

“Healthy Understanding of Numbers”

The ABC's of KPM's

Early Warning Signs and Key Metrics for the
A/E/P Industry



What do Great companies and World-class organizations have in common?

The ratio of ENGAGED to actively DISENGAGED employees is near **8:1**.

In average organizations, the ratio of ENGAGED to actively DISENGAGED employees is **1.5:1**.

The world's top-performing organizations understand that employee engagement is a force that drives performance outcomes. In the best organizations, engagement is more than a human resources initiative – it is a strategic foundation for the way they do business.

Research by Gallup shows that engaged employees are more productive. Their companies are more profitable, more client-focused, safer, and have employees more likely to withstand temptations to leave. – *2009 Gallup, Inc.*

The other common characteristic of the Great companies included in the research is that they all have some form of Strategic Performance Measurement System that drives accountability.

Does your organization have one? If “yes”, is it effective?

If the answers to these questions are “no”, please speak with me after this session.

Brian L. Klausen

Experience

- “ 20+ years of business experience
 - 17 years in industry, ranging from small- to large-enterprise
 - “ CFO
 - “ Assistant COO
 - “ Division Controller
 - “ Finance Manager
 - 8 years with large A/E/I/P
 - 3+ yrs with Big 4 public accounting firm

Credentials & Education

- “ Certified Public Accountant
 - *Nebraska*
- “ Continuing Education
 - *Numerous hours*
- “ S.A.M.E Omaha Post Treasurer, 2004 - 2006
- “ University of Nebraska
 - Bachelor of Science in Business Administration
 - “ Accounting major

Objectives

” Purpose

- . Inform and get you to “act”
- . Disturb established ways of thinking

” Goal

- . Help you...
 - ” Become a better business person
 - ” Become a better leader, manager, team-player
 - ” Add more value to your organization each day

” Pause: invoke “Big 5”, and why this is important

Agenda

- “ Key Messages
- “ Common Business Language
- “ A/E/P Industry Key Performance Measures
- “ Strategic Performance Measurement System
- “ Close

Key Messages

- “ Common Business Language – you need one
- “ KPM’s – you need a “balanced” set
 - . Kaplan and Norton’s Balanced Scorecard, HBR 1992
 - “ Client, Internal Business, Innovation & Learning, Financial
 - . Stop relying on *only* financial measures to manage your business
 - “ Non-financial measures help managers **focus on what matters most**
- “ SPMS – firms that implement are more successful
 - . You get what you measure

Common Language

“ Financial Measure

- . A measure commonly used to inform outside stakeholders and shareholders of the organization.

“ Reporting in accordance with GAAP

- . Traditionally grouped into 5 broad categories
 - » Liquidity
 - » Solvency
 - » Profitability
 - » Repayment Capacity
 - » Financial Efficiency

Common Language - *Financial*

Advantages

- ” Convenient
- ” Relatively easy to calculate
- ” Familiar to managers
- ” Provide results related to short-term outcomes

Disadvantages

- ” Overused
- ” Extensively relied upon
- ” Narrow focus
- ” Do not reflect true performance drivers against intangible outcomes
- ” Do not take into account or capture long-term benefits
- ” Impacted by external forces

Common Language

” Non-Financial Measure

- . A **forward-looking** measure that aids in the decision-making process of the organization, and is linked to operational activities and drivers.
 - ” Can be established in all core areas of the business, from front-office to back-office (the Big 5)
 - . Sales and Marketing
 - . Operations (Manufacturing or Service organizations)
 - . Information Technology
 - . Human Resource Administration
 - . Accounting & Finance

Common Language – *Non-Financial*

Advantages

- “ Forward-looking and linked to operational activities
- “ Contribute to and have lasting impact on market value
- “ Help focus a manager’s efforts on issues directly related to strategic objectives

Disadvantages

- “ Need for a common base of measurement
 - . AND a common understanding of the measurement

A/E/P Industry KPM's

” Brian's Top 10

- . Net revenues per direct labor hour
- . Direct labor costs per direct labor hour
- . Operating profit (as a percent of net revenue)
- . Overhead rate (before incentive/bonus)
- . Chargeability (a/k/a Utilization)
- . Backlog change
- . Staff size change

A/E/P Industry KPM's

” Brian's Top 10 (continued)

- . Net multiplier (a/k/a direct labor multiplier)
- . Average work-in-process days
- . Average collection days

A/E/P Industry KPM's

” Other Measures

- . Financial

- ” Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)

- . More Non-financial examples

- ” Total Staff to Full-time Marketer Ratio

- ” Business Development Costs per Technical Staff

- ” Professional Liability Insurance Costs per Total Staff

- ” General Overhead per Technical Staff

- . And many, many more...

A/E/P Industry KPM's

“ Benchmarks and Benchmarking

- . We just covered some basics
 - “ Understand your data set and compare in terms of size, service offering, and/or geography
 - . Source: *2009 PSMJ A/E Financial Performance Survey*

“ Benchmarking, three types

- . *Process*, focuses on discrete work processes
- . *Performance*, focuses on elements of price, quality, speed, reliability, etc.
- . *Strategic*, examines how companies compete
 - “ Seldom industry-focused

A/E/P Industry KPM's

“ Warning Signs

- . Use benchmarks and KPM's, explore unacceptable results compared to industry standards
- . Design/Use Activity Measures that correlate with key Outcome measures
- . Consistently struggling to make payroll
- . Current ratio of 1.0 or below
- . EBITDA approaching zero or negative territory

A/E/P Industry KPM's

” Action Plans

- . Treat the root cause, not the symptoms
 - ” Use improvement models like DMAIC
 - . Define
 - . Measure
 - . Analyze
 - . Improve
 - . Control
- . What are some examples currently causing you and your firm “pain”?

SPMS Implementation

” Key Steps

- . First establish a clear definition of what the company wants to accomplish
 - ” Identify core performance areas
- . Identify CSF’s related to each performance area
- . Establish Outcome Measures linked to CSF’s
- . Final step is establish Activity Measures linked to Outcome Measures
 - ” These serve as “warning lights” to management

Call to Action

- “ Common Business Language – **engage** ALL employees
- “ KPM’s – establish a “balanced” set
 - . Include four perspectives
 - “ Client
 - “ Internal Business
 - “ Innovation & Learning
 - “ Financial
 - . **STOP** relying on *only* financial measures to manage your business
 - “ **Non-financial** measures help managers **focus on what matters most**
- “ SPMS – firms that implement ARE statistically more successful
 - . You get what you measure

For a complete copy of this presentation, call or Email Brian L. Klausen.

If your A/E/I/P firm is experiencing “organizational pain”,
and you want to conduct a benchmarking study, call or Email Brian,
he is a seasoned business and finance leader, and an expert in the A/E industry.



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