The magnificent metric
The simplest measurement in business is also the most important and powerful.

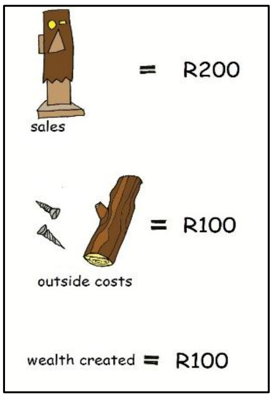
Swellendam: - It's been said (by Einstein I believe) that if you can't explain it to a six year old, you don't understand it yourself. That may say something about the comprehension of the child or the teacher, but the most important and powerful measurement in business will not suffer from a lack of either. It can be explained by a six year old to a six year old.

Here's how it works: a young boy buys a top for R10 and plays with it in a school yard. A friend comes to him and after enquiring where he got it and how much he paid for it buys it from him for R12. The boy has created wealth of R2.

That's it! Clear, pure, and profound.

It could have other accounting terms in this simplified example, but it also captures the most important one of all -- value-added, or adding value. It means wealth created and is calculated simply by subtracting what you paid others from the income you received from your sales. You may ask what value the top seller added. Measurably he clearly did, because he now has R12 instead of the original R10. But he did so in practical terms as well. He saved the buyer a trip to the shop, perhaps even showed him how to spin the top.

Increasing value added, or wealth created is just as simple. Let's illustrate this in another more commercial situation.



If this wood sculptor increased sales by 10%, his outside costs would increase by 10% and wealth also by 10%. If he gets an improved price of say 10%, outside costs stay the same and wealth created increases by 20%. If he reduces outside costs by 10% his wealth also increases by 10%. If he can achieve all three at once he could increase wealth by up to 40%!

Simple! Of course what goes into achieving this may not be, but in essence there are only three things you can do to increase wealth creation – sell more; get a better price; and manage outside costs.

The process of wealth creation and the method of increasing it are very simple concepts and have been with us since we first learned to barter or trade. This can and should be taught in very early childhood, because ultimately all economic activity is dependent upon it, including the sometimes ridiculously complex abstracts that we have created in our economic world and the basis of equally convoluted "investments" which some rather misguidedly believe are the real instruments of wealth creation.

Wealth creation does require a specific self-evident environment to flourish:

- Maximum freedom of choice
- Maximum number of suppliers and competition

- Maximum awareness and information
- Free moving prices
- A stable means of exchange (money) and
- Being informed by the natural economic laws of supply, demand and price.

Its simplicity may also detract from its importance and supremacy. It is the cell of our economic existence, upon which all other cells are built either directly or indirectly. In our wood-carver example, the people he bought the materials from added value in their own right by producing them, and the person who bought his carving would have earned income in similar pursuits.

Someone in that chain may have borrowed money, which ultimately will have to be paid or redeemed by income earned from tangible wealth creation. This shows how debt is (**or should be**) realistically linked to current and future tangible wealth creation.

If we add the wealth created by all of the people involved in the exponentially increasing chain of value-adding cells in a country in one year, we arrive at the bulk of Gross Domestic product which as we know, is one of the most important national measurements that affects a host of critical economic outcomes, assessments, policies, government finances, interest rates, employment and board decisions. You simply cannot separate this from the microscopic cell such as the wood carver.

The value-added measurement is a much neglected, but vital acid test for companies, especially if tracked over time. Consistently greater value-added, or regular increases in wealth creation say far more about a company's overall sustainable health than some of the other metrics do, including profit. Most of those metrics are in any case extrapolations of value-added. Unpacking the constituents of those three lines for example, would have prevented the large Enron fraud at the turn of the century.

Taking our wood carver example again, he is both the owner and doer in the process; both employer and employee or to use the preposterous and highly counter-productive ideologically loaded abstracts we have in economic theory: "labour" and "capital". Wealth creation stands apart from but not immune to our questionable separation of these contributors. In terms of wealth creation, they are one and the same, a partnership if you will, whose rewards are ultimately determined by wealth creation itself, or the value they have added to other's lives, not what they can exploit from each other or flawed "markets" that give them a presumptuous inherent claim to a reward.

To summarise: there's a very simple formula to prosperity and the economic circle of life: value-added = wealth creation = contribution = reward. In turn this encourages demand, which leads to value-added and closes the circle.

If we examine both the environment which wealth creation needs to flourish, and the cell of wealth creation activities, we cannot help but be astounded by how we have contaminated it, indeed made many cells carcinogenic through theories, abstracts and ideology. I will deal with these in a future article.

The wealth creation measurement is only one of three dimensions of adding value. An important dimension is that of transformation. By its very nature value-added means transforming one situation into another which in most cases is better and represents progress. The full dimension can seldom be captured in one event and at one time, and also has to be assessed by factors other than natural economic laws. Preventing environmental destruction is just one example.

The third dimension of adding value is the most important of all. It is about behaviour. It is about an attitude. It's an attitude that should be taught and instilled at the earliest age; through simple things like helping a sibling, or picking up some litter. It's an attitude that rests on our empathic nature; should be ever present; ever willing to make a difference and exploring transforming one situation into something better. It is an attitude that is there when one wakes up in the morning with the question: "what difference can I make to someone's life today?"

Economic prosperity and success rests firmly on three personal qualities:

- willingness to contribute,
- a passion for an activity and its transactional relevance
- and the ability to look beyond assured immediate self-gain.

These are the winning attributes of an individual, of a company and of a nation.