosure on Management Approach. Amidst this positive feedback, remain questions of how to balance the need for comparable and narrative information; and
- Indicators, which underwent changes from G2 to G3 to become more performance-focused.

Enhanced features of the G3 Guidelines include:

- Strong emphasis on Reporting Principles as the foundation for all reporting processes (see Appendix B)
- New section on Strategy and Analysis
- The Disclosure on Management Approach (DMA): A consolidated area for narrative discussion on management approaches.
- Consolidated, focused indicators. The overall number of indicators has gone from 97 (2002 Guidelines) to 79.
- Indicator Protocols: Guidance on how to respond to indicators, definitions of key terms, and more.
- Introduction of Application Levels, which replace the 2002-based In Accordance system.

The GRIs adopts the reporting categories of social, environmental and economic performance, but remains relatively silent on information about human and structural capital, including for example workplace culture, structure, employee motivation and attitudes, internal systems and process etc.

2.4 National Level

In this sub-section, we take a closer look at contemporary trends and developments in *Extended Performance Management, Measurement and Reporting at a national level.*

We focus on:

Australian Parliamentary Inquiry into Corporate Responsibility and Triple Bottom Line reporting;
Australian Guiding Principles on Extended Performance Management (SKE);
Austrian Universities Organisations and Studies Act (Austrian Government);
Danish Guideline on Intellectual Capital Reporting (MSIT);
German Guideline on Intellectual Capital Statements (FMEL);
Japanese Intellectual Based Management (METI);
MERITUM Guideline (EU Commission);
UK Operating and Financial Review (ASB); and
US Enhanced Business Reporting Consortium.

On the following pages, we provide an 'At a Glance' summary for each of the above initiatives. For each initiative we investigate: the origin of the initiative; management, measurement and reporting categories; actual or intended level of adoption and use; and the challenges and opportunities associated with the initiative.

At a Glance

Australian Parliamentary Inquiry into Corporate Responsibility and Triple Bottom Line reporting

Origin

Within the Australasian context, recent developments include two contemporary Commonwealth inquiries, with the investigating bodies being the Parliamentary Joint Committee on Corporations and Financial Services (PJC) and the Corporations and Markets Advisory Committee (CAMAC).

1. PJC Inquiry: The PJC was created on 23 June 2005 by the Australian Parliament. The committee was charged to investigate, among other matters, whether the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community, and the appropriateness of reporting requirements associated with these issues.

One initiative by the PJC is a national inquiry into Corporate Responsibility and Triple Bottom Line reporting. The inquiry, which closed on 30 September 2005, received 146 submissions from interested stakeholders. On 21 June 2006, the PJC issued its recommendations. The following quote from the report illustrates the major recommendation of the committee members(PJC, 2006, p. xvi):

The committee takes the view that although it is not appropriate to mandate the consideration of stakeholder interests into directors' duties, or to mandate sustainability reporting, there is a need to seriously consider options to encourage greater uptake and disclosure of corporate responsibility activities.

In brief, the report recommended:

- Strong emphasis on Reporting Principles as the foundation for all reporting processes (see Appendix B)
- No changes to the provisions concerning Directors' duties;
- Social / sustainability reporting to remain voluntary;
- Various initiatives by government to encourage socially responsible corporate practices including the seeding of national networks, education and research.

2. The CAMAC Inquiry: The CAMAC investigation into “The Social Responsibility of Corporations” is an inquiry into whether the Corporations Act 2001 should be revised to require directors to take into account the interests of specific classes of stakeholders or the broader community when making corporate decisions and

At a Glance

Australian Parliamentary Inquiry into Corporate Responsibility and Triple Bottom Line reporting

to report on the social and environmental impact of their activities. The following extract for the letter from the Parliamentary Secretary to the Treasurer, the Hon Chris Pearce MP, illustrates the motivation for the inquiry:

> *In modern society, a great deal of business and other activities are conducted by corporate entities. Given the broad economic, social and environmental impact of these activities, there is an understandable interest in the legal framework in which corporations make decisions. A question that has been raised from time to time is whether the current legal framework allows corporate decision makers to take appropriate account of the interests of persons other than shareholders…*
>
> *A related issue is whether to introduce mandatory requirements for larger companies to include with their annual reports, a report on the social and environmental impact of the company's activities. This could either be in the form of a narrative or quantified report. Mandatory reporting of such information could allow interested investors to take account of these matters in making investment decisions.'"*

The Advisory Committee issued a discussion paper, The Social Responsibility of Corporations", in November 2005, providing an overview of directions and current issues in the area of Social Responsibility and calling for submissions from interested parties in Australia. The Committee received 61 submissions, leading to the release of the final CAMAC report in December 2006; with recommendations as follows:

- Director Duties: The Committee does not support revisions of the Corporations Act 2001 to Directors' duties.
- Corporate Disclosures: The Committee does not recommend any changes be made to corporate disclosure requirements, except that the reporting requirements in s299A of the Corporations Act 2001 should be extended beyond public listed companies to all listed entities.
- Encouraging Responsible Business Practices: The Committee recommends a number of 'light touches' by which government can encourage responsible practices such as: policy coherence and integration; leadership by example; promotion, including dissemination of information and research; encouraging participation, including international consultation.

Management, Measurement and Reporting Categories

The PJC's inquiry made particular reference to:

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Australian Parliamentary Inquiry into Corporate Responsibility and Triple Bottom Line reporting

a. The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.
b. The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.
c. The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.
d. Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.
e. Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.
f. The appropriateness of reporting requirements associated with these issues.
g. Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

Level of Adoption and Use

The recommendations provided by the PJC and CAMAC remain voluntary and no changes are made to Directors' Duties or Corporate Disclosure Requirements in the Corporations Act 2001.

Assessment

The Australian PJC and CAMAC inquiries are following suit with international trends in Corporate Responsibility and Triple Bottom Line reporting, and reflect the interest in Australia to advance the understanding of the relevance and need to complement traditional financial reports with broader insights into organisational activities and impacts. The inquiries, however, fail to consider aspects of intangible resources internal to organisations, including, for example, the composition and performance of an organisation's structural and human capital. They also focus largely on reporting and disclosure requirements, with little concern for broader guiding principles for sustainable management, as exemplified in the OECD MNE Guidelines and the UN Global Compact, previously discussed.

At a Glance

Australian Guiding Principles on Extended Performance Management by the Society for Knowledge Economics

Origin

The *Australian Guiding Principles on Extended Performance Management - A Guide to Better Managing, Measuring and Reporting Knowledge Intensive Organisational Resources* was issued in draft format by the Society for Knowledge Economics (SKE) in November 2005.

The SKE was established in June 2005 following a mandate from the Australian Government Consultative Committee on Knowledge Capital (AGCCKC) and the Australian Government Information Management Office (AGIMO). Founding members include CPA Australia, the Institute of Actuaries of Australia, Microsoft Australia, and Westpac Banking Corporation.

The overarching objective of the SKE is to help improve organisational and national productivity and prosperity through the better creation and management of knowledge and innovation, and through this help to make Australia the most advanced Knowledge Economy in the world. The SKE Guiding Principles are intended to increase awareness and stimulate debate on issues surrounding intangible resources, knowledge and innovation, aiding the development of thought leadership and innovative management practice in the Australian economy.

Management, Measurement and Reporting Categories

The *SKE Guiding Principles* not only focus on measurement and reporting issues, but more so on the ideas and philosophies that enable organisations to improve productivity and prosperity through the better management of knowledge and innovation.

The *SKE Guiding Principles* (2005, p. 14) advocates *Extended Performance Management* as a managerial philosophy and discipline, which encourages organisations to:

- "Adopt a more strategic and inclusive approach to managing intangible, knowledge intensive resources and activities, be they *human, structural or relational*;
- Establish reciprocal communication flows between the organisation and the groups of individuals it seeks to create value for, thus taking into account the value perspectives and needs of key organisational stakeholder groups; and
- Take into account the external impacts of organisational activity, be they social, environmental or ethical, thus creating better conditions for sustained organisational and community performance."

At a Glance

Australian Guiding Principles on Extended Performance Management by the Society for Knowledge Economics

Level of Adoption and Use

The *SKE Guiding Principles* are currently in draft format. The Society is seeking government support to promote its mission of advancing greater public awareness of the linkages between knowledge,innovation, productivity and sustainable economic growth.

The SKE is advancing the testing of its *Guiding Principles* through pilot projects with four Australian private, public and third-sector organisations in a three year ARC linkage grant. This falls under the SKE Industry Research and Partnering Program, which aims to demonstrate the economic contribution and strategic significance of intangible, knowledge intensive resources to national and organisational growth and prosperity. The Industry Research and Partnering projects focus, among others, on:

- Innovation, including Australia's national innovation system;
- Measuring the financial impacts of organisational sustainability practices;
- Capital Market valuations of intangible assets and sustainability practices;
- Measuring intangibles in national accounts and GDP;
- Human capital management; and
- Information, Communication and Technology.

The industry research projects are funded by SKE's industry partners and comprise collaborations with, among others, the Business Council of Australia, CPA Australia, CSC, Institute of Actuaries of Australia, Microsoft Australia, NSW Department of Lands, Department of Finance, Ernst & Young; Pricewaterhouse Cooper; and Westpac Banking Corporation.

Assessment

The SKE is at the early stages of formation, and government support is critical to its existence, influence and impact. The strength of SKE lies in its extensive network of committed corporations and thought leaders in the Australian and international communities. The Society has close ties with European networks of research experts and gains backing from Australian industry associations and public and private sector organisations.

At a Glance

Austrian Universities Organisations and Studies Act

Origin

On 1 January 1 2004, the University Organisation and Studies Act (Universities Act 2002) came into effect for all state universities in Austria. The act strives at restructuring the educational and legal framework of universities, with the effect that public budgets are put on a new, more performance-oriented basis. One implication of the restructure is the introduction of intellectual capital reporting whereby universities have to produce intellectual capital statements as a basis for performance evaluation.

The intellectual capital reports are used for:

1. External reporting purposes to publicly account for the use of tax money, publish the university's performance, and to inform budgetary reimbursement and performance-oriented budget allocation from the Federal Ministry and private institutions.
2. Internal management and control purposes to assist in performance evaluation enabling more efficient use of resources, and improved management decision making and forecasting.

Management, Measurement and Reporting Categories

The structure and design of the intellectual capital report is regulated by an order of the Federal Minister of Education, Science and Culture, issued on 15 February 2006. The intellectual capital report must include the following (see the UG 2002, section 13, subsection 6):

1. The university's activities, social goals, and self-imposed objectives and strategies.
2. Its intellectual capital, broken down into human, structural and relationship capital.
3. The processes set out in the performance agreement with the Federal Ministry, including their outputs and impacts.

Human capital is defined as the knowledge of the academic and non-academic staff that is relevant to perform all university tasks. Structural capital is defined as non-personal equipment. Relationship capital is defined as networks of social relations that support universities' performances and help acquire knowledge from outside university (art. 12 (11) RV).

At a Glance

Austrian Universities Organisations and Studies Act

For each category, an obligatory set of ratios is enlarged by specific sets for defined fields of studies and research, i.e. medicine or arts. Further ratios may be added voluntarily. A verbal interpretation allows for evaluating the ratios and for embedding them into the university's strategy.

Examples of indicators include:

1. Human capital: number of academic staff.
2. Structural capital: available m².
3. Relationship capital: partnerships with other universities.

Level of Adoption and Use

The act applies to all universities in Austria.

Assessment

There are both challenges and opportunities associated with the Act. A key challenge pertains to a lack of uniformity in how the intellectual capital statements are designed, used and interpreted. Diversity reduces the general understandability and interpretability of intellectual capital statements.

Opportunities pertain to more efficient resource allocation, a broader set of information to base budgetary reimbursement and performance evaluation upon; and greater transparency, providing external stakeholders with insights into the use of tax money and developments in the nation's intellectual capital base.

At a Glance

Danish Guideline on Intellectual Capital Reporting by the Danish Ministry of Science, Innovation and Technology

Origin

The Danish guideline *Intellectual Capital Statements - The New Guideline* (2003) was commissioned and published by the Danish Ministry of Science, Technology and Innovation. The Guideline is the outcome of a multi-year project with over 150 Danish organisations volunteering to participate in the production of intellectual capital statements, which record and report on the performance and composition of intangible, knowledge resources. Prof. Jan Mouritsen, Copenhagen Business School, was the lead researcher and main author of the Guideline.

An intellectual capital statement has a dual role. It is:

1. A management tool used to generate value within an organisation.
2. A communication tool to communicate to employees, customers, cooperative partners and investors how an organisation creates value for them.

Management, Measurement and Reporting Categories

An intellectual capital statement is constructed as a matrix. The y-axis shows the organisation's knowledge resources such as customers, employees, business processes, and technologies. The x-axis shows the organisation's knowledge narrative, management challenges, initiatives undertaken to respond to the management challenges, and performance indicators.

Level of Adoption and Use

The project reached its peak at the turn of the century with a large number of participating organisations producing intellectual capital statements (see for example Systematic Software Engineering's intellectual capital statement). The Danish Ministry of Science, Technology and Innovation, however, discontinued financial support of the project[9]. The momentum originally seen in the time of the release of the guideline appears to have declined in recent years.

[9] The reason for its discontinuance is unknown it is possible that this exercise, like a number of contemporary EU initiatives, produced interim results and was then subsumed into other EU initiatives.

At a Glance

Danish Guideline on Intellectual Capital Reporting by the Danish Ministry of Science, Innovation and Technology

Assessment

According to Mouritsen et al. (2001), intellectual capital statements make visible knowledge resources and provide new opportunities for management practice and intervention. They make knowledge resources amendable to intervention and aid the visualisation and translation of customers, employees, business processes and technologies. Intellectual capital statements have also proven to initiate inquiry into organisational identity, and to facilitate conversations as to "who are we as a collective group of people?"; "what is our DNA made off?"; "where are we going?" and "how will we get there?" (Kjaergaard, 2003).

Intellectual capital statements, however, also face challenges and have been criticised for taking away the capacity for enlightenment thinking, i.e. "to put people into numbers and treat them as part of a bundle of skills is to challenge the ambition of Enlightenment that emphasises the person as a reflective and educated being" (Flagstad and Mouritsen, 2005, p. 19). The competent, (self) reflective person and the political goals of Enlightenment disappear in intellectual capital statements made according to the prescriptions of guidelines.

At a Glance

German Guideline on Intellectual Capital Statements by the Federal Ministry of Economics and Labour

Origin

The German Guideline *Intellectual Capital Statement - Made in Germany* was issued by the German Federal Ministry of Economics and Labour (FMEL) in 2004. The Guideline acknowledges the growing importance of knowledge and innovation to economic growth and seeks to help organisations portray and evaluate intangible corporate values in a structured manner (FMEL, 2004, p. 7). It acknowledges that traditional controlling and management tools cannot provide information on whether an organisation's desired targets are being achieved or not.

The Guideline aims to offer help to those responsible for drafting an intellectual capital statement, ranging from the Managing Director to the Financial Controller. It targets small and medium-sized enterprises (SMEs), as well as other forms of organisation.

The Guideline acknowledges that an intellectual capital statement is both a tool for the systematic development of the strategy of the organisation, and an external communication tool, in order, for instance, to acquire funding for future investments (FMEL, 2004, p. 8).

Management, Measurement and Reporting Categories

The Guideline categorises intellectual capital into human, structural and relational capital. It also outlines six steps for organisations to follow as they prepare an intellectual capital statement:

1. Describing the initial situation.
2. Assessing intellectual capital.
3. Evaluating intellectual capital.
4. Finding and evaluating indicators for intellectual capital.
5. Communicating intellectual capital.
6. Managing intellectual capital.

An example structure of an intellectual capital statement is provided (p. 31), as follows:

1. Foreword Why an intellectual capital statement in our organisation?
2. Company description.

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German Guideline on Intellectual Capital Statements by the Federal Ministry of Economics and Labour

3. Business success and challenges.
4. Business and knowledge strategy.
5. Our intellectual capital.
6. Future perspectives and measures.
7. Collection of indicators.

Level of Adoption and Use

To date 14 organisations have participated in piloting the Guideline and produced intellectual capital statements. The intention by the Federal Ministry is to refine the method for intellectual capital statements and to carry on specialist and economic policy discussion on a broader and more detailed basis. The "Intellectual Capital Statement Project Group is planning a second phase, which will be the systematic dissemination of the method, with the aim of equipping a total of several hundred SMEs in Germany with their own intellectual capital statement" (FMEL, 2004, p. 36).

Assessment

The Guideline (p. 13) highlights that the benefits for SMEs to engage with intellectual capital statements may include, among others:

1. Questioning and reflecting on established procedures and processes.
2. Concentrating on customers and knowledge of their needs, focusing on added value and competitive advantages.
3. A holistic perspective of the organisation linking employees, structures, relationships and, ultimately, business success.
4. Open discussions about strengths and weaknesses, which can help create transparency and confidence between employees, organisational units and functions.

The Guideline also develops a list of motivations as to why SMEs embark on intellectual capital management. These include: 1) the systematic management of the organisation; 2) acquisition of loan and equity capital; 3) meeting legal requirements; 4) employee recruitment and retention; 5) developing cooperation; and 6). customer acquisition and retention.

In terms of challenges, sustaining momentum and engaging a larger group of organisations to consistently and uniformly report on their intellectual capital may be one of the greatest hurdles, as witnessed by the intellectual capital statement project in Denmark.

At a Glance

Japanese Guideline on Intellectual Based Management by the Japanese Ministry of Economy, Trade and Industry

Origin

Since 2002, Japan has given particular attention to the issue of the promotion of the creation, as well as the proper protection and exploitation, of Intellectual Assets, which are expected to become a source of Japan's national wealth (Johanson et al., 2005). The Interim Report by the subcommittee on Management and Intellectual Assets, published in August 2005 (p.5), states that: "… unless Japanese corporations make efforts to understand, manage and utilise intellectual assets and unless stakeholders properly assess such measures by the corporations, it would be difficult for our entire nation [Japan] to increase national wealth through the efficient allocation of resources and vitalisation and promotion of economy, namely to become a society where higher added value is realised".

In October 2005, the Ministry of Economy, Trade and Industry (METI) released the Guideline for Disclosure of Intellectual Assets Based Management. The Guideline aims to assist corporations in preparing intellectual assets reports and guides on information disclosure concerning intellectual assets. The guideline advocates sustainability and stakeholder engagement, and aims to help managers develop a deeper understanding of the role intellectual assets plays in organisational value creation.

Management, Measurement and Reporting Categories

An intellectual assets-based management report explains how the corporation recognises its intellectual assets, how it uses them for differentiation and value creation, and pays special attention to the relevant stakeholders of the corporation.

The report is composed in two sections:

1. The main body; and
2. The attachment.

The main body of the report comprises three sub-sections:

a. General;
b. From past to present; and
c. From present to future.

At a Glance

Japanese Guideline on Intellectual Based Management by the Japanese Ministry of Economy, Trade and Industry

The first sub-section, 'General', introduces the strategic intent of the corporation and the philosophy of the management, and provides a general description of the business, of the corporation's competitive environment and main stakeholders. In the second and third sub-sections, the relationship between intellectual assets and the strategic intent of the corporation is considered using two complementary perspectives: an analysis of the corporation's past and a look to the future. The 'Analysis of the Past' section is an assessment of how previous strategies and actions have influenced the assets and methods developed by the corporation. It provides a link between the strategic intent and intellectual assets in a backward looking perspective. The third subsection 'From Present to Future' contains the future management policies (i.e. the strategy) of the corporation. The Guideline also suggests that company policies should consider the risks and opportunities of the external environment and the assets and management methods of the corporation.

The Guideline does not provide an optimal number of performance indicators, but it is stated that, on average, in order to support the story in the main body, a number of 5 to 10 indicators may be sufficient. Also, there is no specific set of measures provided that can be considered valid for any corporation although a table listing possible indicators is provided at the end of the Guideline.

Level of Adoption and Use

The Japanese Guideline is intended to guide voluntary disclosure. To date, four companies have issued intellectual capital reports in compliance with this Guideline. These are currently published in Japanese only.

Assessment

The Japanese Guideline and official endorsement of the METI is a positive development and undoubtedly a trendsetter for the rest of Australasia. It appears that Japan is following European initiatives, and is paving the way for the strategic management of organisational intellectual capital.

In terms of challenges, despite the fact that the Guideline is seen as a medium for achieving appreciation from stakeholders, there is no specific reference to disclosure of the organisation's strategic priorities and activities in reference to its stakeholders groups. The Guideline neither defines 'intellectual assets', nor makes mention of the interdependencies that exist between intellectual asset elements.

At a Glance

MERITUM Guideline - the European Commission

Origin

The MERITUM project was initiated in November 1998 by the European Commission. MERITUM stands for Measuring Intangibles to Understand and Improve Innovation Management (MERITUM, 2001). Six European countries, including Finland, France, Denmark, Norway, Spain and Sweden, participated in the project.

The overarching objective of the project was to produce guidelines to measure and disclose intangibles for the purpose of improving decision making for managers and stakeholders. The project had four main activity areas (MERITUM, 2001):

1. To establish a classification scheme for intangibles.
2. To document company management and control systems for identifying European best practices in measuring intangibles.
3. To assess the relevance of intangibles in the functioning of capital markets by means of market data analysis.
4. To produce guidelines for the measurement and reporting of intangibles.

Management, Measurement and Reporting Categories

The proposed structure of an intangibles report distinguishes between human, relational and structural capital, and comprises three parts (MERITUM, 2001):

- A vision of the firm including its strategic objectives, core competencies and key intangible resources, which presents the firm's main objectives and strategy and the key drivers (or critical intangibles) to reach those objectives;
- A summary of intangible resources and activities, describing the intangible resources the company can mobilise and the different activities undertaken to improve the value of those resources; and
- A system of indicators for the intangible resources and activities, intended to allow external parties to estimate correctly the firm's future expected earnings and risk. In that sense, it is useful to both external parties and to management alike to disclose not only the indicator but also its expected trend and its relation to the company's future earnings and growth.

At a Glance

MERITUM Guideline - the European Commission

The Guideline recommends organisations follow three steps for preparing the report including:

1. Identification of intangibles.
2. Measurement of intangibles.
3. Performance evaluation and action.

Level of Adoption and Use

The Guideline was issued to inform voluntary adoption by organisations in the participating countries. Working groups were established across the six participating countries and while there is no English-based publication from the group, the group has seeded other related EU projects.
The degree of practical application or adoption by European organisations is not clear (see below).

Assessment

It is not clear as to the level of impact and use of the Guideline, including the degree of practical application. However, the researchers involved and working groups created have played an important role in raising and disseminating awareness and knowledge of issues concerning intangibles in the participating countries, leading to the initiation of national projects including, for example, the Danish intellectual capital statement project.

At a Glance

The UK Operating and Financial Review - the Department of Trade and Industry

Origin

In April 2005, the UK Department of Trade and Industry issued a mandatory statutory requirement, which required publicly listed UK companies to prepare and disclose an Operating and Financial Review (OFR) as part of their annual reports. The OFR has been designed to help shareholders and stakeholders get a more complete picture of a company's business by enabling them to assess a company's strategies and its potential to succeed in the future. The UK Accounting Standards Board is responsible for the statutory requirements of the OFR.

Management, Measurement and Reporting Categories

When the UK OFR was first issued in April 2005, it mandated UK publicly listed organisations to report on the following aspects of their business:

- The nature of the market including environmental, competitive and regulatory factors and developments;
- Risks and uncertainties that may affect the entity's long-term value;
- Business objectives, and strategies for achieving the objectives;
- Stakeholder relations, which are likely to influence the performance of the business (to the extent necessary);
- Social and community issues (to the extent necessary);
- Environmental matters (to the extent necessary);
- Employees (to the extent necessary);
- "The KPIs (key performance indicators), both financial and, where appropriate, non-financial, used by the Directors to assess progress against their stated objectives" (to the extent necessary) (ASB, 2005, p. 14, paragraph 40). Examples of KPIs are provided in the report and include, among others, customer churn, social risk in the supply chain, employee morale, products in the development pipeline, waste, environmental issues and market share (see p. 50 onwards); and
- Other performance indicators (to the extent necessary).

However, in November 2005, the UK Government's intention to remove the statutory requirements for the OFR was announced and regulations to repeal the requirements came into effect in January 2006.
The decision to withdraw the statutory requirements for the OFR was made on the grounds that the central requirements of the EC Business Review [that companies are now required to provide] are largely identical to those of the statutory OFR and the Government has a general policy not to impose regulatory requirements on

At a Glance

The UK Operating and Financial Review - the Department of Trade and Industry

UK businesses over and above the relevant EU Directive requirements. As a consequence, the mandatory regulation has been converted into a Reporting Statement of Best Practice, which has a persuasive, rather than a mandatory, force.

Level of Adoption and Use

The UK OFR applies to publicly listed organisations in the UK.

Assessment

Undoubtedly, the UK OFR has been a leading initiative and global trendsetter for enhancing consistency and uniformity in extended performance reporting. Despite the increase in compliance issues for organisations, there has been general consensus and support of the OFR and its role in increasing transparency and providing shareholders and stakeholders more generally with a more complete picture of a company's business.

The abolishment of mandatory reporting has been challenged by a number of NGOs, including the Friends of the Earth (2006), who have applied for a judicial review of the Chancellor of the Exchequer's decision to abolish the OFR. This has resulted in the government setting out a fresh consultation on the future of company environmental reporting. The new consultation will ask whether to include OFR provisions in the draft Company Law Reform Bill, which is currently having its first reading in the House of Lords. The Government will also consult on whether to introduce new OFR measures into law in the interim.

At a Glance

US Enhanced Business Reporting Consortium

Origin

The Special Committee on Enhanced Business Reporting (SCEBR) was established in December 2002 by the American Institute of Certified Public Accountants (AICPA) to develop a strategy to enhance business reporting. The SCEBR's (EBR, 2004, p. 9) mission is "to establish a consortium of investors, creditors, regulators, management, and other stakeholders to improve the quality and transparency of information used for decision-making". The key proposition of the Consortium (p. 3) and problem definition is that the "current business reporting model has not evolved with changing market demands and key stakeholder requirements". The SCEBR's strategic intent is "Better markets through better information" (EBR, 2004, p. 10).

The Consortium is an independent, market-driven, international collaboration of investors, creditors, analysts, management, boards of directors, regulatory agencies, standards setters, members of academia and all other stakeholders charged with developing an Enhanced Business Reporting (EBR) framework, and related guidelines and definitions.

Management, Measurement and Reporting Categories

The SCEBR (EBR, 2004 p. 4) explains that "the purpose of the EBR framework is to put structure around external reporting of information not currently covered under GAAP". This includes a discussion of:

- Management strategy and plans;
- Risks and opportunities faced by a company;
- Industry-specific, process-oriented value drivers; and
- Financial and non-financial key performance indicators.

Level of Adoption and Use

The EBR framework is voluntary. For illustration purposes, four imaginary organisations have adopted the framework and developed EBR reports to date, with the assistance of the EBR Public Company Task Force.

Assessment

There are multiple benefits associated with the EBR initiative, including:

1. Capital market rewards and positive effects on market value.
2. Relief from short-term earnings pressure and alignment of management and key stakeholder interests.

At a Glance

US Enhanced Business Reporting Consortium

3. Improved availability of and access to more complete, timely and accurate information, helping executives and directors manage the business more effectively.
4. Enhanced consistency and clarity in disclosures aiding the development of industry standards and benchmarks.
5. Reduced litigation risk due to increased transparency.

The main challenge identified is competitive harm, as a consequence of increased transparency.

2.5 Organisational Level

In this sub-section, we take a closer look at *Extended Performance Management, Measurement and Reporting* frameworks at an *organisational* level. These frameworks are developed by management consultants and accountants. They complement the global and national initiatives reviewed in the previous sections.

We focus on three initiatives, including:

- The Balanced Scorecard by Kaplan and Norton;
- The Intangible Asset Monitor by Karl Erik Sveiby; and
- The ValueReporting™ Framework by PwC.

On the following pages, we provide an 'At a Glance' summary for each of the above initiatives. For each initiative, we investigate: the origin of the initiative; management, measurement and reporting categories; actual or intended level of adoption and use; and the challenges and opportunities associated with the initiative.

At a Glance

The Balanced Scorecard by Kaplan and Norton

Origin

The Balanced Scorecard (BSC) (Kaplan and Norton, 1992; 1996; 2004) is one of the most well-known and widely accepted attempts to develop comprehensive non-financial performance measures at the firm level. It was first introduced in 1992 in an article in the Harvard Business Review (Kaplan and Norton, 1992).
The Balanced Scorecard is a strategic performance management and measurement system that identifies and reports on performance measures for four strategic areas of the business. It represents a cause and effect relationship between the drivers of the business and the output effects. It uses not only financial performance measures but also non-financial measures to evaluate business performance across four resource categories, thus providing a more balanced perspective on organisational performance, extending beyond merely financial reporting.

Management, Measurement and Reporting Categories

The Balanced Scorecard is organised into matrix format. The y-axis shows the four strategic areas of the business, including: the financial, customer, internal business processes, and learning and growth perspectives. The x-axis shows the organisation's:

1. Objectives.
2. Measures.
3. Targets.
4. Initiatives required to achieve the objectives, for each of the four strategic areas.

All four categories on the x-axis are linked to, and set relative to, the business strategy and vision statement.

Level of Adoption and Use

The is estimated to be used by half of the Fortune 500 and Global 1000 companies, and spans across a broad range of both public and private industries (Balanced Scorecard Collaborative, 2003).

Assessment

The Balanced Scorecard has been praised for providing a multi-dimensional perspective on strategy formulation and organisational management. It has also been praised for: helping managers clarify and translate vision and strategy into operating activities; illustrating the interdependencies and interrelationships

At a Glance

The Balanced Scorecard by Kaplan and Norton

between different resource categories and activities; communicating and linking objectives and measures to strategic intent; and providing opportunities for strategic feedback and learning.

The framework has, however, also been criticised for being prone to implementation failure, with a failure rate of over 70 percent reported in some instances (Chan, 2004). Failures may be due to a lack of developed information systems, inadequate top-management support, and/or excessive management focus on short-term results and activities (Chan, 2004). Another challenge is the difficulties associated with establishing cause/effect relations between the measurement of intangible resources and their financial impacts, a challenge shared by extended performance management practices and frameworks more generally (Boedker, 2005).

At a Glance

The Intangible Asset Monitor by Karl Erik Sveiby

Origin

Sveiby's Intangible Asset Monitor (IAM) was developed in the early 1990s. It "is a method for measuring intangible assets and a presentation format, which displays a number of relevant indicators for measuring intangible assets in a simple fashion" (Sveiby, 2006). The IAM is the theoretical foundation of the Skandia Navigator, the world first producer of an intellectual capital report. The objective of the IAM is to make visible invisible assets such as an organisation's internal structures, external structures and individual competencies.

Sveiby's work originated in his analysis of the value of knowledge-based companies where he noted that conventional accounting methods fail to effectively value organisations, especially knowledge-oriented organisations, such as consulting firms. He notes that people are the most important asset and argues that "people are the only true agents in business; all assets and structures, whether tangible physical products or intangible relations, are the result of human action and depend ultimately on people for their continued existence" (Sveiby, 2006). Thus, it follows that all tangible assets are the product of people and their knowledge.

Management, Measurement and Reporting Categories

The IAM does not define in monetary terms the intrinsic value of the intangible assets, but seeks to guide the strategy of the organisation in understanding and deliberately developing the value of the intangibles (see Sveiby, 1997). This is achieved through the structuring of a series of metrics, grouped in a way that acknowledges distinct stakeholder groups.

The IAM emphasises that:

1. Capabilities must be constantly developed to deal with new technologies.
2. Staff and customers move, age and retire.
3. Unmanaged change can have a deleterious effect on the business.

At a Glance

The Intangible Asset Monitor by Karl Erik Sveiby

The IAM defines, in matrix format, the organisation's metrics. The x-axis shows three resource categories including: internal structures, external structures and individual competencies. The y-axis shows the strategic priorities of the organisations, including:

1. Growth and Renewal.
2. Efficiency.
3. Stability.

This classification reflects Sveiby's belief that strategic directions must be defined to grow and renew the business, and that a more stable business is a more valuable business (Sveiby, 2006).

Level of Adoption and Use

Thirty-seven organisations are listed as users of the IAM, according to Sveiby's company website (2006). These predominantly reside in Australia and Sweden, Sveiby's countries of residence. Certification of the Tango Business Simulation instrument, a model, which clarifies the business logic behind the knowledge organisation and defines the specific factors which enhance profitability, is offered by Sveiby's company, Knowledge Associates.

Assessment

Sveiby is deemed the “founding father” of the intellectual capital movement, and much of his thinking underpins the development and practical application of intellectual capital across the world today. Undoubtedly, Sveiby's management theory has influenced the rise of debates on intangible value and the invisible balance sheet.

At a Glance

ValueReporting™ by PricewaterhouseCoopers

Origin

ValueReporting™ is PricewaterhouseCoopers' framework for performance measurement and corporate reporting. It is intended to help management and boards of directors articulate the company's value proposition, communicate how the business creates value, and ensure that internal controls and processes are in place to manage the company's most important value drivers (PwC, 2006).

The framework is built around the principle of transparency, and the belief that too little disclosure holds many more hazards than too much. It is envisioned to help address the gap between the financial reporting model and the market's demand for more information. It extends traditional reporting methods and conveys a detailed picture of how well management is executing its strategies by reporting on non-financial value drivers and intangible assets that account for much of the value in today's companies (PwC, 2006).

Management, Measurement and Reporting Categories

ValueReporting™ calls for greater disclosure about market dynamics, corporate strategy and intangible, non-financial drivers of stakeholder value such as customer satisfaction, market share and employee retention.

The ValueReporting™ framework is structured into External and Internal factors. External factors include a market overview in regards to the competitive environment; regulatory environment; and macro environment. Internal factors include:

1. Strategy and Structure, such as goals and objectives; governance; risk framework; and organisational design.
2. Managing for Value, including financial assets; physical assets; customers; people; innovation; brands and intellectual assets; and supply chain.
3. Performance, including economic; operating; environmental; social; ethical; and segmental.

Level of Adoption and Use

Information concerning the use of the proprietary tool is not publicly available.

At a Glance

ValueReporting™ by PricewaterhouseCoopers

Assessment

Undoubtedly, the ValueReporting™ framework is a well designed framework to assist in performance management and reporting. Given its intellectual property rights, its suitability for broader adoption is questionable, but it certainly provides an insightful source of inspiration for the design of national and international standard setting and measurement and reporting practices.

2.6 Summary

This report has provided a review of contemporary international trends and developments in *Extended Performance Management, Measurement and Reporting*, illustrating the shift in notions of value and how organisational performance evaluation increasingly 'extends' to look beyond the financial bottom line, and also incorporate aspects of the environment, social impacts and intellectual capital.

The report has illustrated the vast array of initiatives in the global arena, and there is much evidence to support the assertion that intangible resources and sustainability practices are instrumental to advancing organisational and national economic performance. As indicated by many of the initiatives reviewed in the report, the 'new' factors of economic production such as staff competencies, customer relationships and ICT, receive little recognition in traditional financial reporting models, and as such, they risk being 'overlooked' in performance evaluation, whether for purposes of internal management decision making of for external share price valuation. The fact that traditional financial reporting practice fails to recognise important intangibles may adversely impacts knowledge-based organisations, in areas such as risk assessment, resource allocation and share price valuation.

The 'invisibility' of intangibles resources has led to calls from regulators and practitioners, as well as academics, for information about intangibles to be disclosed for public consumption. It appears from our review that European organisations have been the most advanced and forward-thinking in managing, measuring and reporting on their intangible resources and sustainability issues, with Australia and other countries lagging behind in terms of the proliferation of guiding principles and best practice examples.

A concern going forward may be the plethora of frameworks and guidelines that exist to assist organisations better measure and report on intangibles and sustainability issues, possibly resulting in fragmentation in practice and uptake.

3. References

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Appendix A: Summary of Trends in Extended Performance Management, Measurement and Reporting

Legislation		Guidelines, Codes of Conduct and Standards	
Australian Corporations Act/CLERP 9	Requires public listed companies to report on their operations and financial position, business strategies and prospects and performance in relation to environmental regulations.	AA1000 AccountAbility Guideline	The Guideline provides guidance on how to establish a systematic stakeholder engagement process. This is used to identify indicators, targets and reporting systems to enhance overall performance.
Australian Financial Services Reform Act	Requires fund managers and financial product providers to disclose the extent to which labour standards or environmental, social and ethical considerations are taken into account in the selection, retention or realisation of the investment.	Australian Greenhouse Challenge Programme	Members commit to preparing emissions inventories and forecasts, identify and undertake abatement plans and reporting progress against the action plan.
Austrian Universities Organisations and Studies Act Belgium Bilan Social	Mandates Austrian Universities to produce intellectual capital reports. The reports must be structured into human, structural and relationship capital. For each category, an obligatory set of ratios are required to be reported. Requires organisations to report data on the evolution of employment (i.e. training).	Australian Guideline for Triple Bottom Line Reporting Australian Minerals Industry	Consistent with the GRI principles, the Guideline provides guiding principles for reporting environmental performance. The industry has issued a framework for Sustainable Development 'Enduring Value'. Members commit to publish sustainability reports on an annual basis. Metrics are informed by the GRI. Independent verification of reports is required.
Canadian Securities Commission	Requires public companies to report on the operating and financial effects of environmental protection requirements, be they future or current.	Australian Securities Institute's Disclosure Guidelines	Guideline for product issuers to disclosure about labour standards or environmental, ethical, and social considerations in Product Disclosure Statements.
Canadian Bank Act	Requires financial institutions with equity of USD 1mn or more to report on their contributions to the national economy.	ASX Principles on Good Corporate Governance	Provides a comprehensive guide to listed entities on best practices in corporate governance and disclosure. Emphasises the need for corporate accountability and transparency. The guideline includes ten Corporate
Danish Financial Statement Act	Requires intellectual capital resources and environmental aspects to be reported if it is material to providing a fair view of the organisation's financial position.	Danish Guideline on Intellectual Capital Reporting	Provide a structured framework for organisations to manage, measure and report their knowledge resources and knowledge management activities within a strategic context.

Appendix A: Summary of Trends in Extended Performance Management, Measurement and Reporting

	Legislation		Guidelines, Codes of Conduct and Standards
Finnish Accounting Act	Requires certain public companies to report material non-financial issues in their annual report.	Danish Social And Ethical Accounts	Provides guidance on how to report social and ethical initiatives and activities.
EU Integrated Pollution Prevention and Control Directive	Member states are required to register emission data from large companies.	Dow Jones Sustainability Index	The Dow Jones Sustainability Index was the first index to try to assess the ability of businesses to create long-term shareholder value. It focuses on identifying future value potential and uses a defined set of criteria to assess the opportunities and risks deriving from economic, environmental and social developments. A major source of information is the SAM questionnaire, which is completed by companies participating in the annual review.
French Law no2001-420	Requires public listed companies to report their environmental and social impacts.	EMAS	The EUR Eco-Management and Audit Scheme enables organisations to evaluate, report and improve their environmental performance.
Germany Bilanzrechts-reformgesetz	Requires German organisations to report non-financial performance indicators such as environmental and employee issues.	German Guideline on Intellectual Capital Statements	Issued by the Federal Ministry of Economics and Labour in 2004, the Guideline provides guidance on how to prepare an intellectual capital statement. It traces the experiences of a sample of organisations who participated in the pilot projects.
Japanese Law	The Law of Promotion of Environmentally Conscious Business Activities requires certain entities to publish an annual environmental report.	Global Reporting Initiative	Describes itself as a global multi-stakeholder process and independent institution that disseminates and develops globally applicable sustainability reporting guidelines.
Japan's Pollutant Release and Transfer Register Law	Requires organisations to report releases to the environment of certain chemical substances.	Italy's CSR-SC project	Encourages organisations to report on the environmental, social and economic dimensions of their services products and activities. Encourages organisations to produce social statements according to predefined guidelines and criteria.
Norwegian Accounting Act	Requires inclusion of social, environmental and health and safety issues and the implementation of measures to prevent or reduce negative impacts and trends.	International Standards Organisation	Has developed a wide range of standards, including corporate responsibility in the areas of quality and the environment (ISO 9000 and 1400 series).

Appendix A: Summary of Trends in Extended Performance Management, Measurement and Reporting

Legislation		Guidelines, Codes of Conduct and Standards	
Spain's Resolucion de 25 de marzo de 2002	Requires reporting of environmental assets, provisions, investments and expenses in financial statements.	MERITUM Guideline	Initiated by the European Commission in 1998, MERITUM stands for Measuring Intangibles to Understand and Improve Innovation Management. Six European countries (Finland, France, Denmark, Norway, Spain and Sweden) participated in the project. The objective was to produce guidelines to measure and disclose intangibles to improve decision-making for managers and stakeholders.
Sweden's Annual Accounts Act	Requires certain companies to include a brief disclosure of environmental and social information in the annual report.	Japanese Guidelines for Environmental Reporting	The Ministry of the Environment has issued two guidelines. One on Environmental Reporting and one on Environmental Performance Indicators.
The Netherlands' Environmental Protection Act	Requires the largest polluters to report on their environmental impacts.	Japanese Keizai Doyukai	The Japanese association of corporate executives has issued its 15th Corporate White Paper on Corporate Social Responsibility. It proposes a draft CSR standard called 'Practical Tools for Evaluating the Current Situation and Setting Goals to Enhance Comprehensive Corporate Value'.
UK Operating and Financial Review	The OFR requires publicly listed UK organisations to report on environmental, competitive and regulatory factors, risks and uncertainties, business objectives, and strategies for achieving the objective. To the extent necessary, organisations must also report on stakeholder relations, social and community issues, environmental matters, employees, customers, and key performance indicators.	Japanese Guideline on Intellectual Property	This Guideline has been issued by the Ministry of Economy, Trade and Industry. It focuses on strategic IP-related issues and provides guiding principles for disclosing information about IP, technology, business strategy and R&D.
US Sarbanes Oxley	Imposed new reporting requirements for publicly listed companies to increase corporate transparency and governance.	OECD Multinational Enterprise	Provides voluntary principles for responsible business conduct in areas such as human rights, disclosure of information, anti-corruption, taxation, labour relations, environment, and consumer protection. Governments of the countries adhering to the Guidelines agree to promote their implementation by enterprises operating in or from their territory. Used by MNEs from the OECD group of 30 countries plus Argentina, Brazil, Chile, Estonia, Israel, Lithuania and Slovenia.

Appendix A: Summary of Trends in Extended Performance Management, Measurement and Reporting

Legislation		Guidelines, Codes of Conduct and Standards	
US Securities and Exchange Commission	Requires appropriate disclosure of environmental impacts and expenditure on control facilities and legal proceedings on environmental matters.	Sweden's Accounting Standards Board	Provides guidelines on environmental reporting in the Directors' section of the annual report.
US Toxic Release Inventory	Requires companies with more than ten employees to submit data on specific toxic chemicals to the Environmental Protection Agency.	UK Public Environmental Reporting Initiative	Provides tools for organisations to produce a balanced perspective on their environmental policies, practices and performance.
		United Nations Global Compact	Encourages companies to adhere to ten guiding principles in the areas of labour, human rights, environment and anti-corruption.
		US Enhanced Business Reporting Consortium	Encourages increased transparency in business reporting, e.g. "Better Information Leads to Better Management . . . Better Governance . . . Better Markets". Proposes the EBR framework which in intended to put structure around external reporting of information not currently covered under GAAP (i.e. management strategy and plans, risks and opportunities faced by a company, industry-specific, process-oriented value drivers and financial and non-financial key performance indicators).

Appendix B: GRI Principles

Principles for Defining Report Content:

In order to ensure a balanced and reasonable presentation of the organization's performance, a determination must be made about what content the report should cover. This determination should be made by considering both the organization's purpose and experience, and the reasonable expectations and interests of the organization's stakeholders. Both are important reference points when deciding what to include in the report. Reporting Guidance for Defining Content include:

Materiality: The information in a report should cover topics and Indicators that reflect the organization's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.

Stakeholder Inclusiveness: The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

Sustainability Context: The report should present the organization's performance in the wider context of sustainability. Explanation: Information on performance should be placed in context. The underlying question of sustainability reporting is how an organization contributes, or aims to contribute in the future…..

Completeness: Coverage of the material topics and Indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organization's performance in the reporting period.

Principles for Defining Reporting Quality:

The guideline also contains Principles to guide choices on ensuring the quality of reported information, including its proper presentation. Decisions related to the process of preparing information in a report should be consistent with these Principles. All of these Principles are fundamental for effective transparency. The quality of information enables stakeholders to make sound and reasonable assessments of performance, and take appropriate action.

Reliability	**Comparability**
Clarity	**Accuracy**
Balance	**Timeliness**

See http://www.globalreporting.org/ReportingFramework/G3Online/DefiningReportQuality/ for details.

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