

Bench marking essay



Chapter 8 BENCHMARKING Chapter Objectives: After this chapter, students shall be able to:

- Describe the process of benchmarking
- Appreciate why companies go into benchmarking
- Understand present performance and apply benchmarking principle

Content Outline

- Definition of benchmarking
- Reasons to benchmark
- Process of benchmarking
- Selecting what to benchmark
- Understanding present performance
- Benchmarking planning
- Learning from the data
- Using the findings
- Basic criticism of benchmarking

DEFINITION OF BENCHMARKING According to L. S.

Pryor, “ Benchmarking is measuring performance against that of best-in-class organizations; determine how the best in class achieve those performance levels, and using the information as the basis for goals, strategies, and implementation. Essential in this definition are two elements. First, measuring performance requires some sort of unit of measure. These are called metrics and are usually expressed numerically. The numbers realized by the best-in-class benchmark are the target. The organization looking for improvement then plots its own performance against the target.

Second, benchmarking requires that managers understand why their performance differs. Bench markers must develop a thorough and in depth knowledge of both their process and the process of the best-in-class organization. An understanding of the differences allows managers to organize their improvement efforts to meet the goal. Benchmarking is about setting goals and objectives, and about meeting them by improving process.

REASONS TO BENCHMARK Benchmarking is a tool to attain business and competitive objectives. It is powerful and effective when use for the right reasons and aligned with organizational strategy.

It is not a remedy that can replace all other quality efforts or management processes. Business organizations must still determine which markets to serve and decide the strengths that will enable them to gain competitive advantage. Benchmarking is one tool to help business organizations develop those strengths and lessen weaknesses. Furthermore, benchmarking requires an external orientation, which is critical in an environment where the external outlook greatly reduce the chance of being caught unaware by competition.

Benchmarking is time and cost efficient. Because the processes involve imitation and adaptation rather than pure invention, time and money are saved. Benchmarking partners provide a marking model of an improved process, which reduces some of the planning, testing, and prototyping effort. As the old saying goes, why reinvent the wheel. The major weakness of benchmarking is the fact that best-in-class performance is moving target. New technology, in particular, can create quantum leap performance improvements.

Example: the uses of Electronic Data Interchange (EDI). Car manufacturers no longer use paper to purchase parts from supplier. A computer tracks inventory and transmit orders directly to a supplier's computers. The supplier delivers the goods and payment is electronically transmitted to the supplier's bank. SM and Robinsons uses barcodes scanners and satellite data transmission to restocks its stores, often in a matter of hours. These applications of EDI save tens of thousands of worker hours, as well as help to meet customer requirements.

For business functions, benchmarking enhances innovation by requiring its practitioners constantly to scan the external environment and to use the information gathered to improve the process. Important technological breakthroughs can be located and adapted early. PROCESS OF

BENCHMARKING Business organizations that benchmark adapt the process to best fit their own needs and culture. Although the number of steps in the process may vary from organization to organization, the following six steps contain the core techniques, such as: 1.

Decide what to benchmark. 2. Understand current performance 3. Plan 4.

Study often. 5. Learn from the data. 6. Use the findings. Table 8. 1

Approaches to Benchmarking AT&T's 12 Steps Process Xerox's 10 Step

Process 1. Determine who the client's are- who will use the information to improve their process. 1. Identify what is to be benchmarked. 2. Advance the clients from the literacy stage to the champion stage. 2. Identify comparative organizations. 3. Test the environment. Make sure the clients can and will follow through with benchmarking findings. . Determine data-collection method and collect data. 4. Determine urgency. Panic or disinterest indicates little chance for success. 4. Determine current performance gap. 5.

Determine scope and type of benchmarking needed. 5. Project future performance levels. 6. Select and prepare the team. 6. Communicate benchmark findings and again acceptance. 7. Overlay the benchmarking process onto the business planning process. 7. Establish functional goals. 8. Develop the benchmarking plan. 8. Develop action plans. 9. Analyze the data. 9.

Implement specific actions and monitor progress. 10. Integrate the recommended action. 10. Recalibrate benchmarks. 11. Take action. 12. Continue Improvement

SELECTING WHAT TO BENCHMARK

Most business organizations have strategy in determining how the organization wants to position itself and compete in the market place. This strategy is commonly expressed in terms of vision and mission statements. To support these statements is a set of critical activities, which the business organization must do successfully to achieve its vision and mission.

They are usually referred to as critical success factors. Critical processes are commonly made of any number of sub processes. In other words, when deciding what to benchmark, it is good to start by thinking about the vision, mission and critical success factors. The bench marker can then analyze the process, looking for high-impact application. Pareto Analysis is a useful technique for deciding what process to evaluate. It is effective to begin with the processes output and trace back to input, asking what, how, where and why question along the way.

Cause-and-effect diagram are an excellent tool for tracing outputs back to inputs and to evaluate the factors that influence the process. The bottlenecks identified become benchmarking candidates. At this stage, it is relevant to begin thinking about metrics (measurement). Numerical measures illustrate the effects of improvement and thereby help in deciding where to direct benchmarking activities.

UNDERSTANDING PRESENT PERFORMANCE

To compare practices to outside benchmarks, it is important to properly understand and document the present process.

Several techniques, such as flow diagram and cause-and-effect diagrams, aid understanding. Attention must be given to inputs and outputs. Tactful questioning is necessary to determine circumstances that result in exemption to the normal routine. Exemptions commonly consume a good deal of the process resources; however process participants may not think to mention them during interviews. In documenting the process, it is necessary to quantify it. Units of measure must be determined. These are the metrics that will be compared during the benchmarking process.

Examples: unit cost, hourly rates, asset measures and quality measures. In some cases, important measures are not available or unclear. Decision will have to be made as to whatever the information can be estimated or if additional data- collection activities are needed. Data form the baseline for benchmark comparison. Special attention should be taken when using accounting information. Most accounting system was developed to satisfy external reporting requirements. As a result, cost is misrepresented. Bench markers should take the time to determine what is and what is not included in accounting information.