

Benchmark-One™ Series

Inadequacy of External v's Internal Bench marks for SME's

An athlete training for a race can compare training runs with times recorded by other athletes; these times represent an external benchmark.

The same athlete also compares times with previous personal performances; these times represent an internal benchmark.

In similar fashion, a business can compare performance by reference to other businesses - external benchmarks - or by reference to its own previous performance as an internal benchmark, for example, comparing this year's performance with last year's.

There is a clear distinction between an athlete and a business when it comes to assessing the impact of a disability on performance. An athlete is clearly aware of the distinction between performing with one as compared with two legs, and would not normally attempt to compare performances between the two, externally or internally.

The typical business however, lacks such a clear cut distinction between disabled or non disabled performance and comparison of performance with the average performance of others similarly placed, becomes a case of the blind leading the blind. For example, a hundred householders using an average of 2000 units of power a day does not of itself provide a useful benchmark of efficient power consumption, when a more analytical approach points to 10 units per m², which takes account of varying house sizes as well as efficiency of usage.

In short, a business using external or internal benchmarks, compares performance with the average of what is the case across a selection of like businesses, rather than what could be the case in a benchmark that takes account of characteristics peculiar to each and every business.

Recognising that every business has its own individuality, TARI establishes a could be benchmark that takes account of the resources available to a business in conjunction with the bottom line aspirations of the owners.

In the next FAQ, we will look at the inadequacy of Financial Statements as a management tool in identifying the resources available to a business.