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Full Length Research Paper

Benchmarking

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Measuring performance against a recognized business excellence or quality framework can deliver a range of benefits for firms. It is pivotal to a firm to know one's own standard and compare it against others in today's complex and competitive corporate environment. Benchmarking is a technique for assessing a firm's performance against the performance of other firms. It is used to find the best practice and to take necessary actions to improve the firm's own performance so that it meets or exceeds that of its competitors. It is usually a process of reengineering or quality improvement initiative, and focuses on the ongoing quality management efforts of strategic business units. This has resulted in the establishment of a conceptual framework for evaluating users' needs identified in market opportunity analysis, a new service concept, the user's ombudsman, relationship marketing and a citizen charter. The article highlights the significance of using benchmarking as performance indicators, process reengineering and quality improvement in organizations. The article describes an overview of organizations benchmarking and views of the author. The article finds that organizations have tried to find consensus on a common set of performance indicators for benchmarking purposes. The indicators chosen for such organizations differ between countries and type of firms. The article reveals examples where sets of indicators are used on a regular basis and compares the indicators used and the methods of benchmarking. The article depicts the difficulties of reaching an agreement when starting an initiative business unit and points to results and success and to problems that occurred in the benchmarking process. The article provides useful information for organizations with existing competitive advantage and helps to find adequate methods for different purposes.

Key words: Benchmarking, best practices, performance indicators, process reengineering, quality management.

INTRODUCTION

Organizations benefit by learning from similar organizations in the industry or from other industries. They can modify their current practices in terms of the best practices available to others. This purpose is essentially served by benchmarking. Benchmarking is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. It is a reference point for the purpose of measuring and when applied to work processes yields superior results. In order to excel, a firm shall have to exceed the benchmarks.

According to American productivity and quality center (APQC), "benchmarking is the process of identifying, understanding and adapting outstanding practices and processes from organization anywhere in the world by a firm to improve its performance" (APQC, 1993). In other words, best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. The performance of an organization can be evaluated continually till it reaches the best practice level by using benchmarking. However, benchmarking offers firms a tangible method to evaluate performance (Kazmi, 2007).

What is to be benchmarked?

Benchmarks are set with respect to critical areas of strategic and operational significance that influence an organization's performance. These could be well-known problem areas in an organization that could be clearly defined or activities/processes where improvements result in maximum benefits (according to Pareto's 80/20 rule). Benchmarking may be carried out with respect to activities and processes such as; strategic planning, decision processes, accounting systems, internal communication systems, manufacturing processes, reward systems, strategic HRM, employee training, distribution logistics, customer service, etc. For example, Xerox Corporation routinely buys copiers made by other firms and takes them apart to see how they work. This helps the firms to stay abreast of its competitor's improvements and changes (Rao and Krishna, 2005).

Benchmarking against whom?

It is natural but prime competitors are the reference points for benchmarking. But what extent the prime competitors are willing to share information about their best practices is also a factor to be considered. Benchmarking could be internal to the organization. Best practices in a division could form the basis for benchmarking similar activities in other divisions. Rentokil benchmarks its branches against each other, identifies 'best practices' and spreads them from one branch to another through training or the transfer of managers to ensure a consistent quality of service to its 1.5 million customers worldwide. At shell, internal best practices are identified and shared through its units worldwide. IMR global, an IT service provider, incorporates the best practices of each of the firms it has acquired over different continents in its global operations. At Corning Inc., business-specific best practices are identified and shared across the company's multiple businesses and plant locations across the world.

Outstanding companies/world-class performers in the industry may be willing to share information about their best practices. Sometimes, benchmarking against the best companies may not be plausible as they may be swamped with similar requests from a number of companies and hence unable to oblige all of them. Companies in the number two or three position in the industry could also provide a valuable benchmarking experience to generate incremental gains in a firm's activities/processes. Since certain approaches and generic or core processes could be similar across different industries, the best companies in other industries can also meet the purpose of benchmarking. This may serve to break the current industry paradigms in search of new, world-class levels of performance. For example, a medical center may benchmark against a hotel industry.

Types of benchmarking

A firm could attempt benchmarking at several levels using all the different types of benchmarking. The main purpose should be to find out the best practices so that one could confirm to it. But before one does this, benchmarking is enough to show where a firm excels or lags behind. This is helpful in assessing the strengths and weaknesses of an organization and determining its capability. The following are the various types of benchmarking.

Performance benchmarking

This is to compare one's own performance with that of some other organization or the purpose of determining how good one's own organization is. It allows the initiator firm to assess their competitive position by comparing products and services with those or target firms.

Best practice benchmarking or process benchmarking

This is to compare the methods and practices for performing processes. It is used in the strategic management, in which the initiating firm focuses its observation and investigation of business processes with a goal of identifying and observing the best practices from one or more benchmark firms. Activity analysis will be required where the objective is to benchmark cost and efficiency; increasingly applied to back-office processes where outsourcing may be a consideration.

Strategic benchmarking

This is to compare the long-term, significant decisions and actions undertaken by other organizations to achieve their objectives.

Internal benchmarking

This is a comparison between units or departments of the same organization.

Competitive benchmarking

This is a direct comparison of one's own performance against the best competitors and restricts the search for best practices to competitors.

Functional benchmarking

This endeavors to determine best practices regardless of industry. It is a comparison of functions against non-competitive organizations within the same sector or technological area. Complex functions such as human resources, finance and accounting and information and communication technology are unlikely to be directly comparable in cost and efficiency terms and may need to be disaggregated into processes to make valid comparison.

Financial benchmarking

This performs a financial analysis and compares the results in an effort to assess your overall competitiveness.

Generic benchmarking

This is a comparison of one's own processes against the best practices anywhere in any type of organization.

Product benchmarking

This is the process of designing new products or upgrades to current ones. This process can sometimes involve reverse engineering which is taking apart competitors products to find strengths and weaknesses.

Cost of benchmarking

Benchmarking is a moderate expensive process. The costs involved in the process of benchmarking are visit costs like hotel rooms, travel costs, meals, token gifts and lost labour time; time costs like researching problems, employee time devoted to travel and discussion meetings, finding exceptional companies to study and information processing, etc, and database costs in order to know the best practices and maintenance etc. They help in balancing the costs with the knowledge gained.

POPULARITY AND METHODOLOGY

In 2008, a comprehensive survey on benchmarking was commissioned by the Global Benchmarking Network (a network of benchmarking centers representing 22 countries and for which the founder of benchmarking, Dr Robert Camp, is the honorary President). Over 450 organizations responded from over 40 countries. The results showed that: Mission and Vision Statements and Customer (Client) Surveys are the most used (by 77% of organizations) or 20 improvement tools, followed by Strengths, Weaknesses, Opportunities and Threats SWOT (72%) and informal benchmarking (68%).

Performance Benchmarking was used by 49% and BestPractice Benchmarking by 39%. The tools that are likely to increase the most in popularity over the next three years are Performance Benchmarking, Informal Benchmarking, SWOT and Best Practice Benchmarking. Over 60% of organizations that are not currently using these tools indicated they are likely to use them in the next three years. When Best Practice Benchmarking is done well significant benefits are obtained with 20% of projects resulting in benefits worth US$ 250,000 (http://en.wikipedia.org/wiki/Benchmarking). The benchmarking process involves a questionnaire that helps to define the focus, criteria and context for practices and provides information about the incidents that led to adopting the practices (Overmeyer-Day and Benson, 1996). The required information was gathered by using questionnaires geared towards the activities being benchmarked, conducting study visits to companies, holding discussions with the concerned host managers and looking at available company documents and publications. The success of benchmarking, however, does not lie in the data collected but in understanding the best practices and the processes of implementing them. Indeed, there is no universally accepted benchmarking process. It is originally invented as a formal process by Rank Xerox and noticed that it was used by individual companies (Khalil, 2000). The wide appeal and acceptance of benchmarking has led to various benchmarking methodologies emerging. The most prominent methodology is the 12 stage methodology propounded by Robert Camp, who wrote the first book on benchmarking in 1989.

Robert Camp's 12 stage methodology includes: 1. Select subject ahead, 2. Define the process, 3. Identify potential partners, 4. Identify data sources, 5. Collect data and select partners, 6. Determine the gap, 7. Establish process differences, 8.Target future performance, 9. Communicate, 10. Adjust goal, 11. Implement, and 12.Review/recalibrate (Camp, 1989).

Benchmarking forum

American Society for Training and Development (ASTD) has established a "Benchmarking Forum" for the purpose of identifying and learning about the so-called best practices among member organizations so that they can be adopted by other organizations. The Benchmarking Forum has identified that Boeing Corporation for adopting a unique task analysis approach involving engineers who were being trained to use computer-aided drafting and computer-aided manufacturing (CAD-CAM) software (Randy et al.,2005).

Management tool

Benchmarking is an effective management tool to identify changed ideas and brings changes to achieve continuous improvements in the way an existing activity, function, or process is performed. It is basic to strategic business process improvement and reengineering. In employing this method, a company compares its performance with its strong and more successful competitors in the industry. It helps a company not only assess its current performance relative to other companies, but also learn from others and generate new ideas, methods and practices to improve its functioning. Thius, productivity and cost reduction can be enhanced and new performance targets which are practical and achievable can be set to give itself a competitive edge (Wheelen et al., 2006; Pearce and Robinson, 2005).

Planning will be a sterile exercise if it does not lead to organizational benchmarking. McCormack says, 'of all the management buzzwords of the last two decades, the only one that thrills me is benchmarking…' In a competitive market environment, benchmarking is about matching and exceeding the competitors' best practices. Managers benchmark when:

1. They praise a manager's excellent work publicly and credibly.
2. They work the hardest and smartest.
3. They share organizational success experiences and what went into them (Mark McCormack, 1997).

Some examples of companies that stand out for their best practices are: a) Microsoft – creativity and innovation, globalization, entrepreneurship, b) 3M – new product development, entrepreneurial spirit
Motorola – six sigma quality culture, c) Mc Kinsey – high level strategic consultancy services, d) Compaq and Dell computers – marketing and distribution system, e) Johnson and Johnson – ethics.

Advantages of benchmarking

The advantages are:

a. Minimizes the costs and saves time to adapt the best practices of other companies rather than re-invent them in-house.
b. Helps in implementation of upcoming changes and sophisticated technological improvements, arising out of change across industries.
c. Bridges the competitive gaps in one's own concern from other competing firms.
d. Initiates the formulation of strategic goals and objectives based on the external models for improving activities and processes in the organization.
e. Stimulates an organization to overcome its inertia and think differently in the context of the brand-new approaches/models implemented elsewhere.
f. Facilitates organizational learning and,
g. Drags improvement in critical areas within the organization by adapting best practices and processes.

Key drivers in making success of benchmarking

a. Identifying other companies which are role models for learning,
b. Acquiring reliable and valid data from these companies about their best practices and standards and how these are set in the critical areas of one's concern,
c. Determining current competitive gaps and understanding the strategic and tactical reasons for the gaps,
d. Reengineering, improving, or innovating upon existing practices and processes to achieve better standards in critical areas,
e. Set up an action plan to induct the identified betterments,
f. Motivating the employees for effective implementation of the process of benchmarking.

If the same set of people are involved in benchmarking and in implementing the identified changes, managing change does not run the risk of resistance. On the other hand, it may even inspire creativity and commitment to change. The abilities, experience, professional competence, influence and commitment of the people involved in benchmarking are the other factors critical to its success. A majority of employees can be tuned to benchmarking if its success can be exemplified with respect to a particular activity or process. The progress should be regularly monitored and the standards recalibrated to achieve continuous improvement (Harigopal, 2006; Chadha, 2007).

Conclusion

Benchmarking provides a good learning opportunity forthose involved in the process, in addition to stimulating their creativity and stretching their cognitive ability. The possibilities of bringing about useful changes in the organization and the benefits of such change also become evident. 'Seeing is believing' as the saying goes, seeing the viability of certain ideas, processes and activities and their successful implementation by other companies, tends to bolster one's self-confidence and the belief that what other can do, one can do even better. It assists in improving internally and in getting even with others. But to gain the competitive edge, a company has to identify what it can do differently, how it can be a trendsetter and perhaps even redefine or invent the rules of the game. Significant favorable differences from competitors are potential cornerstones of a firm's strategy.

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