

Benchmarking as a Tool of Performance Audit

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Introduction

One of the key challenges in designing and executing Performance Audits is development of appropriate Audit criteria. This challenge is getting more pronounced as government operations across the world are becoming more complex and intricate, with introduction of myriad projects of unique and complicated nature. Take for example, the Social Safety Net programs initiated by several governments, involving unconditional or conditional cash transfers, often based on simple criteria, amounting to billions of dollars to millions of beneficiaries, at regular periodic intervals. The peculiar character and unique nature of such programs due to diverse ground situation in each country, makes it very difficult for Performance Auditors to develop a standardized criteria to comprehensively evaluate such Programs. In this backdrop, Benchmarking, basically an Operations Management tool and technique developed in the private sector, can be used in certain circumstances as an effective tool to assist in designing and executing meaningful Performance Audits.

This paper traces the genesis of the term 'Benchmarking', and the gradual evolution of the concept as a Management tool and technique in the business world. The paper reviews some characteristics and forms of Benchmarking which make it a useful tool to assist in a very different domain, Performance Auditing. The paper describes the generic steps involved in Benchmarking, and discusses in detail the three levels or dimensions of Benchmarking in the context of Performance Auditing; i.e., Broad

Comparisons, Performance Benchmarking and the Process Benchmarking. The paper concludes with a brief note of caution, about certain aspects which need to be carefully weighed before using Benchmarking as a tool of Performance Audit.

What is Benchmarking?

The term benchmark originated in the field of surveying. Before recent technological advances, surveyors used to dig out or chisel a horizontal mark in a permanent structure such as a wall, building or rock, where a tool could be placed in the indentation to help create a benchmark with a level rod, helping them and other users to have a point of reference for building. Thus, the Benchmark was a distinguishable mark placed on a wall, building or rock that was used as a reference point to determine elevation and position in topography surveys. In businesses today, companies use a benchmark in much the same way, as a point of reference. However, instead of having physical Benchmarks carved in stone, businesses use Benchmark reports as a way to compare them selves to others in the industry.

Companies use Benchmarking for comparing key metrics to other businesses in the industry. This allows companies to see how well they are performing as compared to other Industry players, identify any performance deficiencies and find out ways they can become more competitive in the industry. Thus, in corporate parlance, Benchmarking is the practice of a business comparing key metrics of their operations to other similar companies. Benchmarking can be done across all types of organizations, including private,

public, nonprofit, and for-profit, as well as industries e.g., technology, medical care, education, and manufacturing. By looking at how other companies are doing, they can identify areas where they are underperforming, and identify ways they can improve their own operations without having to re-invent the wheel.

Benchmark and Benchmarking

Benchmarking is a process for obtaining a measure – a Benchmark. Simply stated, Benchmarks are the “what,” and Benchmarking is the “how.” However, as we shall see, Benchmarking is not a quick or simple process or tool. It is not just a matter of making inquiries about another organization or touring and documenting another company's facilities or processes.

Forms of Benchmarking

There are several forms of Benchmarking, however, these can be classified into three broad categories; Internal, Competitive and Strategic.

Internal benchmarking is used when an Organization already has established and proven best practices, and they want to replicate these across the entire Organization. Internal Benchmarking may also become necessary if comparable industries are not readily available.

Competitive Benchmarking is used when an Organization wants to evaluate its position within its Industry, typically, when the Organization needs to identify industry leadership performance targets.

Strategic Benchmarking is used for identifying and analyzing world-class performance. This form of Benchmarking is usually done when an Organizations exploring the possibility of venturing outside of its own Industry.

Using Benchmarking in Performance Auditing

One way of looking at Benchmarking can be as the search to find and implement good practices. In fact, one common type of Benchmarking is Mapping of Best Practices, where Organizations look at other companies that they aspire to be like, to identify things that they are doing right. By choosing Organizations at the leading edge of the industry, they can identify best practices that help improve their own Organization. The aim of Benchmarking is to determine through comparisons or good practice elsewhere, whether there is scope for doing things better. Benchmarking can help identify opportunities to improve efficiency and cut down expenses. Reviewing Organizations that carry out functions similar to the entity being Audited, can also provide useful clues about how the performance can be improved, or highlight the areas the Auditors should examine further. In this context, Benchmarking can help as a diagnostic tool in Performance Audit.

Generally, organizations seek to carry out their functions and deliver their services in the most economic, efficient and effective manner. Benchmarking is a tool which helps them in doing this, by using an internal or external comparable Organization to evaluate how the Organization is doing things or performing. The primary objective of this analysis is to identify gaps in performance and suggest measures for improvement by addressing these performance gaps. Due to its very nature, Benchmarking can be used in certain circumstances as an effective tool of Performance Audit or Value for Money (VFM) studies. Used appropriately, Benchmarking can make an important contribution to Performance Audit.

Generic Benchmarking Process

As already noted above, Benchmarking can assume several forms, and be undertaken in

numerous ways, depending, inter-alia, upon the size, nature, complexity and business process of the Audited entity, as well as the human resource, technical expertise and resource availability in the Audit office. The following is a list of generic, vital steps involved in benchmarking. These steps should be tailored based on peculiar circumstances of the Entity, Program or Project being audited:

1. **Determining the Benchmark Focus** - During this phase, the Auditor should determine the specifics of the Benchmarking exercise, e.g., which organizations, or which components of same organization in case of Internal Benchmarking, will be included in the comparative study and what types of metrics will be compared.
2. **Planning and Research** - During this phase, the Auditor puts the resources together to implement the Benchmarking exercise, e.g., develop surveys, seek assistance from other comparable entities, and identify available literature and databases relevant to the exercise.
3. **Gathering Data** - During this phase, the data is collected through the methodology determined in the Planning and Research phase.
4. **Analysis** - After gathering the data, the Auditor uses statistical techniques to evaluate available information and generate main findings.
5. **Recommendations** - After analyzing the data and areas where the Organization can improve, recommendations are developed.
6. **Implementation and Follow-up** - The Auditor monitors Organization's implementation of agreed recommendations, and provides feedback, where required.

Different Dimensions of Benchmarking

For the purpose of Performance Audit, Benchmarking can be used to evaluate performance of Public Sector Organizations,

Programs or Projects at three distinct levels or dimensions:-

1. Broad Comparisons
2. Performance Benchmarking
3. Process Benchmarking

These three important dimensions of benchmarking are discussed in some detail in the following paragraphs.

Broad Comparisons

Involve broad or generalized comparisons of a Public Sector Organization's overall approach and/or operational policies with those of another organization either in public or private sectors, nationally or internationally, having the same functions or carrying out similar activities. More specifically, these may include comparisons of different organizational structures, strategies such as procurement or human resources etc., operational policies, or different approaches to manage a particular problem or delivering services etc. The primary objective of such comparative analysis is to learn from others' experience and ideas, with a view to identifying important lessons or good practices.

Performance Benchmarking

Performance Benchmarking can be done by using quantitative indicators to compare performance of a Public Sector Organization, Project or Program with a similar organization or activity. A range of measures and indicators can be used to compare performance of organizations, such as productivity levels, per unit cost, efficiency, quality or extent of resource utilization. Performance Benchmarking can be used as a tool of Performance Audit to promote accountability or to identify means to improve performance of the organization being audited. To summarize, Performance Benchmarking can be used to highlight important differences in performance, examining why they exist, and spurring poor performers to meet the standards of the best.

Process Benchmarking

Process Benchmarking involves the systemic analysis and comparison of an Organization's processes and procedures with another similar organization. The comparison may include aspects such as management systems, operational procedures, administrative processes etc. Unlike Performance Benchmarking which relies on comparison of quantitative indicators, Process Benchmarking usually involves comparison of both quantitative as well as qualitative indicators. Process Benchmarking can be done either externally, by comparing one organization with another similar organization, or internally, by comparing processes and procedures of different operational units or sub-offices of the same organization with each other.

While Performance Benchmarking gives an idea about where an organization is in relation to others, it usually cannot identify the reasons of performance deficiency, if any, or how the performance may be improved. Process Benchmarking has the tools to evaluate the performance gaps revealed by the quantitative performance data. Through a comparison of organizations' systems, processes and procedures in some detail, involving both quantitative and qualitative data, Process Benchmarking can assist in identifying where they differ, to explore the reasons for these differences, and to consider the implications in terms of outcomes, cost incurred, revenue collected and overall performance.

Process Benchmarking is time consuming and expensive exercise. However, in certain conditions, and when used appropriately, it can add significant value to Performance Audits, as it has the potential for highlighting how processes can be improved. There are seven basic steps involved in Process Benchmarking; Prepare plan in terms of what is to be benchmarked, consult the organization being audited, map key functions and processes, identify Benchmarking partners,

collect and analyze data and information, determine the performance gap and develop recommendations for improving performance.

Conclusion

Benchmarking is a powerful tool that, when applied properly, provides an Organization with invaluable insights to support the achievement of its objectives. Benchmarking can assume different forms in different situations, however, it typically involves identifying relevant and reliable comparable organizations, and collecting information in a systemic manner to make appropriate, meaningful comparisons. A typical Benchmarking methodology consists of five phases: plan, collect, analyze, adapt and review. Benchmarking is a managerial tool, which can be used effectively in Performance Auditing, to diagnose Performance deficiencies, identify their causes and suggest measures for improving Performance.

However, like other Performance Audit tools and techniques, a Benchmarking exercise should be under-taken after carefully considering various aspects, such as the value that it will add to the Performance Audit Report, the costs involved, and availability of sufficient resources with the Audit team. In view of resource constraint, it is important to determine the scope of Benchmarking exercise very carefully. Large multi-organizational or multi-departmental studies should be avoided. Performance Audit benchmarking studies should preferably focus on few selected areas of a single department within the Organization. Lastly and most importantly, Benchmarking should be under-taken after active consultation, agreement and commitment of the Organization being audited, as well as the Comparison Organization(s). This is critical not only for the smooth conduct of Benchmarking exercise which largely depends upon management's inputs and feedback, but will also ensure the requisite buy-in and commitment required to accept Audit findings and implement

recommendations based on, inter-alia, the Benchmarking exercise as part of the Performance Audit.

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