

Working with Financials

A. Overview. In contemporary organizations, everyone is or ought to be concerned about creating more value than is being consumed. The whole idea behind developing or recovering capacity is focused on returning workforce value to the organization that is greater than the value consumed through payroll and other consumption. This is as true of profit motivated organizations as it is for non-profits. Without an equitable exchange of value, the organization will eventually fail. This is the sole rationale for being concerned with financials.

B. Event-based Financials. The fundamental principle that applies across the entire *CapacityWare*™ Organization Change System is that Events are the indisputable cornerstone that creates capacity for organizations. All Event and Initiative records contain three essential fields that reflect financials: Fees, Direct Costs and Indirect Costs.

The screenshot shows the '6d-Edit Event' window. The 'Event Details' section includes fields for Name ('QWLC - Facilitation Course'), Event ID ('4106'), Location ('Quality of WorkLife Cen'), Event Design ('07.0 - Team Formation'), Start Date, and End Date. Two calendar views for July 2004 are shown, with the 30th and 31st of July circled in red. The 'Event Team' section lists Lead Facilitator ('Lacroix, Joseph') and Additional Facilitator ('Lacroix, Elizabeth'). Below this is an 'AutoFill' section with a list of categories: CapacityWare, CapacityWare Installation, Coaching, Continuous Cultural Capacity Improvement, and Diagnostic Process. The 'Clients/Groups' section has a list with 'QWLC' checked. At the bottom, the 'Post Event Actions Completed' section shows a calendar for June 2004. The 'Attendance' section has fields for Expected (20), Invited (0), and Actual (0). The financial fields are circled in red: Fee (\$2,500.00), Direct Costs (\$50.00), and Indirect Costs (\$25.00). Buttons for 'Lineage', 'Data Foundation', 'Save', and 'Cancel' are at the bottom right.

Figure 1.

Several Reports are available that report these financials.

C. Estimating the Cost of Lost Capacity. The central process used to determine the amount of value being returned to the organization from the workforce is the Cultural Capacity Estimator. This screen can be accessed from the Main Menu by "clicking" Financials, then selecting Capacity Estimator. A specific workforce survey must have been selected in the middle panel of the Main Menu for this screen to be functional. The foundation for the calculations made by the model underlying this screen is predicated on the Band structure - the premise being that the distribution of Band populations representing "Ideal" conditions must place a minimum of 80% of the respondent population in Bands A, B, and C.

Bands	%	%	Loss		
A	10	8.4	10	0.00	
B	19	16.0	0	0.00	
C	28	23.5	47.9	20	0.00
D	23	19.3	35	0.00	
E	39	32.8	50	0.00	
Total	119			0.00	

Figure 2.

1. Survey. The Cultural Capacity Estimator uses a specific survey as the basis for all calculations. The survey normally applies to the entire organization, but may be "sliced" so that specific demographic groups are used exclusively in the calculations. Using a specific survey a particular window of time can also be identified as the point at which calculations are made. This may be critical as the window of time may also provide insight into the rationale for results being lower/higher than expected.

2. % Return. As demographics are created for all surveys, the quantity of potential returns is registered. As the survey is completed, the "% Return" is able to be calculated based using the "Organization" as the foundation unless otherwise specified using the "Demographics and Sub Demographics" fields. The software makes a simple estimate based on the difference between "expected" and "actual" returns. Even this computation is an estimate, as some

respondents may not have completed the specific field used for the calculation. The number of returns used as the basis for calculation will be accurate in any event.

3. Payroll. The system will not calculate payroll from individual files, nor will it "remember" the amount of payroll outlays. This information is proprietary with each client and entered in this field at each use of this screen. If the payroll or "average" compensation is known for each selected demographic, that information ought to be entered to provide the most accurate results possible. The total value of compensation can be used instead of payroll if desired. Attachment 2.8.1, Total Compensation Memoranda, provides the source information needed to make accurate financial calculations.

4. Employees. The total number of compensated employees, the same as the respondent group, can be entered to determine the "Average." If the Average is known neither the Payroll nor the Employees are required fields.

5. Average. The average payroll (or total compensation - if desired) of the demographic group selected must be entered if any further financial calculations are to be made. Once the Average is either entered or calculated (see below, Computations - Average) the Loss Action Button can be "clicked" to determine estimated loss - by Band and Total for all Bands.

6. Demographic. The software can be used to make calculations on any single primary demographic group, or single sub-demographic group. When these options are engaged, the user can adjust the "Average" payroll or total compensation based on the specific demographic selected.

7. Sub-Demographic. The "Sub-Demographic" group can be identified, if desired, as any one of the subgroups under a specific demographic.

8. Survey Default. If the user desires to return to the full survey results after a selection and use of Demographics, the Survey Default Action Button must be "clicked."

9. Computations. Four potential computations can be made using the survey data as a foundation. Note that computations are made for the organization or Demographic group, not necessarily for those who responded.

a. Average. "Click" the Average Action Button to calculate the Average Payroll or Average Compensation when Total Payroll or Total Compensation AND number of Employees is completed in those respective fields.

b. Complexity. "Click" the Complexity Action Button to calculate the number of Interpersonal Links and the number of Prime Cultural Sets present in the organization. These quantities represent a measure of the difficulty it will take to effectively alter the cultural capacity of the organization.

c. Loss. When an Average or Total Compensation (in the Average field) is present, "clicking" the Loss Action Button will return an estimate of the financial loss attributed to the organization or demographic slice being examined.

d. Time. When available, "clicking" the Time Action Button will return an estimated number of months (or years and months) for a change effort to return the organization to an "Ideal" capacity, given a typical rate of improvement.

10. Interpersonal Links. The software calculates this field. The number that is returned in this field represents the quantity of different one-on-one relationships in the organization. Knowing this number provides some insight into the complexity of change.

11. Prime Culture Sets. The number of Prime Culture Sets grows exponentially with the number of employees. The larger this number the greater the effort in shifting the organization's culture. It is also an excellent indication of the number of Events required to make those changes.

12. Scenarios. There are five possible scenarios. If the "Bands" column contains a number adjacent to rows "A" through "E", the default selection of 20% is an appropriate estimation scenario. Other scenarios can be selected based on the user and client's best judgment if the default selection is justifiably inappropriate.

13. Column - Bands. The Bands column contains five rows, "A" through "E" plus the Total row. The software calculates the number of respondents for each Band based on the respondents average score for the entire survey. For a complete explanation of Band Technology, see Smart Tailoring, Manual J.

14. Column - Bands %. The percentage of respondents for each Band is displayed in the appropriate row in this column.

15. A-B-C Aggregate (Mid-column). This field is generated by the software. It contains a percentage of total respondents that are in Bands A, B, and C. Under "Ideal" conditions, this percentage is at or above 80%.

16. Column - % Loss. These fields are set at a default percentage based on the selected "Scenario" described above. The percentages of loss in each row may be reset by the user but must total 100%.

17. Column - Loss. When the Loss Action Button is "clicked", the software will compute the financial value of loss, based on payroll for each of the Bands having a population.

18. Total. This field contains the total number of respondents used in the calculation.

19. Total Loss. This field is software generated. It contains the total amount of financial loss estimated through payroll.

Multi-source Feedback). "Click" on the selection for "before" results. The survey name should appear in the Survey window.

b. Start and End. If the same survey will be used for "after" results, the user must define a date-period that will contain only the before results. The user may have to consult with Event documentation or other documentation to determine this date range.

c. Mean. The Adjusted Mean will be computed and displayed in the Mean window.

d. Demographics. The user may display any combination of demographics in the thirteen windows provided based on a selection made using the Select Demographics Action Button. These fields will confirm those demographics selected.

e. Select Demographics. The user may select whatever demographics are appropriate for ROI calculations by "clicking" the Select Demographics Action Button and making the appropriate selection. The demographic selection need not be identical for both "before" and "after" selections - in some cases the demographic titles may have changed between the two different periods of surveys being selected.

f. Source Data File. (Not used at this time)

g. T Respondents. The total number of respondents to the selected survey will be displayed in this field.

h. Matching. The total number of respondents that matched the criteria identified (with regard to date range and demographics) will be displayed.

3. Allocations. Completing the fields within the allocation section will require obtaining some information from manual records, and making some decisions with regard to the relative importance of Unifying Human Systems (UHS) elements. Access to this information and creating the dialog that will result in "relative importance" decisions will normally require a facilitated Event. Using the ROI formula, the "investment" is calculated on the value of payroll spread across the 900 potential "points" that can be attributed to the Adjusted Mean results of data collected. The user may attribute a weight to each of the UHS elements based on relative importance. The default relative importance distribution is 10% to each element.

a. Payroll. This dollar amount is the full amount of the organization payroll or total compensation package (at the user discretion). If specific demographics are used, this field may contain only the payroll or total compensation value that applies to the specific demographic.

b. Direct Costs. Direct costs are those dollar values that are specifically consumed during the period identified that are directly linked to efforts to improve conditions (linked to efforts that would likely achieve a positive return on investment). This amount does not include the professional fees associated with the improvement efforts.

c. Other Costs. Other costs are indirectly associated with the period or initiative, and may have been incurred for an ancillary purpose. The acquisition, for example, of color printing capability that may be used long after the identified period has passed. This information may be compiled from Event Records or other records maintained for different purposes.

d. Memo [s]. The user may provide a memo that will help track the information provided in these fields.

e. Total Cost [s] and Total Fee [s]. The software will calculate the results of these amounts and display those results in this field.

f. Direct Fees. Professional Fees are tabulated separately and entered in this field. The Fees are normally attributed to an outside resource.

g. Other Fees. Other indirect fees may be associated with the completion of course work that will enhance the likelihood of success on this initiative and perhaps others as well.

h. Cost Allocation Column. The total of direct and other costs are equally spread among the 10 UHS elements unless a new allocation is made based on the relative importance of each UHS element. As percentages of relative importance are changed, the software will keep track of adjustments required to sustain a 100% allocation.

i. Cost/Axis. The Cost/Axis column automatically adjusts the amount based on changes in relative importance.

j. Fee Allocation. The total of direct and other fees are equally spread among the 10 UHS elements unless a new allocation is made based on the relative importance of each UHS element. As percentages of relative importance are changed, the software will keep track of adjustments required to sustain a 100% allocation.

k. Fee/Axis. The Fee Axis column automatically adjusts the amount based on changes in relative importance.

l. Adjust Allocation [s]. As adjustments are made in either allocation column, these fields will alert the user when adjustments produce anything other than a 100% distribution of allocation.

m. Point Spread. The difference between the Adjusted Mean "before" and "after" produces this Point Spread. The result of this calculation is posted in this field.

n. Cost/Point. When the payroll or value of the total compensation package is divided by 900, the result is displayed in this field.

o. Gross ROI. The raw difference between the "before" and "after" payroll value of the change between the Adjusted Means is calculated and displayed in this field.

p. Total Costs and Fees. The sum of total costs and fees is displayed in this field. This is the amount of dollars spent to achieve a more favorable return on the payroll or total compensation package during the identified period. It must be acknowledged that there may be a considerable lag between the efforts to achieve improvement and the results of those efforts.

q. Net ROI. The "Net ROI" is the result when the cost of achieving an ROI is deducted from an increased value of the investment. When the "Total Costs and Fees" is deducted from the "Gross ROI" the result is displayed in this field. When the result is positive, the ROI is positive (favorable). When the result is negative, the ROI is negative (unfavorable). It is always possible that the real ROI cannot be determined immediately following efforts to achieve favorable results - there may be a lag between cause and effect.

r. ROI %. The ROI, when expressed as a percentage is displayed in this field. The level of confidence one places in this calculation will depend upon many things. It is recommended that this and other calculation methods run a parallel track to determine any adjustments required to bring a high level of confidence to users.

s. Compute. The Compute Action Button is used to tell the software to make all calculations required.

t. Print. Use the Print Action Button to create a printout of results.

u. Close. When all activity on this screen is completed, "click" Close to return to the Main Menu.

E. Summary. There are three methods used to calculate the Return-on-Investment for capacity development or recovery. Each method has specific advantages with regard to speed or accuracy, but the most important attribute of ROI computations is the level of confidence the users place in those calculations.

1. Methodologies Used to Calculate ROI. It is recommended that all three potential methodologies be used for calculating ROI, depending on the prevailing conditions. As any one method becomes more reliable than others, an adjustment can be made.

a. Incident Method. The Event Record(s) may be the best link to calculate the immediate (or potential) results for ROI when an incident has occurred that clearly marks a "loss" for the organization. This can be particularly true when the incident occurs as a result of a faulty process (or culture within the execution of a process). If, for example, a loss occurs that can be corrected by a particular action or activity, then the cost of both can be easily calculated and ROI computed as a validation of follow-through actions. Also review Attachment 1.9.3, ROI Incident Report in the OCS Manual.

b. Pre/Post Loss Differential. Using the Cultural Capacity Estimator, the user can apply the dollar value of potential loss development or recovery solely attributed to Payroll as an accurate indicator. Costs associated can be acquired from Event Records and other sources and used for the full calculation if desired.

c. Pre/Post UHS Calculations. The UHS ROI Analysis can be used to determine the value of improvements with adjustments made for the cost of achieving improvements. The results will be an ROI based on a level of specificity defined by the user.

2. Importance of Documentation. Regardless of the methodology used to calculate ROI, one thing is certain, it will require attention to collecting and creating the documentation. Most astute senior staff teams will want to know ROI history as a means of improving the quality of decisions - including applying finite resources to perplexing organization problems. The rationale for making specific ROI measurements is to "do more with less" - stated another way, to create more capacity for the least amount of investment.

3. Learning What Works. Developing or recovering lost capacity requires that more "smart" decisions be made about what works well and eliminate faulty decisions that detract from capacity. This requires that users discern the successful initiatives, events and processes from those that return little to the organization's ability to achieve its purpose effectively and efficiently. Significant learning occurs as people take stewardship seriously. Everyone in an organization ought to be able to answer questions about how their efforts contribute to overall organization success. These answers cannot be fully known until questions about ROI are surfaced and resolved.