benchmarking

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Benchmarking is defined as the comparison of products, services, and processes across divisions that carry out similar operations in the same organization, among competing firms in the same industry, or among firms with similar processes across different industries.

The purpose of benchmarking is to explore how and why organizations achieve higher levels of efficiency and to identify the methods and processes driving that performance. Benchmarking identifies an organizations' relative cost position and recognizes opportunities for improvement. Strategic advantage is achieved by concentrating on the competences required to upgrade to new performance levels. Benchmarking is used to initiate innovation through organizational learning, the generation of new ideas and knowledge sharing.

Benchmarking has its origins in engineering as part of process improvement programs. It is traced back to Xerox's efforts at the end of the last century, when it analyzed how Japanese firms could be selling products at a price lower than its own production costs.

Strategic management benchmarking employs a combination of quantitative and qualitative measures. The qualitative methodology involves the sharing of best practice concepts with competitors, which is common practice at the development stage and the standard setting stage of new products and processes.

Sample Selection

Benchmarking is typically conducted by individual organizations or groups of organizations. Subsidiary units of an international organization would collect information from operations in different countries. Competing organizations within an industry may engage in collaborative benchmarking as often seen in the automotive industry.

The sample units of benchmarking can be internal, external, or on an international scale.

Internal benchmarking involves units from the same organization, such as regional divisions or country units, where there are fewer issues involved in sharing commercially sensitive data. Information would be standardized across the units and would be ready for quantitative comparison. Internal benchmarking is carried out in less time and with fewer resources than external benchmarking.

The disadvantage lies in the nature of the units of comparison. The divisions may not be best-in-class across the industry, and important innovations would not be identified during the exercise.

External benchmarking covers organizations that are known to be industry leaders. It is implemented when internal units are recognized as lacking in performance compared to players in the external competitive landscape. The opportunities for organizational learning are higher. However, the resources required for this category of benchmarking are significant.

International benchmarking is becoming more feasible as digital technology has increased the opportunity of international collaboration. Products and processes are compared in a global context and across different stages of the life cycle, which may evolve at different rates across the globe.

Units of Analysis

Organizations engage in benchmarking to observe the following:

Strategic performance. This type of benchmarking looks at the drivers of high performance, usually across different industries. Qualitative units of analysis such as product innovation, core competencies, and dynamic capabilities are measured. It is used when organizations are under pressure from their markets or their competitors to improve their overall performance. Strategic planning is reviewed and realigned when it is no longer responsive to changes in the external environment. The challenge of benchmarking strategic performance is that implementation of new policies requires a culture change in the organization, which will take time to materialize.

Competitive performance. The exercise involves the analysis of the competitors in the same sector or market. Quantitative metrics covering key performance indicators such as profitability, growth market share, and sales are compared. The visual mapping of the relative levels

Wiley Encyclopedia of Management, edited by Professor Sir Cary L Cooper.

of performance provides better cognition of performance gaps. This category of evaluation is usually carried out by governmental organizations, industry associations, and independent consulting firms that would protect the participants' confidentiality.

Financial performance. The utilization of financial resources, costs, and profitability is analyzed. There is an overlap between financial benchmarking and competitive benchmarking as key performance indicators invariably involve financial factors. Financial benchmarking takes a closer look at revenue, cost of production, marketing, sales, delivery, and other operating expenses. Assets, liabilities, and equity are also taken into consideration. These figures are available in the registered accounts of public companies.

Product and service performance. The quality of an organization's deliverables for the customer is measured. This type of benchmarking evaluates the significance of quality elements and matches organizational performance to that of competitors in the same industry. It is designed to deliver timely and current information for the strategic planning processes.

The units of analysis are extracted from the quality factors that have a bearing on consumer buying behavior and purchasing decisions such as product performance and reliability, service delivery, purchasing processes, product availability, order cycle times, after sales service, support, and pricing structure.

This process can involve reverse engineering or products and processes. The technological components of an object or system are examined in terms of their structure, components, purpose, and operation. The process involves taking the product or process apart and examining its mechanisms in detail.

Core business process benchmarking. This is concerned with critical back-office processes where increasing efficiency, decreasing costs, or outsourcing may be a consideration. Organizations participating in the benchmarking process are selected from high performance organizations that deliver similar products or perform similar operational processes.

The initiating organization selects its observation of production and service processes with the aim of understanding the best practices from one or more benchmark firms. Process mapping is used to enable a visual comparison and analysis of different organizations.

Functional performance benchmarking. This type of benchmarking looks at other back-office processes which are non-customer centric and which are required to sustain the organizational structure. Typically, these include human resources, accounting and finance, facilities maintenance, information technology management, and compliance. The comparison of these processes is usually qualitative and of a tacit nature. It is not likely to be a direct comparison of costs and procedures. Functional benchmarking tends to occur in informal settings, through the exchange of ideas during industry meetings targeted at specific professions.

The nature and the source of benchmarking have given rise to complex quantitative methodologies for the comparison of quantitative metrics.

The most popular methods of analysis used in metric benchmarking are data envelope analysis (DEA) and regression analysis. DEA estimates the cost level that a high performance organization is able to reach in a specific market. Efficiency frontiers are charted over a range of variables, enabling organizations to visualize a target level of efficiency. Regression analysis provides a one point average as a target of what an organization firm should be able to achieve for a particular metric.

See also *coopetition*; *joint ventures*

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