

Facilitator's Body of Knowledge Research Project

Benchmarking

Background: Benchmarking is defined as "...the process of identifying, understanding, and adapting outstanding practices and processes from organizations anywhere in the world to help your organization improve its performance."

—American Productivity & Quality Center

Benchmarking was first used by the Xerox Corporation in the late 1970s. Until then learning from other organizations was basically limited to reverse engineering. Xerox's concept differed in two very important ways; first, it focused on key processes rather than finished products, and second, Xerox relied on a cooperative effort of several partners to generate their success. Benchmarking reflects a major shift in improvement strategies used by organizations.

Benchmarking is not only done against competitors in your industry. It's important to reach out to other industries that perform similar processes but may have to perform this process extremely well in order to succeed.

Types of Benchmarking

There are five types of benchmarking:

Process (aka Generic) - Organizations observe and investigate business processes with a goal of observing the best practices from one or more benchmark firms. This can be done internal, between components of the same company, and external, between organizations in the same or different industries.

Competitive - This is also known as Strategic or Performance benchmarking. This type allows organizations to assess their competitive position by comparing products and services with those of target firms. Competitive benchmarking is usually conducted between industries not within your competitive group.

Functional - This is the comparison of an entire function, (ie HR, IT) in order to improve the operation of that function.

Financial – The conduct of a financial analysis comparing results to assess overall competitiveness.

Product – This is a product focused process where the product design processes for new or upgrades to current products are compared and assessed.

Benchmarking Process

The wide appeal and acceptance of benchmarking has led to the development of several benchmarking methodologies so there is no universally adopted method. The most prominent methodology is the 12 stage methodology by Robert Camp (who wrote the first book on benchmarking in 1989). Although for this article I have created the following composite 10 Step methodology:

- 1. Choose a Benchmarking Project:** Because benchmarking can be applied to any business process or function, a range of research techniques may be required. Select those Processes that will benefit most from the benchmarking process, based upon the cost, importance and potential of changes following the study.
- 2. Define the process** Before beginning a comparison with other organizations it essential that you gain intimate knowledge of your organization's process. This requires that the process to be fully defined (procedures documented, process mapped and measures base-lined) identify the key factors and variables with which to measure the key functions.
- 3. Identify potential partners** Identify and 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 direct competitors, or from a different industries (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).

Facilitator's Body of Knowledge Research Project

4. **Identify data sources** Look for the very best in any industry and in any country. Consult customers, suppliers, financial analysts, trade associations, and magazines to determine which companies are worthy of study. Companies target specific business processes using detailed surveys of measures and practices used to identify business process alternatives and leading companies.
5. **Collect data and select partners** Measure the performance of the best-in-class companies for each benchmark being considered with other organizations willing to share their prior research or "swap" it with you.
6. **Determine the gap** Compare the results with your own performance for each variable in an "apples-to-apples" format to determine the gap between your organization and the best-in-class examples.
7. **Establish process differences** After examining the gap it is important to note what differentiates the best in class process and outputs with yours. The idea isn't to copy their process but to examine what makes their process great for them and how it may be adapted to serve your interests.
8. **Target future performance** 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.
9. **Implement** Develop implementation plans which take the leading edge practices, include identification of specific opportunities, funding the project, and selling the ideas to the organization for the purpose of gaining demonstrated value from the process. 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.

10. **Review/recalibrate** Each benchmark review is approached as a single event, but the process is often treated as a continuous process in which organizations continually seek to challenge their practices.

Limitations of Benchmarking

Benchmarking does have some limitations. Chief among them are the need for leadership commitment and resources to engage in benchmarking. To really succeed the organization needs to establish a culture of improvement using ongoing benchmarking events.

Another is the recognition that the competitive sensitivity of organizations often leads to marginalizing and generalizing information being shared. This gets in the way of success.

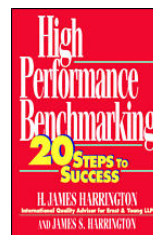
Application

Experience has shown that, when a project is supported by a facilitator, benchmarking is often more successful. Facilitators should be very familiar with the process and approach to ensure the group/organization is successful in each phase and step.

References:



Camp, Robert C.; Benchmarking: The Search for Industry Best Practices that Lead to Superior Performance Quality Resources May 1989 ISBN – 978-0873890588 \$31.00



High Performance Benchmarking: 20 Steps to Success, H. James Harrington, McGraw Hill Dec 1995, ISBN 008026774

http://www.finance.alberta.ca/publications/measuring/results_oriented/module2_overview.pdf

http://www.12manage.com/methods_benchmarking.html