CHAPTER 3

Need for Benchmarking of HR Activity
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NEED FOR BENCHMARKING

OF HR ACTIVITY

This chapter analyses the concept, need, process, areas, and advantages of HR benchmarking. It also discusses the factors determining success of HR benchmarking.

The main aim of this chapter is assessment of the need to apply benchmarking technique in the field of Human Resource Management. The benchmarking technique is commonly applied in technical areas of a business organisation and is popularly used by Research and Development Department, Advertising and Sales Promotion Department, Product Design and Development Section, and also, to some extent, by Human Resource Department.

In today's knowledge-based industries, every individual is self-motivated and competent. To manage these knowledge-workers, HR departments are expected to be proficient in skills related to people. While line managers now spend a huge chunk of their time on issues
related to HR by participating in recruitment and selection, performance appraisal, staff development, and so on, the HR manager is expected to be the facilitator, coach, integrator, and the one who empowers employees. The HR managers have become advisers, policy coordinators, and the ones who maintain the overview, monitor the results of HRM policies, and act as internal consultants, whenever necessary.

The task of HRM is to work as a partner with the rest of the functions in the organisation to help employees achieve their objectives. Today's HR managers search for methods and approaches to increase the effectiveness of their organisations. However, the only way to claim credibility about this is to achieve tangible results and outcomes that can increase revenue and profits of the organisation. This requires mastering theory, doing research, and applying best practices in selection, development, performance appraisal, rewards, assessment, and other HR functions relating to employees. The decision-making has to be based on logical reasoning; the HR managers are also expected to make informed decisions about how to invest in HR Activity.

For years, the success of HR work was measured by the number of activities carried out. However, the outcome of an activity is more
important than the activity itself. Therefore, now, the HR managers have
to focus on results more than on actions. By creating a stimulating
workplace culture, the HR managers are expected to become the
architects of learning organisations that ensure sustained capability and
increased intellectual capital. The onus is on the HRM to introduce
innovative cultural practices that will ensure positive outcomes. It is
often argued that HRM can attract and retain talent in any organisation.
HR managers also acknowledge this fact and believe that it is the
greatest wealth they can bring in. Organisations rely on their HR
managers for the best methods and approaches for recruiting and
retaining the best employees.

However, for HR managers to be the authorities on organisational
effectiveness, their own departments have to show measurable results.
The HR departments are facing the following challenges and, hence, are
finding it difficult to prove their worth in the organisation:

- To present HR programme as an investment rather than a cost to the
  organisation;

- To identify HR processes that make a positive impact on the
  performance of the organisation;
• To assess the efficiency of existing HR policies and procedures;
• To demonstrate the gains that can be measured from good HRM practices;
• To reveal the economic consequences of the behaviour of employees, such as, absenteeism, and to ascertain trends in employees' behaviour over a period of time; and,
• To identify problem areas within the organisation.

Now, the utility of the benchmarking technique in overcoming the above-mentioned challenges is discussed in the following section.

According to Mr. Jac Fitz-Enz, the success of a human resource function in an organisation is dependent upon three abilities:

• Being able to do one's own job well, it is not enough just to meet the standards;
• Being able to excel in the right areas, the focus must be on issues that make a difference; and,
• Being able to measure the performance and use the measurements strategically and persuasively to get the desired outcome.

The quality of the individual employee's performance makes a major contribution to the overall quality of the output in the organisation. It is
essential that the system support the individual performer and remove the barriers to high quality work. Therefore, the measures of the quality to be applied to HR Activity have become popular. A well-constructed performance management tool definitely provides valuable information about the performance related and developmental needs of the employees. Research has also identified a range of HR capabilities required for the success of any organisation, and models are also developed for benchmarking these capabilities.  

The measurement of HR Activity is becoming popular because of the fact that the identification and measurement of HR procedures and practices are easy. The measurement techniques most frequently used for HR Activity include HR audits, attitudinal surveys, and informal feedback from users. The measures dealing with different aspects of HR, such as, the time taken to fill a position, the percentage of incorrect payments, the time taken to process leave forms, etc., are often obtained through HR audit or are generated automatically from well-structured personnel and payroll systems. Less visible measures related to such factors as the quality of selected employees, and efficiency of the HR
section are best assessed through some form of survey or informal discussions with users.

If HR management is ever to be taken seriously as a major contributor to the successful performance of an organisation, it needs to adopt a strategic focus and to link the measures with the overall aims of the organisation. A range of workforce measures, such as, statistical ratios, can be used over a period of time to assess the quality of the workforce. These measures can be used for internal comparisons as well as for highlighting trends related to workforce measures. In some cases, it is also possible to select a number of indices to make comparisons with other organisations.

In brief, for HR managers to be the authorities on organisational effectiveness, continuous evaluation and re-evaluation of their contribution to the productivity of the organisation are essential, and, accordingly, they have to keep themselves ready for the change.

The following measurement techniques are most frequently used to measure the HR Activity:
• **Activity-Based Measurement**

With activity-based measurements, primarily the level of activity determines the value of an HR department. For instance, figures such as the number of employees completing training, and the number of employees hired are frequently cited as evidence of providing value to the organisation. Of course, this presumes that a particular HR activity inherently adds to the value. Therefore, where training the employees is believed to enhance the productivity of them, the supposed contribution of the HR department is greater when more training is imparted.

• **HR-Costing-Based Measurement**

In HR-costing-based measurements, the costs of HR functions are measured and tracked. HR costing has been useful in showing the management that the services it receives for the overheads charged for HR department, and, thus, helps in justifying the budgetary provision made for carrying out HR Activity. In organisations that use HR-costing-based measurements, the value of HR Activity improves when the ways are found to reduce costs and to improve transactional efficiency.
• **Benchmarking**

This has become a popular method for valuation of HR practices. Benchmarking is a process of evaluating a particular service, product, or process that is considered the *Best*. This is done for improving the performance of the organisation. Simply stated, it is a practice of one’s not just being humble enough to admit that someone else is better at something, but it is of being wise enough to learn how to match, or even to surpass, that someone else at it. In benchmarking, HR departments determine their costs, work-loads, and practices to compare them with those of the other organisations or with the standards that are determined by a survey of similar organisations. HR managers in the organisations that are committed to benchmarking often generate periodical reports showing costs and activity levels as compared to local or national norms or both. When benchmarked data are the criteria for excellence, the HR department assesses its own value to the business by demonstrating improvement in performance.
In benchmarking, activities as well as their costs are considered; as a result, it renders the benefits of both activity-based and costing-based measurement techniques.

A detailed explanation of HR benchmarking technique is given in the following section.

3.1 Nature of HR Benchmarking

Benchmarking provides a framework for comparing performance on a range of HR indices both internally within an organisation and externally with other organisations. However, benchmarking is not merely establishing quantitative performance goals; it is just the first step. HR benchmarking goes further and identifies the best performing practice(s) that can be studied and perhaps be improved further.

HR Benchmarking is the process of comparing HR practices and levels of performance between HR Departments to gain new insights and to identify opportunities for improvement. This analysis allows companies to review their performance vis-à-vis that of their best competitors. Human resource benchmarking not only identifies but also dramatically improves very important practices and processes in Human Resource
Management to meet the high level of customer satisfaction demanded by the business.

3.2 Advantages of HR Benchmarking

The advantages of HR benchmarking lie in the following four areas:

- It provides important information because it quantifies gaps in the performance and reveals best-in-the-class practice;
- It provides motivation since it demonstrates what can be achieved, which serves as a motivating factor;
- It creates opportunities for innovation since the new ways of working can be devised by comparing current processes; and,
- It leads to a focused action on the most important process(s) because of comparison amongst several processes.

3.3 HR Benchmarking Subjects

Within Human resource, one can use benchmarking to address several types of issues. For example, it is helpful in quality improvement, in defining critical areas, in the building up of a new HR department, in implementing new HR information system, in effecting new training plan for staff, and in executing cost reduction schemes.
3.4 Types of HR Benchmarking

The objects of benchmarking can be products, functions, or processes. In case of HR Activity, the objects of benchmarking can be its different functions, processes, and practices.

Benchmarking of the HR Activity often means simply comparing the size, form, and scope of the HR department against those of different types of organisations. The common key indicators used for comparison can be the number of full-time staff members in HR departments per 100 employees or the number of full-time staff involved in different processes within the HR Activity, such as, recruitment, or training. In benchmarking process, an attempt is made to identify and implement some of the best practices in HR department for improving its performance.

It is desirable that the HR department prepares itself for the benchmarking process by analysing its own functions and processes. It has to document its present practices along with the detailed procedures followed. This document will also list the plus points and drawbacks found in the implementation of each practice. Such a document is very
useful for comparing the performance of HR department with that of the benchmarking partner.

The following are different types of benchmarking applied to HR Activity:

3.4.1 Vertical and Horizontal Benchmarking

In HR benchmarking, if the focus of comparison is on functions of HR department as a unit of a business organisation, it is called vertical benchmarking, and, if the focus is on specific HR processes, it is called horizontal benchmarking.

3.4.2 Internal and External Benchmarking

Internal benchmarking is easy to implement and is generally used as a starting point for the sake of uniformity.

Internal benchmarking of HR Activity is a comparison of one’s own HR Activity with the activities of any other section, department, or division within the same organisation, or with the HR Activity of an associated company under the same management. Another form of internal benchmarking involves tracking data over a specific period. For example, collecting and analysing the data relating to employee turnover
or employee attitudes over a designated period may show some trends. These trends will then provide a means to gauge progress, make continuous improvement, plan new programmes, and implement strategic initiatives.

External benchmarking requires a comparison with other companies. These companies may be direct competitors, non-competitors within the same industry, or companies from other industries. A comparison with the companies within the same industry that are not direct competitors, due to either regional or market segmentation, is preferable to that with the companies from other industries, because in the former case it is easier to get the required data and still the levels of comparability are quite high. However, sometimes it is also possible to learn, and adopt solutions that exist in other industrial sectors. For example, the practices of companies within the retail or distribution sectors may benefit all other companies that wish to develop their capability in customer relations.

3.4.3 Best Practices and Process Benchmarking

Best practices benchmarking can be described as the process of seeking and studying the best internal and external practices that induce superior
performance. This type of benchmarking initiative helps the companies in comparing their practices with those of the others, in identifying gaps in the performance, in discovering successful tactics applied for better performance, and in defining the strategies for bridging gaps in the performance. The successful execution of this type of benchmarking leads to superior performance and it also enhances competitiveness. One measures this performance through various financial and non-financial indicators. Best practices benchmarking includes the study of the statistical benchmarks. One can also apply it at many levels of the organisation and in many different contexts. The Human Resource Management can accelerate its own rate of improvement by systematically studying others and by comparing its own operations and performance with the best and most effective practices of highly innovative and successful organisations. The search for best practices quickly draws the benchmarking organisation outside the confines of its own culture. Best practices benchmarking is, therefore, a pragmatic approach to managing change and improving performance.

The process benchmarking focuses on improving specific processes in order to achieve excellent performance. The benchmarking project
teams conduct process benchmarking. The focus of process benchmarking is on discrete work processes and operating systems. It tries to identify the most effective operating processes from other organisations that perform similar work or render similar services. These processes are not industry specific standards. Process benchmarking produces results that are seen immediately in revamped performance, in increased productivity, in lowered costs, in better sales, with the end result of improved financial performance.

The first step in process benchmarking is to identify a process, or a series of interconnected processes, to be studied. Next, a benchmarking partner with superior performance relating to the process being benchmarked is identified. Then the high performance process of the benchmarking partner is studied. In this way, the performance gap is established and the factors and elements that have led to the superior performance are understood. On this basis, improvement plans are drawn up and implemented. Process benchmarking helps the organisation find innovative solutions and offers a means of applying them to the business. When correctly applied, it fosters a learning culture, where there is sharing of knowledge and continuous striving for
greater understanding. Process benchmarking can also be used to achieve better performance in back-office functions within the organisation that are not directly under competitive pressure.

Some of the benefits of process benchmarking are new or improved processes with shorter lead-time, standardisation of activities, development of communication skills, enhanced process orientation, and teamwork.

3.5 HR Benchmarking Process

Based upon the Xerox experience, Mr. Robert Camp developed a model, which one could modify and adapt to suit any functional area, including HR Management. He broke the process of benchmarking into 10 steps, which progresses through 4 phases. A pictorial representation of it is given on the next page.
BENCHMARKING PROCESS WITH DETAILED ACTION PLAN

1. Identify what is to be benchmarked
2. Identify comparative companies
3. Determine data collection method & collect data
4. Determine current performance levels
5. Project future performance levels
6. Communicate benchmarking findings & gain acceptance
7. Establish functional goals
8. Develop action plans
9. Implement specific actions and monitor progress
10. Recalibrate benchmarks

(Source: *The Journal of Business Strategy*, Volume 12, published by Department of the Premier and Cabinet Government of Western Australia)

3.6 Designing a Benchmark

For deciding what to Benchmark one has to link benchmarking efforts with the strategic plan and goals of the organisation. To start with, one has to identify benchmarking opportunities by focusing on specific, targeted issues, and measures, and, then, one has to determine what internal information to gather. Evolving a benchmark involves a four-
step process. These four steps, namely, planning, research, analysis, and implementation are discussed below.

**Step One: Planning**

The first phase of benchmarking involves planning. In the planning process, an integrated review of human resource processes is done in order to find out whether or not they have been successful. The only way of doing this is to document, measure, and analyse the available data. Generally, this is an audit of human resource functions, such as, selection and placement, training and development, compensation, benefits, employee relations, health, and safety. Some typical measures of HR practices may include employee turnover, absenteeism, accidents, and employee attitudes. It is in the best interest of an organisation to undertake periodic audits of HR functions in order to judge their effectiveness. A thorough audit is examining HR Activity and its impact across three levels, namely, impact on day-to-day operations, mid-term impact, and impact on implementation of strategic initiatives. An audit of only one of these three levels will provide a limited review. Linking HR Activity to strategic plan of the organisation requires not only smooth running of the day-to-day operations but also identifying
changes to be made in the current processes in the next few years in order to render them best for implementation of strategic plan. The challenge before the HR management is to identify and meet needs of these three levels. It has to find the strengths and limitations of its present policies, practices, and procedures from the available data relating to HR Activity. It has also to conduct interviews of the other departmental heads for getting their ideas on current and desired human resource practices. Then alone is it possible to identify the gaps between existing and desired HR practices. Lastly, it has also to identify how the strategic plan is going to affect the functioning of the other departments in general and of the HR department in particular.

**Step Two: Research**

The research process begins with the identification of the sources of information. The sources available for collecting information are: academic and business oriented libraries, internet and on-line services, networking sources, professional associations, publications of universities, customers and suppliers, internal and external experts, trade publications, research publications, reports of surveys, consortiums, consulting agencies, trade associations, chambers of commerce, award
winning companies, etc. The data collected must be meaningful and useful. Generally, reliable and good sources of information, to begin with, are universities, colleges, and business-oriented libraries.

The second step in the research process is to network with colleagues through professional and trade associations, chambers of commerce, etc.

The third and final step in the research process is to collect the data directly from the benchmarking partner. The International Benchmarking Clearinghouse of the American Productivity and Quality Centre has prepared a code of conduct to be followed while conducting the study of best practices. This Code of Conduct (See Appendix 2.4) offers advice on how to engage in the studies of the best practices ethically and effectively.

**Step Three: Analysis**

At the third step of benchmarking process, an analysis of the data collected in the second step will be done in order to arrive at common findings and to suggest improvements for filling up the gaps in the performance. After identifying the best practice, the causes of the gaps in one’s own performance will become known. Then, the quantifiable and qualitative data will be separated. Considering the culture of
organisation under benchmarking study, necessary modifications have to be made while carrying out the comparisons in the measurements. Now, recommendations, and suggestions for action plan have to be developed. The action plans must include a specified period for its implementation and must also fix the accountability of it.

**Step Four: Implementation**

At this stage, one has to present the findings, establish the goals, implement the specific changes, and monitor the progress. In order to ensure the continuous improvement, it is necessary to redefine benchmarks as a part of continuous improvement process and to implement the changes. For the HR department to be able to add to the value of the organisation, it must be willing to act.

Benchmarking is the key to develop clearly defined measures of competence and performance of Human Resource Management. Numbers lend credibility to the Human Resource Activity. Data support comparisons, and provide a means to gauge progress. However, like many other management techniques, it is easier said than done. Some of the obstacles in HR benchmarking include:
• Lack of a co-ordinated framework, from which a benchmarking process could be developed;

• Want of common understanding of HR performance indices, which can limit the usefulness of external comparisons; and

• Difficulties in finding out what others are doing.
**Stages in Benchmarking-Designing Process**

**Planning Stage**
- Linking Benchmarking Efforts to the Organisation's Strategic Plan
- Tapping Sources of Information
- Identifying Opportunities for Benchmarking
- Focus on Specific Issues and Targets

**Research Stage**
- Identifying Sources of Data Collection
- Data Collection

**Analysis Stage**
- Analysis of Data Collected
- Action Plan for Improvement

**Implementation Stage**
- Implementation of Action Plan and Monitoring
- Redefining Benchmarks
3.7 Present State of HR Benchmarking

After discussing the process of HR Benchmarking in details, it is proper to review the actual situation in industrial sector as regards HR Benchmarking. The need of HR benchmarking is widely felt across the world. It is a very popular topic of research, discussions, seminars, and conferences. The most commonly used type of benchmarking is third-party benchmarking for identification of best practices. A large number of institutions, organisations, and consultancy agencies are engaged in the HR Benchmarking process. They undertake benchmarking projects for different types of companies and organisations ranging from multinationals to non-profit organisations, and institutions like universities. These benchmarking agencies collect and compile the data for benchmarking systematically on a very large scale. They define benchmarks for the member organisations based on the analysis of these data and publish reports of the benchmarking projects regularly.

In India, management and other academic institutions, and a few companies, have undertaken benchmarking projects. As on today, neither these institutions nor the professional bodies in HR field are undertaking benchmarking of HR Activity on a formal and systematic
basis regularly; because there is inadequacy of infrastructure and other resources required for undertaking any benchmarking project and also the Human Resource Management in Indian corporate sector is facing major challenges due to the opening-up of the economy and technological revolution.

However, in the recent past, numerous international symposia have been organised in India, which have brought awareness about the best practices applied in the field of Human Resource Management. Three Indian companies, namely, TVS Motors, Sundaram Brakes, and Indian Rayon have bagged the international Deming Award for total quality management. National HRD Network and the Confederation of Indian Industry (CII) are also giving HRD Awards for outstanding HR practices.

The case studies undertaken by Mr. T. V. Rao relating to HR practices and organisational performance of the award winning companies have shown positive linkage between good HR practices and organisational effectiveness. With the help of the available data, it was possible for him to conclude that these organisations had done well in spite of many odds including the turbulent business environment in India immediately after
Globalisation. This indicates that excellent performers in the Indian corporate sector are adopting excellent HR practices. Good HR practices enhance internal capabilities of an organisation to deal with current or future challenges, build commitment, energise people, and motivate them.

The next chapter deals with a detailed review of some of the reports of HR benchmarking projects.

References:


