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Intellectual capital, calculability and qualculation

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ABSTRACT

The literature on accounting for intellectual capital (IC) and, in particular, IC reporting suggests a preoccupation with measurement. While foundational for a calculative practice, this may eclipse the socially embedded facets of this accounting technology. The consequences include bringing into question the usefulness of IC reporting. Accordingly, we argue for a reflexive analysis of IC as a material, social phenomenon facilitating organisational change. In this paper we examine and reflect on how IC practices influence individual understanding of organisational change, developing insights into how social relations are identified, communicated and transformed. The overall contribution of the paper is to highlight how calculative practices, such as accounting for IC, are balanced with judgment in understanding and managing IC during periods of organisational change.

1. Introduction

Societal change is an elemental influence on individual organisations (see Stewart, 1997) prompting adaptation in organisational structure and practice. These changes include, to use a public sector example, the formation of government business enterprises (GBEs) focused on reducing public funding requirements for the delivery of services (English, Guthrie, & Parker, 2005). Examples of change in organisational practice reflected in public sector reforms include adopting accrual accounting and market-oriented reporting of financial performance (Lapsley, Mussari, & Paulsson, 2009). Reflecting the New Public Management (NPM) phenomenon (see Hood, 1995; Jacobs & Cuganesan, 2014), GBEs rely on an ability to generate revenue from services provided to citizens at a market price to recover the costs of services or make profits (see Brown, Neal, & Parker, 2000). The results are, in turn, reflected in accrual accounting found in annual reports.

To understand the impact of change, researchers need to explore how accounting technologies are adopted and used. This need is emphasised by the importance of institutional factors embedded in the choice of these technologies, as well as the reflexivity of market actors in managing and evaluating organisational outcomes (see Millo, 2009). Within these organisational settings, decision makers also need to exercise judgment, a phenomenon found in the creation and use of accounting inscriptions evident, for example, in the concept of materiality as “a form of knowledge that balanced good judgment with value for service and clarity in reporting” (Edgley, 2014, p. 263). Hence, the introduction of a new accounting technology, such as IC reporting, highlights the fusion of cognitive and social factors in knowledge production and interpretation (see Callon,

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1991). For knowledge-intensive services (see Ditillo, 2004, p. 401), this also includes an understanding of how to identify and manage IC.

In this paper, IC encompasses all intangible resources used in creating economic value (see Marr, Schiuma, & Neely, 2004), including knowledge (Meritum Project, 2002). This recognises that knowledge created within an organisation needs to be managed, not simply reported (Mouritsen & Larsen, 2005). It also highlights the need to understand the cognitive frame adopted in its use and replication, particularly when represented in numeric form (Vollmer, 2007, p. 583). For example, the relationship between financial accounting reporting standards and the public reporting of IC is a topic of considerable debate between those who identify value relevancy gaps in current financial reporting standards (see Lev, 2008; Lev, Radhakrishnan, & Zhang, 2009) and those who argue that the case for additional disclosure is weak (for example, Skinner, 2008a, 2008b; Elwin, 2008; Walker, 2009b). Rather than join this debate, arguably seen as having some way to go (Walker, 2009b p. 310; Lee & Guthrie, 2010, p. 5, Dumay, 2012), the motivation for this paper goes beyond the value relevant content of published reports to examine the struggle to classify and manage intangible organisational resources (Lev et al. 2009). By exploring IC practice in a decision-making context, it responds to calls for greater understanding of management practice of intangible resources by a range of accounting academics (for example, Dumay, 2009, p. 13; Artsberg & Mehtiyeva, 2010, p. 26).

The practice of IC measuring, managing, and reporting (ICMMR) needs to be understood in terms of the social practices it facilitates rather than through a simple focus on the ostensive representation of IC (see Mouritsen, 2006). Such an approach is consistent with the aims of the 'third phase of IC research', which are to critically investigate social phenomena influencing the limited adoption of these ostensive frameworks by IC practitioners, prompting consideration of a performative and reflexive approach to understanding IC (Guthrie, Ricceri, & Dumay, 2012). The performative and reflexive approach includes an examination of calculative and other rationalities, such as judgment, embedded in the ICMMR practices adopted.

We argue this approach requires empirical investigation of an organisation that has attempted to adopt ICMMR practices. We are interested in the social relations revealed in the adoption of these practices in the transition of a public service entity to a GBE structure, examining IC reporting used to address the expectations of GBE stakeholders. Reflecting this research focus, we adopt an actor–network theory perspective, along with the concept of qualculation, an analytical tool developed within the Social Studies of Finance (SSF). We argue that the GBE case study provides an organisational context that allows us to develop stronger links between organisational empirics and theoretical validation of IC concepts (see Dumay, 2012).

This paper is novel because it presents a longitudinal analysis of the struggles associated with IC practice within a public sector entity as staff, and other stakeholders respond to change. From 2004 to 2010, the Land and Property Authority of New South Wales (Lands) developed its IC strategy and reporting practice to identify links between IC and organisational performance inherent in the change to a GBE structure. In the words of Lands' Director General (DG), IC "has to have a value proposition", linking IC management with organisational success for Lands to become a successful GBE. We start this analysis with a survey of the relevant literature in two sections, followed by a description of the research site and methodology. We then analyse the results, followed by a discussion. We conclude with reflections on the research insights.

2. Accounting for intellectual capital

Given the ongoing issues with financial accounting reporting of intangibles highlighted earlier, this paper engages with the IC accounting literature. This literature reveals that managing IC is complex (see Bueno, Salmador, Rodriguez, & de Castro, 2006; Cuganesan, 2005), especially given that technology has allowed greater dissemination of knowledge (Unerman, Guthrie, & Striukova, 2007). Further, Cuganesan, Boedker, and Guthrie (2007, p. 888) argue that IC is "still in its formative stages and fluid". Emerging from the dynamics of IC practice, debates continue about how to use qualitative and quantitative accounts of IC (see Dumay, 2009; Dumay & Roslender, 2013). One manifestation of this debate is the plethora of IC reporting approaches (Andriessen, 2004) available with, for example, Dumay and Roslender (2013) identifying 46 different frameworks. Arguably, this adds uncertainty to the identification of the likely effect of measuring and reporting IC (see van der Meer-Kooistra & Zijlstra, 2001). As a result, consistent with Guthrie et al. (2012, p. 79), accounting for IC is a specialised field of research focused "on critically examining ICAR [Intellectual Capital Accounting Research] in practice".

On the other hand, human achievement is routinely represented in terms of economic value and expressed in monetary terms (see Simmel, 2004, pp. 177–120). When inscribed in the form of accounting, it is publicly available as published financial statements mainly found in annual reports. Privately, it is available in stakeholder briefings on organisational performance, based on financial and non-financial information (see Roberts, Sanderson, Barker, & Hendry, 2006). Consistent with other marketised entities, GBEs produce financial statements using accrual accounting in accordance with accepted accounting standards and other forms of performance reporting of interest to internal and external stakeholders (English et al., 2005). Accrual accounting and the production of financial statements consistent with commercial business practice has been a key aspect of public sector reforms, initially seen in advanced economies such as Australia (Barton, 2009, p. 221).

Accounting for IC and monetisation of public sector services are key measures of achieving organisational strategy, potentially allowing GBE stakeholders to achieve their interests. Given the focus of this paper is on the role of accounting in organisational change, we follow the lead of Quattrone (2009, p. 85) to examine the "conditions which allow the emergence of accounting as a performable technique". When focused on the network of actors involved in accounting change, examination of "unforeseeable interactions between human and non-human actors are central to this type of analysis" (Alcouffe, Berland, & Levant, 2008, p. 3).