

Benchmarking

Definition:

The process by which a set of standards is developed in order to compare actual results against pre-determined measures.

Benefits:

You can only effectively manage what you can measure. By developing standards by which you can measure performance, analyses can be performed and conclusions drawn in order to develop action plans for improvements and enhancements to fuel operational performance and drive increased profitability.

Process:

- Prepare a diagnostic of current company ratios for the past five years.
- Research and obtain available industry data.
- Analyze data and compare industry data to company performance.
- Identify company strengths and weaknesses.
- Establish a goal to maintain and improve strengths and goals to improve areas of weakness.
- Develop action plans with specific tasks and assignments in order to facilitate change management and ensure goal attainment.
- Periodically measure actual results to specific goals and evaluate variances and modify plans.
- Formalize measurement process too regularly monitor and measure performance to benchmarks and performance standards.

Case Example:

A client with an excellent management team continuously had very good company performance. Operations were well run and the financial position of the company was strong. The company had a strong history of profitability. With respect to measuring the company's performance they really had no idea how they compared within their industry. Our assurance services engagement team researched the industry and found several key benchmarks and ratios (broken down into high, medium, and low) that the company should be measuring their performance against. The engagement team computed several key performance ratios for the company and compared the results to the industry data (benchmarks). The end result was that the company was actually performing poorly in four of the measures, average in five of the measures, and excellent in one of the measures. This opened management's eyes to the fact that their company was actually a below average performing company when compared to relevant industry data. As a result, the management team re-focused their attention to the correct detail in order to improve the performance of the company and ensure continued success and prosperity.