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## Benchmarking best practice in financial services

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# Benchmarking Best Practice in Financial Services



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## Executive summary

This report builds on the fact that there is a defined best practice process and that this process is not exclusive of exemplar organisations. Benchmarking partnerships or clubs help in organisational learning and knowledge creation by promoting access and transfer of different ways of doing things. Benchmarking is a method to achieve best practice driven by those organisations wishing to do something better, supported by technology, measured in credible frameworks and aimed at creating value through purposeful application.

This report will also show that benchmarking has become an indispensable practice to develop skills that allow effective search and internalisation of relevant information. Search and selection of relevant information is more important today than ever before as today there is an overwhelming amount of information available to managers. Although alert managers are constantly seeking new information, they often find that only few sources provide relevant information. Moreover, the report will show that benchmarking has become invaluable to reconcile the organisation with the fact that information that can help the decision making process is also available to direct and indirect competitors.

The organisation becomes more competitive when sources are carefully selected, data retrieved is interpreted and integrated into established processes and procedures. Information is thus relevant when data can be transformed to help the decision making process.

This report finds that organisations throughout the banking, insurance and brokerage sectors are pursuing benchmarking activities with different levels of intensity. While some are aggressively engaged in ways to redefine *best practice*, others are still devising plans to better compete. In *Benchmarking Best Practice in Financial Services* we use over twenty case studies (including a mini-survey of attitudes towards benchmarking) to look at practices of top organisations which have developed procedures to benchmark best practice across the banking, brokerage and insurance sectors. For each of case history, the report focused in a topic as shown in the table below and considering the following:

- **Internal.** A comparison among similar operations in an organisation looking for those processes and procedures that promise to improve performance (i.e. internal comparison) or which are responsible for making that organisation unique (i.e. managing knowledge).
- **Competitive.** A comparison with direct competitors looking for ‘best in class’ while protecting information that could potentially damage competitive advantage.
- **Functional/Industry.** A comparison of methods, similar processes or procedures in the same functional area (finance, sales, marketing, etc) between organisations which are not direct competitors.
- **Generic/Best Practice.** A comparison of work processes to others who have innovative, ‘world class’ process and procedures.

| Case Name<br>(alphabetical<br>order)      | Type of Benchmarking     |   |             |                          | Country/<br>Region |  |
|---|--------------------------|---|-------------|--------------------------|--------------------|--|
|   | Internal                 |   | Competitive | Functional /<br>Industry |                    | Generic<br>Process /<br>Best<br>Practice |
| Comparisons                               | Managing of<br>Knowledge |   |             |                          |                    |  |
| Abbey National                            | ★                        |   | ★           |                          |                    | UK                                       |
| American Express<br>(origins)             | ★                        | ★ |             |                          |                    | USA                                      |
| American Express<br>(present day)         |                          | ★ |             | ★                        |                    | USA                                      |
| Bank One                                  | ★                        | ★ |             |                          |                    | USA                                      |
| Banks and<br>Pharmaceuticals              |                          |   |             | ★                        | ★                  | Europe                                   |
| Best e-Banking<br>Practice                | ★                        |   | ★           |                          |                    | Europe                                   |
| Call Centres                              |                          |   |             | ★                        |                    | UK                                       |
| Call Centres                              |                          |   |             | ★                        | ★                  | USA                                      |
| Competitive<br>Benchmarking -<br>A Survey |                          |   | ★           |                          |                    | Europe                                   |
| Corporate<br>Executive Board<br>(The)     |                          |   | ★           | ★                        |                    | USA                                      |
| Databases and<br>Knowledge<br>Management  |                          | ★ |             |                          |                    | Ireland                                  |
| Enterprise Risk<br>Management             |                          |   |             | ★                        |                    | Canada                                   |

| Case Name<br>(alphabetical<br>order)           | Type of Benchmarking |                          |             |                          |  | Country/<br>Region |
|--|----------------------|--------------------------|-------------|--------------------------|--|--------------------|
|  | Internal             |                          | Competitive | Functional /<br>Industry | Generic<br>Process /<br>Best<br>Practice |                    |
|  | Comparisons          | Managing of<br>Knowledge |             |                          |  |                    |
| Ernst & Young's<br>Insurable Risk              |                      |                          | ★           |                          |  | North<br>America   |
| Finance Function<br>Processes                  |                      |                          |             | ★                        |  | UK                 |
| Fund Management                                |                      | ★                        | ★           |                          |  | UK                 |
| KPMG's<br>Mortgage<br>Portfolio                |                      |                          | ★           |                          |  | USA                |
| Mergers and<br>Acquisitions                    | ★                    | ★                        |             |                          |  | USA                |
| Morgan Stanley<br>Dean Witters                 |                      |                          | ★           | ★                        | ★  | USA                |
| On-line Surveys                                |                      |                          | ★           | ★                        |  | Common<br>Wealth   |
| Process<br>Benchmarking Ltd                    |                      |                          | ★           | ★                        |  | UK                 |
| Real Time<br>Benchmarking                      |                      | ★                        |             |                          |  | Europe             |
| Resource Audit<br>and Competency<br>Assessment | ★                    |                          |             |                          |  | North<br>America   |
| Retail Bank<br>Branch<br>Performance           | ★                    |                          |             |                          |  | USA                |
| Strategy<br>Development                        |                      | ★                        | ★           |                          |  | Central<br>America |

The reader of the report will find this management technique has become quite common amongst banking, insurance and brokering organisations. The reader will also find that throughout the report individual cases relate theory to practice while, at the same time, present the state of current practice and the challenges faced by those benchmarking best practice.

The report finds that there is great variety in what is termed benchmarking, much of which is simply setting performance measures without examining the underlying process. This as the report emphasises that a distinction should be made between results and process

benchmarking. The report then considers the appropriateness of benchmarking to various organisational contexts within financial services.

Cases documented in this report also suggest other interesting findings, which include:

|  |   |
|--|---|
| <i>Cross cultural differences</i>                        | Organisations rather than sectors seem to influence the decision to adopt organisation-wide initiatives (as opposed to manager-led initiatives).  |
| <i>Technological innovation and the Internet</i>         | New ways to share information in tandem with new delivery channels for financial services are rapidly changing goal posts. Organisations are thus challenged to develop a long term intent on how to tackle external changes. |
| <i>Mergers and acquisitions</i>                          | Benchmarking is growing in prominence to make the best of internal resources, capabilities and skills during an amalgamation.   |
| <i>Role of cross-industry (i.e. generic) comparisons</i> | To redefine service levels and meet more demanding expectations organisations are increasingly pressed to look for inspiration beyond the boundaries of financial services.   |

In brief, the reader of this report will find that it critically examines the nature and purpose of best practice benchmarking. Chapter one establishes *whether* and *why* in financial services there is an identifiable process for the creation, sourcing and transfer of best practice. Chapter two of the report further illustrates the methodology behind each of the five topic areas or types of benchmarking described above. Chapter three develops ideas around the role of information technology and the effects of technological change over the practice of comparing practices between organisations. Chapter four develops ideas behind process identification techniques to benchmark performance and the role of benchmarking forums to explain the increase in the rate at which best practice benchmarking has moved upwards in the organisational structure of financial service organisations. Chapter five evaluates why in some corners the enthusiasm for benchmarking has weakened. This is as benchmarking has been criticised while growing in prominence. This chapter finds that although benchmarking has been described as just another management fad its popularity is yet to diminish. Chapter six offers a summary and some learning points emerging from the research.