Overview of benchmarking theory management essay

Benchmarking theory is established upon the performance comparison, gap, and changes in the management process (Watson, 1993). A literature review also shows that majority of benchmarking methodologies perform the same function as performance gap analysis (e. g. Camp, 1989; Karlof and Ostblom, 1993; Watson, 1993). In a context of waste, first rule of benchmarking is to determine the performance gaps with respect to generation and utilization within a management system and to develop method to close them. The gap between internal and external practices reveals the changes and at the same time differentiates benchmarking theory from comparison research and competitive analysis. The author explained further that competitive analysis focus on product or service comparisons but benchmarking examine the operating and management skills that is use to produce goods and services. More also, competitive analysis looks at the characteristic of competitors in the same geographical location whilst benchmarking seeks to find the best practices regardless of location. (Walleck et al., 1991).

Benchmarking has been defined by many authors due to its positive and negative result affecting the success of performance improvement within the organization. The literature review of Kozak, 2004, original sources: Camp, 1989; Zairi, 1992; Smith et al., 1993; Rogers et al., 1995, explained that benchmarking:

Enable organization to ascertain the position they have more strength and weaknesses depending upon charges in supply, demand and market condition.

Enables to set new standard and objectives to enhance customer satisfaction in term of quality, cost, product and services.

It gives employees new standard knowledge to work on and also motivate them to always strive for more improvement.

Enable organization to determine the possible level of performance they could attain by looking at others and to what extent they could achieved such performance

Help organization to stimulate continuous performance which will give them competitive edge over others and enables it maintain world class standard.

Despite the above benefit, a successful benchmarking researcher Bendell (1993) stated that time constraints, competitive barriers, cost, lack of both management commitment and professional human resources, resistance to change, poor planning and short-term expectations are regarded as barriers. The author further noted that poor execution of benchmarking exercise can lead to waste of time, finance and human resources.

Elmuti and Kathawala(1997) illustrate that there is no single “ best practice” of benchmarking because people’s ideology varies and organization concept and system differs from one another.

On a contrary, there is a risk involved in benchmarking others and adopting their new standards into one’s own company. However, the best practice which is producing outstanding performance with good examples should be perceived and adopted.

According to research, benchmarking has been defined by many authors and organization even though each definition aims to reach same conclusion. Nevertheless, benchmarking was basically stems from Deming's quality management theory, which aims to enhance quality and check its sustainability by following several stages in order(Kozak 2004, p5). Webster's Dictionary defines benchmark as ' a standard by which something can be measured or judged' (Kozak, 2004 p. 5). Xerox and Robert C. Camp at the end of the 1980s gave most widely accepted and referenced text on the subject of benchmarking as the continuous process of measuring our products, services and practices against the toughest competitors or those companies recognized as industry leaders' (Camp, 1989). On a simply note, benchmarking is the process of finding the best practice in an organization and forecasting what performance should yield in the future. The three principles of benchmarking are maintaining quality, customer satisfaction and continuous improvement. (Kozak 2004, p. 5, original source: Watson, 1993).

Some author sees benchmarking as a continuous process or measurement while others defined it as finding and looking significance things to enhance an organization performance. For example, Vaziri (1992) defined benchmarking as a continuous process of comparing organization's performance with that rated as the best within the industry considering consumer's needs and determining what needed to be improved in order to have competitive edge in the future. Similarly, Watson (1993) also emphasizes benchmarking in term of continuity feature referring to the continuous input of information acquired from benchmarked organization into the organization. Geber (1990, p. 36) based his definition at significance focus on the best practice of benchmarking as follow: ” a process of finding the world-class examples of a product, service or operational system and then adjusting your products, services or systems to meet or beat those standards’.

Approaches to definitions of benchmarking

Adopted from (Kozak, 2004. Destination Benchmarking)

In practice by many organizations, benchmarking process usually encompasses the following:

Regularly analyzing and comparing aspect of performance with high ranked organization

Identifying the performance gaps

Establishing fresh method to improve on such performances

Continuous tracking the implementation improvement; and

By continuous monitoring progress stages and assessing the benefit

Types of benchmarking

Due to many relevant literature reviews, it could be seen that there are many classification of benchmarking, the main categorization are internal, competitive and functional benchmarking (Kozak 2004, p. 10 original authors: Camp, 1989; Zairi, 1992). Kozak (2004, p. 10) further classified benchmarking into two parts: internal and external benchmarking, in same context, competitive and functional benchmarking was classified under external benchmarking.

INTERNAL BENCHMARKING

Internal benchmarking is regarded as two ways communication and sharing information between departments within the same organization or between organizations operating as a branch in different countries (Cross and Leonard, 1994; Breiter and Kline, 1995). This kind of system can be found in a franchising company whereby an outstanding performance by any part of the organization will be learnt by the other. Internal benchmarking is an added advantage to an organization or partner who shares a common language, culture and systems, having easy access to data, and giving a baseline for future comparisons (Breiter and Kline, 1995).

EXTERNAL BENCHMARKING

It is an opposite or reverse case of internal benchmarking as it was read in many relative literatures. External benchmarking requires comparison of activities with external organization in order to acquire method, new ideas and knowledge using by the organization to attain such an outstanding performance in the production of goods and services. Kozak (2004, p11) noted the objective of external benchmarking as the persistence in improvement of one's performance by measuring and comparing with that of others and determine how others achieve their performance levels. This type of benchmarking provides opportunities for an organization to learn from the best practices and experiences of the others who have the competitive edge in the industry. The consistent review of benchmarking by Kozak (2004, p. 11) has brought up another three subcategories of benchmarking which are: competitive, generic and relationship benchmarking.

Competitive benchmarking: this type of benchmarking occurs only among the direct competitors. According to Kozak (2004) explains that competitive benchmarking is regarded as the most sensitive type of benchmarking activities because of it difficulties in achieving an applaudable collaboration and cooperation with direct competitors and reach primary sources of information. For example Xerox’s market shares starts to diminish because of the entrance of new competitors. Therefore the management decided to benchmark its performance with competitors within the same industry. The results of this enhance its financial position, stabilized its market shares and increase its customer’s satisfaction. (Cook, 1995).

Functional benchmarking: Functional benchmarking refers to comparative research and attempts to seek world-class excellence by comparing business performance not only against competitors but also against the best businesses operating in similar fields and performing similar activities or having similar problems, but in a different industry (Kozak, 2004, original sources: Davies, 1990; Breiter and Kline, 1995). For instance British Rail Network South East benchmarked British airways in order to improve the standard of cleanliness of trains. They were able to achieve such aim by the survey that was conducted on British airways mode of cleanliness. (Cook, 2005). Moreover, this type of benchmarking makes it easier for best in class organizations to share new ideas, best practice and experience together and it is as well regarded as non- competitive benchmarking (Kozak 2004, p. 12).

Relationship benchmarking: This type of benchmarking occurs between organizations that have mutual relationship together before the agreement of benchmarking is sealed (Anderson, 1995). This method potentially may provide some benefits to organizations since less time is required and the trust established between the two parties will help break down confidentiality barriers. Cox et al. (1997) call this ‘ collaborative benchmarking’.

Benchmarking best practice

Historically, benchmarking is seen as an essential tools for continuous improvement of goods and services in an organization (Dattakumar and Jagadeesh 2003). For example Xerox Corporation in the united state was the first company to be credited with a successful benchmarking project in 1979.

Nowadays, organizations have realized that in order for them to survive in the nearest future, they have to initiate major changes within their organization that will make them more productive and reduce costs. benchmarking goes beyond just competitive analyses, rather than analyzing organizational processes and method to assess how the competitive edge is achieved. Benchmarking against Best practice requires seeking out the undisputed leader in the process that is critical to business success regardless of sector or locations. I. e using the most effective methods of achieving optimal performance leading to superior performance is the process of benchmarking for “ Best Practices” – identifying, sharing, and imparting knowledge, innovative ideas, and highly effective operating procedures related to best business practices, inside and outside your organization (Julian L. Aston and Jonathan A. Goldhill). In a nutshell, the achievement of any organization is to successfully identify and applying best practices in its operations which will result to reduction in business expenses and improve its organizational efficiency.

In order for benchmarking process to be achieved in an organization, the follow steps need to be initiated and implemented (Julian L. Aston and Jonathan A. Goldhill):

Step 1: The management needs to establish a lead Best Practices team that will be engaged with overall development and company-wide implementation of this important new activity. In addition, creates departmental benchmarking teams charged with development and implementation of Best Practices within their individual department.

Step 2: Each team determines the types of Best Practices their department must uphold.

Step 3: Teams identify benchmarking resources applicable to their Best Practice needs.

Step 4: The teams collect and analyze information.

Step 5: Each team determines the value of each Best Practice relative to attaining departmental and overall corporate objectives.

Step 6: Team members take the time to understand and analyze the ‘ point gap’ between an existing standard or practice and the desired best practice standard.

Step 7: Each team brainstorms how they can close the ‘ point gap,’ and develops an action plan in support of upholding each Best Practice.

Step 8: The teams take action under the leadership and guidance of the Lead Best Practices Team, reporting to Senior Management.

Finally in order for the implementation of a Best Practices Program to be successful, establishment of departmental Best Practices teams must be initiated and charged with the task of managing the process on a continuous basis.

Best Practices Example

A vivid example of a best practice is demonstrated by SRC in Springfield, Missouri.

Convinced that everyone is responsible for the company’s success, SRC’s management team trained every employee in “ cash flow management,” a tool that has enabled the company to generate double-digit growth every year since its founding 12 years ago. SRC has grown in 12 years from one company of 100 employees to 12 employee-owned companies in 16 sites with 750 people. SRC has been named the “ Entrepreneurial Company of the Year” by Inc. magazine for the last three years. The current turnover rate is less than 1 percent. http://www. qualitydigest. com/feb/bench. html

DIFFERENCE BETWEEN BENCHMARKING AND BEST PRACTICES

Are benchmarking and best practices the same?

According to many literature reviews, it could be understood that benchmarking is totally differ from best practices. Benchmarking is the process that gives one the opportunities to ascertain potential best practices, i. e. identifying best ranked performer; one to locate a specific practices within an organization that could enhance own performance. However, there are different categories of benchmarking which organization might practice and it was understood that some organization benchmarked for the purpose of setting performance target for their own organization rather to ascertain practices that contributed to the success of other organization and to emulate it.

What distinguishes best practices from benchmarking?

A best practice is never a new idea, perhaps is what meets the seven following criteria:

Successful over Time: A best practice must be documented.

Quantifiable results: The achievement must be quantifiable.

Innovative: Must have a distinctive program and process from its peer

Recognized positive outcome: Best practice should generate different positive result and indicators

Repeatable: A best practice should be adopted with modifications. Should establish different strategies and be able forecast benefits that are likely to be accrue to others.

Has local importance: Best practice is seen as an outstanding performance to those who seek for it. Therefore, it should not be a duplicate strategy; i. e organizations should adopt it with modification.

Not linked to unique demographics: A best practice may have evolved as a result of unique demographics, but organization from other demographics should be able to transfer with modification. http://www. scribd. com/doc/83467243/14/DIFFERENCE-BETWEEN-BENCHMARKING-AND-BEST-PRACTICES.

In conclusion, although different authors views benchmarking from their different perspectives as it is demonstrated in the figure (???) . All these definitions portray same aim and objectives: the continuous measurement and improvement of an organization’s performance against the best in the industry to obtain information about new working methods or practices (Kozak 2004, p. 7). However, best practices and methods that are seen as the success key to an organization may not necessarily be the best to those adopting it. Therefore benchmarking requires full scale modification and extensive innovation in order for justifiable achievement to be attain.