CHAPTER 9

BENCHMARKING

Expected Outcomes
Understand the concepts of benchmarking
Determine benchmarking process and its critical success factor
Explain basics of performing a benchmark assessment

*Note: Most contents of this slide adapted from Besterfield, “Total Quality Management”, 2003*
Chapter Outline

• Benchmarking Defined
• Process and Reasons to Benchmark
• Deciding What to Benchmark
• Understanding Current Performance
• Planning
• Studying Others
• Learning From the Data
• Using the Findings
• Pitfalls and Criticisms Benchmarking
Lesson Outcomes

• Understand the concepts of benchmarking
• Determine benchmarking process and its critical success factor
• Explain basics of performing a benchmark assessment
Introduction

- Benchmarking measures performance against a set of standards or the performance of best-in-class organizations, determines how the best in class achieve those performance levels and uses the information as the basis for adaptive creativity and breakthrough performance (close the gap).

- Essence of benchmarking is the process of borrowing ideas an adapting them to gain competitive advantage

- Benchmarking is a common element of quality standards and it is tool for continuous improvement

*Source: Besterfield et.al, 2003*
Benchmarking Defined

Benchmarking Concept:

- What is our performance level? How do we do it?
- What are others’ performance levels? How did they get there?

Creative Adaptation

Breakthrough Performance

*Source: Institute of Industrial Engineers, 1995*
Benchmarks Defined

Two key elements in the definition of benchmarking:

1. Requires some sort of units of measure in measuring performance
   - Known as metrics and usually expressed numerically
   - The numbers achieved by the best-in-class benchmark are the target
   - An organization seeking improvement then plots its own performance against the target

2. Requires an understanding why their performance differs
   - Benchmarkers must develop a through and in-depth knowledge of both their own processes and the processes of the best-in-class organization

*Source: Besterfield et.al, 2003*
Reasons to Benchmark

• Tool to help organizations determine their strengths and reduce weaknesses
• Inspire organizations to compete
• Allow goals to be set objectively, based on external information
• Time and cost efficient because the process involves imitation and adaptation rather than pure invention
• Enhances innovation by requiring organizations to constantly scan the external environment and to use the information obtained to improve the process

*Source: Besterfield et.al, 2003*
Benchmarks the Process

1. Decide what to benchmark
2. Understand current performance
3. Plan
4. Study Others
5. Learn from the data
6. Use the findings

**Note**: Number of steps in the process may vary from organization to organization.

*Source: Besterfield et al., 2003*
Deciding What to Benchmark

• In deciding what to benchmark, it is best not to choose too large a scope

• Some questions that can be raised to decide high impact areas to benchmark:
  ✓ Which processes are causing the most trouble?
  ✓ Which processes contribute most to customer satisfaction and which are not performing up to expectations?
  ✓ What are the competitive pressures impacting the organization the most?
  ✓ What processes or functions have the most potential for differentiating our organization from the competition?

*Source: Besterfield et.al, 2003
Understand Current Performance

• Essential to thoroughly understand and document the organization current process (performance is well understood)
• Attention must be paid to inputs and outputs
• Those working in the process are the most capable of identifying and correcting problems
• When documenting the process, it is important to quantify it; units of measure must be determined
• These are key metrics that will be compared during the benchmarking investigation
• Data form the baseline for benchmark comparisons

*Source: Besterfield et.al, 2003*
Benchmark Planning

• Benchmark planning is a learning process; in fact, the entire purpose of benchmarking is to learn

• There are 3 main types of benchmarking:
  1. Internal – similar activities that are performed in different operating divisions
  2. Competitive - product competitors
  3. Process – known as functional or generic benchmarking

• Often a benchmarker is referred to someone else for additional information

• Planning process should result in a ‘short list’ of possible benchmark partners

*Source: Besterfield et.al, 2003
Study Others

• 2 types of information require for benchmarking studies:
  ▪ A description of how best-in-class processes are practiced
  ▪ The measurable result of these practices

• In seeking this information, benchmarkers can use internal sources, data in public domain, original research or a combination of sources

• 3 techniques for conducting original research are questionnaires, site visits and focus groups

  ❆ Focus Groups: Panels of benchmarking partners brought together to discuss areas of mutual interest – customers, suppliers or members of a professional organization

*Source: Besterfield et.al, 2003*
Learning from the Data

Benchmarking studies can reveal 3 different outcomes:

1. External processes may be significantly better than internal processes (**negative gap**) – need major improvement effort
2. Process performance may be approximately equal (**parity**) – requires further investigation to determine if improvement opportunities exist
3. The internal process may be better than that found in external organizations (**positive gap**) – should result in recognition for the internal process

*Source: Besterfield et.al, 2003*
Learning from the Data

• 2 ways to prove that one practice is superior to another:
  1. Adequate performance measures are available
  2. Through market analysis
• Identifiable benchmark gaps must be described and quantified
• Then, additional analysis is necessary to determine the root cause of the gaps
• Gaps are a result of process practices, general business practices, and the organizational and operational structure

*Source: Besterfield et.al, 2003
Use the Findings

• Benchmarking is a waste of time if change does not occur as a result.
• The findings must translate to goals and objectives, and action plans must be developed to implement new processes.
• Process changes are likely to affect upstream and downstream operations as well as suppliers and customers.
• New goals and objectives are set based on the benchmark findings – it should be consistent with the execution of the action plan so that the end result is process superiority.

*Source: Besterfield et.al, 2003*
Use the Findings

• Generic steps for the development and execution of action plans are:
  1. Specify tasks
  2. Sequence tasks
  3. Determine resource needs
  4. Establish task schedule
  5. Assign responsibility for each task
  6. Describe expected results
  7. Specify methods for monitoring results

• Remark: If a process is broken down to its component steps, a single external operation may not be the best in all sub-processes

*Source: Besterfield et.al, 2003*
Pitfalls & Criticisms of Benchmarking

• Benchmarking is an improvement tool and isn’t very helpful if it is used for processes that don’t offer much opportunity for improvement
• It breaks down if process owners / managers feel threatened / do not accept and act on the findings
• Some processes may have to be benchmarked repeatedly
• Not a substitute for innovation - it is a source of ideas from outside the organization
• Benchmarking forces an organization to set goals and objectives based on external reality

*Source: Besterfield et.al, 2003*