

Labor - Execution Efficiency



The Execution Efficiency (EE) is a KPI that tells you whether your team is on track to be in budget or not. In other words, whether the team will meet its Margin Objective on labor.

It compares how much labor you would have spent of the Execution Budget (EB) based on your current Execution Rate (%EX) to what you have spent to date.

$$EE = \frac{EB \times \%EX}{\textit{spent}}$$

Project teams should manage their project to achieve and Execution Efficiency 100% or above.

Because it is a percentage, you can instantly assess the financial health of a project, regardless of the Margin Objective.

It is the main KPI that allows you to trigger adjustments of strategy and/or objectives (client approach, margin, scope, ...).

Interpretation

- **EE < 100%** - The team will spent more money than expected and the margin generated will be lower than the objective.
- **EE = 100%** - The team will spent as much as expected.
- **EE > 100%** - The team will spent less money than expected and the margin generated will be above the objective.

Examples

Let's consider a project that has a Labor budget (LB) of \$1,000 and a Margin Objective (MO) of 40%. The resulting Execution Budget (EB) is:

$$EB = LB - MO_{labor}$$

$$= \$1000 - (\$1000 \times 40\%) = \$600$$

Let's consider the following scenarios:

| | Scenario 1 | Scenario 2 | Scenario 3 |
|---------------------------|---|--|---|
| spent | \$200 | \$150 | \$400 |
| remaining | \$300 | \$550 | \$190 |
| Execution Rate (%EX) | $\%EX = \frac{spent}{spent + remaining}$ $= \frac{200}{200 + 300}$ $= 40\%$ | $\%EX = \frac{spent}{spent + remaining}$ $= \frac{150}{150 + 550}$ $= 21\%$ | $\%EX = \frac{spent}{spent + remaining}$ $= \frac{400}{400 + 190}$ $= 68\%$ |
| Execution Efficiency (EE) | $EE = \frac{EB \times \%EX}{spent}$ $= \frac{\$600 \times 40\%}{200}$ $= 120\%$ | $EE = \frac{EB \times \%EX}{spent}$ $= \frac{\$600 \times 21\%}{150}$ $= 86\%$ | $EE = \frac{EB \times \%EX}{spent}$ $= \frac{\$600 \times 68\%}{400}$ $= 102\%$ |

Let's analyze these numbers and discuss possible actions:

| | EE | Status | Possible Actions |
|------------|------|--------|--|
| Scenario 1 | 120% | ☐ | <ul style="list-style-type: none"> • Increase the Margin Objective <i>The team wants to bank the extra margin</i> • Invest the additional margin <i>The team decides to do more for the client</i> |

| | EE | Status | Possible Actions |
|------------|-----------|---------------|---|
| Scenario 2 | 86% | ☐ | <ul style="list-style-type: none"> • Decrease the Margin Objective <i>The team considers it will not be able to make for the lost margin</i> • Decrease the scope <i>Convince the client to do less work in order to decrease the remaining costs</i> • Ask for extra budget <i>In order to completely or partially make for the lost margin</i> • New working approach <i>In order to increase the efficiency of the team and make up all or part of the lost margin</i> |
| Scenario 3 | 102% | ☐ | <ul style="list-style-type: none"> • Nothing <i>The team is executing as planned</i> |

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