

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

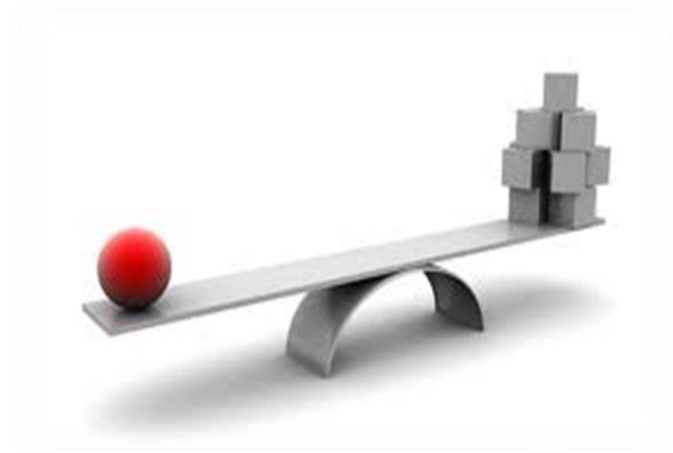
**Note: Most contents of this slide adapted from Besterfield, "Total Quality Management", 2003*

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

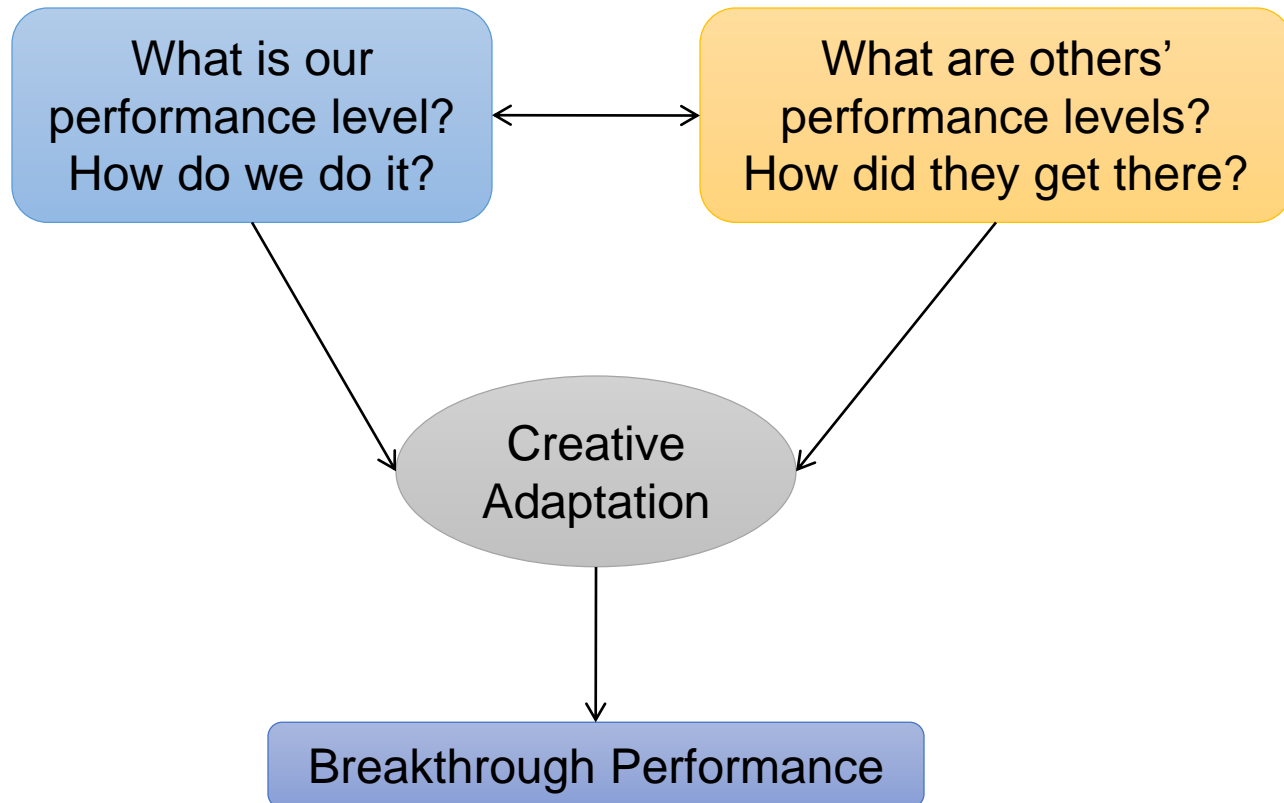


Introduction

- 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 and adapting them to gain competitive advantage
- Benchmarking is a common element of quality standards and it is a tool for continuous improvement

Benchmarking Defined

Benchmarking Concept:



**Source: Institute of Industrial Engineers, 1995*

Benchmarking Defined

Two key elements in the definition of benchmarking:

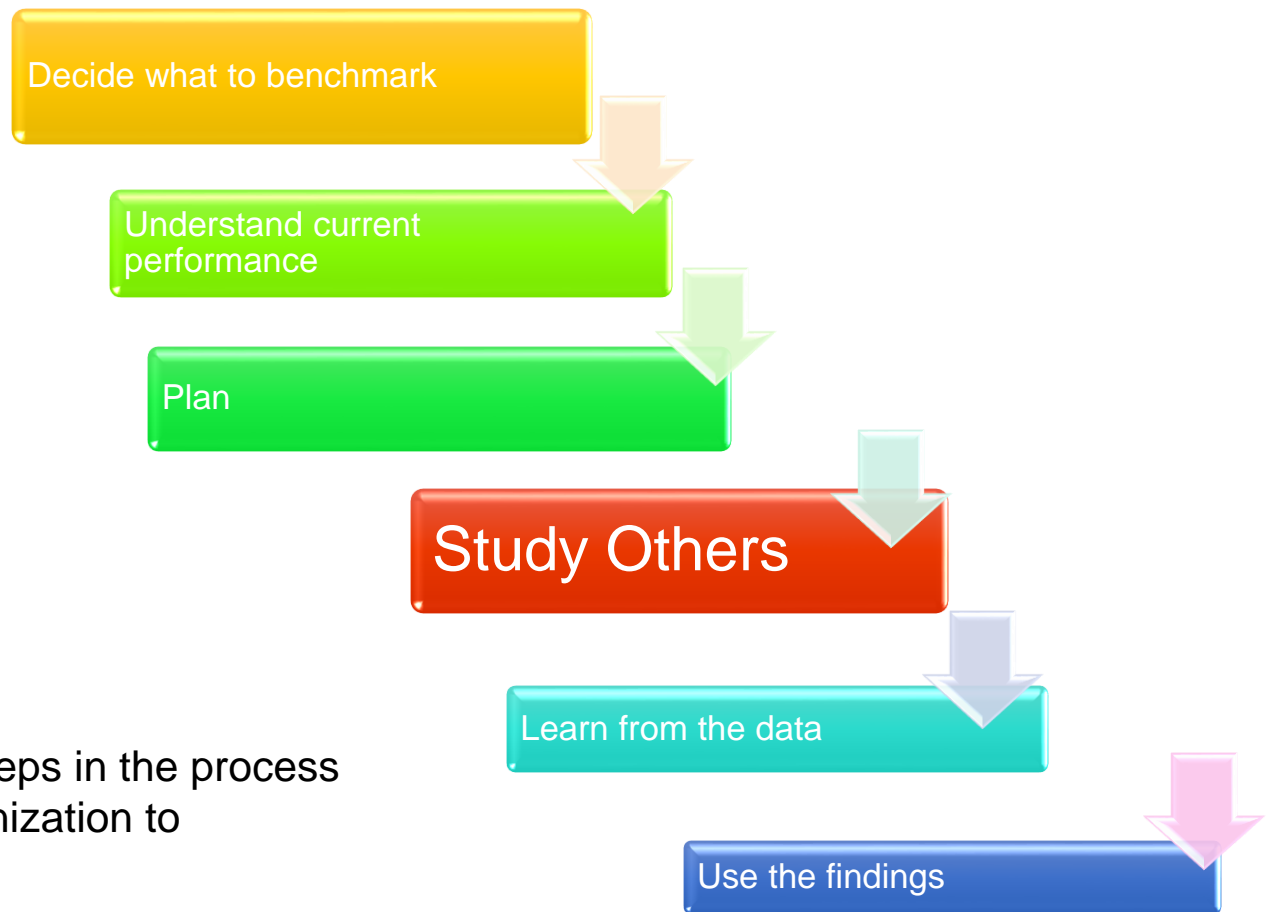
1. Requires some sort of units of measure in measuring performance
 - Known as metrics and usually expressed numerically
 - The numbers achieved by the best-in-class benchmark are the target
 - An organization seeking improvement then plots its own performance against the target
2. Requires an understanding why their performance differs
 - Benchmarkers must develop a thorough 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

Benchmarking Process



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?

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

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

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

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

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