

Everything You Need To Know About Benchmarking

by Dr Robin Mann, Chairman, Global Benchmarking Network

Executive Summary

- *Benchmarking is much more than performance comparisons.*
- *Benchmarking focuses on “learning from the experience of others” and is defined as “identifying, adapting, and implementing the practices that produce the best performance results”*
- *Benchmarking is a powerful method for breakthrough thinking, innovation, improvement and for delivering exceptional bottom-line results.*
- *New benchmarking methodologies aim to ensure that benchmarking projects result in major benefits (financial and non-financial).*
- *New website tools make benchmarking easier.*

Introduction

Organisations are constantly looking for new ways and methodologies to improve their performance and gain a competitive advantage. As they seek improvements to their own business processes, many organisations recognise the importance of learning from best practices that have been achieved by other organisations. By removing the need to ‘reinvent the wheel’ and providing the potential to adopt proven practices, benchmarking has become an important methodology for providing a fast-track to achieving organisational excellence.

Types of benchmarking

It is useful to distinguish between the main types of benchmarking.

Firstly, there is “**Informal Benchmarking**”. This is a type of benchmarking that most of us do unconsciously at work and in our home life. We constantly compare and learn from the behaviour and practices of others – whether it is how to use a software program, how to cook a better meal, or play our favourite sport. In the context of work, most learning from informal benchmarking comes from the following:

- Talking to work colleagues and learning from their experience (coffee breaks and team meetings are a great place to network and learn from others)
- Consulting with experts (for example, business consultants who have experience of implementing a particular process or activity in many business environments)
- Networking with other people from other organisations at conferences, seminars, and Internet forums.
- On-line databases/web sites and publications that share benchmarking information provide quick and easy ways to learn of best practices and benchmarks.

Secondly, there is “**Formal Benchmarking**” of which there are two types – Performance Benchmarking and Best Practice Benchmarking.

Performance benchmarking describes the comparison of performance data obtained from studying similar processes or activities. Comparisons of performance may be undertaken between companies – or internally within an organisation. It is useful for identifying strengths and opportunities for improvement. Performance benchmarking may involve the comparison of financial measures (such as expenditure, cost of labour, cost of buildings/equipment, cost of energy, adherence to budget, cash flow, revenue collected) or

non-financial measures (such as absenteeism, staff turnover, the percentage of administrative staff to front-line staff, budget processing time, complaints, environmental impact or call centre performance).

Most people equate benchmarking to performance benchmarking. This is unfortunate, because performance benchmarking on its own is of limited use. Too often performance benchmarking data is collected (often at significant cost) and no further action is taken after the data has been obtained. Whilst performance benchmarking enables a performance gap to be identified, it does not provide the idea, best practice or solution as to how performance can be improved and the gap closed.

Best Practice Benchmarking describes the comparison of performance data obtained from studying similar processes or activities and identifying, adapting, and implementing the practices that produced the best performance results. Best practice benchmarking is the most powerful type of benchmarking. It is used for “learning from the experience of others” and achieving breakthrough improvements in performance. Best practice benchmarking focuses on “Action” – i.e. doing something with the comparison data and learning why other organisations are achieving higher levels of performance. Best practice benchmarking projects typically take from 2 to 4 months to identify best practices. The practices then need to be adapted and implemented. The time taken for the whole project varies dependent on the project’s scope, importance, and resources used. Projects are usually resource intensive (in terms of the project team’s time) and so care needs to be taken that they focus on issues of high strategic importance that will deliver major bottom-line benefits.

Popularity of benchmarking

Research by the Centre for Organisational Excellence Research, on behalf of the Global Benchmarking Network, identified the popularity of benchmarking in comparison to other business improvement tools (COER, 2008). The survey was completed by over 450 companies from more than 20 countries.

Figure 1 shows the results in terms of the popularity of 20 business improvement tools. Mission and vision statements and Customer (client) surveys were the most popular (used by 77% of organizations), followed by Strengths, weaknesses, opportunities, and threats (72%), and Informal benchmarking (68%). Performance benchmarking was used by (49%) and Best practice benchmarking by (39%).

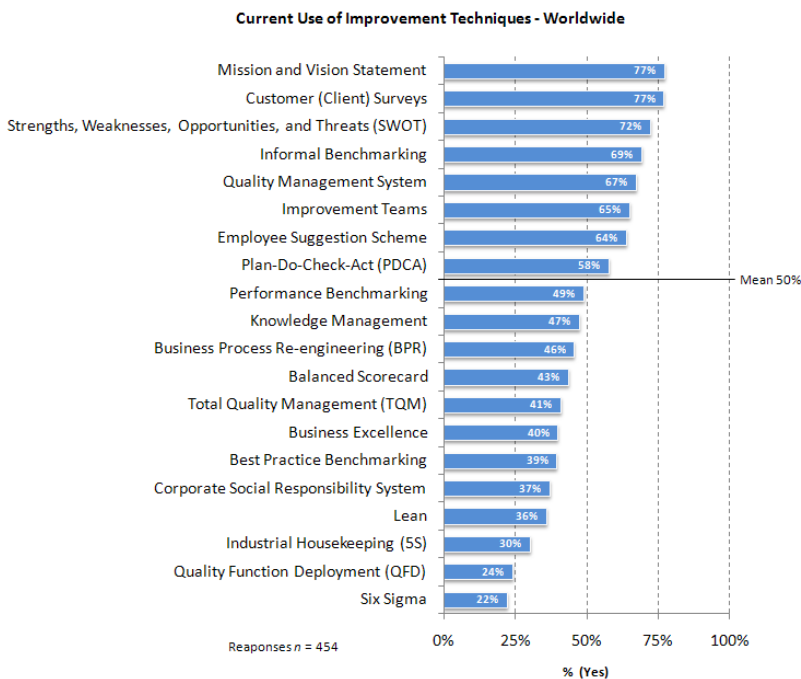


Figure 1 – Use of business improvement tools worldwide

What is the payback from benchmarking?

This depends on the type of benchmarking. For Informal or Performance Benchmarking it is difficult to assess as these types of benchmarking are focussed on organisational learning and/or better decision making and usually the benefits are not quantified by organisations using these techniques. However, it can be assumed that these methods and benchmarking in general is very important if an organisation wishes to compete nationally and internationally – it makes sense for an organisation to have management processes and systems of a similar or better standard than competitors. Certainly, business excellence models, which are used in over 80 countries to encourage companies to apply the principles of business excellence, have as a core element the need for organisations to benchmark, identify performance gaps and learn from others. The most popular business excellence models are the Baldrige Criteria for Performance Excellence (developed in the United States) where benchmarking accounts for approximately 50% of the model score and the European Foundation for Quality Management (EFQM) Excellence Model.

For best practice benchmarking the payback can be calculated on a project by project basis. Payback, from a financial perspective, is likely to vary dependent on the specific aims of the project. If projects are carefully selected, planned and managed, there is no reason why major benefits (financial and non-financial) should not be obtained. A study of 57 organisations that used best practice benchmarking indicated an average financial return of \$100,000 to \$125,000 per project with over 20% reaping benefits of more than \$250,000 per project (COER, 2008).

There are many case studies focusing on success gained through benchmarking. The best known of these describe the experience of Xerox who were the pioneers in applying benchmarking concepts (Dr Robert Camp, previously of Xerox, wrote the first book on benchmarking in 1989). In the late 1970s and early 1980s, faced with ruin due to more efficient Japanese competitors, Xerox first undertook some performance benchmarking and their findings were astonishing. They found:

- Xerox's ratio of indirect to direct staff was twice that of direct competition;
- It had nine times the number of production suppliers;
- Assembly line rejects were in the order of ten times worse;
- Product time to market was twice as long;
- Defects per 100 machines were seven times worse.

To address this crisis situation Xerox developed its benchmarking approach to not only identify performance gaps but to also learn why other organisations were performing better. Much of this learning came from studying the practices of organisations from outside their industry – this often resulted in identifying breakthrough practices. For example, Xerox benchmarked L.L. Bean, a Maine outdoor sporting goods retailer, because of their excellent warehouse procedures that are now the standard at most companies. In total, over a period of ten years, almost 230 performance areas were benchmarked. This resulted in Xerox becoming an industry leader and recognised as world class. Xerox won the Malcolm Baldrige National Quality award in the United States in 1989.

Methodologies for Best Practice Benchmarking

There is no single benchmarking methodology that has been universally adopted. The wide appeal and acceptance of benchmarking has led to various benchmarking methodologies emerging. TRADE is one such methodology. The TRADE benchmarking methodology focuses on the exchange (or "trade") of information and best practices to improve the performance of processes, goods and services.

TRADE consists of five stages:

- **T**erms of Reference (plan the project - aims, objectives, scope, resources, cost/benefit analysis)
- **R**esearch (research current state/ performance)
- **A**ct (undertake data collection & analysis – to compare against others)
- **D**eploy (communicate and implement best practices)
- **E**valuate (evaluate the benchmarking process and outcomes to ensure the project has met its aims)

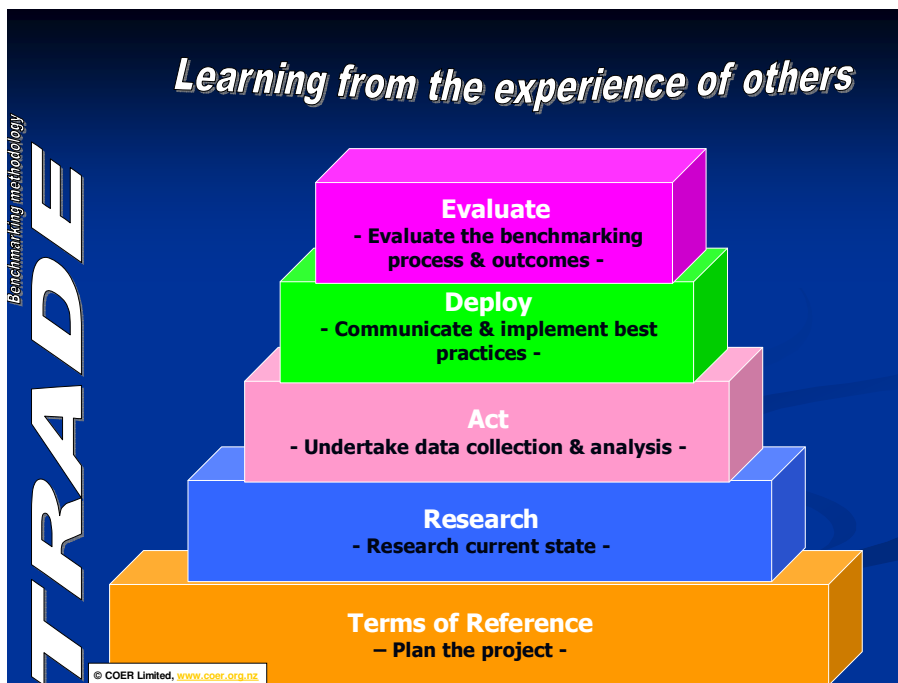


Figure 2 – TRADE best practice benchmarking methodology

Benchmarking projects should be targeted at a process area or activity that will deliver the best value to an organisation. The project aim can be broad or specific. The project aim may relate to improving the performance of a process, activity/task, business improvement tool, equipment, strategy or behaviour. Examples of project aims are as follows:

- To improve our customer complaint management process to a world-class standard.
- To identify and implement best practices in the application of the Balanced Scorecard.
- To become an industry leader on how to provide financial information to our clients.
- To develop a winning team culture.
- To reduce the time taken to recruit new staff

Once a project aim is set the process or activity to be studied should be broken down into its component parts and current performance measured. Benchmarking partners to learn from can then be identified for the component parts and their practices studied through surveys or site visits. An analysis is then conducted to determine which processes or activities should be adapted and implemented.

The use of technology to make benchmarking easier

In the 1980's and 1990's benchmarking was mainly confined to large successful private sector organisations, with projects that tended to be extremely costly but gained very high returns. Today's technological advancements have transformed communications and opened up a whole new information based world. Any organisation can now access low-cost internet-based benchmarking services and opportunities such as consortia, surveys both on and off line, virtual common interest groups such as forums, and best practice information resources. These resources are a real boon to organisations that want to access best practices and expert advice/opinion but do not have the resources for full-scale benchmarking projects.

The Business Improvement Performance Resource (BPIR.com) is one of the new resources that is a valuable support to benchmarking projects. The BPIR, see Figure 3, is a vast knowledge repository containing databases with thousands of benchmarks, measures, best practices, benchmarking partners, case studies and studies/trends that cover virtually every aspect of business. The resource can help to improve any business practice from handling customer complaints, to undertaking performance appraisals, to improving strategic planning processes. Pricewaterhouse Coopers (2003) summed up the potential that these new generation of

tools can have. In its Trendsetter Barometer Survey, it concluded that evidence suggested Benchmarking-database users can achieve 69% faster growth, and 45% greater productivity than non-users.

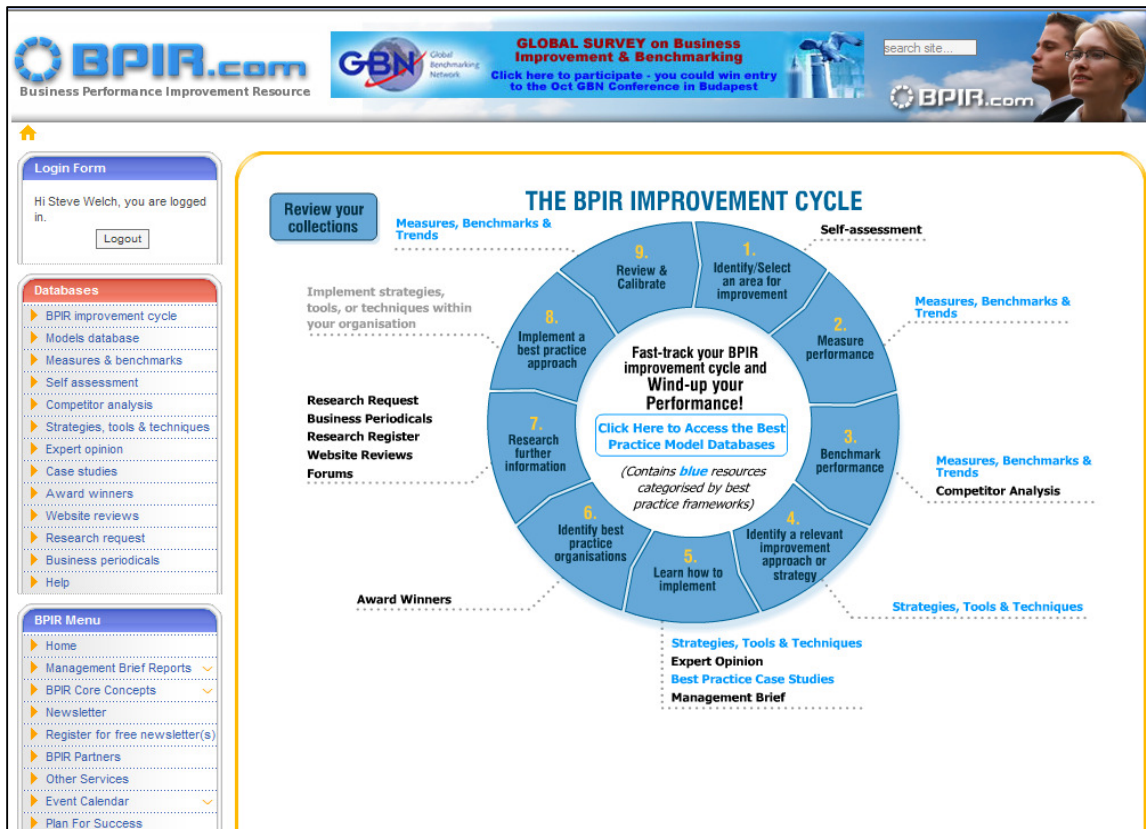


Figure 3 – Business Performance Improvement Resource (BPIR) - www.BPIR.com.

Conclusion

Benchmarking is a proven, powerful tool that can facilitate organisations to improve efficiency, increase value-add, and gain a competitive edge. The rationale underpinning benchmarking is sound, and the benchmarking concept of ‘learning from others’ should be embedded throughout all improvement-focused organisations. Benchmarking projects should be linked to key organisational objectives and support from senior management needs to be both strong and visible.

There is little doubt about the potential and versatility of benchmarking as a tool. It has been successfully applied by organisations of different sizes and in different industry sectors and has become one of the most popular management tools. However, it is thought most organisations use performance benchmarking (comparing of performance) rather than the more powerful but resource intensive approach of best practice benchmarking (comparing and learning from others and implementing best practices). Using best practice benchmarking methodologies, such as TRADE, and website resources, such as the BPIR.com, will help more organisations to reap the benefits from benchmarking.

The Best Sources of Help

Books:

1. Camp, R. (1989). Benchmarking. The Search for Industry Best Practices That Lead to Superior Performance. Productivity Press.

Websites:

- Baldrige National Quality Programme, www.quality.nist.gov. – US Government’s website that promotes the Baldrige Criteria for Performance Excellence.
- Business Performance Improvement Resource, www.bpir.com, - Resource of benchmarks and best practices.
- Centre for Organisational Excellence Research, www.coer.org.nz, - Research and consultancy organisation. The website provides information on business excellence and TRADE benchmarking projects.
- European Foundation for Quality Management, www.efqm.org – Membership organisation that are the developers and custodians of EFQM Excellence Model.
- Global Benchmarking Network, www.globalbenchmarking.org – Provides a listing of those organisations that are the main promoters/ experts in benchmarking from over 20 countries.

References:

- Centre for Organisational Excellence Research, (2008), International Study on the Use and Benefits of Benchmarking, November 2008, COER Reports – www.coer.org.nz, Palmerston North, Massey University.
- Pricewaterhouse Coopers (2003), Barometer Surveys: Fast-Growth Companies That Benchmark Grow Faster, Are More Productive Than Their Peers, Link: 12 Sept, PWC.

Bio

Dr Robin Mann is the Head of the Centre for Organisational Excellence Research, New Zealand, www.coer.org.nz, Chairman of the Global Benchmarking Network, www.globalbenchmarking.org, Advisory Board member of the e-TQM College, Dubai www.etqm.ae and Co-Founder of BPIR.com Limited, www.bpir.com – a leading benchmarking website resource with over 6,000 members worldwide. Robin’s experience includes managing the UK’s Food and Drinks Industry Benchmarking and Self-assessment Initiative (1995-1998), New Zealand Benchmarking Club (2000-2004), the Sheikh SAQR Government Excellence Program, UAE (2005-2007) and leading TRADE benchmarking projects in Singapore (2007 onwards). Robin worked in Edinburgh (1992-1995) for Burton’s Biscuits as a process improvement manager and obtained his PhD in TQM at Liverpool University in 1992. Robin undertakes consultancy on business excellence and benchmarking all over the world.

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