



TEDsUWS

CHANGE ... MAKING THE CHANGE WE NEED HAPPEN

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Good afternoon ... I am going to talk about change, and making the change we need happen

The theme of my talk is going to be around the importance of the letter 'P' in doing this. It might surprise you how important this letter is!

PROBLEM ... a word beginning with P

Show Slide 1

A very complex system

Very difficult to make decisions in a complex system

Measurement for Management has a number of different characteristics

We want to measure PROGRESS

And we want to measure PERFORMANCE

We can use the mathematics of the modern science of BIG DATA but we still have to be careful about GIGO ... Garbage In Garbage Out

Better outcomes when the model design has some respect for the actual system works

Show S2

This is the Phillips Machine ... MONIAC ... MONIAC is the Monetary National Income Analog Computer ... This contraption was at Cambridge in the basement of the Marshall Library when I was studying economics. It models the working of the UK money economy. It was designed by Bill Phillips, a New Zealander at the London School of Economics in 1949.

In scientific fields, the big data modeling starts off with a hypothesis about how the system works ... less so, I think, in the field of economics and in finance, media, and politics.

We talk a lot about the economy as in 'It's the economy, stupid' ... but what we are talking about is a complex system that has 3 parts: SOCIO and ENVIRO and ECONOMIC.

SOCIO is about PEOPLE

ENVIRO is about PLANET

ECONOMIC is about PROFIT

Peter Drucker famously said 'You cannot manage what you don't measure'

I was a very young CFO, recently arrived in the USA from the UK. Surprisingly, I was very effective, because I knew something about how to measure.

I knew better than most how to measure the right things ... the things that were going to change the PERFORMANCE of PEOPLE in the factory so we had better PROCESSES to make better PRODUCTS and then better PRICES, lower PAYROLLS and bigger PROFITS.

Measurement is POWERFUL, but it works as powerfully for BAD as it does for GOOD

In the modern world too many POLICIES are based on the idea that PROFIT is a good measure for the PROGRESS and PERFORMANCE of the whole socio-enviro-economic system

But this metric is simply wrong

It is vital to be careful about the difference between correlation and cause and effect ... they are not the same.

Bigger PROFITS are good for OWNERS of businesses ... but at what cost?

Bigger PROFITS will enhance the PRICE of STOCKS on the stock markets.

But that does not mean that the SOCIO-ENVIRO-ECONOMIC system is, in the aggregate, a whole lot better

You had better measure the right things

GDP does not measure the right things

Essentially the GDP only measures the consumption and production of things that are transacted in money

It is a rather poor measure of FLOW ... but is often looked at as a measure of STATE.

The myth is that more GDP will result in more happiness, a better quality of life

Yes ... it does in a shortage economy ... which was the norm for most of history, but not so much in rich countries since around the 1970s.

Since the 1970s richer countries have been surplus economies as a result of the amazing improvements in PRODUCTIVITY that has been realized.

From 1947 to the 1970s improved PRODUCTIVITY translated into fairly reasonable social PROGRESS ... there was a reasonable sharing of the surplus of productivity between owners and workers.

Since the 1970s almost all the surplus arising from increased PRODUCTIVITY has been captured by OWNERS with little allocated to WORKERS.

This graphic from 2011 prepared by former labor Secretary Robert Reich shows productivity going up while worker compensation has been flat for around 40 years!

As I have already said ... accounting is a very powerful management tool which is at the center of all modern management information systems in the corporate world ... and very powerful.

But it only addresses money transactions, and only the impact of these transactions on the organization itself, and specifically the profit of the organization.

This accounting ignores the externalities, the impact that business activities have on people and the impact there is on the environment, the planet.

I want to see a modernized and expanded system of accounting that incorporates impact on people and impact on environment as rigorously as it works for the profit for the organization.

For this we have to have an architecture that is appropriate for the socio-enviro-economic system that we have, a system that is complex, global, interconnected ... and also increasingly dysfunctional

I installed a mainframe computer in 1967 ... it had 4K of main memory. Now we have smart phones that are millions of times more powerful.

Why isn't society a million times better?

And why is the environment still being degraded at a record rate?

Productivity and profitability and executive salaries have increased in an amazing way ...

Why are we living in a completely unsustainable manner ... and ignoring all the emerging existential risks?

Risks like:

- Climate change
- Loss of bio-diversity
- Ocean rise
- Chronic unemployment
- Social unrest
- Pandemics
- Anti-biotic resistance
- Ocean acidification
- Increasing endemic poverty

This is how the 3 parts of the socio-enviro-economic system have changed over human history

Graphic set

People Progress / MBC efficient / Planet healthy

1-7 is history

8-12 is how we have to stop the rot and then get into a sustainable improving trajectory

Thinking of these 3 main segments in the system is an important first step to in understanding how it has to work ... how it has to be managed in order to get better results

So ... this socio-enviro-economic system ... this chaotic world ... comprises both STATE and FLOWS

Accountancy recognizes the idea of STATE and FLOW ... there are Balance Sheet Accounts (State) and there are Profit and Loss Accounts (Flow)

The UN System of National Accounts also recognizes STATE and FLOW ... but the system is not widely of fully used.

GDP is a part of this system ... but only a part ... but very widely used whether it is in rich countries like the USA or about the world's poorest countries.

As I have already said, accountancy has a focus on the PROFIT of the organization. What we need is accountancy that includes good and bad impact of the entity's activities on people / society and planet / environment.

Before we get to that, a quick observation about how the double entry aspect of accountancy

adds power and enables simplicity

Graphic set

PROGRESS is when the STATE (VALUE) at the end of the period (EOP) is larger than the STATE (VALUE) at the beginning of the period (BOP)

Note that none of the details of the activities are needed in order to know whether there has been PROGRESS.

This is very important concept to understand for the efficient design of a comprehensive system of socio-enviro-economic measurement and reporting.

SO ... how do we get from conventional money profit accounting this to something that is more manageable and effective

Graphic set

How do we develop a complete data architecture that will be easy to use, low cost and effective?

SO ... how to have a better system of accounting for the organization:

1. A financial P&L
2. P&L now flanked by balance sheets ... BOP and EOP
3. A P&L with the addition of favorable impacts
4. A P&L with the addition of unfavorable impacts
5. A P&L with both favorable and unfavorable impacts
6. Add the entity balance sheets and the impact on externalities
7. Now bring the externalities into the reporting framework for the organization
8. Lastly put this into the reporting frame for the whole socio-enviro-economic system

SO ... as we have already referenced, PEOPLE should be more important than PROFITS

What are the links in the system between PEOPLE and PROFITS

JOBS ... employment ... payroll ... productivity ... offshoring ... profits

PRODUCTS ... essential to support of quality of life and standard of living ... prices

Jobs and PAYROLL ... different perspectives for the employee and the employer

PAYROLL up ... Employee PERSON happy ... PROFITS / owner PERSONS unhappy

PAYROLL down ... Employee PERSON unhappy ... PROFITS / owner PERSONS unhappy

PODUCTS and PRICE

PRICE up ... Customer PERSONS unhappy ... PROFITS / owner PERSONS happy

PRICES down ... Customer PERSONS happy ... PROFITS / owner PERSONS unhappy

Broadly speaking, over the past 40 years optimizing for PROFIT and the interests of owners has resulted in PEOPLE / socxiety being very seriously shortchanged.

During my career I bumped into another management issue. Organizations like USAID, the World Bank and the United Nations all use PROJECTS as the core of their methodology for implementation management.

I did a lot of work over the years on 'projects' ... officially and unofficially. The project form of organization works for a time-limited construction project, but not so well for anything else ...

health, education, community development, etc. which are ongoing activities.

It is difficult to get meaningful accountability for the PERFORMANCE of a PROJECT

On the other hand there can be effective measurement of PROGRESS, and hence PERFORMANCE at a PLACE

A PLACE has perpetuity ... it does not move and is always in the same location.

There can be accountability for activities that happen at a PLACE unlike those that happen in a PROJECT that can come and go at will, can end and disappear, with nothing left to accept the accountability.

So ... what are the links between PLACE and PEOPLE

And ... the links between the presence of organizations (generating PROFITS) and access to employment (PAYROLL) which is good for PEOPLE

And access to PRODUCTS that are good for quality of life (PEOPLE)

And impact on the PLACE / PLANET because of PROFITABLE but inefficient PROCESSES that cause POLLUTION

THANK YOU