

MEANINGFUL METRICS FOR A SMART SOCIETY



The Basic Concepts of True Value Metrics

CHAPTER 6 ENTITIES FOR VALUE ANALYSIS AND REPORTING

**DISCUSSION DRAFT
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Chapter 6-1

Where To Manage and Coordinate?

If Government is Involved!

Management and coordination will be at the top!

If government is involved, then the management and coordination will have its center of gravity at the top ... and it will not work.

In parallel with the “top” level initiatives, there needs to be a series of modest scale activities that have focus on community and are able to be managed and coordinated to do tangible work. These activities can be successful and contribute to community progress. These activities can work and contribute to the reported success of organizations

Nevertheless it will be at the “top” that there will be an ongoing assessment of performance ... and the establishment will keep on doing its statistical compilations at this level. These statistical series have some value ... they are a long time series, and though they are almost 100% useless for decision making they do serve as fairly useful proxies for aggregate performance.

Better at Community Level

Multi-sector at the community level

Almost nothing will work when it is planned “in a silo” with the intention of operating “in a silo”. This is the planning model of most single sector initiatives ... and also explains why most of these initiatives are impressive failures.

Attempts to coordinate a set of single silo initiatives at the “top” so that they work together at the community level never works ... but just adds another level of coordination at the “top” while doing nothing much of use at the community level.

Activities are community specific ... or place specific. Activities that are priority in a community are those that are addressing priority needs in the community.

Expertise is sector specific, and to be useful it needs to be able to reach the community and the activities where the expertise is used. Expertise may come to an activity in a variety of ways ranging from an Internet connection to the engagement of consultants and organizations with deep sector knowledge.

Many communities have multiple deficits ... and in these cases the deficits may aggregate to make it very difficult to have successful activities to address any of the needs. This is a challenge and the starting point is data ... and then small steps over time to help the the community to move forward.

For a continuum of progress there has to be deep understanding of what can be done at the community level ... everywhere!

Chapter 6-1

Where To Engage?

Practical Aspects of Micro-Up How best to plan, manage and coordinate?

The focal point of many years of failed development has been top down planning and resource allocation together with a preoccupation with profit at the expense of value. The idea of micro-up bottom of the pyramid empowerment rather than the prevailing top down development model holds the promise of better performance, but there are practical difficulties.

TVM addresses the broad issue of data and its use for decision making, oversight and accountability. This can go a long way towards addressing the challenge of bottom of the pyramid empowerment, the allocation of scarce resources and accountability for their effective use.

With government, decision making at the top!

If government is the focal point, then planning, management and coordination will be at the top ... and it will not work.

In parallel with the “top” level initiatives, there needs to be a series of modest scale activities that have focus on community and are able to be managed and coordinated to do tangible work. These activities can be successful and contribute to community progress. These activities can work and contribute to the reported success of organizations

Nevertheless it will be at the “top” that there will be an ongoing assessment of performance ... and the establishment will keep on doing its statistical compilations at this level. These statistical series have some value ... they are a long time series, and though they are almost 100% useless for decision making they do serve as fairly useful proxies for aggregate performance.

With community, decision making bottom-up

Activities are community specific ... or place specific. Activities that are priority in a community are those that can address priority needs in the community. The best place to ascertain community priorities is in the community ... and it is in the community that there should be planning.

Many communities have multiple deficits ... and in these cases addressing only one of the deficits may not have much impact.

Which disease to die from?

A child may be treated for malaria and live because this is a global priority for donors ... but then die a month later from some water-borne disease that is not being addressed.

The Basic Concepts of True Value Metrics

Planning and assessing progress at the community level is very much easier than trying to get the same level of certainty at a national or global level.

At community level ... multi-sector coordination

Almost nothing will work when it is planned “in a silo” with the plan to operate “in a silo”. This is the planning model for most single sector initiatives ... and explains why most of these initiatives are impressive failures. This is the planning model used almost universally by the World Bank, the UN and official development assistance agencies like USAID, DfID, and others.

Attempts to coordinate a set of single silo initiatives at the “top” so that they work together at the community level never works. Usually this merely adds another level of coordination on “top” of what is already, not to mention adding expense, while doing nothing tangible for coordination at the community level.

Expertise is sector specific, and to be useful it needs to be able to reach the community and the activities where the expertise is used. Expertise may come to an activity in a variety of ways ranging from an Internet connection to the engagement of consultants and organizations with deep sector knowledge. Broadly speaking the key know-how should be “pulled” into the community to address some priority rather than being pushed.

For a continuum of progress there has to be deep understanding of what can be done at the community level ... everywhere! A starting point is to have a modest set of community level data which may, over time, be expanded as the community progresses.

Chapter 6-2

Communities

Community Is the Focus of TVM

Communities are where people live

All communities are different

Community is where people live and work. It has been said that “all politics is local”, but it is even more true that “all life is local”. There are many advantages associated with community focus planning, with the ability to have programs that are of a manageable size, and the ability to see the impact, and adjust to handle constraints that would otherwise disrupt progress. In a community the decision making is done by people ... and cause and effect are meaningful ... not merely remote statistical abstractions.

Relief and development analysis is complex ... but is simpler at the community level than at a national level. With a community focus approach it is possible for analysis to be simplified to focus on material activities that are most impacting performance of the community. Community analysis is location specific and community centric, rather than the more usual sector centric analysis with implementing organizations.

The advantage of the community centric approach is that activities may be optimized to suit the place which results in much more effective socio-economic progress. Where resources are limited this is an important consideration. Location specific community centric planning and resource allocation is important because each community is different, and accordingly the activities in each place should be different. National level plans provide a guiding overview, it is but it is planning and analysis at the community level that makes it possible to do things that optimize progress. Every community is different. Planning at the community level is more relevant than planning at any other level. If the goal is for people to have a better quality of life, then the community is where people live and work.

What is the “state”? What is the “progress”

The performance of a community is often pretty clear at the community level ... but performance at the community level is not well documented and in a form that facilitates decision making, oversight and accountability.

The money and material resources of a community are a mix of private property, public property and the resources of the commons. The complete resources of the community are also those that have social value, though not a direct trading or monetary value. These are all part of the “state” of the community and include (1) the value of the human resource; (2) the value of organization and governance; and, (3) the value of future opportunity and potential.

State ... balance sheet of the community

The state of the community is recorded using data about the community. The data are organized along typical accounting lines with items sorted according to balance sheet assets and liability classifications. The data reflect not only money accounting asset classifications but also TVM value classifications for all the value elements for the balance sheet.

The Basic Concepts of True Value Metrics

The TVM construct for state of the community is similar to a balance sheet of a corporate organization but expanded beyond the normal assets and liabilities to embrace the value intangibles, especially the value associated with quality of life in the community. The state of the community is about quality of life and the assets and liabilities of the community.

Progress ... balance sheet change over time

There is progress when the state of the community is improving from year to year. The state of the community is an aggregation of value ... and while value is subjective and not easy to quantify it is very important and the fundamental basis for determining quality of life. The TVM construct for progress is based on the core idea from double entry accounting that changes in the balance sheet may be used to understand the progress of an entity over a period of time. The change in the balance sheet ... the change in the net value plus is a measure of progress. A community shows progress when the balance sheet improves.

Performance ... what cost? ... what impact?

The progress and performance of a community are functions of the potential of the community and the efficiency and effectiveness of the socio-economic activities in the community, including those originating within the community and those that come from outside. Too many activities in the prevailing socio-economic systems benefit some at the expense of others ... usually the poor and powerless.

Some ancient practices are very efficient

It is thought provoking to consider how any human being can live and prosper in the middle of a desert ... but pastoral societies do this by being highly efficient in their use of very limited resources. Relative to the potential of the available resources they do amazingly well.

In contrast a modern advanced economy ... the prevailing throwaway consumption based economy ... is highly inefficient in its use of available resources. Cleaner effluent from a profligate resource using production process is a step in the right direction ... but only a very small step!

Quality of life determined at the community level

Quality of life is determined at the community level ... whether it is a rich community with abundant resources or one that is poor and struggling. Good decision making has a huge role in making the best possible use of resources, and community performance metrics should be suited to decision making at the community level.

A good start is the efficient and effective use of resources. The underlying assumption of market economics is that the market delivers efficient allocation of scarce resources ... but this is rarely so because few markets have economic efficiency but are being gamed so that winners win and losers lose rather than delivering an optimum equilibrium. TVM at the community level provides data so that the market works more efficiently with value taken into consideration as much as profit. TVM analysis aims to be useful ... to improve decision making and socio-economic performance.

Facilitating progress at community level

Get data

TVM is a system that works with data ... and has community, a place, as the core of data collection and analysis. All the data are linked to place and associated with time. Every fact that is going to be important in decision making about the community is needed. Broadly this breaks down in the following sections:

1. Information about the area ... the place;
2. Information about issues to be addressed;
3. Information about ongoing activities and interventions; and
4. Information about the results ... the impact on the issues being addressed.

Data are needed about needs, about resources and about constraints. The challenge is to get these identified and organized in an efficient way.

Where are decisions made ... where are the data?

The success of community development depends a lot on where decisions are made and what data are available. People are a key to community success ... but how are they organized to be effective in helping the community to progress.

The community governance structures may be the best locus for decision making and data, but maybe not. Maybe the locus should be an activist group or other civic organization. The community as the reporting entity is not the community government but the community ... the community government is an organization within the community.

It is possible for data to be effective without having any formal locus ... data are about the community as a whole and may be located “in the cloud” if there is no other place where they may reside.

What are needs of people?

People have needs ... basic needs. People have wants that go well beyond needs. A “middle class” quality of life is about needs being satisfied without any worries and some level of want being realized to suit oneself and deliver on a reasonable “quality of life”. Modern metrics for progress are poor indicators of quality of life, but more metrics that correlate with more and more economic activity and profit.

In all of history, society has been constrained because there were more basic needs than the practical capacity to supply these basic needs ... but this is no longer the case. Modern science and technology could now enable global capacity that would be more than sufficient to satisfy all basic needs ... but the governance structure and metrics for allocation of resources to make this happen are missing. TVM therefore starts any community analysis with needs.

In a sustainable economic setting, the needs of people are satisfied using the money they earn to purchase everything they need and want. The economic infrastructure makes the products and services they need easily accessible. A combination of productivity and market forces (in theory) makes the products and services affordable.

On other words in a sustainable economic setting, people meet their needs and their wants through their own economic activities ... and society improves over time because productivity improves, surpluses result and society has reserves for unanticipated problems.

What do people need? There is not one easy simple formula ... every community has different needs, depending on its history and the resources at its disposal.

Needs very different

After the earthquake in Haiti in January 2010, the communities directly affected by the earthquake had need for rescue, emergency services and all the basics for survival ... vastly different from communities in other parts of Haiti not structurally damaged by the earthquake, but having to cope with a massive influx of displaced survivors.

The Basic Concepts of True Value Metrics

The essentials for survival in a disaster affected community are water, food, shelter, sanitation, health care, and security. In most disaster situations people “self organize” into working communities or groups to help each other and to make the best of what is available.

What do people want? A community is likely to have very different priorities from those that an outsider may see as the key priorities ... especially when the potential of the community is not clear and the vision of community leaders is limited. Change usually starts with small steps ... and accelerates over time ... success building on success. People replicate success ... but want to see success in practice not merely as a project hypothesis.

Unmet needs in a poor socio-economic setting

Unmet needs are a result of resource shortage, capability shortage and organizational deficit. The scale of unmet needs and the possibilities for progress are constrained not only by the availability of resources ... but also they are constrained by issues like lack of know-how, poor organization and the way in which available resources are deployed.

The resources of the planet are finite ... but they are substantial. TVM takes all resources into consideration ... including human resources, natural resources, technical resources and financial resources. TVM wants to know what resources are in the community and what resources can be mobilized to satisfy the needs of the people in the community.

In some poor settings, the reason for poverty is because of external exploitation and forced deprivation. The poor and powerless are unable to change anything for the better while the rich and powerful stay in control. Over the past five decades or more there have been international initiatives to reduce poverty. These initiatives have had some impact, but nothing like the impact that should have been achieved given the resources available for the work. More community data will serve to make abuse more visible.

External resources

Poor communities may not have the local resources to do what needs to be done. People may know what would improve the community but do not have the materials to do the work nor the money to buy the materials.

In some cases unmet needs exist because knowledge ... human capacity is a constraining factor. Resources may be available, but they cannot be used to satisfy needs because the know how is not available. Lack of knowledge capacity needs to be addressed and made part of the process for community progress. Focus is needed on how resources have to be organized in order to provide the capacity that will deliver goods and services to satisfy all the basic needs ... and more.

In the community setting, unmet needs require incremental resources, but it should be done using a systems approach that looks for continuous incremental sustainable improvement. People with needs should be at the center of initiatives to satisfy needs ... the minimum of external resources should be injected into the process.

A big part of the key to sustainable progress is that the economic productivity of people has to be improved AND opportunities to use incremental education, knowledge and skills have to be created.

More education without more jobs is a wasted opportunity

What role for natural resource wealth?

Natural resource wealth is a problem ... more than anything else mineral rights are being exploited under the “rule of law” so that ruling elites and corporate interests are able to

enrich themselves while ignoring any claims that community people might reasonably have.

The world's big energy and mining companies have become larger economic entities than most national economies and they wield a huge amount of economic power. In theory they behave according to the rules of law and international ethical norms ... but few people have any idea what really goes on behind closed doors.

It would seem reasonable that natural resource wealth could be used to improve the quality of life for poor communities that are resource rich ... but it is not happening on any significant scale. There is more talk than 20 years ago ... but not much change yet, and there probably will be little change unless there are more relevant metrics like TVM about community performance and the associated organizations, activities and value chains.

Huge abuse of power

When you apply value chain analysis and “follow the money” it becomes fairly apparent that there is a big disconnect between what is said and what is done! How come heads of state in resource rich countries become so rich while people remain so poor? There is huge corporate benefit accruing at the same time that chronic poverty remains.

What are the possibilities

Each community has potential ... but all are different because the place and the people are different. Performance depends on what is possible in the place ... what resources there are and what constraints there are. The future progress of the community will depend on what is done ... what activities so that the state of the community improves over time. Planning provides a guideline about how this progress towards the optimum possibilities may be achieved.

The potential of the community is a function of the resources of the community including especially the people of the community. Though the resources of the community are a limiting factor, they can be organized in an optimal way to achieve more ... and have a higher productivity and more surplus production. The potential of the community changes when the value of the resources change ... as the value of the human resource changes when education is improved, skills are improved and health is improved

Cause and effect not correlation is important

Measuring progress and measuring performance is expensive and has no value unless the information is used to improve performance. A little information that improves decision making is very valuable ... it does not need to be an academically rigorous study ... just some useful facts that decision makers can easily process. Management information aims to be meaningful and valuable ... trying to get at cause and effect in a practical way.

A good part of academic study tends to being rigorous in methodology ... academically useful, maybe but not of much practical use. For financial reasons more than anything else, a large part of the data about socio-economic performance comes from the academic community that has cornered most of the available money. This has been good for the academics and college researchers, but very bad for society as a whole. Academic studies that identify correlation that has little or no practical application are a wasting resources and probably worse ... teaching a way to research that cannot very much help progress where it is most needed.

Cause and effect ... performance

It is virtually impossible to identify useful linkages of cause and effect at the level of national aggregation ... a common level of study by the academic community ... but it is quite possible at the community level. The cause of progress in a specific community may be understood by analysis of the activities in this community. Activities that are surplus producing with net value adding help the community to progress. Though all the facts will rarely be available, enough data may exist so that in combination with an understanding of the linkages in the community, there can be improvement in the way things are done.

The progress of a community is affected by (1) the starting point ... the available resources of the community; (2) the potential of the community; (3) the vision of the community leaders; (4) how the community organizes; and (5) the priorities and what activities it chooses to do.

When good decisions are being made in the community, the results are rapidly apparent ... same with bad decisions.

Value chain analysis

Value chain analysis is important for community decision making and to understand the potential of the community relative to its performance. The fact of terrible poverty in places that are major oil producers suggests that the value chain in place is wrong ... albeit legal. Rule of law is usually thought of as a way to make progress possible ... but the application of rule of law in many situations involving big investments and big profits suggests that rule of law enables rip-off in ways that need to be exposed. Every community needs to be doing value chain analysis in connection with all its external socio-economic activities including things like governance constraints and security matters.

Community plans, oversight and accountability

Plans

Data make it possible to have plans that aim to make a community progress ... but the aim of the plan is not to have a plan, but to facilitate progress. The data that makes it possible to plan also makes it possible to measure progress

Oversight

Oversight is the link between implementation and plan ... when done in a constructive way oversight helps to keep progress on track. The purpose of oversight is more to identify problems and deliver help than to find fault and pinpoint blame. Oversight is successful when there is high performance progress ... not when it catches people out!

Accountability

Accountability also should start from a positive place. The primary goal of accounting is not to find fault with performance, but merely to have data about performance. Most of the time the data show rather normal transactions and performance ... but sometimes the data show excellence that should be celebrated and sometimes the data show inappropriate behavior that should not be tolerated. People should know about progress and performance and celebrate jobs well done. People respond more to favorable encouragement than to negative fault finding and blame. Positive reinforcement is possible when there are data to provide accountability.

Chapter 6-3

Organizations

All Organizations Must Be Engaged

Every type of organization

Profit focus organizations

The profit maximizing enterprise ... the engine of the modern economy has a dynamic that seeks the maximum of profit and the maximum of stockholder value. Though a good organization would work to have great stockholder value that is sustained over time ... the way capital markets work, it behooves the management and decision makers to focus on short term value even if this consumes long term value.

While the score-keeping was rigorous and relatively simple fifty years ago ... modern corporate score-keeping is now the subject of all sort of rigging ... no relative of rigorous. The law and rules have allowed all sorts of practices that have helped make it possible to have reportable profits on top of enterprise activities that have been catastrophic.

Bluntly put ... a lot of this has been fraud, even though it has been “legal”.

Value focus organizations

The not for profit or NGO has a very different dynamic. Job one is the survival of the organization, and for this a constant flow of funding to support the activities is crucial. There are a lot of activities that are done to support this priority ... including the production of monitoring and evaluation reports that satisfy the funding organizations, the donors.

The organization must do some of what the donor expects them to do ... enough to be able to show the donors that the activities being funded are taking place. Nobody is, however, looking at cost efficiency and assessing whether or not the spending is resulting in a high or low level of activity. Nor is anybody looking at the results and assessing cost effectiveness in a rigorous manner.

While the mission of the private charity or NGO may well be laudable ... this does not automatically translate into a well run organization that is both cost efficient and cost effective. These metrics are usually missing.

The social business

The social business has a different dynamic. The operations of the business may be highly profitable ... but the resulting fund flows are used to expand the operations to serve more of the market rather than to reward stockholders and maximize stockholder value.

The business model helps to make best use of technology and resources to get the maximum of productivity. The social dimension aims to provide the most of value to the community by scaling up the operations as effectively as possible and as fast as possible. The sustainable business means that the enterprise is sustained not by donors, but by the market.

Faith based organizations

Faith based organizations are involved in both worship and in social outreach of various sorts ... local and international. The money accounting metrics fail to communicate much of what faith based organizations do ... these data only tell about the money transactions, when the major part of a faith based organization is about things that have value without much if any connection with money. FBOs need money to pay their bills, but it is the value creation that they do that is their core value.

Government entities

Government entities have become a very big part of many economic systems and provide some services that are of value to society ... and many that cost a lot without doing much of significance.

How Organizations Impact Value Every stage of the value chain

Employment ... the cost of the employment is included in the money profit computation, but there is also the value associated with the staff having employment. In economics the multiplier effect comes about because there is value in employment beyond merely the money that comes to the employee.

Goods or services provided ... the revenue from these is included in the money profit computation, but there is also the value associated with these goods and services satisfying essential needs in the society. This may be equivalent to the price ... but usually not. Usually the price is lower than the value, sometimes substantially, otherwise there would be little incentive to purchase.

What about intangible? It is nice to have the business in the neighborhood ... it is convenient. They serve as an anchor to the other businesses, and so on.

Or maybe the intangibles are negative and not so intangible. Maybe the organization is using high volumes of water, or discharging polluting effluent into the waterways or sewers, or polluting the atmosphere, or making excessive noise. None of these are in the money accounts, but they are part of the value model for the organization.

The organization perspective is about the money profit accounts and is likely to be "private"... but the community perspective has the value accounts and is "public". A community wants organizations where the value accounts show that the organization is one that is worth having ... not especially for the owners who get the profit, but for the value that comes into the society.

What organizations do!

???

An organization has the capacity to do things that an individual cannot do on his/her own. This means that an organization is more efficient in its operations than any individual ... but this does not mean that this will translate into a higher benefit for society.

Private sector for-profit organizations deploy resources to achieve the most possible profit and be in the strongest possible financial condition. Whether or not this is good or bad for society is of no concern within the metrics of money accounting.

Not-for-profit social business and faith based organizations that use money accounting only put on the record those activities that are denominated in money terms. This means that the core purpose of these organizations does not get recorded in a systematic way.

The purpose of organizations and their progress does not link well with the purpose of community and community progress. Frequently what is good for the profit performance of a corporate business is not good for the progress of the community ... not good for the quality of life of the people in the community ... not good for the environment in the community ... etc.

A small organization may well have a common purpose with the community where it operates ... but this is rarely the case with a big organization. Big organizations do many things in many places ... they produce goods and services in response to market demand and in ways that serve the interest of corporate profit performance ... but they do rather little in response to what would be the best for the communities that are stakeholders in the corporate operations. Money accounting makes it possible for the corporate organization to know a lot ... almost everything ... about the behavior of revenues and costs and profits, but these metrics do nothing to inform either business management or the public of the value impacts on society ... on the communities.

Data about organizational performance

Generally speaking, very little is known about the operations and performance of organizations. They are very secretive and aim to keep secrets away from their competitors and the broader public. While it is possible for corporate organizations to take credit for some of the progress towards prosperity that has been achieved by the world over the last 200 years, it is also something of a conundrum that the progress of science and technology has been so many times greater than the progress of global society in aggregate. Somewhere in the system, there are huge losses of opportunity and performance ... and these are well hidden inside the organizations that dominate the economic landscape.

Different types of organizations handle data in different ways. Whether or not an organization is for profit or not, the default setting for any organization is to be in competition with its peers rather than to be cooperating.

The corporate business has a lot of important data about its performance available inside the organization, but very little of this information is available for public scrutiny. The corporate business makes data about its performance available to the public either; (1) because laws and regulations require the information to be made public; or, (2) the information is useful in furthering the goals of the corporation.

The not-for-profit organization makes data public that are going to further its fund raising activities ... and otherwise usually make public only what is required by law.

Government organizations do not make much data public about their performance ... though many government organizations make public a lot of data through their publishing activities. The system of accounting used in government is rigorous about the budget process and spending relative to budget, but the value being realized as a result of spending is not a part of this system of accounting. Government accounting as an effective system of financial control is further compromised by the annual cycle which encourages inefficient spending of unspent budget allocations towards the end of any year. This is a source of considerable abuse.

Metrics about impact on society

Mainstream money accounting has nothing to provide a measure of organizational impact on society ... and efforts to expand the reach of money accounting beyond the basic profit computation and report has not proved particularly useful.

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TVM value accounting goes beyond the money transactions to include also value transactions ... and TVM also brings a community perspective to the metrics rather than simply the organization perspective.

In corporate money accounting, periodic financial statements are able to convey a lot of information in a very summary form providing much information with little data overload. These corporate management accounting systems also make it possible to use detailed drill-down to access information about the underlying activities and to see metrics about performance.

TVM looks to this detail of organizational activity as the foundation for knowledge about corporate impact on society. The individual corporate activities are located in a place, and the impact of corporate activity in a place should be on the record and accessible to the stakeholders of the place. There should be an accountability about the activity so that there is accessible knowledge about the impact these activities have on the community ... about the value consumption that is going on in the community, the value creation and whether or not the activities are value adding or are value destroying.

Money based performance is commonplace

Socio-economic progress has very little to do with the financial performance of an organization ... it has everything to do with the changes that happen to people and to community. Not all activity automatically results in desirable impact ... and many decisions have negative consequences as well as the intended benefits.

All forms of organization ... small and large business organizations, governments, not-for-profit organizations of all sorts ... all organizations measure performance using basic money accounting. They usually have a budget about how money is going to be used and where money will come from ... and then accounting and reports to show the income and expenditures of the organization.

There are conventions about how profits will be reported ... and taxed ... and other conventions about how the detailed accounting will be done. At its core, this is all about money based performance. Within these metrics there is absolutely nothing about value.

Value metrics weak or mostly missing

Most organizations are unable to relate the work that they do with the impact they have on the community or on the larger society. The accounting system does not address value impact on society at all.

You cannot manage what you do not measure

Big organizations that operate in many communities and in many sectors have little connection to the performance of the community. A good community activity implemented by an organization will have a favorable impact on the community independent of the overall performance of the organization ... but most organizations do not know much about value impact for the community though they may know more about the profit impact for the organization.

The reason why organizational performance is important in the analysis of relief and development is that the organization is often the vehicle for transmitting resources, and in some cases consuming resources with no related developmental benefit. Communities are badly affected by the transfer of value from the community into the broader national economy or global economy.

Chapter 6-4

Activities

Bottom of the Analytical Pyramid

Activities are ubiquitous

Activities are at the bottom of the analytical pyramid ... or almost. In TVM the idea of activity has been used rather than any of the words that describe this that originate with either the corporate organization or development institutions like the UN or the World Bank.

In the UN and the World Bank the “Project” is main form of organization at the implementation level. In the case of the UN the project is sometimes very small, but in the case of the World Bank may be extremely large, maybe multisectorial and comprising many different components. In a corporate organization the large organizations may be subdivided into business units, into subsidiary companies, into departments, into profit or cost centers. For TVM it does not really matter what structure is being used by the organization, the value accounting for an activity fits into any of the structures.

What is an activity

An activity is any use of resources to achieve some socio-economic purpose. In order to be easy to measure and evaluate, the activity should be simple if not small. Complex activities with many different things going on are more difficult to analyze and are better separated into individual activities for management analysis. This is what happens all the time in corporate management information systems, and the same should apply in TVM.

In money accounting and management accounting in an organization, there is often cost or profit center reporting, or departmental accounting. These reports are simple to understand and to relate to the activities of the unit. So it should be with an activity in the TVM. In TVM an activity is an entity where socio-economic resources are used ... value is consumed ... and socio-economic value is created. When the value created exceeds the value consumed, there is value adding, otherwise there is value destruction. In TVM an activity is small ... small enough to be comprehensible.

TVM thinks of “activity” as a socio-economic event that converts resources into needed goods and services ... and in the process provides jobs and remuneration for workers. TVM has a focus on the activities that are creating socio-economic value for the community ... and what is needed so that good surplus producing value adding activities are facilitated. Socio-economic value performance is one of the core metrics for a smart society ... yet almost absent from the money related metrics used by the corporate community, capital markets and the broader society at the present time.

The basic entity for performance analysis

An activity is the basic entity for performance analysis. In TVM an activity has two elements:

1. The use of resources
2. The product of the activity

Use of resources has two components:

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1. Use of resources that are accounted for in the money accounting of an organization
2. Use of resources by an organization that are not fully accounting for in the money accounting ... as in cash based systems
3. Use of resources that are part of society's commons and not included at all in an organizations accounting of activity costs.

The product of the activity has two components:

1. The money revenue that arises;
2. The value benefit that impacts the beneficiaries and the community

Use of resources that are part of society's commons and not included at all in an organizations money accounting and activity costs ... but they should be using the TVM framework.

Activities are the origin of value adding ... or value destruction. Data about activities may be needed to explain why some aspect of the community balance sheet has changed ... but in many situations it is quite obvious without much need for detailed data.

Activity reporting is similar to the reporting of the corporate Profit and Loss Account or Operating Statement. An Activity Report may show some of the characteristics of economic activities in the community that have had an impact on socio-economic changes. An Activity Report helps to explain the changes that have taken place in the balance sheet of the community. Thus, for example, an increase in stock levels of grain might be explained by an unusually good harvest ... and explain why there was a good harvest.

Activities are the origin of value adding ... or value destruction. Data about activities may be needed to explain why some aspect of the community balance sheet has changed ... but it might be quite obvious without much need for detailed data.

The TVM reporting format embraces the accounting ideas of “roll up” and “drill down”. The TVM reporting framework has the community as the primary unit for accounting. The data about community may be aggregated to provide reporting at the district and provincial level as well as at the national level.

The same framework of data is used at each level. The “roll up” and the “drill down” of the data provides a coherent set of data for decision making at the national policy level and at the tactical operational level in the community.

Data about an activity

What is the activity?

It is activities that change the state of the community. The cause of improvement in the quality of life is a result of a portfolio of socio-economic activities that in aggregate are surplus producing and value adding for the community.

What need does it serve or satisfy?

Activities have impact on progress, and cost effectiveness is a measure of this performance. Surplus producing activities result in socio-economic progress. Cost effectiveness is the relationship between the impact and the incremental costs, that is value consumption that was used to achieve this increase.

What cost ... what resources are being consumed?

An activity has a good cost efficiency when the amount of cost or value consumption is better than a norm or standard, and a poor cost efficiency when worse than the norm. The purpose of the cost efficiency measure is to compare performance in the conduct of an activity.

The socio-economic performance of a community is determined by the activities that are going on. Where activities are productive and there is surplus production ... sometimes equivalent to profit ... the condition of the community improves. Whether or not activities can be productive and surplus producing depends on the available resources, the enabling environment and constraints. Wealth is created with activities that deliver surplus production ... poverty is a result of activities that are unproductive and do not add surplus to the society.

What is being achieved ... what impact?

Data are needed to show which activities are important .. but no need to have detailed data about things that are immaterial. Quite simple data serves to determine what is important and what is not ... common sense may be used. Low productivity is the root cause of poverty. Every activity in a community should be value adding so that the socio-economic activities of the community are producing progress.

The impact of an activity may be noted simply by observation. An observation is noted ... and then another ... and then another. They add up to some useful information about the activity. Even in quite large contracts it is possible to observe important characteristics of the activity ... for example: the way the contract is being implemented and the impact on the surroundings.

Construction ... New York 2nd Avenue subway

There is a major construction project going on in New York at the present time to build the 2nd Avenue subway. It is being managed by one of the world's biggest contractors ... but you can tell it is a government contract by the lethargic pace of what is going on. The duration of the contract has been extended ... one has to wonder what impact that will have on cost to the public and profit to the contractor. Meanwhile there is also an impact on local business and quality of life that only comes into play with TVM

Chapter 6-5

Sectors

Sector Specific Perspectives

Sector expertise

Sector expertise is important. Activities will be high performance when the best possible sector knowledge is applied. This is not an academic or bureaucratic construct ... this is engineering and science and very specific to the sector. Good performance is based on having sector skills that are good.

The performance of society depends on many factors, but, simply put, in essence performance is a function of two things (1) the resources available; and, (2) the way they are used.

The resources available are constrained. The starting point is resources available locally. A second source of resource is external mobilization of resources, which may not be capable of being controlled locally. Resources available is a limiting factor.

But there is also the way resources are used. Good productivity is achieved by using available resources in the best possible way ... and it is in this area that sector specific knowledge ... know-how ... is important.

A pattern that has been observed over a very long time is that performance is best when there are good people with really in-depth knowledge doing practical things throughout the process or value chain. Much of this knowledge is not fully documented ... just known because of experience. This know-how cannot be learned in a library ... only by doing the work and learning from others who also know the stuff. This knowledge is part of old fashioned apprenticeship programs ... and missing from most academic study to the detriment of society.

Sector performance

Linked multisectoral activities

Society is a complex ... and a community focus program reduces complexity by getting to a manageable level of scale. We know that productivity in one sector is needed to have productivity in the next sector ... and in the end all sectors have to be productive in order for society to be productive. When there is a constraint in one sector ... every other sector is faced with constraint to more or lesser degrees. All of this can be taken into consideration in a community focus plan so that local resources can be deployed in the most productive way.

The TVM system has its focus on metrics ... not on any of the other aspects of performance including know-how.

The TVM approach may be used in almost any situation to measure performance and productivity ... and to understand which set of know-how performs best. Productivity is the relationship between the amount of resource used and the amount of impact achieved ... two measures that are totally independent of the process ... independent of the sector.

Someone has to know the relevant best practice in the sector ... and decisions have to be made to allocate resources and use best practice. TVM helps to understand performance ... but not the know-how per se.

Sector detail has data about people and knowledge, organizations and capacity, and activities associated with the sector. The sector detail also shows where sector activities are being done and where. Another people section pulls together who knows what ... because while it is good to know people, what is the point if they do not know what you need to know. People and knowledge are also a component of sector detail.

Measurement

Part of my academic training in engineering were “labs” where, more than anything else, we learned about measuring things ... the calorific value of a fuel, the strength of materials, the efficiency of a system, and so on. There were ways for measuring everything. Some of the methods involved destruction of the subject ... but others were non-destructive.

With modern technology, the potential for effective measurement is much better now than when I was being trained and it should be fully utilized.

Sector issues unique to each sector

It is amazing what technology is now available in each and every sector. Not all of the technology is universally useful and improved value analysis would help to make the best use of available technology.

Health

Amazing medical science ... but a far less amazing global health sector because the cost and profit characteristics of the sector are out of control. There is a massive need for more healthcare globally using cost effective approaches.

Education

Education has a mixed history with some education excellent and some very poor. Technology has not had a particularly favorable impact on education ... and technology may be doing more damage to the human neural system than is presently recognized. There is a massive need for more education globally using cost effective approaches.

Transport

Transport technology has improved, but much of the global transport infrastructure is out-dated or seriously deteriorated. Massive investment is needed to upgrade transport infrastructure and equipment.

Tourism

Tourism is a sector that has potential to be a revenue earner in many poor societies, but the infrastructure is constraining this and in many cases the value adding for the destination communities is weak.

Water

Water may prove to be the source of major conflict in the years ahead. The profligate use of water by the modern industrial society means that increased wealth and related industrialization is going to run up against water limits almost everywhere in the world. Ways to reduce per capita consumption of water is going to be a priority.

Energy

Energy shortages have been predicted for a long time, but better technology to locate and extract energy resources have been developed that enable available resources to be exploited very profitably. This avoids the big challenge of long term energy availability

The Basic Concepts of True Value Metrics

especially as major industrial growth accelerates in China, India, Brazil and other emerging economies.

Shelter

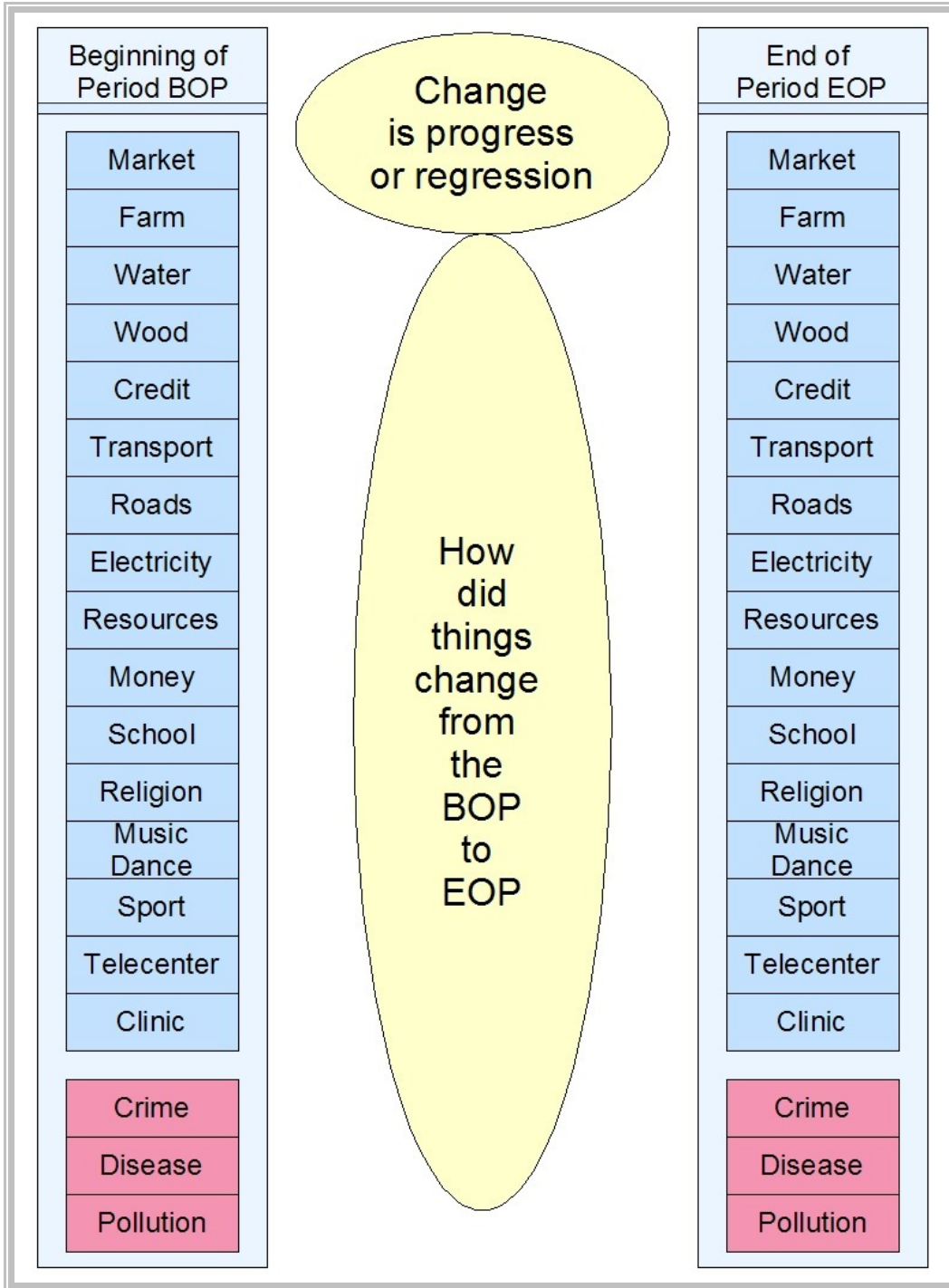
Shelter is a basic need ... and inadequate for maybe 2 billion people mainly because suitable shelter is unaffordable for poor people. The issue of poverty and the issue of suitable shelter are closely linked ... and have to be incorporated into community development initiatives.

Food

Food is a basic need ... and too many people are poor and hungry. Some estimates are that there are perhaps as many as 4.5 billion people who have inadequate nutrition because of poverty. The business model for industrial food and agriculture may not be the best for people although it has been impressive for its raw productivity and business profitability.

Graphic of community balance sheet change

Community balance sheet change is TVM's core metric for progress. The community is where progress dynamics are easier to understand and where measurement has more clarity. Changes in the balance sheet show where there are changes sector by sector? Detailed data will show what activities contributed to progress and which did not!



The community level analysis produces an understandable view of how activities are helping to achieve progress ... relative to the resources being used and the decisions being made.

The Basic Concepts of True Value Metrics

The community is the most important locus of life, so quality of life impact can be monitored and measured more easily at this level. The TVM construct for measuring progress ... the changes in the socio-economic state of the community from the beginning of the period to the end ... applies to every aspect of the community.

The relationship between the starting value state and the later value state depends on the effectiveness of the activities. It is possible to focus on just a part of the community “balance sheet” to analyze and understand something of the progress of the community. The larger complete balance sheet comparison also helps to make it easier to understand what important constraints exist and need to be resolved.

Chapter 6-6

Individuals and Families

A People and Family Perspective

Where quality of life really matters

The individual

People centric analysis is probably the most desirable ... but it is not easy, and is not desirable. The data needed may only be obtained by detailed probing into matters that are best left private and left within the family.

Though people centric analysis as the main method of analysis is impractical ... thinking about impact on people is important. Individuals and families are a very important piece of the structure of society, and it is useful to remember this, even though the main metrics recommended in TVM are at the activity level and the community level rather than with the individual and in the family.

The family

The dynamic of an individual and the dynamic of a family are different. Part of this is gender ... part of this is age ... and part culture ... and other things as well.

The goal is to improve quality of life ... and this is done when both the individual and the family are progressing. And when individuals and families are making progress, it is likely that the community as well will be making progress.

Dynamic of family ... who helps who?

A typical multi-generational family has parents helping the children ... and then at another stage in the evolution of the family, the children looking after their parents.

But there is also what happens in terms of the members of the family helping the community ... and the community helping the members of the family.

People are both consumers and they are producers. There is community progress when families are able to produce more than they consume ... and there is family progress at the same time. This is a sustaining community.

People as population

Population demographics are an important part of the value calculation for a community. Needs are a function of population ... and the satisfaction of needs is another function of population. Human resources ... people ... are the core of everything. Quality of life is a metric that has no meaning without people. People have critical basic needs without which people do not live. A functional society should make it possible for basic needs to be satisfied without any value diminution for society as a whole.

People in the balance sheet

Because people are an asset, they are an important part of the value balance sheet and state of the community.

People are a resource

People are a resource and as a resource they are included in the balance sheet. The valuation is based on a standard value and the profile of the population of the community. Individuals make a very big difference ... individual people are the decision makers whether they are working for their own account or for an organization. Ordinary people working hard can make a very big contribution to progress ... and with guidance the outcome from this work may be enhanced substantially.

People have needs

People have needs ... and the socio-economic system should function so that these needs may be satisfied as part of the normal workings of the system.

Socio-economic system dysfunction

While global production capacity could satisfy all basic needs, the way the system works has resulted in some 4.5 billion people are poor and hungry. Muhammad Yunus, founder of the Grameen bank system has observed that when poor people work hard and remain poor ... this is a failure of the system itself. The idea that some 4.5 billion people around the world are poor and hungry is an absolute disgrace reflecting a serious failure of the analytical models that are used for the assessment of economic performance and responses by decision makers and leadership!

Without people there is no demand. Aggregate demand is one of the important parameters in the money profit based global economy ... and depends on people and their affluence.

Unmet needs

In rich societies most needs are satisfied with a surplus to increase the wealth of society ... but in poor societies the available resources are inadequate to meet the needs. Society must address the problem of unmet needs in the optimum way.

Satisfying unmet needs may be urgent. In humanitarian emergencies unmet needs are addressed by using donated resources. This serves an immediate purpose, but usually the longer run effects are detrimental. Unmet needs are better addressed by a mix of emergency donations and initiatives that will improve the productivity of the community and facilitate an increase in surplus production.

Range of people interactions in community

There are many ways that people interact with society and the components of the community as set out below:

1. People are the drivers of organizations.
2. People are the decision makers in communities
3. People do things ... these are activities
4. People make up families
5. People have needs ... that must be satisfied
6. People have wants ... that are part of quality of life
7. People are a resource to satisfy needs and wants