

Benchmarking is the
process of comparing
management essay



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Benchmarking is the process of comparing ones business processes and performance metrics to industry bests or best practices from other industries. Dimensions typically measured are quality, time and cost. In the process of benchmarking, management identifies the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied (the “ targets”) to one’s own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

Benchmarking is used to measure performance using a specific indicator (cost per unit of measure, productivity per unit of measure, cycle time of x per unit of measure or defects per unit of measure) resulting in a metric of performance that is then compared to others.

Also referred to as “ best practice benchmarking” or “ process benchmarking”, this process is used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice companies’ processes, usually within a peer group defined for the purposes of comparison. This then allows organizations to develop plans on how to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to improve their practices.

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Benefits and use

Lowering Labor Costs

One advantage of benchmarking may be lower labor costs. For example, a small manufacturing company may study how a top competitor uses robots for several basic plant functions. These robots may help the competitor save a significant amount of money on labor costs. Company managers may obtain information on these robotics systems through the competitor’s website or online articles. They may also identify the company that sold the competitor the robots. Subsequently, the company using benchmarking may call the robot manufacturer to help set up its own system.

Improving Product Quality

Companies may also use benchmarking to improve product quality.

Engineers sometimes purchase leading competitors’ products. They may

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then take them apart, study them and determine how the competitors' products outlast or outperform others in the industry. Chemical engineers may study food or cleaning products in a similar manner. They can then compare various elements contained in competitive products to their own product line. Subsequently, improvements can be made to product quality.

Increasing Sales and Profits

A company that uses benchmarking to improve its functions, operations, products and services may enjoy increases in sales and profits. Customers are likely to notice these improvements. The benchmarking company may also promote its improvements through company brochures, its sales reps, magazine and television ads. These efforts are likely to increase sales, especially among core customers. Companies that operate more efficiently due to benchmarking can drastically lower their expenses. These savings can be lead to greater profits.

Considerations

Some organizations use internal benchmarking to improve performance in different departments. Department managers may study and emulate the best practices of one particular department. These changes may spark improvements among all departments. Internal benchmarking has its limitations, however. The company's top department may not be functioning as efficiently as others in the industry. This means the other departments were not truly benchmarking against the best departments out there.

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PROCEDURE

There is no single benchmarking process that has been universally adopted. The wide appeal and acceptance of benchmarking has led to the emergence of benchmarking methodologies. One seminal book is Boxwell's *Benchmarking for Competitive Advantage* (1994). The first book on benchmarking, written and published by Kaiser Associates, is a practical guide and offers a seven-step approach. Robert Camp (who wrote one of the earliest books on benchmarking in 1989) developed a 12-stage approach to benchmarking.

The 12 stage methodology consists of:

Select subject

Define the process

Identify potential partners

Identify data sources

Collect data and select partners

Determine the gap

Establish process differences

Target future performance

Communicate

Adjust goal

Implement

Review and recalibrate

The following is an example of a typical benchmarking methodology:

Identify problem areas: Because benchmarking can be applied to any business process or function, a range of research techniques may be required. They include informal conversations with customers, employees, or suppliers; exploratory research techniques such as focus groups; or in-depth marketing research, quantitative research, surveys, questionnaires, re-engineering analysis, process mapping, quality control variance reports, financial ratio analysis, or simply reviewing cycle times or other performance indicators. Before embarking on comparison with other organizations it is essential to know the organization's function and processes; base lining performance provides a point against which improvement effort can be measured.

Identify other industries that have similar processes: For instance, if one were interested in improving hand-offs in addiction treatment one would identify other fields that also have hand-off challenges. These could include air traffic control, cell phone switching between towers, transfer of patients from surgery to recovery rooms.

Identify organizations that are leaders in these areas: Look for the very best in any industry and in any country. Consult customers, suppliers, financial analysts, trade associations, and magazines to determine which companies are worthy of study.

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Survey companies for measures and practices: Companies target specific business processes using detailed surveys of measures and practices used to identify business process alternatives and leading companies. Surveys are typically masked to protect confidential data by neutral associations and consultants.

Visit the “ best practice” companies to identify leading edge practices: Companies typically agree to mutually exchange information beneficial to all parties in a benchmarking group and share the results within the group.

Implement new and improved business practices: Take the leading edge practices and develop implementation plans which include identification of specific opportunities, funding the project and selling the ideas to the organization for the purpose of gaining demonstrated value from the process.

Costs

The three main types of costs in benchmarking are:

Visit Costs – This includes hotel rooms, travel costs, meals, a token gift, and lost labour time.

Time Costs – Members of the benchmarking team will be investing time in researching problems, finding incomparable companies to study, visits, and implementation. This will take them away from their usual tasks for part of each day so additional staff might be required.

Benchmarking Database Costs – Organizations that institutionalize benchmarking into their daily procedures find it is useful to create and preserve a database of best practices and the companies associated with each best practice now.

The cost of benchmarking can considerably be reduced through utilizing the lot of internet resources that have sprung up over the last few years. These aim to imprison benchmarks and best practices from organizations, business sectors and countries to make the benchmarking procedure a great deal quicker and cheaper.

COLLABORATIVE BENCHMARKING

Benchmarking, originally describes Rank Xerox, is usually approved out by personality companies. Now and then it can be carried out collaboratively by groups of companies (e. g. subsidiaries of a international in diverse countries). One illustration is that of the Dutch municipally-owned water supply companies, which have carried out a voluntary collaborative benchmarking process since 1997 through their industry association. Another example is the UK construction industry which has carried out benchmarking since the late 1990s again through its industry association and with financial support from the UK Government.

TECHNICAL/PRODUCT BENCHMARKING

The procedure initially used to put side by side existing group strategies with a view to achieving the best possible performance in new situations (see above), has just been extended to the judgment of technical goods This process is usually referred to as “ technical benchmarking” or “ product

benchmarking". Its use is brawny inside the automotive industry ("automotive benchmarking"), where it is vital to aim products that competition precise user potential, at smallest cost, by applying the best technologies available worldwide. Data is obtained by fully disassembling breathing cars and their systems. Such analyses were initially carried out in-house by car makers and their suppliers. However, as these analyses are expensive, they are all the time more being outsourced to companies who focus in this area. Outsourcing has enable a drastic diminish in expenditure for each company (by cost sharing) and the development of efficient tools (standards, software).

Seven Steps to Effective Competitor Benchmarking

When it come to Competitive Intelligence, there are a a small amount of effortless tools that can provide for sophisticated comparison of business functions between organizations that can help firms " benchmark" the constituent processes of the company by way of direct or indirect competitors, allowing a theatre grouping to gain the upper hand in a marketplace. But, what is the process for location the metrics, methodologies, milestone and comparisons which might be used to gauge the success of a CI/benchmarking function, or the success of a Strategic Planning section as a whole?

Benchmarking is best used and describe as a framework for planned preparation in that, once elements of study are recognized, metrics can be applied to the key success factors (KSFs) of the business or market and these measures or " benchmarks" are then second-hand to develop future

quality and market initiatives for the firm to enhance its overall aggressive position.

It is generally careful that there are seven ladders to this procedure, as explained below. However, this examination of intra- and sometimes inter-industry competitors can form the foundation for future competitor analysis when the emphasis is placed upon the goals and monetary capability of the opponent. This becomes a difficulty of how will the contestant compete with their particular set of income and culture? The body of work surrounding business benchmarking has identified seven unique steps in this benchmarking process, many of which may offer some insights on the question of metrics.

TYPES OF BENCHMARKING

Process benchmarking – the initiating firm focuses its observation and investigation of business processes with a goal of identifying and observing the best practices from one or more benchmark firms. Activity analysis will be required where the objective is to benchmark cost and efficiency; increasingly applied to back-office processes where outsourcing may be a consideration.

Financial benchmarking – performing a financial analysis and comparing the results in an effort to assess your overall competitiveness and productivity.

Benchmarking from an investor perspective- extending the benchmarking universe to also compare to peer companies that can be considered alternative investment opportunities from the perspective of an investor.

Performance benchmarking - allows the initiator firm to assess their competitive position by comparing products and services with those of target firms.

Product benchmarking - the process of designing new products or upgrades to current ones. This process can sometimes involve reverse engineering which is taking apart competitors products to find strengths and weaknesses.

Strategic benchmarking - involves observing how others compete. This type is usually not industry specific, meaning it is best to look at other industries.

Functional benchmarking - a company will focus its benchmarking on a single function to improve the operation of that particular function. Complex functions such as Human Resources, Finance and Accounting and Information and Communication Technology are unlikely to be directly comparable in cost and efficiency terms and may need to be disaggregated into processes to make valid comparison.

Best-in-class benchmarking - involves studying the leading competitor or the company that best carries out a specific function.

Operational benchmarking - embraces everything from staffing and productivity to office flow and analysis of procedures performed.

Energy benchmarking - process of collecting, analyzing and relating energy performance data of comparable activities with the purpose of evaluating and comparing performance between or within entities. Entities can include processes, buildings or companies. Benchmarking may be internal between

entities within a single organization, or – subject to confidentiality restrictions
– external between competing entities.

What Are the Keys to Success?

Possibly the most imperative key to the victory of a benchmarking effort is to view it mainly as a learning process. The implication of this view is that the IT process owners should come left from the benchmarking effort with new insight about their own practice. These insights may or may not immediately lead to specific change, but they should prepare participants for understanding when such change is appropriate and enable them to recognize what alternative are applicable. Experienced practitioners often note that one key to success is to start small. The major danger of starting with too large an effort is that too many resources are consumed in the benchmarking effort before any results can be realized. In addition, the demand for change may be more than the group can assimilate in a short period of time. Companies that start small build a history of achievement and gain the skill required to undertake more considerable efforts.

Another key to success is to have the commitment of top management. Benchmarking can be costly and time consuming. Winning completion of a benchmarking attempt, additional time and possibly more financial resources are needed to implement recommendation that come from the benchmarking team. Even added time pass before those recommendation produce a return. If managing is not committed to benchmarking, initiative may be cut diminutive before they can have an impact on the organization. In the end, hit requires that organizations act on their benchmarking results.

Benchmarking study should not be sitting on bookshelves. They should
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enclose concrete recommendations that can be translated into action. Lack of action leads to demoralization among the benchmark side members and leaves future benchmarking teams with no any encouragement to find new opportunity.

THE FUTURE OF BENCHMARKING

Although early work in benchmarking focused on the manufacturing sector, it is now considered a management tool that can be applied to virtually any business. It has become commonplace for companies to use in order to compete in and lead their respective industries. It has helped many reduce costs, increase productivity, improve quality, and strengthen customer service.

In the book *Benchmarking the Information Technology Function*, Charles B. Greene noted that companies are increasingly interested in benchmarking for a number of activities, including:

cost of supporting business driver (transaction costs, or cost per order)

systems development activities, including maintenance, backlogs,

development productivity and project management

end-user support

data centers/communication networks

skills management

business strategy alignment

technology management

customer/user satisfaction

According to a 2003 Bain and Company survey quoted in Financial Executive, benchmarking received the second-highest usage score (84 percent) among more than two dozen management tools used by senior executives around the world. The survey also reported that users tend to be highly satisfied (rated 3.96 on a 5-point scale) with the results benchmarking provides to their companies.