# Benchmarking

|  |
| --- |
| ***Benchmarking is the process of comparing an intervention’s performance to that of other interventions, across a selected range of indicators. This then provides a comparative measure of relative performance.*** |

**Why is it important?**

When appraisals and evaluations are undertaken, generally two types of impact figures are reported: absolute impacts (for example so many £ million of net GVA and so many net additional jobs) and relative impacts: chiefly the impact ratio (net GVA impact per £1 of SE spend) and the cost per job created. In isolation these relative measures mean little. For example, is an impact ratio of 1:8 good, average or bad? If an intervention has created a net additional job at the cost of £10,000 again, what does this mean?

The process of giving meaning to these relative performance figures (and other additionality metrics) is called benchmarking, and is a necessary element in the overall assessment of an intervention’s potential or actual worth. Thus SE is interested in both the absolute performance of an intervention and in seeing how it compares to other interventions with similar objectives.

Benchmarking in appraisals is also a valuable aid for assessing the realism of a project and its forecast benefits. For example, if benchmark data shows that performance elsewhere was much better or worse than is anticipated for a new intervention, this may indicate a need to revisit the project and assess the appropriateness of assumptions underpinning it and perhaps have a more fundamental rethink about the intervention, its objectives and rationale.

**What benchmarking should be undertaken?**

Generally benchmarking is used to compare the performance of an intervention against that of interventions having similar objectives. It will normally be undertaken on one or more of the following:-

* Selected additionality indicators such as deadweight or displacement;
* Output indicators such as the cost per unit of floorspace created or costs per business assist; and
* Key relative impact measures such as the net cost per net additional job or the impact ratio.

**Benchmarking Issues**

Although benchmarking is, in theory, very simple, in practice it can be difficult to do. There are a number of reasons for this:-

* It can be very difficult to find an intervention that has identical objectives;
* Even if interventions having identical objectives can be found, the activities undertaken may be very different, as may the resources allocated and perhaps the target beneficiaries so that comparisons of impact measures may be misleading;
* The methodologies used may not be transparent so that it may be difficult to know such things as whether values have been discounted, expressed in constant prices or even if acceptable questions have been asked to derive the additionality adjustments. If it is not possible to ascertain these things, then comparisons of impact and additionality findings should be treated with caution;
* There may be occasions when interventions may be very innovative so that there may be no valid benchmarks;
* Over time appraisal and evaluation practices change as thinking and data sources evolve. This can mean that work can date quite quickly so that comparators are no longer valid; and
* Underpinning many of the above factors is organisational practice and experience. Public sector agencies vary considerably in their understanding of impact methodologies so that an appraisal that may be perfectly acceptable to one body may fail to pass the quality thresholds of another.

All of the above factors mean that benchmarking needs to be undertaken with a degree of caution to ensure that the interventions being compared are broadly similar as are the methodologies used.

**Benchmark data**

It is now much more common for economic development organisations to share their impact evidence, especially evaluations. Within SE it is standard practice that all evaluations, unless they contain company specific information, are published on the website Evaluations Online. This has a variety of search engines that can be used to identify suitable comparators. It can be found at:-

<http://www.evaluationsonline.org.uk/evaluations/Index.do>

Evaluations Online is a repository of individual evaluations. In recent years attempts have been made to synthesise the findings from a wide range of individual evaluations and then, from this, to provide general impact metrics for particular types of intervention. The main recent example is the analysis of the impact of spend by the then 9 English Regional Development Agencies undertaken by PricewaterhouseCoopers (PwC) and published in 2009. This contains a large amount of comparative data. However, it is now quite dated (having been started in 2007 and drew on an earlier database relating to the period 2002/03 to 2006/07 when economic conditions were very different). Although metrics are given for specific types of intervention these tend to be quite broad so that it can be difficult to find exact comparators. The evaluations that are drawn on also relate to England. Some of the RDAs had very different economies to Scotland so the validity of comparisons can be questioned. However, the study may still be worth referring to:-

<http://www.berr.gov.uk/files/file50735.pdf>

The PwC work has then been drawn on, and added to, in order to develop more detailed guidance on additionality metrics. This work was done by Cambridge Economic Associates and drew on 280 evaluations. As with the PwC work the key metrics are reported by theme and sub-theme. The report is available here:-

<http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/09-1302-bis-occasional-paper-01>

Subsequently a short guidance note on using the benchmarks was produced:-

<http://www.bis.gov.uk/files/file54063.pdf>

**SE’s own benchmarks**

Whilst the sources outlined above are useful, SE is increasingly developing its own benchmark database which feeds the impact model. This draws on appraisal and evaluation work (undertaken to a consistent and transparent standard) and generates data on such things as:-

* The key additionality metrics, such as deadweight and displacement;
* The impact ratios for SE’s themes and sectors; and
* Costs per net job.

This benchmarking data has a number of advantages:-

* It relates to SE’s own interventions;
* It uses methodologies that are generally consistent and comparable; and
* It is being continually updated and added to as new evidence becomes available.

Appendix 1 contains impact ratio metrics and the costs of creating a job for themes and sectors. It should be noted that:-

* The data is drawn from over 70 evidence sources, although not all of these are evaluations;
* The job costs are derived from GVA metrics by the application of an average GVA per employee figure (£54,000). As such they should be treated as indicative rather than definitive;
* The impacts are reported over ten years. One consequence of this is that infrastructure and other “slow burn” initiatives such as Research and Development and Commercialisation may have their ultimate impacts underestimated; and
* The Tables draw on data from different sources so that there may be some slight anomalies.

However, these should not be overstated as what is important is not the exact figure but the order of magnitude.

If benchmark additionality metrics are required then the contact below should initially be approached.

**Need more help?**

For further information contact:-

Suzanne Fleming, 0141-228-2062

Suzanne.fleming@scotent.co.uk

**Appendix 1 Benchmarking Metrics for Impact Ratios and Jobs**

**Caveat**

The information given here should be treated with care. The ratios and costs per job clearly vary. However, the economic impacts are only one factor that SE takes account of when making decisions on project funding. It is also the case that the impacts may not be scalable: for example doubling the resources going to an area where the impact ratio is high may not result in a doubling of impact. SE may be working with the majority of companies in this area that have growth aspirations so that increasing spend may mean working with companies that have limited growth ambitions. Thus, paradoxically, increasing spend may result in decreasing impacts.

SE also wants a balanced portfolio of interventions, in part as this balances risk. Thus the correct use of the benchmarks is to compare performance, either predicted or achieved, between similar types of interventions. The outcome of such a comparison may then require further investigation.

It is also the case that the data is updated as new evidence becomes available. Accordingly the contact given previously should be referred to before making use of this data.

**TABLE A.1 Milestone Cumulative GVA Impact Ratios for Sectors**

|  |  |
| --- | --- |
| **Sector** | **Cumulative Net GVA Impact Ratio at Milestone Years** |
| **1** | **3** | **5** | **10** |
| Life Sciences | 0 | 1 | 1 | 3 |
| Tourism | 0 | 2 | 3 | 5 |
| Enabling Technology | 0 | 1 | 2 | 5 |
| Infrastructure | 0 | 1 | 3 | 8 |
| Food and Drink | 0 | 1 | 3 | 8 |
| Other Growth Industries | 0 | 2 | 4 | 11 |
| Energy | 0 | 1 | 4 | 12 |
| Digital Markets | 0 | 2 | 6 | 12 |
| **OVERALL SECTOR RATIOS** | 0 | 1 | 2 | 5 |

**Note:-**

**1.** All figures are rounded.

**TABLE A.2 Milestone Cumulative GVA Impact Ratios for Themes**

|  |  |
| --- | --- |
| **Theme** | **Cumulative Net GVA Impact ratio at Milestone Years** |
| **1** | **3** | **5** | **10** |
| Commercialisation | 0 | 1 | 3 | 7 |
| Innovation | 0 | 3 | 5 | 7 |
| Enterprise | 1 | 3 | 5 | 8 |
| Research and Development | 0 | 0 | 0 | 10 |
| Account Management | 4 | 10 | 12 | 14 |
| Regional Selective Assistance | 0 | 3 | 12 | 14 |
| Specialist Advisory Services | 1 | 5 | 9 | 15 |
| Internationalisation | 3 | 8 | 12 | 16 |
| Inward Investment | 1 | 5 | 11 | 18 |
| **OVERALL THEME RATIOS**  | **1** | **5** | **7** | **10** |

**Note:-**

**1.** All figures are rounded.

**TABLE A.3 Milestone Cumulative GVA Impact Ratios – Cross Sectoral and Thematic**

|  |  |
| --- | --- |
| **Intervention** | **Cumulative Net GVA Impact ratio at Milestone Years** |
| **1** | **3** | **5** | **10** |
| Infrastructure | 0 | 1 | 3 | 8 |
| Scottish Loan Fund | 0 | 2 | 3 | 9 |
| Equity | 0 | 2 | 3 | 9 |
| **OVERALL RATIOS**  | **1** | **1** | **2** | **7** |

**TABLE A.4 Cumulative Cost per Net Job for Sectors**

|  |  |
| --- | --- |
| **Sector** | **Cumulative Cost per Net Job at Milestone Years (£000)** |
| **3** | **5** | **10** |
| Creative industries | £27 | £9 | £4 |
| Energy | £40 | £14 | £5 |
| Other Growth Industries | £29 | £12 | £5 |
| Food and Drink | £43 | £18 | £7 |
| Tourism | £26 | £16 | £11 |
| Enabling Technologies | £145 | £46 | £11 |
| Life Sciences | £71 | £47 | £17 |

**TABLE A.5 Cumulative Cost per Net Job for Themes**

|  |  |
| --- | --- |
| **Theme** | **Cumulative Cost per Net Job at Milestone Years (£000)** |
| **3** | **5** | **10** |
| Internationalisation | £6 | £5 | £3 |
| Inward Investment | £10 | £5 | £3 |
| Regional Selective Assistance | £5 | £4 | £4 |
| Account Management | £6 | £5 | £4 |
| Specialist Advisory Services | £31 | £10 | £5 |
| Research and Development | £13,505 | £196 | £6 |
| Innovation | £17 | £10 | £7 |
| Enterprise | £18 | £10 | £7 |
| Commercialisation | £45 | £18 | £8 |

**TABLE A.6 Cumulative Cost per Net Job for Cross Sectoral and Thematic**

|  |  |
| --- | --- |
| **Intervention** | **Cumulative Cost per Net Job at Milestone Years (£000)** |
| **3** | **5** | **10** |
| Scottish Loan Fund and Equity Investment | £69 | £29 | £10 |
| Business Infrastructure | £95 | £41 | £13 |