

## Benchmarking



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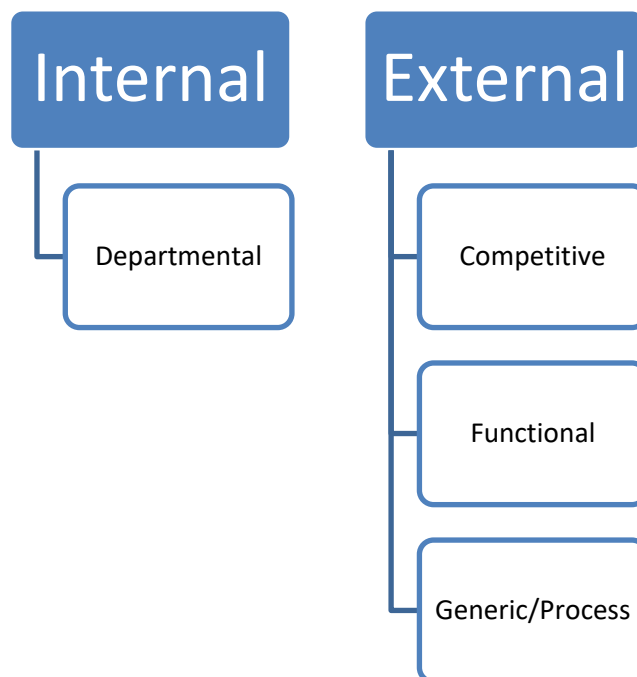


## 1. Introduction

Benchmarking as a business and management process came under scrutiny by academic researchers around the early 1980s because of its use by Xerox. Researchers were interested in its relationship with total quality management (TQM), in the organisational culture changes that occur alongside the practice of benchmarking, and in issues of benchmarking and 'best practice' (Broderick et al., 2010). However, more recently the definition of benchmarking has expanded because of the varied way it is implemented in practice by different organisations. Now it is often viewed as a 'bundle of different concepts that are difficult to comprehend'. Nevertheless, it can be seen to engender some generic characteristics across definitions, including:

1. the relationship between benchmarking and quality management;
2. the identification and advocacy of the benefits of best practice in service operations; and
3. in the emergence of a focus on process benchmarking (Woodburn, 1999).

While there exists no universally accepted conceptual framework of benchmarking, four broad types are practised (Elmuti and Kathawala 1997). Internal benchmarking refers to identifying the best internal procedures while Industry benchmarking incorporates measurement of functional operations across a sector. Competitive benchmarking involves comparing organisations offering competing products and services. Finally, process benchmarking is focusing on best work processes. In terms of the latter, differentiating between internal and external aspects is less critical for process benchmarking. Rather, benchmarking in this sense is seen as "a process of identification, learning and implementation of best practices in order to obtain competitive advantages, whether internal or external" (Murray et al., 1997:47).



There has also been a shift in benchmarking in recent years whereby it has evolved to become a comparative evaluation process (Maire et al., 2005). This change has been felt in three main areas: the appearance of new comparison techniques, application in new organisational contexts and increasing emphasis on qualitative benchmarking, in addition to traditional, quantitative metrics (Broderick et al., 2010).

## 2. Definition

Benchmarking is a continuous and systematic process for evaluating the products, services and work processes of organisations that are recognised as representing best practice for the purpose of organisational improvement (Spendolini, 1992).

## 3. Successful Application

There are numerous means by which organisations can gather benchmarking information, including turning to industry standards (industry associations collect data from member firms and provide access), cooperative benchmarking (where various organisations pool knowledge to share) and competitive benchmarking (eg. studying the practices/processes/products of a competitor which could include reverse engineering of products where legal). Ideally, benchmarking should function as a continuous process of comparing quantitative metrics as well as qualitative information. Benchmarking should be built into organisational strategy, and in turn the information analysed and extracted from benchmarking processes should feedback and further shape various areas of strategy development. There are numerous implementation guides for benchmarking. A well-cited example is that of Czarnecki (1999), who provides 12 steps. However, less prescriptive, more generic advice also exists that firms can tailor to meet their requirements.

## 4. Steps to Successful Application

- Plan: identify what to benchmark and then identify comparative companies (or other factors).
- Gather data: determine the benchmark criteria and the methods of data collection.
- Analyse and communicate: determine current performance gap; project future performance levels; and communicate benchmark findings and gain acceptance.
- Implement and control to improve performance: establish functional goals; develop action plans; implement specific action plans and monitor progress; and recalibrate benchmarks.

*Ingram et al. (2009)*

## 5. Hints and Tips

- Benchmarking must be used as a continuous process to be effective (Henry, 2008).
- It is important to identify key processes relative to critical success factors and ensure that these are effectively mapped (Henry, 2008).
- A holistic rather than stand-alone approach to benchmarking that sees it fully integrated into organisational strategy should be adopted (Henry, 2008).
- Effective benchmarking requires firms to proactively identify the different parts of the organisation that will benefit from the benchmarking process (Henry, 2008).
- Benchmarking is not a substitute for effective decision-making. There must be sound justification for using benchmarking and it should be implemented and monitored by individuals who are fully competent and versed in benchmarking techniques (Henry, 2008).

N.B “Benchmarking should ideally be carried out by peers in other organisations as other internal departments may have insufficient insight into how a function actually contributes to the parent organisation’s goals”

## 6. Potential Advantages

- Successful benchmarking, in which gaps in performance are bridged by improvements, results in significant tangible benefits including step changes in performance and innovation, improving quality and productivity and improving performance measurement (UK Prime Minister's Strategy Unit, 2008).
- Benchmarking is important for maintaining or achieving competitive advantage because it provides a basis for comparison and informs strategy development (Henry, 2008).
- Benchmarking facilitates learning from others, which in turn results in greater confidence in developing and applying new approaches. It can raise awareness about performance and promote greater openness on strengths and weaknesses (UK Prime Minister's Strategy Unit, 2008).

## 7. Potential Disadvantages

- Benchmarking is less popular than it once was and some still consider it to be a fad (Henry, 2008).
- Benchmarking is closely related to quality management; however, the latter is far from being universally applicable (as was previously asserted). Both the concepts of quality management and total quality management are 'hazy' and 'ambiguous' (Broderick et al., 2010).
- Traditionally, benchmarking has been confined to established quality standards and metrics rather than broader performance management (Davies and Kochbar, 2002).

N.B Lack of comparability in benchmarking is probably the largest source of criticism and dispute in the process, and has the potential to call the entire results into question. Comparisons against market standards of quality and cost must be "normalised" to adjust for unique or unusual circumstances, including service requirements, volumes of service and geography

## 8. Performance Monitoring

- Metric measures: measure financial and non-financial factors (Iacobucci and Nordhielm, 2000).
- Maturity measures: concerns the uptake of best practice (Iacobucci and Nordhielm, 2000).
- Gap analysis: assesses where the firm currently stands and where it needs to be on a particular process, product, or service (Iacobucci and Nordhielm, 2000).
- External benchmarking: can be achieved by developing a direct comparison questionnaire (Iacobucci and Nordhielm, 2000).
- Creative benchmarking: list each step in your customer buying experience, determine factors that influence the customer perception of value at each step, identify companies that excel at each factor (Iacobucci and Nordhielm, 2000).

Other considerations of a thorough benchmarking process include:

- Understanding the definitions and constraints used for the applicable benchmarks
- Ensuring the population of reference data is relevant to your sector, large enough to be of value and covers a time period that is relevant to the operational period in question
- Deploying a methodology that combines both objective and subjective data, ideally in such a way that they reinforce each other

- The inclusion of a broad range of reference points - internal, competitor, non-competitor, regional, best in class and world class
- Ensure you are comparing like with like
- Making comparisons is very difficult across organisations. Benchmarking is much better able to measure "change" from one period to another in one given organisation and so is very powerful for measuring improvements

## 9. Case Studies

- Xerox's UK operations benchmarked the best practices of its operating countries. The benefits of adopting these best practices included improved sales of between 152% and 328% and the generation of over US\$200m in new revenue (Henry, 2008).
- Hormel Foods in the US uses benchmarking to gauge internal practices against 'best practice' of competitors. As part of its strategic planning process, this helps the firm evaluate the degree of change needed (ranging from none to a complete overhaul) and better understand strengths, weaknesses, opportunities, and threats (Ingram et al., 2009).
- The body and pressings section of the Rover Group realised considerable improvements in 1994 over performance metrics set in 1991, including doubling throughput, averaging one-hour die changeover times, hitting 100% schedule achievement, and getting consistency right first time 99.99% of the time (Zairi, 1996).

## Research

Professor Andrew Cox is chairman of the advisory board for not-for-profit organisation the International Institute for Advanced Purchasing and Supply (IIAPS). He says the problem with judging world-class performance of individuals or departments is many buyers do not know what world-class is.

In research presented at the E-World Purchasing and Supply conference 2010 (IIAPS), shows where a score of 100 represents world-class procurement performance, most organisations benchmark themselves between 60 and 90. However, when audited by the Institute, these scores fell by between 10 and 20.

## 10. Further Reading/References

### CIPS Source Downloads

- CIPS Australia & Portland Group: Strategic procurement benchmarking survey report
- CIPS: Benchmarking
- DILForientering: Benchmarking performance

### Web Resources

- The Economist introduces benchmarking <http://www.economist.com/node/14116203>
- American Productivity and Quality Centre <http://www.apqc.org/>
- Best practice for benchmarking discussion <http://hbswk.hbs.edu/archive/3746.html>
- Benchmarking Corporate Services  
<http://www.scotland.gov.uk/Topics/Government/PublicServiceReform/efficientgovernment/benchmarking>

- Benchmarking staff <http://hbr.org/2005/09/benchmarking-your-staff/ar/1>

### Books

- The Benchmarking Book, Stapenhurst, ISBN 978-0750689052
- Portfolio Performance Measurement and Benchmarking, Christopherson, Carino and Ferson ISBN 978-0071496650
- Benchmarking in the Public and Non Profit Sectors, Keehley & Abercrombie ISBN 978-0787998318
- Business Performance Excellence, Luftig & Ouellette, ISBN 978-1849300438
- The Economics of Benchmarking, Ten Raa, ISBN 978-0230224384

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