Benchmarking

Topic Gateway Series No. 11
About Topic Gateways

Topic Gateways are intended as a refresher or introduction to topics of interest to CIMA members. They include a basic definition, a brief overview and a fuller explanation of practical application. Finally they signpost some further resources for detailed understanding and research.

Topic Gateways are available electronically to CIMA Members only in the CPD Centre on the CIMA website, along with a number of electronic resources.

About the Technical Information Service

CIMA supports its members and students with its Technical Information Service (TIS) for their work and CPD needs.

Our information specialists and accounting specialists work closely together to identify or create authoritative resources to help members resolve their work related information needs. Additionally, our accounting specialists can help CIMA members and students with the interpretation of guidance on financial reporting, financial management and performance management, as defined in the *CIMA Official Terminology* 2005 edition.

CIMA members and students should sign into My CIMA to access these services and resources.

**The Chartered Institute of Management Accountants**

26 Chapter Street
London SW1P 4NP
United Kingdom

**T.** +44 (0)20 8849 2259
**F.** +44 (0)20 8849 2468
**E.** tis@cimaglobal.com
**www.cimaglobal.com**
Benchmarking

Definition

Benchmarking is defined as:

‘Establishment, through data gathering, of target and comparators, that permits relative levels of performance (and particularly areas of underperformance) to be identified. Adoption of identified best practices should improve performance.’

‘Internal benchmarking: comparing one operating unit or function with another within the same industry.’

‘Functional benchmarking: comparing internal functions with those of the best external practitioners, regardless of their industry.’ (Also known as operational benchmarking or generic benchmarking).

‘Competitive benchmarking: in which information is gathered about direct competitors through techniques such as reverse engineering.’

‘Strategic benchmarking: type of competitive benchmarking aimed at strategic action and organisational change.’

*CIMA Official Terminology 2005*

Additional definitions include:

‘A systematic approach to business improvement where best practice is sought and implemented to improve a process beyond the benchmark performance.’

*Department of Trade and Industry*

‘Benchmarking is simply about making comparisons with others and then learning the lessons that those comparisons throw up.’

*The European Benchmarking Code of Conduct*

Context

In the current syllabus, CIMA students will learn and may be examined on this topic in paper P1 ‘Management Accounting and Performance Evaluation’. Study systems for these papers are available from CIMA Publishing.

[http://books.elsevier.com](http://books.elsevier.com)

[Accessed 7 November 2008]
Overview

History and overview

Benchmarking has been around for some time. Its development is most closely associated with Xerox, which introduced benchmarking in 1983.

Jacobsen and Hillkirk, 1986

A survey by the Open University Business School of more than 700 organisations in the UK found that 48% had undertaken benchmarking activities.

Holloway, 1999

<table>
<thead>
<tr>
<th>UK organisations</th>
<th>% claiming to be benchmarking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>58</td>
</tr>
<tr>
<td>Education</td>
<td>62</td>
</tr>
<tr>
<td>Health</td>
<td>69</td>
</tr>
<tr>
<td>Manufacturing and construction</td>
<td>50</td>
</tr>
<tr>
<td>Transport</td>
<td>43</td>
</tr>
<tr>
<td>Financial services</td>
<td>33</td>
</tr>
<tr>
<td>Services and retailing</td>
<td>36</td>
</tr>
<tr>
<td>Other</td>
<td>49</td>
</tr>
<tr>
<td>Total across all sectors</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Holloway et al, 1999

Notable private sector exponents include Britannia Airways, Southwest Airlines and the International Air Transport Association.

The launch of ‘Best Value’ in the U.K. in the 1990s prompted a sharp rise in benchmarking activity in public sector organisations. Local Authorities and other bodies were required to challenge, consult, compare and, if appropriate, compete in aspects of service provision.
Benchmarking in practice

Why benchmark?
Motivation to benchmark arises from a need to satisfy one or more of the following objectives:

- to show that performance targets can be achieved
- to accelerate and manage change
- to enable process improvement
- to maintain focus on the external environment
- to generate an understanding of world class performance.

For public sector organisations operating under best value, some degree of comparison of service delivery is required by current legislation. Formal benchmarking programmes against other organisations provide a means of either validating current performance levels or identifying process improvements.

In the absence of such legislation, non-commercial organisations may find benchmarking programmes a useful catalyst for performance improvement. Equally, benchmarking is often used in the public sector for issues of accountability.

Scope
Benchmarking may involve either the whole organisation, or a part of it. By definition, it always requires the involvement of more than one party, or partner. Each must be willing to identify and share the relevant process based and performance information.

It is not necessary for benchmarking partners to share similar organisational characteristics in age, size, industry or operational logic. However, a degree of trust regarding information disclosure is necessary if benchmarking exercises are to be valuable.

Benchmarking exercises may be classified as either results based or process based.

Results benchmarking involves comparison of reported/collected organisation information elements: e.g. sales levels, defect rates, absenteeism, debtors/receivables, inventory days, overhead costs or other metric.
Process benchmarking refers to the practice of looking ‘behind’ reported performance results (metrics) and analysing the different internal processes which generate these.

Through dissection and analysis of process elements, benchmarking partners can learn from the best in class and adapt their own internal processes to generate improved results.

**What it involves**

Benchmarking programmes comprise four steps:

1. Identification and/or calibration of performance gap
2. Clarification of strategic impact of benchmarked process
3. Identification and implementation of process improvements, or strategic changes in light of 2 (above)
4. Maintain stimulus for continuous improvement.

**Problems of benchmarking**

Problems of implementing benchmarking programmes and obstacles to deriving maximum benefit include:

- deciding which activities/processes to benchmark
- identifying ‘best in class’ or other suitable benchmarking partners
- overcoming internal staff resistance
- resource constraints
- overcoming confidentiality issues from either benchmarking partner
- recognising and allowing for performance differences arising from non-transferable process input elements (for example, employees’ skills/knowledge, organisational structure/culture)
- a tendency to focus on what is currently being done, rather than considering potential future practices/innovative breakthroughs.
Successful benchmarking

Measures taken by ‘successful’ benchmarking organisations in managing benchmarking processes include:

- appointing a knowledgeable and enthusiastic benchmarking ‘champion’
- allowing sufficient authority and resources
- selecting the ‘right’ people (e.g. staff and managers directly involved in the process) for involvement in benchmarking teams
- ensuring effective co-ordination and communication of information provided by benchmarking partners
- providing reciprocal information to benchmarking partners – a formal agreement regarding who will provide what information to whom and by when may not be essential, but might be considered at the project outset since it can reduce problems later on
- undertaking generic benchmarking with non-competitor organisations found through informal networking
- concentrating on observing, describing and interpreting others’ processes.

Benchmarking: the future

The practice can arguably only benefit from increased advances in information, technology and communications. There is no reason why organisations will not continue to derive benefit from its adoption for a very long time.

References


Further information

CIMA articles

Available from: www.cimaglobal.com/financialmanagement
[Accessed 7 November 2008]

[Accessed 7 November 2008].

[Accessed 7 November 2008].

[Accessed 7 November 2008].

[Accessed 7 November 2008].

[Accessed 7 November 2008].

[Accessed 7 November 2008].

[Accessed 7 November 2008].

[Accessed 7 November 2008].

[Accessed 7 November 2008].
Articles

Full text from Business Source Corporate available from:  
www.cimaglobal.com/mycima  
[Accessed 7 November 2008]


Clemmon, D. Benchmarking performance. Internal Auditor, December 2007, Volume 64, Issue 6, pp 76-77


DSO Benchmarking, Credit Management, August 2008, pp 38-39

Articles

Abstract only from Business Source Corporate available from: www.cimaglobal.com/mycima
[Accessed 7 November 2008]


Books


CIMA Mastercourses

Performance measurement and benchmarking: principles and practice. To book [www.cimamastercourses.com](http://www.cimamastercourses.com) please go to Find and key in the course code PMCI.

Websites

About Business and Finance Management
Website with a benchmarking page.

Benchnet - the Benchmarking Exchange
The Benchmarking Exchange is the electronic benchmarking and benchmark network. Available from: [www.benchnet.com](http://www.benchnet.com)
[Accessed 7 November 2008]

The Benchmarking Network
International resource for business process research and metrics.
Available from: [www.benchmarkingnetwork.com](http://www.benchmarkingnetwork.com)
[Accessed 7 November 2008]

You may be able to obtain further information by joining a benchmarking club. The Best Practice Club is a UK based organisation. Further details can be found on their website.

Global Benchmarking Council
A US based research network.