

## Benchmarking

**Benchmarking** is the process of comparing one's business processes and performance metrics to industry bests or best practices from other industries. Dimensions typically measured are quality, time and cost. In the process of best practice benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compares the results and processes of those studied (the "targets") to one's own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

Benchmarking is used to measure performance using a specific indicator (cost per unit of measure, productivity per unit of measure, cycle time of x per unit of measure or defects per unit of measure) resulting in a metric of performance that is then compared to others. <sup>[citation needed]</sup>

Also referred to as "best practice benchmarking" or "process benchmarking", this process is used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice companies' processes, usually within a peer group defined for the purposes of comparison. This then allows organizations to develop plans on how to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to improve their practices.

### Types

Benchmarking can be internal (comparing performance between different groups or teams within an organization) or external (comparing performance with companies in a specific industry or across industries). Within these broader categories, there are three specific types of benchmarking: 1) Process benchmarking, 2) Performance benchmarking and 3) strategic benchmarking<sup>[5]</sup> These can be further detailed as follows:

- **Process benchmarking** - 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.
- **Financial benchmarking** - performing a financial analysis and comparing the results in an effort to assess your overall competitiveness and productivity.
- **Benchmarking from an investor perspective**- extending the benchmarking universe to also compare to peer companies that can be considered alternative investment opportunities from the perspective of an investor.
- **Performance benchmarking** - allows the initiator firm to assess their competitive position by comparing products and services with those of target firms.
- **Product benchmarking** - 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.
- **Strategic benchmarking** - involves observing how others compete. This type is usually not industry specific, meaning it is best to look at other industries.
- **Functional benchmarking** - a company will focus its benchmarking on a single function to improve the operation of that particular function. 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.

- **Best-in-class benchmarking** - involves studying the leading competitor or the company that best carries out a specific function.
- **Operational benchmarking** - embraces everything from staffing and productivity to office flow and analysis of procedures performed.<sup>[6]</sup>
- **Energy benchmarking** - process of collecting, analysing and relating energy performance data of comparable activities with the purpose of evaluating and comparing performance between or within entities.<sup>[7]</sup> Entities can include processes, buildings or companies. Benchmarking may be internal between entities within a single organization, or - subject to confidentiality restrictions - external between competing entities.

### levels of benchmarking

- 
- **Ans.** Levels of benchmarking
- (a) Internal benchmarking
- (b) Competitive benchmarking
- (c) Functional benchmarking
- (d) Generic benchmarking.

### Advantages of benchmarking

Following are the advantages of benchmarking

- (i) It provides targets that have been achieved by others.
- (ii) If ideas for improvements come from other industries, resistance to change will be less.
- (iii) Technical break-through can be identified early, quality of product increases.
- (iv) Effective goals can be set.
- (v) Customer's requirements can be met easily to his satisfaction.
- (vi) It helps a company to learn its strengths and weaknesses and those of other organizations.
- (vii) Raises people's experience and increases knowledge

### What steps are to be followed for introducing benchmarking?

Or

Write the process of benchmarking.

### Step 1-Determine processes to be benchmarked

This step involves defining as accurately as possible the process to be benchmarked. It is the cornerstone of the entire benchmarking process. An incorrect identification at this stage could result in a waste of precious resources at later stages. Consider the following questions:

- Have departmental priorities been established? Determine whether the department has strongly defined its overall purpose. This includes setting long-term goals and short-term objectives.
- What is the level of change? Does an entire system require rethinking? Perhaps a particular process within that system needs to be improved. Can improvement be achieved by upgrading some particular task within the process?
- Has the work process to be selected been flowcharted? A good first step in gaining an overview of the

entire process is to flowchart it. This will help identify problem areas and locate potential trouble areas. Then establish the critical measurements by which to compare future progress.

- How much change is possible? Given your organization's resources and circumstances, find out whether reforming the process is affordable at the determined level of change.

- Have critical performance measures been determined? Investigate whether measures have been determined in accordance with customer requirements. Have the measures been expressed in terms of a ratio or percentage? Are there other measures and, if so, which measure has priority?

- Has a project description been written? Make sure the description includes the following:

1. A reason for the project
2. Goals and objectives
3. The cost and duration of the project
4. Critical measures
5. Potential gains
6. The project's impact on the entire organization

Gather proof that the project is necessary in terms of potential costs against potential benefits.

After you've accomplished step 1, you will have a sharply focused, clearly defined procedure that tells management what needs to be changed, how much change can be achieved within given limitations and how to measure accurately your processes against those of others and against your own future projections.

## **Step 2-Determine organizations to be benchmarked**

This step determines which organizations should be studied by identifying "the best of the best"-organizations whose practices can be adapted to your requirements. An incorrect choice could lead to electing partners that are not true benchmarks for the selected process, that are uncooperative or whose practices are incompatible or irrelevant to your needs. Consider the following questions:

- From which sources could an effective partner list most likely be created? Research which published sources (industry periodicals, annual reports, etc.) would yield the most useful, accurate and up-to-date information. Find out which reliable individuals or groups (industry experts, watchdog groups, etc.) could be consulted to expand the list. A good source to consult is a library, either corporate or public. Librarians usually are eager to help in such efforts.

- Which of the preliminary organizations selected are really "the best of the best"? Determine which prospective partners truly are the benchmarks for your organization.

- Are the systems of the selected organizations really comparable? Select the organizations with practices that are the most compatible with yours.

- Is sufficient and accurate data obtainable? Decide which prospective partners would be expected to produce the most reliable information. Then see which organizations (e.g., foreign entities) would present the fewest logistical problems when gathering data. Also, figure out which organizations would be the least likely to present legal problems when gathering data. From which organizations would cooperation most likely be obtained?

When you've gone through step 2, you will have compiled a large list from which to choose organizations to contact as potential partners, based on the superior quality of their processes.

### **Step 3-Gather data**

This step involves creating a plan for collecting data from selected targets, conducting site visits and creating a site visit report. The correct implementation of this step will result in data that can be used directly to enhance your organization's performance. Incorrect implementation of this step could result in data that is useless or inadequate to your purposes. Consider the following questions:

- Has an adequate data-collection plan been created? Determine what are the simplest data sources and the most difficult. Then figure out which data would have the most value. Other important factors are the time and cost limitations of collecting data.
- Which are the best sources of practice data? Decide which combination of the four types of sources-internal, published, external or original research-would yield optimal results.
- Have the best internal sources been consulted? Good sources to consult are your organization's library and other internal groups or teams.
- Have the best published sources been consulted? Internal publications (e.g., annual reports, quarterly reports) of the target organizations should be studied as well as any periodicals and directories containing information about the target organizations. Appropriate data bases can also lead to pertinent information.
- Have the best external sources been consulted? You can acquire significant information from professional organizations dealing with the business of your target organizations. You can also gain valuable information by contacting industry experts and independent consultants.
- Has original research been carried out? Identify the appropriate contact person of each benchmarked organization. Make sure to notify all contacts by telephone, explaining that their organization has been selected as a potential benchmarking partner. Explain the purpose of the process in clear language.

Proceed by preparing a preliminary survey from a checklist of topics to be covered. Do the questions emphasize process and customer-satisfaction measures? Fifteen or fewer questions are usually appropriate. Make sure they are objective and presented in an appropriate format (preferably multiple choice).

Then send the preliminary survey to the contact person. Where appropriate, conduct telephone interviews. Perform personal interviews with target personnel. After selecting the most appropriate benchmarking partners, decide where to conduct site visits.

- Have the proper preparations been made for your site visits? Prepare a site visit plan and send a summary of the topics that will be covered to the contact person. Determine which questions to ask, keeping in mind the questions that are more important than others for a particular target. It is best to have the questions reviewed by an internal source to confirm their relevance.
- Has the proper procedure been followed before, during and after the site visit? When notifying the contact person at the target organization of the impending visit, confirm that the contact person understands its purpose. Make sure to send the contact the necessary information (questions, etc.) in advance of the meeting.

On arriving at the site, the team should repeat its mission to the contact person. Obviously the appropriate questions should be asked during the visit, and the team should personally observe the process to be benchmarked. Instruct them to make extensive written observations of the process and to document observations as soon as possible after the visit. The agenda should allow for equal time for both benchmarking teams.

- Has a site visit summary report been prepared? The report should accurately reflect the documentation of the site visit.

- Have the appropriate ethical issues been considered? In obtaining information from a competitor, avoid any possibility of misrepresentation. Always approach consultants or former employees of the target organization with total candor and in an appropriate manner. Be careful to identify whether any of the information prepared could be considered proprietary (e.g., insider trading).

Upon finishing step 3, your organization will have complete, accurate and relevant data with which to compare its own processes with "the best of the best."

#### **Step 4-Analyze for gaps**

This step involves analyzing the data collected, discovering to what degree present performance lags behind the best in each area and combining the best features from the best practices into an ideal process. The correct implementation of this step will result in a clear picture of your processes in comparison with others in your business or industry. The incorrect implementation of this step could result in vague information that would not ultimately be useful in improving your operations. Consider the following questions:

- How can the data compiled in step 3 be most effectively analyzed? Make sure to properly analyze the results of the benchmarked organization(s) in terms of output and customer satisfaction. Also analyze thoroughly the results in terms of the work practices leading to them. Express both results quantitatively.

- How does each best practice compare with your organization's practice for each procedure involved? Create a chart that compares the benchmarked organization's practice with your own. Have the correct measures been employed for comparison (e.g., cost, speed, ease of use)? Has the difference between the benchmarked organization's practice and your own been expressed in quantitative terms?

- How can the best practices from these sources be combined? The best practice for each of the procedures involved should be combined into a single ideal process. How could the overall output of the process be projected? You may find that some procedures need to be eliminated because of cost or other considerations.

After you've accomplished step 4, relevant features from each of the best practices will combine into an ideal practice that can be implemented within budgetary and other constraints of your organization.

#### **Step 5-Determine future trends**

During this step, your team will examine your organization's past performance in relation to its

competitors, forecast potential change in your industry and project future performance, both with and without the proposed benchmarking changes. The correct implementation of this step will give management a clear idea of its options and allot it a realistic conception of the potential benefits of adopting the benchmarking practices. An incorrect implementation of this step will give management an incomplete or inaccurate picture of its options. Consider the following questions:

- What have been the industry trends of the recent past? Determine the measure (e.g., revenues, productivity), related to the practice being benchmarked, by which your organization can most appropriately be compared to others. Based on this measure, figure out the benchmarked organizations' recent performance, as well as your organization's performance.
- What is the current performance gap? Compare your organization's current performance with the benchmarked organization. Is the gap widening or narrowing, according to recent trends? Discover the reason, based on the data analyzed in step 4, for the gap and its increase (or decrease).
- What will be the future performance gap if no benchmarking changes are implemented? By projecting past trends into the future and allowing for anticipated changes, learn what the benchmarked competitors' position will be within the next specified time period. Decide what your organization's position will be if no benchmarking changes are made. Will the gap widen or narrow?
- What will be the future performance gap if all proposed benchmarking changes are implemented? If the proposed benchmarking changes are implemented, determine your organization's position, in comparison with its competitors, within a specified time period. Has the change been expressed quantitatively (e.g., dollar amounts, percentages)? Has the potential benefit of the change been compared with the estimated cost (e.g., equipment, production delays, etc.) of its implementation?

Upon completing step 5, you will have identified the quantitative benefits of implementing the proposed benchmarking changes.

### **Step 6-Reveal results and sell the process**

This step involves communicating the benchmarking results and their implications to significant audiences in the organization and motivating them to carry out changes. The correct implementation of this step will result in a complete understanding by the target audiences of the necessity for changes in the processes involved and a desire to carry them out. Incorrect implementation of this step will leave both management and employees confused or inadequately informed, reducing the potential for effective change. Consider the following questions:

- Which audiences should be addressed? Decide whether the organization's entire management needs to be "sold" on the changes or only some managers. Educate those departments that need to be educated about the changes, and inform the entities outside the organization (e.g., customers, suppliers) that need to be informed.
- How is the report to be written? Determine what kind of publications (e.g., full-length report, newsletter, video presentation) would be most appropriate to communicate the benchmarking results, based upon the nature of the organization and its goals. Express the purpose of the benchmarking process in the appropriate manner. Has emphasis been placed on the results of the study, rather than methodology? Has emphasis been placed on fact rather than opinion?

● Has understanding and commitment been obtained from the target audience? Check the feedback from the report to see whether it indicates that the target audiences understand the necessity for change. Gain management approval for the concept of an implementation program. Also ensure that nonmanagement employees are completely "on board" for the changes. Do the outside entities involved understand how the changes will benefit them?

Step 6 will ensure that the advantages of change have been explained to the parties involved in order to motivate them to carry it out.

### **Step 7-Achieve consensus on revised goals**

This step involves revising goals to close the performance gap determined in step 5 and achieving consensus on those goals. The correct implementation of this step will create realistic and unambiguous new standards for the processes involved. Incorrect implementation of this step could create poorly understood or unrealistic standards that would only increase the frustration level of both management and employees. Consider the following questions:

● Have operational goals been effectively and realistically revised? Determine what type of change (e.g., basic goal priorities, measurement units, quantity or frequency of units processed) must be implemented. All goals should be expressed in quantifiable, easy-to-measure terms. The degree of change should also be realistic based upon benchmarking findings.

● What impact will the revised goals have within the organization? Some departments may need to be reorganized, and some employees' positions will need to be redefined, created or eliminated. Also, some lines of authority may need to be altered. Analyze how the revised goals will impact departments not targeted for change. How will these changes be justified to the parties affected?

● What impact will the revised goals have outside the organization? Try to ascertain what effect the changes will have on customers and suppliers. Then decide in what detail they should be informed of changes and how to present the changes to generate support rather than anxiety.

● Has management committed to the specific revised goals? Management must understand the proposed goals and fully support them. And management must communicate the goals to all affected employees in such a way as to obtain their full commitment.

Step 7 establishes clear-cut goals that management has approved and that all employees understand.

### **Step 8-Establish action plans**

This step establishes the step-by-step plan designed to bring about the goals created and approved in step 7. Incorrect implementation of this step could result in vague procedures which would either be rejected by management or would prove unworkable if approved. Consider the following questions:

● In what order should work practices be implemented? Choose the factors (time, cost, software, etc.) that are most crucial in determining priorities. Discuss the pros and cons of each factor. Then analyze all factors so that a schedule of action can be determined. Project future performance based on the schedule of action.



- Has the procedure been prepared? Break down all tasks into comprehensible steps, with specified results. Then put the tasks in sequence. Determine which resources are needed to accomplish the tasks.
- Has management approved the procedure? Clearly articulate the plan's elements (task breakdown, costs, etc.) to management.
- Have individuals been empowered to manage the process? Identify the appropriate level of management for the procedure (e.g., line manager, management team, process owner). Select the employees and give them the training and authority to manage the process.
- Has the implementation plan been printed and displayed? Create the complete plan in printed form. Display the plan so that tasks, responsibilities and deadlines can be clearly seen and understood.

Upon completing step 8, management has approved the specifics of the plan, appropriate individuals have been empowered to carry it out, and every individual knows what changes in his or her work procedure are expected.

### **Step 9-Implement plans and monitor results**

This step involves executing the approved best-practice procedures and the day-to-day monitoring of changes. The correct implementation of this step will result in a closely watched process in which deviations from the plan will be corrected and the ultimate goals achieved. Incorrect implementation of this step could result in inaccurate or spotty measurement, leading to poor control of the process and disappointing overall results. Consider the following questions:

- Have timeline charts been created? Make sure that the charts accurately reflect the factor to be measured over the selected period of time.
- Have control charts been created? Charts must accurately measure the factor to be controlled (e.g., unit cost, quantity per hour) over the selected period of time.
- Has any variance from the plan been dealt with effectively? Appropriate action needs to be taken as soon as deviations are detected. Keep lines of communication open to all affected parties, providing feedback on the process.
- Has final evaluation been made of the benchmarking process? Accurately record the results, and determine whether acceptable goals have been achieved. Prepare a final report, including which elements of the incorporated changes should be rejected and which should be accepted as permanent practices within the organization.

Step 9 develops procedures to enable close monitoring of the changes and tracking of results so that, over time, successful elements of the new practices can be retained and the less successful ones eliminated.

### **Step 10-Recalibrate benchmarks**

This step ensures the organization remains on the cutting edge by continuously evaluating the benchmarked practices and reinstating the benchmarking process when necessary. The correct implementation of this step prevents complacency by creating the habit of evaluating procedures for their potential for improvement. The incorrect implementation (or nonimplementation) of this step fosters the



illusion that any successful benchmarked practice creates a permanent improvement, resulting in a false sense of security and possible future loss of competitive edge. Consider the following questions:

● How often do the processes need to be recalibrated? The period between benchmarking studies should be realistic in terms of the nature and goals of the organization. The organization may be planning systemic changes that would make new benchmarking necessary. The level of customer satisfaction must constantly be monitored for the potential need to recalibrate. Also, management must commit fully to repeating the 10-step process when necessary.

● Has a plan been developed for recalibrating? The need for periodic recalibration should be communicated to all levels of the organization. Decide whether the new benchmarking process will be complementary to the previous one or will represent a new area of improvement.

● What additional factors are relevant? Investigate what industry changes (systemic, technological) have occurred since the prior benchmarking process that would impact a new one.

After completing step 10, the organization will understand when and how it needs to recalibrate benchmarks and will never put itself at risk by becoming complacent.

### **Seven Steps in the Benchmarking Process:**

There is no single benchmarking process that has been universally adopted. The wide appeal and acceptance of benchmarking has led to the emergence of benchmarking methodologies.

1. Determine which functional areas within your operation are to be benchmarked -- those that will benefit most from the benchmarking process, based upon the cost, importance and potential of changes following the study.
2. Identify the key factors and variables with which to measure those functions -- usually in the general form of financial resources and product strategy.
3. Select the best-in-class companies for each area to be benchmarked -- those companies that perform each function at the lowest cost, with the highest degree of customer satisfaction, etc. Best-in-class companies can be your direct competitors (foreign or domestic), or even companies from a different industry (parallel competitors with replacement or substitute products or services; latent competitors which might backwards- or forwards-integrate into your market; or, out-of-industry firms with whom you do not compete, but which have best-in-class areas to be studied such as FedEx or Wal-Mart in logistics).
4. Measure the performance of the best-in-class companies for each benchmark being considered -- from sources such as the SEC, companies themselves, articles in the press or trade journals, analysts in the market, credit reports, clients and vendors, trade associations, the government or from interviews with other organizations willing to share their prior research or "swap" it with you.
5. Measure your own performance for each variable and begin comparing the results in an "apples-to-apples" format to determine the gap between your firm and the best-in-class examples. Always feel free to estimate results, as exact measures are usually disproportionately difficult to obtain and often do not significantly add value to the study.
6. Specify those programs and actions to meet and surpass the competition based on a plan developed to enhance those areas that show potential for compliment. The firm can choose from a few different

approaches -- from simply trying harder, to emulating the best-in-class, changing the rules of the industry or leapfrogging the competition with innovation or technology from outside the industry.

7. Implement these programs by setting specific improvement targets and deadlines, and by developing a monitoring process to review and update the analysis over time. This will also form the basis for monitoring, revision and recalibration of measurements in future benchmarking studies.

Since most of the measures in a benchmarking process fall into one of two categories, financial resources and product strategy, this understanding can often be used to simplify the framework of analysis.

It remains my gut feeling that, regarding the success of the process itself, ROI is only really measured in documented "wins", for example we can describe success terms of contracts won due to a CI success. This can therefore be thought of in terms of new business signed and the profitability of that new business, a problem solved or costs contained or reduced by the implementation of the CI/benchmarking process.