The untold story
Why company reporting fails to counter the assault on free enterprise.

Swellendam: - We all have memories that make us cringe in embarrassment. One of mine is when I had to cut short a talk to a group of about 50 accountants of a large paper company, and in my opening, put the simple question to them: “what contribution do you think your company is making?”

I was expecting them to respond with: “producing paper”, or even a visionary “enabling people to record events and share ideas”. That would have been my cue to introduce value-added as the only measurement of that contribution. Instead I was submerged in EVA’s, HEPS’s, NOI’s, NOPAT’s, ROTA’s and RONA’s, and a plethora of other shareholder “goggas”.

It made me acutely aware of how narrow our understanding had become of this magnificent social construct we call free enterprise. So much so that it has led to an imbalanced obsession with immediate self-gain and material rewards. And then exclusively for one interest. For the most part that has been created first by our inordinate focus on reward or outcomes; second by the fixation with measurements, and third by the exclusive target of those measurements.

What really gave this blinkered view weight is Milton’s Friedman’s argument some years ago that the sole purpose of business was to maximise profit; against another argument decades earlier, by industrialist Bill Kellogg, that the purpose of business was to add value to people’s lives and as a consequence one makes handsome profits. Friedman’s understanding creates pressure on business to contribute directly to state spending such as free tertiary education, against the perhaps disingenuous view that these costs, including corporate tax, are simply passed on to others such as customers and employment.

In what can only be called abysmal PR, we have distorted the better narrative: that of the contribution that has been made. Here tribute has to be paid to Mervyn King’s efforts at establishing the integrated report, which some may view as prescriptive and draconian, but most of which simply reflects what all companies do anyway – not only for shareholders, but for society at large. Unfortunately, the integrated report itself is still the Cinderella of company reporting, still has a primarily shareholder focus, is not widely read, and often submerged in too much detail, conveyed in reams of glossy pages that could rival Tolstoy’s War and Peace.

What is missing is an inclusive stakeholder **account** that captures the essence of the contribution that each economic cell makes – an account that summarises the detail of the integrated report itself. This could be the Contribution account, which in turn is a small adaptation of the value-added statement. When one views the term “Contribution Accounting” as an active process or organisational methodology, it assumes a completely new and exciting dimension. (See full dimension here).

I am aware that to most readers I am being somewhat repetitive. But this omission from statutory accounting keeps gaining significance against the increasing political onslaught against free enterprise, the expedient non-recognition of what enterprise really means to us all, the harm narrow reporting has done and continues to do, and the dire need to change the conversation. (See Moneyweb article here).

It is true that there are enough systemic blemishes and misbehaviours by many to fortify its detractors. The monetary mess we are in, financial fault lines, and corporate megalomania have all added to a new ideological warfare. But for the largest part by far, the narrative at an individual non-corporate level is still a good one.

As a **final** account, the Contribution Account is broad and stakeholder inclusive. It could be called the “integrated account” in the spirit of the integrated report, but the term has already been deployed in bookkeeping systems. What certainly deserves repeating is the need for a reassessment of the power of the value-added measurement itself and challenging its inexplicable neglect in organisational strategy. I have previously labelled it as the majestic metric because:

- It is behind all positive transformation
- It is the source of wealth
- It measures contribution
- It measures reward
- It links contribution and reward
- It drives all contributory behaviour
- It is the base of GDP, the nation's wealth
- It is the source of profits, wages and taxes
- It affects all company measurements.

The practical power of the measurement at company level lies first in its calculation of income less outside supplies, and then how to improve it through selling more, getting a better price and keeping outside costs to a minimum. It guides an enterprise into becoming truly market driven which in turn encourages growth rather than containment, employment and increased prosperity.

But then it also tells its own story of the difference the enterprise makes to others, the extent to which it enables those in the supply chain and the multiplier effects that far exceed the value that the enterprise itself has added. These three lines alone: Income, outside supplies and wealth creation, are at the heart of creating value for all. They can be practically demonstrated by all companies and ventures, large and small; cutting through generalised theories, abstracts and averages, debated with detractors and adolescent assumptions about what business should be doing as a social entity.

And if we want to focus on wealth distribution, then let’s at least get that into true perspective. The wealth distribution numbers in the Contribution Account reflect the contribution all three estates of labour, capital and state have made, and the benefits they have received. In most cases, labour and state (or government) together derive far greater benefit than capital or shareholders. Unpacking the detail each of these categories portrays a splendid narrative of enablement and empowerment. If we want to set so much store by metrics, then failing to tell the story behind them is tragic.

It is the better story to tell and it is simply not being told enough.