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Term Paper

Benchmarking

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1. Introduction

Benchmarking is a topic of general interest in quality management. Thus, this paper will introduce several issues including: definition of benchmarking, importance of benchmarking, benchmarking process, types of benchmarking, advantages & disadvantages of benchmarking and some important information related to the benchmarking.

Businesses in both public and private sectors seek to continuously improve the effectiveness and efficiency of their products and services. In this regard, a number of changes have passed through the practices of most organisations recently, especially concerning the management accounting aspects. Business units are reviewing their costs, structures and the efficiency of their functions. In response, the managers have undertaken a review and benchmarking of their organisations' costs and the efficiency of business units despite having developing strategies to control other operating costs.

As such, benchmarking has reached widespread diffusion and is now considered as one of the most powerful tools for promoting process improvements and re-engineering in many prominent organizations. Benchmarking is a popular method for developing requirements and setting goals.

It is often stated that those who benchmark do not have to reinvent the wheel. By following others one can make improvements and not focus on stale ideas. Benchmarking at first glance may be mistaken for a copycat

form of developing strategic plans and for making improvements within an organization. This is not true. Benchmarking is a process that allows organizations to improve upon existing ideas. In order to eliminate myths and misconceptions about benchmarking it is important to know exactly what benchmarking is, the different types of benchmarking, the criticisms of benchmarking, and the ethical practices concerning benchmarking.

1.1 Definition

Defining benchmarking can be a confusing task as there are so many definitions according to different perceptions and applications of the technique and philosophy.

Benchmarking is often defined as a diagnostic instrument, a self-improvement tool, a collaborative learning exercise and an on-going evaluation and systematic approach of continuously measuring work processes.

Also, benchmarking defined as a process for improving performance of any organization by continuously identifying, understanding & adopting outstanding practices and processes inside or outside the organization.

Benchmarking is simply the process of measuring the performance of one's company against the best in the same or another industry. Benchmarking is not a complex concept but it should not be taken too lightly. Benchmarking is basically learning from others. Although, it is using the knowledge and the experience of others to improve the organization. Moreover, it is analyzing the

performance and noting the strengths and weaknesses of the organization and assessing what must be done to improve.

Although, benchmarking is the systematic process of measuring one's performance against recognized leaders for the purpose of determining best practices that lead to superior performance when adapted and utilized.

Finally, benchmarking is the process identifying and learning from best practices in other organisations and the purpose of benchmarking is to provide a target for improving the performance of any organization.

1.2 Origins

The term 'benchmarking' was first adapted to business practices by Xerox in 1979. Through the systematic and collaborative comparison of performance with its competitors, Xerox's aim was to evaluate itself, to identify its strengths and weaknesses and adapt to constantly changing market conditions.

Benchmarking approaches have been gradually adopted by many businesses in the context of the quality assurance and quality enhancement movements and the need to ensure productivity and effectiveness in the face of increasing competition. With the development of New Public Management, benchmarking has also become an increasingly popular management tool in the public sector for the improvement of public services and administrations.

1.3 Important of Benchmarking

The Important of benchmarking derived from its benefits to organizations. There are many benefits of benchmarking such as Creating a culture that values continuous improvement to achieve excellence and sharing the best practices between benchmarking partners. Although, it increase the sensitivity to changes in the external environment and shifting the corporate mind-set from relative complacency to a strong sense of urgency for ongoing improvement. Moreover, bench marking focusing resources through performance targets set with employee input and increasing awareness of changing customer needs. Finally, it Create a better understanding of the current position, encouraging innovation and developing realistic, stretching goals and prioritizing the areas that need improvement with establishing realistic action plans

Benchmarking allows you to discover the gaps in your performance when compared with someone else. The Benchmarking used for wide range in organization for many aspects with different ranking as showing in the table below:

Top-10 Benchmarked Business Processes	
Business Process	Ranking
Customer Service / Satisfaction	1
Information Systems / Technology	2
Employee Development / Training	3
Process Improvement / Management	4
Call Centres / Help Desks	5
Performance Measurement / Improvement	6
Employee Recruiting / Staffing	7
Manufacturing / Assembly	8
Human Resources	9
Project Management	10

2. Benchmarking Process

There is no single benchmarking process that has been universally adopted. The wide appeal and acceptance of benchmarking has led to various benchmarking methodologies emerging.

2.1 Basic Steps

There are many variations of the benchmarking process, but all contain the same basic steps: planning, analysis, integration, and action with monitoring. It is important to understand and implement all these steps in order to carry out a successful exercise.

2.1 Planning:

Planning is an important starting point for benchmarking. This phase is aimed at identifying the purpose, drivers and desired outputs of the benchmarking process:

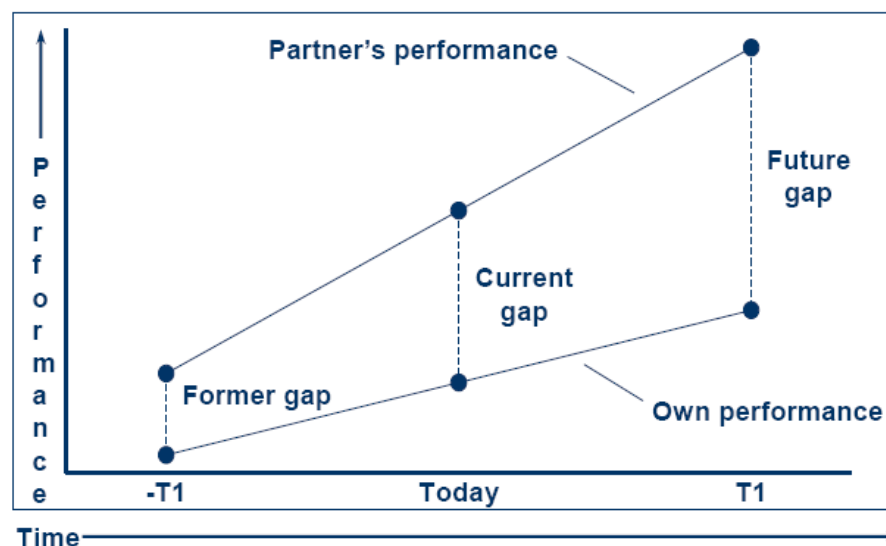
- Identify subject to be benchmarked and determine the objectives of the benchmarking exercise (a problem often facing people is to scope the benchmark at the planning stage).
- Identify potential partners: What is the “benchmark” against which you are going to compare yourself?
- Seek approval, commitment and support of senior managers (when senior management is involved, it is easier to motivate other levels of staff).
- Produce a work plan to determine the time schedule, tasks, and team. It is advisable to establish an agreement on the procedures to be followed by adopting.

- Determine the data collection method and agree on definitions of indicators and performance measures to be used.
- Collect data.

2.2 Analysis:

This stage identifies the performance gap between the organisation and the other organisation, norms or standards which it is compared. From the analysis comes the understanding of the performance gap, the causes of the performance gap, and action required to close the performance gap. In the Figure below we can see the gap between the organization performance and other partner's performance:

Gap Analysis (Per PI)



Thus, benchmarking is not just a comparative performance assessment exercise but it also incorporates diagnostic analysis; that is, finding out about the causes of identified levels of performance.

Once the causes are understood then solutions can be identified and action taken to apply the solutions. It is at this stage that the desired performance targets are formulated. The final target values established during the integration stage when the feasibility of achieving these values are discussed and agreed with key personnel within the organisation. In this stage benchmarking helps:

- *Analyse data collected.*
- *Identify the gaps in performance between your organisation and those of other organisations benchmarked, and examine the reasons for these gaps by using gap analysis techniques.*
- *Forecast future performance.*

On the basis of the data collected, it is useful to estimate your future performance, if you continue as you are, and to compare this against the performance of the benchmarked organisations whose performance is likely to keep on improving. The projected and widening gap over time emphasises the need for benchmarking to bring about improvement.

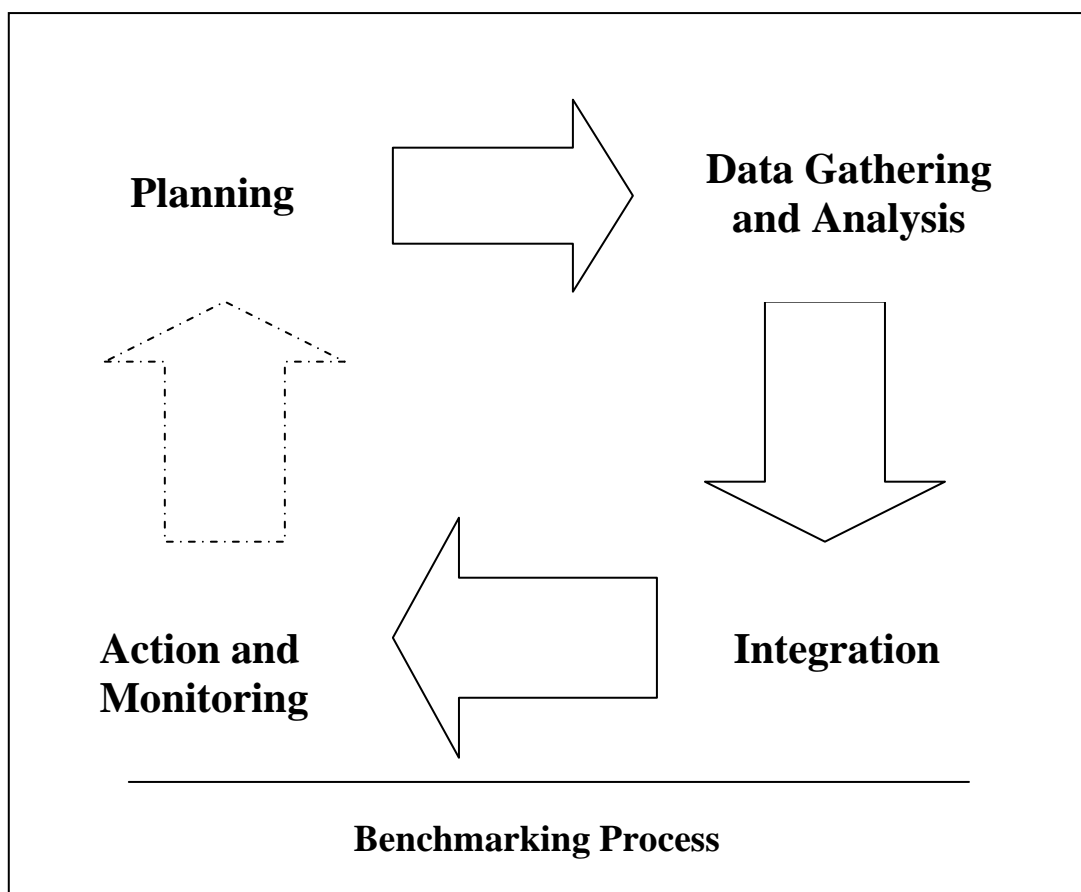
2.3 Integration:

The action plan developed from the analysis phase must be integrated into the operational processes and procedures of the organisation, in order to bring about the desired change. It is crucial that the strategic planning team have the power within the organisation to bring about change.

2.4. Action and Monitoring:

Once acceptance of the new processes and procedures has been gained they can be put into place to bring about desired change. Monitoring and evaluation of the process is required at this stage to ensure that desired targets are being achieved and that corrective action, where necessary, is taken in time. In this stage benchmarking helps to Develop action plans, implement plans and monitor results of implementation and re-assess the benchmark: does it need to be changed?

The basic principles of benchmarking are the same when applied in any topic, sector or organization, and there is no obvious reason why the organization requires using the benchmarking when it needs to keep continues of improvement. The main four steps in the benchmarking process are shown in the figure below:



2.2 Questionnaire to Apply Benchmarking

To determine if business, unit or organisation is ready for benchmarking, they have to complete the following questionnaire, based on American Productivity and Quality Center (APQC) material. The organization Studies the statements and tick one box to reflect the level to which the statement is true for its business, unit or organisation (the questionnaire format shown below). Finally the total score will indicate the organization appellate to the benchmarking.

American Productivity and Quality Center (APQC)

Questionnaire

	Most	Some	Few	None
Processes have been documented with measures to understand performance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees understand the processes that are related to their own work.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Direct customer interactions, feedback or studies about customers influence decisions about products/services.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Problems are solved by teams.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees demonstrate, by words and actions, that they understand the mission, vision and values.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senior executives sponsor and actively support quality improvement projects.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The organisation demonstrates, by words and actions, that continuous improvement is part of the culture.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commitment to change is articulated in the strategic plans.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Add the columns:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Multiply by the factor:	x 6 =	x 4 =	x 2 =	Zero
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Grand total:

The answer will come from your score:

32 - 48	Ready for benchmarking
16 - 31	Need some preparation
0 - 15	Need some help

3. Benchmarking Methodology

3.1 Examples of Typical Methods

There are many methods to apply the benchmarking; the following methods are examples of a typical shorter version of the methodology:

3.1.1) Identify your problem areas

Because benchmarking can be applied to any business process or function, a range of research techniques may be required. They include: informal conversations with customers, employees, or suppliers; exploratory research techniques such as focus groups; or in-depth marketing research, quantitative research, surveys, questionnaires, re-engineering analysis, process mapping, quality control variance reports, or financial ratio analysis. Before embarking on comparison with other organizations it is essential that you know your own organization's function, processes; base lining performance provides a point against which improvement effort can be measured.

3.1.2) Identify other organizations that have similar processes

For instance if one were interested in improving hand offs in addiction treatment he/she would try to identify other fields that also have hand off challenges. These could include

air traffic control, cell phone switching between towers, transfer of patients from surgery to recovery rooms.

3.1.3) Identify organizations that are leaders in these areas

In this method, look for the very best in any organization and in any country. Consult customers, suppliers, financial analysts, trade associations, and magazines to determine which organizations are worthy of study.

3.1.4) Survey organizations for measures and practices

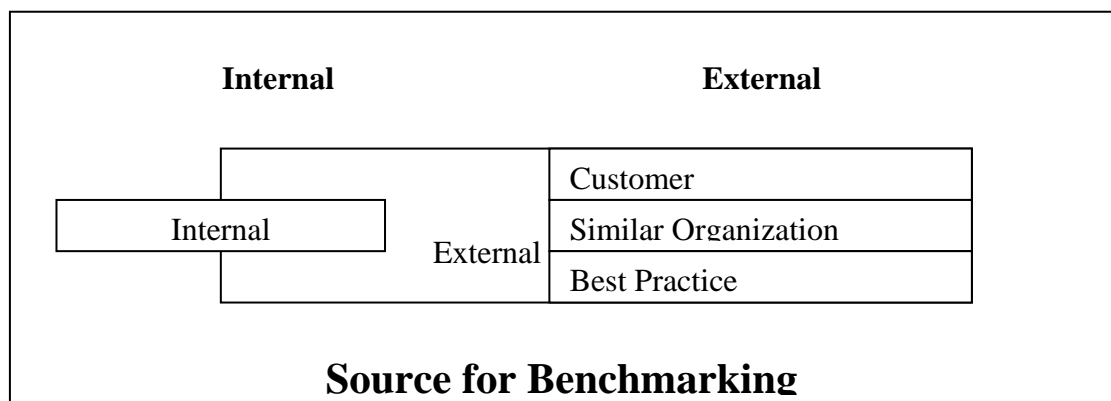
Organizations target specific processes using detailed surveys of measures and practices used to identify process alternatives and leading organization. Surveys are typically masked to protect confidential data by neutral associations and consultants.

3.1.5) Selecting appropriate benchmarks

The performance of any organization is influenced by industry and an economic condition which may have nothing to do with whether organization has an effective continues improvement implementation. Benchmarks serve the purpose of adjusting an organization performance for the relevant industry and economic influences.

3.1.6) Finding the source for benchmarking

There are two main source of the benchmarking internal and external. The internal source is the employees' requirements and the external source is from customer, similar organizations and best practice as shown in figure below:



3.1.7) Visit the "best practice" organizations to identify leading edge practices

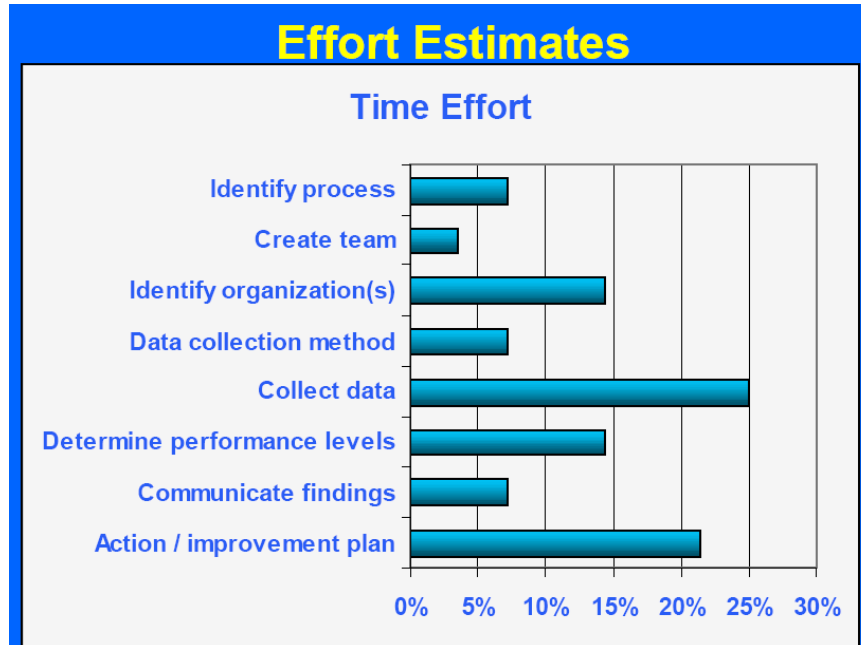
Organizations typically agree to mutually exchange information beneficial to all parties in a benchmarking group and share the results within the group.

3.1.8) Implement new and improved business practices

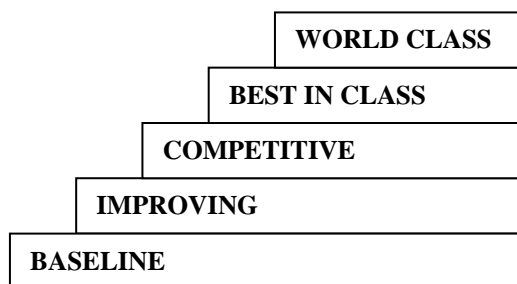
Take the leading edge practices and develop implementation plans which include identification of specific opportunities, funding the project and selling the ideas to the organization for the purpose of gaining demonstrated value from the process.

3.2 Estimated Time and Effort for Benchmarking Process

The estimation of time and effort for the basic improvement stages of organization is showing in the chart below



The organization starts with its current performance. This is the baseline. Through the implementation of continuous improvement, the organization moves toward improvement. As the organization institutionalizes continuous improvement, it progresses to competitive, best in class, and world class. With the help of benchmarking, this continuous improvement can be planned and implemented to meet the organization's specific objectives. This improvement in benchmarking is showing in the figure below:



Steps toward "World Class"

4. Types of Benchmarking

There are several different types of benchmarking in which a organization can engage. They may come in different forms and names depending on individual perspectives. In each case, the type of benchmarking selected depends on the measures needed and the methods used to collect the data.

Benchmarking identifies the following as the main types of benchmarking:

1. Internal good practice benchmarking.

This is achieved by the establishing of good practice organisation – wide through the comparisons of internal activities or operations. The key driver is the sharing of good practice in cross – cutting activities, for example, by carrying out process improvement. Internal Benchmarking involves seeking partners from within the same organization, for example, from business units located in different areas.

The main advantages of internal benchmarking are that the access to sensitive data and information is 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 internal benchmarking. Internal benchmarking take place between units or sub-units of the same organization to improve the performance.

This is a comparison among similar operations within one's own organization. This is achieved by the establishing of good practice organization-wide through the comparison of internal activities or operations. The key driver is the sharing of good practice in crosscutting activities, for example, by carrying out process improvement.

2. Competitive benchmarking

This type of benchmarking looks at competitor and examines their processes. It seeks other institutions that are performing better than the organization performance. When these processes are found, the competitors' performance is compared with organization which are in the same area.

3. Functional benchmarking

This type of benchmarking looks at any outside or inside activity that is functionally exact to the processes under review.

4. Generic benchmarking

This type of benchmarking looks at any outside or inside activity that is generically the same as the one under review. It involves partnerships of organisations drawn from different sectors that wish to improve some specific activity or process.

5. Strategic benchmarking.

Used where organisations seek improve their overall performance by focusing in on specific strategies or processes. The key driver is the enhancement of the organisation strategic direction and goals and benchmarking will be carried out within the context of the development of core business strategies.

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. The key driver is the enhancement of the organizations strategic direction and goals and benchmarking will carry out within the context of the developments of core transport business strategies.

6. Performance benchmarking.

A process whereby organisations use performance measures to compare themselves against similar organisations. 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 organizations to undertake this type of benchmarking through trade associations or third parties to protect confidentiality. A process whereby organizations use performance measures to compare themselves against similar organizations. Benchmarking using this approach can also be undertaken within an organization by comparing the performance of individual business units.

7. Process benchmarking.

This approach focuses on specific processes or operations. 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.

8. External benchmarking.

These types of benchmarking can enable the comparison of the organisations functions and key processes against good practice organisations. The key driver can be the search for improvement or breakthrough opportunities in business process. 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.

9. International benchmarking.

Benchmarking can be undertaken internationally as well as nationally. International Benchmarking is used where partners are sought from other countries because best practitioners are located elsewhere in the world or there are too few benchmarking partners within the same country to produce valid results.

Globalisation 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. There are already important developments in international benchmarking. Some areas of government have initiated or are preparing their own benchmarking efforts and various public utilities in benchmarked.

4. Criticisms of Benchmarking

As with any new concept there are those who are in favour of the idea and those who oppose or criticize it. Benchmarking should not be used as is a way to set goals. Those who are responsible for meeting specific goals must understand all of the processes that are required to make the goal a reality. One of the criticisms of benchmarking is that it can be considered as spying on the competition. This is not truth. Benchmarking is not spying on the competition but keeping up with what they and the rest of the industry are doing. In Japan, benchmarking is a part of their manager's job descriptions. This is one of the ways that the Japanese are able to keep up with and surpass others in industries such as automobiles, motorcycles, electronics, etc.

Another criticism of benchmarking is that it is copycatting. This is what many think that benchmarking is. They feel that those who benchmark do not develop their own ideas. Copycatting and Benchmarking are not one and the same. Copycatting leads to lessened creativity and stale ideas. Benchmarking is not supposed to take the place of managers bringing insight and original strategies into the organization. Although copycatting is an easy trap for managers to fall into, it is important for managers to realize that benchmarking will never be an excuse for managers to stop being creative and innovative.

Some organizations do not utilize benchmarking because they feel that if it's not broke, don't fix it. When a company is doing well financially, they have a tendency to resist change and not worry about competitors. Many organizations shy away from benchmarking because they do not understand what benchmarking is and they feel that they do not have anything to gain.

5. Advantages & Disadvantages

5.1 Advantages

The advantage of benchmarking is not to compare key figures but to compare how tasks are performed. There are many advantages of the benchmarking such as: learn from others experience & practices. It allows examination of present processes and aids change & improvement. Also, benchmarking gives a chance for study & measurement of a competitor for the purposes of process or product quality improvement. Benchmarking often proves particularly successful when comparing processes. Although, it helps the organizations to stay in the business with high performance and delight the customer of the organizations.

Continuous of Improvement and apply benchmarking increased the opportunity to be world class leader and sharing the best practices between benchmarking partners. Moreover, it identifies opportunities for improvement and often provides the momentum necessary for implementing change and involves for looking in detail at how other organizations carry out the same or similar processes.

Finally, the most important advantage of benchmarking is the capability to use for everyone and can be applied to (almost) any company, any private organization, any public organization and it mostly done by large companies.

5.2 Disadvantages

- The advantage of benchmarking is limited and the organization can eliminate the number of disadvantages to gain the benefits of benchmarking. There are some

disadvantages of benchmarking such as: poorly defined benchmarks may lead to wasted effort and meaningless results. Incorrect comparisons will effect the result of required improvement and what is best for someone else may not suit to other. Some organizations have reluctance to share the information. Finally, benchmarking cannot change all required improvement at once.

6. Conclusion

The benchmarking is becoming more commonly used and it is a more efficient way to make improvements. Managers can eliminate trial and error process improvements. Benchmarking speeds up organization's ability to make improvements. Benchmarking has the ability to bring corporate high performance up as a whole significantly. If every organization has excellent environment and total quality management skills then every company will have world class standards. Benchmarking is not just making changes and improvements for the sake of making changes, benchmarking is about adding value. No organization should make changes to their products, processes, or their organization if the changes do not bring benefits.

Although, organizations must use benchmarking with some caution, it can be informative and foster a spirit of openness and cooperation from indirect competitors. It is not enough to benchmark the costs of activities and identify best practices. When an organization looks at benchmarking they must look at all aspects of the business, its products, and its processes. It is crucial for organizations to focus on anything that will impact its performance and quality. Finally, benchmarking will not work unless you know yourself.

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