

MEANINGFUL METRICS FOR A SMART SOCIETY



The Basic Concepts of True Value Metrics

CHAPTER 2 HOW TRUE VALUE METRICS IMPROVES QUALITY OF LIFE

**DISCUSSION DRAFT
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Chapter 2-1

What Is TVM ... True Value Metrics?

Scorekeeping and Statistics

Scorekeeping for society ... for community

Simply put, True Value Metrics is scorekeeping and “stats” for society. It takes what has been developed over hundreds of years ... that is old fashioned double entry accounting used in the business world ... and makes it work for society by including value metrics as well as just money metrics. This is a paradigm shift that improves the management information dimension of decision making for society ... it offers the possibility of more tangible progress and less political posturing.

Scorekeeping and Stats!

In the sporting world ... there are always metrics about the score so that everyone knows which team is the winner. The scorekeeping is independent and not in the control of the players, the coaching staff, the owners or the fans. There are also “stats” that are specific to the sport and used to improve the game mainly by players and coaches .

What metrics are important depends on what the goals are ... in the case of society as a whole the over-riding goal is that quality of life is improved. The Founding Fathers of the United States put pursuit of happiness as a high priority in their thinking, and it seems reasonable that it should remain a high priority. For some this is progress out of poverty, for others this is sustaining an existing good quality of life. True Value Metrics measures what progress whether it is progress out of poverty and or improving quality of life.

Metrics for decision making

Measurement for scorekeeping is good ... but there also needs to be data for decision making. What gets measured depends also on what needs to be done. Some measures are always needed ... specifically ... what resources are used and what outcomes are achieved. These metrics are independent of the activity, and independent of any specific process. Other metrics relate to specific activities and relate to specific processes and help to improve activities and processes.

Modern society has a wide range of metrics ... but most are about money and wealth ... and the various activities that translate into wealth. Every corporate organization engaged in business has impressive metrics in their “management information systems” ... and the capital market data services have all sorts of data to help with the analysis of the capital markets and corporate profit performance. So much data about profit and wealth, but very little data to address issues about quality of life and other factors of social importance .

Decision making needs information now ... as good as possible now is what is going to get used. If it turns out to be wrong, then there will have to be adjustment later. This is the real world. Identifying cause and effect is done ... but it is done “on the fly”!

TVM aims to be for society what cost accounting is for the typical corporate business organization. In corporate business there is management information that relates cause and effect. Society needs something similar. The community needs for decisions to be made that are good for the community, and for decision makers to be held accountable for the way in which they make decisions and use resources.

Metrics about quality of life

Value is the main measure ... not money

What TVM does is to take the money accounting framework and incorporate value metrics into it. Value quantification in addition to money metrics is a basis for some level of paradigm change. Using value in the data and analysis framework, not merely money is a different dynamic. Value is subjective and not as easy to quantify, but it is very important and the main determinant of quality of life ... much more so than money

TVM has value at its center just as business accounting has money as its focus. While it may be possible to use money as a metric for wealth, it does not work well as a measure of quality of life. TVM has progress to a better quality of life as the big goal of a high performance society, not merely the acquisition of more and money money wealth.

Value ... subjective ... but still very important

Rigorous accounting for value requires a quantification for value. This is not easy because value is a subjective idea, but by using a system of “standard values” TVM has facilitated quantification.

Value must be quantified ... just like money

Nobody really understands what money is ... but it does not seem to get in the way of money being used everywhere to measure business performance and the performance of the economy at a macro-level. Value is more important both for the business organization and for society as a whole, and some way must be used to enable widely accepted quantification of value.

TVM is introducing a system of “standard value” to facilitate quantification. This is an approach somewhat similar to standard costs in corporate business cost accountancy. Everything gets a “standard value” ... and the aggregate of value transactions becomes the measure of socio-economic performance.

An Integrated Analytical Framework Starts with a double entry accounting construct

The double entry framework that is used in business accounting serves as a powerful method to organize and control data for use in business decision making. TVM uses a similar construct. TVM uses the double entry idea that has made money accounting so effective for corporate performance metrics. The double entry idea makes it possible for state, progress and performance to be part of a single system with internal checks and balances.

Like business accounting ... with value!

TVM measures progress and performance a little bit like it is measured in business accounting ... but with value not simply money! Money and value are related but not the same ... and there are two datasets: (1) a dataset that describes a state; and (2) a dataset that describes an activity. This is the same concept that is used in business accounting where there is a balance sheet (that describes a state) and the operating statement or profit and loss account (that describes activities). TVM uses the very elegant way in which accounting organizes data into transaction data that impact the profit and loss account, and the data that impact the balance sheet.

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Progress is the difference between the value at the beginning of the period and the value at the end of the period. The primary metric of progress is very simple. Is the community better now than it was in the past? This is not a complex idea, and there is no reason why there cannot be quick, easy and useful data about this. In the image below, the value of the community is the same at the end of a period as it was at the beginning ... ordinary daily activities produce what is consumed ... it is a stable steady state situation.

Performance is both the efficiency of the activity and the impact of the activity. The data makes it possible to measure how much something cost with what it should have cost. The data also makes it possible to measure the relationship between cost and the impact ... that is the change in value arising for the community.

The purpose of economic activity is to maintain quality of life and make progress ... the elements of “state” and “progress” are set out below together with the metrics of “performance” for the implementation activities.

Similar framework using value

TVM uses the same basic framework but with value data ... value elements about quality of life and socially important matters, as well as the well established elements about money wealth that are used in the money accounting system. The use of both money results and value results in a complementary manner makes it possible for decision makers to understand through routine reporting the social value impact of profit making and to be held accountable for both.

The money framework is sadly deficient because the money profit reporting is only about organizational performance and money, with no data about the impact of all of this on quality of life, and the decisions about allocation of resources needed to improve quality of life.

In TVM, “State”, “Progress” and “Performance” are an integrated set of metrics similar to the integrated metrics associated with business accounting and financial reporting ... the balance sheet and the P&L account. In the case of money accounting the reporting is mainly in connection with organizational performance, in the case of true value metrics it is about the performance of society ... how is the community moving forward!

Analytical construct from need to progress

The management cycle serves to track decisions and resources through a process ... to establish priorities and the assess progress and performance. This information structure helps with this. The structure of information used in TVM for appreciation of state, progress and performance is:

1. Balance sheet at beginning of period;
2. Needs;
3. Resources available;
4. Resources being used to satisfy needs;
5. Unmet needs;
6. Resources needed to satisfy unmet needs;
7. Incremental external resources mobilized;
8. Incremental resources deployed;
9. Activity ... resources used ... value consumed;
10. Activity ... value creation;
11. Activity ... impact ... value adding;
12. Balance sheet at end of period;

Organized data are very important

Data organization reduces data overload.

The massive increase in dataflows over the past few years has resulted in rather little increase in information and knowledge, but massive data overload. All planning and operational frameworks need a data flow system and management information. Without these, it is as dysfunctional as a human being without a nervous system.

The global society has built up a very complex institutional framework for the financing and operation of the economy and governance ... but it operates with a very incomplete set of progress and performance metrics. There are pieces, but not a complete framework. Too much of the analysis data are derived from very small surveys and statistical manipulation, with very little of basic cost accounting, and even less of cost effectiveness analysis.

Code systems facilitate the organization of data. The power of relational analysis is maximized by the design of the analytical codes. This is the key to easy analysis, and relatively easy to do for a relational database. There are different codes including account codes, budget codes, program codes, etc.

A community perspective

TVM also looks at socio-economic performance from the perspective of the community. Profit and value for the organization does not necessarily translate into quality of life improvement in a community ... yet this is a core purpose of all economic activity. The idea of the state of the community is reported using a report similar to a balance sheet, the progress of the community is reported by a comparison of balance sheets and the operational performance of the community by looking at the activities of the community.

TVM Complements Other Metrics

Not a system to replace existing metrics

Complement to money accounting

The need for TVM arises not because TVM is an alternative way of doing the existing metrics and could therefore replace them, but because TVM is adding to metrics in a way that supplements existing systems and helps with community level decision making.

TVM has a community perspective. In TVM, the primary reporting entity is the community. The state of the community ... the quality of life in the community ... changes because of the socio-economic activities going on in the community that consume resources, create value and produce value adding or value destruction for the community. All the other reporting is subsidiary to the reporting at the community level.

TVM has some of the characteristics of money accountancy for business ... except that TVM is not only about money transactions and economic measurements in terms of money but doing something similar with value transactions as well. Money accounting is used everywhere ... in business organizations, in government, in not for profit organizations ... and extensively in economic analysis. Money accounting does not include any accounting for value. TVM adds a complementary rigorous methodology that does accounting for value just as money accounting does for money.

TVM builds on established GAAP money accounting but with major extensions. Financial reporting of an organization are based on a universal "money accounting framework" ... the generally accepted accounting principles (GAAP). The balance sheet and the profit and loss account (P&L Account) together represent a unified set of information about the money aspects of the organization. Financial statements comprise a balance sheet, a comparison with a prior period balance sheet and a profit and loss account. This presentation of money data shows the financial state of the organization,

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how the organization has progressed from a prior period and the performance of the organization ... how the activities of the organization changed the state of the organization.

Complements other social progress metrics

The fact that money profit accounting is insufficient as a system of socio-economic performance metrics is well known, and many initiatives are in progress to address the problem. TVM recognizes that some of these initiatives have advanced substantially and in some ways are better than TVM ... while in other ways TVM is a better solution.

The best way forward is to add a value dimension in whatever way seems to be the most effective in a specific situation.

Reporting To Whom? By Whom?

A new paradigm

Most reporting ends up being part of massive information overload, and sorting out what matters from what does not is a big job, and not usually done well. TVM does not eliminate or replace anything that exists, but complements it so that there can be more information where it is needed.

The users of data about a community are those that are interested in the community ... either as decision makers for the community or as concerned citizens. The data may be used to make decisions or as part of a process that helps to make decision makers accountable.

Summary reporting using the TVM's value analysis construct will be built up over time for many communities ... ideally all communities. These reports will show how the community has been progressing and what is its present state. In most cases these reports will be web accessible.

A first level of drill down from the community summary will show some of the activities of the community and how these activities have helped or hindered in the progress of the community. An alternative drill down will identify organizations that have been engaged in activities in the community and how these organizations have helped or hindered community progress.

By the public for the public

The question about who does the reporting and who gets the reporting is very important ... but also, maybe, irrelevant. The fact of the community does not change because of any structure of governance ... the community is what is is.

In its most unintrusive form, TVM compiles data about the facts of the community ... and that is all that is on the record. The scorekeeping is happening because the community exists. There are no fans, no coaches ... just a game going on.

If someone chooses to try to improve the way the game gets played ... to improve performance, they may use the data ... the stats to improve performance.

In other words, the data are passive ... they may be used by anyone and everyone to help to get the game played in a better way.

Role of the press ... the media

The media ... and in its original form, primarily the press or print media ... serves to be the voice of the people in the checks and balances of democracy. The importance of this function is recognized in law by the passage of the 1st Amendment to the US Constitution so that the press could perform this function with little constraint.

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These checks and balances are as important today as at any time in history, maybe more so, because of the power of technology and the ability to do a lot of damage to the socio-economic fabric of the world in a very short time.

For TVM, the question about who does the reporting and who gets the reporting is both important ... but also, maybe, irrelevant. The fact of the community does not change because of any structure of governance ... the community is what it is. The TVM goal is for data to be accessible so that they may serve the interests of the community.

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In large part TVM is about public information being reported to the public by the public. TVM and the information infrastructure are the passive media to move the data and information into useable forms.

TVM facilitates reporting in a form that facilitates public dialog about important issues, and better dialog about these issues. An element of this is to report on issues that are important to individuals and communities, and about which the individual knows enough to be able to improve the outcome of a particular course of action.

Only the very powerful and the economic elite can make much of a difference at a national and international level ... but most everyone can make a difference at the local level ... and especially around things that have value and impact quality of life. When one community improves its quality of life and puts it on the record ... and then another ... and then another ... there is a combined impact that adds up to something important.

But the underlying paradigm change may be bigger than it might initially appear. The powerful and economic elite are able to do things to benefit themselves and they have the money to invest ... but they are not empowered to do very much for everyone, and especially things that are very personal.

The tools that are controlled from the top of society are quite limited ... something like "pushing on a heavy weight with a piece of string". So often the heavy hand of regulation ends up being counterproductive ... though a world without law and regulation, as was evident in the Bush era financial implosion is worse. There has to be a better way ... and the right way starts with the use of data to improve decision making at the local level.

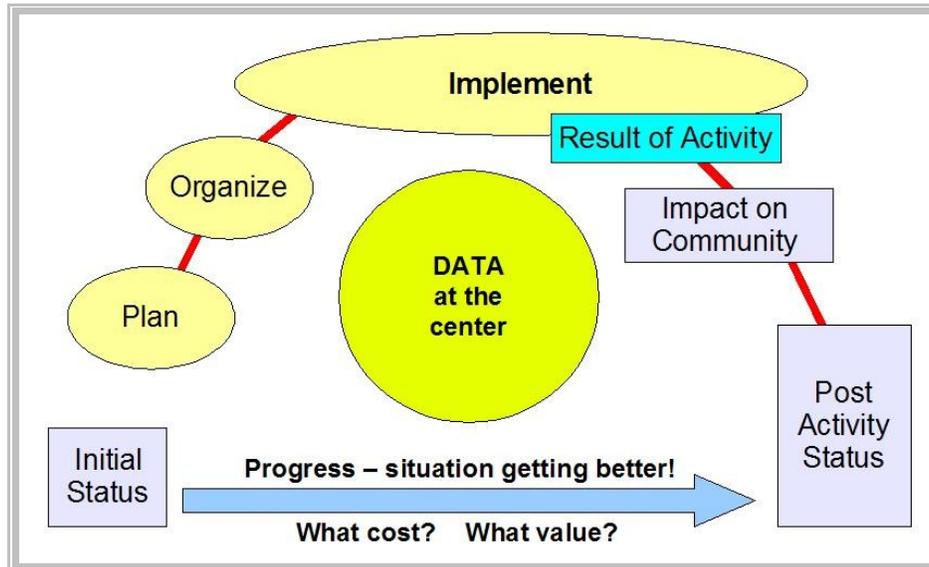
Chapter 2-2

Data and the Decision Cycle

Data at the Center of Everything

Data centric decision cycle

This is a simple representation of a data centric decision or management cycle where data are at the center of everything. Data are at the center ... and data are used at every stage of the process. One set of data used by everyone and for everything!



Data are used in every step of the process:

1. Data are used to ascertain the initial status and the post activity status. This provides a metric for progress.
2. Data are used to plan, organize and to implement.
3. Data are used to measure the result of the implementation activity, and the impact on the community. The data answer important questions about performance ... what cost? ... what value?

Management information

“Management information is the least amount of information that enables a good decision to be made reliably and in a timely way.”

TVM is a paradigm shift for society because it moves into a much broader use of data for decision making and public accountability ... and the goal is not to have academically rigorous study but society that works and society that progresses and solves problems.

Data that are internal to the corporate world are more pragmatic and useful than anything that is used in the academic community and for public information about society.

More than anything else data are an organized way to record facts ... and it is facts that drive success and failure. Data facilitate analysis and therefore make it possible for better decisions to get made.

Data need to be about material matters. It is very easy to create data, especially about small quite meaningless matters ... and then in short order to have “data overload”. Good data for decision making is about matters that matter.

Don't sweat the small stuff

Management information needs not only to be meaningful but accessible to decision makers easily and at the right time.

For socio-economic progress and performance ... that is the satisfaction of needs and improvement in the quality of life, progress for the community and efficient and effective performance ... there needs to be timely data about what matters, the data that are needed to make good decision.

It does not matter who makes decisions and who, that is what organization, implements activities. What does matter is that the resulting activities produce good results.

Use same data for multiple tasks

The same data are used for multiple tasks ... the facts are the same, and the metrics needed to use these facts in various different functions of management are similar.

- Data for planning ... these data are both strategic and tactical. The process of planning should help with both the mobilization of resources and subsequent implementation.
- Data for implementation ... these data are for operational decision making, and often are best if very detailed.
- Data for oversight ... these data have a focus on progress and performance and help to identify strengths and weaknesses in both the planning and the implementation.
- Data for accountability ... these data have a focus on the performance of the decision makers and the implementation actors in the effective use of resources.

The same data may also be used in different places in the organizational hierarchy or structure of organizations.

- Local use at community level ... it is at the community level where resources are consumed and value is created, and it is of great value to have data that are useful in the implementation of activities at this level.
- Local use at organizational level ... the same data are useful for those in organizations that have a responsibility for economic activities at the community level
- Consolidation and comparative analysis ... the data may be consolidated or aggregated at a higher level and used for comparative analysis, which in turn helps with identification of best practice and the best activities, organizations and communities.
- Large scale global analysis ... the data may also be organized for use in very large scale global studies using massive amounts of data and computational power.

Use metrics that are meaningful

TVM metrics have two purposes: (1) to keep score; and, (2) to provide good data for decision making. Data are needed that are relevant to the operations ... to the problems that are the most serious and the activities that are going to have the most impact.

Prevailing money metrics have evolved to serve the stakeholders of the organization, and for this money metrics are very effective ... but TVM is about serving the interests of society, and for this it is value metrics that are more meaningful. In TVM both money and value metrics co-exist ... with the expectation that it will be the value dimension of performance that will in due course become the dominant interest of society as a whole.

Good data for everything

Purpose of data

There is purpose for data ... a large part of which is to improve performance. Good data are very powerful ... but not well used for the benefit of society as a whole. People have recognized for a long time that data have value and accordingly most data are held as property to be used for personal and organizational benefit more than for societal benefit. In the main this is legal, though it is very much detrimental to the

The data for decision making is often referred to as management information ... and a useful definition of management information is as follows:

“Management information is the least amount of information that enables a good decision to be made reliably and in a timely way.”

Accountancy has a history going back several hundred of years to the advent of the era of merchant adventurers. The system of accounting is based on the give and take nature of transactions ... and reflects this in a system of double entry books.

Management information is quite new. Various forms of analytical accounting were developed in the era of great factories ... costs and works accounting ... and eventually they the advent of commercial computers and electronic data processing (EDP) fully fledged management information systems.

Data are needed to make key decisions about allocation of resources, and the prioritization of activities. The aim is to use resources so that there is a maximum of community progress ... the maximum increment in the quality of life.

Data are needed to provide a starting point:

1. What are the needs of the community;
2. What are the priority needs ... specifically unmet needs;
3. What are the available local resources that could be mobilized; and
4. What are the possible external resources that could be mobilized.

In my own work, I have always considered that the purpose of management information was simply to improve decision making ... with no reason to exist in its own right. I subscribe to the idea that: Good data and analysis are a good starting point for management information. Relating operational key data with accounting information makes it possible to address issues that are important and will make a difference.

Professional support for metrics

In the UK, in an era before computers and corporate management information systems, the corporate community in the UK had quite sophisticated cost accounting. In the UK, the Institute of Cost and Works Accountants trained accountants so that cost accounting served the needs of

factory supervisors and managers. The details of cost accounting were instrumental in making factory work cost effective. Sadly, a lot of the more prominent and powerful Chartered Accountants who had a big role in finance and big corporate decision making were also quite disparaging of cost accounting ... and in the end a lot of decisions were made that had a very negative impact on the productivity of factories, and the nation.

The information needed to understand the progress and performance of the community are similar to corporate money accounting and MIS except that there is formal quantification of the value elements.

Data ... metrics ... facts on everything that matters

There is no universal master list of what metrics matter. TVM is based on the fact that every place and time is different, and therefore deserves to have metrics that reflect the reality of the place and the time, and not merely be a derivative of some average derived from complex sophisticated statistical manipulation.

In socio-economic metrics, quantity and money are not enough. There also have to be metrics about value. In TVM there is a framework that embraces quantity, money and value ... and as well there are metrics for where we are (state), and how things have changed in the past (progress), and what activities have achieved (performance).

Some issues are more important than others ... and importance varies from place to place and from time to time. TVM uses the concept of materiality to focus on things that are important, so that the metrics can be used to make better decisions about the major matters of importance. In other words, TVM has meaningful metrics about everything that matters.

Data are an efficient way of making a record of facts. A key purpose of data is to be a representation of the facts. This is not always easy ... but this is what data should do. Data are a way to record and communicate realities ... tangible facts. There is no question that facts exist ... and the role of data is simply to make it possible to get facts into a form that is easier to manage and analyze.

Data to understand and guide progress

In a data centric management system data are obviously important. Socio-economic progress is an outcome of a complex dynamic with all the elements not well understood. Data are a key to success.

Possibilities can be achieved more reliably when there are data about performance and the application of resources. Data are at the center! TVM data are central to everything and used for:

1. Planning
2. Implementing
3. Measuring activity
4. Measuring performance
5. Measuring progress
6. Making decisions about next steps

High performance progress is based on data ... on knowledge. All relevant knowledge is taken into consideration. Part of the data are about communities, part about the organizations that work in communities, and part about the many external influences that affect the community. The same set of data are used for analysis, planning, progress and performance metrics and to give feedback so that there is continuous improvement. Decision making should be done on a timely basis, and there will never be enough time

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to get the perfect information ... but there may be good information for decision making if there is understanding about what the data show.

Data for coordination

Data connect everything ... facilitate coordination

Coordination without data is merely another layer of complexity ... but data in support of coordination is an approach that has the potential to improve performance in ways that are very substantial. Coordination is often expensive and ineffective, but with the use of appropriate data the process of coordination can be facilitated at very little cost.

With appropriate data the best way to work in cooperation becomes apparent with little need for opinionated negotiation. Data show whether or not cooperation is working or not.

Data for scorekeeping

Scorekeeping ... the metrics for performance are three (1) progress is how much the state of the community improves; (2) activity efficiency is how much something costs versus what it should have cost; and, (3) cost effectiveness is how much progress is achieved relative to resources consumed.

The scientific community has addressed this question in considerable depth because the issue of measurement determines whether or not the scientific analysis has any meaning or not. There are similar questions in the field of socio-economic analysis and policy formulation.

The central idea of management information in TVM is to measure in ways that are going to be the most useful ... to make the best decisions. It follows from this that performance should be measured where it is needed to make good decisions reliably ... and this is most likely to be at the community level where there is more granularity and less complexity.

Even at the community level there can be a lot of data ... and therefore very easy to have data overload. A lot of data does not mean there is a lot of information ... and especially not a lot of useful information.

Step one is to identify what is important for decision making that is important ... and for this there is the need, first of all, to have data to determine what issues are important.

Based on this, more data are needed about the important issues. There is no need to collect data about things that are of little importance ... or of little relevance to the decisions that need to be made.

Economic analysis using sophisticated statistics may be of academic interest ... but does it help to make better decisions at an operational level. Usually not ... the key information for operational decisions are usually very simple and easily ignored.

Data for public accountability

Accountability is one of those words that is used in public dialog ... but it is rare for anything very much to be done about it. Data are needed for individual and organizational accountability. While it is expected that decision makers will make decisions for purposes that are in the interest of the organization or for society, this is not going to happen without appropriate checks and balances. There are strong internal financial controls in most well run corporate organizations that ensures good decision making in the interest of the organization is the norm ... but there is nothing like it within the prevailing money metrics for the interests of society. TVM value accounting is done from the perspective of society and the community and is a way for society to have checks and balances and accountability.

Accountability has become a fashionable idea ... but not popular within the ranks of decision makers and those in control of resources and wealth. There is dialog and there are conferences to opine about accountability ... but the systems to do accountability never get deployed. TVM is a step towards accountability. The data and the analysis show performance ... and performance reporting highlights good performance in some place and with some organizations and bad. This is the essence of accountability.

Transparency is a part of this. There has been much talk about transparency for several decades ... but an effective process for doing transparency has never been developed, or, to the extent that it was developed, never deployed.

Data for oversight

The idea of oversight is normally associated with something negative ... stopping local initiatives on the assumption that local is bad. But good oversight has a very big positive which is that the understanding of progress and performance in the community makes it possible for alternative and perhaps better approaches to be introduced.

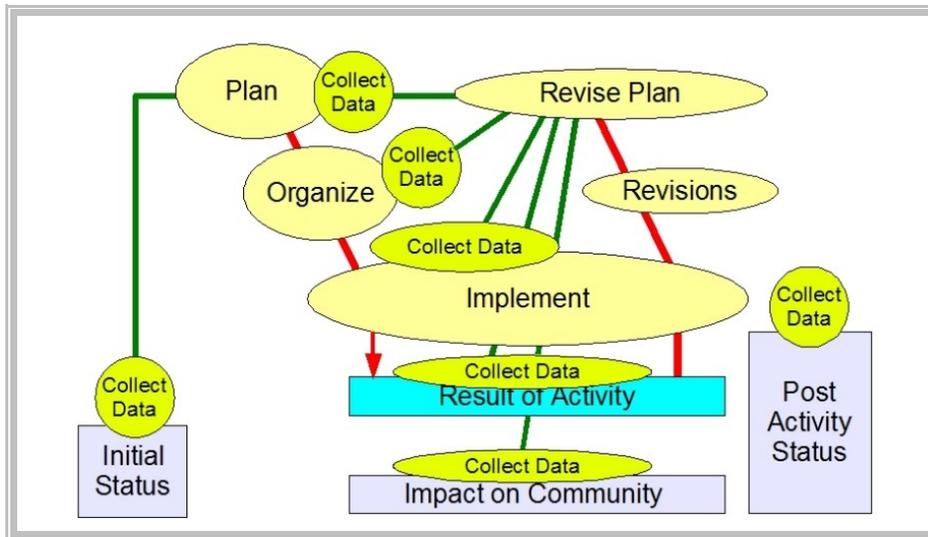
The one external resource that has the potential to be almost always a “win-win” is the sharing of technical knowledge so that performance is improved. Sharing knowledge is improved significantly when the specifics of a problem are clear ... and sharing knowledge is most valuable when it is practical usable information.

Continuum of Improvement

A system that improves performance

The basic module

The management cycle has the following form: (1) Collect data, do analysis; (2) plan and organize; (3) implement; and (4) measure and analyze again.



A system ... a continuum

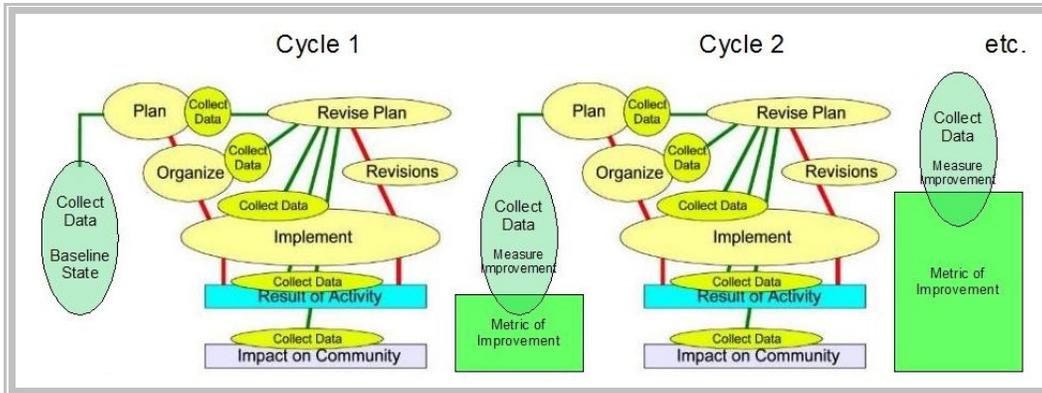
High performance programs integrate data collection, analysis, planning, action, more data collection, more planning, more action in a perpetual process. These are reflected in the following schematic. Everything has a data component. The basic construct is not done once but is repeated over and over again ... data are collected and used for decision making all the time.

In corporate accountancy there is both balance sheet and operating statement as an integrated whole ... similarly TVM has the state of the community and the economic activities of the community. Corporate accountancy has focus on money transactions and

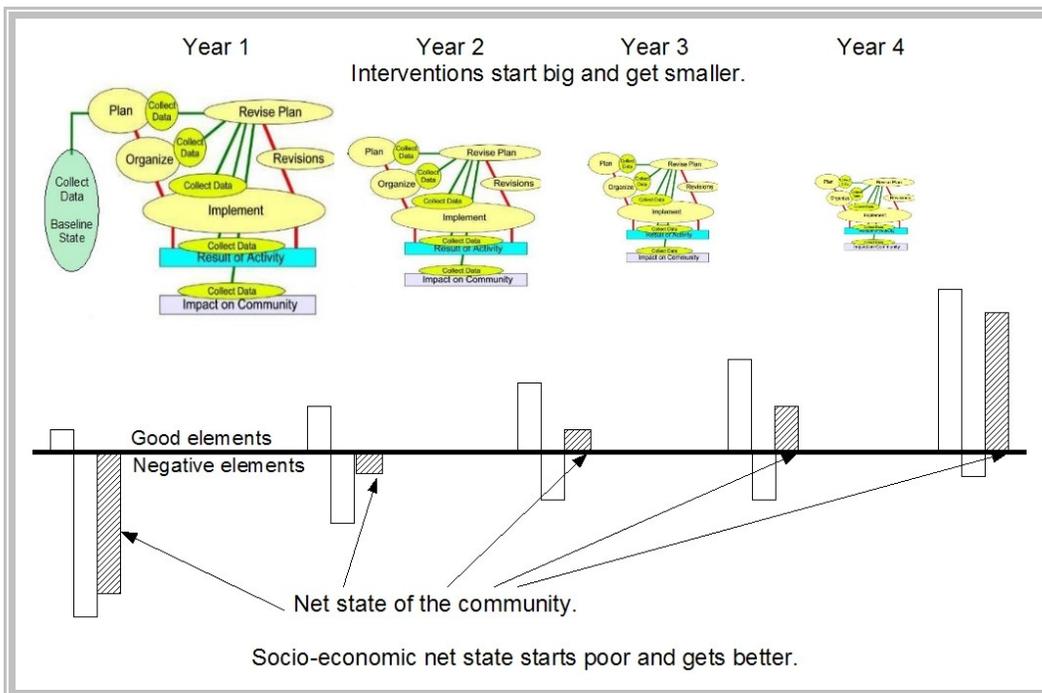
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financial profit ... TVM takes into account the broader idea of social value creation and destruction

The ultimate measure of success is whether the change between the initial status and the post activity status has a value that (substantially) exceeds the costs. The following schematic shows this as a box “Metric of Improvement”.



Over multiple cycles the aim is for the scale of the interventions to diminish and for the impact on community to get better and better, and the bad things to get smaller. The following graphic depicts this over a four year cycle. The interventions start big and get smaller while the net socio-economic state starts poor and gets better.



The global economy functions as a continuous process ... it never stops .. production and consumption keep on going ... value is consumed and value is created. How well it works has to be assessed “on the fly”.

At some level this is what markets do ... they also keep on going without waiting for deep analysis to show what is “right” or “wrong”. People have to make market decisions with the data that are available.

Chapter 2-3

Structure for Data and Analysis

Quality, Quantity, Money AND Value

Not only quantity and money

TVM uses many different data types. Four of these are:

1. Qualitative information using text, images, video, etc.
2. Quantities ... numbers using a variety of units of measure (UOM)
3. Money ... the prevailing focus on cost, revenue, profit and a variety of metrics about capital markets and national economic performance like GDP; and
4. Value ... the principal incremental metrics being deployed using TVM

Quality ... qualitative or analog information

This includes text, images and video information. Quality ... qualitative or analog information is important. It is not only the type, but also the form and the “architecture”. Non-numeric information can be very useful, especially when the data have the architecture to be organized. Text, images and video presentation makes it possible to describe situations and activities. It is particularly useful if the data are organized in ways that enable trends to be easily identified ... time ... and comparison made with other locations ... place. This is done by having all, or as much as possible, of the data identified by time and place.

Various ways are available to facilitate using qualitative data with some form of quantification. The goal with most of these data is to organize them for use in decision making, oversight and accountability.

Quantity information ... numbers

The scale of anything is measured using some form of quantification ... and some relevant unit of measure. With this quantification it becomes possible to understand the scale of things, and appreciate how much the activity is doing relative to the broader surroundings. In the corporate management information arena the use of “key item control” made it possible to put the performance of each part of the company into perspective and improve allocation of resources to address the critical issues as a priority.

Money

Money measures are everywhere, especially in business and economics with analysis based on cost, price and profit. For all practical purposes almost all the organized data are about money metrics ... very little based on value. Money accounting is the basis for most of the performance metrics associated with corporate performance, stock market prices, GDP measures and wealth.

Almost all the metrics about corporate performance are based on money profit, which is a derivative of money costs and money revenues ... in turn a derivative of price. Most of the decision making in corporate organizations and the capital markets is based on profit achievement and profit expectations ... with the impact on society of corporate activities almost totally discounted.

The Basic Concepts of True Value Metrics

When people talk about something being wrong with the way the global socio-economic system works ... this is one of the elements of the global market economy that is causing dysfunction.

There is no simple way to measure value from the perspective of the organization ... yet it is the creation of value that makes an organization's activities worthwhile for a community. A purpose of TVM is to have metrics about value a part of the analytic framework.

Value

Value is subjective, difficult to quantify ... but immensely important. The consumption and creation of value that result in the adding or destruction of value is the core process in the socio-economic system. Value is far more important than any of the money metrics but not part of the prevailing continuous chatter about money economic measures.

Value is subjective ... and difficult to quantify using a single number. The problem can be resolved using a system of standard values and quantification that puts everything into the correct position “relative” to other things. This approach is relatively simple and very practical with modern technology.

The Double Entry Construct Using it for value accounting

The double entry construct of old-fashioned accountancy is a very powerful way of organizing data in a way that gives it a lot of meaning. People need to know “Where they are!” and “How well they are progressing!” and this is what the business money profit accounting system does very well.

The balance sheet informs about the state of affairs ... and it does this in a very efficient way. In TVM this is expanded to include both the money perspective and the value perspective.

A comparison of two balance sheets at different times informs about change over time ... informs about progress or not. In the case of TVM it is the value change that is of interest.

In money profit accounting there is a profit and loss account which informs about the activities of the reporting entity. In the case of TVM the value flows of activities are the equivalent of the business profit and loss account.

Other financial reports like the cash flow statement are interesting and serve a big purpose in organization management ... less in the value accounting for community. There are many other metrics and reports ... economists, stock market analysts and others use a wide variety of financial reports and statistics ... but they are mainly related to the money dynamics of the organization and the economy.

Every move in the underlying economic data are routinely translated into what impact this is going to have on money investors ... it is an impressive capacity for analysis. The followers of capital markets are deeply analyzing the correlation of all the supporting statistics with movements in the capital markets, but none of these measures has anything to do with the society's quality of life.

State, progress and performance Metrics for “State”

TVM makes much use of the accounting idea of balance sheet ... a simple way to put “state” on the record. Unlike money accounting, TVM includes not only the money cost of resources, but the value of the resources. TVM includes value assets like human

capital, and all the components that go into making for quality of life. The money balance sheet is a summary of the assets of the organization, the liabilities of the organization, and how these are financed.

State is a recording of the situation at any given time ... in business money accounting, it is the balance sheet ... in value accounting it is a variant of the money balance sheet to include also the value components. Value at a moment in time is a proxy for quality of life ... and all the many elements that go into making up the quality of life. Central to value in this context is the value associated with the people population and human capital. Knowing facts about a community should be the norm and not the exception. Data about the “state” of the community should be commonplace.

If you do not know where you are ... how do you know where you are going.

A balance sheet has both assets and liabilities. In value accounting the basic money concepts are modified so that resources and possibilities are considered as assets while lack of resources and constraints are considered as liabilities.

The assets are of different classes ... the current assets and the long term assets. There are also intangible and other assets. The liabilities are also current liabilities and long term liabilities. Current assets include items like cash, accounts receivable, inventory and items like prepayments. Long term assets include the fixed assets and the provision being made for depreciation. The class may also include long term investments. Intangible assets are items like intellectual property and goodwill.

The “state” of the community is similar to the balance sheet of the organization. TVM value balance sheet not only has the money assets and liabilities of the community just like the money assets and liabilities of the organization, but also has the value elements of the community that are elements of the quality of life in the community. The value balance sheet for the community has value liabilities that reflect lack of essential resources and constraints that impede progress.

TVM has community as the primary reporting entity compared to the prevailing money accounting that has the organization as the primary reporting entity. But the concept of “state” and the value balance sheet may be used for any reporting entity.

Metrics for “progress”

Progress in value accounting is like profit in money accounting. The activities of the reporting entity ... the community of the corporation ... produce the progress or produce the profit. The double entry accounting construct means that the progress or the profit may be measured either by assessing the performance of all the activities and then aggregating them, or by looking at the way the state or balance sheet has changed from the beginning of the period to the end.

Progress ... balance sheet change over time is determined by comparison of two balance sheets at two points in time, The change is a measure of change ... hopefully progress, but not always. Socio-economic progress is the improvement of the community value balance sheet over time. It is the difference between two value balance sheets ... similar to profit when it is defined as the difference between two money balance sheets for a business organization.

Defining profit and the balance sheet

Henry Benson, later Lord Benson, when he was the Senior Partner at Cooper Brothers & Co in the UK in the 1950s and giving expert testimony

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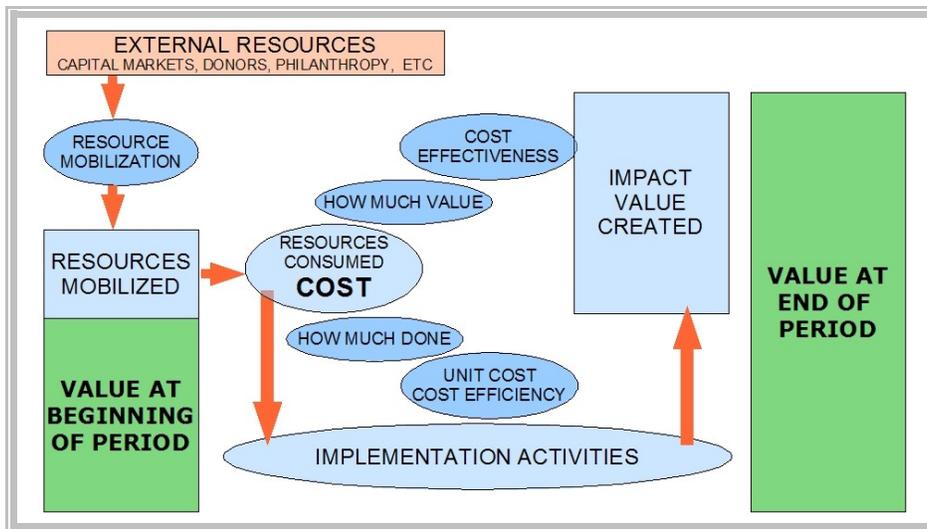
in the British High Court, defined profit in this very simple way: “Profit, My Lord, is the difference between two balance sheets” ... a most elegant definition that incorporates everything and ignores nothing!

In corporate accountancy, the progress of an organization may be measured by comparing two balance sheets. Similarly the progress of a community is the difference in the state of the community between two times. The progress of the community as measured by the community balance sheet is a proxy for the quality of life of the community.

TVM uses the concept of “difference between two balance sheets” as the core method for ascertaining progress. In practice this makes it possible to focus on “what is changing” because what is not changing is having no impact on the values in the balance sheet from beginning of period to the end of period.

Metrics for “performance”

The way in which accounting organizes data into transaction data that impact the profit and loss account, and the data that impact the balance sheet is both elegant and powerful. This framework to measure performance is illustrated in the following graphic where the community value at the beginning of the period increases to the value at the end of period ... with various implementation activities taking place during the period.



Progress is the difference between the value at the beginning of the period and the value at the end of the period. The primary metric of progress is very simple. Is the community better now than it was in the past? This is not a complex idea, and there is no reason why there cannot be quick, easy and useful data about this. In the image below, the value of the community is the same at the end of a period as it was at the beginning ... ordinary daily activities produce what is consumed ... it is a stable steady state situation.

Progress may be fast or slow depending on how much resources are allocated to the activities for the period. The performance of society is about the way in which the activities are conducted ... whether or not the activities are being done using an amount of resources that is technically correct, or whether resources more resources are being used. Another question about performance is whether or not the activities are using resources and achieving impact and progress in the community.

Because state, progress and performance metrics are integrated in a coherent manner, it is difficult to “fudge” the numbers to get desirable but phony results. This is part of the

How True Value Metrics Improves Quality of Life

power of business accountancy, and therefore TVM. There are no good reasons why TVM cannot be deployed for value in the social and community setting, just as money accountancy is used in the corporate environment.

Chapter 2-4

Reporting

Reporting Gives Power to Metrics

Reporting facilitates good decisions

Easy access reporting ... everywhere in the economy

Without metrics it is impossible to manage ... without management information performance is always compromised. It should not be hard work to get the data needed to make good decisions.

Without metrics, performance is compromised

I have observed since early in my business career that if I see a company with weak management information, then I am seeing a weak company. In a world where society has inadequate socio-economic management information, it is no surprise that socio-economic performance is poor.

TVM aims to make it very easy to get the data that will help get the best possible decisions made about the allocation of scarce resources.

Community is the main reporting entity

TVM has community as the primary reporting entity, not the organization as it is in most money accounting financial reporting. TVM has the public or society as the primary stakeholder in the access to information about the socio-economic state, progress and performance. TVM organizes data in a way that is going to be the most useful for decision making and to enable public oversight and accountability. The organizations of data are used to provide clarity about the situation in a community, together with the activities and organizations in the community.

Community is where people live their lives. TVM has focus on the community more than on the organization. Socio-economic progress and performance is first about people and their quality of life and only secondarily about the profit of organizations. The quality of life of people is more closely associated with community than it is with organization. In TVM a community is a place ... though in any place there may also be other sorts of communities such as affinity groups, virtual communities, and so forth. In a community there may also be sub-division of the community into smaller units or places ... such as the neighborhood, the block, the building, etc.

Within community there may aggregation by sector or aggregation by organization ... but the aim is better quality of life for the people and families in the community. Decision making about activities determines socio-economic progress and performance ... and TVM acquires data to help with decision making and holding decision makers accountable for performance. The most important socio-economic measures relate to place ... for many reasons. The place is where people live and work ... the place where quality of life has tangible meaning. A place does not move ... it has a perpetual existence. While many factors of economic life can and do move around ... the place stays constant.

TVM uses value accounting and analysis to show the state of the community and the progress of the community. The framework of analysis shows what is important and what is not, and what organizations and activities are doing to contribute to or constrain progress. Community is the main entity for TVM to report on progress. TVM incorporates organizations and activities into the analysis in a subsidiary role ... similar to the accounting for subsidiary organizations and subsidiary activities in group accounting.

By organization

An organization is usually the entity that does activity ... one or many activities ... in one or many communities. People in organizations are the main decision makers about resource allocation and activities ... and in turn in the progress and performance of the community.

Most organizations have internal money accounting. TVM adds a value dimension and a very different perspective. The main metrics are derived from activities of the organization and the value proposition associated with these activities.

In TVM, the performance of an organization is a means to an end, not an end in itself. An efficient organization may have efficient activities that have good community impact ... but it is also possible that an efficient organization has activities that do not have good community impact. TVM metrics have focus on the impact of activities on people and the performance of the community more than on the performance of the organization.

In TVM an organization is subsidiary not primary in the hierarchy of reporting and analysis. Money accounting is done almost exclusively from an organizational perspective ... to report profit performance ... to report the receipts and payments of money against a budget. In TVM it is the community that is most important.

In TVM the performance of an organization includes how the organization's activities impact on people and community. TVM consolidates ... does roll-up ... of the activities of an organization not so much to see how well the organization is doing, but more to understand how well the community is doing.

TVM metrics are valuable in conjunction with the Corporate Social Responsibility (CSR) initiatives that are becoming increasingly common in the business world. Most CSR functions with limited metrics. ... and where there are metrics they tend to be ad-hoc and not part of any system of mainstream reporting.

Ideally TVM should be an integral part of the organization's accounting and management information system. The basic architecture of TVM data would allow this and make it possible to do TVM reporting as thoroughly as the profit reporting.

Accordingly it is useful for organizations to report using the TVM reporting construct ... and in fact many organizations could improve their public perception significantly by making full use of value reporting rather than simply doing financial reporting. Not-for-profit organizations communicate next to nothing by distributing detailed financial reports ... it is a near useless exercise. An equivalent level of effort and detail about the value flows of these organizations would be incredibly interesting.

Reporting about organizations

TVM does not ignore organizations ... they are the main actor that drives the economy. In TVM the goal is to have the community progress ... and to understand organizational performance from that perspective. It is interesting to know about their profit performance but it is the impact on community, people and families that is of the most interest in TVM. This is a paradigm change in the metrics about modern society that have

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been dominated for decades by the profits of business, stock market prices and growth ... largely measured by how much gets consumed.

For specific activities

TVM uses an “activity” as the basic entity for performance analysis. It is activities that create socio-economic product or value ... consuming resources and value in the process. Any discreet activity may be subject to TVM style analysis to obtain its value profile and what impact the activity is having on the community. The same information is useful for the analysis of the performance of an organization.

Activity reporting is the foundation element that sustains socio-economic performance. The socio-economic status of the community and socio-economic changes for the community result from socio-economic activity. An activity consumes economic resources and in the process creates economic value ... and where there is a surplus of value creation over value consumption there is value adding.

TVM uses the activity as the focus of data acquisition because an activity has simplicity, is the entity that sustains socio-economic performance and may easily be associated with factual information as well as time and place. An activity may have some form such as a “project” or a business “branch” ... or a religious unit, or something in health or education or construction ... but this does not change the concept. The activity is something simple that may easily be understood.

Data about an activity may be “rolled up” or consolidated so as to form a bigger entity. This roll up may be a variety of activities that add up to be the aggregate for a community, or the aggregate for a sector, or the aggregate for an organization.

Activities use resources, that is, consume value in order to create value. The process gives either value adding or value destruction. Activities also have a money dimension with money costs and money inflows resulting in money surplus or deficit. Sustainable activities are value adding and money surplus producing.

Accordingly the productivity of economic activity is a critical factor. TVM metrics therefore have some focus on the activity and the performance of the activity both in respect of its cost efficiency and its cost effectiveness. The metrics of efficiency and effectiveness relate respectively to the cost associated with the activity and the relationship of cost to impact for the activity. The goal is not merely to do the activity, but to get some useful results from doing the activity.

While many modern corporate organizations straddle many communities, and indeed in some cases many countries ... their activities take place in specific places and it is in these places that there needs to be performance analysis and metrics about the impact on the community. A typical well managed organization will know about the profit contribution of any of its activities anywhere ... in the TVM reporting framework there will also be knowledge of the value contribution of these activities on the communities where they are.

Projects and programs

A project or program may be similar to activity ... or a subsidiary roll-up ... it depends on the structure of the project or program. In many ways TVM activity reporting is similar to the project reporting that is done for UN, World Bank and other relief and development initiatives. The main characteristics of the TVM reporting is clarity about when and where the activity is taking place, and the ability to “roll-up” the information in a useful way to the community level.

The project or program has been an important operating entity for development implementation. Such an entity is well suited to capital projects like major construction,

but not at all suited to work such as capacity building and works where a continuing activity is anticipated as in most non-capital support for development.

TVM does analysis at the “activity” level which may be “rolled-up” to a project or program depending on the circumstances. The size and complexity of many projects and programs makes it a virtual impossibility to have good decision making and accountability. Without this, many projects and programs have failed due to more or less misappropriation of funds. Large projects without clear “community specific” activities also have failure potential associated with the use of “average” solutions for very specific problems.

People and family

TVM does analysis that is people centric ... does analysis that is bottom-up rather than top-down. The metrics of quality of life have to be relevant to individuals and to families ... and in practical terms this is better done at the community level than at the national level. There are also many reasons for looking at quality of life issues at the community level, not least of which are matters like privacy and the undesirability of any imposition of intervention initiatives at this level.

TVM has a people perspective, which in turn means family. The economics of the family aggregates into quality of life for the community. TVM does not attempt to track people and family level progress directly for two reasons (1) at a practical level, this is not the level where decisions have a public impact (2) and from a privacy perspective, the data is too invasive to be acceptable as a society wide initiative.