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Comments on Measuring Economic Performance by Harold E. Marshall

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From an accountant's point of view, this paper's interest resides as much in comments on standards which have not been developed and applied as in those suggested in the paper. For example, the need to improve data on 'construction, operation, maintenance, and repair' indicates gaps in the financial and cost accounting systems, which should allow estimation, recording and monitoring of costs from the building development stage through the complete life cycle. These gaps, in turn, weaken the management accounting capability to report (monitor) results against forecasts, i.e. model prediction and confirmation.

Two areas of practical application are particularly interesting to me: first, measurements of public sector building performance, using extensions of cost accounting methods; second, private sector return on investment from an investment management point of view. In both areas, management might be better served with fewer decision variables and a clearer differentiation between the hard information, shorter timeframe analysis and longer timeframe, 'best-guess' scenarios. Management is being given two approaches: one which is based on estimates, and the other which is more sophisticated, and dependent on extended time horizons and softer input data (variables).

Just as diversification improves the longer-term reliability of investment results, a similar portfolio approach to the economic performance of buildings should improve not only the builders' risk potential, but the capacity for prediction as well. As an extreme example, if the number of buildings being examined increases (to, say, eight to ten), then the reliability of economic performance prediction, using one key variable, is relatively high on a portfolio basis. Conversely, prediction results for one building predicated on a number of input variables may result in relatively poor economic performance predictability.

It would be useful to discuss the application of this economic performance system to actual cases, particularly over an extended time period.

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