



Process Perspectives



Linking Incentives and Compensation to Process Performance

A critical component of Process Based Management is the design and implementation of effective performance measures and a complementary performance measurement system. Measurements are derived from the organization's strategy, the relationship of strategy to the organization's stakeholders, the key processes, and the output of those processes. Since processes are how organizations provide products and services to their customers, measures are created for processes so they can be managed.

In process-based organizations, there is recognition that there are employees that:

- 1) Work "in" the process,
- 2) Work "on" the process, and
- 3) Provide "governance" over the process.

Each has a different role, and the compensation system recognizes these different roles and responsibilities.

Process measures monitor how the process is performing, and provide insight into the health of the process. Profitability measures are important in measuring the results of the entire enterprise. However, profitability measures are usually far removed by timing and causality from how things happen to have an effect on process performance. Profitability measures tell you what happened, not how things are happening. Therefore, process metrics need to be identified for each key process and aligned between key processes

Order Fulfillment Process Measure

Measure	Detail	Target
Correct Order Fill	% of Orders filled correctly	90%
Perfect Order Fill	% of orders that could not be filled due to back orders	Low (10%)
Orders filled on time	% of Orders filled within 24 hours	90%

Effective process measures can be divided into time, cost, flexibility, and quality measures. All of these measures should focus on meeting both internal and external customer expectations, and aligned with organizational strategy.

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These measures need to be simple and easy to understand. For example, the order fulfillment process will have metrics such as the percentage of orders filled correctly, and the percentage of orders filled within 24 hours.

In well-developed processes, the compensation of process owners, process team leaders, and process performers should be tied to these process measures. These process teams are rewarded based on correctly executing, managing and improving the process based on the metrics and targets in place.

Process measures permit an organization to monitor how a process is performing. However it must be recognized that organizations cannot change processes ad hoc. Processes have an acceptable allowance for variability that must be defined by customer expectations and the organizations capabilities. Given this level of acceptable variability, process performers can make decisions. Outside of these control limits, they cannot. Everyone on the process team, for example, understands the importance of these measures, and through a well-defined process, understands their role in achieving those measures.

Returning to the order fulfillment process example, if the percentage of orders filled on time drops from the target of 90% down to 80%, the process owner and process team should act quickly to determine what is causing the reduction in on-time orders, and then fix the problem. A portion of their compensation is tied to achieving a specific performance level for each measure. In this way, an organization aligns processes to strategy, and guides process performers through clearly defined and understood expectations, with a clear stake in meeting that expectation.