



Executive Summary
Corporate Performance Analytics

Next Gen *pa*TM

Overview

Executives are looking for new tools in the executive decision-making toolbox. They intuitively know that *something* is missing. Over the past twenty years expansive reporting systems have all attempted to help executives make better decisions, yet it appears like just more of the same with additional cost and less focused information. Contemporary financial reports are not the center of the universe for making strategic decisions—they are one component. This system of financial reporting has been around well over 400 years—since Shakespeare wrote *The Merchant of Venice*, and relatively little has changed. Those basic accounting principles were based upon very tangible asset bases and simple transactions—they were never designed to consider the impact of, let alone the concept of, linking human activity to financial results. One has only to read the papers to note that actionable plans based on these historical data reflect a preponderance of failed attempts at M & As, lost market share, and decreased shareholder value. Still the focus remains primarily on income statements, balance sheets and historical data as basic decision-making tools, and executives in the C-Suite know without a doubt that *something* is missing. Executives today are seeking better ways to understand the information that they do have. They are looking for a structured and consistent decision science that goes beyond classical reporting and analysis.

Corporate Performance Analytics—New Tools for the Executive Toolbox

Based upon many years of research into this area, we believe that Corporate Performance Analytics, or *Next Gen pa*TM is the “*something*”. What you can’t glean from an income statement and balance sheet is what you can observe and understand with Performance Analytics. The analytics process looks at integrated financial and human data to understand what drives company performance. CEOs realize that employees are usually the company’s largest investment but have little understanding of how this investment creates value, which creates the need to apply financial discipline to this area. The question is whether or not we are optimizing the possibilities of our workforces and delivering the strategy of the firm as intended. Are we producing the customer advantages that we want to produce so that customers choose us, remain loyal and create wealth for the investors of the firm? This must be our focus - to focus on delivering value for our human capital investment.

Classical financial reporting systems thus far have not been able to capture the true human element on a financial statement. That’s *huge!* For example, when reducing staff—often the first line of defense in a poor profitability situation —doesn’t turn the company around,

what's wrong with this picture? The human reaction to mergers and acquisitions gone wrong is reflected in billions of M & A write-downs. Both actions reflect a lack of understanding of the impact of people on financial performance. Where's the beef? Where and what are the tools to tell you what that impact will be—in *advance*? Before a staff reduction or a board layoff of a CEO occurs? Missing from the executive toolbox is the diagnostician capable of analyzing the human impact on enterprise performance with respect to divisional, external, and historical data, and an understanding of what you can do with the information once you have it.

Next Gen *pa*TM - Performance Analytics Capabilities

Corporate performance analytics are to a business what an MRI is to a patient—a way to see “inside” and obtain insight not otherwise apparent. From a business standpoint, this provides executives with an *edge*—the ability to make superior strategic decisions based on more and better information. The logic behind understanding and applying analytics is based heavily on corporate outcomes and results of investments and decisions, not just cost focus. As a result of many years of research and experience into company and human capital performance, we have determined that what is of prime importance in Next Gen *pa*TM analysis is the assembly of key metrics into a report that provides the ability to observe and analyze patterns of results both current and trending over time. It is our consistent application of data definitions and metric formulas that provide believable and “benchmarkable” executive performance reports. These metrics will be discussed shortly, as well as can be seen in the Case Study.

Some of the Next Gen *pa*TM insights available are:

- Determine your corporate horsepower output! Is it best in class, below average and why!
- Determine what internal business unit is the best performing; has the highest people leverage or horsepower; best performing business model and why. This is not a best practice issue but an understanding of the organizational structure and hard data metrics.
- Determine how well your company is performing relative to industry competitors¹ expressed in terms of key performance analytics indicators!
- Use Next Gen *pa*TM formulation analysis as to why your company results are what they are and where the improvement opportunities are.

- Calculate in hard dollars the improvement opportunities and/or the cost if nothing is done.
- If expense is determined to be a problem, is it due to people costs or other costs or some combination of both? (A primary crossroad decision point!)
- Help determine where your company should focus its improvement efforts - top-line (productivity and revenue generation), middle line (expense and/or investment), bottom-line and why.
- Understand the linkage of employee activity in several different areas to productivity and expense such as: staffing, retention, competencies, training and leadership.
- Determine if staff re-alignment/allocation is warranted, and if so determine the optimal size the company or division should have per revenue projections and performance targets.
- Understand leading indicators of human asset performance to take early action to avoid downstream productivity, efficiency and profitability problems.
- Monitor the results of strategic decisions and calculate the impact in hard dollars.
- For Merger and Acquisition initiatives, provide a newer, more insightful view of potential acquisition targets, their performance, and what the cultural and financial integration impacts might be from a Performance Analytics perspective.

¹ Based upon availability of industry data and participants

Why use Next Gen pa™ Performance Analytics?

Organization financial performance is inexorably tied to the performance of its employees in the aggregate. In order to better manage an enterprise effectively and with sustainable actions, management reporting systems need to include direct links of aggregated or macro employee performance to financial outcomes and thus be tied more directly to the performance of its employees. This is because in any industry, the only difference between companies is not the tangible assets tracked on the balance sheet, it is the people and what they do or are capable of doing. People produce revenue and consume expense in order to achieve a result called profitability. Everything else is derived from that basic

construct. Thus measuring, tracking and managing that asset base is all critical to achieving sustainable positive future results.

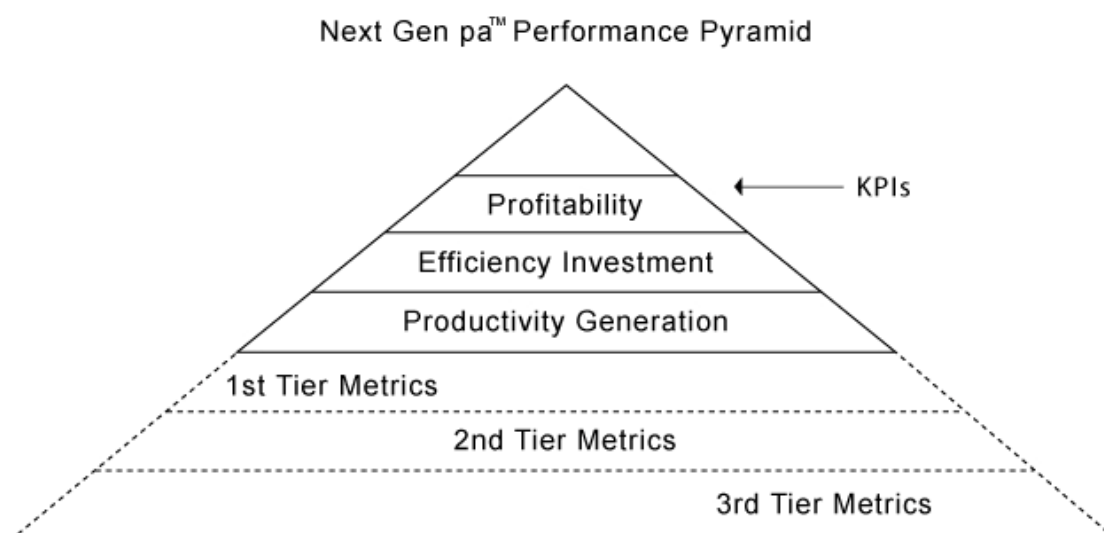
Next Gen *pa*TM is the art and practice of applying broad business content knowledge to key financial and human data sets or benchmarks that encompass both enterprise performance metrics and industry metrics. This activity enables the comparative analysis of diverse companies and units—including disparate size comparisons. We employ a consistent defined method of tracking, measuring, analyzing and assessing business performance for the purpose of making better strategic decisions, improving financial outcomes and monitoring results of actions taken; the primary focus is on optimizing human capital productivity to achieve better top-line productivity results from human capital investments.

Most ordinary financial-only metrics are either lagging indicators or at best, current state snap-shots. It is true that trending and forecasting may be done, but measuring the impact of the human aspect on the business just isn't done in the conventional financial arena. Yes, compensation, benefits and training costs are line items on the income statement, but that raw information doesn't tell anything about what will happen to productivity and profitability tomorrow based upon what people do today. It only tells what our investment in people *is*, not what the ROI *might be*. Next Gen *pa*TM includes content driven metrics that are leading indicators of financial performance. When included in the executive decision-making process Next Gen *pa*TM greatly expands the scope of current financial reporting and enables executives to make newer and better strategic forward looking decisions to positively impact enterprise performance.

To fully understand the difference between ordinary financial-only metrics and those included in corporate performance analytics, let's take a look at the definitions of Next Gen *pa*TM Key Performance Indicators.

The Performance Pyramid - KPIs

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



The Linking of Human and Financial Data

Unlike classical financial reporting, the Key Performance Indicators integrate financial and human data—essential to assessing and evaluating company performance. The standard by which human contribution is measured is FTEs (full time equivalents).

The GNP or Gross National Product is determined by using gross revenue produced and headcount. That is as refined as our government can get. On the corporate scale we can do much better by using the measure of effort that goes into creating revenue and consuming expense. That measure is the FTE or full-time equivalent.

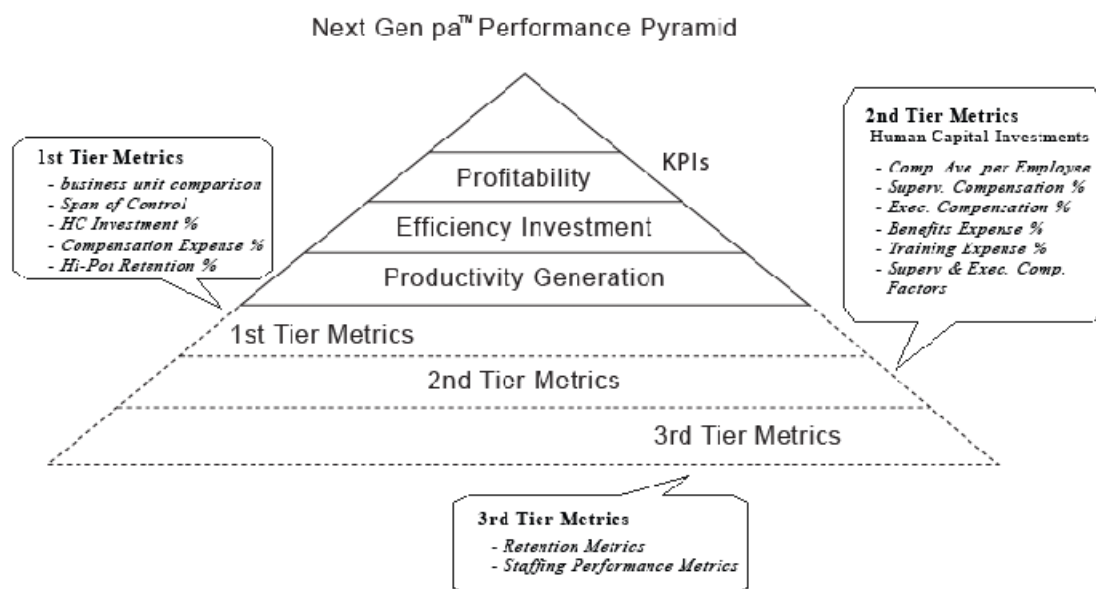
One FTE is universally accepted as being equal to 40 work-hours per week. Using FTE within Next Gen *pa*TM standardizes the human element contribution and provides for a greatly refined comparison of disparate sized divisions, geographies, or product lines with each other irrespective of size or geography. Using linked sets of metrics, Next Gen *pa*TM incorporates the human element with financial outcomes.

PRODUCTIVITY GENERATION FACTOR: Revenue divided by FTEs. It is the cumulative measure of all employee effort to produce revenue.

EFFICIENCY INVESTMENT FACTOR: Total operating expense divided by FTEs. It reflects the total expense of an organization allocated to the FTEs of an organization who create expense in order to produce revenue.

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

All of the metrics in the Next Gen pa™ reports are linked to the Key Performance Indicators. One subtle but very important observation that can be made is the determination of the cause of a profitability problem. If Profitability is lower, is improvement opportunity to be found in expense reduction, or is it found by increasing investment? *Understanding the metrics that drive these KPIs is the basis for strategic decision-making and improvement planning.*



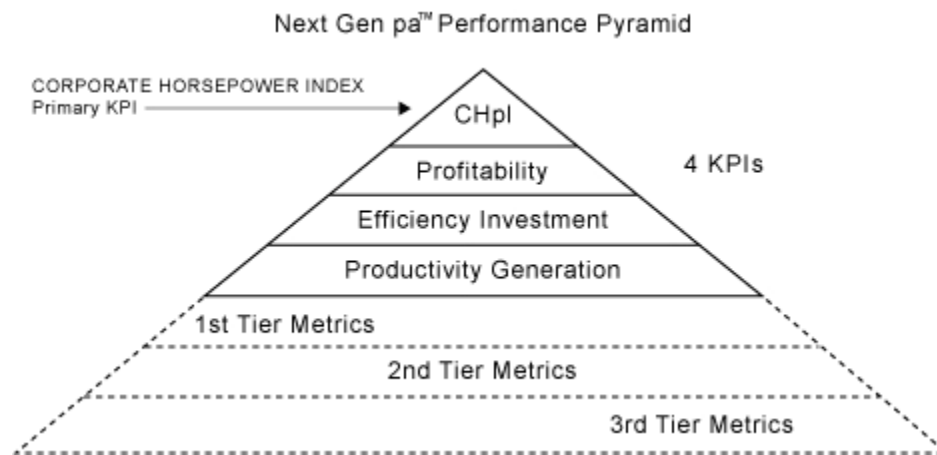
TIERED METRICS PROVIDE DRILL-DOWN CAPABILITY

Performance Analytics supports enterprise, divisional, industry or historical analysis. A report is the output piece. A short list of what the report is able to compare includes overall corporate results to business units, enterprise monthly trend performance, and industry data to corporate results. Sample reports can be seen in the Case Study.

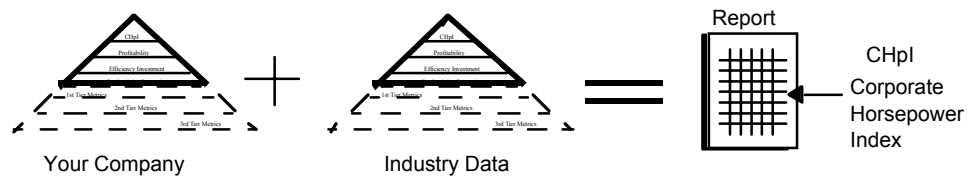
Corporate Horsepower Index

The fourth and final Key Performance Indicator is the Corporate Horsepower Index (CHPI).

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.



The Corporate Horsepower Index (CHPI) can provide a quick determination on how well your company is performing relative to internal business units and/or industry competitors. It elevates the executive's strategic decision-making process to an entirely new level.



Based on benchmarking, a sample CHPI table would indicate:

75 - 125 hp	Under-powered and below competition
126 - 199 hp	Competitive, but needs improvement

200 - 250 hp	A leader in the field
251 - 300 hp	Outperforms 90% of industry
300 + hp	Watch the stock grow fast

Value Proposition

The value proposition of Next Gen pa™ 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.

Summary

Next Gen *pa*TM Corporate Performance Analytics is the new decision science for the executive suite. John Boudreau, formerly of Cornell University and now at USC, recently wrote that finance is the decision science for accounting and marketing is the decision science for sales.¹ Until now, there has been no decision science for understanding the human element of the business. The Next Gen *pa*TM analytics process provides integrated financial and human data to understand what drives company performance. The logic behind understanding and applying analytics is based heavily on outcomes and results of investments and decisions, not just cost focus. Performance Analytics is the new tool in the executive decision-making toolbox—the diagnostician capable of providing a single view of integrated customer, human and financial information to help the executive suite make better decisions and optimize human and financial resources for best of class performance. SBL Co has developed selected metrics that are linked to financial results in four Key Performance Indicators. Our Corporate Horsepower Index (CHPI) can display how well your company is performing relative to industry competitors. The other KPIs indicate performance in terms of revenue generation, expense profile, and profitability per FTE, plus formulate analysis as to why the results are what they are and where the improvement opportunities are. The “something” that’s been missing in the decision-making process is now available using the structured decision science of Next Gen *pa*TM, Corporate Performance Analytics.

1. *Talentship*. Boudreau and Ramstad, 2002.