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OPERATIONAL BENCHMARKING DRIVING BUSINESS EFFICIENCY

Delivering best in class performance by targeting world class benchmarks and making processes more efficient and effective.

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In a competitive business environment, organizations are mainly looking at two things: revenue enhancement and cost reduction. These two factors together define winning businesses. Organizations take different approaches to achieve these two goals. This paper discusses the importance of operational benchmarking in helping organizations improve efficiencies and reduce costs.

Introduction

An organization's vision and mission statements act as the guiding principles to envision the long term goals and achieve the short term goals of the organization. The day-to-day activities are modeled along those principles to achieve the business objectives. Various departments across the organization performing different functions work together, to achieve the overall vision of the organization. Though the different departments work towards a common goal, they have individual objectives to achieve. For example, Accounts Payable department has to ensure timely payments to all vendors and suppliers. IT Department has to ensure that all the systems and in house solutions are operating in perfect order. The manufacturing department has to take care of the manufacturing schedules and inventory etc.

Benchmarking as a practice helps an organization get a comparative view of these functions across the organization as well as across industries and identify gaps in performance. Benchmarking is important whether these activities are performed in house or outsourced to service providers. A service provider benchmarking its operations adds value to the clients' business by proactively highlighting improvement areas and best practices.

However, benchmarking is a very dynamic process as the measures and metrics involved change frequently depending on industry performance. In a competitive business landscape it is important to stay abreast with the latest trends in benchmarking to ensure that all organizational processes adhere to industry best practices. Process upgrades usually result in large cost savings for the organization and also lead to a more streamlined approach ensuring maximum quality.

Operational Benchmarking

Operational benchmarking helps organizations achieve their slated business objectives using the best in industry practices across verticals to optimize their operations. It drives process optimization by comparing different activities, performed for different clients, across industries. It also compares the efficiency or automation level of the activity performed and consequently its importance to the business. The benchmarking focuses on resource optimization by making changes in the process design.

Operational Benchmarking can result in several changes across the organization. They include:

Policy Changes: Lack of certain policies can be a high cost and effort situation. For example:

- Lack of standard policies across different geographies of the same client can lead to confusions in inter-office activities and transactions
- Lack of a policy on vendor deactivations can result in an unmanageable number of active vendors

If the benchmarking activities identify such gaps in the existing policies of the organization then corrective actions can be taken and appropriate policy created or modified.

Process Changes: Non-value added activities such as manual trackers maintained where system reports can be generated; entering travel expense data manually in the mainframe system in place of automating using macros etc. drive down the efficiency of an organization. Such processes, identified through benchmarking can then be upgraded to match the best in class available at that point in time.

Technology Changes: There maybe a lack of automation such as raising queries through the emails in place of raising queries within the ERP workflow, or lack of integration of the scanning workflow with the ERP. These outdated systems cause delays and errors costing time and effort to resolve issues, not to mention the resource cost. Benchmarking identifies the best practices in automation across industries and the same can be implemented by the organization to drive efficiencies.

How to Benchmark Your Operations?

Operational benchmarking involves identifying the best practices in the industry and then comparing them with the current practices in the company and making recommendations for change. This is a two step process.

Benchmark activities against the industry best practices

In the first step, a detailed description of the organization's processes is listed out. The details include the type of activity performed, how is it performed, extent of automation and its importance to the business. These lists are then benchmarked against the best practices in the industry. This is known as the "Best-in-Comparison" process.

The process helps identify:

Irrelevant Activities	Inefficient Activities	Gap Activities
Does not impact Business Objective	Impacts achievement of Business Objective	Required to achieve Business Objective
(e.g. Updating excel tracker, Validating signature on invoice without knowing approval matrix)	(e.g. Automate manual data entry in Mainframe, Cancel check online at 0 cost instead of stop payment at $15 per check)	(e.g. Split report, Using 'R-Block' to increase STP rate for exception invoices)
Action Required	Action Required	Action Required
Remove these activities	**Replicable Best Practices**	**Add these activities**

Calculate process efficiency scores and propose design changes

The second step 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 below:

Activity Score (1, 0, NA):

- Rate 1: If activity is performed by the company and benchmark

- Rate 0: If activity is benchmark and not being performed by company or activity is not benchmark but being performed by company

- Rate NA: If activity is specific to the business

Efficiency Level (1,3,9):

- Rate 1: If activity performed by the company is Low on Efficiency / Manual pr ocess

- Rate 3: If activity performed by the company is Medium Efficient / Semi-Automated

- Rate 9: If activity performed by the company is Highly Efficient / Automated

Business Importance (1,3,9):

- 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

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

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

Process Efficiency Score: Process Efficiency Score is ratio of Total Activity Efficiency Score and Total Possible Efficiency Score.

An example of this scorecard for an Accounts Payable process is shown in Figure1.

Process	Objective	Client (SAP System)	Best in comparison	Activity Score (a)	Efficiency (b)	Importance (c)	Activity Score (d=a*b*c)	Possible score (e=9*c)
AP	Invoice Indexing	Client has outsourced scanning and indexing	OCR used for indexing	NA				
AP	Invoice Entry	Fields entered at the time of indexing are entered gain at the time of invoice entry.	Fields Populated in AP workflow automatically based on indexing	1	3	9	27	81
AP	Invoice Validation	Manual Validation	PO Based – If at all details matches, then it gets autoposted and doesn't appear in the workflow	1	3	9	27	81
AP	Invoice Parking	VA Activity not performed	Invoice with GR missing are posted with R- Block	0	0	3	0	27
AP	Mode of raising queries	Queries are raised through emails and approvals also taken through emails.	Queries are raised within SAP system and exceptions approval taken within SAP system except where scanned image is not clear	1	0	9	27	81
AP	Changes in PO Terms	Team has excel tracker where 8-10 vendor names and checked when payments are made on existing PO's.	NVA Activity Performed by Client. Payment terms data is considered only based on master data in SAP system.	0	1	3	0	27
Total							81	287
Process Efficiency Score							27%	
Process Design Improvement Opportunity							73%	

Figure 1: Process Efficiency Scorecard for Accounts Payable

The Business Case for Operational Benchmarking

Operational benchmarking provides a structured approach to assess process efficiency, identifying process gaps, and process improvement to an organization. Due to its various benefits, it is a trend followed by most large organizations across industries.

The benefits of operational benchmarking include:

Knowledge Enhancement - Benchmarking is an opportunity to learn from each other, maximizing gains, and creating efficiencies.

Clarity and Objectivity in decision making - Benchmarking provides clarity on relative performance in quantifiable terms. This makes management decision making easier based on facts and hard data and provides actionable results.

Process Improvement - Benchmarking identifies irrelevant activities that drain resources and control gaps in various processes for a company. It provides end-to-end visibility of process activities, and opportunities to make processes as efficient as possible.

Stakeholder satisfaction - Measuring the company against best-in-class and improving accordingly gives stakeholders a clear sign of the company's intent. It also helps a company to identify areas where stakeholders value competition more and focus more efforts in those areas.

Competition and Motivation - Comparing the company performance with competitors can help the organization stay competitive. It also defines a clear set of goals and objectives that help the employees stay motivated.

Conclusion

The BPO industry is facing challenges from changing market landscapes, emerging low cost competitors, and changing customer sensibilities with tighter budgets and more expectations from service providers. Service providers are being challenged to differentiate themselves through performance and pricing. In this scenario, BPO providers must drive standardization across their business to provide value to customers and enables enhanced control of business processes. A framework like 'Process Labs' can help them achieve this objective.

About the Authors

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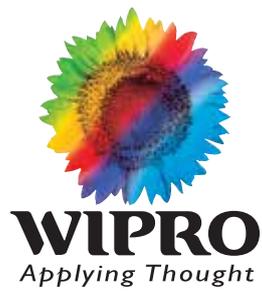
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