

## Theoretical Aspects of Benchmarking Theory

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*Article analyzing following issue: benchmarking concept, types of benchmarking, benchmarking methodology. Benchmarking is used to improve performance by understanding the methods and practices required to achieve world – class performance levels. Benchmarking is very different types: performance benchmarking, process benchmarking, functional benchmarking, internal benchmarking, external benchmarking, international benchmarking. Benchmarking proceeds in phases: planning, data collection, analysis, adaptation and implementation of good practices.*

Keywords: *benchmarking, benchmarking methodology.*

Pagrindinės sąvokos: *sugretinimas, sugretinimo metodologija.*

### 1. Introduction

Benchmarking is a powerful vehicle for quality improvement and a paradigm for effectively managing the transformation of public – sector organizations into public-sector organizations quality. Benchmarking is often seen as simply number crunching, and many are therefore skeptical of the concept, especially in connection with government policies. At firm level, the objective is normally to increase profits by increasing the productivity of specific processes within firm. Benchmarking is useful in this respect. At government level, things are more complicated. A government often aims at increasing productivity and growth by creating a dynamic business environment. Most benchmarking reports at country level consequently become a comparison of business environments across countries and very little attention is given to specific policies.

### 2. Benchmarking concept analysis

Benchmarking is a measure for improving performance by learning from best practices and understanding the processes by which they are achieved.

It follows that benchmarking involves looking outward (outside your own organization, industry, region or country) to examine how others achieve their performance levels and to understand the processes they use. In this way benchmarking helps explain the processes behind

excellent performance. When the lessons learnt from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organization or in key areas of the business environmental.

Benchmarking was originally developed in private – sector management and, according to a very popular working definition (Camp (1989)) [8] is the search for best practices that lead to superior performance. The following more formal definition devised by Rank Xerox Company is also often quoted: „the continuous process of measuring our products, services, and business practices against the toughest competitors or those companies recognized as industry leaders. A perfect definition applicable to both the private and public sectors reads is given by Cowper and Samuels (1997) [11]: „Benchmarking as an efficiency tool is based on the principle of measuring the performance of one organization against a standard whether absolute or relative to other organizations“.

Benchmarking is an integral part of planning and ongoing review process to ensure a focus on the external environment and to strengthen the use of factual information in developing plans. Benchmarking is used to improve performance by understanding the methods and practices required to achieve world – class performance levels. Benchmarking's primary objective is to understand those practices that will provide a competitive advantage; target setting is secondary. (Camp (1995)) [9].

This comment is particularly pertinent taken

in the context of the continuing popularity of performance league tables particularly in the public sector, and the tendency for „benchmarking“ and „benchmark“ (a standard or target) to be used interchangeably. Knowing one’s position in a league table does little to enable the organization to understand how better performers achieved their status and hence how to move up the table, perhaps overcoming external obstacles or unequal inputs along the way. (Goldstein and Spiegelhalter (1996)) [13]

While targets are an integral part of benchmarking, the notion that there is one best way to do something and that once this target is attained no further change is needed, runs counter to benchmarking’s inherently dynamic nature. The need to seek external as well as internal benchmarks where possible is an important ingredient in successful performing that „other sister units have performed better in similar circumstances“ does not guarantee competitive advantage. (Fitzgerald and Moon, 1996) [12].

*The origins of benchmarking.* Benchmarking was developed in the USA in the Seventies. However, the underlying concept has been in existence for considerably longer. The studies on the scientific methods of work organization performed by Frederick Taylor in the latter part of the nineteenth century represent an early use of the benchmarking concept.

Benchmarking was originally developed by companies operating in an industrial environment. It has, therefore, been applied most widely at the level of the business enterprise. In recent years, organizations such as government agencies, hospitals and universities have also discovered the value of benchmarking and are applying it to improve their processes and systems. In addition, industry associations now increasingly use the measure to improve sector-specific processes. Most recently, public authorities have begun to explore the use of benchmarking as a measure to explore the use of benchmarking as a measure for improving policy implementation processes, by focusing on the framework conditions which underlie the business environment and the economy more generally.

In seeking to explain benchmarking, it is useful to distinguish between its application at enterprise, public sector, framework conditions and sectoral levels. The implementations of benchmarking at all levels involves the same core actors: public authorities, industry organizations and individual enterprises.

The role of the various players in benchmarking

differ, however, depending on the level of application. At enterprise level, the individual enterprise is the focus. In the public sector and framework conditions benchmarking, public authorities take the lead. At sectoral level, the initiative should lie with industry associations.

### 3. Types of benchmarking

Benchmarking is a very versatile tool that can be applied in a variety of ways to meet a range of requirements for improvement. Different terms are used to distinguish the various ways of applying benchmarking. The first word in each term relates to either the type of partner or the purpose for benchmarking. At the outset of benchmarking projects, it is vital to be clear on exactly what is to be achieved through benchmarking and apply an appropriate methodology.

Standard benchmarking terms include (see 1 figure):

1. Strategic Benchmarking
2. Performance Benchmarking or Competitive Benchmarking
3. Process Benchmarking
4. Functional Benchmarking or Generic Benchmarking
5. Internal Benchmarking
6. External Benchmarking
7. International Benchmarking

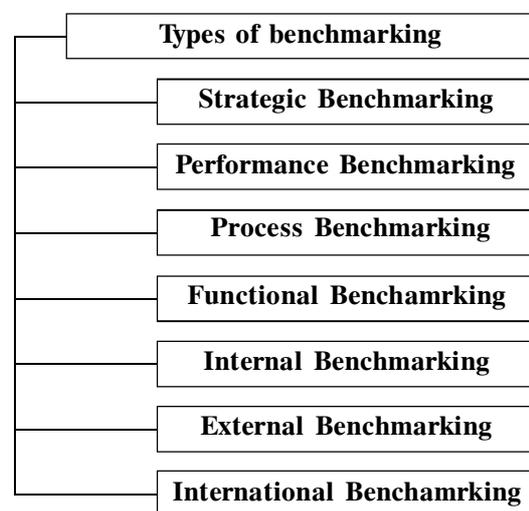


Figure 1. Types of benchmarking

*1. Strategic Benchmarking* is used where organizations seek to improve their overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. It involves considering high level aspects such as core competencies, developing new products and services; changing the

balance of activities; and improving capabilities for dealing with changes in the background environment. The changes resulting from this type of benchmarking may be difficult to implement and the benefits are likely to take a long time to materialize.

2. **Performance Benchmarking** is used where organizations consider their positions in relation to performance characteristics of key products and services. Benchmarking partners are drawn from the same sector. However, in the commercial world, it is common for companies to undertake this type of benchmarking through trade associations or third parties to protect confidentiality.

3. **Process Benchmarking** is used when the focus is on improving specific critical processes and operations. Benchmarking partners are sought from best practice organizations that perform similar work or deliver similar services. Process benchmarking invariably involves producing **process maps** to facilitate comparison and analysis. This type of benchmarking can result in benefits in the short term. For example Rank Xerox, the British unit of Xerox, benchmarked the best practices of its operating countries. Documented units improved sales from 152 % to 328 % and over \$ 200 million in new revenue.

4. **Functional Benchmarking** is used when organizations look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This is a comparison of methods to companies with similar processes in the same function outside one's industry. This sort of benchmarking can lead to innovation and dramatic improvements. Functional benchmarking denotes essentially the comparative analysis of specific tasks, functions or processes, independently of product, sector, and branch or market segment. For Karlof and Ostblom (1994) [14] functional benchmarking is synonymous with best – practice benchmarking, i.e. finding the best performer in particular field. Functional benchmarking in dissimilar industries may be advantageous because of higher acceptance (fewer problems with confidentiality, greater objectivity). It presupposes some kind of logical comparability which is determined by specific product characteristics, but not the product or the industry itself. If product characteristics or type of industry do not play any role at all in comparability the purest form of benchmarking.

5. **Internal Benchmarking** involves seeking partners from within the same organization, for example, from business units located in differ-

ent areas. The main advantages of internal benchmarking are that access to sensitive data and information are easier; standardized data is often readily available; and, usually less time and resources are needed. There may be fewer barriers to implementation as practices may be relatively easy to transfer across the same organization. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking. Internal benchmarking take place between units or sub-units of the same organization; it may be used as an instrument of explicit internal competition, but was not necessarily designed as such. This is a comparison among similar operations within one's own organization.

6. **External Benchmarking** involves seeking outside organizations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the leading edge, although it must be remembered that not every best practice solution can be transferred to others. In addition, this type of benchmarking may take up more time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations. External learning is also often slower because of the 'not invented here' syndrome. External benchmarking seeks to compare a firm with organizations with the same or very similar characteristics. The benchmarking partner may be a direct competitor or a firm operating in other market segments. The main characteristic of external benchmarking is high degree of comparability between the organizations or products being benchmarked.

7. **International Benchmarking** is used where partners are sought from other countries because best practitioners are located elsewhere in the world and/or there are too few benchmarking partners within the same country to produce valid results. Globalization and advances in information technology are increasing opportunities for international projects. However, these can take more time and resources to set up and implement and the results may need careful analysis due to national differences. When selecting which type of benchmarking to use, the following aspects are considered:

- objectives to be achieved and aspects to be reviewed;
- time and resources available;
- level of experience in benchmarking; and
- the likely sources of good practice.

There are circumstances in which the different types of benchmarking are likely to be more

suitable than other types. Organizations starting out with benchmarking often for internal benchmarking first to build up experience of the benchmarking process before attempting external or functional benchmarking. Organizations also progress through the various types of benchmarking, for example, using Performance Benchmarking to highlight gaps in overall performance before deploying Process Benchmarking to bring about improvements in key processes that will, in turn, impact on overall performance. Types of benchmarking are presented in 1 table. This table aims to show examples of situations where one type of benchmarking may be more appropriate than others.

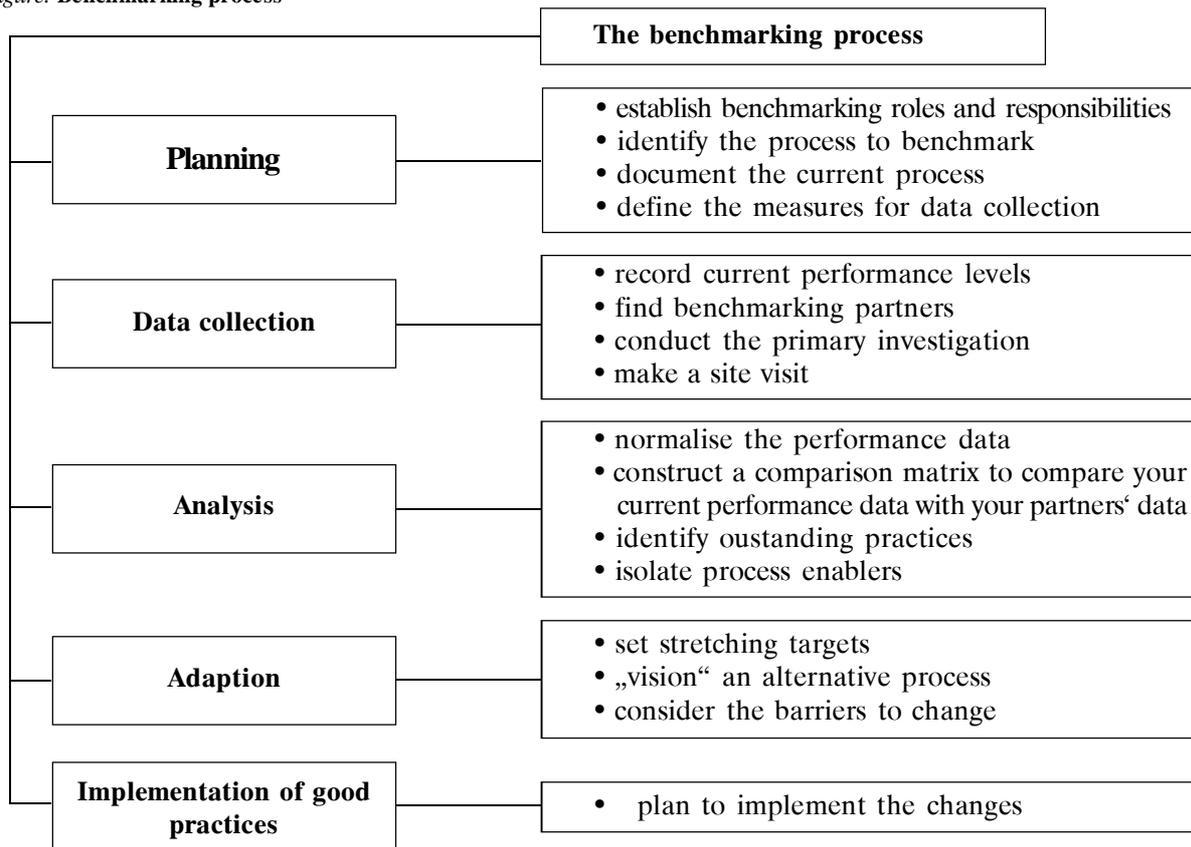
#### 4. Benchmarking methodology

Benchmarking proceeds in phases (Alstete (1995) [2]: planning, data collection, analysis, adaptation and implementation of good practices (see 2 figure). First, developments needs have to identified and associated processes to improved need to be defined. At this point, the goals are still partially undefined and too general. A carefully self – evaluation is conducted with the aim to analyze the institution’s key processes or activities. The self – evaluation can be compared to a SWOT analysis that reveals the strengths, weakness, opportunities and threats of the organization. From these, the most ur-

1 table. Types of benchmarking

When the focus is on...		it could be appropriate to use...
-	Re-aligning strategies that have become inappropriate. For example, in the light of changes in the background such as technology or customer requirements.	<b>Strategic Benchmarking</b>
-	The relative level of performance in key areas or activities in comparison with others in the same sector and finding ways of closing gaps in performance.	<b>Performance or Competitive Benchmarking</b>
-	Improving key processes in order to make a difference to performance in a short time.	<b>Process Benchmarking</b>
-	Improving activities or services for which counterparts do not exist.	<b>Functional or Generic Benchmarking</b>
-	When pressures prevent benchmarking within the same sector.	
-	When radical change is needed.	
When...		it could be appropriate to use...
-	Several business units within the same organization exemplify good practice.	<b>Internal Benchmarking</b>
-	Exchanging information and data with external organizations would be undesirable.	
-	Inexperienced in applying benchmarking.	
-	Time and resources are limited.	
-	Examples of good practices are to be found in other organizations and there is a lack of good practices within individual companies.	<b>External Benchmarking</b>
-	Innovation is sought.	
-	Good practice organizations are located in other countries.	<b>International Benchmarking</b>
-	There are few partners within the same country.	
-	The aim is to achieve world class status.	

2 figure. Benchmarking process



gent development needs are selected and narrowed to definable processes. Partner institutions are selected. The criteria for identifying good practice are set, and models to be benchmarked are sought among organizations that have reached selected criteria.

Second, data on processes is collected from the model organization. The visitor's task is to create the right questions that will help to collect the important information that is needed in order to improve practices in the selected development areas. Data is usually collected through site visits to the model organization.

Once the data is collected, the benchmarking team analyses the gap between the current and desired state, and plans a strategy for implementing ideas in the own organization. The key question is how to capture the essential information and put it to practice. The final stage is an evaluation of the outcome and the entire process after the strategy has been implemented. As with any quality concept, benchmarking should be integrated into the core processes throughout the organization longitudinally or else it will remain as isolated phenomenon.

## 5. Conclusions

1. Benchmarking is all about measuring our performance in particular area against that of a similar area in another organization.

2. In benchmarking terms, „indicators“ are measures, not just any measure, but one that indicates a level of true performance.

3. Benchmarking must be a continuous process with the extent and scope of the project being dependent on the resources that the company has available.

4. Benchmarking could be understood as an approach based on two interconnected pillars, dubbed benchmarking as analytical inventory and benchmarking as an instrument of policy improvement. Regardless of whether results, processes or standards are the object of benchmarking, any benchmarking exercise would remain incomplete if it did not translate new analytical insights into concrete measures to close performance gaps or deficiencies that had been identified.

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### Teoriniai sugretinimo metodo aspektai

Santrauka

Straipsnyje nagrinėjamos šios sąvokos: sugretinimo sąvoka, sugretinimo rūšys, sugretinimo metodologija. Sugretinimo metodai ir praktika taikoma veiklai tobulinti siekiant pasaulinio klasikinio veiklos lygio. Sugretinimas yra įvairių rūšių: veiklos sugretinimas, proceso sugretinimas, funkcijų sugretinimas, vidinis sugretinimas, išorinis sugretinimas, tarptautinis sugretinimas. Sugretinimo procesą sudaro šios fazės: planavimas, duomenų rinkimas, analizė, pritaikymas, geros praktikos įgyvendinimas.

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