BENCHMARKING
by Emilina R. Sarreal

The term “Benchmarking” is derived from the “benchmark” used by surveyors to indicate “a mark in stone or metal, or other durable material firmly fixed in the ground, from which differences of level are measured, as in surveys or tidal observations.” Benchmarking, the process of identifying and learning from best practices, has become a powerful tool in the quest for continuous improvement.

Before the formal methodology of benchmarking developed, companies traditionally compared themselves to each other. Among the better-known methods used were site visits, reverse engineering and competitive analysis. Site visits, also known as industrial tours, are general information-gathering trips. One company visits another recognized as having superior practices to see what is being done and to collect new ideas. As no significant prework is done by the visiting team, the results are generally vague.

Reverse engineering involves comparing products. One company buys the products of several competitors. The marketing and engineering staff study these for functionality, performance characteristics and new features. The product is taken apart, to see what parts and materials were used and how it was put together.

Competitive analysis uses published material, information from suppliers, and market intelligence to examine the strategies and tactics employed by the competition. While the competitor’s behavior might influence a company’s decisions, it does not necessarily result in better decisions or process improvement.

Formal methodologies of benchmarking vary with the different forms it takes - competitive benchmarking, process benchmarking and strategic benchmarking. Competitive benchmarking tries to determine what competition is doing with respect to product design and to establish the competition’s costs. Competitive benchmarking is an effort to determine product characteristics that provide a competitive edge. Process benchmarking examines a competitor’s process with the objective of improving or changing one’s own existing process. Strategic benchmarking is similar to process benchmarking, but its purpose is to create and implement a new strategy or new business practice, which management expects to result in a competitive advantage.

Benchmarking has obvious benefits for benchmarkers. It stimulates creativity among employees, who see that others have better ideas. It encourages honesty since it embodies the admission
that a competitor doing the same task performs faster and commits fewer errors. It also heightens the improvement impetus by creating a momentum that transfers to other company operations.

To attain these benefits, benchmarkers should properly select their benchmarkee or host company. The approach to selecting a partner starts with a clear definition of what is being benchmarked - a task that is important for the organization. Defining the organization's critical success factors (CSFs) is needed to determine what affects customer satisfaction and what practices must be done well for the organization to succeed.

Once the CSFs are clearly defined, criteria for short-listing benchmarkees need to be constructed. Typical criteria include the type of business, employee characteristics, product and process, distribution channels, and financial performance. The costs of gathering data should also be considered. The benchmarking partners chosen may be internal, competitors, or generic.

Internal partners are in the same company but in different divisions. A generic partner is a company outside the industry that shares some of the issues or problems faced by the benchmarkers. Competitors may provide ideas for improvement but sometimes will not want to cooperate, due to legal concerns regarding antitrust or collusion with firms in the same industry.

Host companies may be reluctant to share processes and strategies because these involve trade secrets. Thus, according to Rao, author of Total Quality Management, benchmarkees or host companies must be made aware that they also derive benefits from this exercise: 1) Improved relationships (if benchmarking partners are key customers, suppliers or business allies); 2) Process audit (the host company validate the excellence of its process and identifies details for incremental improvement); 3) Opportunity for reciprocity (gaining entry to the benchmarker's organization and studying processes where they are best-in-class); 4) Internal promotion of benchmarking (people in the host organization observe the value the benchmarker can receive from the project); and 5) Morale boost (as other companies recognize the world-class caliber of host companies' processes).

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