Intellectual capital and new public management
Reintroducing enterprise

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Abstract *The paper reports on public sector organisations'/institutions' work to develop knowledge management and intellectual capital statements. Building on experiences collected during 2001-2002 where 26 public sector institutions in Denmark sought to develop intellectual capital statements, this paper discusses their experiences and in particular, it addresses the role of intellectual capital in relation to the development of the new public management philosophy. It is suggested that these public sector organisations use intellectual capital activity to promote themselves as "businesses" with their own strategies and modes of operations. Intellectual capital helps these firms differentiate themselves and develop their own strategic approach to their mode of functioning by showing how they function as enterprises.*

1. Introduction

Intellectual capital has been interesting to public sector organisations in Denmark since the late 1990s. Both state and local governments have created policy statements on intellectual capital and knowledge management often in the context of the employee – to maintain knowledge even if employees leave the institution (Ministry of Finance, 2000).

It may be, however, on closer inspection that the rather defensive purpose to persuade employees to stay in the public sector institution is only one dimension, and perhaps not the most important dimension. Intellectual capital may also be an attempt to *reintroduce enterprise* in the wake of the 1980s and 1990s change towards new public management (Kettl, 2000; Olson *et al.*, 1998; Pollitt, 1995).

The changes towards new public management transformed the public institution in the name of management control. The public institution was "companyzed" (Brunsson, 1994), "accountingized" (Power and Laughlin, 1994) and reinvented (Osborne and Gaebler, 1994) so that rather than being an entity to carry out orders and strategies developed elsewhere, it had to be an entity in its own right. It has to have its own strategy, it was controlled on its results rather than on its inputs, and it was to be seen as an entity in interaction with its surroundings. So, new public management, even if it came in different flavours (Flynn and Strehl, 1996; Hood, 1994), installed two central mechanisms: one is that each institution had to develop strategy and thus to a larger extent become its "own entity" that could provide services different from other public institutions even with a similar name and purpose. And in return for this "greater freedom", the institution had to perform, and therefore a second mechanism was

introduced, namely the performance management manifesto. The public institution had to be accountable to a budget, to productivity and to customer satisfaction. This "triple bottom-line" defined what the institution was required to do, and its purpose was seen primarily as its ability to deliver these three kinds of performance. Even if it did do strategy, the public institution was more presented as a set of performance metrics than as the provider of something useful. The public institution developed into a flat space of performance.

Intellectual capital has partly been an attempt to respond to this. The flat space of performance was a problem because it did not really say what the public institution did – how it was an enterprise. It did not help explaining how it worked and why it worked. Intellectual capital and intellectual capital statements were introduced as media to create a "thicker presentation" of the institution useful both for internal management purposes and for external reporting purposes. In this paper, we illustrate how this interest in viewing the public institution as an enterprise manifested itself in three examples of intellectual capital statements developed by state institutions. And we introduce this with a few results from a survey among 26 state institutions concerning the purpose of their intellectual capital statement.

2. The purposes of intellectual capital statements

An intellectual capital statement presents a strategy for knowledge management and through texts, illustrations and measurements reports on the current knowledge management activities. It includes a review of the organisation's objectives, performance and results with a view to combine, apply and develop knowledge resources. Such a statement can be used internally as a management tool, and externally as a communication device.

In the spring of 2002, we sent a questionnaire to (private and public) organisations that participated in the Danish intellectual capital statements project. They were asked to state why they developed intellectual capital statements, and they had to indicate on a Likert scale ranging from 1 (disagree fully) to 5 (agree fully) about a set of possible purposes of intellectual capital statement. In all, 26 public institutions responded, which is a 100 per cent response rate, but they were also self-selected and already interested in intellectual capital.

Figure 1 shows how the intellectual capital statement can serve as a communication device to the institution's environment.
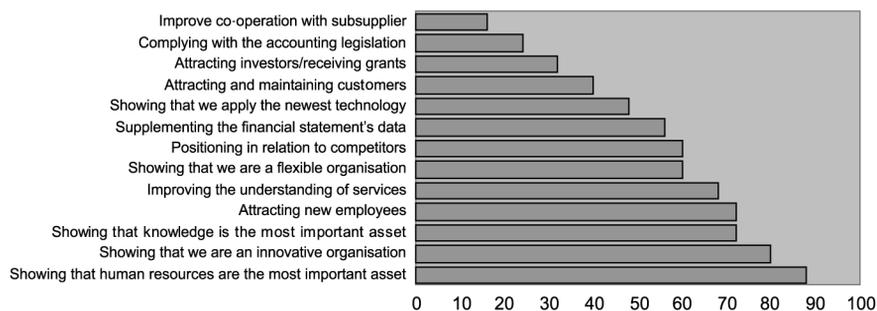

Figure 1.
The external purposes of public organisations' intellectual capital statements (proportion agrees fully/agrees)

As a communication device, the intellectual capital statement helps the institutions to develop a proposition about employees: why they are important and why it is necessary to attract new employees and knowledge resources more generally. The description of knowledge resources is intermingled with concerns about attracting knowledge resources, and suddenly it is clear that the external communication is not "merely" to present the intuition – it is also to acquire resources. The intellectual capital statement is to help the institution to present it as an enterprise where people, flexible organisation, and services are central. The intellectual capital statement suggests how the institution's resources and services are related. It is clear that the institution is an entity – an enterprise.

Figure 2 shows the management purposes of intellectual capital statements.

Figure 2 even more clearly suggests that the intellectual capital statement is there to help the implementation of strategy and to make the public institution a knowledge-based firm. It shows how the intellectual capital statement may talk a lot about employees (Figure 1), but the purpose is not necessarily to create an employment-centred organisation. Career planning and competency management are important but not the most important purposes. In contrast, there is much more focus on the public institution as an entity that will have to integrate its various knowledge resources towards strategy.

Clearly, people have a role to play in such an organisation, but only an important role if it is aligned with concerns about processes, technology, and relationships to users. Strategy concerns the orientation of knowledge towards the services the institution provides to its users. And such services are not only to be explained and developed through the performance manifesto of budgetary control, productivity, and user satisfaction. The intellectual capital statement tells a "thicker" story.

3. Three examples of intellectual capital statements

The three public institutions the Customs and Tax Region Odense (T&S Odense), the Danish Maritime Authority and the Danish Defence Construction Service have all prepared their intellectual capital statement according to a guideline (Mouritsen *et al.*, 2003). This guideline says, that intellectual capital can be understood as relations between four elements.
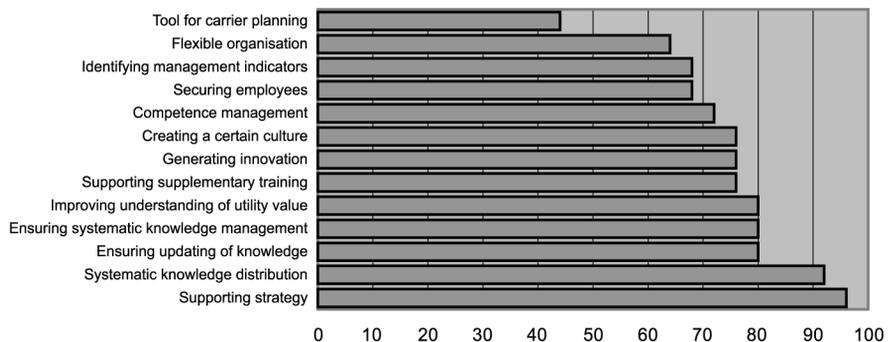

Figure 2.
The internal purpose of public organisations' intellectual capital statements (proportion in full agreement/in agreement)

(1) A knowledge narrative (knowledge strategy), which defines that knowledge is to accomplish for the firm. It defines how knowledge can make a difference to the firm's activities vis-à-vis its users.

(2) A set of management challenges (business model of knowledge) that identifies the relatively durable problems facing the management of the firm in order to develop the usefulness of knowledge.

(3) A set of actions, which point out how knowledge is to be managed concretely as a set of activities.

(4) A series of indicators that monitor whether the actions are implemented.

Together, this model allows the institutions to appreciate how their activities to develop and use knowledge are helpful to their services.

4. Customs and Tax Region Odense
In 2002, T&S Odense, which is an independent region within the Central Customs and Tax Administration, was awarded the Danish Institute of State Authorized Public Accountants' diploma for the best intellectual capital statement.

T&S Odense collects direct and indirect taxes. Is this a service? Many would think not, but T&S Odense suggests that it creates added value by preventing unfair competition from random use of tax rules. Its service is to provide business with a correct and systematic tax assessment. Its ambition is to fight unfair competition by providing their users, i.e. the businesses in the region, with a uniform service, and it provides a consulting service to enable business to understand the frequently very difficult rules in the legislation. For T&S Odense, the business community is a partner.

Table I presents the content of T&S Odense's intellectual capital statement. It shows how the ambition to create "fair competition" is seen to require the institution to do certain things to make an organisation capable of fulfilling this purpose. The intellectual capital statement shows this translation.

4.1 Management challenges and efforts
To fulfil this ambition, six management challenges have been identified. The first challenge is to be well informed about the business community. To appreciate and understand the expectations of business, T&S Odense has set up a group within each core area: taxes, VAT, indirect taxes and customs duties to ensure that the businesses are effectively instructed in the new rules and regulations as soon as they have been adopted. T&S Odense also assists new businesses to overcome initial difficulties.

Two management challenges concern employees. First, it is important to maintain a high service level to secure and recruit employees with outstanding qualifications. The objective is to establish a personnel policy that aims to create a "modern, attractive and family-friendly workplace". Second, the employees must develop specific and personal competencies to handle administration of the complicated rules and regulations. The initiatives may be supplementary and further education.

Other management challenges include improvement of internal organisational processes, developing the IT structure and quality control to ensure that organisations receive equal treatment and to combat unfair competition. Such formulations centre on employee competencies – including support functions as IT, organisational development and quality management.

Table I.
T&S Odense's strategy for knowledge management

Knowledge narrative	Mgt. challenges	Efforts	Indicators
Service			
Reliable and systematic assessment of business	Being well informed about users	Examining the users' expectations and satisfaction Checking activities in the business community Checking new legislation	Number of new regulations within direct and indirect taxes Measuring user satisfaction Number of annual studies
	Employing and securing employees	Planning future competence requirements Creating a family-friendly workplace Marketing of T&S – also the social mission Establishing correlation between salary and performance Creating work tasks that imply responsibility and self-motivation	Personnel turnover Age analysis Number of arrangements concerning part time, leave and other time-off schemes Number of applications Number of employees on New Salary Calculation Number of employees with bonus arrangements Measuring employee satisfaction
Use value			
Controlling unfair competition	Developing specific and personal competencies in employees	Encouraging a holistic approach to the products from T&S Creating cross-disciplinary knowledge distribution Introducing competence development Introducing development methods	Number of job replacements in the organization Number of courses and other knowledge distribution activities Number of international exchanges Size of educational expenses Competence evaluation
	Development of new efficient processes	Developing a process and an improvement culture	Number of process descriptions Number of improvement proposals Benchmarking
Knowledge resources			
A simple, efficient and correct collection system and consulting services about administration of the complicated rules in the legislation	Electronic access to rules, practices, processes and experiences	Entering rules, practices, processes and experiences electronically Checking the results of new legislation, user behaviour, etc.	Number of applied process descriptions Number of decisions Number of new regulations and practices
	Quality management with a view to equal treatment	Preparing quality declarations Preparing QA Examining users' expectations and satisfaction Always acting politely and correctly	Number of language studies Number of quality assured decisions Number of recourse cases Number of complaints Measuring user satisfaction within this area

4.2 Actions and indicators
As shown in Table I, the management challenges are concretised through various actions all of which can be measured. The actions provide the concretise activities that go into managing the development of the institution's intellectual resources, and all these actions point out, where in the organisation the knowledge resources are and what is done about them in regard to their development and deployment. These actions, in general, connect ambitions to be friendly and efficient, and the indicators typically measure the "portfolio" of the institution's people and processes.

5. The Danish Maritime Authority

The Danish Maritime Authority – an agency under the Ministry of Economic Affairs – ensures that activities at sea comply with current rules and regulations. However, through its intellectual capital statement (Table II), it not only presents itself as a controlling body, but also one that provides advisory services to sailors and shipping companies on security, health, environmental matters and international activities to support the competitiveness of Danish shipping on the international market.

To create such value for users of the Danish Maritime Authority (the shipping and fishing industries and the minister), the agency has outlined three management challenges for knowledge management.

5.1 Management challenges
The first challenge is to support incorporation and distribution of knowledge across the agency, especially in terms of numerous different IT-systems. Target areas are, e.g. document and registration systems that support the division of cases across both local and regional offices and the Maritime Authority's intranet, the "Seanet", which gives users access to a large number of different systems and tools such as a management information system, a time registration system and a project overview system.

The Danish Maritime Authority also develops an electronic database of rules that is going to include current legislation, important conventions, resolutions, directives, instructions and decisions. In addition, its IT-strategy aims to make customers and citizens look at the agency as part of an open administration, where it is easy to get in contact with staff members, get access to the databases day and night and take advantage of the interactive facilities enabling customers to complete forms and giving them electronic access to their own cases.

The second challenge highlights the centrality of the agency in international networks and thus presents it as a knowledge and information centre. This mobilises a series of advisory services and it helps the institution to be a valued partner for countries trying to improve the security at sea, including environmental and working conditions for sailors.

Nationally, the Danish Maritime Authority has established a number of formal and informal networks through contacts with various ministries, other agencies and sister organisations. Internally, there is a great exchange of knowledge across the many centres in the agency. Sharing information on specific topics, e.g. the fishing network, creates connections qualification requirements and the technical regulation.

The third challenge concerns the ideal to create a value-based workplace by developing and adjusting the personnel policies. This involved mobilising personnel policy working group to create opportunities for professional and personal

Knowledge narrative	Mgt. challenge	Efforts	Indicators
Service			
The Danish Maritime Authority is in charge of ensuring that all activities at sea comply with current rules and conventions	IT-based workplace to support production and knowledge management internally and externally	Training employees in the use of IT Developing an expert user organisation Developing and applying systems that support knowledge management by being user-friendly and accessible to all The agency should increase its use of IT and especially the Internet in distributing knowledge externally	Time spent on IT training Number of expert users Time spent on training of expert users Number of employees with a PC licence Number of visits from abroad at the home page
Use value			
To create favourable conditions for the shipping industry's competitiveness and sailors' security, health and qualifications and to provide the minister with qualified attendance on time	Cooperation with industry and its organisations to create the most favourable national and international framework conditions	Increased meeting activity with and information about the industry in question and its organisations Partnership Participation in IMQ council Cooperation with other flag nations Successful in service to the minister	Meeting activities in national forums Meeting activities in international forums Participation in international cooperative projects Meeting activities with the industry and its organizations Performance measurement of service to the minister Share of world tonnage Number of Danish sailors
Knowledge resources			
Employees with different educations and training supported by IT tools and an intranet	Attracting and maintaining highly qualified employees and being an attractive workplace	Measuring employee satisfaction Finding new methods for competence development Finding new methods for development projects Finding new methods for seminars Finding new methods for recruitment New flexible salary and work policies	Results from measurements of employee satisfaction Competence development activities Number of employees participating in external experience groups/project groups Evaluation of courses, etc Personnel turnover Number of employees in the accommodating labour market

Table II.
Intellectual capital statement of the Danish Maritime Authority

development, through which the agency tries to take advantage of internal competence instead of relying on external consulting services. This also involves creating a family-friendly workplace with a proper balance between working and family life and practicing social responsibility by employing people who come under the rules of the accommodating labour market.

It has not been difficult for the Danish Maritime Authority to find measures, since for a number of years it has already done this. Therefore, it was quite possible to create information to survey the degree of implementation of the strategies pursued.

6. The Danish Defence Construction Service

The Danish Defence Construction Service handles construction tasks for military and other public institutions as it supplies services in relation to new buildings and building inspection, administration of property, environmental studies, calculation of noise consequences, legal advice, and preparation of directives. As shown in Table III, the management of intellectual capital is oriented towards this varied portfolio of services.

6.1 Management challenges and efforts

The Construction Service has outlined two general management challenges. The first challenge is to ensure that the necessary competencies always are available to supply products with a sound professional basis. This challenge is especially important because one-third of the employees will retire within the next 10 years. Furthermore, young employees tend to change jobs more frequently, which adds to the importance of incorporating employees' knowledge into the organisation.

Efforts are centred on maintaining competencies and involve the creation of small units with competent managers or autonomous units that rely on the principle of self-governing. The more employees interact professionally, the more knowledge will be shared. The agency holds go-home and experience meetings just as they urge the staff to keep their knowledge updated by participating in courses. Moreover, it is the intention to introduce a mentor arrangement where new employees can contact an experienced employee to get advice at the start of their employment. Finally, it has been discussed to introduce a "will", i.e. experienced employees should draw up an informal description of job assignments, procedures, contact persons, problem-solving models, etc. before they leave the organisation.

A number of IT-tools also play an important part in the agency's distribution and securing of knowledge. A systematic recording of information in an IT-system – to which all employees have access – may alleviate the problems of employees who do not know precisely where to find specific information. The Construction Service has its own intranet and an electronic system to handle documents, which allows employees access to all incoming and outgoing mail, notes, telephone notes, etc. Future actions in this area include the introduction of a knowledge database with information about employees' relevant job qualifications. Such a system will enable employees to find relevant information quickly, which in turn will result in a quicker and more professional case administration. In addition, the organisation plans to prepare descriptions of its procedures.

The second challenge also involves employees. Its aim is to ensure that the individual employees are both professionally and socially satisfied in their jobs.

Table III.
Intellectual capital management in the Danish Defence construction service

Knowledge narrative	Mgt. challenge	Efforts	Indicators
Service The Construction Service provides consulting services and implements projects for authorities within the fields of the Ministry of Defence		Focusing on the individual employee's knowledge and thus, value investment and value transfer to the organization Courses Ensuring that the individual employee's knowledge remains in the Construction Service after s/he has left the organization Joint professional arrangements	Number of hours used on internal and external courses Number of internal, professional arrangements Number of training hours in IT-systems at external courses or internal training programmes
Use value The value that the Construction Service creates for its customers is to ensure them that their needs relating to buildings and sites will be handled on a strictly financial basis and in the most professional way. Customers are secured the best technical, environmental and legal solutions. This enables customers to focus on their own core productions	Ensuring professional competence in the Construction Service	Focusing on distributing and incorporating knowledge by means of systems, especially IT-tools to improve efficiency, to systematise and incorporate knowledge within: DocuLive STYR/DeMars FBT-net Courses in IT Decisions and manuals	Number of employees that have received training in DocuLive Number of hours used by expert users to train other employees Number of decisions and manuals
Knowledge resources The Construction Service should have a highly professional level of knowledge within construction technology, legal and environmental matters, including the specific circumstances that apply to the Defence Authorities	Creating a work environment that supports dialogue and results in job satisfaction	Focusing on professional and social feedback and dialogue to motivate the individual employee optimally through interesting and challenging assignments and an environment that encourages the employee to perform well Competence development Performance reviews Workplace evaluation	Employee turnover Number of sickness days per employee Number of overtime hours or additional work hours per employee group Number of human resource development reviews Time reserved for social arrangements

The challenge must be seen in light of the latest defence settlement, which increased the organisation's workload. It is no longer possible to get more time to solve the tasks through new employments. Such prospects may lead to stress and reduced job satisfaction, which the institution seeks to prevent. Thus, the challenge is a variation of the general problem related to recruiting and maintaining employees.

To ensure that efficient and timesaving measures function, the intranet, templates and other data need to be updated, function satisfactorily and be free from errors and shortcomings. Second, it is essential to have a well-functioning work environment in which dialogue and development have a high priority. In this context, special activities include competence development, human resource development reviews and social arrangements.

The Construction Service's analyses are presented as tentative, since the proposition is new and developed in relation to its intellectual capital statement. The selected indicators describe a number of processes that support knowledge management in the Construction Service. They include time used on upgrading IT skills, internal and external courses, employee turnover, sickness days, number of human resource development reviews, etc.
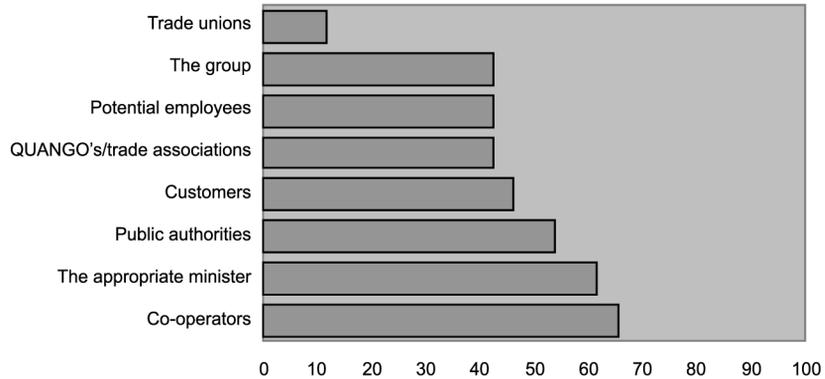
7. Why use intellectual capital statements?

The three examples presented above are brief. But they present the gist of a changing public sector institution that somehow has to "get beyond" the mechanisms of the new public sector and present itself as "more than" performance. The intellectual capital statement – and its propositions about the institution's need for knowledge management – has the potential to help identify and implement measures that relate concerns for knowledge to concerns about what the institution is to achieve. Different from the conventions of new public management to focus on organisational performance, intellectual capital "reinvents" the public institution again and makes its enterprise clearer, because the intellectual capital statement debates and thus constructs the workings of the institution. It provides a language, a management control system and a communication device about how the public sector institution works to create value. Sometimes this allows the public sector institution to invent purposes, which in addition to the control tasks often facing various public agencies, can create a value proposition about how it intervenes and creates value to users.

The intellectual capital statement is thus part of a transformation of the public sector institution. And this transformation is through the perspective that it matters not only whether it creates performance results but also what it does for others. It is interesting to note, that often the 26 public institutions listened to others when designing their intellectual capital statement. Figure 3 shows the share of public organisations that responds "large" or "very large" influence on the content of the intellectual capital statement from the mentioned collaborators.

Figure 3 shows that the political system – the minister and other public authorities – are important actors here, but also shows that co-operators exert the most dominating influence. Our interviews in the firms convince us that such co-operators were often users or user organisations thus suggesting that political and ordinary users were accorded a role in this activity. It suggests that suddenly, the issue is the institution's deliverable in terms of use value rather than merely its performance in

Figure 3.
Which external factors
affect the content of the
intellectual capital
statement

terms of budgetary performance, productivity and customer satisfaction. Somehow the user has become central.

7.1 The user
In intellectual capital statements the user provides the justification of the composition of the relevant knowledge resources. This is where, in the intellectual capital statement, the institution crafts a coherent narrative about what it is to accomplish and thus what kinds of knowledge resources and competencies it has to bring about. This does not mean that the existing user necessarily has to have what (s)he wants; the point is that the actual or potential user develops the perspective from which the institution has to be good at something. In this way, the user becomes the mechanism that allows a coherent discussion of why knowledge is necessary – what difference it will make.

For example, T&S Odense highlights consultancy services for users as a fundamental element. The Danish Maritime Authority emphasises the shipping and fishing industries, including derived industries and the very rationale of the Danish Defence Construction Service is linked to the armed forces as a user. It is interesting that a range of activities goes a step beyond servicing a limited group of users and actually integrates the users in the public administration.

At a strategic level, T&S Odense prioritises cooperative relations with business – in the knowledge narrative – to seek through this to make competition fair. This includes various types of contacts involving partner panels in regularly held industry meetings with the region's companies. There is an exchange of information where the business community receives information and explanations of new legislative measures, while the customs and tax authorities are informed, e.g. about unfair competition, if any.

T&S Odense has also established a so-called "pen" arrangement through which new businesses can obtain advice from business consultants to avoid errors and omissions in their tax, customs or VAT statements. In this way, companies avoid unpleasant surprises and the customs and tax authorities save resources through preventive measures. In effect, T&S Odense tries to move away from merely exercising authority and replace their former practice with some kind of partnership with the local business community.

The Danish Maritime Authority makes it ready to a growing demand from the surrounding society. Close cooperation and an ongoing dialogue with the customers

enable the authority to understand users' demands and expectations. One initiative is the "New Year meetings" between the agency's executive board and the ship-owners' associations and other seamen and fishing organisations. At the meetings, they take stock of the situation and clarify the challenges in the coming year.

These examples illustrate that users are different and these public institutions attempt to develop an appreciation of their services not primarily from a production standpoint but from a user standpoint. The user is an obligatory passage in the development of the institutions' own conceptualisations of themselves. It is part of their identity work, and thus it is also part of their justification of how they make a difference. Here, the minister is but one user – there are others around which capabilities are assembled and developed.

8. The enterprise public institution in the knowledge economy

The analysis presented above has parallels to Rossell's (1999) analysis of renewing governance even if he is not so concerned with the inner working of advanced public institutions where "boundaries blur, and things that once appeared to be discrete begin to look inseparable from other things (everything seems connected to everything else). As society also becomes more complex and interconnected, it becomes increasingly necessary for leadership to operate at the level of values and meaning, to focus on the ongoing process of constructing and reconstructing shared frameworks of mental maps within which more numerous and diverse players can coordinate their actions".

First, the intellectual capital statement is involved in a process of learning and dialogue across boundaries based on knowledge – or narratives – about users' wants and needs. Secondly, the collective learning system is distributed and located in interactions between agencies, individuals and state authorities. The service is negotiated. Thirdly, organisational boundaries are increasingly permeable. Not only is the user an ingredient in the internal discourse of the state of affairs; often additional resources are insourced through various networked cooperative arrangements. This includes skilled inflow of information and not only skilled outflow of information. This is where communication and information technology will be important and thus clearly part of the institution's knowledge management strategy. And fourth, the knowledge narrative is an important communication device and exploration device that can help generate interaction about relevant purposes and possible ways of supplying services.

In effect, the prospect of the intellectual capital statement is for the state institution to learn how to develop and operate a more distributed system of management that partly moves away from vertical bureaucratic structures and towards more horizontal network-style structures in which the authority to make decisions and to innovate is widely distributed, the structures have the flexibility to reorganize to deal with a rapidly changing environment, and the whole is held together by rich communication and a framework of (user) values.

9. Conclusion

There are many ways to work with intellectual capital statements and knowledge management. The three case institutions in this paper are examples. These examples illustrate that the monocentric state is being challenged by the institutions' enterprise orientation moving the public sector towards a polycentric order. With examples from the recently completed intellectual capital statements project, we have tried to show

how the decentralised units are becoming the centre of focus for policy formulation, strategic planning and management. As a consequence, the government's internal borderlines between politics, administration and operation are vanishing through the opening approach towards the users, which in the end will serve to expose the institution's raison d'être in relation to the appropriating authorities. The intellectual capital statements, in contrast, envisage a public sector designed to relate to users. However, as the institutions obviously determine their offering, this will not be without possible contradictions, because just how differentiated can politicians allow public sector institutions to be?

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