

PART 1

# The Business Context of Benchmarking

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# Stimulating Business Improvement by Benchmarking

*Competitive innovation works on the premise that a successful competitor is likely to be wedded to a “recipe” for success. That’s why the most effective weapon new competitors possess is a clean sheet of paper. And why an incumbent’s greatest vulnerability is its belief in accepted practice.*

—GARY HAMEL AND C. K. PRAHALAD

## INTRODUCTION

Benchmarking is a process of comparing in order to learn how to improve. Motivation for a benchmarking study is the desire to improve and become more competitive. But benchmarking is not the silver bullet of performance improvement!

Ever since 1990 when Roger Milliken declared that “benchmarking is the art of stealing shamelessly,” many executives have thought that the process of benchmarking is a “quick fix” for making business performance improvements. However, benchmarking is not a quick fix; it is a rigorous process that requires both *sweat equity*—learning about one’s own processes and coordinating study missions to other organizations—and *analytical thoroughness*—measurement and analysis of work process performance as well as the detailed mapping of processes and side-by-side assessment of process differences.

Benchmarking uses the analytical information contained in a *benchmark*, a comparative measure of process or results performance, to establish which organization is candidate for a best practice in a specific business process. Then the business process must be thoroughly defined in order to understand how benchmark performance was achieved and to identify enablers of this successful performance. Finally, a cultural adaptation of the learning must be made in order to apply this new knowledge to your own organization. In order for benchmarking to be successful, it must heed the warning of Dr. W. Edwards Deming who said, “It is hazard to copy. One must understand the theory of what one wishes to do” (1982). Cultural adaptation and business model adaptation are necessary to assure that lessons observed from one place can be successfully transferred someplace else. As Deming also cautioned, “Adapt, don’t adopt. It is error to copy” (1982). So how can we more carefully describe what is meant by benchmarking?

### BENCHMARKING DEFINED ACCORDING TO CATEGORIES OF PRACTICE

Benchmarking has been described as a search for best practices — indeed, it is the process of comparing the performance and process characteristics between two or more organizations in order to learn how to improve. However, a problem that began early in the game of benchmarking was a lack of clarity in the meaning of the term. In Bob Camp’s first book on benchmarking, he described four ways to approach the problem of data collection that were distinguished using the logic of where information was obtained. The way that he distinguished these categories was classified according to the source of the benchmarking data.<sup>1</sup> One problem with this breakdown of benchmarking is that it focuses too narrowly on where data is obtained, rather than on the objective of the study itself — in other words, the focus of the definition is on the process of benchmarking rather than on the lessons that must be learned. A different ap-

1. Robert C. Camp, *Benchmarking* (Milwaukee, WI: ASQ Quality Press, 1989).

proach is required to understand the context of benchmarking and how it fits into business. This was the approach that was initiated in my second book on the subject of benchmarking, and we will present a complete definition of benchmarking in this chapter.<sup>2</sup>

First, the starting point of benchmarking is measurement—the benchmark is after all a measurement. However, we must distinguish between the act of measuring performance and the process of benchmarking. A benchmarking process uses a common measurement standard to compare across organizations to determine where a best practice exists based on the results it produces. After the performance has been measured, then a further investigation is conducted to characterize the practices that lead to the observed performance and the root causes of the performance advantage are documented as a best practice. Thus, the first distinction that must be drawn is the difference between performance measurement and process benchmarking. Each of these ways to improve addresses a different set of questions (see Figure 1.1):

All benchmarking is process benchmarking. To understand the dynamic characteristics of a benchmarking study, the different terms that identify the choices that can be taken in the design of a study must be identified and defined. The first term that must be defined is *process benchmarking*.

- *Process benchmarking.* A method for studying work process performance between two unique or distinct implementations of the same fundamental activity. Process benchmarking includes internal inspection of an organization's own performance as well as the external study of another organization that is recognized for achieving superior performance as evidenced by an objective standard of comparison (the benchmark). The objective of process benchmarking is not to calculate a quantitative performance gap, but to identify best practices that may be adapted for improvement of organizational performance.

There are two categories of process benchmarking studies that may be differentiated according to their application as strategic or operational

2. Gregory H. Watson, *Strategic Benchmarking* (New York: Wiley, 1993).

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Performance Measurement	Process Benchmarking
What is the level of performance that an organization has achieved?	Is the performance comparison between these two organizations a fair one?
What is the distinction between the level of performance of one organization and the rest of its industry?	How does the performance achieved relate to the potential performance capability of the organization?
What is the performance improvement trend of the organization?	How wide is the variation in the business practices of the organization; and does this variation relate to quantifiable performance differences (in average or variation)?
What is the current state of performance relative to the historical trend?	How consistently applied are performance enablers throughout the organization?
Is the organization improving in both the magnitude and direction it intended?	What is the progress of the organization toward its performance goal or objective?
How do the key performance indicators change as a function of time and effort?	What is the extent of improvement made in different parts of the organization? Is this a spot improvement or is it systematic?

FIGURE 1.1 Comparison of performance measurement and process benchmarking

studies. These two categories are further divisible into performance and perceptual benchmarking studies depending on the type of data that is being compared. The relationship among these distinctions is clarified in the following:

- *Strategic Benchmarking:* A benchmarking study whose objective is to discover ideas for improvement that will trigger breakthrough changes and may be leveraged across the business to enhance an organization's competitive advantage.

Strategic benchmarking studies challenge management to move from a current state to a desired state of business performance by identifying potential breakthrough opportunities that can generate significant profitability or productivity improvement. A strategic study focuses on critical business areas that must change to attain or maintain the competitive advantage of a business, including the validity of critical business assumptions, options for improving core competence areas, concepts for development of business processes, alternative ways to approach technology inflection points, or ways to strengthen business fundamentals that define the organization's operational strategy.

A strategic benchmarking study may change the total framework of an organization by assessing topics such as strategic direction; structure or governance of the business; decisions supporting capital acquisition or investments in research and design (R&D); decisions affecting management choices regarding either business or product line positioning; or change management strategies (e.g., pursuit of a specific strategy such as implementation of an enterprise software product or management's choice of an improvement methodology—for example, ISO9000, Total Quality Management [TQM], or Six Sigma) as a way to induce change in the organization. These types of benchmarking projects can act as triggers for greater change that may be leveraged across the entire organization.

Thus, strategic benchmarking studies tend to seek out business leverage opportunities and change trigger points that can cause an organization to make a breakthrough change that results in competitive advantage. A leverage opportunity is a business improvement concept that may be applied across the organization in a variety of areas and that will create a big performance difference. For instance, transformation of a core business process can achieve this result. A change trigger point is a single event that will create a sequence of changes—like a ripple effect as a pebble is thrown into a calm lake. These two different changes will become clearer in the context of a case study of a series of strategic benchmarking studies that is contained in Chapter 7.

Examples of strategic benchmarking studies include evaluation of options for the design of an organization's governance structure; assess-

ment of approaches used to implement advanced technology (e.g., enterprise management software or paperless document handling); or strategic business issues that are faced by the organization (e.g., creating a web-based business capability; managing the technology transition across generations of advancement; or managing the routine work of the organization through management methods such as balanced scorecard, performance management, and business excellence assessments).

- *Operational Benchmarking:* A benchmarking study that is focused on the way that a specific work process is performed with an objective of improving the performance of that specific process (e.g., improving a sales process, printed circuit board production process, or distribution process).

Operational benchmarking will provide productivity improvement by concentrating on specific activities that will improve the effectiveness, efficiency, or economy of routine business operations. Operational benchmarking focuses on specific work activities that need to be improved and seeks to identify the work procedures, production equipment, skills or competence training, or analytical methods that result in sustained performance improvement as indicated by objective measures of process productivity (process throughput, cost per unit, defect opportunities, cycle time, etc.).

Examples of operational benchmarking studies include analysis of invoicing procedures to determine the most productive process; evaluation of production methods to determine the highest throughput methods that deliver lowest cost and least defects; and study of logistics distribution methods that result in both high delivery service performance and low levels of finished goods inventory.

Both strategic and operational benchmarking studies may focus on either performance or perceptions as the type of data that is being evaluated. Performance data consists of a set of measures about results or outcomes, while perceptual data comes from the feelings or reactions of an individual to the outcomes or results of the process. These two different focus areas for studies may be clarified further.

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- *Performance Focus of Benchmarking:* At a strategic level of organization, a performance benchmark seeks to determine which organization performs best according to an objective standard that is typically financial, like return on capital employed (ROCE) or earnings before interest and taxes (EBIT). At an operational level, benchmarking product or service outcomes using a standard comparison or test under known operating conditions is also called *performance benchmarking*.

A performance benchmarking study seeks to answer the following question: Which organization, product, or service is better based upon rigorous assessment using objective performance criteria? Examples of performance benchmarking studies include consumer product analysis that evaluates products on a head-to-head basis using a fixed set of criteria for performance; the evaluation of product performance using a standard test, such as operating time, to run a specific application; or endurance tests that identify the ability of a product to perform over a fixed period of time under comparable operating conditions. What sets a performance-focused study apart from its opposite is the type of data that is used to make a comparison in the study.

- *Perceptual Focus of Benchmarking:* Perceptual benchmarking is a study using the process benchmarking approach but focused on feelings or attitudes about process, product, or service performance by the recipient of the process output. Perceptual benchmarking seeks to answer the following question: How do you perceive the delivery of service, performance of product, or execution of process by the people who are recipients of these outputs?

Perceptual benchmarking uses attribute or categorical data to quantify subjective feelings and establish relative performance rankings using criteria like timeliness of performance, goodness of knowledge transfer, soundness of information, courtesy of delivery agents, and so on. Examples of perceptual benchmarking include surveys of training satisfaction at the completion of a training event, employee satisfaction surveys

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Category	Performance Study	Perceptual Study
Strategic Benchmarking	Focuses on the collection of performance information for key results indicators in the organization's balanced scorecard that are critical to satisfaction to customers.	Focuses on the market or financial perceptions of the company's performance as a long-term indicator of its value (e.g., brand reputation or viability of strategy).
Operational Benchmarking	Focuses on the collection of process-level performance indicators such as productivity, efficiency, or cycle time.	Focuses on the feelings of a target audience about how the organizational activity affects them (e.g., employee or customer satisfaction).

FIGURE 1.2 Taxonomy of benchmarking studies

to determine either the work climate or structural issues regarding compensation and benefits, or customer satisfaction with the product or service delivery to the market place.

These different categories of benchmarking are related in Figure 1.2, which shows how strategic and operational studies map against performance or perceptual data.

The way to differentiate benchmarking studies is to consider the different ways that they seek our various sources of data.

### BENCHMARKING DEFINED ACCORDING TO SOURCES OF DATA

This second group of terms to be defined is terminology that identifies the sources of data used in conducting a specific benchmarking study. This is an older and somewhat less helpful way to identify benchmarking studies that has its roots in the first set of studies that were conducted by Xerox.<sup>3</sup>

3. This distinction was made in Bob Camp's 1989 *Benchmarking* book and follows the original use of the Xerox Corporation.

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- *Competitive Benchmarking:* An approach to benchmarking that targets specific product designs, process capabilities, or administrative methods used by one's direct competitors (e.g., the study of performance in the laptop computer industry that features only those companies that produce these products). The most stringent types of competitive studies will assess head-to-head competing organizations in the same industry and market.
- *Functional Benchmarking:* An approach to benchmarking that seeks information from a functional area in a particular application or industry (e.g., benchmarking the purchasing function must determine the most successful approach to manage a supplier base). In this type of study, information is compared for the same work process or business function either across industries or within the same industry, but the focus is always on the functional area.
- *Internal Benchmarking:* An approach to benchmarking where organizations learn from sister companies, divisions, or operating units that are part of the same operating group or company (e.g., the study of internal research and development groups to determine best practices that reduce time to market for the new product introduction process). In this type of study, performance information is compared for the same work process or business function within the same organization (perhaps looking at unique production lines, different plants, separate divisions, or distinct business units).
- *Generic Benchmarking:* An approach to benchmarking that seeks process performance information that is from outside one's own industry. Enablers are translated from one organization to another using an interpretation of their analogous relationships (e.g., learning about reducing cycle time in production operations by the study of inventory management methods used in stocking fresh vegetables in grocery stores). In this type of study, performance information is used through the development of an analogy that permits learning with broad comparisons for a specific process (e.g., studying distribution of food supplies to learn how to control automobile manufacturing logistics).

There is another refinement on this classification scheme that decomposes benchmarking studies into categories of data source. The second classification scheme distinguishes among the types of studies by the way a project is conducted: an internal study, industry study, benchmarking exchange study, or special interest group study.<sup>4</sup> This way of describing benchmarking studies adds two new perspectives to the sources of data approach. These categories may be defined as follows:

- *Internal Study*: Same definition as an internal benchmarking study.
- *Industry Study*: Same definition as a functional benchmarking study.
- *Benchmarking Exchange Study*: Benchmarking Exchange describes the activity in a benchmarking study where two or more companies exchange information about the way their processes perform — whether they are competitive organizations. In specifying the process for benchmarking, this is the step that follows identification of best practice (more details will be presented in Chapter 3 about the process of doing a benchmarking study).
- *Special Interest Group (SIG) or Collaborative Benchmarking*: In defining what is a benchmarking collaborative, the key ingredient is that it is a group of companies that have banded together in order to discover from their mutual experience what is the best practice in a particular subject area. The General Motors cross-industry study that was described in Watson's *Strategic Benchmarking* is precisely this kind of study.<sup>5</sup>

One concern about the collaborative or special interest group study is the usefulness of the data. Because companies self-select participation in the study based on their own needs, will the study of the group's own performance actually identify the peaks of performance and their related best

4. This distinction was made by Carl G. Thor in *Practical Benchmarking for Mutual Improvement* (Portland, OR: Productivity Press, 1995), p 2.

5. Collaborative benchmarking has been used in health care applications and is a model that is used for group studies by the International Benchmarking Clearinghouse. For more detail on this method, see Robert G. Gift and Doug Mosel, *Benchmarking in Healthcare* (Chicago: American Hospital Publishing, 1994).

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practices, or will it merely identify a lowest common denominator that is observed from the self-nominated sample of firms? If truly excellent practices are not found within the participating organizations, then the sponsor of the study should not be complacent and settle for the best of what is found by chance and self-nomination, but should actively extend the study to seek out practices that will challenge the performance of all study participants.

No matter which scheme is used to identify the sources of data, it is clear that this way of describing a benchmarking study is incomplete without the two previous distinctions that define the focus of the study and the type of the data that is being used.

Examples of the way that strategic and operational benchmarking studies are pursued by using different sources of benchmarking data are described in Figure 1.3.

Source of Benchmarking Data / Types of Benchmarking	Competitive	Functional	Internal	Generic
Strategic	Analysis of a head-to-head competitor in terms of its strategic intent or its business strategy.	Analysis of a recognized leader in a specific function to determine future direction or developmental strategy.	Analysis of the internal business units to find the potential areas of synergy or leverage that exist across the organization.	Analysis of an analogous type of business to discover insights about relevance of technology or new operating systems.
Operational	Analysis of a specific process or functional area at a direct competitor to determine which company has the best practice.	Analysis of a specific practice of a functional leader in order to determine the key enablers of its sustained performance.	Analysis of a "sinister business unit" to discover why a process is able to perform at a higher level of effectiveness or efficiency.	Analysis of a core business process in an unlike industry to determine the key enablers of its sustained performance.

FIGURE 1.3 Benchmarking studies versus sources of benchmarking study data

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Source of Data	Advantages	Disadvantages
Competitive Benchmarking	Provides a strategic insight into marketplace competitiveness and a wake-up call to action.	<ul style="list-style-type: none"> <li>• Legal issues regarding data sharing among competitors.</li> <li>• Study detail may not be good enough for process diagnosis.</li> </ul>
Functional Benchmarking	Takes advantage of functional and professional networks to gain study participants.	<ul style="list-style-type: none"> <li>• Functional concentration tends to support operational rather than strategic studies.</li> <li>• Does not challenge paradigm of functional thinking.</li> </ul>
Internal Benchmarking	Provides highest degree of process detail and simplified access to process information.	The internal focus tends to be operational, rather than strategic, and reinforces the organization's cultural norms.
Generic Benchmarking	<ul style="list-style-type: none"> <li>• Has the greatest opportunity for process breakthroughs.</li> <li>• Because organizations don't compete, reliable detailed information is usually available.</li> <li>• Provides incentive for strategic change initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulty in developing an analogy between dissimilar businesses.</li> <li>• Difficulty in identifying the companies to benchmark.</li> <li>• Difficulty in establishing the appropriate contact for a study.</li> </ul>

FIGURE 1.4 Benefits analysis of benchmarking data sources

This way of categorizing benchmarking practice according to the source of data leads to conclusions about the relative usefulness of information (advantages and disadvantages) that is drawn from these different sources as presented in Figure 1.4.

So far our attention has been placed on defining those terms that specify the taxonomy of benchmarking: the types of benchmarking studies, the focus area of the study, and the sources of the data. In addition, there is another set of terms that describe the different component parts of a benchmarking study.

### DEFINITIONS OF THE COMPONENTS OF A PROCESS BENCHMARKING STUDY

In order to be clear about how a benchmarking study is performed, it is important to learn some terminology that is commonly used to refer to the different parts of a benchmarking study. These terms include: *benchmark*, *best practice*, *critical success factor*, *enabler*, *process capability*, *entitlement*, *baseline analysis*, *gap analysis*, and *world class performance*.

- *Benchmark*: A measure of performance that is used to compare the products, services, or processes between two analogous organizations in order to establish superiority in sustained performance. Note that many of the benchmarks that are publicly promoted indicate only spot performance at a specific point in time and do not meet the criteria of enduring success by failing to establish the difference in performance between a *special cause event* and a *common cause* management process. A lack of statistical discipline in the use of benchmarks threatens to diminish the perceived value of the process of benchmarking.
- *Best Practice*: The set of activities, tasks, resources, training, and methods that created the observed benchmark level of performance in an observed work process. In a process benchmarking study, in order to qualify as a best practice, the performance must be observed and mapped to assure that the work performed is properly

identified and that process experts have validated and verified the distinctions between observed best practices and merely good practice. Without the objective assessment by work process experts, best practice becomes a subjective claim that is not verifiable.

- *Critical Success Factors:* These are quantifiable, measurable, and auditable indicators of process performance and process capability in key business processes. They indicate in basic business terms the performance level obtained in a comparative manner using such basic building blocks of processes to describe the performance of business effectiveness (quality), efficiency (cycle time), and economy (cost). Key critical success factors are universal and may be used for cross-organizational comparisons for the same process.
- *Enabler:* The specific activity, action, method, or technique that stimulated progress in one process over the comparative processes and led to identification of a best practice (e.g., the way quality function deployment or failure mode and effects analysis was used in a product design process; a process for data presentation that more clearly indicated the action to be taken by front-line operators; or an employee training and development system that delivers the appropriate skills and competence to process workers as they require these methods to perform their work in a changing technological environment).
- *Process Capability:* The analysis of the ability of a process to reliably produce a high quality output by evaluating the ratio of its customers' tolerance for performance quality to the ability of the process to control its variation. Process capability may be calculated as an ideal by comparing the total specification limit to six standard deviations of the variation for the same measure ( $C_p$  is the abbreviation used for the ideal form of process capability). Process capability may also be evaluated against average performance of the process by checking which side of the customer specification is closer to the process average. Here the process capability is calculated as the minimum between the difference in the ratio of the average to the lower and upper specifications divided by three stan-

dard deviations for the variation in the process. This real-world perspective of process capability is abbreviated Cpk and indicates the expected value of process performance as it is implemented.

- *Entitlement:* The set of work process lessons learned that are derived by examination of one's own processes and discovery of wasted activities, duplicated steps or non-value added work that can be eliminated or modified based solely on the self-analysis phase of benchmarking. An organization is entitled to make such process changes without relying on the lessons learned from external discovery. Such improvements permit the process to operate as intended and represent gap closure between original process design and current process performance. Entitlement also refers to the gap that may exist between the design process capability (Cp ratio) and the achieved process capability (Cpk ratio) as management is entitled to the performance which they purchased with their capital investment.
- *Baseline Analysis:* A comparison of performance baseline data across all benchmarked processes. A common scale is used for each comparison based on the variation observed in process performance. A best process is one that has both the highest average sustained performance and the lowest variation in the daily results. The performance baseline comprehends both of these factors using a standardized metric for process comparisons (e.g., process standard deviation as calculated using the defects per million opportunities as evaluated against a common customer requirement for targeted performance). The baseline analysis may be presented as an analysis of variance to illustrate the sampled performance across all of the different process locations.
- *Gap Analysis:* The evaluation of the performance difference between current internal performance and benchmark performance at the best-practice organization. To be effective, a gap analysis should include both the use of statistical confidence intervals and tests of difference (for both means and variance) to demonstrate that a real performance gap has been observed, not a gap due to chance observations.

- *World Class Performance*: A degree of performance achieved in a business practice that clearly sets it aside as exceptional—a unique performance level that is reserved for describing only the best of the best. The Japanese word for this degree of process performance is *dantotsu*.

The definition of world class performance requires a little more explanation.

While it may sound good to call an observed best practice “world class,” some practical considerations should also be embedded in this label. For example, no organization is truly “perfect” or “flawless” or even “world class”—some are, however, much better than others. But we shouldn’t make this judgment about “better” without basing it on scientific knowledge that has a statistical basis. All too often the judgment about superiority of an organization is based on reputation alone with a subjective leap of faith that their business practices (in all areas) must be somehow better and therefore are worthy of emulation! This is clearly not true! Another dimension that must be included in any systematic approach to benchmarking is the analytical element. This includes the establishment of a measure of comparison, a sampling plan to collect comparative data, a statistical method for observing comparisons that are significant, and a graphical means to present the comparison so it is understandable by decision makers. While it is intuitively clear that there is no “one world best performance” that exists at a particular point in time (the enormity of analysis to support such a claim would be unmanageable), it is possible to define a category of performance as “world class” using a rule of thumb; for instance, by using a standardized measurement process (e.g., the performance baseline analysis) and applying a decision criteria to determine which processes are observed in the top 5 percent of all organizations addressed in the study. This criteria indicates a high confidence level that the process is in a leader and worthy of further investigation as a potential best practice.

In addition, a caution should be added to the identification of a practice as world class. One should not fall into the trap of the “halo effect”—noting excellence in one business practice does not imply that all business

practices operate at the same exceptional level of performance. Just because one business process or management practice is evaluated as world class does not mean that the entire organization is world class!

Additionally, while observing the practices of a world class organization may lead to breakthrough process improvement and generate disruptive change, it may be possible to achieve significant gains through incremental, continuous improvement, or “sustaining” change that does not impact the organizational dynamics as strongly as the disruptive change does. This is the basic operating principle behind the Toyota Production System—the principle of bees gathering nectar from flowers—it is through many trips with small amounts of nectar that a community of bees creates its warehouse of honey!

### AN OPERATIONAL DEFINITION OF WORLD CLASS PERFORMANCE

Benchmarking seeks to deliver performance that is best of the best (this is the Japanese word *dantotau*) or world class performance. World class is an elusive performance level. To be the best of the best, it is necessary that you have both a high level of performance (typically in the top 5 percent of observed practices), and this level of performance must be sustainable across changes in product life cycle, underlying technology in both product and process, as well as successive generations of executive leadership. That is a tall order for any organization. What does it mean to be world class? In *Strategic Benchmarking*, I defined a *world class company* as one that is able to achieve and sustain a leadership performance level (or a Six Sigma level of performance), while at the same time exhibiting competitive considerations that are significant learning areas for a TQM-oriented organization. By definition, a world class organization does the following:

- Knows its processes better than its competitors know their processes
- Knows its industrial competitors business better than their competitors know their industrial competitors
- Knows its customers better than their competitors know their own customers

- Responds more rapidly to change in customer behavior than do its competitors
- Engages employees more effectively than do its competitors
- Competes for market share on a customer-by-customer basis

Clearly this definition of world class requires both an objective performance standard as well as the profound knowledge of its business and commercial environment in order to enjoy sustained performance at this level. Such an effort to develop knowledge at this level implies that organizations that use benchmarking must develop ways to mainstream this practice so it can be part of its regular business practices. Indeed, benchmarking is not an isolated business improvement tool—it was developed as part of an overall quality management program that Xerox called *Leadership through Quality*.

#### BENCHMARKING — A DISCIPLINE IN TOTAL QUALITY MANAGEMENT

Benchmarking has a unique place in TQM as both a tool to stimulate improvement and a management technique that aids in strategic positioning of an organization. Benchmarking provides opportunities for full organization-wide participation in business process improvement by engaging the management team in the architecture of change and choice of focus areas for study; involving the middle managers in self-assessment of the work processes that they own and in adapting the lessons learned from other organizations; and relying on the study of related processes by the organization's frontline process experts, who are charged with discovery of the significant differences that lead to performance gaps. Benchmarking is a tool that can engage the "Total" organization in "Quality Management."

The objective of benchmarking is to accelerate the process of strategic change that leads to breakthrough or continuous improvements in products, services, or processes, resulting in enhanced customer satisfaction, lower operating costs, and improved competitive advantage by adapting

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best practices and business process improvements of those organizations that are recognized for superior performance. Benchmarking is a method that forces organizations to look outside themselves in order to avoid myopic illusions of grandeur that come from reflecting on internal experience without external validation.

How is benchmarking used and what way is there to distinguish among the appropriate uses of this methodology and getting into traps that cause one to think incorrectly about the potential benefits of this methodology? Consider the juxtapositions that describe one way to identify the boundary conditions of benchmarking (see Figure 1.5).

Benchmarking is a structured approach for learning about process operations from other organizations and applying that knowledge gained in your own organization. It consists of dedicated work in measuring, comparing, and analyzing work processes among different organizations in order to identify causes for superior performance. Benchmarking is not complete with just the analysis, however, it must be adapted and implemented in order to have a complete cycle of learning.

<i>Benchmarking is:</i>	<i>Benchmarking is not:</i>
A discovery process	A cookbook process
An improvement methodology	A panacea for problem solutions
A source of breakthrough ideas	About business as usual
A learning opportunity	A management fashion of the day
An objective analysis of work	A subjective gut feeling or theory opinion
A process-based learning approach	Mere measurement of process performance
A means to generate improvement ideas	Just quantitative comparison of results

FIGURE 1.5 Benchmarking is–is not analysis

Benchmarking is not just a checklist or set of numbers that are used to make management feel better about their current performance. Benchmarking should make management uncomfortable due to the identification of gaps in business performance. Benchmarking should challenge management due to the discovery of performance enablers that could help them to improve.

When differentiating benchmarking by describing what it is and is not is helpful, it would be even more useful to understand more fully the logic by which a benchmarking study is conducted. What is the logic behind the conduct of a benchmarking study, and how is it distinguished from the logic of a benchmark—which is the typical mistake that is made in talking about this subject?

## UNDERSTANDING THE LOGIC OF A BENCHMARKING STUDY

It is important to note that the logic of the benchmarking process does not fail the test that was issued by Dr. Deming in the early 1980s. He cautioned executives against deadly diseases in the management of business that were derived from setting arbitrary goals based solely on visible performance measures, without understanding the depth of profound (process-related) knowledge that lies underneath most high-level performance measures.

For instance, Deming would call *arbitrary* the use of benchmarking that followed the following logic:

- “Our competitor’s cost is 15 percent lower than ours; therefore, we must lower our cost by 15 percent.”

The logic of benchmarking is much more process oriented and requires the development of the type of profound knowledge that Deming advocated:

- “The leading companies have operations that are 20 percent more effective than our operations.”
- “The reasons that their operations are more effective is because . . .”
- “The practices that they used to improve these operations include . . .”

- “The enhancements to our processes are appropriate for our business model and our culture and will improve our performance; these enhancements include . . .”
- “The estimate of performance gain due to using these enhancements is . . .”

The ability to apply this logic comes from developing an understanding of the root cause of process improvement at the benchmark organization and translation of their lessons learned into appropriate change for your own organization. By a process of conscientious learning and cautious adaptation, a company can learn the lessons needed to move its business results to the level of world class performance.

But how does one apply all of these taxonomies and differing benchmarking concepts into a coherent approach that allows an organization to gain useful knowledge that will encourage its improvement? Perhaps a summary will help make this chapter more useful.

## SUMMARY OF EFFECTIVE BENCHMARKING PRACTICE

1. Benchmarking must be a systematic, structured process that follows a disciplined practice and applies the scientific method. The method may be applied to study the relative performance of key business processes, critical product functions, or service dimensions that differentiate the customer’s experience.
2. The benchmarking process must be a constant pursuit—seeking lessons learned on a regular basis to assure continuous improvement in business performance. Perhaps most important is that benchmarking must become a process of continuous learning that encourages an organization to grow beyond its current capabilities.
3. The benchmarking process must be data driven—appropriately using data collection methods, sampling procedures, statistical analyses, and graphical comparisons in order to assure that appropriate comparisons are made and correct conclusions are drawn.
4. Benchmarking uncovers best practices—it doesn’t stop after the

performance has been measured. The key is to identify leading practices or best practices that have enabled other organizations to make significant performance improvements.

5. The goal of benchmarking is to elevate an organization's performance beyond the degree of performance that is observed in benchmark organizations. Becoming the best of the best is a managerial aspiration and an objective for the study. Thus, in the final analysis, learning is not enough—doing is equally important. It is the discipline of execution that distinguishes between leading organizations and wishful thinkers!

The next chapter will focus on strategic benchmarking studies—in particular the linkage between strategic planning and benchmarking.

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