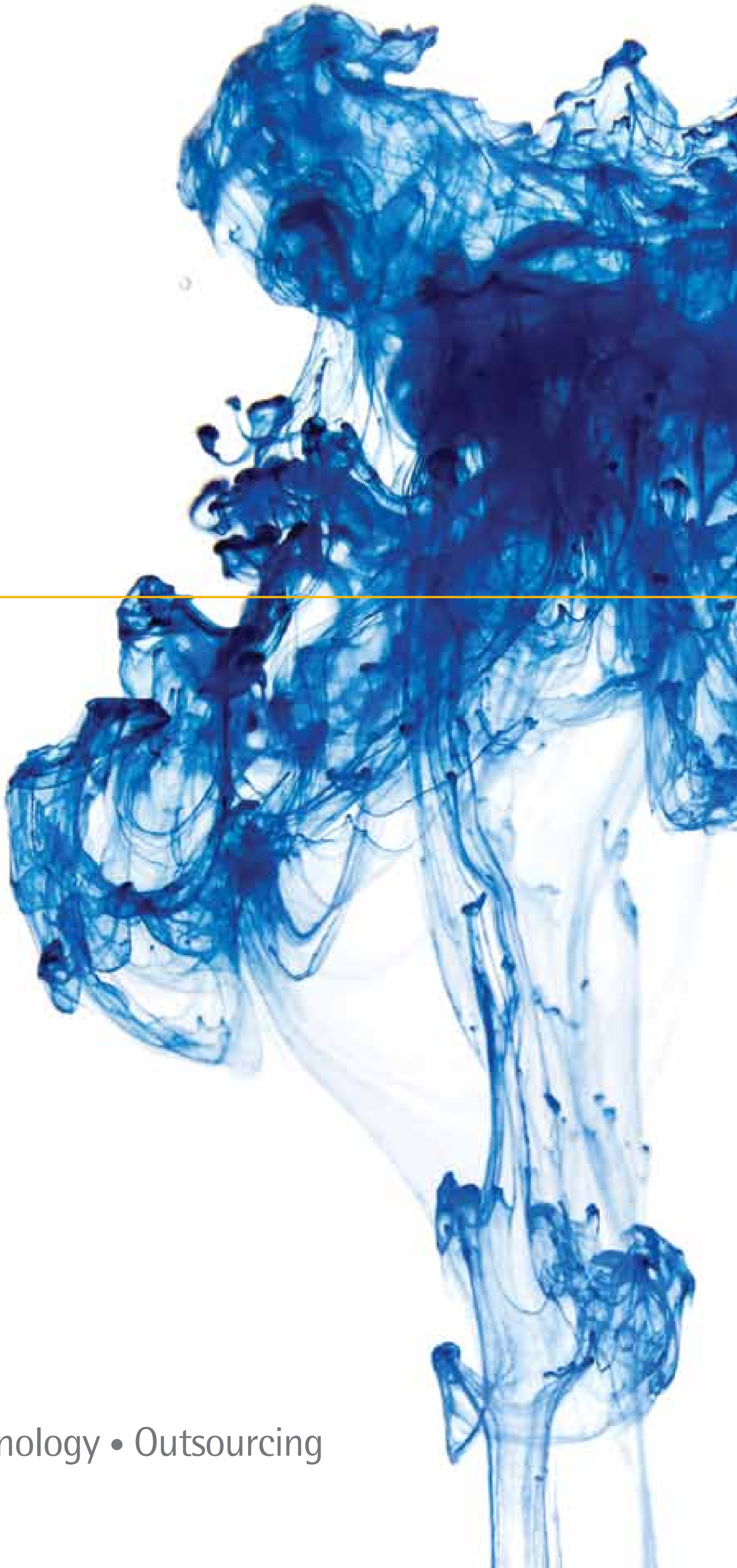
Achieving High Performance: The Value of Benchmarking



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"Now I have the ammunition to foster change."

With benchmarking, change agents have the facts they need to convince executives that a transformation of processes or even entire organizations is needed to become more competitive.

In today's highly competitive and volatile global economy, a long-standing organizational directive for virtually all corporate functions has only intensified: reducing a function's operating costs while improving the business value the function generates for the larger enterprise. Yet many executives struggle to answer that call because they lack a detailed picture of their function's performance along key dimensions or, more importantly, how that performance measures up to their competitors and peers.

Benchmarking is a critical tool in that regard. It helps leaders define the right strategy for their organization by enabling them to gauge where the organization leads, lags or operates at par with other organizations. Equally important, benchmarking provides the baseline by which an organization can articulate key issues and a means by which to measure their ability to achieve specific outcomes. In doing so, benchmarking helps to identify and address the areas that most urgently need improvement.

In its work with clients around the world, Accenture has seen firsthand how benchmarking can help an organization attain these goals, effectively and efficiently understanding the current state of a function and identifying areas in which improvements can be made in cost and performance. Such a benchmarking effort can play a key role in helping companies transform their corporate functions—whether it's finance, human resources, procurement, IT or others—into significant contributors to high performance.

What is benchmarking?

Benchmarking is the process whereby an organization captures specific data related to its costs and performance—i.e., the baseline, or current state of the organization under study—and then evaluates this cost and performance data against those from some other entity (which constitutes the actual benchmarking).

The benchmarking process typically is used externally—i.e., to compare an organization with another company or the composite average of a group of companies. But it also can be used internally: Organizations operating in several countries, or with multiple operating units and divisions, can compare cost and performance metrics across those different entities. A top performer often emerges internally whose practices then can be adopted and leveraged across the enterprise.

This combination of internal and external benchmarking helps to identify the most important gaps between an organization's current state and where it wants to be, helping to create both a road map and a business case for change. Benchmarking also can generate the rigorous cost and performance baseline necessary to effectively track progress on that road map over time in terms of cost reductions and performance improvements. Ultimately, benchmarking provides people across the organization with a common business language regarding processes, metrics, key issues and outcomes, and helps organizations put in place a rigorous and continuous improvement process to bring out higher levels of performance.

Importantly, however, numbers alone are not enough. No database of information will churn out a ready-made prescription for a company's unique set of circumstances. Thus, the quantitative dimension of benchmarking must be supplemented by a qualitative analysis informed by a deep understanding of leading practices and how they can be applied given the company's industry, strategic goals and constraints.

Why is benchmarking important?

Benchmarking delivers four critical benefits for organizations looking to improve the performance of key corporate functions. The first such benefit is a current-state assessment of the function. This assessment involves a rigorous baseline of cost, quality and cycle time, external and internal comparisons (for example, by region or business unit) of cost and performance, and the identification of meaningful gaps. The result of this assessment is a fact-based, more defensible understanding of the function's cost and/or performance drivers.

A second benefit of benchmarking is a strong foundation for transformation programs. An effective benchmarking initiative enables an organization to more easily identify and prioritize opportunities—by process, region and cost driver—which, in turn, results in more informed and relevant improvement targets and a stronger overall business case for the transformation effort.

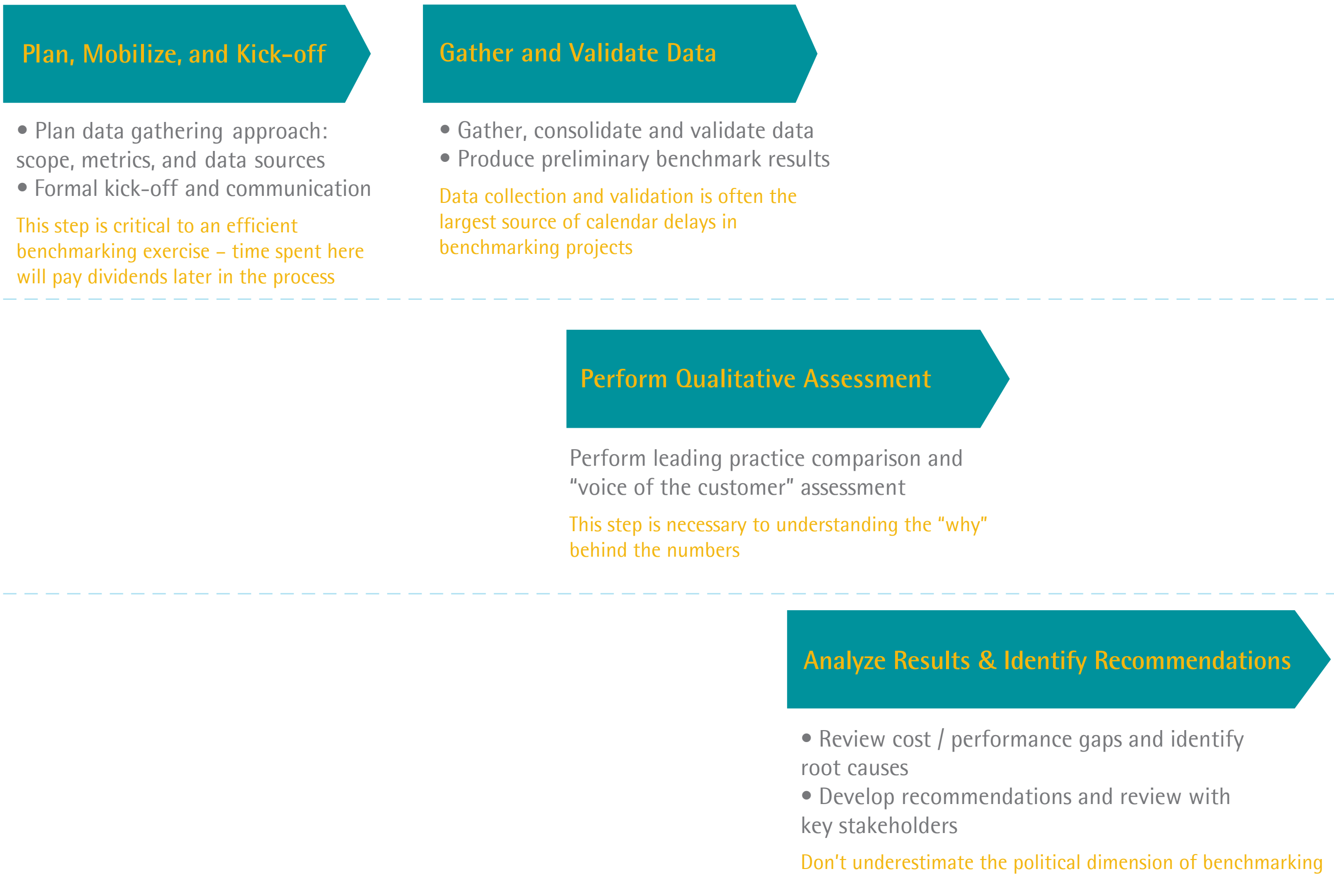
A third major benefit is a strong basis for continuous improvement. Benchmarking helps create or renew a culture of managing by metrics by enabling periodic measurement against the initial baseline. Importantly, this baseline assessment is process-based, so it remains relevant regardless of subsequent organizational changes.

A fourth benefit is language. Benchmarking sets forth a standard set of terms and definitions for key aspects of a company's business processes, thus enabling everyone in the enterprise to share the same understanding about the state of the enterprise's operations.

Unfortunately, despite these benefits, Accenture research reveals that companies are not capitalizing on the promise of benchmarking as much as they could be. For instance, according to the Accenture High Performance Finance study[1], only about one-third of participating

[1] The Changing Role of the Finance Organization in a Multi-Polar World

Figure 1: The four main steps of the benchmarking process



companies had conducted a recent benchmarking initiative to assess the quality and efficiency of their finance organization's performance relative to similar enterprises. This lack of benchmarking was a major reason why just 29 percent of respondents said that they had a good understanding of where their organization stood in relation to the finance functions of comparable enterprises. Such lack of knowledge can be a significant impediment for a company pursuing high performance.

Similarly, the latest Accenture High Performance Workforce Study[2] found that only 8 percent of senior executives and Human Resources (HR) leaders surveyed reported that the performance of their HR function, in terms of its ability to effectively support the larger enterprise's pursuit of its business goals, was industry leading. This finding suggests that HR leaders could benefit from a benchmarking initiative to help them identify the areas in which they are falling short, as well as opportunities to improve their function's ability to meet the needs of the broader enterprise.

[2] The High-Performance Workforce Study 2010

Turning insight to action

As shown in Figure 1, the benchmarking process involves four main steps that help organizations to discover, deliver and maintain enhanced business value from the function being evaluated.

In the first phase, a company formally launches the initiative and devises its plan for gathering required data (which should include a definition of the scope of the initiative, desired metrics to evaluate, and relevant data sources). As part of this effort, the company also identifies—and trains, if necessary—the people who will be responsible for actually collecting the data. It's critical for a company to get this step right, as time spent here can pay significant dividends later in the process. Generally, this phase can be completed in one to two weeks.

The second phase involves first the gathering of the data to be evaluated, typically using a standard data collection and formatting template. When data collection is completed, the company produces a preliminary benchmark comparison with the peer group, validates the data, and if necessary corrects any inaccuracies. Also during this time, the company should schedule the executive interviews that will form the basis of the qualitative assessment to come. While the second phase of the project typically lasts between one and four weeks, it also is the most common source of delays in benchmarking projects. Thus it's important to have—and follow—a solid data collection and validation plan.

In the third phase, a company performs a qualitative assessment to help reveal insights behind the quantitative data collected in the preceding phase. As mentioned, interviews with relevant executives form the core of the qualitative assessment, which enables the company to perform comparisons between its own operations and

"I hadn't considered the possibility that transaction volume and policy were the primary culprits."

Benchmarking can help companies cut through the clutter to understand the real and often hidden drivers of poor financial or operating performance.

leading practices exhibited by the peer group. This phase also takes between one and four weeks, although some portion of that time could overlap with the preceding phase and the phase that follows.

During the fourth and final phase, a company reviews the cost and performance gaps revealed in the comparisons with the peer group and identifies the root causes of those gaps. The company also develops a set of recommendations for addressing the root causes and closing the gaps, which should be reviewed with key stakeholders to get crucial buy-in. Indeed, benchmarking can be a highly political exercise, so getting everyone affected engaged with and supportive of the initiative is vital to success.

Importantly, this timeline is not rigid. Rather, it can vary considerably based on a number of factors, including the scope of the initiative, a company's ability to effectively gather the required data, and the depth of analysis sought.

Benchmarking in action

In Accenture's experience, top organizations do three main things to achieve and maintain their leadership position. They:

- Regularly identify the gaps between the capabilities they currently have and those necessary to be competitive in the future.
- Strive to be leaders in those capabilities that are most important given the needs of their business.
- Pursue improvements via formal, structured change programs.

Benchmarking can be instrumental in helping companies emulate these leaders, as several companies have experienced.

Case study: global conglomerate

One such company is a global conglomerate that wanted to implement a new business unit structure to optimize its organizational processes, reduce management costs, and enhance financial performance. This reorganization was hampered by the fact that the company did not truly know how much it was spending on finance, nor how its full-time equivalent employees (FTEs) were spread across various processes. The company conducted a finance strategy initiative that included (among other things) quantitative benchmarking to develop a baseline for the finance function's performance. The company discovered that its reorganization plan and performance-improvement targets, as originally designed, would have kept the company in the fourth quartile of performance. Its cost of finance, particularly in general accounting and transaction processing, was unnecessarily high, and the supposedly low-cost transactional processing center it operated was actually expensive relative to the rest of the industry. Finding these baselines was invaluable to the company's leadership. Indeed, the company's CFO called it "exactly what we needed." What the company also needed was a more aggressive plan for performance improvement. The company identified its Enterprise Resource Planning (ERP) environment as an area ripe for optimization. It also reorganized its finance function and achieved a 10 percent reduction in labor costs.

Case study: insurance company

Another example involves an insurance company with a highly decentralized HR function operating under a loose association of HR departments. The company wanted to understand its current HR function's efficiency, effectiveness and strategic value compared with other organizations delivering leading-practice HR services. The company used benchmarking to identify opportunities to reduce HR and training costs, understand where the function's more than 500 HR employees spend their time, and align HR roles to high-value activities. Based on the analysis, the company gained insight about specific workforce activities that were ineffective and inefficient—something prior studies had not been able to do. The results further enabled the company to determine how best to align resources and correctly size the organization, which executives valued greatly and considered highly differentiating.

Maintaining the momentum

While the preceding examples demonstrate there is significant value in a single benchmarking exercise, companies can benefit even more through ongoing benchmarking.

Indeed, leaders use benchmarking not only to establish a performance baseline, identify initial opportunities, and set targets, but also to periodically measure performance and instill a continuous improvement culture. They also formally identify the objectives of the ongoing benchmarking program, both in cost and quality with specific targets linked to overall company objectives.

There are several keys to using benchmarking on an ongoing basis. One key is taking a process view. By this we mean identifying the processes and metrics the company wants to measure and keep them reasonably constant from year to year so the company can generate trending data and evaluate the impact of improvement initiatives. Approaching benchmarking from a process view, rather than an organizational perspective, is critical because it enables comparison of an organization's current state with the original baseline without being affected by the myriad changes organizations themselves undergo over time. Another key is a benchmarking rhythm: updating the benchmarking study regularly (for instance, once per year for the entire function and once per quarter or six months for selected metrics).

Because the effectiveness of benchmarking is reliant on data, it is critical for companies to configure systems and data structures to automate the capture of key benchmarking data as much as possible. It is also vital to fully engage employees by regularly communicating the results of the benchmarking initiatives and tying individual performance evaluations (and compensation) of function leaders to results. Perhaps most important is institutionalizing the benchmarking program within the organization: making benchmarking part of an overall transformation or continuous improvement program and using it to measure results and revise targets on an ongoing basis.

Benchmarking is a powerful tool in the pursuit of high performance

Because the world of business is effectively a competition, knowing how one's organization stacks up against other companies—both in capabilities and performance—is extremely important. Without such knowledge, it is hard to be sure whether one is winning or losing, or whether one's operations provide an advantage or disadvantage compared with others' operations. This, in turn, makes it difficult to determine whether—and where—one needs to improve to take a leadership position in the market.

As the examples we just discussed demonstrate, benchmarking can be a powerful tool for helping companies ensure that they are not falling behind key competitors in important functional capabilities. A simple but effective examination of the current state of a function, benchmarking not only identifies the state and performance of existing capabilities, but also help organizations set clear and meaningful targets for improvements—and define the outcomes of those improvements. And, most important, benchmarking can define the roadmap for successfully making those improvements, enabling companies to turn competitive knowledge into competitive advantage and the ability to adapt to changes in the organization's landscape or competitive market.

“I guess my low-cost shared services center isn't so low cost after all.”

Benchmarking can help companies assess the productivity of shared services center employees and the overall cost structure of the organization to determine ways to improve shared services center performance.

“We have how many FTEs performing general accounting activities?”

As companies grow, their employee base expands in often imperceptible ways. Benchmarking can help companies identify precisely how many people are doing specific jobs—and where.

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About the Author

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