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BENCHMARKING – INNOVATION MANAGEMENT

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It is often stated that those who benchmark do not have to reinvent the wheel. By following others one can make improvements and not focus on stale ideas. Benchmarking at first glance may be mistaken for a copycat form of developing strategic plans and for making improvements within an organization. This is not true. Benchmarking is a process that allows organizations to improve upon existing ideas. Benchmarking is the process of improving performance by continuously identifying, understanding, and adapting outstanding practices and processes found inside and outside an organization. The purpose of benchmarking is to identify and adopt best known practices that can lead to superior performance. In contrast to evaluations and economic impact assessments benchmarking is an efficient and effective way to identify the potential of a cluster and to develop strategic recommendations for its further development within a short time frame. In simple terms, benchmarking is the practice of being humble enough to admit that others are better at something and being wise enough to learn how to match—and even surpass—them at it. Benchmarking is a systematic process - it must have a framework and use a standard set of attributes that are measurable to compare multiple organizations objectively.

Most of the early work in the area of benchmarking was done in manufacturing. Now benchmarking is a management tool that is being applied almost anywhere. It was pioneered by Xerox Corporation in the 1979s, as part of their response to international competition in the photocopier market, and originated from reverse engineering of competitors' products. Its scope was then enlarged to include business services and processes. Xerox now benchmarks nearly 240 performance elements although when they started benchmarking several years ago, considerably fewer elements were benchmarked.

Companies use benchmarking to:

- Improve performance. Benchmarking identifies methods of improving operational efficiency and product design.
- Understand relative cost position. Benchmarking reveals a company's relative cost position and identifies opportunities for improvement.
- Gain strategic advantage. Benchmarking helps companies focus on capabilities critical to building strategic advantage.
- Increase the rate of organizational learning. Benchmarking brings new ideas into the company and facilitates experience sharing.

As with any new concept there are those who are in favor of the idea and those who oppose or criticize it. Benchmarking should not be used as is a way to set goals. Those who are responsible for meeting specific goals must understand all of the processes that are required to make the goal a reality. In Japan, benchmarking is a part of their manager's job descriptions. This is one of the ways that the Japanese are able to keep up with and surpass others in industries such as automobiles, motorcycles, electronics, etc. Some organizations do not utilize benchmarking because they feel that if it’s not broke, don’t fix it. When a company is doing well financially, they have a tendency to resist change and not worry about competitors. Many organizations shy away from benchmarking because they do not understand what benchmarking is and they feel that they do not have anything to gain.

The wide appeal and acceptance of benchmarking has led to the emergence of benchmarking methodologies. The following **10 steps** will keep any organization on track in its benchmarking endeavors.

Step 1 - Determine processes to be benchmarked. This step involves defining as accurately as possible the process to be benchmarked. It is the cornerstone of the entire benchmarking process. An incorrect identification at this stage could result in a waste of precious resources at later stages.

Step 2 - Determine organizations to be benchmarked. This step determines which organizations should be studied by identifying "the best of the best"-organizations whose practices can be adapted to your requirements. An incorrect choice could lead to electing partners that are not true benchmarks for the selected process, that are uncooperative or whose practices are incompatible or irrelevant to your needs.

Step 3 - Gather data. This step involves creating a plan for collecting data from selected targets, conducting site visits and creating a site visit report. The correct implementation of this step will result in data that can be used directly to enhance your organization's performance. Incorrect implementation of this step could result in data that is useless or inadequate to your purposes.

Step 4 - Analyze for gaps. This step involves analyzing the data collected, discovering to what degree present performance lags behind the best in each area and combining the best features from the best practices into an ideal process. The correct implementation of this step will result in a clear picture of your processes in comparison with others in your business or industry. The incorrect implementation of this step could result in vague information that would not ultimately be useful in improving your operations.

Step 5 - Determine future trends. During this step, your team will examine your organization's past performance in relation to its competitors, forecast potential change in your industry and project future performance, both with and without the proposed benchmarking changes. The correct implementation of this step will give management a clear idea of its options and allot it a realistic conception of the potential benefits of adopting the benchmarking practices. An incorrect implementation of this step will give management an incomplete or inaccurate picture of its options.

Step 6 - Reveal results and sell the process. This step involves communicating the benchmarking results and their implications to significant audiences in the organization and motivating them to carry out changes. Incorrect implementation of this step will leave both management and employees confused or inadequately informed, reducing the potential for effective change.

Step 7 - Achieve consensus on revised goals. This step involves revising goals to close the performance gap determined in step 5 and achieving consensus on those goals. The correct implementation of this step will create realistic and unambiguous new standards for the processes involved. Incorrect implementation of this step could create poorly understood or unrealistic standards that would only increase the frustration level of both management and employees.

Step 8 - Establish action plans. This step establishes the step-by-step plan designed to bring about the goals created and approved in step 7. Incorrect implementation of this step could result in vague procedures which would either be rejected by management or would prove unworkable if approved.

Step 9 - Implement plans and monitor results. This step involves executing the approved best-practice procedures and the day-to-day monitoring of changes. The correct implementation of this step will result in a closely watched process in which deviations from the plan will be corrected and the ultimate goals achieved. Incorrect implementation of this step could result in inaccurate or spotty measurement, leading to poor control of the process and disappointing overall results.

Step 10 - Recalibrate benchmarks This step ensures the organization remains on the cutting edge by continuously evaluating the benchmarked practices and reinstituting the benchmarking process when necessary. The correct implementation of this step prevents complacency by creating the habit of evaluating procedures for their potential for improvement. The incorrect implementation of this step fosters the illusion that any successful benchmarked practice creates a permanent improvement, resulting in a false sense of security and possible future loss of competitive edge.

After completing step 10, the organization will understand when and how it needs to recalibrate benchmarks and will never put itself at risk by becoming complacent. The success of a benchmarking process depends on the organization's permanent commitment to the process. To sustain market leadership, however, the habit of benchmarking must be a permanent part of the organization's culture.

One of the biggest mistakes organizations make when first benchmarking is that they limit their benchmarking activity to their own industry. However, you already have a pretty good idea how your industry performs so it's imperative that you reach outside and above your own industry into other industries that perform a similar process but may have to perform this process extremely well in order to succeed. Benchmarking shows you whether your performance is stronger or weaker than your competitors. It will give you a clear picture of where improvements are needed and how to increase profits. For example, financial benchmarking data will help you to see how much you earn and how much you spend on advertising, rent, staff, training and other expenses compared to your competitors. Benchmarking is a process of continual improvement. Once you have implemented changes, you should benchmark your business again to see the results. This will tell you what is working, and where you can still improve. Benchmarking's positive influence extends beyond improving a particular business process. It also promotes the emergence and evolution of a "learning culture" throughout the enterprise - a key to continuous improvement, total quality, and competitiveness over the long term.

There are, in general, four types of benchmarking:

1. *Competitive benchmarking*. Benchmarking is performed versus competitors and data analysis is done as to what causes the superior performance of the competitor. It can be, in some respects, easier than other types of benchmarking and in some respects more difficult. It is easier in the sense that many exogenic variables affecting company performance may be the same between the source and the recipient organization, since we are talking about companies of the same sector. On the other hand it is more difficult because, due to the competitive nature, data recuperation will not be straightforward. Difficulties of this type may be overcome if the two organizations have for e.g. different geographical markets.

2. *Internal benchmarking*. The internal benchmarking process allows a company with a number of facilities that operate the same supply chain processes to compare and contrast the ways in which the process is performed in those facilities. For example if a company operates five distribution centers in the US and Canada, the benchmarking process can examine a number of operations that take place at each of the distribution centers and compare how they are performed and what improvements can be made by comparing the results of the benchmarking. If a company benchmarks the processes around inventory accuracy, shipping accuracy and storage density, the results of the assessments of the facilities can help a company to improve on those processes at all of the facilities.

3. *Process benchmarking*. Here we look at processes, which may be similar, but in different organizations, producing different products, for e.g. airline industry & hospital industry looking at the process of catering their ‘clients’.

4. *Generic benchmarking*. We would look here at the technological aspects, the implementation and deployment of technology. How else other organizations do it? Hence the source organizations may be of same industry or from another industry.

Processes 1, 3 and 4 are all external benchmarking activities. However, locating an external benchmarking partner and setting up a benchmarking arrangement requires a significant investment in time and effort. An alternative to external benchmarking might be intra-company, or internal benchmarking which is less costly in terms of time and money.

Many Fortune 500 companies and other large organizations have embraced benchmarking as an important, systematic methodology for achieving the organization's strategic objectives. Benchmarking can benefit not only large but also small companies. In principle it is easier to team up with companies of similar size, since companies of different size approach processes in different ways. However, there are elements in some processes that are similar, no matter the size of the company. Hence, it is imperative to know well the processes under study. It has been reported that the differences that characterize companies implementing benchmarking continuously included senior management's strong support of benchmarking and a culture that generally encouraged company teams to seek out and adapt ideas originating outside the organization. Senior managers at Xerox, Digital Equipment Corp., Motorola, Chrysler, and other organizations strongly support benchmarking. Many executives vigorously work to ingrain its underlying ethic into their corporate culture. That ethic essentially says, "We continually learn by example."

A benchmark organization is one that is widely recognized for achieving standards of performance on key indicators that others agree to and measure themselves against. In principle companies can be compared with other companies from the same or other sector and from the same or other regions. Sources of best practice need not to be found in the same sector, since non-competing firms can provide valuable information on best practices. Furthermore it is important to understand that companies or industries that are different can have similar core processes or common characteristics. Benchmarking is just a tool to learn from others, and not a tool to win in business. It will not give information on what products and services customers want, or how to generate more revenues and profits. There are other management techniques to accomplish these objectives. These must complement the regular use of benchmarking to ensure continuous improvement in everything that a company does. Lastly, benchmarking per se is not useful unless knowledge gained from it is put in action to benefit the company. Businesses also use benchmarking as an ongoing process that always changes and adapts. By studying and comparing your benchmarks to the competition, the industry, and within the individual processes of your company, you allow them to evolve to meet changing demands and requirements. By keeping your company and your personal business benchmarks fluid, you ensure that your business follows the best practices defined by you. The end result should be a marked increase in productivity and profits. Benchmarking can be as complex as re-engineering or as simple as thumbing through the quarterly reports of organizations and making comparisons. Although organizations must use benchmarking with some caution, it can be informative and foster a spirit of openness and cooperation from indirect competitors. It is not enough to benchmark the costs of activities and identify best practices. When an organization looks at benchmarking they must look at all aspects of the business, its products, and its processes. It is crucial for organizations to focus on anything that will impact its performance and quality.

«All successful companies are constantly benchmarking their competition. They have to know what they have to match up with day-in and day-out if their company is going to be successful»

James Dunn, professor at the Cornell University