

## **The problem of more and more and more**

June 16, 2014

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Most of the measures we use equate winning with having more ... and in the end there is a race to have more and more and more.

This may not be the smartest thing we ever do. At some point more becomes a constraint and a negative rather than being a positive.

For most of recent history it was a reasonable thing to equate quality of life and standard of living with having more. There is no question that having more food when you are hungry is a positive, having a house rather than not having, having a refrigerator rather than not having, and so on. But having too much does not add very much if anything, and having new when the existing one still works well may not be all good, if it is good at all.

Productivity ... making more things with less labor ... has been an important part of progress for ever. But this component of progress has become the Achilles heel of modern society because a system that uses profit optimization as the dominant business model is going to invest in productivity and disinvest in people ... and then people are going to get less income ... and then people are going to buy less ... and lose quality of life and standard of living ... and in the long run the society, the economy and the profit potential all suffer catastrophically.

The benefits of productivity have to be shared in an optimum way between labor and money capital. Profit maximization is not the optimum way. Conventional accounting works well for money transactions and accounting for profit, but it does not have a way to handle impact on people and planet ... no way to account for externalities. Externalities are important but will remain outside the conversation as long as they are not measured and accounted for.

There are an increasing number of initiatives to improve the reporting of externalities, and this is very good news. My hope is that these initiatives will eventually incorporate all the externalities in a way that is both rigorous and easy to use. So far this has not happened, but in time, I think will emerge.

Perhaps my biggest concern is that much of the thinking is that business profit progress should be at the center of analysis and optimization. Rather, I think that progress should be based on the idea that people are at the center with their quality of life and standard of living is going up and the damage to the planet and the environment is going down. The business organization is an agent for this change ... and playing a big role, but not in itself the purpose of economic activity.

Exciting times ... change may be nearer than we think

Peter Burgess, TrueValueMetrics ... Multi Dimension Impact Accounting



## The value dynamic of energy

June 19, 2014

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Lest we forget, the high standard of living that rich countries have enjoyed in recent years has been enabled by our ability to use energy in all sorts of ways that have improved our quality of life.

The industrial revolution was driven by the use of energy to enable far greater factory productivity than had ever been possible before, and then all sorts of innovations in transport that enabled people and goods to move around the world as never before. Factories were built close to sources of coal, and steam power made it possible for people to make far more than they had been able to in a manual setting. Later, petroleum displaced coal, and distributed electricity displaced steam engines in driving factories. The internal combustion engine and the jet engine revolutionized transport.

For the best part of 200 years the only metric that drove decisions was whether or not energy use would drive up productivity and profit, and that was how decisions were made. Places like the United States took advantage of their low cost energy sources ... hydro, coal and petroleum ... to have low priced energy which gave US industry a competitive advantage on the world stage. In turn this made the US economy profitable but at the same time very energy inefficient.

This did not matter until the 1970s, when the Organization of Oil Exporting Countries (OPEC) was founded and the flows of petroleum started to be controlled for the benefit of the oil exporters at the expense of the oil consumers. This had a dramatic impact on the socio-economic performance of the United States ... and I would argue, that the US has never recovered from this shock, nor has the country understood the implications of this for the future long term socio-economic performance of the country.

The subject has become more complex in the past 40 years because there is now a general realization that the use of energy has environmental impact that is considerable and potentially very dangerous over the next several decades.

If every country in the world used energy as inefficiently as the United States and has socio-economic progress towards the same living standard as the United States, the consumption of energy and the release of greenhouse gases on an annual basis will be several times what is happening at the moment. This tragedy is that this is the trajectory we are following and there are no initiatives to change this in a meaningful way.

The good news is that there is a growing conversation about the problem ... but it is only talk, and some fiddling at the margin.

Places like the United States need to figure out how to maintain a fantastic lifestyle, and do it using just a half or a third of the energy! Everybody needs to change to a lifestyle that

consumes less energy.

This is radical change. Every stakeholder in the energy industry is positioned to 'push back' because they have had it all their own way for the past 200 odd years. Every industry is going to have to rethink its basic business models ... something they really don't want to do.

I argue that the only way change of this magnitude will every happen is if we change the way we measure performance. Conventional accounting, profit reporting, stock prices and GDP growth have got to be complemented with impact accounting that shows the impact of economic activity on quality of life and standard of living of people, on the depletion of resources and the degradation of the environment. When we change the way the game is scored, we will change the way the game is played.

The stakes are high. The good news is that we have the knowledge to make the changes and a growing community of global citizens who are going to insist that it gets done.

Peter Burgess - TrueValueMetrics - Multi Dimension Impact Accounting

## **For metrics to be useful, perspective matters**

June 21, 2014

235 92

I have used numbers throughout my career as a management tool, and have never been particularly visual in my appreciation of things. Nevertheless, I have realized that one of the ways numbers change from very useful to very useless is often the matter of perspective.

In the modern world, there are some aspects of the socio-economy or the political-economy that are reported on almost continuously 24/7. These are things like stock prices on capital markets, corporate profits and GDP growth ... and decision makers and policy makers strive mightily to make these metrics better.

In my view this is looking at society and the economy from the wrong perspective.

I argue that this perspective has the corporate organization and stockholders at the center ... with everything else around the periphery ... or excluded from the picture altogether. This is bound to get a result that effectively ignores people and planet .. and this is what we can observe.

Conventional accounting has this perspective, and is a very powerful part of making management information work for profit performance improvement. Conventional accounting has a singular focus on the organization and externalities are ignored.

GDP is a measure at the center of conventional macro economic statistics. The limitations of GDP have been recognized for decades. I often think that corporate management likes the GDP growth metric simply because it makes their job of making profit and improving stock prices so much easier.

These measurement systems are totally inadequate to the large and complex global economy

that now exists. Both systems ignore a huge amount of activity that is important to quality of life and important to the sustainability of resources and the health of the environment.

Worse, none of the prevailing metrics gets at the problem of the valuing the impact of massive future indeterminate risks. The popular idea that you can discount the future makes this issue even more of a concern.

Knowledge has expanded enormously during the past few decades, and what we now know is amazing compared to what we knew 50 years ago. Conventional accounting and GDP statistics are where they were a very long time ago, and externalities are ignored even though it is now apparent that externalities are becoming more critical to socio-economic performance than they have ever been.

Measurements need to reflect progress and performance from a lot of different perspectives, with the progress of people at the top. A metric for the performance of an economic activity is impact on quality of life and standard of living of people. An effective metrics should embrace this perspective.

Improved quality of life and standard of living will impose stress on the planet ... on resources and on the environment. Metrics should relate progress on quality of life with achieving less damage to the planet.

Metrics should enable the analysis of economic activity so that there is the most progress in quality of life and least damage to the planet. The organization of economic activity should not simply be to maximize the profit for investors, but to do this while also getting good performance with respect to people and quality of life, and with respect to damage to the planet.

In fact, economic activity should be organized and funded not so much to get maximum return for investors but more to get the maximum good for society.

Lest anyone misunderstand ... this is not communism or socialism. This is an enterprise environment, but one where enterprise is organized not so much in the profit maximizing mode but organized to maximize common good.

In order for the common good to be maximized through some form of analysis, there has to be quantification of all the important things that go into the working of the modern economy and society. This may be done using a system of standard values, somewhat similar to standard costs in conventional accounting ... but applicable to everything that matters for people, for the organization and for the environment.

Good metrics have to be relatively easy to use and understand. The same data gets looked at from different perspectives, and the same data are applied to different dimensions of the same thing. This translates into doing numerical analysis not only about people, profit and planet, but also about place and about product. In every case the same core data about real facts gets used for many different views ... perspectives ... and many different actors.

In the end, this helps to get balance ... something that is increasingly missing in the decision making that is supported by the current systems of dysfunctional metrics.

## **Candy Crowley had Woodward and Bernstein on her...**

June 22, 2014

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This morning (Sunday June 22, 2014) Candy Crowley had Bob Woodward and Carl Bernstein on her CNN show 'State of the Union'. The following are two clips from the conversation, but as I remember the conversation this is not the whole of the conversation. An important component of the conversation is missing.

**Watergate legends on today's scandals ...** Watergate reporters Woodward and Bernstein on how reporters should cover Benghazi and the IRS.

<http://www.cnn.com/video/data/2.0/video/bestoftv/2014/06/22/exp-sotu-woodward-bernstein-on-benghazi-and-irs.cnn.html>

**Two legendary reporters' take on Iraq ...** On Iraq: Woodward and Bernstein say between Bush and Obama there is enough blame to go all around.

<http://www.cnn.com/video/data/2.0/video/bestoftv/2014/06/22/exp-sotu-woodward-and-bernstein.cnn.html>

What is missing from these clips is the elements of the conversation where Woodward and Bernstein made it very clear that a big part of the problem was the performance of the media ... essentially in everything. What they said was a powerful indictment of the way the modern media does a lot of talking (commentary and image projection) without much real journalism and digging into the story. Candy used budget pressure as a justification for shallow reporting, but it was pointed out that in the mainstream media profits from entertainment could easily fund really good journalism, but getting news to be as profitable as entertainment was neither realistic nor necessary.

The fact that this part of the conversation went missing speaks volumes for CNN in particular and the media in general.

I have had a strong position on the failure of the media to report on many if not most of the important issues of our time for a very long time ... going back to the 1970s. I was in Lagos Nigeria soon after the Biafra war and was shocked at the expatriate jokes about how the war was covered by the journalists ... from around the swimming pool at the Federal Palace Hotel. While some of this was humor ... it was clear that there was a good part of reality in what was being described.

I am constantly disappointed by the lack of understanding of subjects where I have some expertise. This is partly caused by lack of budget for in-depth reporting, but it is more the choice media companies make in their allocation of available money. Big and growing profits are more important than better journalism and a better informed public.

There may be a place for optimism. Big changes are taking place in almost everything, and one has to hope that there will be major changes for the better built on top of great technology and a huge new population that is better educated than at any time in the past. At some point, the media moguls and business planners are going to 'get it'!

Peter Burgess - TrueValueMetrics ... Multi Dimension Impact Accounting

## **The value dynamic of advertising**

June 23, 2014

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Advertising is a big segment of the modern economy, but the value dynamic of advertising is perhaps not very well enough understood by the public at large.

There was an important inflection in global economics about 50 years ago. Instead of the world being in a situation of endemic shortage, the productive capacity reached a position where production (supply) exceeded need (demand). For business, this meant that consumers had to be persuaded to buy more products and to buy 'my products' rather those of someone else.

The meant advertising. Advertising is all about getting people to consume more, and advertising works. Though people may say they dislike advertising, the data show that people change their behavior based on advertising. Companies that reduce their use of advertising usually regret it.

However, I argue that the metrics being used throughout the economy are dysfunctional in that: (1) companies are only reporting based on conventional money profit accounting, where more profit usually results from more sales; and, (2) the performance of the national economy is measured by GDP where GDP has a big component of consumption in its makeup.

It seems to me that the corporate management community likes this, because it is far easier to have more revenues and profit improvement when there is a growing GDP ... when more products are being consumed.

For society and the global economy, however, advertising is encouraging behavior that makes things worse and not better. Resources are being depleted faster and environment being degraded more rapidly.

In my view, more consumption is only a good thing when the result is a better quality of life for the consumer. This is true when a person does not have enough, and more enables someone to have enough. When more buying results in more waste, then more is a bad thing.

Advertising from the perspective of the producer is good as long as more product is sold and profits are increased, whether or not the consumer gets incremental value from more buying.

If the metrics for socio-economic progress and performance included not only the conventional accounting measures for profit, but also rigorous quantified measures for impact

on people and impact on planet, then there would be a very different framework for decision making.

If the tools of advertising were used not only to inform the consumer about why they should be buying the product, but also to inform about the damage the product is doing to people and planet through the complete lifecycle of the product, people might well make different decisions.

There is a bigger systemic problem in the economy that also needs to be addressed. A big part of the information economy is being driven by an 'advertising model'. There is a lot of 'free' content accessible on TV and on the Internet that is paid for by the advertising. In turn advertising is paid for by companies that are promoting their products.

More and more consumption is a good metric when the economy is faced with shortage, but more and more when society is faced with resource depletion and dangerous environmental degradation, this becomes a very bad metric.

The prevailing value dynamic of advertising is out of step with what is needed in the modern world. The whole of the advertising industry is beholden to the prevailing conventional corporate model of more is better. The value dynamic of advertising should be something that is built on top of the idea that state, progress and performance has a value (truvalue) dimension as well as a money wealth dimension.

Peter Burgess – TrueValueMetrics ... Multi Dimension Impact Accounting

## **Cost and Price in US Healthcare**

June 28, 2014

114 32

There is a lot of commentary about the state of US healthcare, but for me, this conversation is rarely clear about cost and price. There is a difference between the cost of healthcare, and the price of healthcare, and this difference is important. What the user of the healthcare system pays for health services is the result of prices. What the deliverer of the healthcare pays for everything are costs.

Over time there have been big changes in the costs, and because of great technology many aspects of healthcare have much reduced cost. For example the advent of antibiotics reduced the cost of disease control substantially. The cost of aspirin therapy is very very low.

The cost of running the healthcare system should have gone down significantly with the advent of IT, but it is not at all clear that the power of IT delivered much in the way of cost reduction. There has to be a reason!

The cost of training for positions in the medical field has increased over time, just as education in general has increased in cost over time. Why is this? A big part of this answer may be that the shortage of medical staff has enabled the price (wages) of medical staff to increase so that the cost of education did not matter very much. Innovations in the way



medical staff get trained and certified could have changed significantly, but has not.

For most people receiving medical care, the price of medical staff is not a direct concern, because this price is being paid by some third party payer. The receiver of medical care usually pays into some sort of a pool with very little negotiated other than in the broadest possible terms. Third part intermediaries try to match costs with prices in a way that best serves their stakeholders. In for profit intermediaries, investors are an important stakeholder, yet it is not at all clear whether their investment brings any significant benefit into the healthcare space.

Some of the technology being used in the healthcare sector is amazing. Companies like GE and Siemens have put a price on this equipment that is very high, and these business segments are very profitable for the respective companies. In other words, the cost of this equipment is significantly lower than the price. Maybe the profit is reasonable, maybe not.

The differential between cost and price in the pharmaceutical segment of the healthcare industry is a matter of interest. Research and development is a real cost in this part of the healthcare industry ... but it can also be said that keeping investors happy with more and more profit is also a very real cost in this industry. Whether or not the pharmaceutical industry has optimized its performance with respect to health outcomes has not been as important as optimizing performance with respect to stock price metrics.

Some of the actors in the healthcare sector understand the difference between cost and price, and the way profits and premiums are earned. I am reminded of the very active lobbying efforts of the American Medical Association (AMA) at the recent past political conventions. It seems that the AMA are very protective of the status quo and the reason for this is that there is a very large profit or premium differential between the cost of healthcare and the price of healthcare. To what extent the shortage of staff in the health sector is a function of reality or is some artificial creation that has the result of being a big benefit to insiders at the expense of everyone else.

Thinking about everything that is going on in the healthcare sector through the lens of both cost and price gets very interesting. A simple conclusion is that in large part the US healthcare industry has been run for its own benefit rather for the benefit of society as a whole. I argue that this should come as no surprise because the basic business model of the industry has been to make anything that approaches a 'market solution' end up being of benefit to the industry. In my view many of rules and regulations have been 'gamed' so that in the end the rules ended up being another way that there is more benefit to the industry.

Thinking more clearly about cost and price is a first step in getting to understand better what is going on in the industry ... and then, perhaps, getting some reforms so that price more reasonably relates to cost. It is only a step ... the industry is very complex with a very large number of actors and stakeholders ... but one has to start somewhere.

Peter Burgess - TrueValueMetrics - Multi Dimension Impact Accounting

## **Is there a RISK arising from abundant cheap energy**

June 30, 2014

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The US economy has thrived over the years because of abundant cheap energy ... not to mention, cheap land, cheap minerals, cheap timber and cheap water. The US built a huge industrial and agricultural industry on this foundation of cheap inputs, together with buildings and infrastructure.

All of this had one thing in common. This was all built without much attention to the efficient use of resources ... energy and otherwise.

The United States is extremely inefficient in its energy use. Per capita carbon dioxide emission (CO<sub>2</sub>e) in the United States are more than 20 tons per year, while the equivalent number for Europe is around 8 tons. The GDP per capita is about the same in the United States and in Europe.

Are carbon dioxide emissions a risk? The science shows that the amount of greenhouse gases (GHG) like CO<sub>2</sub> in the atmosphere have increased very rapidly in recent years, and in turn there are substantial changes in weather patterns and temperature. While science can tell us what has happened, it cannot tell us definitively why it has happened, nor what will happen in the future.

But what we do know is that there is a RISK ... and furthermore we also know that this risk is huge. We know that the cost of protecting against the risk will be in the trillions of dollars and will get bigger the longer doing what is necessary is delayed.

One of the problems with conventional accountancy and economics is that the methodology for accounting for and reporting about risk are ineffective. In business finance it is normal to 'discount' the future ... but in managing risk this concept does not work. Rather, as time passes the cost of being prepared against the risk increases.

Some policy makers in the United States are happy that techniques like hydraulic fracturing (fracking) are making oil and gas in the USA more abundant and a potentially much cheaper source of energy in the event there are disruptions in international production. But as this abundant cheap energy is positive in one direction, what does this really mean for the energy efficiency of the country, and the risk of further acceleration in the climate change associated with GHGs.

The US oil and gas industry appears to be very happy with the increased abundance of cheap energy ... but in a true accounting which includes RISK, the impact on society and the impact on the environment makes this bonanza look more like a huge bombshell with a fuse that may not be very long.

My work in the development of Multi Dimension Impact Accounting (MDIA) is seeking to put numbers around this risk. My view is that until we start to use numbers that measure everything that really matters, we will only take into account what are reported by conventional accounting and economic metrics ... both of which are dangerously flawed.

## **Conventional Accounting is Failing Society**

June 30, 2014

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Conventional accounting is a very powerful tool for business management used both for reporting money profit performance to investors and used within the internal business MIS to optimize the performance of the organization by reducing costs and increasing profits.

Many generations of business school students have learned how to optimize business performance using conventional accounting numbers and have positioned themselves to become highly paid financial engineers.

But all of this is failing society.

Simple accounting metrics that help a business operate efficiently results in a good business, is good economics and is also good for society ... and this works in a world that has the characteristics of a free market as described by Adam Smith in 1776. It does not work well in a society and economy that is as complex as we have today and where a very large part of the economic activity in the world is controlled by very very large multinational entities. Many of what we call 'markets' are gamed in a variety of ways, and rarely serve the purpose described by Adam Smith.

Optimizing the performance of big business entities using metrics based on conventional accounting is most likely going to result in serious impact on people and planet. The profits will be reported, the impact on people and planet will be ignored. To the extent that reporting of these is required, at the moment this will be qualitative reporting not something that is rigorously quantified.

Quantification of impact is essential and it can be done.

The simple arithmetic for payroll is that payroll is a cost to the company and a negative for profit. At the same time payroll is an income for the employee, money for the employee's family and money circulating in the community where the family lives. A company should have metrics for all of this, and not just the payroll cost in the money profit accounts.

Other parts of conventional accounting need to be supplemented by impact analysis. The money spent on energy is also an impact on the planet in terms of resource depletion and environmental degradation.

All of the materials used in production come through a supply chain. The conventional money profit accounts only report the immediate money cost of the materials, but these materials have a whole supply chain story embedded in them. This needs to be extracted and brought into account. This covers all the environmental issues, the workplace safety issues, the profits, the taxes, the pluses and the minuses.

Products being sold have a price and the revenues go to profit in the conventional accounts. Products have a history that includes not only the elements from this part of the manufacturing chain, but all the prior supply chains. Products also have perceived value to the buyer and an embedded story about the supply chain, and then the impacts during use and eventually the post use waste chain. Products are the link from people and their quality of life and everything else down to the impact on the environment.

Investors applaud a company when it reduces the taxes it pays. When taxes are not paid, it is society that loses. The idea that almost every government entity on the planet is bankrupt suggests that more taxes are needed (though I will also observe that the efficiency and effectiveness of government leaves a lot to be desired ... something that better metrics can help to fix).

Conventional accounting is powerful because it has an interesting data architecture ... the idea of balance sheet accounts and profit and loss accounts. There are other important concepts that make accounting so very effective including clarity about the reporting boundary. All of this has been used for a very long time to account for the organization and the performance of the organization.

I argue that these ideas from conventional accountancy need to be used to help understand the performance of people and their society ... and the impact a good quality of life for people is having on the planet, on nature and everything that relates to the natural world. In this data architecture or analytical structure, the organization is an intermediary between these two primary forces. The efficiency or effectiveness of the organization should be seen in the context of the progress of people and the impact on planet.

Conventional accounting is failing society ... but the framework of accounting is strong, and it could be re-purposed to be of immense value in better decision making for society and the planet.

Exciting possibilities

Peter Burgess - TrueValueMetrics - Multi Dimension Impact Accounting

## **The Life and Death of a Corporation**

July 1, 2014

124 82

The life and death of a person, plant or animal is governed by natural laws, but the life and death of a corporation is governed by laws and regulations written by people.

Maybe a corporation never dies, or maybe it is killed by business competition, maybe it dies when it is convenient.

During its life, a corporation may make a real mess of the environment, a mess that will take a very long time to fix, and will cost a lot of money and effort. When the company dies, it is society that will have to clean up the mess.

Take the case of coal mining in Western Pennsylvania in the United States. There was a time when this area had a big coal mining industry producing coal mainly for the railroads and the steel industry. This was underground mining and over time when pits were worked out they were abandoned. Eventually most of the companies engaged in mining wound up and investors moved on.

The companies were now dead, but environmental issues stayed very much alive. The abandoned pits flooded and the waters coming from these pits flowed into the streams and down into the rivers. This pit water contained a variety of pollutants in concentrations that kill fish and other aquatic life. With this contamination of the rivers, they could not be used safely for recreation. Thousands of miles of rivers in Western Pennsylvania were impacted by this problem.

But who gets to foot the bill for cleanup. The company is long dead. It is society that must pay the cost of environmental damage resulting from once profitable industrial activity. Civic groups and public funds are being mobilized and clean-up is underway ... but it is taking years. The companies and investors made money, society foots the bill for clean-up.

The systemic problem of corporate pollution is long standing. In 1980 Congress passed the Superfund Act ... the Comprehensive Environmental Response, Compensation, and Liability Act, (CERCLA) ... to identify and clean up thousands of toxic dumps. 30 years later (2010) there were still over a thousand superfund sites to be cleaned up. About 70% of the cleanup has been paid for by responsible parties, but about 30% has been paid for through superfund resources. Initially the superfund was funded by levies on the petroleum and chemical industry, but since 1995 the funding has come via Congressional appropriation from government's general fund ... in other words the taxpayer pays.

When a company dies ... the pollution that it has caused during its life goes on and on and on. This is very convenient for the investor community, but not so good for society at large.

This is not just an old problem, it continues as a very important problem at the present time. In the United States, hydraulic fracturing (fracking) has made it possible to extract oil and gas from many more geological formations ... but there are questions still about the potential impact on groundwater from use of various toxic chemicals used in the fracking process. Big multinationals like ExxonMobil, BP, Shell, etc. have the financial resources to handle large scale catastrophic pollution, but many of the companies actually doing the fracking are quite small with rather modest financial resources. There are maybe as many as 7,000 small drilling companies presently engaged in fracking, and if any of these creates catastrophic pollution, then the company will instantly 'die' and society will be left with the problem of cleanup.

This is a risk that should be provided for by the industry, and not a risk that should be left for society to bear. It has been pointed out that funding this risk would make the industry uncompetitive and not profitable enough. It seems in this situation that all the gain is for risk taking investors, and the big risk is for the account of the public at large.

Companies may live and die ... but hopefully, society goes on for ever. Legislating corporate responsibility is almost impossible, but there is nothing to stop management and investors being socially and environmentally responsible. This will be facilitated as soon as there are systems of accounting and reporting that includes not only the profit dimension, but also the impacts on people and planet.

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## Taxation ... What We Love to Hate

July 4, 2014

106 4

Today, Americans are celebrating the signing of the Declaration of Independence ... a wonderful document that is worth reading from the end to the beginning.

But good government costs money, and that means there have to be taxes to pay for things we expect government to do.

One of the little 'facts' that has bothered me for quite a long time is the near bankruptcy of almost every government entity on the planet. People want services, and politicians make the promises that services will be available, and then spend the money ... but the politicians fail to say what these things are going to cost and fail to raise enough tax revenue to pay for the things.

But the problem goes deeper than this. Almost every government entity uses a very primitive system of accounting. Almost all government accounting is 'cash basis' accounting, meaning that the system is really nothing more than a huge 'cash book' or a revenue and expenditure record, with no 'double entry' and no 'balance sheet'. Many government entities do not have a way of accounting for 'accruals'.

All of this means that typical government accounting is a set up for easy manipulation of the numbers and all sorts of creative ways of 'balancing the books'. The type of accounting that is the norm for government was deemed unacceptable in law for corporate organizations (in the UK, and I expect most of Europe and North America) sometime in the late 19th century ... but the politicians have not seen fit to use a similar rigorous system of accounting for their own activities. Shame on them!

The problem of unfunded pension liabilities in government entities (not to mention in the corporate world) is a huge problem. This has arisen in part because the scale of this problem is hidden from readers of government financial reports. In most jurisdictions, government managers have to balance the 'cash books' but they can defer all sorts of things into the future and not account for it. If this sounds ridiculous ... it is ... but it is the way government does this stuff!

The business community hates taxes. For a profitable business, the tax on profits may be one of the larger charges, and impossible to reduce by operational efficiency. A business owner or investor can easily know this number, and be unhappy about it.

But this tax has an important value for government and the society which the government services. Quality of life is impacted in all sorts of ways by the services that government provides ... and in many cases we all take for granted.

There is a legitimate question about the efficiency of government. Many, if not most, government services are delivered at a cost that is far higher than would be deemed acceptable by most privately operated companies, but, on the other hand, many government services often deemed essential (like the fire service) are in a standby mode for a big part of the time. Other services like mass transit have to be big enough for the commuter rush hours and then spend the rest of the time operating at a small fraction of their capacity. But though government services may be costly, they are valuable and contribute to our quality of life.

There is something wrong when there is a multi-year backlog of infrastructure maintenance and

upgrading. Government does not have the funding to take care of this backlog, yet there are trillions of dollars of wealth that sits by idly in tax havens and difficult to mobilize because to do so will require some modest payment of taxes!

Whether or not government should be the dominant provider of education and health services may be an open question, but these services are important for quality of life. Whether it is the government that pays or not, these services must be paid for, and if not the government, then by people themselves ... and in this case many wages paid by business are inadequate ... and yes, more wages probably means less profit ... and this tends to be problematic for business owners and corporate managers!

Getting taxes (and wages) right is not easy, but the idea that really low taxes and really low wages is the optimum arrangement for a healthy society is, I believe, absolutely wrong.

I am particularly disgusted by the huge efforts made by corporations to 'game' the tax systems so that they pay as near zero tax as possible. Big corporations are aided and abetted in this anti-social activity by the big (and small) accounting firms and law firms who work assiduously to find the loopholes in the tax laws, rules and regulations so that they can structure themselves to pay the least possible taxes. Certain jurisdictions around the world also design their business and tax laws to enable corporate gaming of the tax rules ... a massive race to the bottom that is having a huge cost to society, a cost that is not recorded in conventional accounting which only books the upside of 'less taxes'.

This 'rant' was precipitated by recent news about Walgreen's possible acquisition of the Boots Alliance drug store chain in Europe, and the planned relocation of its legal headquarters to Switzerland and the resulting loss of tax revenues in the United States. Interestingly a significant part of Walgreen's revenues in the United States comes from drug sales funded by government programs paid for with tax dollars!

<http://www.americansfortaxfairness.org/files/OffshoringAmericasDrugstore.pdf>

To conclude ... while taxation reduces both personal and corporate spendable income, the value to society from the payment of taxes is very important. Government services have to be paid for and that requires taxes ... but at the same time government services should be delivered in an efficient and cost effective way.

Peter Burgess - TrueValueMetrics - Multi Dimension Impact Accounting

## **Making Conventional Accounting More Relevant**

Conventional accounting is very powerful and at the center of every good corporate management information system. A well managed business knows how costs behave and is therefore in a position to optimize the way the company operates so that costs are minimized while revenues are maximized. It is cost accounting, a subset of business accounting, that provides the decision making information.

An equivalent subset of business accounting is needed to provide information about impact on people and planet, an accounting module that includes externalities in a coherent way.

Cost accounting enables an analysis of 'cost of sales' from a money profit perspective. Impact accounting will enable an analysis of a number of specific important 'expenditure accounts' in the

profit and loss account ... specifically:

1. payroll;
2. energy;
3. taxes;
4. non-business pro-good expenditures; and
5. purchased materials.

## PAYROLL

When payroll goes down, profits go up. But when payroll goes down, the employee earns less or nothing at all. This has a direct impact on an individual's quality of life.

There is a 'knock-on' effect in that the family of the individual is all impacted.

There is a further 'knock on' effect because of the 'local multiplier' in the community where the individual and the family lives.

The impact of payroll is not only a function of its aggregate size, it is also a function of how wages are distributed between different people. A low wage that changes results in a bigger impact change than a high wage that changes. At some level of remuneration, a change in remuneration has very little impact on socio-economic performance ... and this level is now a small fraction of what many C-level executives are now being paid.

## ENERGY

With regard to energy, the use of energy enables things to be done than cannot be done without the use of energy. This is a positive thing, but at the same time the use of energy has an impact on resources ... resource depletion ... and on environment ... environmental degradation. Energy is used in factory processes, in offices and in transportation.

Environmental degradation has many forms. In the immediate post-war (WWII) years in Europe and North America environmental degradation was visible as particulate pollution and smog (sulphur dioxide, nitrous oxides, etc.) and continuing to be an issue in big cities around the world. But now environmental degradation also includes greenhouse gases like carbon dioxide and methane which are aggravating the problem of global warming and climate change.

## TAXES

Taxes are a charge against the business income that reduces the surplus available for the owners or investors. But taxes as also a key part of the economic flow because they fund government, and in turn, government provides important services for society. The problem of inadequate funding of government is an emerging crisis not much in the media. Almost every government entity on the planet is essentially bankrupt, and stays afloat by cutting back on all sorts of essential services. In the United States, for example, the unfunded future pension obligations are serious, as is the backlog of maintenance and upgrading for the infrastructure.

## PRO-GOOD EXPENDITURES

Non-business pro-good expenditures are a cost that reduces profit, but also reduces taxation. Some will argue that these expenditures are good for the company because they improve the company's image, and in turn this results in better business performance. But beyond the cost and benefit for the company, pro-good expenditures can be of very significant social value which can be relatively easily recorded and become the basis for rigorous reporting.



## PURCHASED MATERIALS

Purchased materials is recorded in the financial accounts simply as an amount purchased and a money amount paid. However, embedded in this is the whole story of the supply chain for these materials.

When PUMA prepared an Environmental Profit and Loss Account (EP&L) in 2010, they realized that more than 90% of the 'impact' on the environment occurred in the supply chain rather than in PUMA's own operations. This is not unusual, but rather typical of many modern industries and ultra-large organizations.

This makes understanding the embedded story in purchased materials very important. The money cost of purchased materials needs to be able to be 'exploded' to show some detail of the story ... specifically the impact elements identified earlier, plus the profit that is embedded at each stage.

## PRODUCTS

The products coming out of an organization have a price that converts into revenue for the company, but in addition these products are carrying the embedded story of their creation.

## DATA SYSTEMS

Implementing a system of impact accounting that works is going to be like implementing a cost accounting system that works. In cost accounting, it is very easy to have a huge amount of detail that has no meaning, but there are ways to make cost accounting efficient and very useful. One of these techniques is the use of standard costs. In the case of impact accounting, the equivalent concept is the use of standard values.

Materiality is another idea that will help in making impact accounting meaningful and practical. What is material becomes clear at a fairly early stage in the implementation of most 'numbers based' analysis systems.

Making conventional accounting more relevant by adding an impact accounting module is becoming quite critical. The CEOs of a growing number of companies are talking about sustainability, CSR, environment, etc. which is encouraging.

## THIS IS THE TIME

The need for metrics to support this talk has been recognized, and all sorts of reporting initiatives are at various stages of development and deployment. Most of these have a focus on reporting and are not particularly well integrated yet into the conventional accounting systems and are likely to result in significant duplication of effort.

My hope is that accountants will see impact accounting as an important step forward in making conventional accounting more relevant.

Peter Burgess – TrueValueMetrics – Multi Dimension Impact Accounting

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## **New Improved Calculation of GDP**

If you are interested in economic metrics at all, you are probably aware of the new improved

reporting of GDP that is being introduced in the UK. The UK is going to include prostitution and drug dealing in the calculation of GDP!

It is rather depressing that this change has been headline news in the mainstream press, but we should not be surprised because it is about sex and drugs. However, when I decided to comment on this topic, I was surprised to learn that the UK Office of National Statistics (ONS) is making a total of seven significant changes to the way the GDP is calculated ... not just one ... but it is only the one about prostitution and drugs that has been covered in the headlines of the mainstream press. Surprise, surprise!

As a result of including prostitution and drug dealing, the UK GDP improves ... that is become larger ... by about \$16 billion or about 3% of UK's GDP. The other changes to be made to the calculation of GDP relate to changes with:

- Non-Profit Institutions Serving Households (NPISH);
- Financial Intermediation Services Indirectly Measured (FISIM);
- Household expenditure on new cars;
- Own-account construction;
- Exhaustiveness adjustments;
- Gross Fixed Capital Formation (GFCF) methods improvements; and
- Change in Inventories methods improvements.

To be fair, prostitution and illegal drug dealing was the biggest number at \$16 billion ... but the others added up to \$53 billion up and \$14 billion down for all the others ... which I would argue these numbers are also newsworthy. These are the results for 2009 using the new way of computing the numbers.

According to the ONS, the reason for the changes are to bring the UK statistics a bit more in line with the statistics of other countries in the European Union (EU).

I would argue that there are many other issues with respect to GDP that are worthy of discussion. As a measure of the economic health of a society, GDP is seriously flawed. This has been known for decades going back to Kuznets himself in the 1950s and Robert Kennedy in the 1960s. I am convinced that one of the reasons why GDP stays so widely used is that it suits the management class who are able to deliver better business performance more easily as GDP grows no matter what the impacts are on those issues that are ignored in the calculation of GDP.

There was a time when GDP was a reasonable proxy for quality of life and standard of living, but this changed around the 1970s when rapidly changing technology enabled improved productivity, and more consumption delivered more profits without adding very much to quality of living. At the same time more productivity enabled less payroll, and wages went down while profits went up.

Worse, a creative financial sector enabled aggregate buying power and therefore consumption to remain high even while the buying power of wages was declining. Financing of consumption became a big part of the economic activity of the modern economy, but this creative way of maintaining economic health has now run its course.

Up to a point more consumption is a good thing, but there is a point beyond which more consumption is waste. GDP does not capture the difference between consumption that is good for a person and consumption that is bad for a person. GDP does a poor job of measuring the performance of society and quality of life.

Good accountants think in terms of both balance sheet and the operating statement (P&L account). Some economists work with both stocks and flows. The media and the public work with simplistic economic headlines that do not help very much, and in turn these are used to form public opinion. It should be no surprise that the framing of policy is so dysfunctional.

There has to be a reason why capital markets are booming while people earning wages are stuck in the doldrums, struggling with low wages rates and all sorts of financing burdens whether it is student debt, credit card debt, car loans or home equity debt. The metrics that drive sentiment and drive capital markets are fundamentally flawed ... and GDP growth is a big part of this set of metrics.

Worse, GDP growth and other metrics like corporate profits have no way to incorporate risk into the metric. Though risk may be difficult to measure, it is the effective management of risk that is going to be the difference between a society that survives and prospers and one that implodes. The Ken Burn's documentary 'The Dust Bowl' shows what can happen when short term profit takes over and risks are not understood and ignored. Are we repeating history? Surely there are better ways to do the metrics!

Peter Burgess - TrueValueMetrics - Multi Dimension Impact Accounting

## **People, Nature and the Man-Made Environment**

Analysis of society and the economy is very complicated and because of this, difficult to understand. Multi Dimension Impact Accounting (MDIA) aims to make an understanding of socio-economic performance somewhat easier without losing contact with reality.

A characteristic of the MDIA method is that it is built on accounting concepts more than it is based on statistics and mathematics.

One of the main simplifications is to think of everything as being in one of these segments:

- People;
- Man-made environment; and
- Nature

People are at the center of everything, though this is not the way conventional money profit metrics operate. Conventional money profit accounting is about the performance or an organization and impact on investors more than anything else. In this model, society flourishes when the quality of life of people is sustained and is improving.

The modern world has a socio-economic environment that is very much dependent on a man-made environment. The man-made environment includes the built environment of housing, infrastructure, etc., but also the framework of government, rule of law, knowledge, organizations, etc.

Everything ... people and the man-made environment ... exist on top of nature. Nature is both the fact of life and the reality of living resources, mineral and energy resources, and the environment. Nature is the enabler of everything.

A system of metrics that combines ideas that originate with natural science with the powerful but simplifying concepts of accountancy has the potential to be both simple, realistic and powerful.

Of the rules from nature it is the basic Second Law of Thermodynamics that is one of the most important. There are relationships between energy and work that must be respected no matter what the activity. Inputs have predictable relationships with outputs.

Of the concepts from accountancy it is the basic relationship between balance sheet and operating results that is one of the most useful. Simply stated it is the profit for a period that changes the balance sheet from the beginning to the end of the period. Put another way, it is progress that changes the state of anything from the beginning to the end of the period.

Conventional accounting and economics has a singular focus on performance measured in money. It is widely recognized that many of the matters that should be measured are ignored by conventional metrics. Accordingly MDIA seeks to have value quantification that is as ubiquitous as money measures.

When there is an economic activity, the results may be expressed in terms of money accounting, but are better expressed in terms of money and value along these lines:

- Money flows and profit;
- Impact on people and their quality of life;
- Impact on place where everyone lives and/or works;
- Impact on product that flows through economic activity to satisfy people's needs and wants;
- Impact on resource depletion that is embedded in the products we buy, use and junk;
- Impact on environmental degradation that is embedded in the products we buy, use and junk;
- Impact on built environment that is both the enabler of productivity and constraint on best practice;
- Impact on enabling environment that is both the enabler of productivity and constraint on best practice;
- Impact on knowledge that enables productivity and better performance.

An economic activity is the low level building block of MDIA. It is located in a place, operated usually by an organization, financed by an organization or individuals, there are employees, and there are products being used in the operations and there are products being produced, and there are wastes that are degrading the environment. An economic activity functions in a built environment, and functions in an enabling environment ... and an economic activity draws on knowledge and may contribute to knowledge.

The performance of a place is made up of many people and many economic activities together with all the impacts associated with their activities.

The performance of an organization is made up of the economic activities that they operate. The MDIA logic means that the organization becomes accountable for all the flows of product into the operations from the supply chains.

Products and economic activities are valued based on standard value which quantify everything that matters.

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## The Scale of Modern Economic Activity

Recently I was asked the following:

*You state 'the scale of economic activity is essentially bigger than nature'. What are the metrics for that?*

My quick response was as follows:

*... perhaps the biggest energy issue on the planet is the shortage of firewood. Most of the world's poor are now having to spend much more time collecting firewood for cooking than at any time in the past. We are talking about hours rather than just some minutes. Put another way, the wood that used to be within a couple of hundred yards is now several miles away.*

*This may not be the metric that you were looking for ... but it is very relevant for maybe as many as 2 billion people.*

People are both the reason for economic activity and the producers of economic activity. Without people, there is no need for the 'man-made' component of economic activity. People produce what people need, and people consume what people need. They do this with the help of nature and with the help of a man-made built environment.

People and nature have coexisted for many millions of years with a very measurable change in the activities of people and the impact on nature over the past 500 years, and especially over the past 50 years.

*Contemporary accounts of London at the end of the 19th century suggest that the pollution in London was intolerable. The stench associated with traffic jams and horse-drawn carriages combined with what we now call municipal waste was awful. Fast growing cities around the world more than 100 years later have pollution problems that are different but similar.*

Trees are a bit part of nature, but there are many more people now than 500 years ago and many less trees. People use trees far faster than nature is able to replace the trees that are consumed. England and most of Europe had tree cover in the Middle Ages but not any more.

*In the 19th century significant deforestation in the United States was caused by wood burning steam locomotives and wooden ties used in the building of the railroads' permanent way.*

The vast resources of fossil fuel are really not so vast. They took a very long time to produce ... millions and millions of years. Companies engaged in the exploitation of these fossil fuel resources talk about increasing reserves, but this is merely a measure of what the company knows about.

*The idea that fossil fuel resources will last another 200 years (for petroleum) or even 600 years (for coal) is a blip in geological time and in human history.*

But fossil fuel is also problematic because the waste gases from burning carbon based fuels ends up in the atmosphere which in turn is changing the climate in a significant and quite unpredictable way.

Food is another pressure point. Over the past 500 years agricultural productivity has increased in an impressive way. Nearly 8 billion people on the planet today have access to more food than

less than 1 billion people had 200 years ago. Some of this productivity cannot be sustained because of the depletion of the soil, the runoff pollution into the rivers and oceans, the increasing resistance to pest control measures and the shortage of water.

The shortage of water is probably going to be bigger than the shortage of energy unless the waste of water is addressed. Most industrial processes use massive amounts of water, which used to be of little consequence when industry was small and located in places where rain was abundant. This ended a long time ago and water waste is an issue that now must be addressed.

Yet there is good news. Some of the sun energy that hits the planet every day is used to power nature, but almost none is used to support man-made economic activity. The potential energy associate with the sun has a scale that is in line with the geological time line of human existence past and hopefully into the future. One day, this wasted potential energy from the sun will be used in a substantial manner.

More good news is that the technology that we now knoe about will enable a level of socio-economic efficiency that is way better than anything that has been possible in the past. For these new technologies to be deployed on a significant scale, there will have to be decision making that goes beyond profit performance and financial returns.

More than anything else, the purpose of TrueValueMetrics and Multi Dimension Impact Accounting (MDIA) is to enable rapid change to a more efficient society and environment.

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## **Preposterous Hypocrisy**

The following text is from 'Truthout'

*Unless you've been living on one of the moons of Saturn, you've heard by now of the NSA's comprehensive collection of information from millions and millions of Americans. Phone calls, email messages, and even pictures you posted on Facebook: All of it is sitting in a supercomputer in Maryland, waiting to be dealt with by our avatars of surveillance freedom in the intelligence community.*

*You have also, to be sure, heard of Edward Snowden, the former NSA employee turned whistleblower, who blew the lid off this whole comprehensive surveillance operation and then ran for his life. Well, it seems a Reuters editor submitted a Freedom of Information Act request, seeking the emails Snowden sent to his superiors at the NSA before he finally blew the whistle. The NSA's response to that request is summed up in a truly demented US News headline on the matter: "NSA: Releasing Snowden Emails Would Violate His Privacy."*

*Paging Mr. Kafka, your table is ready.*

In my view, Truthout is a media entity that deserves support, and I encourage everyone to help fund their work.

In their follow up to the above, Truthout described the NSA's surveillance and the Snowden situation as a case of 'preposterous hypocrisy'. I could not agree more.

But this preposterous hypocrisy is not unusual. From my perspective it is almost everywhere ... and indeed throughout the mainstream media, in much of corporate leadership, in banking and finance, in government at all levels and in all sorts of major institutions.

Why have we got into this pickle? I argue that in large part it is leadership and decision making that is out of touch with the issues that are really important.

It is a crisis and something that needs to be addressed. The model for success needs to be one that takes into account all the actors rather than just the 'me' dimension.

When I was younger 50 years ago the world had its problems, but they were different from the ones we are having to address today. A lot of changes were happening in the 1960s and the 1970s but there was an air of optimism in the middle of the turmoil.

50 years later there is a lot of change in progress, but I do not sense the same air of optimism. But I would argue that there are the building blocks for change that would really be progress if only we had a way for leadership to get behind pushing this change (or in front pulling it). We have (1) technology that is amazing and (2) we have a population of young people around the world who are better educated and prepared for a productive life than at any time in history. These two facts should be the foundation for a future that is amazing ... but somehow we are wallowing in a funk of historic proportions.

A big part of this is that society and the global economic system do not seem to be dysfunctional, or, put another way, only seem to work well for those with considerable wealth ... and the way things are measured means that those with wealth use their economic resources in ways that tend to make things worse rather than to make things better.

A simple example is that a company's stock price is likely to go up when a company's payroll goes down ... but the company's payroll is what funds the employee's quality of life and standard of living, and that of the family, and in turn through the local multiplier, the state of the community. As productivity gets better, the whole future of work becomes an issue ... and in turn the future of everything.

There are similar value chains in almost everything that a company does as it operates to earn profit. None of the 'externalities' are accounted for in conventional money profit accounting, but they could be and should be in the sort of accounting that we really need for the 21st century. Impact reporting is being developed, but the present state of this is that it is only linked rather weakly to the very powerful money profit accounting infrastructure. This has to change ... and in fact is changing, but slowly.

I argue for metrics that measure everything of importance, not just those things that are expressed in money terms and are easy to value. Getting back to the NSA and their preposterous hypocrisy ... there is a huge value in national security, and there is a huge value in freedom and privacy. Separately there is cost effectiveness in delivering desired outcomes. Government has to struggle with questions of balance between issues like national security and freedom, but the question of cost effectiveness should not be an issue. Bottom line, however, is that almost everything that is done by government costs way more than is reasonable ... and government seems to have no interest in addressing this huge multi-trillion dollar dysfunction.

Nearly everything that is wrong with the world would be improved if there were better metrics about everything that matters ... and the good news is that this is going to be possible as 'big data' gets deployed in ways that are more important than the trivia that now dominates the

technology.

Exciting times ... with many important choices to be made.

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## **Accountability ... All Talk No Accounting**

More than anything else, I believe that accountability can only be achieved on top of good accounting.

It seems I have been listening to talk about accountability for ever ... more than 50 years at least! Sadly, I cannot remember any time when there was any practical embrace of accountability ... rather, everywhere I have been, there has been significant 'push-back' over anything that would have delivered meaningful accountability.

This is a problem, and as long as this problem remains unaddressed, the performance of society and the economy is going to be compromised.

In the corporate organization management accounting has a big role in getting everyone in the organization to be 'accountable' for their performance. While the operations of a company may be complex, the goal of a company is usually quite easy to define ... optimizing for profit ... which translates into more production for less cost. Designing metrics that give accountability in this simple situation is relatively easy, and may be done using rather conventional accounting metrics.

Outside the corporate structure, the issue of accountability gets to be more complex. In my work as a consultant to the World Bank, various UN agencies and others, (over many years going back to the late 1970s) I have been disappointed at the lack of progress in getting much accountability for performance. I don't like generalizations, but in my experience these big organizations have failed to embrace accounting as an important part of their management and oversight processes. Without accounting it is impossible to have accountability.

Without decent accounting all sorts of bad practices are possible. With good accounting it becomes much more difficult for bad practices to take hold. Good accounting is easy and does not require an advanced university qualification, but it does required a certain level of tenacity and appreciation of ethics. There are good accounting clerks all over the world, but rather less good accounting managers with the right appreciation of ethics. In many situations a good accounting manager with strong ethics will be removed! This should never happen ... but it does.

Fast forward to the present time, and there is all sorts of talk about using 'big data' and modern data science to make data accessible, but I am not at all sure what exactly is the purpose of making massive amounts of data accessible. In my work I have always worked with the idea that the best management information was the LEAST amount of data that would enable good decisions to be made ... I never worked with the idea that more data was always going to be better because I was also concerned that the data had to be very low in cost relative to the real work that needed to be done.

I read recently that it is the norm for data oriented projects to spend 80% of the time and money on collecting the data, and just 20% on analysis and use of the data. I find this appalling, because



it suggests that the data community is operating in a little bubble quite removed from the big issues of the day. Data science is a tool that ought to be serving the real world to make it much better, rather than simply feathering its own nest!

As a corporate accountant, my idea of accountability was that 'management' would know about untoward behavior almost immediately after the incident, and quickly enough to do something about it before it had much of an impact on the company performance. Mostly this happened in a day's time, or at worse it was within a 6 week window. I contrast this to what seems to happen in government, especially the Washington based US government. Their accountability processes only seem to get cranked up after there has been some whistle blowing or the media has stumbled into a story. This process seems to be too little and too late. Sometimes we are talking about several YEARS after the incident as in the case the Fanny and Freddie inquiries a few years back now.

My impression of much that goes on in government is driven by what is written in words rather than being based on much understanding of numbers, and especially an understanding of costs. Mayor Koch commissioned a study of New York City government costs versus private sector costs late in his administration ... what I remember from this study was that nearly everything done by the city cost 10 times what it would have cost done in the private sector.

This suggests that getting more work done by private contractors could reduce the cost of government ... but this isn't going to happen when the contracting process ends up with a PRICE ten times what it really should be! Years ago, I wrote that the biggest cost in the US economy is profit ... and this is an example of this in practice.

I want to see better accounting throughout government, and more information about the government accounts and easily accessible ... with no 'games' being played. Some time ago, I got some information about USAID's activities under the Freedom of Information Act. I think I had to pay for the information on a per page basis. I received several hundred pages of information, and the one page that had (I imagine) some meaningful numbers, the data was redacted. This is a behavior that is unacceptable.

Accountability is important but a rather fuzzy concept. Accounting is more tangible and improvement in the accounting will automatically result in better accountability.

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## **My Aversion to Silos**

My personal aversion to silos has a long history. I read engineering at Cambridge. I was the first intake after the ending of compulsory 'national service' in the UK so part of a group of students who were two years younger on average than the others in the intake. We had the advantage that we had not 'lost' the habit of book study and accordingly the University offered a 'fast course' that did the course work in two years rather than the usual three.

By way of explanation, in the 1950s and 60s, the 6th form course work for 'A' levels (and especially 'S' levels) in the UK was mostly equivalent for first year university work in North America.

After 2 years at the university, (including a summer term) I had completed the coursework and

passed the exams for an engineering degree (Mechanical Sciences Tripos Part I) and was faced with a critical decisions. I had to decide what branch of engineering I wanted to specialize in for my 3rd year. At the time I had no idea at all which branch of engineering I wanted to specialize in, whether it would be electrical, mechanical, civil or the emerging field of electronics, or something even more specialized like hydraulics, soil mechanics or aeronautics. Faced with having to make this decision in engineering, instead, I chose to spend the third year taking on economics.

I had the opportunity in the summer vacation to do an immense amount of reading about economics without the benefit of any guidance from the formal economics faculty at the university. Better still I was using the books in the Montreal City Library which had a different flavor than the collection in a typical university economics library. After a few weeks of economics, my tutor, Professor Andy Roy, suggested that I should do the Tripos Part II exams at the end of the year rather than the Part I ... in some ways, a ridiculous stretch ... but who knows? I was young! In any event, it worked, and while I did not get a 'First', I had a respectable 'Second'.

More important, I now had as a result of an engineering degree, a good understanding of how things worked and, courtesy of my economics, some understanding of the broader context of the economy and society. Up to now, I had, however, rather little understanding of how business ... as apposed to economics ... worked.

I had learned a little bit about the world of business and factories because a part of the engineering requirement was to work on some engineering problem in the factory/business setting during the summer vacation and to satisfy this requirement I did machine shop apprentice work in a Royal Ordnance factory where I got to appreciate the skill of people who actually make things, and start to understand a bit the social / class hierarchy within the factory setting.

I learned a whole lot more about these things in my first post university job. I joined the Davy United Engineering and Foundry Company in Sheffield as a 'Management Trainee' and started a rotation through all the departments of the company. The company designed and built ultra heavy equipment for the iron and steel industry as well as for the nuclear industry, chemical industry and aluminum industry ... rolling mills, blast furnaces and the like. We also did turnkey projects for complete integrated iron and steel projects all over the world except North America. In this role I was assigned to various engineering oriented tasks in the drawing office and in the factory which, at the time, had one of the best heavy machine shops in the world, as well as being assigned to work with clients where we were assembling our machinery ... rolling mills, blast furnaces at steel mills and so on. I was also assigned to work in some of the non-engineering functions like 'contracts' and the 'accounting department' where I got introduced to 'cost accounting'.

By the end of a year, though I was impressed by some of the work being done, but I was also appalled at the underlying dysfunction of the company itself and the industry that it served. I also realized that the really big decisions were being made by those with 'business' training and experience, often with little or no understanding of technical matters either as it related to engineering or economics.

In the early 1960s, the Harvard Business School had already established a reputation for business training, but there was nothing like it at the time in the UK. I decided that the best thing I could do was to train in the UK as a Chartered Accountant, and after a series of interviews in London, I

left Davy United and joined Cooper Brothers as an 'articled clerk' which in due course would give me the Chartered Accountant qualification. More important, experience at the bottom of a big accounting firm gives one the opportunity to see all sorts of business situations from the 'inside'.

These were exciting times. Cooper Brothers was in the process of merging with Lybrand, Ross Bros and Montgomery to form the international firm of Coopers and Lybrand ... which of course is now part of the international firm of PriceWaterhouseCoopers. I was articled to Brian Maynard, the Principal Partner of the Management Consulting unit of the firm, and in large part because of my (quite modest) engineering and factory experience landed up with many very interesting and quite complex assignments. These were termed 'investigations' rather than being just routine 'audit' assignments.

By this time ... I was still in my early 20s ... I had learned something of the problem of 'silos'. People were making big decisions with a lot of knowledge of what they knew in their specialty and near zero knowledge of anything else. This was systemic dysfunction on a grand scale, with hardly anyone capable of comprehending the bigger systemic problem.

Growing up, I had had the opportunity to visit bits of Europe, so had some appreciation of the character of both the UK and the countries of Europe. The UK and Europe was slowly coming out of the World War austerity, but everything was still constrained by shortage both of financial capital and physical materials. However, while at university I had had the chance to visit Canada and the United States courtesy of the University Canada Club which chartered an Air France Boeing 707 to carry us to New York. Canada gave us dispensation to do summer work in Canada, and I did this for two summers ... 1960 and 1961. The USA would let us in, but would not let us work!

Quite soon after I qualified as a Chartered Accountant in London, and knowing something of the difference in economic opportunity between what was going on in the UK and Europe compared to North America, I decided that I would migrate to Canada. The immediate economic advantage was enormous. As a young well educated and professionally trained person I was able to earn more in one month in North America than I could in a year in the UK or Europe.

Fast forward some 15 years. I am now the CFO of Continental Seafoods, a US based international fishing company with operations in 26 jurisdictions around the world. It is now the mid-70s and we are building an integrated fishing port and shrimp processing plant in Nigeria. This is where I really learned about the problem of silos. No matter how good our work was in designing our project and doing our work, we were impacted all the time by the reality of the place where we were working. The first project manager that we appointed had all the right qualification to build and run the project, but he had no ability whatsoever to understand the environment that he had to work with. When he got sick and had to be evacuated, I found myself the acting project manager, and I learned very fast how important externalities are and how important it is to be able to relate to the experts in all sorts of different silos. The project manager that eventually replaced me had these strengths and we got the project up and running.

Getting materials into Nigeria at this time was extremely difficult. The main Nigerian port at Apapa (near Lagos) had a four month wait for an unloading berth and even more if you did not know the procedures. We were having two large diesel electric generating sets shipped from the USA to Nigeria, but the ship, because of the Apapa delays, chose to offload our cargo in Abidjan, Cote D'Ivoire ... way down the coast, essentially four countries away and with very primitive

road transport infrastructure. Solving this sort of logistics problem is very different from pouring concrete for a building ... a different silo ... but critical that it gets resolved.

Fast forward again, and by the mid-80s I am doing consulting work evaluating projects of the World Bank, the IFC and the United Nations, and not becoming at all popular. By my standards, most of the projects were badly designed, and even more badly implemented. It was only by taking a very (silo) limited view of the projects that they could be considered to have been successful at all ... but outside this silo they were merely disbursing money with effectively no impact on broader development goals,

In my view what was happening was that very good projects were being designed with a solid sector orientation ... identified, prepared, appraised, negotiated and implemented ... and then falling flat on their face because there was an implicit assumption that other sectors would be functioning when they were not.

Worse, most projects in the Official Development Assistance (ODA) arena are not flexible, and when something relatively small goes wrong there is neither authority of budget to do something differently. As a result quite small impediments result in quite significant project failure.

The projects that worked were ones where 'multi-sector' was built into the project design ... but even then flexibility was frowned upon!

My favorite agency in the UN system is UNHCR ... the United Nations High Commission for Refugees who operate (or did when I was somewhat engaged with them in the 1980s and 1990s) with a very clear idea of their mandate to assist refugees and a very open mind as to how this needs to be done. They do what needs to be done as fast as possible, and spend their administrative time doing accounting not budgeting. What I mean by this is that while they have an estimate or budget for what needs to be done and the funding required in total, they spend the minimum they can as fast as they need to without the typical bureaucratic delays that bedevil typical ODA projects. In my view they account for what they spend better than most agencies in the humanitarian emergency assistance arena.

Another reason that UNHCR works is that they are a multi-sectoral agency that does all the things that are needed to help refugees ... transport, food, water, shelter, health, education, income generation, legal (for relocation), etc.. They do not do external security themselves, though they address internal security in the camps.

My aversion to silos is not absolute. I do see the need for deep focus in a specialty in order to progress a research and development agenda. While I joke about specialization as being learning more and more about less and less until we know everything about nothing, I am well aware that in order to push the frontier of learning there is a need to be very very good in a perhaps quite limited area of interest. Having said that, quite often the value arises and the breakthroughs happen when this deep learning in one silo suddenly finds application outside the silo!

What I am doing with TrueValueMetrics and Multi Dimension Impact Accounting is to design and develop accounting so that it works IN all silos and as well serves to enable meaningful aggregation of the activities and impacts of ALL silos taken together. The business community is able to do this with conventional money profit accounting so that we can summarize the financial performance of quite diverse groups of companies ... but we cannot yet do the same thing for the impact that business and economic activity generally is having on people and planet.

Though many may argue that the silo problem is no more and ubiquitous data has broken down

this particular area of constraint, I am not so sure. Rather, I think that some of the silos that I grew up with and have had to live with may be less problematic than in the past, but there are new silos emerging that might be even more damaging to the progress and performance of society.

Exciting times.

Peter Burgess – TrueValueMetrics – Multi Dimension Impact Accounting

## **Imagine GE Financial Reporting Without Accounting**

It crossed my mind recently that a company like GE depends absolutely on conventional financial accounting in order to exist and to function efficiently. Ever since I was introduced to 'double entry accounting' as an articled clerk with Cooper Brothers more than 50 years ago, I have appreciated the beauty and power accounting. Later in my career I was able to use accounting to energize everyone in the company to achieve huge productivity increases, but I never worked in a company as large and complex as GE, and now I have been wondering what it would be like if GE did not have any of the management and reporting tools that are based on accounting.

As things are today, GE is able to report its sales using one number ... in 2013 according to Yahoo Finance the revenues were \$146 billion. Without using money as a system of measuring sales, GE would have had to list all the things it had sold and the quantity of each. When I looked at the number of different things GE sells, I was flabbergasted ... see <http://www.ge.com/products> ... to get some idea of how many different things (goods and services) that GE sells. There are 22 major product lines, and within these more than 300 products or services and within these a whole lot more.

But just imagine ... because we have a money measure and we have accounting, it is possible to summarize all of this into a single number.

Now think about how many components go into making all these things that GE sells. Each of these products are made up of many components ... there are many levels of bills of material that are the basis for building all of this and very sophisticated ERP (enterprise resource planning) systems to make all of this come together in an efficient way. But again, by using a money measure and accounting we are able to summarize all of this into 'cost of revenues' and then compute the gross profit. In the case of GE in 2013 this cost of revenues was \$80 billion and therefore gross profit \$66 billion.

The point I want to make is that when it comes to measuring impact on people and planet, and reporting on performance relative to people and planet, we are pretty much where GE would be for the management and reporting of its business operations if it did not have the money measure and accountancy.

There are many initiatives in play at the moment to get some form of standard for the way companies report on their impact on people and planet, but, up to now there is no widely accepted way in which this gets quantified in a way that makes for easy aggregation.

Some argue that this can be accomplished by expressing impact as a money measure. I am not sure that this is a good idea since money itself is subject to many forms of distortion and is

unlikely to be a good and stable unit of measure over a long time. This becomes an even worse idea when it is combined with the use of some form of 'market' mechanism to establish the amount of money that is going to represent the 'value'.

Rather, I am in favor of some form of standard unit that relates to all the elements that go into a person's quality of life, and a small number (2, 3 or 4) of other standard units for the major issues that relate to impact on planet. I think of these standard values as being something like standard costs that are often used in corporate cost accounting which enable very meaningful analysis without an inordinate amount of extraneous data.

In time, some market mechanisms might emerge to enable these various standard value units to be converted into money ... but that should not be an immediate goal. I should perhaps note that some of my work suggests that the market mechanisms being introduced to 'value' carbon emissions are giving results that are quite seriously wrong ... but that is a subject for another time.

Getting back to GE ... it is clear to me that having money as a standard system for measuring sales and other aspects of the company's financial performance is absolutely critical to its existence as a large company ... and of course, the same goes for all the other large companies that now dominate the global economic landscape.

Now the challenge is to establish some standard metrics that have the same power and simplicity for the various aspects of impact on people and planet.

Peter Burgess – TrueValueMetrics – Multi Dimension Impact Accounting

## **Accounting from a Product Perspective**

Conventional accounting has an organization perspective. This works very well for investors and executives whose remuneration is linked in some way with the performance of the organization, but it works less well for other stakeholders of the organization and the broader society and economy.

The financial performance of organizations is a part of the data that informs the sentiment of the stock markets and the price of stocks. The bigger the profit, the higher the value of the organization and the higher the stock price. There is nothing wrong with this as long as other things involving society and the environment are also taken into consideration and ... most important ... given an appropriate weight in the decision making around policy and the performance of society and the economy.

If we were to have accounting from a product perspective as well as accounting from the organization perspective we could go a long way to getting some balance between the performance of the organization and the performance of society and the environment.

When we think of the purpose of economic activity as being the maintenance and improvement of quality of life for people while doing the least damage to the environment, then organization becomes a key vehicle in doing this well. But it is product above all else that (1) enables quality of life and standard of living; and, (2) it is product that flows through organizations and goes into the making and reporting of profit; and, (3) it is product that emanates from the environment (mining that results in resource depletion) and eventually gets dumped into the waste chain in

various forms (resulting in environmental degradation).

If we do accounting from a product perspective all sorts of interesting things are possible. There has been a growing interest in the performance of the supply chain over the last few years. Some analysts have had focus on this for quite a long time, but much of this has centered on how supply chain management could reduce costs and increase profits for the organizing company ... in other words an organization perspective.

Cost accounting within supply chain analysis gets very interesting ... but is rarely visible to the public. There is an embedded 'story' in every product that flows through a supply chain, and then gets purchased, used and thrown away. The story can be told quite efficiently using the tools of (cost) accountancy. As a product flows from one operation to another along the supply chain, there are costs, taxes and profits that go into the transfer price from one operation to the next. There are also negative impacts associated with resource depletion and environmental degradation in the various operations of the supply chain. Payroll costs have an impact on profit of the operation but there is a related benefit to employees, their families and the community which is positive. There are benefits flowing into the community from do-good expenditures and also benefits flowing into society from taxes. There are risks that should be brought into account, and issues like workplace conditions and the treatment of workers. All of these pieces of the story can be expressed in the form of a standard trucost profile for the product.

In the end it is consumers that make the most critical decisions in an economy. Business organizations know this and invest heavily in advertising in order to influence this decision. There is no equivalent information flow that helps the consumer to make the best decision possible that balances the value to the consumer with the impact on society and the environment. When this information is easily available then it will be possible for people (consumers) to change the world.

Peter Burgess – TrueValueMetrics – Multi Dimension Impact Accounting

## **The PC Paradox Revisited**

Most millennials won't know about the PC Paradox.

The PC ... personal computer ... emerged in the early 1980s and for a decade has phenomenal growth. But at the end of ten years of this growth, the question of what had been accomplished started to be asked. After a slow start, the PC was embraced by the corporate world and soon nearly every office on the planet had a PC sitting on nearly every executive desk.

However, study after study showed little or no improvement in office productivity as a result of the purchase and deployment of PCs. This came to be called the 'PC Paradox'

Years before, in the 1960s, a company I worked for had been a WOFAC client. WOFAC used a consulting technique they called 'Work Factor' to measure office and factory productivity ... a very basic system to get to know what was going on in the office or factory space. I still use a rather degraded form of this technique whenever I 'walk around' any workspace, but in the early 1990s, while the big studies were agonizing over what was going on with PC productivity, my views based on 'walk around' analysis suggested that it was very easy to understand.

In essence, by the early 1980s office procedures had been optimized quite well for the paperwork

of the time and the big computers that were the workhorse for data processing. Male executives had female secretaries and personal assistants who were very competent, and served to make rather poor male decision makers and 'letter writers' appear to be really decisive and really articulate ... and all of this ran pretty smoothly.

Then came the PC.

The promise of the PC was that it would make it possible to do a lot more 'work' with far less people. At some point the precursors of software like the Microsoft Office Suite became known as 'productivity' software, and while more words could be typed, the processes that had enabled office performance became more dysfunctional. A PC sitting on an executive's desk or credenza looked impressive ... but it really was not doing very much. The 'girls' that had been making things run smoothly had disappeared!

It took about ten years before the PC started to add to office productivity ... but the real breakthrough in the use of microprocessor technology for business productivity improvement was when the processing power was linked much more directly with real engineering and technical processes ... and the background admin needed to make these processes work. The PC on its own never made this possible ... but when PCs started to get networked together then all sorts of things started to change.

I see Big Data as it exists today as being in a rather a similar situation to the PC in the late 1980s. Big Data seems to be being used for a few things that are relatively easy, building on data that are easy to get, but often not very well linked to real things, and in the end giving quite weak and not very useful results.

However, I see the potential for Big Data to be a real game changer when the powerful tools now used to make some sense out of quite stupidly disorganized piles of data get combined with a massive amount of better organized data about things that are really important.

Signs of this are appearing all the time, but there is a long way to go before this gets applied to everything that is important ... at the moment, most of the deployment of Big Data Analytics are in areas where there are quick profits, and much less in ways that will optimize on the delivery of beneficial impact for society and the environment.

Exciting times. Great possibilities.

Peter Burgess – TrueValueMetrics – Multi Dimension Impact Accounting



## **DRAFTS IN PROCESS**

POSTED Monday, July 14, 2014 10 am

### **JUNK TEXT NOT INCLUDED**

Conventional business accounting is very clear about the 'balance sheet' and the 'profit and loss account'. Macro-economic measures like GDP are less clear. There are ways to compute the present value of the future, but as presently applied may well be skewed to favor the present and excessively discount the future.

Of course, the really big question remains whether the System of National Accounts (SNA) of which GDP is a part, will ever get to include those really important things that are basic to quality of life and standard of living, yet not part of the SNA which is the basis for most GDP reporting.

The logic of including prostitution and drugs is, of course, that these activities are an economic activity with money being exchanged. Sex and drugs that do not involve a money transaction are not an economic activity, and therefore are considered not to exist and may be ignored. Marital bliss, sex and quality of life are, however, part of a complex set of flows that are incredibly important, but because money is not involved, don't count.

GDP as it is presently computed ignores all sorts of things that are very important in quality of life and standard of living, in some cases double counts in ways that make no sense at all and confuses money transactions that improve the state of society and those that damage the state of the society.

When the SNA was first formulated (in the 1950s with input for Dr. Stone, an economist at Cambridge and an accountant) there was a push to introduce the accounting concepts of balance sheet into the methodology ... but this is not so obvious in the way the methodology is applied 60+ years later.

### **Where Does Wealth Come From**

I see the economics of wealth a little bit like the physics of matter in the natural world. In each case we are dealing with a closed system, and there is a constant amount of wealth just as there is a constant amount of matter.

## **Accounting for MY Quality of Life**

I have often argued that the only thing that really matters is 'me'. Not just me, a single person, but the 7 billion other people like me that inhabit the planet. When we look at the performance of the global economy, it is influenced to a great extent by the behavior of 7 billion people.

Because the dominant metrics about economic performance are business centric, it is easy to forget the role of people.

## **Accounting for Risk**

Accounting for risk and taking risk into account are not the same thing. However, I would argue that we are not doing a good job with either of these things.

The rules for accounting make it easier to ignore risk in the preparation of financial reports than is reasonable based on non-financial technical information.

## **Accounting for a Place**

Conventional accounting has an organization perspective, and this works very well for those who are stakeholders in the organization. Investors and executives are stakeholders in the organization with an interest in profit, while employees are stakeholders with an interest linked to the payroll, benefits and workplace conditions and customers are stakeholders with an interest in the price and value of the products being sold by the organization.

## **Impact Accounting for Health and Wellness**

The easily accessible data about the performance of the health and wellness sector does not serve the public very well.

There are a number of studies that show how much is being spent on health and wellness in different countries, and they relate the amounts spent to the outcomes. In these rankings the United States spends the most, but the outcomes are quite low in the rankings of OECD countries.

This information does not tell us very much. What we need to know is much more difficult to obtain, and most likely does not exist in an easily useable form.

There are some very important elements that are going to have an effect on the health and wellness field. These include:

Amazing progress in medical science

A growing population of people with education

Some countries with growing population of old people

Some countries with growing population of young and very young people

A growing number of countries where money for health is in short supply

A growing number of people who cannot afford good healthcare

Institutional structures that do not seem to function very well

The amazing progress in medical science should translate into lower cost more effective treatment.

DALY ... disability adjusted life year

But how to measure all this so that it makes

## **Better Metrics ... for a Corporation?**

Modern double entry accounting was invented more than 400 years ago to enable merchant adventurers to account for their use of investor funds at the end of their voyages. The technique of double entry accounting worked well, and is still at the core of conventional business accounting to this day.

Conventional accounting ... financial accounting ... is based on money denominated transactions that are organized in a systematic way to make it easy to report on the operations of an entity and the financial state of the entity. The double entry is some variant of 'something is received' and in exchange 'some money is paid out' ... together with 'the inventory increases' and 'the cash is reduced'.

Conventional accounting is very sturdy in part because it is possible to compute the results of a period in two ways: (1) by adding up all the transactions for the period ... all the revenues coming in and all the expenditures going out; and, (2) by calculating the difference in the balance sheet from the beginning of the period to the end of the period. The profit for the period is the same in both cases.

If not ... something is wrong!

Most companies ... almost all ... use conventional double entry accounting. Most governments and government entities do not. The rigor of the double entry control is missing in government accounting, and in my view, is one of the reasons why it is so easy for governments to avoid accountability and for governments to lose control over their resources.

One might perhaps go one step further, and suggest that successive generations of leadership in government have understood this and have acted over time to ensure that improved government accounting is never implemented.

Corporate decision making has been facilitated not only by financial accounting, but also by various forms of analytical accounting. The aim is to get a deeper understanding of how costs behave and how to optimize for profit. Cost accounting can become extremely detailed and unwieldy, but there are ways that cost accounting can be implemented ... like standard costing for example ... which gives very useful reliable information without data overload.

Analytical accounting makes useful disaggregation of information possible, and facilitates decision making at the level in the organization where it is most effective.

All of this is about the performance of a business ... and it is the performance of a business without taking into account any of the externalities that are really important in terms of quality of life for people and impact on resources and the environment.

D

## **What to Measure and Where ... for an Individual?**

Modern double entry accounting was invented more than 400 years ago to enable merchant adventurers

## What to Measure and Where ... for a Place?

Modern double entry accounting was invented more than 400 years ago to enable merchant adventurers

Reference #101	Glossary – acronyms
Reference #102	The Role of Government
Reference #103	Growth ... a Wrong Metric
Reference #104	Consequences
Reference #105	Incentives
Reference #106	Mort Zuckerman ... 5 Actions
Reference #107	Jobs
Reference #108	Segments of the Economy/Society/etc
Reference #109	The Corruption of Lawyers
Reference #110	Lessons from my Past
Reference #201	The Failure of Politics
Reference #202	Luxury
Reference #203	Economic Dynamics
Reference #204	Wrong Metrics ... Wrong Conclusions
Reference #205	What is Difference between NFL and Wall Street
Reference #206	Metrics ... Prevalence of Wrong Metrics
Reference #207	Metrics and Natural Disasters
Reference #208	Goldman Sachs ... Greg Smith
<b>Reference #209</b>	Metrics ... the Central Questions
Reference #210	Economic Impact of Natural Disaster
Reference #301	Invest in Your Neighborhood

Reference #302	The Good Old Days
Reference #303	Progress of Science and Technology
Reference #304	People Centric Economy
Reference #305	Ideas ... Chris Cook
Reference #306	Ideas – Eduard Conard
Reference #307	People – Mitt Romney
Reference #308	TEDxNY – Brene Brown ... Vulnerability
Reference #309	TEDnNY – Motivation ... PINK
Reference #310	Internet Landmarks
Reference #401	Transparency and Corruption
Reference #402	Communication
Reference #403	Profit Up ... Jobs Down
Reference #404	Banking – Milking the Float
Reference #405	Leadership and Missing Intel
Reference #406	The Balance Sheet of Society
Reference #407	Value Destruction from Austerity
Reference #408	Ways to Earn Good Citizen Credits
Reference #409	The Corruption of Accountants
Reference #410	Accounting in Emergency Situations
Reference #501	National Accounting
Reference #502	The Quantification of Value
Reference #503	What is the Value of Land
Reference #504	What is the Value of Architecture
Reference #505	What is the Value of Life
Reference #506	Value ... and the Purpose of Economic Activity

## **Volunteerism**

Reference #507

Volunteerism is good. President George H.W. Bush referred to volunteerism in his acceptance

speech at the 1988 Republic Convention talking about “a kinder and gentler nation” and “a thousand points of light”. President Bush called upon commercial businesses to join voluntarily in solving the nation’s problems of illiteracy, drug abuse, unwed teen pregnancy, youth delinquency and suicide, AIDS, homelessness, hunger, and unemployment through volunteerism.

Corporate encouragement of volunteering is not, however, something that a corporate organization should take much credit for, rather it should be taking credit for the good impact that it is making as a result of all its economic activities. If a company is going to take credit for the 'volunteering' being done by the employees of the company, it would seem reasonable that they should be paid for the effort.

But there is another issue. Lower paid staff who need to work more than one job to make ends meet and have neither the time nor the energy to do much volunteering.

Given the scale of the things that need to be done that are not getting done because for profit investments will only be allocated to for profit initiatives. The vast bulk of really important initiatives cannot be profitable in the short run, and maybe in the long run too ... but they are vital for society as a whole and the economy at large.

## **Value Dynamic of Leadership**

Reference #508

Why is it that leadership seems to be less and less effective while improvement in technology and improvement in the global education of youth has been amazing.

The answer may be very simple.

Society and the global economy have become very complex compared to 200 years ago, yet the way leadership operates has not changed very much in this time. The structure of politics is stuck somewhere in the past, and it should come as no surprise that the political class sticks to the past and in this mode cannot get very much done.

There is a historic reason why an important measure of power is 'horsepower'. 200 years ago the horse was a major source of power to run the economy. Over the past 200 years technology has made it possible to do things that were impossible in previous eras and do things much faster.

But it is worse than this. The financial and corporate elite have 'gamed' the system in ways that are impressive but dangerous.

## **Plutonomy**

Reference #509

Back in 2005 a group of analysts at Citigroup coined the term 'plutonomy' to describe an economy where the performance is driven by a very small percentage of the population. The analysts were Ajay Kapur, Niall Macleod and Narendra Singh

I have read two 'industry notes' published in October 2005 and March 2006 that describe the



facts of 'plutonomy' and the implications for investors. Many of the conclusions are similar to my own analysis of economic sectors where I differentiate between economic activity that satisfies needs and economic activity that satisfies wants ... the luxury sector.

## **What is the Right Payroll**

Reference #510      What is the Right Profit

What is the right relationship between payroll and profit?

TO BE EXPANDED

## **American Exceptionalism**

Reference #601

Many, if not most Americans are believers in the idea of 'American Exceptionalism'. There are statistics that support this idea, but the reason for some ... but not all ... of the impressive statistics is not the conventional wisdom 'that Americans are amazing' but something far different.

The geography and history of the United States explains in large measure the exceptional economic performance of the United States.

The land that is now the United States is the foundation for practically all the exceptional performance of the United States. For many centuries the 'Native Americans' ... the indigenous people of the land lived in harmony with nature ... there was no impressive economic progress and there was not much, if any, destruction of the natural resources.

All this changed with the migration of Europeans to the 'New World'. These migrants came from societies where land was scarce and important things like food were often in short supply. The 'New World' was different. Land was abundant and it was people that were in short supply.

The European migrants took control of the land ... the indigenous people were sidelined

TO BE CONTINUED

## **Entitlements**

Reference #602      Entitlements

There is a lot of political posturing ... and pundit posturing over the issue of entitlements. Sadly there is rather little meaningful analysis of the issues surrounding entitlements. Much of the talk centers around the idea that there will be a crisis in the future if we do not make big changes ... that is big reductions ... in the entitlement programs.

Some people look at the so-called entitlements as a transfer of wealth from people who have earned it to people who have not ... in other words a socialistic redistribution of wealth. In itself this is not very helpful, but it is useful to remember this while the issue is analyzed in more detail.

I have an accounting training and see a lot of problems from the perspective of an accountant. Pensions ... public and private are an area where decision makers have been 'playing games' for years, and accountants have been complicit in allowing it.

The idea that a pension can be 'unfunded' and not be a liability of the entity ... corporate or governmental ... is bizarre, and from my point of view, essentially fraudulent. It is a disgrace that the accounting profession went along with this starting in the 1970s and getting worse and worse over time. The FASB rules and GAAP should have made this practice unacceptable but that is not what happened. (FASB = Financial Accounting Standards Board / GAAP = Generally Accepted Accounting Principles)

In corporate accounting, the principle is simple. An unfunded liability and should be included in the balance sheet ... period!

In government accounting, ignoring the future is even worse. Most ... almost all ... government accounting systems are 'cash based' ... that is, there is accounting for all the money flows and not much else. There is no 'double entry' integration between the balance sheet and the operating accounts. Accordingly there is no formal integrated way to reflect contractual matters that going to have a future cash impact.

This has had a terribly damaging effect on every government entity from municipalities and schools to state and national government. With cash based accounting, the current budget can be balanced as long as the cash flows in the current fiscal year are 'in balance'. It does not matter what 'promises' are made into the future, even if the promises are locked in with enforceable contracts.

Over the past several decades promises ... contracts ... about future pension growth has been generous while current pay has been held in check. But what has been promised in the past is now becoming due ... and these 'entitlements' are in the process of bankrupting government in ways that should have been predicted years ago and accounted for. Unfortunately, the way the system works today's cash costs are important, but future costs are ignored.

There is another problem with 'entitlements'. In many cases the beneficiaries are 'technically' deserving, but the sloppiness of the people who drafted the agreements / contracts / regulations means that there can be a large amount of 'gaming' the system. I like the idea that people with disabilities have to right to some financial support, but I am appalled at the way some people ... with the help of lawyers ... are gaming the system so that quite a modest disability becomes the excuse for a high disability income.

The arguments to justify disability income for quite modest disabilities are based on the quantification of such issues as the diminution in quality of life and the opportunities resulting from the disability. WOW ... this is interesting ... I keep getting told that quantifying things like quality of life and putting a value on it cannot be done. It seems that when it comes to gaming the system, this problem has been solved!

## Environment

Reference #603      Environment

Who cleaned up the Hudson River?

I first visited the Canada and the United States in the summer of 1960. I was appalled at the pollution in the big rivers of the United States which served to carry away all the detritus from both cities and industry. I remember seeing the rivers 'burning' in Pittsburgh, the seeing the bright colors of chemical toxins in the Connecticut River and the Hudson River.

In the early 1980s I became a member of the 'Clearwater' community ... an initiative started by Pete Seager to get the Hudson River cleaned up. Pete Seager had a replica of the sailing barges that used to ply the Hudson River in years past built. This barge became a focal point for river centric activities. Young volunteers sailed the barge to events up and down the river which were involved with river clean up.

The big companies that had a big role in polluting the rivers eventually joined in ... but only after a huge amount of effort by Pete Seager and a generation of young people. In the case of GE they are still arguing over their responsibility for dumping PCBs into the river ... and the matter is still unresolved.

## The Energy Economy - Infographic

The Energy Economy - Infographic

## Doing Something About Conventional Wisdom

Reference #604      Doing Something About Conventional Wisdom

It is high time that thought leaders started to think 'outside the box'. From my perspective everything being written today about are rather modest variants on the system of economy described by Adam Smith more than 200- years ago and accounting that emerged more than 400 years ago.

So what is it that Adam Smith would be proposing if he was writing today ... and what would accountants be designing if they were designing from scratch to account for economic activities in the 21st century and not the 17th century.

In my view the system of laissez faire market capitalism had done a reasonable job of allocating resources ... reasonable but not good ... and rather poorly in the last few decades. The question becomes: 'What should be done to reform the system of laissez faire market capitalism so that the economic performance is 'very good'.

When double entry was invented, the goal was to protect investors who were financing merchant adventurers. Accounting has proven to be a very powerful part of the success of economic activity for several centuries.

The modern economy is different from the traditional economy of Adam Smith and economic

activity has more stakeholders than just the investors of the merchant adventurer era.

Going back to basics ... the purpose of economic activity is to satisfy needs. At the most basic level needs are: food; water; shelter and clothing ... access to healthcare; access to education. Quality of life is determined by how easily basic needs are satisfied and how reasonable wants are satisfied as well.

While the modern economic money profit laissez faire capitalist market economy is making it possible for more and more people to become billionaires, it is failing abysmally to reduce the number of people around the world who are hungry and in deep poverty. The system cannot serve to allocate resources to the huge global issues as long as the only metric is the money reporting using GAAP accounting.

The focus of GDP as a measure of economic and social progress is also misplaced. More GDP growth for rich societies may well be undesirable, while GDP growth for a poor society is very much needed and valuable. The macro measure should be more about quality of life than the quantity of stuff ... most of which is inconsequential in the bigger scheme of things.

A system of accounting for all activities that included not only the money profit but also the social value would change the dynamic of markets and society in the right direction. This is not a change 'at the margin' but a change that goes to the core of accountancy.

I call this TrueValueMetrics

Such a change would have been very difficult when I started my career in management accounting, but in the 21st century the technology needed to implement TrueValueMetrics is commonplace.

The basic ideas of money profit accounting are widely understood. Ordinary people also understand the idea of 'quality of life' and everything that goes into improving quality of life. In the TrueValueMetrics framework these elements are considered with a rigor normally only used for money based transactions. Whereas money profit accountants use 'standard costs in much of their work, in TrueValueMetrics there is the use of 'Standard Values'

UNFINISHED

## **Better Markets**

Reference #605      Better Markets

see txt00003634

## **Revenue Minus Cost Equals Profit**

Reference #606      Revenue Minus Cost Equals Profit

The modern money profit capitalist market economy is driven by the optimization of the simple formula 'Revenue minus Cost equals Profit'. This is a formula that had driven economic decision making since the beginning of time, and was articulated rather powerfully by Adam Smith in the

18th Century. Adam Smith was born in 17NN and died in 18NN and published the Wealth of Nations in 1776.

My impression is that modern economist have not noticed some of the rather important changes that have taken place in the world economy since the time of Adam Smith. I argue that what would have worked 300 years ago might be less than optimum in the present.

All of this can be summarized into one rather simple economic idea: The world has moved from a state where the economic system could not support the population to one where the economic system functions to generate chronic surpluses. A money profit capitalist market economy that worked in a global shortage economy does not work so well in a world of chronic surplus.

What is it that does not work? Almost everything.!

In a complex system where almost everything does not work, the data needed to make thoughtful rational good decisions are too numerous ... EXPAND

In a very large complex system it is difficult to know where to start. For the last fifty years the 'experts' have become more and more expert in their own field of expertise ... they have all been subject to a money profit measuring system that had been equating money profit with good performance.

This is wrong and makes no sense.

Th their credit, there are a good number of thoughtful people who have recognized this problem and have been writing about it for two or three decades. This is good, but the sad reality is that the world's capital markets are not paying much attention.

## **What is the Value of a Business Payroll**

Reference #607	What is the Value of a Business Payroll
Reference #608	Low Wage Increases Have Bigger Impact
Reference #609	Transactions – Impact
Reference #610	Keynesian – Banking and Purpose
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Reference #709 Democracy

Reference #710 What is the Cost of the Car - Value is More Important than Money

Reference #801 Economic Activity Map

## Wisdom of Planning

Reference #802

Why is it so critical for the corporate sector to plan ahead, think strategy and optimize for profit ... yet so unacceptable for the public sector to plan for the optimization of policy to benefit society and the economy as a whole.

The fact is that planning is just as important in the public sector as it is in the private sector ... in fact even more important because the plans become policy and then the enabling environment upon which everything else depends.

There are some good reasons why ordinary people can be misinformed about the role of planning in the public sector, especially

the 70 years or so of Soviet state planning that characterized their communist economy. It is very easy to conclude from the Soviet experience that public sector planning must fail ... but I argue that such a generalized conclusion is invalid.

When I first became interested in economics about 450 years ago, I had the opportunity to compare the 'economic management' of the UK with the 'Quatrieme Plan' being used in France. My impression was that the French system of planning was that it had a level of logic and process that was completely absent from the incoherent mix of free market thinking and regulatory controls (rationing) that constituted public policy and planning in the UK at that time. The French had a framework for economic progress that was a balance between the regions and between sectors. Within this outline there was relatively little regulatory constraint, however, as soon as the activity tried to go outside this framework a whole range of constraints came into play.

## Incentives

Reference #803

## Housing

Reference #804

## Face It – Profit is a Dirty Word

Reference #805

The good thing about data in the modern world is that there are all sorts of subsets that one can choose to 'prove' almost anything that one wants ... it is used in politics and in the 'agenda driven' media.

## What is the Purpose of Life

Reference #806

I see the purpose of life in quite simple terms: to have fun, enjoy oneself and to leave the world a better place.

A lot of other things flow from this.

Happiness is largely a function of family and friends. For many, if not most, people having fun and enjoying oneself is family centric.

People are social .. so beyond family, friends matter.

The antithesis of happiness, having fun and enjoying oneself is the worry and stress associated with access to basic needs and simply staying alive.

People need food and water. Without food and water, people die ... and it is appalling how many people on planet earth in the 21st century are at risk of dieing. Economic activity produces food ... and economic activity is needed to build and operate the infrastructure needed to collect, store and distribute water.

People need shelter. Economic activity is needed to build and maintain shelter.

People need clothing. Economic activity is needed to produce clothing and keep clothing clean.

People need good health or wellness. Good health is partly genetics, but also the food, water, shelter and clothing already referred to ... and also there is economic activity in the health sector.

People need education ... and there is economic activity in the education sector.

People also need recreation ... and there is economic activity of many different types within the various segments of the economy that support recreation ... music, dance, art, sport, and so on.

## Holding a School Board Accountable

Reference #807

In the United States, many of the decisions about children's education are made by a local School Board. The argument goes that a local School Board is local and therefore able to make decisions about education that are in line with what parents in the community want for their children. That is the theory.

In practice it would seem that what is achieved with the local School Board structure for decision making is education that is expensive and education that does not serve the student well.

When I have raised the issue of transparency and accountability in connection with local school board activities I get little satisfaction. Typically I am told to attend the meetings and to watch what is going on. While this is a reasonable response it is not very practical and is very inefficient, more suited to the 19th century rather than the 21st century. Worse, getting answers in this mode facilitates superficial analysis are best and legitimizes really bad practices.

## **Breakthrough Value Accounting**

Reference #808

Breakthrough value accounting use the powerful money profit accounting relationship between balance sheet changes and operating or transaction performance to enable reliable metrics about not only money transactions, but also the equally important value transactions.

Starvation: A family does not eat for a very long time. Children become malnourished, lose weight and die. An economic 'snap shot' of the family becomes of measure of the food consumption of the family.

Food security: A starting point is to know what stocks of food are available at a point in time ... but simply knowing what stock is in a warehouse is not enough. Stocks in other parts of the supply chain from farm to end consumption are also needed.

Another dimension is the issue of seasonality and the changes that take place from month to month through the year.

In a money profit market economy, the existence of food stocks does not mean that an individual family will not be hungry. A family either produces food by farming or buys food with money. In the latter case, if there is no money there is no food.

REWORK THIS SECTION TO BE THE FOOD ECONOMY and include these elements:

Land use

Land tenure / ownership

Crops

Crop rotation

Chemical fertilizer

Chemical pesticides

Chemical herbicides

GMO ... seeds

Food culture

Profitable food

Valuable food



Tastes good  
Healthy food  
Happy food  
Animal husbandry  
Antibiotics  
Hormones  
Permaculture  
Ethanol for fuel  
Selective breeding  
Feed  
Nutrition  
Fast food

## **Social Impact Accounting**

Reference # 809

I don't really mind what it is called, but I do want metrics that measure the relationship between resources used and the [good] impact on society.

A lot of work has been done in recent years to try to get these sorts of metrics used in the 'not for profit' and NGO world

I want to see the same or similar of better concepts applied to mainstream for profit corporations and government organizations. My reason is simple. More than 90% of all economic activity is in the for profit corporate sector and in the government public sector. Only about 10% of all economic activity is in the not for profit sector and NGO sector and it could easily be a lot less.

Every engineering student knows that efficiency is measured by the relationship between the 'inputs' and the 'outputs' ... but there has to be a rigor about the way the inputs and outputs are measured so that the results 'make sense'.

In corporate money profit accounting there is rigor in the way inputs (costs) are related to outputs (revenues) to calculate result (profit).

In the not for profit / NGO social impact accountancy as practiced almost everywhere, but there is little rigor or consistency. Improving the methodology would be interesting but may not be justified because these organizations only represent a small part of the global economy and is almost irrelevant compared to the power of corporate and government economic activities.

I see the need to take the needed essential metrics and 'force' them into universal use in the for profit corporate and government segments of the economy.

810 Books of Account



## **What to Measure and Where ... for a Product?**

Modern double entry accounting was invented more than 400 years ago to enable merchant adventurers

An 'Open and Responsive Government' is a good idea, and though ideas are powerful they do not get traction unless there are relevant impact accounting metrics like those in TrueValueMetrics

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