



HR BENCHMARKING

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What is Benchmarking?

"**Benchmarking** is a tool to help you improve your business processes. **Any** business process can be benchmarked."

" **Benchmarking** is the process of identifying, understanding, and adapting outstanding practices from organizations anywhere in the world to help your organization improve its performance."

"**Benchmarking** is a highly respected practice in the business world. It is an activity that looks outward to find best practice and high performance and then measures actual business operations against those goals."

One of the approaches to HR performance monitoring is Benchmarking. Benchmarking denotes a comparison with selected performance indicators from different organizations typically in the same industry, or with comparable organizations that are considered to be the best in class. One of the biggest mistakes people make when beginning their benchmarking endeavor is that they only look to benchmark someone within their own industry. Although this doesn't hurt, you probably already know enough about your industry to know what works and what doesn't. Worse yet, some people think they must benchmark their competitor. What if the competition is worse than your company? Seems like a pretty good waste of time and energy. Instead how about benchmarking a company that is well known for being a good model. Sometimes referred to as Best Practices, Exemplary Practices, and Business Excellence. Successful benchmarking requires careful selection and manipulation of comparable measures. The greatest gains from benchmarking exercise are provided through comparisons with other firms and different ways of thinking. Many firms strive for performance improvements by benchmarking standards of excellence from other firms in such areas as production, research and development and marketing. HR can be employed to similar competitive advantage

Benchmarking serves a number of purposes:

- 1) It enables a company to calibrate how it is delivering HR practices by examining the way other organizations accomplish tasks and responsibilities
- 2) Benchmarking enables a company to learn from others successes and mistakes.
- 3) Benchmarking can create an environment in which active learning is encouraged.
- 4) It can be used as a tool to motivate people to change.
- 5) Benchmarking can be used to help set direction and priorities for an HR manager and helps him to focus on critical activities.
- 6) A well established benchmarking process can help managers set goals and targets designed to make the company the best in its competitive field, and to initiate focused programs that move the company from its current position

By Benchmarking one can find out;

- Who does the business process really well and has processes that are adaptable to my organization
- What areas are causing the most trouble
- Which employees contribute most to the critical success factors
- What are the performance measures to determine the effect of our actions?
- Who is the most compatible for me to benchmark with
- Most business processes are common throughout industry.

Benchmarking is a strategic activity aimed at the pursuit of continuous improvement. It is the process of assessing an organization's procedures, product and service Performance against organizations that



have achieved a recognized standard of Excellence. Benchmarking is an ongoing, systematic process to search for and Introduce best practice into an organization. Organizations can also use benchmarking techniques to add value to their strategic planning processes. They can be a valuable means of setting appropriate measurable objectives to improve the organization's strategic performance. Benchmarking can also help strategically focus an organization's HRM performance by providing challenging, yet achievable targets or goals across all key areas of the HRM framework.

In the HRM context, benchmarking can provide a useful way to identify and assess the contribution of people management practices to an organization's corporate Performance. By helping organizations learn from other organizations' high Performance standards, benchmarking provides an incentive for organizations to Adapt, where appropriate, that learning to improve the quality of their own people Management practices.

Developing the specific criteria, which define effectiveness for HR activities, is one of the most difficult challenges facing line managers and HR professionals. In this regard, there are two schools of thought.

1) The first school advocates monitoring the costs and benefits of human resource activities i.e those associated with attraction, selection retention, development and utilization of people in organizations in economic terms, the assumption being that the ultimate single measures of HR effectiveness is the bottom line. This economic approach of measuring HR performance has the advantage of being simple and understandable, but it fails to provide guidance when implementing effective HR management programs.

2) The second school is to measure the set of HR practices delivered within an organization, and measure the contribution of each practice to the overall competitive advantage of the organization. The attempts are to capture in a single model the variety of HR practices deployed by organizations to augment innovation, improve quality, and be the lowest cost producer of goods and services

The areas that human resource benchmarking includes are:

- Organization Effectiveness,
- HR Effectiveness,
- Recruitment,
- Training and Development,
- Absence & Turnover, and
- Occupational Health & Safety

Most of these factors can be then analyzed further into splits such as occupational group or tenure-based. The resulting benchmarking report, prepared on an annual basis, connects a range of people management issues to organizational variables such as revenue, expense and profit etc, providing benchmarks that allow managers to evaluate, in different areas, This provides managers with essential information to help them in their tasks of maximizing organizational effectiveness.

It is also possible to define key performance indicators, which can help managers, evaluate how their HR practices relate to both the operational and strategic level of enterprise and lay the foundation of comparing the HR practices according to six performance criteria:

- 1) Quality of delivery (in terms of conforming to some practice ideal or fulfilling the intended purpose)
- 2) Quantity (expressed in terms such as dollar value, number of units, or number of completed HR cycles)
- 3) Timeliness (the degree to which an HR practice is completed, or a result produced at the earliest time desirable)
- 4) Cost effectiveness (in the sense of optimizing the gain or minimizing the loss from each unit or instance of use of human and financial services)
- 5) Need for supervision (the degree to which a person or unit can carry out a HR practice promotes feelings of self – esteem, goodwill, commitment, satisfaction, co – operation among co – workers and sub ordinates).
- 6) Positive impact (the degrees to which an HR practice promotes feelings of self-esteem, goodwill, commitment, satisfaction and co-operation among co-workers and sub – ordinates).

Under the umbrella of strategic human resource management, three sets of HR competencies may be identified.: knowledge of the business, quality of service and management of change. Knowledge of



the business refers to the extent to which an HR professional (or a line manager with HR responsibilities) understands the financial, strategic and technological capabilities of the organization. Quality of service refers to the extent to which the HR or the line manager provides high quality HR policies and services (such as training and development) to the other members of the organization. Management of change refers to the extent to which an HR professional or line manager is able to increase the organization's capability for change through creating meeting, problem solving, relationship influence, innovation, transformation and role influence.

Measures may be established for specific behaviors in each of the three domains of HR competencies. However, these measures and behaviors have not been well established and researched as the performance indicators for HR practices.

Benchmarking HR activities: There is a proposed set of activities for benchmarking the organization's HR department:

- 1) Decide the composition of the audit team: There has to be a representative from the HR function and from among senior line managers if the exercise has to have any credibility. But it is not essential that the head of the senior HR manager lead the team.
- 2) Identify the function's main customers: The key decision is to clarify who makes the final decision to buy the services provided by the function. In a decentralized multi-divisional organization, this is likely to be the general managers of the strategic business units.
- 3) Review the HR function's mission statement: This statement describes the reason for the HR function's existence, its principal activities and its most important values.
- 4) Review the function's role in formulating and implementing the organization's strategy: This step is critical to establishing the link between HR policy and practices, on the one hand, and the organization's overall business strategy, on the other.
- 5) Review the HR function's role in developing relevant HR policies and practices:
- 6) Review the delivery of HR policy and practices: Questions need to be asked here in relation to the HR activities currently being undertaken by HR or personnel staff which could perhaps be done as well or even better by line managers, by computers or by external agencies and consultants. An alternative option is to establish an "internal consultancy or business unit" in which the HR function sells its services both inside and outside the organization. The advantage of this approach is that line managers can go elsewhere if they are not happy with the service they receive from the HR function within the organization.
- 7) Make internal comparisons to establish 'best' practice: The organization need to build and constantly update a unique database of HR practices that gives an overview of developments within the world's largest organizations today.
- 8) Review the outcome of analysis: Performance gaps need to be identified and the policy implications need to be discussed with the customer. The commitment for implementing the necessary improvements should be gained. This implies that those ultimately responsible for implementing the changes,
 - a) Acknowledge the need for improving HR policies and practices.
 - b) Understand the difference between the current HR practice and what is desired.
 - c) Accept and retain full ownership of the practical steps towards implementation.
- 9) Implement the agreed improvements and measure the progress against pre-set targets: The metrics selected should be the agreed upon true indicators of the HR function's performance and compare the results with industry averages, competitors, 'best' practice firms, and/or with set targets or previous performance ratings. It is usually feasible to produce relevant ratios of the HR performance data. The most likely ratios should cover unit costs and appropriate customer satisfaction measures. If measures are not clear or difficult to obtain, two alternatives are possible. One, the process of determining appropriate HR performance measures becomes a key step in the benchmarking process itself. Or, there are approximate measures available from other functional areas that give an indication on the HR function is performing.



Traditional to Present Focus by Organizations

Traditionally, there has been a focus on remuneration and conditions, staffing practices and human resource planning as the essential components of people management - there has been a tendency to concentrate on the people management system. More recently, the importance of the skills and knowledge of both managers and their staff has been recognized – there has been a move to human resource development. The current trend is to recognize the importance of culture in supporting the people management system and the skills and knowledge of people. This is reflected in the move towards performance management and teamwork as a basis of achieving performance. Managers and their people need to understand the system. They and their people need the skills and knowledge to undertake their responsibilities and a culture is needed to support them. The culture needs to be one that recognizes the value of peoples' performance.

The successful integration of the human resource functions and the effective and efficient performance of those functions are critical to the future success of human resource management within organizations. Only if the functions are performed to a 'Best Practice' level will the productivity gains that are planned be achieved. Ensuring that the total system and each of the individual components are effectively and efficiently performed means that comparisons need to be made to determine the gap between 'Best Practice' and the current level of performance. The vehicle to do this is Human Resource Benchmarking.

Does HR Benchmarking Have a Real Role to Play?

The following is a summary on the role of HR benchmarking in managing the HR function. The question, which is most interesting about the HR function, is the basis on which it determines what it does and does not do. To what extent do we, as a function, systematically assess those initiatives, which will impact most on organizational performance? Or do we become involved in operational issues, which have little lasting value added impact on the success of the organization. The methodology by which we determine what we do and don't do in managing the HR function is called **HR strategy**. An example is when we become involved in detailed selection activities, but don't have time to understand in detail our level of labor turnover (how it varies by occupational group, organizational unit and tenure, etc). Consequently, we do not analyze the reasons for labor turnover (poor selection techniques, poor induction, mismatched expectations, lack of career options, quality of management support, etc) to develop HR initiatives to address the problem. We are so busy on the treadmill of selection that we don't have time to understand what necessitated the selection exercise. We are so busy with urgent work that we don't have time to deal with important issues, which will impact on subsequent activities.

To support the articulation of strategic HR priorities for an organization it is important to determine performance indicators to measure the impact of our HR strategy. The HR strategy is likely to include both people management priorities for the organization (eg. developing a customer responsive culture) as well as generic priorities for the HR function. It is important for the HR strategy to have this dual focus on people and HR function priorities as well as ensuring that the HR/people management priorities are aligned to, and driven by, the business priorities of the organization. This process is becoming more interactive because increasingly, people issues are fundamental inputs into developing the business plan of an organization.

The formulation of HR/People related performance indicators becomes a focus for ensuring the organization is driven by the HR strategy. Without a focus on five to ten key performance indicators we are more likely to regard the HR strategic plan as a general guide to our daily activities, rather than something, which should drive our performance. The existence of HR/people performance indicator categories is only the first step in ensuring that we have a "driven" culture within the HR function. The first requirement is to assess our existing performance in each of the key HR/people performance indicators. This information will typically come from our HRIS with some information likely to come from our finance and production systems. These key performance indicators may consist of both specific



indicators - such as the ratio of transfers to promotions, and ratio of internal to external recruits - and broader measures, such as labor turnover rates, absence rates or revenue per employee.

Once an organization knows its performance on the selected performance indicators, it is then essential to set a target performance as part of the HR strategic planning process. It is my belief that it is illogical for an organization to set targets for its strategic HR/people. If an organization, say in the Finance Industry, has identified that combining cost reduction with a stronger customer focus culture is core to its business strategy, then it may identify that its absence rate is a key performance indicator. If the organization then determines that its absence rate over the past twelve months for the total organization has been 4.0%, the next stage is to set a target performance for the organization. It is impossible to set a target performance on the strategic Key Performance Indicators without reference to some benchmark norms. The historical performance of the organization is useful, but not sufficient as a basis to establish a target. The benchmarking program is able to provide competitive yet realistic targets for our strategic HR key performance indicators. We may also want to compare the results of other industries to assess the possibility of setting more challenging (but achievable) targets. We may set the Manufacturing 10th percentile of 1.3% as a long-term target (which we can update on a continual basis to ensure a competitive target is maintained). When investigating the desired benchmark standards, we may need to look at international benchmarking standards for our industry. This is particularly critical in international industries if we assess that our performance of 4% absence is a long way from our targeted performance, and then we may wish to investigate best practice initiatives to assist in reaching the desired target. In this case, the best practice investigation will include talking to organizations, which record optimum performance levels within the benchmark area. A key point is that the best practice investigation must be in an area where we have established a KPI to support our HR strategic plan. The best practice investigation may be within our own industry, or preferably, include other industry sectors.

We are not involved in best practice investigations in areas not strategic to us, nor are we investigating best practice unless there is a significant performance gap between our results and the benchmark target. By restricting our investigation to these two criteria, we minimize the prospect of engaging in industrial tourism under the guise of best practice. It is my belief that organizations must know their performance on the HR/people KPIs, which have been identified as supporting their HR strategy. Then they must set targets for these KPIs. Benchmarking plays a critical role in providing achievable but demanding targets for these HR/people key performance indicators.

In addition to setting targets for the key HR/people indicators, HR benchmarking can also play an important role in allowing organizations to monitor their performance on a wider range of benchmark measures. Organisations should continue to monitor their performance on a wide range of organizational and HR indicators. If their performance is outside the desired range, the organization should then assess how critical this is and whether this should be the catalyst to initiate any action, or if it is appropriate/acceptable to have performance out of range with best practice. Whichever decision is made, it is a more informed decision than that which would be made with no HR benchmark reference.

The most common form of HR benchmarking is only restricted to salary surveys principally because of two essential reasons;

- 1) The difficulty of finding standard and acceptable performance indicators
- 2) The reluctance of companies to divulge sensitive information about their employees retention, employee costs and so on
- 3) The fundamental belief that a personnel is a mysterious and complex art. As a result, only those who perform it can judge the full value of the work
- 4) Measuring the effectiveness of Human Resource Management is inappropriate as HRM is devoted to stimulating and supporting human happiness and development

Making Benchmarking Effective

If benchmarking is to make a difference in performance it has to move beyond a narrow focus on comparing figures to looking at the processes used by successful organizations. This does not however involve the 'industrial tourism' of current industrial mythology. In particular much more attention has to



be paid to cultural issues such as getting people to accept that there are better ways of doing things and see the need for change. This involves starting with something simple and showing early gains. Employers can introduce initiatives to improve staff 's quality of working life, or improve efficiency by changing working practices.

Prescriptions for Action

HR managers should consider carefully the following factors when establishing a system for determining the effectiveness of their activities or departments:

- 1) It is important to recognize that the underlying purpose of a performance management system is change and organizational change of any type requires the active support, preferably involvement, of the topmost management. At a minimum, HR managers should have
 - a) A clear understanding of what the company's principal strategic objectives are
 - b) Which proposed or actual HR policies and practices contribute to their achievement.
 - c) The measures that are or will be linked to these HR policies or practices.
- 2) Change programs require clarity of purpose and a good measure of initial momentum in order to achieve success. It is therefore advantageous to focus initial efforts on those HR practices, which can be affected by individuals who will be subject to the measurement system. The least desirable course of action is to install monitoring activities that cannot be influenced by the persons involved. By this token, corporate training and development should not allocate costs to divisional managers if these individuals have no control over training and development activities in their units.
- 3) The performance management's measurement systems should be robust. The principle of **triangulation** i.e. the use of multiple measures to bring a target issue or event under control also permits managers to gain a broader sense of the HR practices that contribute to company's goals, since the likelihood is greater that one measure among the set will relate effectively to their issues and concern.
- 4) HR managers can avoid the measurement trap by monitoring key performance indicators, and only key performance indicators. The measurement trap springs shut when HR managers are busily occupied monitoring sundry measures, which have little impact in the organization. An open questioning, even dissenting work culture should be encouraged which challenges the last best idea set forth.
- 5) Line managers need to be actively involved when developing and monitoring and HR performance measurement system. One of the great pitfalls of HR performance measurement system is opened when HR managers begin argue that their HR actions are undiscussable so long as their performance targets are met. For HR managers to have real impact in the organization, dialogue about the meaning and relevance of programs, activities and measures must remain open. The dialogue can be enforced through the use of a cross-functional team, which monitors the system and ensures that relevant measures are being used and understood.
- 6) Communication is the sine qua non of effective change efforts. HR managers should be prepared to regularly communicate, with a proactive attitude, the purpose of specifics to performance management system to all involved employees, and be prepared to clarify repeatedly the measures in use
- 7) Analyze the data regularly, at a rate compatible with their impact on decision-making, and draw appropriate conclusions by comparing the key performance indicators over time. These comparisons may be made between business units, and/or against predetermined targets. Current benchmarking efforts assess the HR performance of business units against comparable units within the same industry, or against units and organizations that are considered best in class.
- 8) Finally, the measurement should be flexible if a particular indicator fails to achieve business goals, or if the costs of collecting and analyzing data exceed the potential benefits of their use. The discipline needed to discontinue irrelevant performance measures should not be underestimated. The benefit of keeping the same measures for a period of time lies in the historical comparability thus afforded, and perhaps in the longitudinal evaluation of the impact anticipated by the HR practice.



How to develop an HR metrics program across functions

- Understanding your recruiting data
- Effectively benchmarking HR for continuous organizational improvement
- How to measure your HR service delivery and customer satisfaction
- deciphering your benchmarking results in order to make objective outsourcing & insourcing decisions
- Six Sigma for Human Resources
- How to put your data to use and develop a strategy from your benchmarking results

Measuring & Benchmarking HR Functions & Processes provides a unique and highly targeted opportunity for a select group of companies to get their services and products in front of senior level HR decision-makers. This is not a tradeshow and therefore exhibits and sponsor opportunities are limited to a small and exclusive group of companies. As a forward thinking professional, you know that having a clear strategy for measuring and managing internal services is the key to the overall success of your organization. Consistent benchmarking and metric evaluations must be done regularly to ensure that each function of your HR unit is performing to its

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