



Case Study
Corporate Performance Analytics

Next Gen *pa*TM

Case Study

The CEO of this company has called a meeting of its top executives to discuss company performance and methods to obtain better information for strategic decision-making. He believes that there is something missing in the data that they have available, and he is not satisfied with a report to the board and shareholders that indicate “we’ve made the best decisions we can with the information available to us at this time.” He wants better.

He also wants to know which of their four business units, although different in size, product and location, is the best performing as to its efficiency and effectiveness, i.e. the best-run group. He expects a report of action items and directions the company should take to improve its bottom line profitability along with hard data to support the rationale and supporting arguments to back up recommendations.

This case study spotlights the distinction between using an income statement and Next Gen *pa*TM Performance Analytics reports in the decision-making process.

Using the Income Statement

The simplified Income Statement shown below displays corporate results along side of their four business units showing both financial data and human data obtained from their HRIS systems.

Income Statement Summary with HRIS Data - ABC Company Corporate Sample*

This is a sample income statement and is not reflective of any industry or company. Figures are annualized.

	Company ABC Corporate	Business Unit A	Business Unit B	Business Unit C	Business Unit D
Revenue	\$4,321,252,244	\$836,125,800	\$846,445,944	\$1,819,687,500	\$818,993,000
Expense					
<u>PEOPLE COST</u>					
Compensation	\$1,014,684,600	\$182,106,400	\$139,658,200	\$498,232,500	\$194,687,500
Benefits	\$268,536,984	\$48,630,743	\$47,383,249	\$117,629,312	\$54,893,679
Training	\$80,605,982	\$16,355,631	\$18,719,308	\$30,829,650	\$14,701,393
<u>ALL OTHER EXPENSES</u>	\$1,947,012,023	\$298,094,926	\$379,217,631	\$894,791,038	\$374,908,428
Total Expense	\$3,310,839,589	\$545,187,700	\$584,978,389	\$1,541,482,500	\$639,191,000
Profit	\$1,010,412,656	\$290,938,100	\$261,467,556	278,205,000	\$179,802,000
FTEs (Full-Time Equivalents)	8150	1550	1100	3750	1750
Hires	1025	253	39	533	201
Separations	1111	251	39	398	424

Specific Questions from the CEO:

- What business unit is the best performing? Has the best business model and why?
- Is expense a problem? If so, what is the cause? Is it due to people costs or other costs?
- Is the company top-heavy, over or understaffed?
- What are we realizing from our investment in people? What's the return?
- Where should the company focus its improvements efforts - top line, middle line, both, and why?

Can you provide the answers to the CEO from the financial report alone? What observations can you make from the above data? Most revenue? Most profit dollars?

Next, let's gain an understanding of the Key Performance Indicators in Next Gen pa™ reports.

Understanding Next Gen *pa*TM Key Performance Indicators (KPIs)

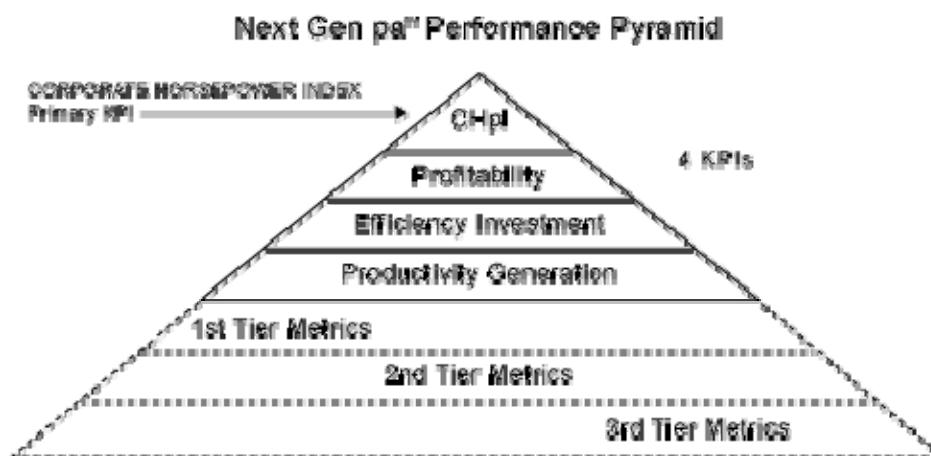
The Next Gen *pa*TM Performance Pyramid below is a graphical view highlighting the financially driven Key Performance Indicators (KPIs) supported by sets of metrics summarized in a report. There are four Key Performance Indicators identified on the reports.

Corporate Horsepower Index (CHpl): The Corporate Horsepower Index is the primary Key Performance Indicator executives have been looking for to pinpoint the impact human activity has on financial outcomes. Its calculation uses data from the G/L, is proprietary, and is provided to our clients.

Productivity Generation Factor: Revenue divided by FTEs. This is the cumulative measure of all employee effort to produce revenue expressed in terms of dollars per FTE.

Efficiency Investment Factor: Total operating expense divided by FTEs. It reflects the total expense allocated to the FTEs who create expense in order to produce revenue either directly or indirectly.

Profitability Factor: Profit (EBIT) divided by FTEs. This is the result of revenue production less the total expense needed to operate the organization.



The value proposition of Next Gen *pa*TM is the systematic gathering into a single report specifically created and designed Key Performance metrics that pull together and link human activity to financial outcomes so as to provide an understanding of the cause and effect of this relationship, and the patterns identified because of it.

Using the Next Gen *pa*TM Enterprise-Business Unit Performance Report

The Next Gen *pa*TM sample report shown below displays corporate results and four business units showing integrated financial and human data converted into performance analytics metrics. Data from the Income Statement and General Ledger contributes to, but is not all inclusive of, the metrics reflected in the Next Gen *pa*TM reports. Data from HRIS systems is also employed in the formulations, such as FTE (Full-Time Equivalent) – *the measure of human effort* that produces revenue and consumes expense—is linked to important financial data to produce Next Gen *pa*TM Key Performance Indicators. One FTE is universally accepted as being equal to 40 work-hours per week. Other financial data from the G/L is used to determine the Corporate Horsepower Index.

ABC Co. Next Gen *pa*TM Sample Executive Report

With business unit comparisons

This is a sample report and is not reflective of any industry or company. Figures are annualized.

	Company ABC Corporate	Business Unit A	Business Unit B	Business Unit C	Business Unit D
Corporate Horsepower Index	174	218	227	143	168
Enterprise Performance					
Productivity Generation Fctor	\$265,107	\$269,718	\$384,748	\$242,625	\$233,998
Efficiency Investment Factor	\$203,119	\$175,867	\$265,899	\$205,531	\$182,626
Profitability Factor	\$61,989	\$93,851	\$118,849	\$37,094	\$51,372
Human Capital Investment Percent	41.2%	45.3%	35.2%	42.0%	41.3%
Supervisory Span of Control	8	8	12	7	9
Executive Span of Control	50	50	60	46	55
Human Capital Investment					
COMPENSATION					
Compensation Ave. per Employee	\$62,251	\$58,744	\$63,481	\$66,431	\$55,625
Compensation Expense Percent	30.6%	33.4%	23.9%	32.3%	30.5%
Supervisory Compensation Percent	42.4%	51.8%	32.4%	42.5%	40.7%
BENEFITS					
Benefit Expense Percent	8.1%	8.9%	8.1%	7.6%	8.6%
TRAINING & DEVELOPMENT					
Training Cost Expense Percent	2.4%	3.0%	3.2%	2.0%	2.3%
Turnover					
Turnover Rate	13.6%	16.2%	3.5%	10.6%	24.2%
Hi-Pot Turnover Rate	5.6%	3.2%	1.9%	8.0%	12.0%
Hiring					
Hire Rate	12.6%	16.3%	3.5%	14.2%	11.5%
Open Position Percent	10.1%	9.5%	7.0%	10.0%	13.0%
Time to Fill	58	49	58	22	164
Human Capital Growth Rate	-1.0%	0.1%	0.0%	3.6%	-12.7%

Case Study Analysis: What the Report Tells You

Let's answer the CEO's questions:

1. What is the best performing business unit, and why is it the best?

Business Unit B stands out as the best performing unit with a Corporate Horsepower Index of 227. Business Unit C is the least efficient unit with a Corporate Horsepower Index of 143 although it reports the highest revenue on the Income Statement, primarily because of its size only. Business Unit B is the best business model because:

- Business Unit B reflects the highest Corporate Horsepower Index of 227 indicating that it is getting the best productivity from its human capital investment. There are several reasons for this result including unit structure, span of control, employee and Hi-Pot retention, compensating employees very well, and investing almost 40% more than the corporate average in training and development. (Insight: They are probably training on competencies and development, and not on orientation due to excess turnover as in the other units).
- B's staffing unit is having no problem keeping up with turnover rates, and open positions are easily filled as reflected in the Low Open Position of 7.0 %. It seems that Business Unit B has stabilized as a result of high productivity and has little or no employee growth at this time. This is often the case when a company is improving the capacity of its employees without having to increase headcount.
- B reflects the best overall performance with a Profitability Factor almost twice the overall corporate result. Considering that B has 1100 FTE's and the Company has 8150 FTE's, the potential improvement dollars for the company is huge!
- B reflects the highest Productivity Generation Factor (or top-line performance). It also has the highest Efficiency Investment Factor in the report. Overall expense dollars are not necessarily higher, but is allocated to fewer FTEs. Looking at both metrics together we can infer that B is producing revenue well with fewer, but better achieving company FTEs.
- B's overall investment in Human Capital is lower as a percent of expense, but only because much of this expense is outsourced. However B is paying its employees and

management team better on average, and is employing fewer executives and supervisors as shown in the Compensation area of the report.

- Each supervisor in B is responsible for 12 FTEs vs. 7, 8, and 9 FTEs in the other business units as shown by the Supervisory Span of Control value.
- Each executive in B is responsible for more FTEs than any other business unit as shown in the Executive Span of Control value.
- However, as B's business grows in the future, it should continue to be very selective in its employment practices.

2. Is expense a problem? If so, what is the cause? Is it due to people costs or other costs?

- The overall Efficiency Investment factors are lower for the other divisions and company overall, but with poor bottom line results. The Compensation Expense Percent is also much higher across the board, with the exception of B. The Compensation Average per Employee is inconsistent among the divisions, but generally is lower than B. In addition, employee turnover and resulting staffing activity is very high. Taking all of these factors into consideration implies that the company is overstaffed in all divisions, except B; the higher turnover issue contributes to both higher costs and reduced productivity; the other divisions probably have more people that they are paying at lower rates contributing to their poor results.

3. Is the company top-heavy, over or understaffed?

- As indicated in number 2 above, the other divisions and the company overall appears to be overstaffed. The span of control for the divisions is poor compared to B's results. This implies a top-heavy situation that has negative impacts on both productivity and expense. Additionally, with the high turnover situation, the company may be employing lesser quality people just to fill jobs. For example, Division C takes only 22 days on average to fill a position, which is less than half the time of the other units. This does not imply a best practice, but rather a unit that is employing almost anyone to fill open positions. Further research into this area is warranted to determine causes. Also the management practices employed by B should be reviewed and possibly used elsewhere in the company.

4. What are we realizing from our investment in people? What's the return?
 - Overall, the company is realizing a marginal return on its investment in people, as evidenced by the lower Corporate Horsepower Index of 174. Compared to B's results of 227, the company has significant improvement opportunities amounting to millions of potential bottom-line dollars. Calculate 8150 FTEs improvement from an overall Profitability Factor of \$61,989 per FTE to what B is providing at \$118,849! (About \$56k per FTE times 7050 FTEs (excluding B) equals a \$395 MM improvement opportunity)!
5. Where should the company focus its improvements efforts - top-line, middle line, both, and why?
 - The highest improvement opportunities for the company appear to lie in the top-line or productivity area. This does not mean that expense should be ignored. However, by conducting further analysis and setting improvement targets using Next Gen *pa*TM reports, the company can determine the best directions to be taken, the areas of improvement needed and the potential ROI from investments made to improve performance.

How did B know what actions to take to achieve those excellent results?

By generating performance analytics reports over time, it was apparent that B was a poor performing unit. Using the information in these reports, B's management decided to improve performance by focusing on its core business and eliminating efforts that distracted it from its business objectives. They outsourced many of its overhead and non-core functions. Compensation Percent Expense overall continued to decline, while management continued to increase compensation for better performing employees. Layoffs, re-deployment and attrition reduced excess headcount. Hi-pots and other valuable employees stayed on as a result of management's strategy being communicated to employees prior to events and acting promptly to recognize and reward employee performance.

There are many more insights that we can obtain from the Next Gen *pa*TM reports. This short case study was developed to provide you with a quick overview of the power inherent in this new set of views into corporate performance.

Now that we've compared internal business units to one another, let's take a look at how another Next Gen *pa*TM report can compare corporate results to industry average results.

Corporate vs. Industry Comparison Performance Report

What would it mean in terms of strategic decisions made if as CEO of a company, you knew how your company was doing relative to the competition? What strategic insights and resulting activities could be implemented to ‘best’ the competition at its own game? Might a definition of that be increased shareholder value? How about increased market share? What opportunities exist for you to close the gap between your company and your competitor? Is your competitor a worthy acquisition target? How would you know based solely on traditional financial reporting as it exists today?

The Corporate vs. Industry Performance Report below displays annualized corporate results with industry results.

Next Gen *pa*TM Sample Executive Report - Corporate vs. Industry

This is a sample report and data and is not reflective of any industry or company. Figures are annualized.

	Company ABC Corporate	Industry Results
Corporate Horsepower Index	174	244
Enterprise Performance		
Productivity Generation Factor	\$265,107	\$315,368
Efficiency Investment Factor	\$203,119	\$195,057
Profitability Factor	\$61,989	\$120,311
Human Capital Investment Percent	42.2%	46.2%
Supervisory Span of Control	8	10
Executive Span of Control	50	55
Human Capital Investment		
COMPENSATION		
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Turnover Rate	13.6%	9.5%
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Hiring		
Hire Rate	12.6%	14.4%
Open Position Percent	10.1%	9.9%
Time to Fill	58	52
Human Capital Growth Rate	-1.0%	4.9%

Case Study Analysis: What the Report Tells You

Corporate Performance

- Significant improvement opportunities exist as indicated by the low Corporate Horsepower Index.
- Compared to its competitors, the company is half as profitable per FTE.
- The company's Efficiency Investment Factor (total expense per FTE) is slightly higher than industry. Although the company Efficiency Investment Factor is higher than industry, it may not seem due to overall compensation or human capital cost factors. Internal benchmarking indicates overstaffing and excess turnover which does contribute to higher cost.
- The company's Productivity Generation Factor (or top-line performance) is considerably less than industry. The area of largest improvement focus potential is clearly top-line productivity at about \$50k per FTE!
- The company is top-heavy with supervisors and executives compared to industry as evidenced by the Supervisory and Leadership Span of Control results. Both the Compensation Expense Percent and Supervisory Compensation Percent support the top-heavy determination. A top-heavy situation usually drives productivity lower and increases expense.
- The company's turnover rate is about 50% higher than industry and the Hi-Pot turnover rate is almost double! Because excessive turnover is often caused by poor relationships with supervisors/managers and/or no real or perceived growth opportunities, this presents a serious problem that management needs to address quickly. The dollar impact if nothing is done to correct this problem is huge!

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