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## Knowledge balance sheets in Austrian universities: The implementation, use, and re-shaping of measurement and management practices

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### ABSTRACT

The aim of this paper is to contribute to the understanding of how a mandatory external (mostly) non-financial reporting process, labelled Knowledge Balance Sheets (KBS), is interpreted and used by different stakeholders in the Austrian university system. We are also interested in how the content and structure of the report transforms over time, how the possible link to the internal management control agenda is made, and how it reshapes organizational routines. The paper applies a critical approach where mostly non-financial, intellectual capital-related measurement, management, and reporting processes and structures are being questioned and discussed from different perspectives.

This study is based on a qualitative case study approach where a number of semi-structured interviews have been conducted in various Austrian universities at different management levels over a period of approximately one year. In addition, interviews have been held with other stakeholders of universities (e.g., representatives from the ministry) and with members of the working group dealing with the KBS at the supra-university level. An inductively oriented methodology was chosen to obtain a deeper understanding of the current (management) interpretation and use of the KBS, both externally and internally. This paper aims to investigate the practice of KBS in order to build new knowledge relating to both externally oriented reporting and internally oriented management control.

The findings indicate that as a reporting-tool, the KBS is embedded in a broader framework of governance and accountability regarding public universities, and interlinks the following different reporting-formats: (1) the KBS itself, (2) the performance report, and (3) the financial statement of accounts. Rectors, deans, and management accountants have highlighted different parts of the framework as important and problematic. However, it is obvious that governing via externally oriented reports and rules of accountability also has relevance to internal management decision and control agendas.

Furthermore, there is an on-going debate about measuring, benchmarking, and standardizing qualities within and between universities. Scientific professionals generally question the viability of only one standardized reporting format for scientific outcomes, while the administrative staff usually promotes the necessity of such a report – for example, with respect to benchmarking routines. By analysing the practices triggered by KBS reporting, we contribute to the discussion of how performance (measures and targets) can be represented, interpreted, and acted upon within public organizations in general and within public universities in particular.

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## 1. Introduction

Austrian public universities are an example par excellence of Anthony Hopwood's insight: 'Accounting continually has had a tendency to become what it was not' (Hopwood, 1987: 297). With the Universities Act 2002 (Universitätsgesetz, 2002), Knowledge Balance Sheets (KBS) became mandatory for public universities in Austria. Assuming that the KBS – a new (public management) instrument for the individual university as well as for the Ministry in charge at that time – may influence managerial processes of decision-making and control, we are interested in developing a critical view of the practices around KBS.

Although Austrian public universities were the first in Europe forced by law to implement a KBS and detailed intellectual capital reporting, these organizations are relatively under-researched concerning new reporting practices and their consequences. Researchers are confronted with the impression that the organizational setting after the implementation of the KBS is *somehow* different from before. This is hardly surprising given the context for higher education institutions (HEIs) in general, that is, the tendency towards greater competition and benchmarking between universities because of the Bologna Process and the radical changes in public governance rationales and processes since the mid 1980s (Bovaird, 2005; Haque, 2000; Parker, 2011), which fostered the implementation of new public management (NPM) tools and enhanced accounting and accountability (Christopher, in press). However, reconstruction of the specificity of *somehow* in this context (Bovaird and Löffler, 2003; Hopwood, 1983) is still to be done – at least in the Austrian context.

The literature on intellectual capital (IC) in HEIs focuses primarily on the identification and measurement of IC (Secundo et al., 2010). Accountability follows the 'perspective of making public a set of organization-specific information' (Secundo et al., 2010: 153). The main intention of initiatives like the project of the Observatory of European Universities, where 15 European research institutions developed a catalogue of performance measures for the outcomes of research activities, is to 'understand better the importance of managing intangibles in public universities in order to improve their level of quality and competitiveness' (Sánchez and Elena, 2006: 538) and to provide a benchmarking framework for comparisons. 'IC approaches seem to be essential in order to improve governance and to facilitate benchmarking analysis' (Sánchez and Elena, 2006: 543), as the IC approach to higher education generally supports a more nuanced stakeholder view of organizational value creation in comparison to, for example, the traditional NPM approach (Almqvist and Skoog, 2007).

While there are clear signs of changing internal governance in universities around Europe, for example, in the UK (Middlehurst, 2004), there is almost no fundamental critique expressed in the field of IC measurement and management in HEIs. Instead, there are several 'challenges' mentioned (Sánchez et al., 2009), such as how to deal with the specific trade-offs between internal management information and external reporting, between possible comparisons and sound representation (European Commission, 2006), and between adjustments and comparability over time (Sánchez et al., 2009). The latter shows the difficulty in representing the dynamics of IC while simultaneously providing a true and fair view.

The discourse on IC generally has more critical voices, although not overly many (Dumay, 2009; Fincham and Roslender, 2003; Mouritsen, 2009). A fundamental critique is offered by Fincham and Roslender (2003), who interpret IC accounting as a 'management fashion' that reveals a 'hidden agenda' of professional group interests within accountancy and the economic sphere of society. Their focus is complemented by a more immanent form of critique presented by Dumay (2009). He takes the process of the 'accountingization' of IC as given and identifies the counterproductive effects of this tendency. His critique opens up a discussion on understanding value creation, extending the accounting-oriented agenda (e.g., towards narratives and visualizations, Mouritsen et al., 2001), or a focus on 'connectivity' instead of separation (Bjurström and Roberts, 2007; Habersam and Piber, 2003; Skoog, 2003, 2010).

In the Austrian context, the question of what IC is or should be has already been decided by law, defined by decree, and encompassed more or less explicitly by the MERITUM<sup>1</sup>-project's IC taxonomy (2002). Our paper intends to enhance the understanding of how a mandatory, external, (mostly) non-financial reporting process and format, labelled KBS, is interpreted and used by different stakeholders in the Austrian university system. We are interested in how the possible link to the internal management control agenda is made, how it shapes organizational (accountability) routines, and how the content and structure of the KBS transforms over time. The paper therefore is linked to functional as well as dysfunctional aspects that occur when the KBS as a report inspired by the IC discourse transforms from an externally required reporting structure to a relevant internal management control perspective (compare: Saliterer and Korac, 2013). Benchmarking activities and budget games are vivid examples of both aspects because the Ministry in charge ('the Ministry' in the following) benchmarks the universities via KBS-figures and distributes at least 20% of the budget according to some key figures of the KBS as a performance report.<sup>2</sup>

From a theoretical perspective, the link between external reporting requirements and internal management practices can be analyzed in the framework of New Institutional Theory. In their seminal paper, Meyer and Rowan (1977) state that the

<sup>1</sup> The MERITUM-project was an EU-funded research project within the framework of the Targeted Socio-economic Research-Programme. It produced and presented not only an IC-taxonomy but also a set of guidelines for managing and reporting on intangibles (intellectual capital) in 2002. Their application was conceived as a learning process parallel to the production and reporting of indicators (Johanson et al., 2006, 2009). In order to facilitate the integration of IC-management within the organizations' internal management control processes, a number of supporting processes are presented, such as: evaluation, attention and recognition. Researchers and institutions from the following European countries took part: Denmark, Finland, France, Norway, Spain, and Sweden.

<sup>2</sup> With the reform of the Universities Act in 2012 the allocation of 20% of the budget according to KBS performance measures was abrogated.

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