Economic Accounting Note Series

Working with a practitioner to move from studies to best practices

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Many organizations, from economic development to industry groups to government agencies, are stuck in the static world of economic studies. In this note, I discuss ways to move away from studies towards economic performance management reporting and provide guidance on hiring and working with economic accounting practitioners to implement these processes and supporting systems.

Issue

As personal computers became ubiquitous in workplaces a generation ago, many industries moved beyond studies that provided point-in-time analysis to improve performance to continuous improvement processes relying on reports generated by data accounting systems. Economic development organizations and government agencies began adopting computerized operational best practices as well during the past couple of decades, especially related to the marketing and delivery of programs. Unfortunately though, this adoption of best practices for program marketing and operations rarely extended to performance management; performance improvement in most of these organizations continues to be based on static-based, point-in-time studies performed by academic researchers and consultants.

In this note I discuss some of the barriers organizations face to moving beyond studies and how to work with practitioners to implement performance improvement best practices. Included in the Guidance section is information on writing Requests for Proposals and Scopes of Work.

Discussion

The largest barrier to moving away from studies is the same as moving away from anything familiar -- change is required. Studies have long been the method for

producing economic metrics such as economic impact and benefit-cost ratio that industry and government professionals are familiar with. An additional barrier is that professional economic training is required to use and understand software that has been developed to estimate the most common metrics. A third barrier is that investment and policy decisions are often viewed as stand-alone transactions rather than a part of economic development operations that are continually monitored and improved as part of a process. Lastly, all economists are trained in academic research processes that apply theories to cases to produce conclusions and not on practitioner processes that improve performance by applying data science to issues to support decisions. Scholarly research is study-based; practitioner research is system reporting based similar to a financial accounting system.

So not only do significant barriers exist for the users of economic information, creators of this information often face a barrier to moving away from studies as well. Below I briefly discuss each of the four barriers mentioned above.

Legacy barrier

It is not uncommon for us to hear an organization say, “It's time for another study. It has been ten years since our last one.” While the world of management has moved towards implementing systems and processes to understand what is happening at all times and adjust their plans accordingly, we come across organizations that do ten-year planning exercises because this is the way it has always been done. Legacy barriers are difficult to break through because change is uncomfortable. But change builds on itself until it becomes a best practice. When this happens, the change is acceptably comfortable and and not risky. In our profession of economic accounting, studies are no longer best practice; performance management processes and reporting are now established, successful methods for creating and reporting economic information for supporting strategic and tactical decision-making.

Software barrier

Just as financial accounting requires specific training and terminology, so does economic accounting. But, unlike financial accounting software that has become user friendly and accessible for people with a general management education, economic accounting software too often requires specialized knowledge for both understanding the inputs and interpreting the outputs. In addition, economic accounting software is still immature with regards to application program interfaces and integrating with marketing and operations software that is used on a daily basis by professionals working in the

industry. We have made significant strides in reducing this barrier at Decision Commerce Group through replacing colloquial economic terms with commonly understood financial terminology where possible, using workbook formats at outputs and reporting tools, and implementing REST application programming interface standards to integrate with Customer Relationship Management systems that are often used to implement marketing and operations processes.

Transaction barrier

Doing a deal is more exciting than doing persistent work. But deals are hit and miss, and mostly miss if persistent work is not done to develop and maintain a process that can produce winning deals. Implementing a performance management process means more success on deals and is the best way internally to sell the idea of changing from a transaction mindset to a performance management mindset. Working the plan and working the deal is more fruitful than just working the deal. Changing to a mindset where the deal happens as part of the process is difficult and requires a leader who has that mindset. Like the study legacy above, the transaction legacy is difficult to break until it is required to keep up with the competition.

Scholarly research barrier

All applied economists are trained in the method of applying theory to cases so as to form conclusions about the specific case and to identify lessons from the case regarding how to apply and advance economic theory. When these economists begin practicing economics in industry, government, non-profit, and consulting organizations, they bring with them this study-based approach to their work. This scholarly method works very well for the purpose of advancing the field of economics, but is not best suited for the purpose of advancing the economy one decision at a time. Instead, a method of Issue - Data - Analysis - Presentation works best. This method, as put into practice by Dr. David Vogt who led a regional economic analysis program at Oak Ridge National Laboratory for many years, systematically improves the performance of organizations through economic accounting processes, systems, and reporting. Many issues that would have been “studied” are handled systematically in real time by the accounting system as an integrated step in operational processes. This practitioner's process represents best practices for the purpose of advancing the economy one decision at a time. Unfortunately, many economists are unfamiliar with this process unless the organization they work with implements and trains them on this process.

Understanding the work of a practitioner

A practitioner has a performance management mindset, so deciding to work with a practitioner opens the door for an organization to move to that mindset as well. I have written previously on performance management processes and how economic accounting fits within these processes as well as on economic accounting systems and how these systems integrate with an organization's work flow. Below is an introduction to the work of the practitioner and their mindset.

Practitioners have a performance management perspective of supporting decision-making, planning and budgeting, and reporting, especially related to physical asset investments, public policies and programs, and industry markets. Depending on the issue being addressed within this management process, the practitioner will draw from one or more fields of economic accounting when performing their work, such as life cycle, regional, industry, public finance, and forecasting.

The practitioner's research process is designed to improve economic performance through continually supporting management processes. This continuous performance improvement process with metrics tracked within the management and economic accounting systems means that experience becomes an intrinsic part of the research process. A posteriori propositions are common in the life of a practitioner due to this systematized wealth of experience. The practitioner starts not with theory, but with a management issue. The practitioner then addresses the issue by applying data science informed by experience, economic theory, and its applications. The result is information in the appropriate medium to support management in their continual efforts to improve performance.

Identifying the issue is always the first step for the practitioner, which may be as simple as a 5-minute conversation or as involved as a one-day meeting with a management and operations team. The practitioner can then determine if all data and analysis required to address the issue resides in their economic accounting system or if additional data acquisition and analysis tools are required. This step is informed by scholarly research but rarely implements exactly the method that was performed in the scholarly research case. For instance, a scholar may apply theory to design a research method using econometric analysis or a model to draw conclusions about a hypothesis. The practitioner may also use this information to specify an econometric analysis as part of their process, but uses these results as an intermediate input within a minimum regrets decision framework based on their understanding of the issue developed in the issue identification meeting. For this issue, if the practitioner follows a scholarly

research process, they will present conclusions based on the results of the econometric analysis; if the practitioner follows the practitioner's research process, on the other hand, they will focus on the issue and present information to management to support decision-making based on the likelihood of avoiding a costly mistake.

To continue with this example, the practitioner may choose to add the intermediate results from the econometric analysis to their economic accounting system if it represents an advanced or composite metric that is useful for monitoring the external situation, tracking performance, or supporting future decision-making. Since the practitioner works on a continuing performance improvement basis, they rely on an accounting system to support their work. In contrast, the scholarly applied researcher works on a case basis and collects and analyzes data only for the purpose of the study.

As is evident from the prior discussion, a significant part of a practitioner's work involves using, implementing, and developing economic accounting systems. Some practitioners develop and offer web based apps that support performance management along with application programming interfaces that integrate with an organization's operational systems, such as Customer Relationship Management (CRM) systems. These CRM integrations allow an organization to report on economic performance metrics as part of their sales and marketing performance. Other practitioners will configure and implement in-house accounting systems for a client using data science platforms.

Guidance

Many organizations have recent experience with implementing best practices for marketing, operations, and finance processes. For organizations whose mission is to advance local, regional, and national economies, it is time to consider implementing best practices in their strategy, planning, and market research processes to continually improve the performance and management of their economy.

Our guidance is to begin working with a practitioner to both scope the implementation of systems and processes while at the same time consulting on the scopes of work for proposals for studies that the organization will need until the the performance management processes are fully operational. That is, we advise using current needs and associated expenditures for economic research services to help move the organization along towards best practices.

As an example of using current needs to advance the organization, we often see Requests for Proposals for economic accounting services written specifically for an economic accounting practice rather than a specific issue, and the proposed response

to this request being a scholarly research process that produces a study with a number. The request may be written for an economic impact analysis when the issue is that current infrastructure investments are underutilized due to changes in the market. A scholarly research process in this case would apply economic theory to estimate impacts for this case, and then draw a conclusion as to whether the investment continues to be viable. A more useful request would be to have the researcher clearly identify the issue from a performance management standpoint, apply data science to this issue, and present information on productivity causes, economic benefits effects, and pro forma economic contributions to the economy if the investments are continued or abandoned, all within the context of the market situation. Management would then have options and an understanding of situations (causes) to monitor that will change investment metrics (effects) and economic contribution (resulting performance). Further, all of the data and reports to support the decision-making would be accessible in the economic accountant's system by the organization and then transferred at the time the organization has an economic accounting system in place. This issue-data-presentation-system scope of work helps to move the organization along immediately and can be carried forward within a system to support continual performance improvement.

Below I provide an example scope of work for implementing best practices in an organization. Following this example along with scopes of work for current needs written in the issue-data-presentation-system format will overcome the barriers discussed above and begin the transition to continuous performance improvement for economies that organizations serve.

Table 1: Example scope of work to implement economic accounting processes and systems to support an organization's performance management process.

Task	Description
1. Define issues	Team meeting to define internal issues for moving from studies to best practices.
2. Map current processes and systems	Develop swim lane process maps for processes related to economic performance improvement.
3. Define market scope	Identify the geographic and industry breadth and depth of connections relevant for economic performance improvement.

Task	Description
4. Define multi-criteria decision factors	Define the different criteria used in decision-making and how the organization prefers to apply them (systematically or through discussion and consensus on a decision by decision basis).
5. Create implementation plan and scope of work	Create a plan and scope of work for implementing best practices in the organization that addresses the issues identified in Task 1 and includes approximate budget, internal resource commitments and internal project owners.