

9 Ways to Measure a Business Process

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Much is written about performance measurements in business enterprises, systems, and processes. In our work, we often see a misapplication of performance measures, as they often don't contribute to the achievement of the enterprise purpose. In our firm, we have come to believe a measurement system should be built from the ground up, beginning with business processes. This Article addresses the measurement of work at the process level. The same fundamental principles apply to the business system and enterprise levels.

Measuring a Business Process

When measuring the performance of work, begin by first thinking about the fundamental Supplier-Input-Process-Output-Customer (SIPOC) business process model. It logically follows that there are a limited number of process characteristics that can be measured, and the choice of those measures should be driven by the business process purpose within the overall business system and enterprise need. This same group of measures applies no matter what the process type, whether it is manufacturing, administrative, physical or intellectual. In these different businesses, process priorities are likely to be different, which informs the best measures to be selected (from the larger measurement pool) for driving process performance improvement.

9 Ways to Measure a Business Process.

- 1 **Process Effectiveness** *measures the process performance to specified customer requirements.*

Every process should have a purpose that includes a winning value proposition for the customer. This includes defining the customer, the customer's problem that the process solves and the unique and valuable way that it does so. Measuring and evaluating process effectiveness is of primary importance, and we find that very few enterprises, and virtually no processes, adequately address this need.

- 2 **Process Efficiency** *measures the inputs and resources consumed by the process versus established standards.*

A profitable enterprise understands the efficiency with which it transforms inputs to valuable outputs. Less efficient organizations operate at a competitive disadvantage that manifests itself in many ways, including higher costs (often leading to noncompetitive prices), less reliable and dependable products and services, and slower response times. Process Efficiency measures characteristics such as process reliability; first pass yield, throughput, and value added ratios.

- 3 **Supplier Effectiveness** *measures supplier performance to specified process requirements.*

The same principles of customer effectiveness apply to supplier effectiveness when serving the needs of the process. One of the most common problems that we find is that enterprises do not adequately specify what processes need from their suppliers in order to meet their own customer value propositions.

- 4 **Units-in-Process** *measures the unit quantities of inputs and outputs between suppliers and customers.*

Units-in-process represents the total quantity of unfinished inputs and outputs that are contained within the process from the supplier to the customer. In manufacturing, this would typically be referred to as work-in-process inventory. The same principles apply to all process types however, and measuring the units in process can provide great insight into the balance of supply and demand for that process.

- 5 **Product Cost** *measures the total cost to produce and deliver an output, including inputs, processing and resource costs.*

Every process has a cost of goods sold, whether it produces a product or service. The cost of goods sold includes the cost of inputs, the cost of process transformation, and the support costs that enable the process to execute its mission. Along with building and serving a loyal customer, a process must deliver return on invested capital that delivers a successful economic outcome for stakeholders. As the old saying goes.... *No Margin, No Mission.*

- 6 **Resource Productivity** *measures the ratio of outputs produced by the process versus resources consumed by the process, including facility, equipment, people, and information technology.*

Organizations acquire assets with the express purpose of using them to produce profits. Assets include people, tools and equipment, facilities, information technology, and intellectual property. Resource productivity measures the outputs delivered versus the assets consumed to execute that process. Few organizations measure the extent to which the assets consumed by a process are used productively.

- 7 **Process Cycle Time** *measures the time required from inputs supply to outputs delivery.*

Cycle time includes all process elements beginning with placing an order with a supplier to delivering products produced to the customer. When process time exceeds a customer's desired time, the process must compensate by either holding units-in-process, extending the customer's time beyond their desire, or missing a delivery date.

- 8 **Process Alignment** *measures the level of match up between customer demand, process outputs and supplier inputs.*

Process alignment is measured within a demand time bucket that is preferred by the customer, as the customer demand profile sets the cadence for process delivery requirements. An essential first step to managing process

performance is to design process output and supplier input capabilities to meet the customer demand profile within the time bucket desired by the customer. Most organizations do not know the extent to which their business processes match up with their customer demand profiles.

- 9 **Process Compliance** *measures the extent to which a process adheres to third party standards, such as maturity, ISO, industry, federal, or SOX.*

This measure addresses characteristics such as compliance to regulatory, safety and environmental requirements, mitigation of corporate risk and active management of the business process maturity and improvement. Although an enterprise may serve its customer effectively, efficiently and profitably, it must also measure that it is doing so in a responsible and sustainable way.

Conclusion

Every measure should have a specific purpose for furthering process performance. Most organizations measure what is easy and not what is important. By broadly assessing the most essential process elements and then aligning performance measures with strategic purpose and intent, the organization leader can drive best in class performance that provides sustainable competitive advantage.

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