

Case Study

Resilience and Financial Results Over Time

Situation: A client is interested in how organizational resilience scores may be related to measures of financial results during the following year

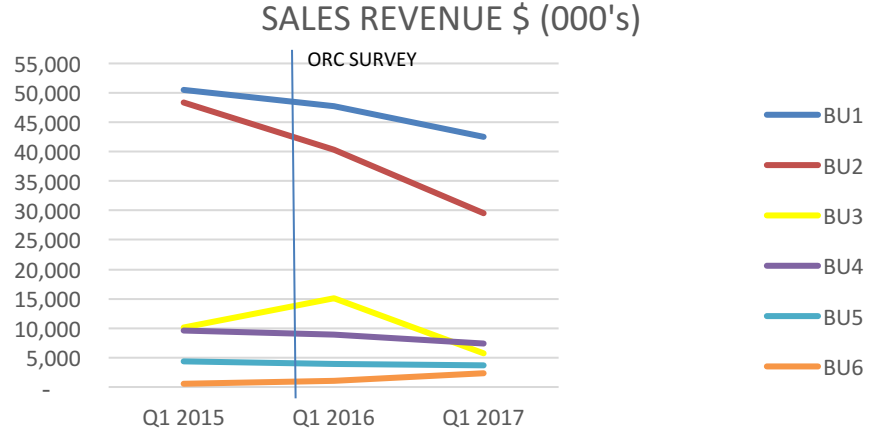
Case Study – Resilience and Financial Results Over Time



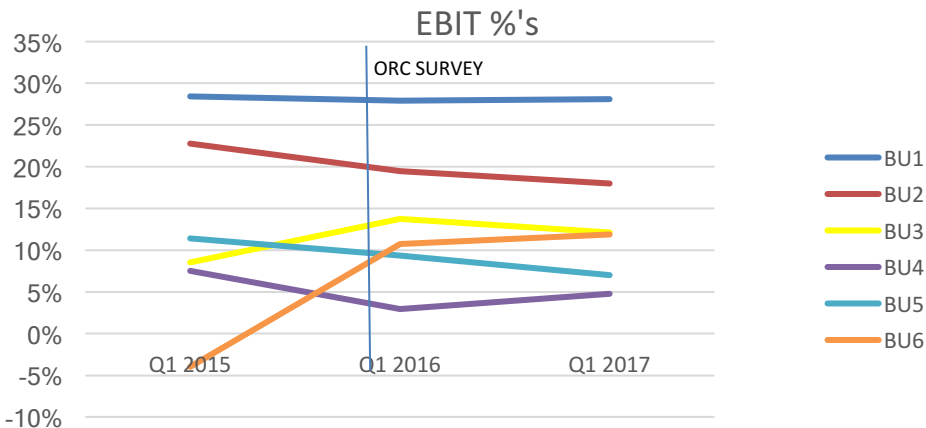
Metrics Reviewed by Business Unit

- Sales Revenue – Gross dollars after sales returns and any customer discounts at Q1 2015, 2016 and 2017
- EBIT Percent - Earnings before interest and tax as a percent of sales revenue at Q1 2015, 2016 and 2017
- Change in EBIT percent – a measure of unit performance over time. The change in EBIT percent is compared with the percent change in sales revenue.
- A negative EBIT percent is undesirable and indicates cost reduction measures are needed.
- If the EBIT percent drop is less than the percent drop in sales revenue, there is evidence those measures are working.
- Organizational resilience capacity scores were collected at end of Q4 2015.

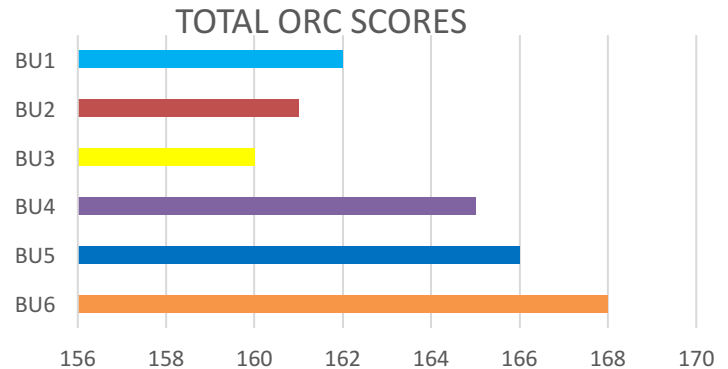
Sales Revenue



EBIT Percents



Total ORC Scores





Challenge

This company has faced several difficult years. The client is interested in learning how financial results by business unit, large and small, reflect organizational resilience capacity scores during the year following the Q4 2015 assessment. Total resilience scores at that time were moderately high.

Strategy

EBIT was chosen as the performance measure because it captures the impact of many factors that affect cost. Of particular interest is the change in EBIT percent compared to the percent change in sales revenue. A positive EBIT is best; a smaller drop in EBIT percent compared to a percent drop in sales revenue year over year is also desirable. For context, financial data were collected at Q1 2015, 2016 and 2017.

Results

While the differences in business unit Q4 2015 total resilience capacity scores were not statistically significant, it was interesting to note the financial performance of the six business units over three years in the context of that capacity. Here are summary results in order of business unit from lowest to highest resilience score.

6. BU3 2015 sales improvement turned to a 9.3M decline from 2016 to 2017. EBIT % declined by 2%.
5. BU2 sales continued a 2015 decline posting a 10.8M decrease from 2016 to 2017. EBIT % declined by 1%.
4. BU1 sales continued a 2015 decline posting a 5.2M decrease from 2016 to 2017. EBIT% remained the same.
3. BU4 sales were fairly flat in 2015 and posted a 1.6M decline from 2016 to 2017. EBIT% improved by 2%.
2. BU5 sales continued a small 2015 decline posting a .3M decline from 2016-2017. EBIT% declined by 2%.
1. BU6 sales continued 2015 improvement posting a 1.3M increase from 2016 to 2017. EBIT% improved by 1%.

Implications

The smallest unit by sales volume (BU6) had both the best performance over time using EBIT% and sales increase and the highest resilience score. The next smallest though, BU5, was an outlier with a relatively high resilience score and a large decline in EBIT%. The three largest units had the lowest resilience scores and poorest performance. BU4 with a middle resilience score had the best EBIT% performance. Resilience provides a provocative connection to financial performance.