BENCHMARKING HR PRACTICES

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Abstract: *Today more than ever before, business is not just about making new products / process and selling them in the market. The definition has enhanced to such a huge level that it is essential to ensure the right quality and the right quantity. For the efficiency of an organization it is essential to possess the right type of human resources. It is equally important for an organization to have the right kind of HR practices. There is fierce competition among various MNCs as to prove themselves in the global market in all respects, be it the right product or the right people. Without a way to measure relevant indicators, the management is more often relying on educated guesswork. But, there is an alternative to good guessing: benchmarking - a strategic management tool that helps evaluate effectiveness and fosters goal-setting. Essentially, benchmarking provides a snapshot of the performance of your business and helps you understand where you are in relation to a particular standard. Benchmarking should not be considered a one-off exercise. To be effective, it must become an ongoing, integral part of an ongoing improvement process with the goal of keeping abreast of ever-improving best practice. Comprehensive human resources measurement policy enables the management to collect consistent information about the employees. It also aids the decision-making process and ensures that management and development activities remain relevant with overall business strategy. With a sound HR metrics program, HR management can make business decisions that are based on facts rather than "gut feeling", and use the exact figures to back up business cases and requests for resource. This paper aims at understanding the process of benchmarking, the types of benchmarking and the HR Metrics which can facilitate the process of benchmarking.*

Key words: *Benchmarking, HRM Practices, HR metrics, management tool*

1. Introduction:

Benchmarking is the process of identifying "best practice" in relation to both products and the processes by which those products are created and delivered. The search for "best practice" can take place both inside a particular industry, and also in other industries. The objective of benchmarking is to comprehend and appraise the current position of a business or organisation in relation to "best practice" and to identify areas and means of performance improvement as well as performance enhancement.

2. The Benchmarking Process

Benchmarking involves looking outward (outside a particular business, organisation, industry, region or country) to examine how others achieve their performance levels and to understand the processes they use. In this way benchmarking helps explain the processes behind excellent performance. When the lessons learnt from a benchmarking exercise are applied appropriately, they make possible improved performance in critical functions within an organisation or in key areas relevant to the business environment.

Application of benchmarking involves four key steps:

(1) Understanding the existing business processes in detail

(2) Analyse the business processes of others who are best in the industry

(3) Compare own business performance with that of others analysed

(4) Implement the steps necessary to close the performance gap

3. Types of Benchmarking

There are a number of different types of benchmarking, as summarised below:

Strategic Benchmarking: Where businesses need to improve overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. It involves considering high level aspects such as core competencies, developing new products and services

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and improving capabilities for dealing with changes in the external environment. Changes resulting from this type of benchmarking may be difficult to implement and take a long time to materialise. It is essential to re-align business strategies that have become inappropriate.

Performance or Competitive Benchmarking: Businesses consider their position in relation to performance characteristics of key products and services. Benchmarking partners are drawn from the same sector. This type of analysis is often undertaken through trade associations or third parties to protect confidentiality. It is essential to assess the relative level of performance in key areas or activities in comparison with others in the same sector and find ways to close gaps in performance

Process Benchmarking: Focuses on improving specific critical processes and operations. Benchmarking partners are sought from best practice organisations that perform similar work or deliver similar services. Process benchmarking invariably involves producing process maps to facilitate comparison and analysis. This type of benchmarking often results in short term benefits.

Functional Benchmarking: Businesses look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements. - Improving activities or services for which counterparts do not exist.

Internal Benchmarking: involves benchmarking businesses or operations from within the same organisation (e.g. business units in different countries). The main advantages of internal benchmarking is that access to sensitive data and information is easier; standardised data is often readily available; and, usually less time and resources are needed. There may be fewer barriers to implementation as practices may be relatively easy to transfer across the same organisation. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking. Several business units within the same organisation exemplify good practice and management want to spread this expertise quickly, throughout the organisation

External Benchmarking: involves analysing outside organisations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the "leading edge". This type of benchmarking can take up significant time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations. Where examples of good practices can be found in other organisations and there is a lack of good practices within internal business units International Benchmarking: Best practitioners are identified and analysed elsewhere in the world, perhaps because there are too few benchmarking partners within the same country to produce valid results. Globalisation and advances in information technology are increasing opportunities for international projects. However, these can take more time and resources to set up and implement and the results may need careful analysis due to national differences. Where the aim is to achieve world class status or simply because there are insufficient "national" businesses against which to benchmark.

Review of literature - Benchmarking

- The application of this concept to industry and service sector started in a noticeable way only in the mid 1980s. The contribution in the form of technical papers on general aspects of benchmarking was more during 1992 – 1995. This was due to the initial curiosity and interest generated by the topic. Often it is mentioned that benchmarking concepts were initiated during 1989, after Xerox popularised it. At this point it is important to note that attempts to use this concept were first made in the year 1983-1984 as indicated by Brisley (1983).
- In terms of its application in industry, Guilmetle and Carlene (1984) explored the utility of benchmarking in employee training whereas Lowis and Albert (1985) illustrate this concept as a viable tool for computer performance evaluation during 1985.
- Glanz E F et. al (1992), derives five principles of effective HRM and looks at how United technologies Corporation benchmarked HR services with respect to its internal customers
- The paper by Guimaraes and Langley (1994) speaks about the relationship between overall company innovativeness and company performance.
- Holt B (1994) presents a list of the quantitative measures used, linked with qualitative drivers such as organizational change, support to line managers, HRs aim to look after its employees and so on.

- The paper by O'Dell et. al (1999) mentions the applicability of benchmarking in analyzing how organizations seek to incorporate various knowledge management approaches into their business.
- IPMA HR (2006) conducted a benchmarking survey on recruitment and selection practices followed in public sector companies.
- Sameer Prasad, Jasmine Tata (2006), derived a prescriptive element which helps to benchmark countries to different information services as a function of their information globally, by taking advantage of the relative differences among countries.
- Ooi Keng Boon, Veeri Arumugam et. al (2007), revealed that teamwork, empowerment, rewards and recognition, and communication are positively associated with employees' job involvement within the context of the Malaysian semiconductor sector.
- NASSCOM, the chamber of commerce and "voice" of the IT software and services industry in India, today released findings of a survey conducted to identify 'Top 15 Exciting Emerging Companies to Work for' in IT-BPO sector in India. This is a first such survey by NASSCOM, and also the first of its kind across any industry by far, for the emerging companies segment specifically. The survey was conducted in partnership with Grow Talent, a strategic HR consultancy firm. They considered 5 practices such as training and development, Career management, constant effective communication, documentation and climate surveys.
- Faizul et. al (2008), have presented a paper on lessons learned from benchmarking experiences. Based on the French experience with the benchmarking process, the critical success factors in benchmarking were identified
- Kara D Rutowski (2009), have implied in their paper that benchmarking organizational commitment allows management to adjust practices to improve and retain employees.
- Many recent articles, books, and studies argue that HR needs to become a strategic partner (e.g., Jamrog & Overholt, 2004). Recent research suggests, however, that HR is not making much progress toward becoming a strategic partner despite the belief by HR professionals that it should (Lawler & Mohrman, 2003a: 2003b).
- With the growing importance of human capital in determining organizational effectiveness, HR can play a key role in developing and implementing corporate strategy and become a high-value-added part of organizations (Lawler, 2003). HR can play an important role in strategy development and implementation because of the importance of human capital. Generally HR is not considered a strategic partner because HR lacks the type of analytic and data-based decision-making capability which is required to influence business strategy. One of the reasons for this may well be because it lacks the right metrics and analytic models. In comparison to Finance and Marketing, for example, HR often falls short when it comes to providing metrics that assess HR processes and practices from a strategic perspective. It also lacks analytic models that show the relationship between HR practices and the effectiveness of the organization.
- A strong case can be made that HR needs to develop better metrics and analytics if it is ever to become a true strategic partner in most organizations. Lawler and Mohrman (2003b) identity the use of metrics as one of four characteristics that lead HR to become a strategic partner.
- Boudreau and Ramstad (2003) distinguish between providing more HR measures and providing better logic and analytics for making decisions about talent. Organizations can collect three different kinds of metrics in order to better understand and evaluate the impact of HR activities and to influence business strategy and business performance. They are efficiency, effectiveness, and impact (Boudreau & Ramstad, 2003).

4. Objectives:

- To understand the role of benchmarking in the HR processes
- To suggest the HR practices that can be benchmarked.
- To derive the HR metrics which could help in the assessment of human capital.

5. Evaluation of the HR Department:

The evaluation of HR Department can have four levels of perspective.

1. **Strategic Perspective** — the results of strategic initiatives managed by the HR group.

The strategic perspective focuses on the measurement of the effectiveness of major strategy-linked people goals. For instance, the business strategy calls for a major organizational change programs if the business is through a major restructuring or the post merger and acquisition situation. In this context, the organization's change management capability will be a key factor in the success or failure of its execution. Therefore, measuring the ability of the business to manage change effectively is the core measure of the effectiveness of HR and will be a key strategic contribution to the future success of the business. The examples here can be of the following types: -change management capability of the organization, organization compensation and benefit package with respect market rate, organization culture survey etc.

2. **Operational Perspective** — This perspective relates to the operational tasks at which HR must excel. The Balanced Scorecard provides answers to queries about the effectiveness and efficiency in running HR processes that are vital to the organization. Examples include measuring HR processes in terms of cost, quality and cycle time such as time to fill vacancies. Examples here include - time taken to fill vacancies, cost per recruitment promotions, absenteeism by job category, accident costs, accident safety, training cost per employee, training hours per employee, average employee tenure in the company, lost time due to injuries, no. of recruiting advertising programs, attrition rate and so on.

3. **Financial Perspective** — This perspective tries to answer questions relating to the financial measures that demonstrate how people and the HR function add value to the organization. This might include arriving at the value of the human assets and total people expenses for the company. Examples which are relevant here include compensation and benefits per employee, sales per employee, profit per employee, cost of injuries, HR expenses per employee and so on.

4. **Customer Perspective** — This focuses on the effectiveness of HR from the internal customer viewpoint. It helps in assessing the customers of HR satisfied with their service, are service level agreements met; do the customers think they can get better service elsewhere? Conducting an HR customer survey might typically arrive at this. The various issues which can be discussed here are employee perception of the HRM, employee perception of the company, as an employer, customer/market perception of the company, as an employer and so on

What is HR Metrics?

HR activity is generally expressed in qualitative terms and it was felt that there was a need to quantify the HR activities. Hence HR metrics provided a base or a foundation to bring in numbers into the gamut of HR activity. HR measurements have significant implications for all areas of the business performance. For example, employee attitudes and employee turnover metrics are reported to have a significant implication on the decision making process. HR functions often collect data on their efficiency, but not on the business impact of their programs and practices. This is a crucial point because HR organizations that collect effectiveness data are more likely to be strategic partners. If HR wants to play a strategic role in organizations it needs to develop its ability to measure how human capital decisions affect the business and how business decisions affect human capital.

Typically, HR metrics are classified in three key categories: historical, real-time and forward-looking. HR strategy should specify the starting point of business development in order to assess the motivation and future impact of the changes in the HR profile and general business structure. To evaluate the business development, the HR can either use its own historical data or benchmark its organization against other similarly sized businesses or utilize the best practices of other sectors which can be relevant to their own.

The table below gives some of the important HR Metrics and the relevant formulae:

Sl. No.	HR Metric	Formula	Description and its utility
1	Absence Rate	[No. of days absent in a month ÷Average no. of employees during a month × No. of working days] × 100	This metric helps in analysing the rate of absenteeism in the organization. It further helps in designing an appropriate attendance policy and implementing the same in organizations.
2	Cost per hire	Advertising fees + Agency fees* + Employee referrals cost* + Recruiters fees and travel expenses (Can include all the expenses borne on the candidate) ÷ No. of hires	This measurement can be used to calculate the average cost involved per hire. The analysis of this metric will help in determining how the recruitment cost can be reduced. It will help the HR department in designing a suitable recruitment policy.
3	Time required to fill a vacancy	Total no. of days taken to fill a vacancy ÷ No. hired.	This metric largely speaks about the efficiency of the recruiting function. It is also a process measurement
4	Vacancy Costs	Total No. of vacant positions today ÷ Total no. of positions as of today × 100	This metric gives the expenditure with respect to an vacancy which could occur in the organization due to various issues
5	Yield ratio	Percentage of applicants from a recruitment source who are eligible to attend the next step	Most of the times the brand name indicates the number of applicants. But most of times all the application may not satisfy an organizations requirement. Hence this ratio will help the organization in understanding the actual number of resumes which can be acceptable
6	Success Ratio	Percentage of the eligible applicants to the no. actually selected for a particular job	This number would indicate the number of successful applicants who are selected for the final placement
7	Training/development hours	Sum of total training hours ÷ Total No. of employees	This metric has been lucidly described by Snell and Bohlander in their book titled, Human Resource Mangement. This metric would help in analysing the average training hours.
8	Training investment	Total training cost ÷ No. of employees actually trained	This metric would help in analysing the training cost per employee.
9	Percent of performance goals met or exceeded	No. of performance goals met or exceeded ÷ total No. of performance goals	This metric would assist the performance appraisal process. It will also aid the MBO process.
10	Training (ROI)	Total benefit – Total costs	This metric is generally used by the organizations to understand the total gain from a particular training program. The costs will include both direct and indirect ones such as the trainer's fee, cost s incurred in developing the training module and so on. It would also help us in understanding the effectiveness of a training program

11	Turnover (annual)	No. of employees exiting the job during 12 month period ÷ Average actual No. of employees during the same period	This number would help the organization in largely understanding the attrition rate. If the number is on the higher side then the management can devise strategies to reduce the same.
12	Turnover costs	Total costs of separation + vacancy + replacement + training	This is the total cost to the organization when an individual exits.
13	Human capital ROI	Revenue – Operating expense ÷ Total No. of Full time employees (FTE)	Revenue here will mean the total earning of the organization and the operating expense will include the compensation paid to the employees. This figure will help the organization in evaluating the ROI on the human assets. It will also help the organization in optimising the expenditure with respect to HR practices such as re cruitment, selection, training and development.
14	Tenure	Average No. of years of service at the organization across all employees	The stability of the organization can ascertained with this metric.
15	Utilization percent	Total number of employees utilizing a program/ service / benefit ÷ Total number of employees eligible to utilize a program/ service /benefit	This metric can be used to assess the level of utilization with respect to a particular program or a service or a benefit. It can also be used to measure the effectiveness of welfare measures and other benefits given by the organization.

The above table can be an indicative of various practices of HR which can be easily benchmarked. Benchmarking would also be more relevant as the practices can be judged quantitatively more than the qualitative aspect. The metrics when compared would suggest the areas of improvement. The above metrics can largely assist the management in critical decision making activities. HR measurements have significant implications for all areas of the business performance.

By establishing the full extent of the costs involved, organizations will be able to define a break even point for a typical employee, representing the moment in time when they start to add net value to the organization rather than being a net cost. From a financial perspective, its research demonstrated that this point typically arises after around one year's salary has been spent. This breakdown provides a meaningful context for line managers to weigh up the implications of attrition in their department, reflecting the true cost of losing employees at different stages in their first year of employment. Over time, if it were broken down into job types (e.g. for senior managers or call centre employees) it would provide even more detailed insight at a local level. As such, it's a practical example of how HR metrics can be presented in a way that's meaningful for departmental managers.

The organizational leadership may benefit from periodical HR assessment if it employs HR methodology to identify the main areas of improvement in its human capital. For instance, tracking absenteeism can help increase productivity, or measuring diversity can help save a company from costly discrimination awards. Besides, HR data may be used in creating financial reports in order to link human resources measurements to investment return.

Organizations need employees to apply the knowledge they have to activities that add value to the company. In planning and applying human capital measures, managers should use both retrospective (lagging) and prospective (leading) indicators. Lagging indicators are those that tell the company what it has accomplished. Leading indicators are forecasts that help an organization see where it is headed. Leading indicators include employee learning and growth indices.On the whole, HR measurements transform human resources capabilities to measurable strategic value, which provides for better accessibility and readability of HR data, and improves HR interconnection with leadership across the organization.

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