



Organisation for Economic Co-operation and Development  
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## **International Benchmarking Experiences from OECD Countries**

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## 1. What is benchmarking?

Benchmarking is becoming a central instrument for improving the performance of the public sector. This development reflects that under the right conditions *comparison can be an important driver of performance*.

The Public Management Service (PUMA) of the OECD has monitored developments in public sector benchmarking. A number of papers on benchmarking have been prepared for PUMA<sup>1</sup> and the discussion in this paper reflects the experiences they present.

The basic idea behind benchmarking is simple:

- Find an organisation that is best at what your own organisation does;
- study how it achieves such results;
- make plans for improving your own performance;
- implement the plans; and
- monitor and evaluate the results.

In other words: *benchmarking is to identify and implement best practice*.

Although the basic ideas are simple, it may be more complex and challenging to put them into practice. Benchmarking should not be regarded as a “quick fix”. While knowledge of differences in performance may be an important incentive for improvements, planning and implementing improvements will still require a lot of efforts. Also, it is not sufficient to copy practices from other organisations. Best practices have to be evaluated and adjusted to the needs of the benchmarking organisation.

Benchmarking was developed in the private sector and its application may not be straightforward for public services. The competitive pressures for improvement are not the same. The objectives of the public sector are not defined by competition and consumers but through a democratic processes.

This has not prevented the OECD countries from using benchmarking to improve public sector performance. A recent study of Performance Management Practices in Ten OECD Countries, shows that nearly all countries have been using benchmarking for a number of years or are initiating benchmarking projects. Other OECD countries have also shown a considerable interest in benchmarking. The experience so far, indicates that if benchmarking is adopted to the needs of the

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<sup>1</sup> “*International benchmarking as a tool to improve public sector performance: A critical overview*” by Christopher Pollitt, Martin Cave and Richard Joss in OECD (1994), *Performance Measurement in Government: Issues and Illustrations*, Occasional Paper No. 5, 1994, OECD, Paris.

“*Performance measurement in telecoms*” by David Shand, Morten Arnberg, Alvaro Veloso and Tim Irwin in OECD (1994), *Performance Measurement in Government: Issues and Illustrations*, Occasional Paper No. 5, 1994, OECD, Paris.

“*Benchmarking in Public Sector Management*” by Sylvie Trosa and Suzanne Williams in OECD (1996), *Performance Management in Government: Contemporary Illustrations*, Occasional Paper No. 9, 1996, OECD, Paris.

“*Performance Benchmarking in the Public Sector: The United Kingdom Experience*” by Jeremy Cowper and Martin Samules (forthcoming 1997).

“*The Implementation of Benchmarking from a Swedish Perspective*” by Lars Dahlberg and Christian Isaksson (forthcoming 1997).

public sector it can be an important instrument for performance improvement. However, approaches are still developing and a number of issues need to be explored and further developed.

There is a growing interest in international benchmarking but there is considerable less experience in benchmarking organisations across countries than within countries. There are thus many issues in relation to international benchmarking that need to be further explored and developed. However, many general experiences are important in relation to international benchmarking. This paper explores objectives of benchmarking, main approaches and methods used, and some of the important success factors. Finally it discusses a number of issues that are important in relation to further development of international benchmarking.

## **2. Objectives**

The objectives for using benchmarking can of course be different between countries and organisations. There are still some basic objectives that many projects have in common:

- *Assess performance objectively.* It is difficult to assess and evaluate the performance of an organisation, even if it has been measured. Is a 70% satisfaction of customers good or bad performance? Is the measured cost per student in a primary school, high or low? Is the process for benefit payments in a social security office efficient or not? Benchmarking is an important instrument for comparing and evaluating performance in a more objective way.
- *Create sustained pressure for improvement.* The pressure for improved performance in the private sector comes mainly from competition. The lack of competition in the public sector can lead to limited pressure for improvement. Benchmarking is seen as creating pressure for improvement, alternative to market pressures. Information about the relative performance of an organisation can be an important incentive for improvement, and incentives can also be strengthened by providing more direct financial incentives.
- *Expose areas where improvement is needed and reveal underlying problems of an organisation or a group of organisations.* It can be difficult for managers and employees in a complex organisation to identify areas where improvement is necessary. Underlying problems in the organisation of a given service sector can also be revealed through benchmarking.
- *Identify superior processes* in order to adopt them and get better insight in to best practice. Organisations may tend to be conservative in relation to the processes used. Benchmarking can be used to compare existing processes with best practice, including private sector best practice.
- *Focus on the links between processes and results.* The links between individual processes and the overall performance of an organisation may not be very clear. Comparisons between organisations and especially between many organisations may help to identify links between processes and performance.
- *Test whether improvement has been successful.* This objective is important as monitoring of the implementation of improvements plans may often be a weak part of benchmarking and other improvement strategies.

## **3. Main approaches**

The OECD countries have used a number of different approaches to benchmarking. This reflects that benchmarking involves a wide range of instruments and can be linked to other improvement

instruments and strategies. In fact, benchmarking needs to be considered in relation to other tools for improving the quality of public services.

Benchmarking has been introduced into the public sector through two main strategies:

- *Top-down approach*, where benchmarking is imposed externally, usually by a central department such as a Ministry of Finance or other central management agency. Externally imposed benchmarking can be used by a ministry to set targets for an agency. In this case, benchmarking can be used instead of more direct control, by introducing competitive pressures on public organisations.
- *Bottom-up approach*, where individual organisations develop their own benchmarking projects and try to find relevant benchmarking partners. Central departments can support such initiatives by developing methods and helping organisations to achieve relevant expertise and find benchmarking partners.

Externally imposed benchmarking has a number of benefits compared to internally generated benchmarking:

- It secures participation and that experiences from many organisations are studied and shared. This is particularly important when a large number of organisations provide relatively homogeneous services.
- Ensures a better overview on the effects of different processes on performance and also on the effects of external factors on performance.
- Ensures standardisation of methods.
- Ensures links to the budget process and other relevant decision making. This is particularly important if benchmarking is to be used in relation to internal competition in the public sector.

Externally imposed benchmarking has also potential shortcomings compared to internally generated benchmarking, including:

- There may be a lack of ownership by the organisations and even direct resistance.
- Lack of detailed knowledge about the activities of the organisations may be a problem and externally imposed benchmarking may tend to oversimplify complex issues.
- There is also a risk that the results will only be used at the central level, rather than within individual organisations.

It is therefore necessary to use both approaches. For example, an externally imposed benchmarking focusing on results may give incentives for organisations to initiate more detailed process benchmarking involving fewer organisations.

#### **4. Benchmarking Methods**

Benchmarking as practised in the OECD countries encompasses a number of benchmarking methods. Methods can be different in respect to the following factors:

- What is benchmarked?
  - processes
  - results
- Against what is an organisation benchmarked?
  - other organisations

- standard
  
- How is benchmarking used?
  - for continuous improvement
  - for evaluation

When benchmarking was pioneered in the private sector (in companies like Xerox) the focus was on process benchmarking or micro benchmarking. Process benchmarking is the study and comparisons of the processes and activities that turn inputs into outputs.

It is also possible to benchmark the results of organisations more directly through results benchmarking or macro benchmarking. Results benchmarking compares actual performance of organisations using performance indicators or measures. Benchmarking and especially results benchmarking is closely related to performance measurement, and many practices and potential problems are common to these two methods. All benchmarking will involve performance measurement of some kind.

There is a close relationship between results and process benchmarking. Results benchmarking is necessary to identify the processes that need improvement. Process benchmarking improves the processes and contributes to better results.

Organisations can be benchmarked against other organisations or against a standard. Benchmarking against other organisations is an important source of learning and organisations are constantly challenged by developments in other organisations. However, benchmarking is not only copying, the interaction between organisations involved in benchmarking can be an important source for improvement.

Benchmarks that are identified in benchmarking of organisations can become a form of best practice standard. In fact, benchmarks are a form of standard, or have at least many elements in common with standards. Where as many standards used in the public sector are minimum standards or average standards, benchmarks are by definition best practice standards. Benchmarking against standards can be important aspect of benchmarking, as standards or quality models are in many cases based on best practices of many organisations.

Benchmarking against a standard can be an interim step towards benchmarking against other organisations. This is particularly important if many organisations benchmark themselves against the same standard. The organisations can then compare their score against other organisations and identify their weak and strong sides (or processes ) and consequently seek to reduce the weaknesses by benchmarking their processes against better scoring organisations.

As shown in figure 1, the selection of benchmarks will both depend on what is benchmarked and against what an organisation is benchmarked:

- *Best Practices* will typically be used in benchmarking processes against processes in other organisations.
- *Quality Models* will typically be used in benchmarking actual processes against processes as defined in a standard.
- *Performance Indicators* will typically be used in benchmarking results against results of other organisations
- *Performance Standards* will typically be used in benchmarking results against performance targets defined in a standard.

**Figure 1. Benchmarks used in different forms of benchmarking**

What is benchmarked?	Against what is an organisation benchmarked?	
	Other organisations	Standard
Process	Best Practices	Quality Models
Results	Performance Indicators	Performance Standards

Benchmarking can both be seen as a tool for evaluation and for continuous improvement. It is important to define if benchmarking is to be an on-off exercise or a continuous activity. Continuous improvement is important but benchmarking can be costly and time consuming so it can be more practical to use benchmarking for evaluation. The evaluation can be repeated on a regular basis to monitor if information gathered through benchmarking has been used to improve performance.

Benchmarking is related to a number of tools for improving performance. As shown in figure 2, the choice of methods that can be used in relation to benchmarking will depend on what is benchmarked and how benchmarking is used:

- Total Quality Management is used in process benchmarking aiming at continuous improvement.
- Re-engineering is used in process benchmarking aiming at evaluating and implementing on the basis of the evaluation.
- Detailed and continuous comparisons of performance measures and indicators is used in results benchmarking aiming at continuous improvement.
- Programme evaluation is used in results benchmarking aiming at evaluating the results of an organisation.

**Figure 2. Use of specific improvement instruments in relation to benchmarking**

What is benchmarked?	How is benchmarking used?	
	For continuous Improvement	For evaluation
Process	Total Quality Management	Re-engineering
Results	Performance Comparisons	Programme Evaluation

## 5. Success factors

A number of success factors in relation to benchmarking can be identified. Some of them are discussed here, but other factors may also be important.

It is important to organise the process of benchmarking in order to achieve good results. A typical benchmarking process will involve the following steps:

- Pressure for improvement
- Planning of study
- Understanding existing processes
- Selecting indicators
- Selecting benchmarking partners (or standard)
- Collecting and comparing data
- Relating process and results
- Planning and implementing improvements
- Monitoring and evaluating

Selection of performance measures or indicators is one of the most important step in benchmarking. Benchmarking will have limited benefits or even be damaging if the quality of the indicators is not satisfactory. One indicator is not sufficient, a whole suite of well balanced measures is necessary to give a complete picture of performance.

One important question is what types of performance measures can be used in relation to benchmarking. The use of process, output and service quality measures is common but it can be more difficult to use outcome measures.

Comparability of performance measures is an issue that needs to be addressed in most benchmarking projects regardless of what types of measures are used. Even relatively simple measures like unit costs of outputs may not be comparable between organisations if accounting methods are different. Comparability of outcome measures is also a difficult issue. Even if two organisations are providing the same services, different outcomes may depend on social and economic factors that the organisation has no control over. However, there are methods for improving comparability, such as standardising accounting methods, and using statistical analyses to take different external factors into account.

Linking results to processes is another important success factor. Performance measurement is not sufficient, it is necessary to understand the underlying processes, that explain different level of performance. This may be challenging as other external factors can also influence differences level of performance.

Selection of benchmarking partners is a vital step in benchmarking. It can be difficult to identify what organisations are comparable to your own organisation and also to identify which of them is in fact best-in-class. No organisation is likely to demonstrate best practice for all dimensions of performance, so if one partner is chosen it is important to focus on overall performance and not just on certain aspects.

Even when an ideal partner has been identified, it is not certain that the benchmarker will get access to information about the partner. Some information is likely to be confidential and the best performing organisation may want to keep its lead. In any case, it will have to put some efforts into making information available and explaining why it is doing so well. The benchmark organisation will have to get something out of the process. One potential answer to this is that no organisations is best at everything, and all exposure to external study may have benefits even for the best performing organisations.

External benchmarking does not necessarily have to be done with similar organisations. Functional benchmarking can be used to study an organisation whose prime mission is very different from that

of the benchmarker, but has some common function or processes that can be benchmarked. Functional benchmarking is particularly useful for those public organisations that are providing unique services and do not have any obvious benchmarking partner.

It is also possible, especially for larger organisations, to initiate an internal benchmarking. Internal benchmarking is often seen as a useful first step in benchmarking. Organisations with many divisions working on similar issues may get substantial benefits from benchmarking the divisions internally. In the public sector this approach is particularly important for organisations with many regional offices.

Benchmarking can be used in resource allocation decisions, for example to give an incentive to improve performance or to introduce internal competition. It is not simple to design incentives that have no dysfunctional effects. The measures used to assess performance have to be carefully selected to avoid that the competitive elements introduced have undesired effects.

## **6. International benchmarking**

There are already important developments in international benchmarking. Some areas of government have initiated or are preparing their own benchmarking efforts and various public utilities in Europe have been benchmarked. The OECD has for many years been active in comparisons that have at least elements of benchmarking. These include:

- Performance indicators for public telecommunications operators;
- International education indicators and performance standards in education;
- Health systems statistics;
- Many OECD country surveys have elements of benchmarking in relation to specific sectors.

The objectives of international benchmarking are similar to other benchmarking projects. However, since international benchmarking involves higher costs and more complexities than other benchmarking projects, it can only be justified by benefits that can not be achieved through other forms of benchmarking.

International benchmarking has a number of benefits that can not be achieved through other forms of benchmarking. Generally the interest in international benchmarking reflects growing globalisation and international interdependency. The development of the public sector in one country depends to an increasing extent on developments in other countries. International benchmarking is particularly useful:

- When an organisation is providing an unique service and there are no organisations within the country that it can be benchmarked against.
- In macro benchmarking of whole service delivery systems across countries.
- To assess the general level of performance of the public sector. Benchmarking across countries may reveal more differences in performance than if the comparison is only done within a country.
- To try to find innovative and alternative ways of providing a service or responding to a problem. Usually more divers methods will be found if organisations are compared across a number of countries.

International benchmarking involves more complexities than benchmarking within countries. The differences between the countries mean that information that needs to be used in benchmarking is often not directly comparable. These comparability problems are both technical and more fundamental. The technical problems should be solvable but the more fundamental comparability problems are more difficult to tackle. However, some of these differences should not necessarily be

seen as a problem. They can just as well be seen as the very substance of international benchmarking. Comparability issues include:

- *Cost information:* Methods for accounting costs may vary substantially between countries. Some countries report costs on cash basis while other report full accrual costs, including cost of capital. Another problem is that the costs of internal service in the public sector, may in some cases be allocated to the provider rather than the receiver. Funding practices may also be different, making it difficult to get information about the total cost of a given activity.
- *Different prices:* Prices between countries are variable. Cost information may therefore not be the best indicator of the relative performance of a given service.
- *Differing social systems and differing social roles of the same delivery systems:* The systems for providing services are different between countries, services may for example be provided at different levels of government, involvement of private and voluntary organisations may differ and the same or similar services can be provided by different service systems.
- *Different needs, conditions and expectations:* The need for a given service may vary between countries. Comparisons of quantity have to reflect those different needs. Conditions may be different. It is more expensive to provide service in rural areas than in cities. The rural areas may on the other side have fewer social problems than large cities. The expectations of customers may vary between countries and this may effect results in relation to many service quality measures.

International benchmarking can be initiated through a number of approaches:

- *Macro benchmarking of major service sectors.* Experience shows that it takes a lot of efforts to gather and organise information, and solve comparability problems.
- *Benchmarking of the same type of organisations in a limited number of countries.* There is a considerable interest for this type of benchmarking and practical difficulties should be solvable. However, the main work would have to be carried out by the organisations themselves.
- *Process benchmarking using a standard.* This is the type of benchmarking being discussed at this conference. The use of a process standard may reduce problems in relation to comparability. However, this also means that fewer problems will be exposed and tackled.
- *Partial benchmarking* focusing on one or few aspects of performance. This could for example involve benchmarking of consumer satisfaction levels between countries. One central problem would be how to take different expectations into account.

Any future international benchmarking projects should aim at exploring general issues and problems. They should be monitored and evaluated to make experience assessable and applicable to other projects. It is important to identify problems, both technical and more fundamental and develop methods for tackling them. This will lead to the development of best practice in relation to international benchmarking.