



# So what is economic success? Going beyond GDP and profit

**SUSTAINABLE BUSINESS INITIATIVE**



# So what is economic success? Going beyond GDP and profit

ICAEW is rethinking what is meant by economic success and how it is measured, at both national and organisational level.

## THE CONTEXT

Gross domestic product (GDP) and profit are currently two of our main measures of economic success. Both measures are fundamental to the way our national economies and organisations are managed today. They shape the way people think about the economy and business, affecting their behaviour and the actual outcomes of economic activity. Economic growth, measured as real increases in GDP, is at the centre of public policy debates around the world. Profit is at the heart of measuring the performance of investments and companies.

Despite huge rises in living standards over the last century, society still faces significant challenges. Globally, many people are still living in poverty. The gap between rich and poor is large and widening. And there are concerns that our planet will be increasingly unable to support ever-growing numbers of people and levels of material consumption.

So how can we reconcile the tension between our current economic priorities, our desire to improve living standards for everyone, and the constraints imposed on us by the natural environment?

## THE PROJECT

We first need to understand what is meant by economic success and how existing measures are defined and calculated. We will be asking fundamental questions about what we mean by a prosperous and 'successful' society, the role that the economy plays in achieving this success, and the role of business within the economy.

This will enable us to explore the strengths and weaknesses of current measures of economic success – including GDP and profit – and whether they remain fit for purpose. Comparing the systems of national and organisational accounting will help us identify ways to improve both measures, as well as wider lessons for national, corporate and government accounts. We will also be able to use our framework for assessing measures of economic success to identify and improve alternative measures, ones that could supplement or replace GDP and profit.

Throughout the project we will be considering cross-cutting questions about how economic performance information is put together and used, the interaction of macro- and micro-level perspectives, the effects of measurement on behaviour, and balancing short-term and long-term considerations.

## AN ACCOUNTANCY PERSPECTIVE

The merits and limitations of GDP and profit as measures of economic success are complex subjects on which people have divergent views. They are already being debated by professionals and academics from various fields. Chartered accountants can bring new insights to these debates, drawing on their expertise in constructing, reporting and verifying measures of economic performance.

ICAEW applies a public interest perspective in its work. We have a well-established programme to support sustainability in business, which emphasises the vital role of accountants and information flows in achieving sustainable outcomes. This project extends this work, drawing upon our expertise in financial reporting, economic commentary and business, to consider challenging questions about the relationship between the economy, society and sustainability.

## THE RELEVANCE TO YOU

Everyone participates in the economy as consumers and many of us also participate in it as employees and asset owners. We all use GDP and profit information in some way, even if it is just through participating in general discussions about economic and business performance and outlook.

We want a diverse range of people to participate in this project and join the discussion about what we mean by economic success and how we measure it. Whichever sector you work in, wherever in the world you live, and whether you are an ICAEW member or not, you have a valuable viewpoint that we encourage you to share.

## OUR APPROACH

We are adopting an inclusive and impartial approach, inviting and listening to all opinions in an ongoing dialogue. We will use the feedback we receive to shape the project and identify the practical contribution we can make to improving current measures of economic success and developing alternative measures.

**We invite you to join us on this journey.**

## CROSS-CUTTING QUESTIONS

- How do measures of organisational success correspond to, and interact with, national and international measures?
- To what extent should measures depend on an organisation/country's specific circumstances and objectives?
- How can we summarise the rich detail of underlying experiences, not just overall outcomes?
- When should monetary measurement be used and when are alternative approaches preferable?

- How can we balance short-term and long-term considerations, to ensure success is sustainable?
- How do our measures of economic success affect our thinking, our behaviour and economic outcomes?

- How do measures become embedded in politics and society, and what are the implications for changing measures?
- What determines the credibility of measures and how can measures be made more robust?

### HOW ELSE CAN WE MEASURE ECONOMIC SUCCESS?

Alternatives to GDP and profit already exist. Their appropriateness and usefulness can be assessed with reference to our definition of economic success. Should these measures be used more widely and/or are new measures needed?

### WHAT DO WE MEAN BY ECONOMIC SUCCESS?

To assess the suitability of measures of economic success, we first need to clarify what we are trying to measure. What does a 'successful' economy look like and how do individual organisations contribute to this success?

### OUR STARTING POINT: CURRENT MEASURES OF SUCCESS

Two main measures of economic success are currently GDP at the national level and profit at the organisational level. GDP is a value-added measure that is broader than profit.

### WHAT ARE CURRENT MEASURES' STRENGTHS AND WEAKNESSES?

As material living standards improve and the natural environment increasingly becomes a limiting factor in economic activity, it is time to re-assess current measures in light of our definition of economic success.

### HOW CAN CURRENT MEASURES BE IMPROVED?

Comparing the strengths and weaknesses of national and organisational accounting systems will identify lessons these systems can learn from each other and areas where there may be scope for common improvements.

## SUMMARY

*So what is economic success? Going beyond GDP and profit* forms part of ICAEW's *Sustainable Business* thought leadership initiative.

GDP and profit are two of society's main measures of economic success at present. They shape the way people think about the economy and business, affecting their behaviour and the actual outcomes of economic activity.

ICAEW is rethinking what is meant by economic success and how it is measured, at both national and organisational level. We will be exploring the relationship between our economic priorities, our social goals, and the constraints imposed on us by the natural environment we live in. Reconciling the tensions between them can pave the way for a more prosperous, equitable and sustainable society.

**This prospectus maps out the questions we are exploring, as a stimulus for discussion. We believe that ICAEW and its members – who work in and support organisations across all sectors of the economy – can bring important new perspectives to these questions. We invite you to join us in debating them.**

## GET INVOLVED

We welcome all views on the questions we are considering and the project as a whole. If you are interested in these issues, in whatever capacity, then we want to hear from you. Your feedback will influence future activities and outputs.

To share your thoughts with us and to be kept informed of opportunities to contribute, please contact us:

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