Benchmarking
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Since the 1980s Hong Kong industrial enterprises have been keen on using benchmarking to continuously improve their organizational efficiency and performance. This article describes the various types and stages of benchmarking, and explains how to benchmark competitors using activity based management and total quality management.

Introduction

Benchmarking is the process of identifying, understanding and adapting outstanding practices and processes from other companies to help a company improve its performance. It identifies areas where possible improvements can be made. Dimensions measured are quality, time and cost. To pursue best practice benchmarking, management points out the best-performing company in the same industry, or in another industry where similar operations exist, and compares the processes and results of those studied to its own processes and results. Through these procedures, they get to understand the performance they aim to achieve, especially successful business processes.

Types of benchmarking

Benchmarking can be external (comparing performance with companies in the same industry or across industries) or internal (comparing performance between different departments or units within the company).

There are different types of benchmarking:

- **Functional benchmarking** - The company benchmarks a particular function in other companies in order to achieve improvement in that particular function. It is difficult to directly compare the cost and efficiency of sophisticated functions such as accounting and finance, so these processes need to be disaggregated into processes that can be compared, such as aging schedule of accounts receivable.

- **Process benchmarking** – A newly established company observes and investigates business processes in order to identify and observe the best practices from other benchmarked companies. Activity based costing analysis will be conducted if the objective is to benchmark cost and efficiency.

- **Performance benchmarking** – The company evaluates its competitive position by comparing products and services with those of target companies.

- **Product benchmarking** – The company studies the process of designing new products or upgrades to current ones. This may involve reverse engineering to identify strengths and weaknesses of competitor products.

- **Financial benchmarking** – The company conducts financial analysis and compares the results of the best competitor so as to evaluate its overall financial competitiveness and productivity.

- **Strategic benchmarking** – The company identifies strengths and weakness of other competitors. This can be extended from its own industry to other industries.

Benchmarking stages

The popularity of benchmarking has led to the emergence of benchmarking methodologies. However, no single benchmarking method has yet been commonly adopted. Benchmarking has been described as the best tool to construct strategic planning. Measurements determined through study can be applied in the industry or market. There are usually four stages in the benchmarking process: planning, data collection, data analysis and reporting, and finally adaptation.

Stage 1 is planning. This includes identifying, establishing and focusing on specific areas, key events and definitions.

Stage 2 is data collection. This involves accumulating qualitative data and learning from the best practices of different companies. It can be applied to any business process or function, so a series of preparation steps may be required. These include informal conversations with customers, employees, or suppliers; exploratory research techniques such as focus groups; or in-depth marketing research, and quantitative research by survey or questionnaire.

Stage 3 is data analysis and reporting. This involves the critical evaluation of practices adopted by well-performing companies. Methods include re-engineering analysis, process mapping, quality control variance reports, financial ratio analysis, or simply reviewing cycle times or other performance indicators.

Stage 4 is adaption. This involves four steps:

1. The company first determines the assessment benchmarks and operational functions of these variables, usually associated with financial resources and product strategy.

2. Through corporate benchmark analysis in the previous stage, the company selects the operational functions so as to achieve the lowest cost and highest customer satisfaction.

3. When there are differences between the company's own functions and the benchmarked company's functions, the company formulates a plan of action to narrow down the differences or even surpass its competitors. Reforms can take several forms, from following to surpassing the best competitors, changing industry rules for pursuing the best innovation or technological breakthrough by using components outside the industry.

4. The company finally sets goals and deadlines to implement the plans and actions prescribed. It may establish monitoring programmes in order to review and update the adaptation process.

Benchmarking with activity based management

Benchmarking with activity based management is about using benchmarking as the first step to rank different processes within a company, department, or operation. It establishes a point of reference to work from and also identifies main processes that need improvement.

Activity based costing (ABC) supplies past cost trends, cost breakdowns by major resource pools, and cost distribution of core activities by specific and major operation. ABC can be used to obtain the costs for achieving the outcomes after implementing the standard benchmarks.

A better benchmarking method is to use ABC to analyze all the way back to specific employee tasks. This method allows changes to be made at the sources of the problem, enabling a company to work in the right direction on a timely basis. Waste can be eliminated and constructive changes implemented quickly.

Benchmarking with activity based management provides a more powerful tool for analyzing areas of improvement and instituting positive strategic changes. It is a good way of justifying strategic changes and for follow-up monitoring to determine the success of the company's strategy over time.

Benchmarking and total quality management

Benchmarking is the best mechanism for comparing the performance of various aspects of a process to assess the performance of the industry and in making plans to adopt these best performances to improve performance. It is a tool for implementation of total quality management (TQM). TQM focuses on how to improve the production process in order to get a better product or service. When TQM is used with benchmarking, companies can assess production processes and programmes and set standards so that improvements in production process can be achieved. Companies can improve effectiveness and efficiency and achieve the goal of TQM.

Successful benchmarking case of Xerox

Xerox is one of the world's leading copier companies, and its heyday was in the 1950s. After that, Japanese competitors like Ricoh and Canon imitated American business management, marketing and other areas of operation to increase their market share. As a result, in the period from 1976 to 1982 Xerox's market share dropped significantly from 80% to 13%. Xerox's operations were poor after decades of maintaining old-style performance. It found it took twice as long as its Japanese competitors to bring a product to market, using five times the number of engineers, going through four times the number of design changes, and incurring three times the design cost. To get back its market share, Xerox started two types of benchmarking. The first of these was product benchmarking. Xerox bought a Japanese copier in 1982. Through reverse engineering, Xerox analyzed the copier component and reformed its copiers. The second was process benchmarking. Xerox learned the total quality control used by its competitors and introduced this to its manufacturing process. The result was that Xerox improved quality control and regained its competitive advantages.

Concluding Remarks

Benchmarking is about the best practice processes and results of a company. It uses specific ABC indicators as measures of the performance for different processes, including the cost per unit of measure, the unit of output per measure, the unit time-consuming to measure, and the loss per unit of measure. Then these indicators are compared with those in other companies in the industry.

Benchmarking is a tool that can be used to implement TQM. TQM focuses on how to improve the production process so as to get a better product. When TQM is used with benchmarking, the companies can assess production processes and programmes and set standards so that improvements in production process can be achieved.

Nowadays management accounting emphasizes the generation and analysis of information to help managers make decisions to develop, improve and protect the company's competitive advantage. With the use of benchmarking, companies can achieve effective and efficient decision-making.

Reference

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