

FinQM - Financial Quality Measures

Incentivizing alignment among Investors, Managers and Employees
An Activist Tool for Private Investors



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WASTE KILLS WEALTH-BUILDING.

Can Financial Quality Measures (FinQM) target the internal corporate waste that kills shareholder ROI?

Seeding since 2006-07ⁱ

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David Huer proposes a practical strategy to clean up slush - a tool that investors could demand as the cost of their investment. Could FinQM produce real alignment of shareholders and executives?

"B" Corps and Community Contribution Corps use Triple Bottom Line Accounting (TBLA)ⁱⁱ to measure the financial, environmental and social value of their companies-with an eye to removing the brand-killing negative.ⁱⁱⁱ **Outside B and CC Corps, TBL takes real guts to introduce, though.** Companies are legally required to focus on financial profitability. Making TBLA a joke and potential career-killer.

The challenge for shareholders is when companies become big enough to be bureaucracies. **We don't invest to create bureaucracy. We invest for returns. Bureaucratic waste kills wealth-building.** Isn't it our job to keep companies nimble? Quality-driven TBLA (QTBLA) reconciles the internal conflict. Aligning employee, executive, and shareholder incentives by rooting out hidden risks, liabilities and brand value threats that ultimately threaten true profitability. Without spending unneeded dollars on "you never had it so good" marketing campaigns and legal threats from complainants and regulators.

Quality-driven companies stay nimble.

Financial Quality Measures (FinQM) is the particular application to financial statements that investors could demand as an investing condition.

Refusal to employ tells all potential investors what managers care about, making FinQM a hard-edged, rational tool to measure effectiveness and alignment, to ensure that corporations will not to grow into an ever-larger bureaucracy.

FinQM uses two key definitions and quality metrics as the driver to analyze and report the hard number effects of TBL actions on the Financial Bottom Line.^{iv}

About Hubble Project Group:

Based in Vancouver, Canada, David Huer addresses complex 'black swan' challenges faced by investors, agencies and enterprising societies.

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Imagining the Leap to Wealth Reporting

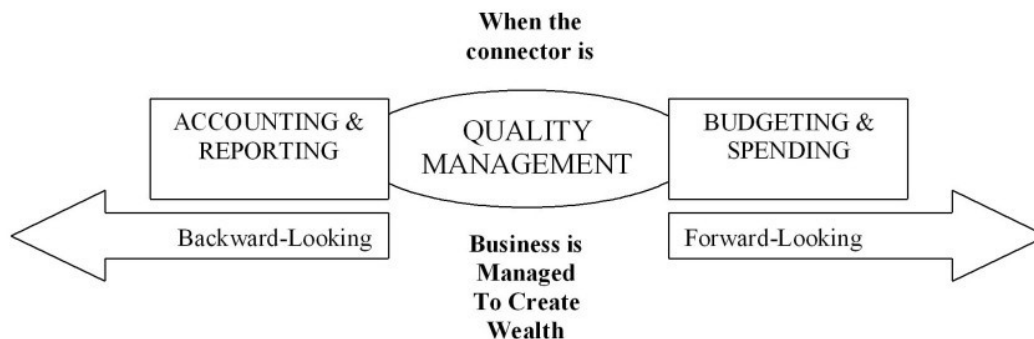
Accounting’s traditional framework uses two Metric Groups to generate the traditional *backward-looking* Income Statement, Statement of Cash Flow, Balance Sheet and Statement of Owner/Shareholder Equity and the *forward-looking* budget planning cycle:

- 1) \$ bottom line dollars reporting as . . .
- 2) Units, Net Income, Retained Earnings, and Ratios



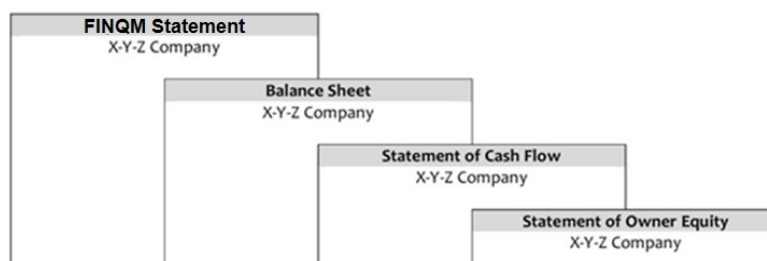
But *Profit without Quality* creates a disconnect that dis-incentivizes Employees and Managers away from aligning interests with Investors. If your motive as a shareholder is to invest in companies that are supremely profitable, you'll want to drive out the slush that managers sometimes make because of that incentive. That slush ultimately cuts ROI. The **FinQM framework resolves the disalignment by creating incentive to create and apply Quality-filtered financial ratios to all business activities.** In effect, creating six Metric Groups to report in clear dollar cost the impact to the \$ financial bottom line:

- 1) \$ bottom line dollars reporting as . . .
- 2) Units, Net Income, Retained Earnings, and Ratios
- 3) Human Capital & Social License (Brand Value, grants and aid to social institutions, goodwill)
- 4) Profit (ROI on cash invested)
- 5) Environmental Capital
- 6) Quality-metric evaluations (ie. financial ratios for TBL activities)



The effect is to bridge the internal gap between (backward-looking past) statement reports and (forward-looking budgeting plans). Creating the means to measure performance against an historic standard, and to aim for a measure of quality against which to measure progress.

Reporting: A standard Financial Statement reports the financial results of the reporting framework . . . alongside traditional financial statements. As a cross-purpose tool, it ought to be able to display timely reports alongside other metric dashboards - another incentive to test the resolve of Management.



Notes

i **QTBLA flowed out of a 2007 Royal Roads University commerce degree paper analyzing [Patagonia Corp.](#)'s green messaging.** We used Bob Willard's book *The Next Sustainability Wave* as a resource, but Patagonia is privately held, so I needed a deeper model to study its practices: Did Patagonia really walk-the-talk, or was its messaging simply a great piece of PR; engaging in false-flag marketing (*pretending for competitive advantage to be practicing TBL business activities*)?

To write the analysis, examining several different models including *Industrial Ecology* (developed by industrial designer Hardin Tibbs), and then developed a merged format inspired by Bernard Grun's *The Timetables of History* - a method for sorting out different facets of an event; a sort of Business Model Canvas for events. Patagonia is a private company so public data was difficult to come by. Nevertheless, the merged model; extensive research; and knowledge of manufacturing processes, industrial design and quality 'language' enabled me to infer and conclude that, for competitive advantage—without calling attention to it—Patagonia merged Quality Management (the Total Quality Management method that originated with the Toyota Production System) with TBL Accounting. Patagonia uses Quality as a key growth driver, with the intent to develop and sustain *balanced growth* as a competitive advantage, relative to competitors who aim to sustain wasteful, locust/ponzi-like *continuously increasing growth until collapse*.

ii **TBLA and QTBLA use Financial Accounting methods** to quantify measurable changes experienced by seven closely-linked competitiveness drivers: **Markets:** becoming radically competitive. Sustainability is becoming a key differentiator. **Values:** are experiencing a "worldwide" shift: "the world (companies) knew is being turned upside down and inside out." **Transparency:** "traditional authority" has collapsed/"stakeholders increasingly demand information" about business intent." **Life-cycle product management:** transparency symbiotically drives demand. **Partnerships:** wildly different, formerly antagonistic stakeholders are aligning to solve mutual problems. **Time perspectives:** After narrowing with "just-in-time" supply management, time is widening and lengthening with a "long-play" perspective (decades to generations). **Corporate Governance:** the differing visions of capitalism struggle for dominance.

iii **The traditionally polarized opposites — Freedmanites and Greens — are getting left behind.** Driven by customer demands, many companies want, hope, and desire to adopt sustainability as a guiding business framework. But there is fear about the career-killing riskiness of disclosing what they are doing—arising from a 'disconnect' between a desire to report to publics, and management's need to sustain competitive advantage in a simplistic profit-without-quality business culture. Second, many companies are hungry for models or benchmarks against which to frame their efforts, but, in the absence of a consistent framework that enables firms to meet their legitimate need to disclose without losing competitive advantage, managers and leader might:

a) Experience "Disclosure Paralysis"

Not know what to do or how to do it, so instead wait until they face intense pressure before responding.

b) Fumble about as they try to balance off the risk

...of not disclosing with the demand that they do, with the result that they either disclose too much or not enough.

c) Adopt some of the terminology

without actually implementing it. Changing is a tough challenge, no matter how you cut it.

d) "Greenwash"

Claim to adopt sustainability as a guiding business perspective without actually doing anything. Greenwashing has the potential to leave brand reputation in tatters.

e) Wait-&-See

Conservatively avoid any change until regulators intervene, thinking this at least preserves the competitive playing field; not realizing that well-funded earlier adopters are already way ahead and regulators often impose harsh conditions on slug-moving late-comers.

iv **Two Key Definitions**

Profit is explicitly defined as "Creating Wealth"

Creating long-term value by helping the business thrive, rather than the simplistic "making profits" by making it grow until it dies.

Quality is explicitly defined as "Maximizing Cradle-To-Cradle Efficiency"

Minimizing physical and financial waste in all its forms. Including unbridled growth.

Quality Drivers

Asking a series of key questions expose deep value creation:

How do we define wealth?

Similar to Privacy Policies, what is our Wealth Creation Policy and Wealth Creation Statement?

What actions are we taking to support our objective to build Quality into our business?

What actions are we taking to create a cradle-to-cradle "Supply Loop Management" system?

How do these actions benefit our business and create wealth, not just profits, for our stakeholders and society?

Keeping performance tied to cash flow

What metrics do we use to determine if we have "created wealth" in areas other than financial areas?

How do these actions help us remain financially sustainable and socially responsible?

How do these actions help us remain financially sustainable and environmentally responsible?

What actions have we discarded because they do not accomplish these objectives?

What was our reasoning when discarding these actions?