

Benchmarking

Benchmarking is the process of comparing an entity's performance with a high performing entity/function to identify **best practices**, understand reason for higher performance, to identify underperforming areas that should be developed or improved using methods applied by high performance entity/function

Three Different approaches of Benchmarking

Metric Benchmarking	Process Benchmarking	Diagnostic Benchmarking
comparing appropriate metrics	comparing processes with a partner	reviewing processes of a business
Ex: Comparing IT investment as a percentage of total assets across departments in a company	Ex: Comparing a company's Home delivery service with another entity's home delivery service process	Ex: Assessing entity's value chain to identify improvement areas

Gathering Information

Financial Information	Financial Statements	
Product Information	Reverse engineering	Product literature
	Trade associations	Media comments
Information about processes	Intra-group benchmarking	Inter-industry benchmarking

Usage of Benchmarking

Setting standards	To establish Key Performance Indicators (KPI)		
Strategic development	To assess entity's current strategic position		
	To determine an appropriate strategy to an entity		
Other Reasons			
Position audit	innovation	Cost reduction	Effective method of implementing change

Stages of Benchmarking

Step 1	Set objectives and determine the areas
Step 2	Establish a team to do benchmarking
Step 3	Determine the key performance measures (KPIs)
Step 4	Select organizations to study
Step 5	Measure own and others' performance
Step 6	Compare performances
Step 7	Design and implement improvement programme
Step 8	Monitor improvements

Disadvantages of Benchmarking

- Difficulties in deciding **which activities** to benchmark
- Difficulty in **identifying the 'best in class'** for each activity
- Difficulty in **persuading other organisations** to share information
- Practices in one organisation **may not be successfully transferred** to another
- Risk of **drawing incorrect conclusions** from inappropriate comparisons