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Benchmarking: Finding and implementing the best business practices in the organisation

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Abstract
Benchmarking is a strategy tool of comparison. It is used to compare the performance of the business processes and products of a company with that of the best performances of other companies inside and outside the industry which the company is a part of. Managers use the tool to identify the best practices in other companies and apply those practices to their own processes in order to improve the company's performance. Improving company's performance is, without a doubt, the most important gool of benchmarking. It is the continuous process of enlisting the best practices in the world for the process, goals and objectives leading to world-class levels of achievement.

Keywords: Action plans, Benchmarking, current performance gap, functional goals, future performance levels

Introduction
In order to know the standing of one's business, it needs to be compared with the competitors. For example, your top management may be pleased with the fact that the rate of customer satisfaction for your company till they come to know that Industry average for this variable is 95 per cent. In this situation, though the rate of 85 per cent seemed too brilliant initially, yet they will look dull when compared to industry. Therefore, use of 'benchmarking' becomes obvious.
Such a type of comparison as mentioned above was not considered important management tool until late 1980s and 1990s. Then, Xerox introduced the process benchmarking technique. Such a comparison proved very valuable and Xerox, AT&T and other companies stared to compare the performance of their processes with that of the best standards in the industry. The following table shows how benchmarking evolved into a modern strategy tool:

Benchmarking History	
1950-1975	Reverse engineering
1976-1986	Competitive benchmarking
1982-1986	Process benchmarking
1988+	Strategic benchmarking
1993+	Global benchmarking

Source: J. Blakeman, University of Wisconsin-Milwaukee

Types of Benchmarking
Three major types of benchmarking were identified by Tuominen and Bogan and English:

- **Strategic benchmarking:** This type of benchmarking is used to identify the best way to compete in the market. In this type of benchmarking, the companies identify the winning strategies (typically outside the boundaries of their own industry) used by successful companies and thereafter adopt them in their own strategic processes.

- **Performance benchmarking:** Performance benchmark ing determines how strong a company's products and services are when compared to competition. According to Bogan and English, the tool mainly focuses on product and service quality, features, price, speed, reliability, design and customer satisfaction, but it can measure anything that has the measurable metrics, including processes.

- **Process benchmarking:** It requires to look at other companies that engage in similar activities and to identify the best practices that can be applied to your own processes in order to improve them. It usually derives from performance benchmarking. This is because companies first identify the weak competing points of their products or services and then focus on the key processes to eliminate those weaknesses.

Approaches to Benchmarking
Approaches to benchmarking are given here under:

1. **Internal benchmarking:** In large organizations that have operations in multiple geographic locations within or outside national and regional boundaries, or organisations managing plentiful products and services, duplicating functions and processes are usually performed among different teams, business units or divisions of the same organisation. Internal benchmarking is used to compare the work of such teams, units or divisions to identify the ones that are best performing and share the knowledge throughout the company to other teams to achieve higher performance

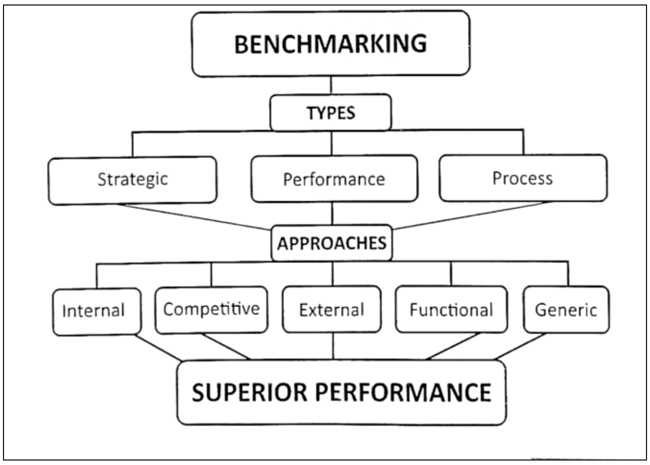
2. **External or competitive benchmarking:** Competitive benchmarking refers to a process when a company compares itself with the competitors inside its industry itself. External benchmarking looks both inside and outside the industry to find the best practices, thus, including competitive benchmarking.

3. **Functional benchmarking:** Managers of functional departments find it useful to analyze how well their functional area performs compared to functional areas of other companies. It is quite easy to identify the best marketing, finance, human resources or operations departments, in other companies, that excel in what

they do and to apply their practices to one's own functional area.

4. **Generic benchmarking:** General benchmarking refers to comparisons which "focus on excellent work processes rather than on the business practices of a particular organization". For example, a company tries to improve its marketing capabilities and benchmarks itself against company 'X'. While observing company's 'X's' marketing processes, it also notices the efficiency in management of its human resources by using 'big data' analytics. This gives it an idea to implement such analytics in its own HR department to significantly improve its overall performance.

The following diagram summarizes the types and approaches to benchmarking:



Advantages of Benchmarking

Benchmarking is advantageous viz.

- Easy to understand and use,
- If done properly, it's a low-cost activity that offers huge gains,
- Brings innovative ideas to the company,
- Provides with insight of how other companies organize their operations and processes,
- Increases the awareness of costs and level of performance compared to rivals,
- Facilitates cooperation between teams, units and divisions etc.

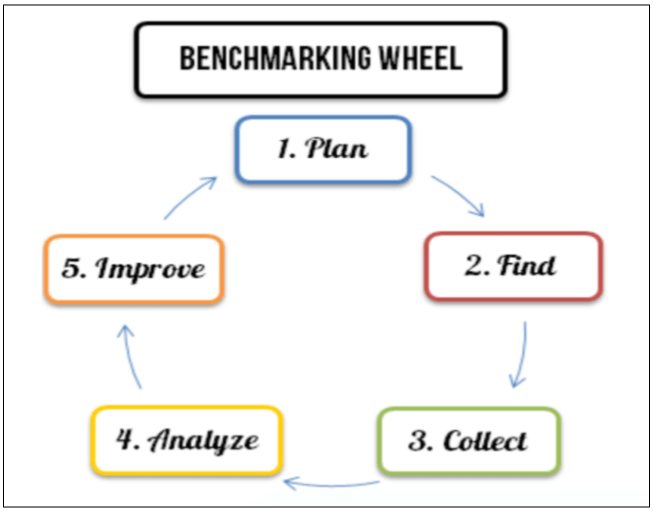
Disadvantages

Besides advantages, benchmarking has disadvantages too. They are

- Requires identification of a benchmarking partner,
- Sometimes impossible to assign a metric to measure a process,
- Might need to hire a consultant,
- The initial costs could be huge,
- Managers often resist the changes etc.

Benchmarking Wheel

The benchmarking wheel model was fist brought out in an article "Benchmarking of Quality". This is a five-stage process that was created by analysing more than 20 other models.



1. **Plan:** Clearly define what you want to compare and assign metrics to it.

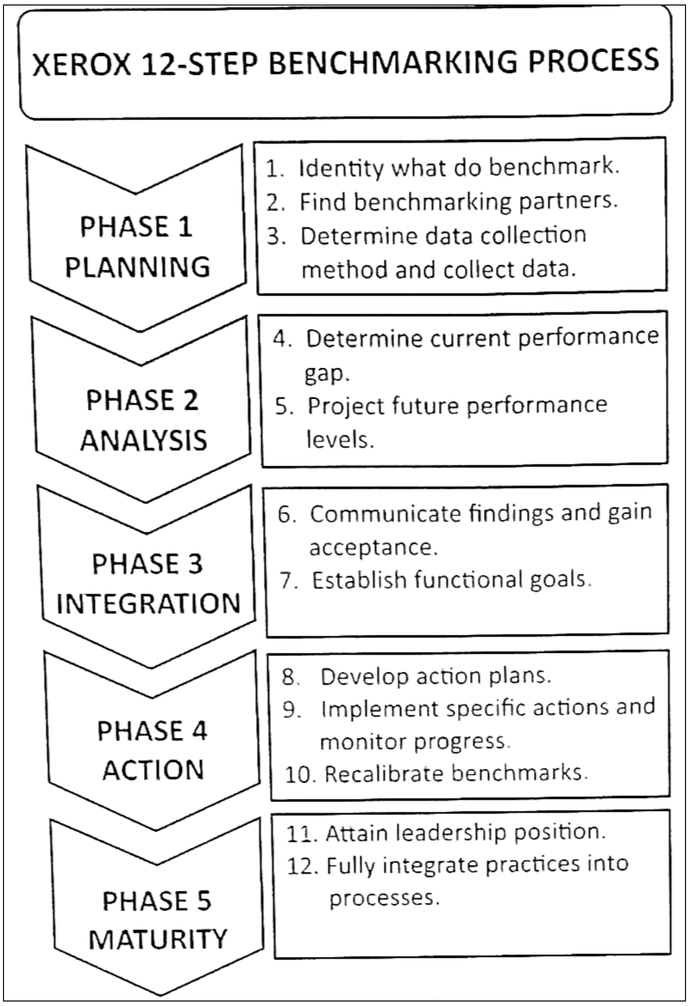
2. **Find:** Identify benchmarking partners or sources of information.

3. **Collect:** Choose the methods and gather the data for the metrics defined.

4. **Analyze:** Compare the metrics to identify the gap in performance between your company and the benchmarking partner. Provide the results and recommendations.

5. **Improve:** Implement the changes to your own products, services, processes or strategy.

Xerox has popularized benchmarking and was one of the first companies to introduce the process of doing it. This 5-phase and 12-step process was created by Camp, R. the manager of Xerox responsible for benchmarking.



Conclusion

Traditionally control involves comparison of the actual results with an established standard or target. The practice of setting targets using external information is known as ‘Benchmarking’. It is the establishment through data gathering of targets and comparatives, with which performance is sought to be assessed.

After examining the firm’s present position, benchmarking may provide a basis for establishing better standards of performance. It focuses on improvement in key areas and sets targets which are challenging but evidently achievable. Benchmarking implies that there is one best way of doing business and orients that firm accordingly. It is a catching-up exercise and depends on the accurate information about the competitive company- be it inside the group or an outside firm.

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