

Everything you need to know about HR benchmarking

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Benchmarking is a technique that uses quantitative or qualitative data to make comparisons between different organizations or different sections of organizations. It is typically treated as a continuous process in which organizations periodically measure, challenge, and improve their practices. HR benchmarking is a process that is used to compare similar characteristics across organizations to identify milestones. Benchmarking for specifically HR purposes involves looking at the policies and practices of one organization, then comparing and contrasting those with another similar organization. A benchmarking approach should focus on best practices or the things organizations are doing that consistently lead to successful results.

For an understanding of best practices to be obtained, benchmarking activities must be planned strategically with particular goals in mind. By identifying in advance the types of patterns and data they are seeking, HR professionals can then create a benchmarking system that is more reliable and valuable. By measuring areas such as recruitment and retention, reward and performance management, and showing how these compare with other companies, the function has tangible metrics to demonstrate its performance to the board. A recent report, *Measuring Human Capital*, by Personnel Today and Deloitte & Touche, found that more than 45 percent of respondents use some form of benchmarking to measure human capital.

Internal Benchmarking

Most organizations monitor their own performance to identify changes in key business activities over time. This may mean looking at the performance of the organization as a whole or comparing the performance of different individual teams or business units with each other. Performance monitoring is a continuous process. Those with an interest in an organization's business (shareholder, analyst, management, etc.) will wish to compare results over time to reveal trends in business performance. This is the only way to discern whether performance is in line with expectations. Management will be interested in far more than overall organizational performance. The manager will assess the performance of individual activities involved not just a business unit. Part of this process will involve regular analysis of performance against target e.g. financial performance budget, sales, and production achievement against the target.

External Benchmarking

This involves comparing performance with that of other organizations. Most organizations will wish to assess their own performance relative to the industry norm. They could do this with reference to industry averages or the time performance of the best performing organization.

How to conduct benchmarking exercise

It is crucial to follow the following steps when conducting any benchmarking

1. Identify what is to be benchmarked.

The involvement of top management and human resources in this particular step is crucial. They must decide which processes are critical to the success of the company.

1. Identify comparable companies.

Some companies, such as direct competitors, will not be available as places to gather certain types of benchmark data. Several organizations should be selected for the study. Information on their processes should be gathered from various sources and the most suitable organization selected. It is always important to ensure that more detailed information about the selected organization will be accessible and that comparison with the organization's process will be relevant and useful

1. Determine data collection methods and collect data.

Many times the information on processes and procedures followed at another company is confidential, and it is not always easy to gather authentic information, even after making a planned and approved visit at another organization. The preparation for collecting necessary information has to be planned in such a way that either one visit or a proper authentic data collection source can provide all the details, within a reasonable period.

1. Determine current performance levels.

There is a need to look at the current performance levels in their HR aspects and compared them with their expected performance levels.

1. Project future performance levels.

1. Communicate benchmark results and gain acceptance.

1. Establish functional goals.

The goals are established by ensuring that the following questions have all been answered.

- Do the project team's members have both analytical skills as well as creativity and innovation?
- Has a gap analysis been done between the performance of the company process and the benchmarked organization's process (look for effectiveness, efficiency, and responsiveness)?
- Have the performance gaps in the company's process as compared to the benchmarked process been identified and analyzed?
- Have the reasons for better performance been brainstormed?
- Have the process definition documents for both companies been compared?
- After comparing the descriptive process documents, have the flowcharts of the two processes

been compared and analyzed?

- Have the work processes at benchmarked organizations been studied and compared with the company's processes? Have they been observed at the operator level?
- Has the impact of the differences in work practices been fully studied?
- Does the team have proposals for making changes in the processes?
- Has the team been able to develop an improved process?
- Have senior management and/or interested parties in the organization been convinced by the project team that the superior benchmarked process should be adopted by the team company?
- Has the revised process been tried to ensure the adaptability?
- Have the successes of the revised process been documented properly for any horizontal deployment or to replicate it in other processes?
- To get senior management's commitment, have the improvements been converted to financial gains?
- Has the cost-benefit analysis been conducted on the proposed revision of the process?
- Has the team proposed new performance goals, which can be attained with the revised process?
- Has senior management confirmed its knowledge and agreement about all of the above?

1. Develop action plans.

After the improved process is accepted by all concerned or likely to be affected by it, a detailed action plan is drawn with all key activities taken as inputs. The detailed action plan should carry the important things like a timeline, individuals responsible for carrying out the tasks, any short-fall in the completion of tasks, and what stretch targets are taken to compensate the short-falls. Those responsible should be committed enough to ensure that the tasks and assignments are completed on time.

1. Implement action plans and monitor progress.

While those who must complete assignments on the schedule have a responsibility, so does senior management. They must be committed enough to ensure proper coordination of various activities, monitor the progress of implementation of the plan, and work as a barrier-remover in the implementation process. When the revised process is in place, a complete report has to be prepared, showing the benefits of the revised process compared with the expectations at the time of approval of the proposed revision of the process.

1. Recalibrate benchmarks.

While carrying out the total activities, a mechanism or a system has to be built in to review the performance of the improved process periodically to ensure that the benefits are retained. The process has to be a continuous one and should move at a constant speed and should never be neglected.

Benefits of Benchmarking

HR benchmarking can provide some useful and quite powerful information. When looking at similar organizations, a lot can be determined through benchmarking comparisons. HR pros can see where gaps

exist within certain practices. Which policies are working well and which may be causing problems can also be identified. As can issues within such areas as hiring, training, and promotion. Specific issues such as sick time, retention, and discipline can be examined separately. This is helpful when attempting to identify patterns for future use.

Once a business knows its strengths and weaknesses compared to other companies in the industry, they can start developing strategies to improve their future performance levels. HR benchmarking can help companies attract high-quality candidates by defining what makes a great potential hire and what type of compensation and benefits packages these employees typically look for when applying for jobs.

HR benchmarking is not just useful for recruiting new employees to your company but also for retaining the staff that you already have. While you may have talented employees who work for you now, it is important to take the necessary steps so that they choose to stay long-term. Failure to do this could result in your skilled employees looking elsewhere for better opportunities. Through HR benchmarking, you can determine how your compensation package and benefits program aligns with similar companies in your industry and where you can improve or cut back.

The benchmarking process can help businesses pinpoint problems that may be causing a high turnover rate. While management within your company may be complete now, it is important to prepare early on for the next generation of management. This means training employees who have showed leadership skills to potentially take on these larger roles in the future. The benchmarking process can help you determine how long it will take to prepare these workers and how long before succession occurs. HR benchmarking can help you determine where your business stands in terms of work culture compared to other companies. You do not necessarily need to try and one-up your competition by offering your employees bigger and better perks, but it is crucial to listen to your workers and create a workplace environment that is advantageous to its workers.

Best Practices in Benchmarking

Best practices in benchmarking revolve around identifying a particular strategy. HR Professionals must determine what it is they wish to learn before undergoing any data collection. Otherwise, they will likely waste time and resources obtaining information that proves to be useless. It's also important to ensure comparisons are being made between very similar variables. For example, it isn't very worthwhile to compare the salaries of a large corporation that's been in business for decades with those of a small startup. While the purpose of benchmarking is to identify best practices within HR, it's also necessary that best practices within the field of benchmarking be utilized to gain the most success.

HR benchmarking is extremely important. When information on HR performance has been gathered, it must be compared to a standard, which is a model or measure against which something is compared to determine its performance level. For example, it is meaningless to know that organizational turnover rate is 75% if the turnover rates at comparable organizations are unknown. HR benchmarking compares specific measures of performance against data on those measures in other "best practices" organizations. HR professionals interested in benchmarking try to locate organizations that do certain activities particularly well and thus become the "benchmarks." HR Benchmarking is useful for the following

reasons:

- An organisation can identify how its HR practices compare with the best practices.
- It helps organisations learn what type of HR practices work and they can be successfully implemented.
- They provide a basis for reviewing existing HR practices and developing new practices.
- They also help managers to establish a strategy and set priorities for HR practices.

Some of the common benchmarked performance measures in HR management are:

- Total compensation as a percentage of net income before taxes
- Percent of management positions filled internally
- Sales per employee
- Benefits as a percentage of payroll cost

Important things to take note of when HR Benchmarking

1. Interpreting Benchmarking Data

As HR professionals work with benchmarking data, they should realize that the business strategy, organizational culture, leadership behaviors, and industry pressures are just a few of the many factors that drive various human capital measures. For example, an industry that generally hires unskilled labor, such as manufacturing, may have a lower cost per hire than a high-tech industry that hires specialized knowledge workers. This is because organizations in high-tech industries may need to spend more to locate qualified staff and to relocate out-of-town candidates.

Absolute measures are not meaningful in isolation; they should be compared with one or more measures to determine whether a satisfactory level exists. Other measures, for example, might be the organization's past results in this area or comparisons based on organizational size, industry, or geographic location.

1. Understand the significance of deviations

A deviation between your figure (for any human capital measure) and the comparative figure is not necessarily favorable or unfavorable; it is merely an indication that additional analyses may be needed. Human capital measures that relate more closely to the context of the organization's industry, revenue size, geographic location, and the number of employees are more descriptive and meaningful than generic information, such as all industries combined. The larger the discrepancy between the organization's figure and the comparative figure, the greater the need for additional scrutiny.

1. Identify trends

If HR professionals determine that potentially serious deviations do exist, they may want to calculate the same human capital measure for their organization over the past several years to identify any trends.

1. Use benchmarks as a tool, not as a rule

When comparing benchmarking data, the information should be used as a tool for decision-making rather than as an absolute standard. Because organizations differ in their overall business strategy, location, size, and other factors, any two companies can be well managed, yet some of their human capital measures may differ greatly. No decision should be based *solely* on the results of any one study.

Conclusion

Benchmarking is rapidly becoming an indispensable tool for HR professionals. It is a mechanism for measuring processes, practices, and results against the competition to improve performance. If it is used wisely, it can transform an organization's HR and people management strategies by showing how human capital practices influence the organization's performance. One of the biggest advantages of HR benchmarking is the extent of improvements the organization makes by learning from the processes of others. Benchmarking also uncovers new ways of improving a company's own processes by motivating actions learned from studying and experiencing those organizations with best-in-class processes.

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