

Benchmarking and Risk

What is Benchmarking?

Benchmarking can take many forms, but it normally consists of giving scores to various aspects of your product, service or process and then comparing your scores with the leader's scores in order to identify areas for improvement.

Advantages of Benchmarking

There are many advantages of benchmarking, including:

- Identifying areas for improvement
- Identifying risks
- Fuelling continuous improvement
- Producing specific, objective, measurements
- Satisfying audit, compliance and the regulator
- Monitoring and reviewing progress
- Improving quality

What can Benchmarking be used for?

Benchmarking can be used for many purposes and we have used it successfully for:

- Identifying and managing risk in the financial services sector.
- 360° Appraisals: <http://360degree.service.factua.com>
- Benchmarking training courses and trainers in a leading UK communications company.
- Benchmarking the financial efficiency of dairy farmers in England and Wales, see www.milkbench.org.uk
- Benchmarking the benefits offered by IT companies in Scotland, see www.ict-benchmark.co.uk
- Identifying and managing quality improvements.

	1	2	3	4	5	N/A
Analyzing Problems: Successfully separates facts from opinions when identifying key issues contributing to a problem.						
Resolving Problems: Solves complex problems successfully after analyzing possible solutions.						
Decision Impact: Makes high-quality decisions that positively impact the work of members in own group.						

What can you Benchmark against?

Most benchmarks are comparisons with a 'market' leader. But the leader can be defined in many ways, for example, a benchmark can benchmark against: the leader with the largest turnover, the leader with the largest turnover per employee, the largest gross profit, the largest net profit, the profitability per employee, the profitability per unit of capital, etc.

Comparisons can also be made against a group of your peers, in which case it is normal to benchmark yourself against the best of your peers or those at the top of the peer group.

Sometimes it may be more useful to benchmark yourself against other parts of the peer group, rather than the

leaders. For example, in some of our benchmarking applications, we benchmark against the group average, the top 10% and the bottom 10%, thus giving the user a much better idea of their position within the peer group.

You can also benchmark yourself against a subset of the peer group in order to provide a more relevant comparison, eg. a comparison with a peer group that has similar: size, age, experience, etc.

Where there is no leader to compare yourself against, you will have to set your own benchmark target in order to get some sort of comparison. This can also be called an upper limit or 'scale'. Without a target or scale, a score can be meaningless. For example: a score of 2 on a scale of 1 to 10 will be at the bottom of the scale, a score of 2 on a scale of 1 to 3 will be in the middle, and a score of 2 on a scale of 1 to 2 will be at the top!

Fact	Your Company	Bottom 25% by Profit/Employee	Overall Average	Top 25% by Profit/Employee
Annual Turnover (latest)	£ 660,000	£ 1,050,000	£ 4,244,375	£ 12,315,000
Annual Turnover per Employee (latest)	£ 50,769	£ 32,986	£ 171,628	£ 520,192
Net Profit (latest)	£ 60,000	£ -11,250	£ 304,844	£ 1,040,000
Net Profit per Employee (latest)	£ 4,615	£ 17	£ 12,751	£ 44,071
Geographical Region	Scotland	100% match	100% match	100% match
Market Sector	ICT	100% match	100% match	100% match
Size (full time employees)	13	29	27	20
Year Established	1996	1998	1990	1976

Be Ambitious

You should always target yourself against the 'market' leader – it shows ambition and it is the best way to develop world-class products and services.

Examples of Benchmarking

There are many examples of benchmarking, including:

- Benchmarking individual members of staff
- Benchmarking financial or output performance
- Benchmarking risk(s)
- Benchmarking the effectiveness of a process
- Benchmarking the effectiveness of a training program or trainer

Benchmarking can be performed in many ways:

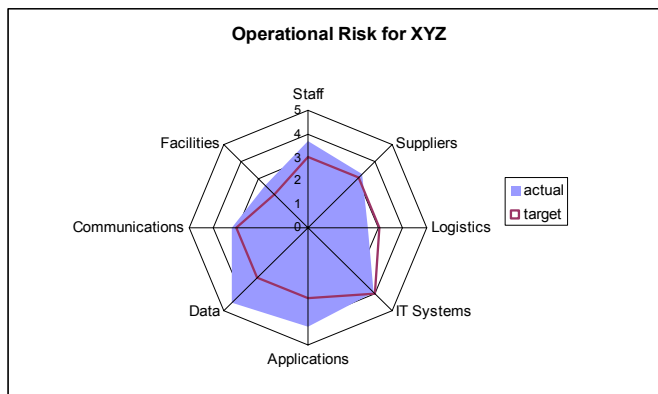
- simple, paper based benchmarking
- generic benchmarking
- bespoke (application specific) benchmarking

Generic benchmarking is general purpose benchmarking, using common scales, aspects, etc., to benchmark products, services and processes.

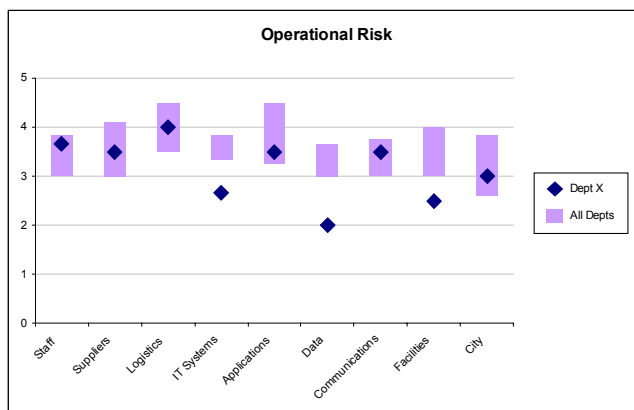
Bespoke benchmarking is the benchmarking of specific products, services and processes, (eg. benchmarking specific types of risks) using tools that have been designed and built specifically for that purpose. Simple, paper-based and generic tools are quick, cheap and easy to use.

Bespoke benchmarking tools can be more expensive, but often provide much better results and value.

You can also compare the results in a chart, which is easier to understand at a glance.



You can also compare the results with each department and the average for all departments.



What is the Benchmarking Process?

- Element:** Identify the product, service or process you wish to benchmark.
- Aspect:** Identify those aspects of the product, service or process you want to benchmark. (If you are benchmarking against an existing leader, you will find it easier to use the same aspects used by the leader.)
- Scale:** Identify the scale. Once again, if you are benchmarking against an existing leader, use the same scale.
- Score:** Allocate a score for each aspect, within the scale.
- Benchmark:** Compare your scores with the leader's scores for each aspect.

The easiest way to get started is to do some simple benchmarking using a pencil and paper.

Staff	4
Suppliers	3
Logistics	5
IT Systems	2

Once you've done some benchmarking on paper, you can use the same process, but using pre-printed forms, electronic forms and spreadsheets to make yourself more productive and make it easier to analyse the benchmarking results.

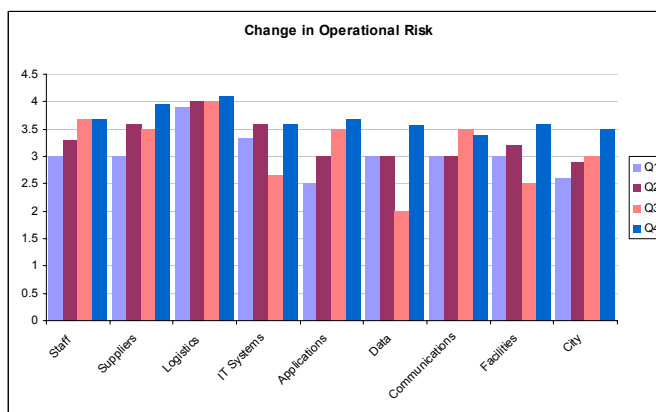
Making Sense of a Benchmark

The simplest way to view a benchmark is to compare your results with the leader's in a simple table.

	Others	Yours	Gap	Mgr
Staff	3.7	3.7	0.0	3.0
Suppliers	4.0	3.5	0.5	3.0
Logistics	4.1	4.0	0.1	4.5
IT Systems	3.6	2.7	0.9	3.3
Applications	3.7	3.5	0.2	4.5
Data	3.6	2.0	1.6	3.0
Communications	3.4	3.5	-0.1	3.0
Facilities	3.6	2.5	1.1	3.0

How often should you benchmark?

Some organisations benchmark themselves once, or very rarely. This cuts down repetition, effort and costs, but misses out on one of the most valuable aspects of regular benchmarking – the opportunity to identify changes over time, and thus increases or decreases in risk, performance or quality over time.



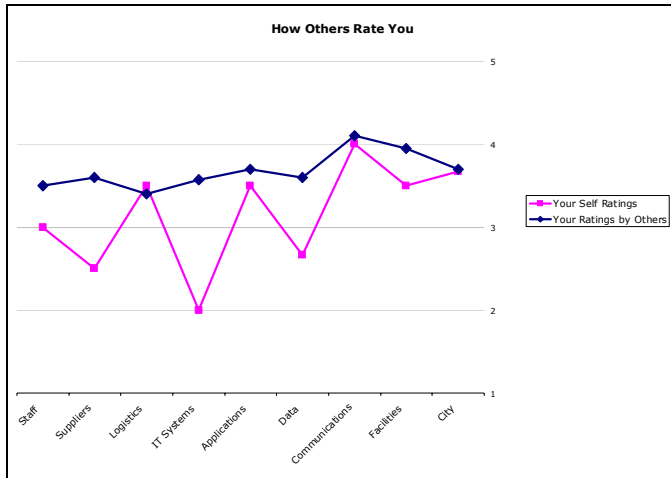
The Journey is the Reward

The process of benchmarking can be useful in itself, and you will benefit from:

- identifying those aspects of a product, service or process that are important enough to be benchmarked
- identifying how important each aspect is, by allocating it a target or scale
- identifying the criteria for leadership, eg. biggest turnover, most profitable, most profit per unit employed, etc.

Safety in Numbers

You may find it useful to get a 'second opinion' when creating a benchmark, as this normally leads to greater objectivity and the other benchmark(s) can be compared with your own.



Continuous Improvement

One of the keys to successful benchmarking is benchmarking on a regular basis in order to compare results over time.

Paper and manual benchmarking are time consuming and expensive. If you want to get the full benefits out of benchmarking, it is worthwhile investing in a benchmarking system that is more automated or fully automated.

A fully automated benchmarking system requires very little effort, produces excellent results and can provide a return on investment within a few months. It sends emails and electronic forms to participants; the completed forms are submitted electronically to the benchmarking system; the benchmarks, charts, tables and reports are automatically generated; and, available for download on demand.

Stuart Harper
Electrum, 58/59 Timberbush Edinburgh EH6 6QH

If you would like to know more about the benchmarking products and services available from Electrum, call 0131 454 3515 or email info@electrum.co.uk