

CHAPTER 10 - Multidimensional performance management

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10.9 Benchmarking

Active reading: Note that benchmarking is a learning exercise, not a copying exercise.



Video link [Benchmarking](https://www.youtube.com/watch?v=1WklEK9zwyU)

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Benchmarking is a means of comparing the performance of an organization (or individual or subgroup) with another with the aim of learning and making improvements. Whether following a strategy of cost leadership or differentiation, making continuous improvements to reduce costs or enhance the elements of differentiation can contribute to the sustainability of the competitive strategy, and hence the strategic management process. It is important to note that it is not just a copying exercise, as the context in which the improvements are being implemented needs to be considered. For example, if the management of an organization were to benchmark performance against a much larger competitor, the competitor may enjoy economies of scale that the organization will not be able to match. So, just copying the practices of others may not yield any benefit unless it is tailored to the organization's particular situation.

10.9.1 Uses and benefits of benchmarking

Active reading: Think of other techniques and models where benchmarking can contribute, such as generating initiatives in the balanced scorecard perspectives, lean accounting, improving the value creation systems, divisional performance, and so on.

Benchmarking can also be used as a means of developing new initiatives that can be implemented as part of a balanced scorecard approach to performance management. Also, concerning competitors, it can aid the determination of strengths and weaknesses as part of the corporate appraisal or SWOT analysis. Therefore, the process and outputs of benchmarking exercises can be used in conjunction with other techniques to aid the development of strategy and the achievement of objectives.

One of the key advantages of benchmarking is that it can aid in setting aspirational targets that are linked to strategy, particularly if used as part of the initiatives within the balanced scorecard. It could be important for organizations that are experiencing poor performance and need to improve. It can also encourage innovation, something that is becoming more important

for most industries in the future. It can also help to motivate employees via the use of targets but also because benchmarking involves all employees. It is not a process that is undertaken in isolation but should be inclusive and engage employees at all levels.

10.9.2 Difficulties of Benchmarking

Active reading: Think about how difficulties can be overcome.

There are, however, difficulties that organizations need to be aware of when undertaking benchmarking exercises. If targets are set and continuously missed, it can have the opposite effect of motivating employees but can demotivate them. Under certain forms of benchmarking, for example, competitor benchmarking, there is a danger of disclosing confidential or commercially sensitive information to gain some benefit from the exercise, that is, there may be a temptation to reveal too much information. The danger of just copying what others do is also a temptation without taking the time to assess how best to implement an improvement in the organization's particular context; that is, management becomes focused on the benchmark itself rather than learning from what they have found. Benchmarking also carries the assumption that suitable partners can be found with which to benchmark.

10.9.3 Classification of benchmarking

Active reading: Note that there is a need to be clear about what it is that the benchmark is measuring and comparing rather than worrying about under which classification the exercise falls.

There are many general classifications under which benchmarking is considered. These include internal and external, formal and informal, as well as others. However, the typical types of benchmarking that might be appropriate for any organization are as follows:

Internal

Internal—comparing one operating unit or function with another in the same company, for example, one retail outlet against another, or one production unit against another. However, it is essential to be aware that outlets in different parts of the country may be affected by various factors within their local context, although the operations may be the same.

Functional/activity or best practice

Functional/activity or best practice—internal functions are compared with the best external practitioners regardless of industry. For example, inventory control with a supermarket, booking systems with a travel agent, hotel, theatre, or airline, or even comparing systems of crowd control movements between an airport and sports stadium when passengers disembark from the planes and the final whistle blows at a football match.

Competitor

Competitor—benchmarking against competitors. The best comparison is against the direct competitors, but we need to be careful that it is a meaningful comparison, so factors such as the size of organization, the geographic markets in which they operate, and so on, need to be considered. Also, this tends to be appropriate for aspects that can be benchmarked via publicly available data, for example, product ranges, prices, and so on.

Strategic

Strategic—aimed at strategic action and organizational change, for example, launching a new product, or product development. Even benchmarking against organizations that have successfully turned around a loss-making position to one of profitability could be a possibility for organizations that are performing poorly.

Industry

Industry—there may be industry standards that can be utilized; for example, many industries have trade bodies that collect and anonymize data to produce industry benchmarks that could be used for comparison. The university sector is an industry about which there is much information provided by various bodies about universities and colleges that can be used for comparison.

10.9.4 Stages of a benchmarking exercise

Active reading. Note that the accountant may be part of a benchmarking team that undertakes various projects. Think of the skill set that is required for a benchmarking exercise and how the accountant can contribute to the various stages.

There is no one definitive process for benchmarking, but a typical series of stages that an organization could follow are outlined below:

1. Establish benchmarking objectives—it is vital to have a clear idea of what it is that the management team wishes to achieve and what aspects of the business it is benchmarking.
2. Establish mixed-skills benchmarking team—benchmarking is inclusive and is not undertaken just by accountants. A team of people with a mix of skills and knowledge of the area is usually required. It also facilitates a sharing of knowledge and understanding within the company.
3. Develop relevant KPIs—the performance indicators must be developed before collecting data as this determines what data is required. It is also essential to recognize that the data must be available from both parties if benchmarking with another organization.

4. Choose an organization or business unit against which to benchmark—choosing an appropriate benchmarking partner is important as the benchmark must be meaningful and one from which the management team can learn. Also, if external, the partner will wish to learn from the exercise as well, that is, mutual benefit.
5. Measure its own and partner’s performance—the stage of measuring the performance of both parties on a comparable basis.
6. Analyze data and discuss results—once collected, the data needs to be analyzed. It should also be recognized that the reason why there are differences in performance needs to be discussed as this may not always be apparent; that is, the management team needs to understand the “why” behind the difference.
7. Implement change—any improvements that could be made need to be implemented, which brings into play change management issues as employees need to be included in the process.
8. Monitor improvements—the impact of changes needs to be monitored, and often this is not immediately apparent as to why performance has or has not improved, particularly if several things have been changed as there may not be a direct link.
9. Publish success—an important step often overlooked is to publish the success of the exercise as this can act as a motivating factor for employees.

Learning activity. Think of an organization with which you are familiar and give an example of each type of benchmarking that could be undertaken.