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Innovation & Quality for Higher Competitiveness of Companies

Introduction

A business is set up with specific objectives and then numerous activities are performed on a day-to-day basis to achieve the predefined business objectives. These objectives are different for different departments / processes and so are the activities that are performed. For example, the objective of the Accounts Payable (AP) department is to ensure accurate and timely payment to the suppliers which means neither paying too early before the due date as it will result in the loss of interest and nor paying too late as it will result in the late payment penalties and dissatisfaction to the suppliers. Timely payment also involves availing early payment discounts where discount availed exceeds the loss of interest due to early payment. To achieve this objective, Accounts Payable department performs various day-to-day activities like invoice processing, vendor reconciliation, chasing suppliers for missing invoices, follow-up on invoices on holds, vendor query resolution, etc. Sometimes, these activities are managed internally or sometimes these activities are outsourced to a service provider. A service provider is an entity which specializes in managing business processes on behalf of the client organization. Generally, a service provider serves multiple clients across different industries. A service provider can add value to the client business by benchmarking client business activities against the leading industry practices thereby giving access to world class capabilities to the client. Benchmarking client business activities against the leading industry practices is known as Operation Benchmarking.
**Operations Benchmarking**

To achieve their slated business objectives, clients across different industry verticals use various approaches and hence have different processes. A third party service provider often engages with multiple clients for similar processes or for the same client across multiple geographies and/or product groups. Operation benchmarking helps to identify the most efficient way to operate processes among many alternatives. Operation benchmarking drives process optimization by comparing different activities, performed for different clients, across industries. Operation Benchmarking not only compares the activities, but it also compares the efficiency or automation level of the activity performed and its importance to the business. Operation Benchmarking focuses on resource optimization by making changes in the process design. The outcome of the Operation Benchmarking can result in the following changes:

- **Policy Changes due to:**
  - Lack of standard policies across different geographies of the same client
  - Lack of sufficient policies such as no policy on vendor deactivations resulting in the unmanageable number of active vendors
- **Process Changes due to:**
  - Non-Value Added activities such as manual trackers maintained where system reports can be generated
  - Inefficient activities like entering travel expense data manually in the mainframe system in place of automating using macros
- **Technology Changes due to:**
  - Lack of automation such as raising queries through the emails in place of raising queries within the ERP workflow
  - Lack of integration of the scanning workflow with the ERP

All of the above changes identified through the Operation Benchmarking (by comparing client process with the Best in Comparison) helps in making the process more efficient and robust. Below is a snapshot of Operation Benchmarking:

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**Steps in Operations Benchmarking**

**Benchmark client activities against the industry leading practices**

The first step of Operation benchmarking is to list down all the activities required to perform the process in as much details as possible. The details of the activity includes type of activity performed, how is it performed, extent of automation and its importance to the business. This list is
then compared with the activities of the “Best-in-Comparison” process having similar process objectives.

This exercise helps in the identification of the following activities:

<table>
<thead>
<tr>
<th>Irrelevant Activities</th>
<th>Inefficient Activities</th>
<th>Gap Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does not Impact Business Objective (e.g. Updating excel tracker, Validating signature on invoice without knowing approval matrix)</td>
<td>Impacts achievement of Business Objective (e.g. Automate manual data entry in Mainframe, Cancel check online at 0 cost instead of Stop payment at $15 per check)</td>
<td>Required to achieve Business Objective (e.g. Split report, Using ‘R-Block’ to increase STP rate for exception invoices)</td>
</tr>
<tr>
<td>Action Required</td>
<td>Action Required</td>
<td>Action Required</td>
</tr>
<tr>
<td>Remove these activities</td>
<td>Replicate Best Practices</td>
<td>Add these activities</td>
</tr>
</tbody>
</table>

The next step of the Operation Benchmarking is to calculate the current process efficiency score to assess the quantum of the gap between the client process design and the “Best-in-comparison” process design.

**Calculate process efficiency score and propose design changes**

The second step of activity benchmarking is to assess the efficiency of the existing process and propose process design changes to increase the process efficiency. Process efficiency score is calculated as explained below:

1. **Activity Score (1, 0, NA):**
   - Rate 1: If activity is performed by client and benchmark
   - Rate 0: If activity is benchmark and not being performed by client or activity is not benchmark but being performed by client
   - Rate NA: If activity is specific to the business

2. **Efficiency Level:**
   - Rate 1: If activity performed by the client is Low on Efficiency / Manual process
   - Rate 3: If activity performed by the client is Medium Efficient / Semi-Automated
   - Rate 9: If activity performed by the client is Highly Efficient / Automated

3. **Business Importance:**
   - Rate 1: If activity performed has Low Impact on the process
   - Rate 3: If activity performed has Medium Impact on the process
   - Rate 9: If activity performed has High Impact on the process

4. **Activity Efficiency Score:** Activity Efficiency is a product of Activity Score, Efficiency Level Score and Business Importance Score

5. **Possible Efficiency Score:** Possible Efficiency is product of Best-in-comparison Efficiency Level (always 9) and Business Importance Score.

6. **Process Efficiency Score:** Process Efficiency Score is ratios of Total Activity Efficiency Score and Total Possible Efficiency Score.
Following is a snapshot of an example of Process Efficiency Scorecard.

Process: Accounts Payable

<table>
<thead>
<tr>
<th>Process</th>
<th>Objective</th>
<th>Client (SAP System)</th>
<th>Best in comparison</th>
<th>Activity Score (a)</th>
<th>Efficiency (b)</th>
<th>Importance (c)</th>
<th>Activity Score (d=a<em>b</em>c)</th>
<th>Possible Score (e=5*d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP</td>
<td>Invoice Indexing</td>
<td>Client has outsourced scanning and indexing</td>
<td>OCR used for indexing</td>
<td>NA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AP</td>
<td>Invoice Entry</td>
<td>Fields entered at the time of indexing are entered again at the time of invoice entry</td>
<td>Fields Populated in AP workflow automatically based on indexing</td>
<td>1</td>
<td>3</td>
<td>9</td>
<td>27</td>
<td>81</td>
</tr>
<tr>
<td>AP</td>
<td>Invoice Validation</td>
<td>Manual validation</td>
<td>PO Based - if all the details matches, then it gets autoposted and doesn’t appear in the workflow.</td>
<td>1</td>
<td>3</td>
<td>9</td>
<td>27</td>
<td>81</td>
</tr>
<tr>
<td>AP</td>
<td>Invoice Parking</td>
<td>VA Activity not performed</td>
<td>Invoices with GR missing are posted with R-Block</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>27</td>
</tr>
<tr>
<td>AP</td>
<td>Mode of raising queries</td>
<td>Queries are raised through emails and approvals also taken through emails</td>
<td>Queries are raised within SAP system and exceptions approval taken within SAP system except where scanned image is not clear.</td>
<td>1</td>
<td>3</td>
<td>9</td>
<td>27</td>
<td>81</td>
</tr>
<tr>
<td>AP</td>
<td>Changes in PO Terms</td>
<td>Team has excel tracker where 8-10 vendor names are updated with new pay terms and cleared when payments are made on existing PO’s.</td>
<td>NVA Activity performed by Client: Payment terms are considered only based on master data in SAP system</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>27</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Efficiency Score</td>
<td>81</td>
<td>27%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process Design Improvement Opportunity</td>
<td>73%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the above Operation Benchmarking Scorecard, necessary improvement opportunities are identified to improve the process design in line with the Best in comparison process. Operation Benchmarking provides a structured approach to assess the process efficiency, identifying process gaps and improving the processes.

**Conclusion**

Operation Benchmarking leads to process design changes by adding new activities, modifying existing activities and removing inefficient activities. Operation Benchmarking can help in realizing the following business benefits:

- Identification of irrelevant activities having no impact on the achievement of the business objectives
- Delivery of the process activities in more efficient way
- Identification of the control gaps in the process
- End-to-end visibility of the process activities
- Opportunities for process improvements
- Increased reliability and trust in the activities performed
- Improved client and end customer satisfaction
Appendix

About the Author

Rajesh Sehgal is a process excellence leader at Wipro. He has been with Wipro for over nine years and has played a leading role in transforming the role of the quality function from process compliance to value creation. He is a certified Master Black Belt and assessor for Malcolm Baldrige framework. He has represented and received awards and recognition at National and International Platforms (Global Six Sigma Business Improvement Award). His thought leadership papers have been published and shared at forums like Nasscom and ANQ. Rajesh is a mechanical engineer with an MBA in International Business from IIFT New Delhi.

Gopal Aggarwal specializes in Business Process Reengineering for the Finance & Accounting processes. He has over a decade’s experience in the areas of Accounting, Transition, Quality and Business Process Reengineering in Global Fortune 100 organizations. By qualification, he is a Chartered Accountant (CA) and holds a Post Graduate Diploma in Management. He is a certified Black-belt from Oracle Corporation and BMG Consulting. Additionally, he is a certified Trainer for Six Sigma Awareness. In his tenure, Gopal has derived various process improvement initiatives using Lean, Six Sigma, Standardization, and Process Benchmarking methodologies for numerous F&A processes globally.
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