May 2002

Benchmarking: Understanding the Basics

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INTRODUCTION

It is often stated that those who benchmark do not have to reinvent the wheel (Parker, 1996). By following others one can make improvements and not focus on stale ideas. Benchmarking at first glance may be mistaken for a copycat form of developing strategic plans and for making improvements within an organization. This is not true. Benchmarking is a process that allows organizations to improve upon existing ideas. In order to eliminate myths and misconceptions about benchmarking it is important to know exactly what benchmarking is, the different types of benchmarking, the criticisms of benchmarking, and the ethical practices concerning benchmarking.

WHAT IS BENCHMARKING?

"Benchmarking is simply the process of measuring the performance of one's company against the best in the same or another industry"(Stevenson, 1996). Benchmarking is not a complex concept but it should not be taken too lightly. Benchmarking is basically learning from others. It is using the knowledge and the experience of others to improve the organization. It is analyzing the performance and noting the strengths and weaknesses of the organization and assessing what must be done to improve.

The knowledge that is available for comparing operations and processes are vast (Boxwell, 1994). "An organization's ability to evaluate its practices against specific business strategies and objectives is critical to leveraging its knowledge capital" (Harper, 1996). Information is there for organizations and it should be evaluated, used, and shared. This is one of the primary goals of benchmarking. It is the process of using all of the knowledge and experience of others to develop new and fresh ideas. This is basic teamwork, which is the way progressive organizations are migrating. Many organizations are realizing how much more can be achieved if there is more collaboration between leaders in an industry.

There are three reasons that benchmarking is becoming more commonly used in industry (Boxwell, 1994). They are:

< Benchmarking is a more efficient way to make improvements. Managers can eliminate trial and error process improvements. Practicing benchmarking focuses on tailoring existing processes to fit within the organization.

< Benchmarking speeds up organization's ability to make improvements. In corporate America today, time is of the essence.

< Benchmarking has the ability to bring corporate America's performance up as a whole significantly. If every organization has excellent production and total quality management skills then every company will have world class standards.

Benchmarking is not just making changes and improvements for the sake of making changes, benchmarking is about adding value. No organization should make changes to their products, processes, or their organization if the changes do not bring benefits. When using benchmarking techniques, an organization must look at how processes in the value chain are performed (Stevenson, 1996):

1. Identifying a critical process that needs improvement.
2. Identify an organization that excels in the process, preferably the best.
3. Contact the organization that you are benchmarking; visit them, and study the process or activity.
4. Analyze the data.
5. Improve the critical process at your own organization.

All of these things lead to successful benchmarking a product, process, or area within an organization. As stated by Bill Krenek, the International Benchmarking Clearinghouse technology coordinator, "Benchmarking provides the quantum leaps needed to keep on top" (Harper, 1996).

TYPES OF BENCHMARKING

There are three primary types of benchmarking that are in use today. These are process benchmarking, performance benchmarking, and strategic benchmarking (Bogan, 1994). Process benchmarking focuses on the day-to-day operations of the organization. It is the task of improving the way processes performed every day. Some examples of work processes that could utilize process benchmarking are the customer complaint process, the billing process, the order fulfillment process, and the recruitment process (Bogan, 1994). All of these processes are in the lower levels of the organization. By making improvements at this level, performance improvements are quickly realized. This type of benchmarking results in quick improvements to the organization. Performance benchmarking focuses on assessing competitive positions through comparing the products and services of other competitors. When dealing with performance benchmarking, organizations want to look at where their product or services are in relation to competitors on the basis of things such as reliability, quality, speed, and other product or service characteristics.

Strategic benchmarking deals with top management. It deals with long term results. Strategic benchmarking focuses on how companies compete. This form of benchmarking looks at what strategies the organizations are using to make them successful. This is the type of benchmarking technique that most Japanese firms use (Bogan, 1994). This is due to the fact that the Japanese focus on long term results.

Other types of benchmarking are competitive benchmarking, cooperative benchmarking, collaborative and internal (Boxwell, 1994). Competitive benchmarking is the most difficult type of benchmarking to practice. For obvious reasons, organizations are not interested in helping a competitor by sharing information. This form of benchmarking is measuring the performance, products, and services of an organization against its direct or indirect competitors in its own industry. Competitive benchmarking starts as basic reverse engineering and then expands into benchmarking. Reverse engineering is a competitive tool used in benchmarking. It looks at all aspects of the competition's strategy. This does not just include the disassembly and examination of the product but it analyzes the entire customers' path of the organization's competitor. This is a difficult thing to do because this information is not easily obtained. Therefore, it requires extensive research. It is also important to remember when using competitive benchmarking that the goal is to focus on your direct competitors and not the industry as a whole.

"Cooperative and collaborative benchmarking are the most widely used types of benchmarking because they are relatively easy to practice" (Boxwell, 1994). These forms of benchmarking are a more accommodating way of getting information. In cooperative benchmarking, organizations invite best in class organizations to meet with their benchmarking team to share knowledge. This is usually done without much controversy because these organizations are not direct competitors. During this process information flows one way. From the "best in class" organization to the benchmarking team organizations. Collaborative benchmarking does the opposite, information flows many ways. With collaborative benchmarking, information is shared between groups of firms. It is a brainstorming session among organizations. It is important to realize that not all collaborative efforts are considered benchmarking. It is sometimes called "data sharing." Data sharing results do not focus on the process but only the end result, while benchmarking focuses on the processes of the organizations (Boxwell, 1994).

Internal benchmarking is used to identify the best in house practices in the organization and to disseminate these practices throughout the organization. Internal benchmarking allows managers in the organization to be more knowledgeable about the organization as a whole.

CRITICISMS OF BENCHMARKING

As with any new concept there are those who are in favor of the idea and those who oppose or criticize it. Benchmarking should not be used as is a way to set goals. Those who are responsible for meeting specific goals must understand all of the processes that are required to make the goal a reality. One of the criticisms of benchmarking is that it can be considered as spying on the competition (Boxwell, 1994). This is not truth. Benchmarking is not spying on the competition but keeping up with what they and the rest of the industry are doing. In Japan, benchmarking is a part of their manager's job descriptions (Boxwell, 1994). This is one of the ways that the Japanese are able to keep up with and surpass others in industries such as automobiles, motorcycles, electronics, etc.

Another criticism of benchmarking is that it is copycatting. This is what many think that benchmarking is. They feel that those who benchmark do not develop their own ideas. Copycatting and Benchmarking are not one and the same. Copycatting leads to lessened creativity and stale ideas. Benchmarking is not supposed to take the place of managers bringing insight and original strategies into the organization. Although copycatting is an easy trap for managers to fall into, it is important for managers to realize that benchmarking will never be an excuse for managers to stop being creative and innovative.

Some organizations do not utilize benchmarking because they feel that if it's not broke, don't fix it. When a company is doing well financially, they have a tendency to resist change and not worry about competitors (Harper, 1996). Many organizations shy away from benchmarking because they do not understand what benchmarking is and they feel that they do not have anything to gain.

ETHICAL PRACTICES CONCERNING BENCHMARKING

Since the concept of benchmarking can lead to unscrupulous and sometimes unethical behavior, the SPI Council on Benchmarking and the International Benchmarking Clearinghouse have established a general code of conduct (Thompson). The code is as follows:

<   When benchmarking with competitors, set up certain rules that state that things will not be discussed that give either company a competitive advantage. Establish the purpose is for both parties to improve or gain benefit. Costs should not be discussed.
<   Do not ask competitors for sensitive information. Do not make them feel that if the data is not shared the benchmarking process will end. If you ask the company for sensitive and valuable information, be prepared to give the same in return.
<   Use an ethical and unbiased third party such as an ombudsman or legal advisor for direct competitor advice.
<   Consult with a legal advisor if any information gathering procedure is in doubt.
<   Treat any information obtained from a benchmarking partner as privileged or "top secret" information. Don't give away any information or potential trade secrets without permission.
<   Do not misrepresent yourself or your organization as being someone or something that you are not.
<   Show that you are committed to the effectiveness of the process. And in doing so maintain a professional and honest relationship with your benchmarking partners.

As stated before, benchmarking is not a concept to be taken lightly. If organizations are looking for an easy way to make improvements, benchmarking is not the way. Ethical practices must be used when benchmarking is concerned because of the significant margin of error. When benchmarking is involved, it is important to make sure that things are done in the most professional manner possible, if not, problems will arise.

XEROX CORPORATION

Benchmarking can be called the management tool that revived Xerox. Xerox defines benchmarking as the "continuous process measuring our products, services, and practices against our toughest competitors or those companies recognized as leaders (Parker, 1996). The Xerox of today is not the Xerox of the sixties and seventies. During that time period the organization experienced market erosion from competitors, primarily Japanese. These competitors were marketing higher quality products in the United States at the same price or lower as Xerox. Xerox found that the Japanese were able to assemble quality products at a low price. This was hard for Xerox to grasp because they were the first to develop the photocopy and their name had come to be synonymous with photocopies. How could the Japanese be beating them at their own game? Xerox found that they had to regroup. In doing this they used reverse engineering and made competitive benchmarking a fundamental part of their operations by the early eighties. Xerox began to study other organizations within and out of their industry. By 1983, Xerox had bench marked more than 230 process performance areas in their operation. They looked at all aspects of their business. Identifying the best processes used by others, Xerox adapted them for their own use. This is how they regained their core competency and strategic advantage in the photocopying industry (Brogan, 1994).

CONCLUSION

Benchmarking can be as complex as re-engineering or as simple as thumbing through the quarterly reports of organizations and making comparisons. Although organizations must use benchmarking with some caution, it can be informative and foster a spirit of openness and cooperation from indirect competitors(Graham, 1997). It is not enough to benchmark the costs of activities and identify best practices. When an organization looks at benchmarking they must look at all aspects of the business, its products, and its processes. It is crucial for organizations to focus on anything that will impact its performance and quality.

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