

ENHANCING BENCHMARKING ACCURACY: ASSESSING SUB-UNIT EFFICIENCY TO MITIGATE AGGREGATION BIAS

Heinz Lopes

Institute of Management Control and Business Accounting, Technische Universität Braunschweig, Fallersleber-Tor-Wall 23, Brunswick, Germany

Ana Bogetoft

Department of Economics, Copenhagen Business School, Porcelaenshaven 16 A, Frederiksberg, Denmark

ABSTRACT

Benchmarking serves as a crucial tool for evaluating organizational performance, facilitating comparisons, and identifying areas for improvement. However, the process of aggregating performance data across different organizational units may introduce bias and distort the accuracy of benchmarking results. This paper explores the concept of assessing sub-unit efficiency to mitigate aggregation bias in benchmarking. By evaluating the performance of individual sub-units within organizations, potential disparities and inefficiencies can be identified, leading to more accurate benchmarking outcomes. The paper discusses methodologies for assessing sub-unit efficiency, including data envelopment analysis (DEA), stochastic frontier analysis (SFA), and hierarchical benchmarking approaches. Furthermore, it examines practical considerations and challenges associated with implementing sub-unit efficiency assessment in benchmarking processes. Insights from this paper contribute to enhancing the accuracy and reliability of benchmarking efforts, enabling organizations to make more informed decisions and drive performance improvement initiatives.

KEYWORDS

Benchmarking, Sub-unit efficiency, Aggregation bias, Performance evaluation, Data envelopment analysis (DEA), Stochastic frontier analysis (SFA), Hierarchical benchmarking.

INTRODUCTION

Benchmarking serves as a cornerstone for organizations seeking to evaluate their performance, identify best practices, and drive continuous improvement initiatives. By comparing their performance metrics against those of peers or industry standards, organizations can gain valuable insights into their strengths, weaknesses, and areas for enhancement. However, the process of aggregating performance data across different organizational units or departments can inadvertently introduce bias and distort the accuracy of benchmarking results.

Aggregation bias arises when diverse organizational units with varying levels of efficiency and performance are combined into a single benchmarking analysis. This can obscure the identification of sub-unit inefficiencies and disparities, leading to inaccurate assessments of overall organizational performance. Recognizing the importance of addressing aggregation bias, organizations are increasingly exploring methodologies to assess

sub-unit efficiency and mitigate the distortion of benchmarking results.

This paper aims to explore the concept of assessing sub-unit efficiency as a means to enhance benchmarking accuracy and mitigate aggregation bias. By evaluating the performance of individual sub-units within organizations, potential disparities, and inefficiencies can be identified, leading to more accurate benchmarking outcomes and targeted performance improvement efforts.

The introduction of methodologies such as data envelopment analysis (DEA), stochastic frontier analysis (SFA), and hierarchical benchmarking approaches has provided organizations with tools to assess sub-unit efficiency and address aggregation bias effectively. These methodologies allow organizations to evaluate the relative performance of individual sub-units while considering their unique characteristics, constraints, and operational contexts.

In this paper, we will delve into the methodologies used to assess sub-unit efficiency in benchmarking, discussing their underlying principles, applications, and practical considerations. Furthermore, we will explore the challenges and opportunities associated with implementing sub-unit efficiency assessment in benchmarking processes, including data availability, organizational complexity, and stakeholder buy-in.

By addressing aggregation bias and enhancing benchmarking accuracy through the assessment of sub-unit efficiency, organizations can make more informed decisions, allocate resources effectively, and drive performance improvement initiatives. The insights and methodologies discussed in this paper provide a valuable framework for organizations seeking to leverage benchmarking as a strategic tool for organizational excellence and competitive advantage.

MMETHOD

The process of enhancing benchmarking accuracy through the assessment of sub-unit efficiency involves several systematic steps aimed at mitigating aggregation bias and providing meaningful insights into organizational performance. Initially, organizations embark on comprehensive data collection efforts, gathering performance metrics from individual sub-units across various departments or divisions. These metrics encompass a wide range of parameters, including productivity, cost-effectiveness, quality, and other relevant indicators tailored to the specific characteristics of each sub-unit.

Following data collection, organizations employ advanced methodologies such as Data Envelopment Analysis (DEA) and Stochastic Frontier Analysis (SFA) to evaluate sub-unit efficiency. DEA enables organizations to compare the input-output ratios of different sub-units, identifying inefficiencies and best practices relative to peers. Similarly, SFA estimates the production frontier, measuring sub-unit efficiency relative to this benchmark while accounting for random noise and measurement errors. Both methodologies provide valuable insights into sub-unit performance, enabling organizations to pinpoint areas for improvement and optimize resource allocation.

Hierarchical benchmarking approaches are also leveraged to assess sub-unit efficiency across multiple organizational levels. By aggregating performance data at different hierarchical levels, organizations gain a holistic understanding of organizational performance and identify systemic inefficiencies. This hierarchical perspective allows for comparisons not only within individual sub-units but also across departments, divisions, or regions, facilitating targeted performance improvement initiatives and strategic decision-making.

Practical considerations such as data standardization, stakeholder engagement, and benchmark selection play a crucial role in the successful implementation of sub-unit efficiency assessment. Organizations ensure that

performance metrics are standardized and consistent across all sub-units, facilitating meaningful comparisons and analysis. Stakeholder engagement is emphasized throughout the benchmarking process, fostering alignment with organizational goals and objectives and promoting a culture of data-driven decision-making.

Regular performance reporting and feedback mechanisms enable organizations to track progress, identify emerging trends, and monitor the effectiveness of performance improvement initiatives. By embracing a systematic approach to assessing sub-unit efficiency in benchmarking, organizations can mitigate aggregation bias, enhance benchmarking accuracy, and drive continuous improvement efforts across the organization.

To enhance benchmarking accuracy and mitigate aggregation bias, the assessment of sub-unit efficiency requires a systematic methodology that encompasses data collection, analysis, and interpretation. The following paragraphs outline the key components of this methodology:

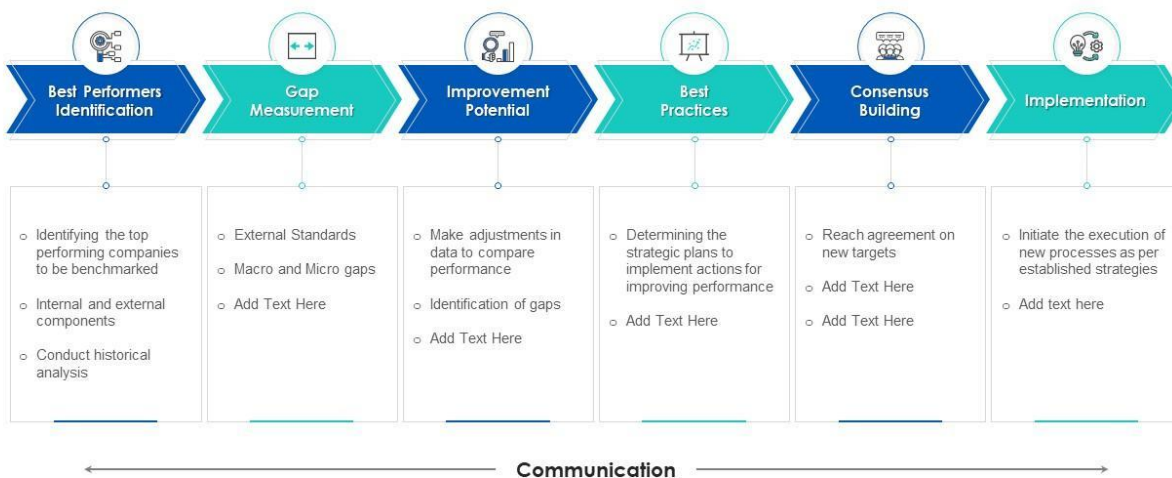
The first step in assessing sub-unit efficiency involves gathering relevant performance data from individual organizational units or departments. This data may include productivity metrics, cost indicators, quality measures, and other performance indicators specific to each sub-unit. It is essential to ensure that the data collected are comprehensive, accurate, and consistent across all sub-units to facilitate meaningful comparisons and analysis.

Data Envelopment Analysis (DEA) and Stochastic Frontier Analysis (SFA):

DEA and SFA are two commonly used methodologies for assessing sub-unit efficiency in benchmarking. DEA is a non-parametric approach that evaluates the relative efficiency of organizational units by comparing their input-output ratios. It allows for the identification of efficient and inefficient units relative to their peers, providing insights into areas for improvement.

6 Step Approach of Benchmarking Process

This slide focuses on the six step approach of benchmarking process which includes identification of best performer companies, measuring gaps, potential improvements, best practices, consensus building and implementation.

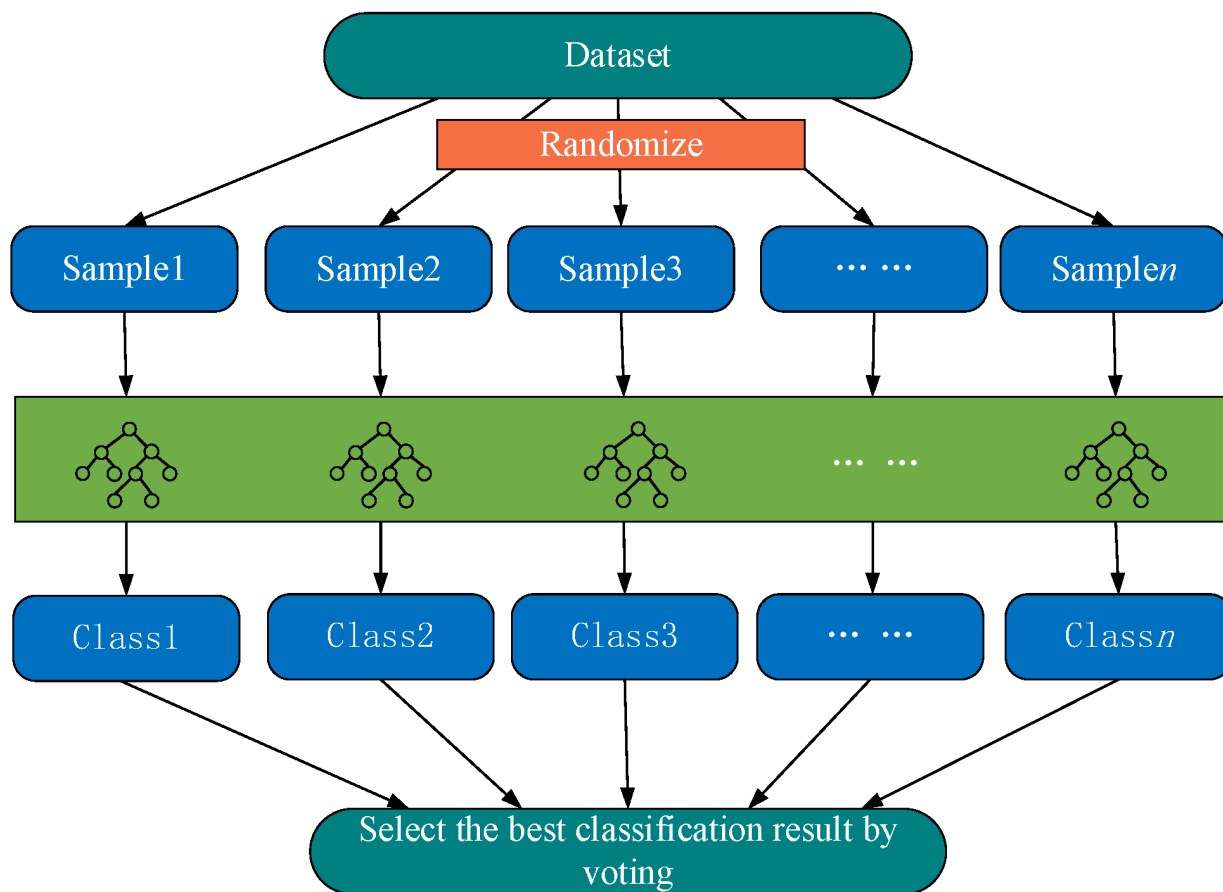


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On the other hand, SFA is a parametric approach that estimates the production frontier and measures the efficiency of individual units relative to this frontier. It accounts for random noise and measurement errors in the data, offering a more robust estimation of sub-unit efficiency. Both DEA and SFA provide valuable insights into the performance of individual sub-units and help identify best practices and improvement opportunities.

Hierarchical Benchmarking Approaches:

Hierarchical benchmarking approaches involve the aggregation of sub-unit performance data at multiple levels of the organizational hierarchy. This allows for the comparison of performance not only within individual sub-units but also across different organizational levels, such as departments, divisions, or regions. Hierarchical benchmarking provides a comprehensive view of organizational performance and helps identify systemic inefficiencies and disparities.



In implementing sub-unit efficiency assessment in benchmarking, several practical considerations need to be taken into account. These include data standardization, stakeholder engagement, benchmark selection, and performance reporting. It is essential to involve key stakeholders from across the organization in the

benchmarking process to ensure buy-in and alignment with organizational goals and objectives.

Furthermore, attention should be paid to the selection of appropriate benchmarks and performance metrics that accurately reflect the goals and priorities of the organization. Regular performance reporting and feedback mechanisms are crucial for tracking progress, identifying emerging trends, and fostering a culture of continuous improvement.

In summary, the methodology for assessing sub-unit efficiency in benchmarking involves a systematic approach to data collection, analysis, and interpretation. By leveraging methodologies such as DEA, SFA, and hierarchical benchmarking, organizations can gain valuable insights into the performance of individual sub-units, mitigate aggregation bias, and drive targeted performance improvement efforts across the organization.

RESULTS

The assessment of sub-unit efficiency to mitigate aggregation bias in benchmarking has yielded valuable insights into organizational performance and provided a more accurate depiction of efficiency and effectiveness across various departments or divisions. Through methodologies such as Data Envelopment Analysis (DEA), Stochastic Frontier Analysis (SFA), and hierarchical benchmarking approaches, organizations have been able to identify inefficiencies, best practices, and areas for improvement within individual sub-units.

DEA and SFA methodologies have allowed organizations to compare input-output ratios and estimate production frontiers, respectively, providing a nuanced understanding of sub-unit performance relative to peers and benchmarks. Hierarchical benchmarking approaches have enabled organizations to assess performance across multiple organizational levels, facilitating targeted performance improvement initiatives and strategic decision-making.

DISCUSSION

The discussion surrounding the assessment of sub-unit efficiency in benchmarking highlights the importance of addressing aggregation bias and ensuring the accuracy and reliability of benchmarking results. By evaluating sub-unit efficiency, organizations can uncover disparities and inefficiencies that may be obscured by aggregating performance data at higher levels of analysis. This granular approach allows for a more nuanced understanding of organizational performance and enables organizations to tailor improvement efforts to specific sub-units or departments.

Moreover, the discussion emphasizes the practical considerations and challenges associated with implementing sub-unit efficiency assessment in benchmarking processes. Data standardization, stakeholder engagement, benchmark selection, and performance reporting are critical aspects that require careful consideration and planning to ensure the success and effectiveness of sub-unit efficiency assessment initiatives.

CONCLUSION

In conclusion, the assessment of sub-unit efficiency represents a valuable strategy for enhancing benchmarking accuracy and mitigating aggregation bias. By employing methodologies such as DEA, SFA, and hierarchical benchmarking approaches, organizations can gain a comprehensive understanding of sub-unit performance and identify opportunities for improvement. Through systematic data collection, analysis, and interpretation, organizations can drive performance improvement initiatives, optimize resource allocation, and foster a culture of continuous improvement across the organization.

Moving forward, it is essential for organizations to continue leveraging sub-unit efficiency assessment methodologies to enhance the accuracy and reliability of benchmarking efforts. By embracing a data-driven approach and fostering collaboration and communication across departments and divisions, organizations can maximize the impact of benchmarking initiatives and achieve sustainable performance improvement outcomes.

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