Pakistan’s 9th International Convention on Quality Improvement
November 14-15, 2005 - Karachi, Pakistan

BENCHMARKING FOR BEST PRACTICE: THE POWER OF ITS ADOPTION AND THE PERILS OF IGNORING ITS USE IN A MODERN BUSINESS ENVIRONMENT

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ABSTRACT

Since the benchmarking movement started to grow significantly, many organisations have become engrossed in the 'mechanics' of doing the benchmarking by pursuing their quest for acquiring information on best practices and identifying gaps in their competitive performance. Overall, the notion is that benchmarking is considered successful once projects are completed, and an action plan is put into practice with immediate effect. The assumption emerging from this type of activity is that in most cases the focus is more on 'doing' rather than 'learning' (Zairi and Ahmed, 1999).

It is important to realise that benchmarking and transfer of best practices is to support learning and not just doing. In the long run organisations that delve in the transfer of best practices need to appreciate that the real benefit from new knowledge is not just the optimisation of existing processes and dealing with gaps in performance due to lack of knowledge, expertise and poor procedures, systems, etc. Closing gaps in performance is critical but building capability and strengthening the knowledge pool is even more critical for sustaining long term competitive advantage (Zairi and Whymark, 1998). Benchmarking application is not just about managing projects effectively and developing appropriate action plans. Action plans need to be based on bringing in deficient knowledge and expertise and finding ways and means of selling best practices and developing most appropriate mechanisms for the effective transfer of best practices and their internalisation.

When effectively implemented, the internal transfer of best practices can reap numerous benefits, such as:

- reductions in time to market
- reductions in costs
- innovative use of existing products
- revolutionary product ideas
- decrease in employee turnover
• increase in customer satisfaction

In addition, a large number of benefits of an intangible nature also accrued: improved knowledge sharing and communication, an increase in employee morale and learning, more effective cross-functional team working, greater organisational memory. However, organisations in general are still facing many challenges in the area of best practice transfer. In a recent survey using the Knowledge Management Assessment Tool (KMAT), a benchmarking tool devised jointly by the American Productivity and Quality Centre (American Productivity and Quality centre, 1997) and Arthur Andersen, only 15% of the organisations reported that they were satisfied with their ability to manage knowledge strategically. This is indicative of the fact that organisations are still absorbed with tackling current problems rather than building a knowledge capability that will provide them with sustainable competitive advantage.

**Keywords:** Best practices, benchmark, benchmarking, company-wide performance improvement, world class benchmarking, world-class companies, world-class practices, business excellence, organisational performance, best-in-class, best demonstrated practices, successfully demonstrated practices, good practices, sound management, and role models.
INTRODUCTION

Best practice phenomenon is widely regarded as a ‘corporate miracle’ in corporate circles, and becoming popular among practitioners in various disciplines in the 1990s. Benchmarking or best practice management is increasingly being recognised as a powerful performance improvement effort for processes, for business units, and for entire corporations. It is a catch phrase among executives of learning organisations and those at the frontier of operational excellence. Well-run companies and market leaders alike cannot afford to ignore this emerging discipline if they want to remain as a leader in their respective markets.

With its spectacular contribution to performance improvement and the bottom-line, benchmarking represents a substantive concept, which can revive the declining state of TQM, after the latter being ‘down-played’ by other competing performance improvement strategies, such as reengineering, corporate downsizing, de-layering, restructuring, etc.

As usual for a fast emerging discipline like TQM and reengineering, benchmarking suffers from lack of a clear definition and empirically tested models and elements. This has inevitably resulted in misunderstanding of the concept and its implementation, which can impede its speed of adoption by industries, or yield less than optimum results in its implementation.

Until recently, much of the literature on benchmarking has been dominated by practitioners’ writings, which advocate the operating principles based on anecdotes and working practices as well as expectations of the individual writer. In the academic circle, there has not yet been a benchmarking guru. Until a proven theory on the subject is developed, and sufficient empirical researches are gathered, the position will remain vacant with many contenders knocking the door.

The idea behind BM has been around a long time and is, perhaps centuries old (Harrington in Zairi, 1996, p. xiv). He pointed out that human beings have been applying this competitive concept for millennia, as evidence in vast aspects of human endeavours, such as in trade, sports, war, spying, art, education and social life. Indeed, the concept is also found in the Bible Old Testament. Similarly, it is worth realising that the philosophical ideas behind benchmarking are also found in the holly Qu’ran, where teachings that propagate one’s progress based on “self-realisation” toward stretch goals are plentiful. However, for most men and women in the streets, some aspects of benchmarking might be more apparent in sports and school grading system (e.g. Keegan, 1998).

Despite its long association with human activities, benchmarking applications prior to TQM were limited (e.g. Ward, 1993). Tracing a similar concept, he pointed out that earlier applications were found in reversed-engineering technique within electronic assembly, and in wages and benefits surveys within human resource practises.

Some authors claim that there are two “push factors” that have brought this centuries’ old practise to the forefront of performance improvement tools for modern business (e.g. Harrington, in Zairi, 1996, p. xiv). He attributed this to the failure of continuous improvement in the 1980’s for many of the market leaders to sustain their leadership positions and the followers’ frustration to catch up with the frontiers of excellence in their served market. Secondly, the success of Rank Xerox’s benchmarking and quality management which had made the company gain lost market share leading to the said firm winning the Balridge Award in 1991 aspires many emulators.

The concept has now been adopted by many sectors, including the financial
services firms, though the movement in academics is far behind. Its adoption has been wide-spread to the extent that more than 70 per cent of the fortune 500 companies, including AT&T, Eastman Kodak, Ford Motor, IBM, Weyerhaeuser and Xerox use benchmarking on a regular basis, as a competitive tool and performance improvement strategy.

The concept of benchmarking and its development has been frequently associated with two parallel contemporary business orientations; that is competitor analysis of strategic marketing, and continuous improvement or innovation within TQM domain. Some authors observe that the concept of benchmarking originated from product comparison study or reversed engineering (e.g. Zairi and Leonard, 1994; Ward, 1993; Keegan 1998).

Others consider that benchmarking is an extension of TQM evolution. For example, authors argue that benchmarking like employee involvement, is strongly associated with TQM in the US, though the idea was not explicitly advocated by TQM founders, but found consistent with their ideas (Hackman and Wageman, 1995). However, criticising the idea, they argued that best practise may lead to over specification of ‘one best way’ to perform a job thus making the movement not very dissimilar to industrial engineering of scientific management.

In the light of the resurgence of interest in the subject, this review explores a comprehensive literature relating to the development of theory of benchmarking; its definitions, current practices, and models. We will also look at the process for effective implementation and how it creates value to the customers and the firms. The analysis aims to uncover the linkages with the other performance improvement strategies and disciplines, its domain constructs, and its antecedents. Finally, we will highlight its consequences and evidence on firm’s performance outcomes. A model of a sustainable best practice benchmarking will then be proposed.
Definition of benchmarking

Since the Western world has discovered the secret of BM, which has been successfully deployed by Japanese to close their quality and productivity gap in the 1960-1970's (Fitz-enz, 1992), the concept has gained more momentum in its adoption by organisations as well as in scholarly literature.

The Japanese had used benchmarking techniques since the Second World War. Thus, for example, competitor oriented objectives are common in Japan (e.g. Abegglen and Stalk, 1985). In fact, during the late- 1950's to the early 1960's, the Japanese earned a famous reputation for 'master of copying', which eventually has led to their achieving product superiority. By the 1970's They were the “master” at manufacturing product quality, and by 1980's Japan’s huge success made evident the direct link between quality and viability. The logistic challenge which has led the Japanese to benchmark against the Americans’ companies resulted in the creation of JIT system in Japan (Keegan, 1998).

The period between 1990 to 1995, has witnessed 333 published articles, 41 books plus proliferation of conferences globally with the active creation of benchmarking centres, clubs and clearing houses for benchmarking (Zairi, 1997). Out of these an insignificant percentage was empirical writings from the academic circles. In 1992 alone, for example, half a dozen books on benchmarking entered the bookshelves (Ransley, 1993). Benchmarking elements were then gradually incorporated into various self-assessment models, such as Baldridge Award, EFQA, and Deming prize. Among the early organisations that support the development, particularly in USA are International BM clearing-house (IBC), which is associated with APQC, and Strategic Planning Institute (SPI) Council on Benchmarking. All the above points summed-up a flourishing interest in the subject, particularly among the academics, managers, and industries.

After reviewing relevant articles from the year 1990 to 1998; mainly descriptive and case anecdotes, a multitude of definitions were found with few common themes. As expected this finding is nothing unusual with an evolving concept like benchmarking. However, what is alarming is that industries do not only have multiple understandings of the concept, but also apply diversity of implementation programmes and methods.

The state of adoption of benchmarking varies in different industries and functional disciplines. Holloway et al. (1998) surveyed the adoption of the concept within UK firms, and found that involvement in benchmarking among managers was related to the firm’s size and number of employees. Keegan (1998) reported the concern of managers that benchmarking was meant for large top performing companies and a survey indicated that European companies that had adopted benchmarking projects were confined to those having more than 1000 employees. Cases found in the texts (e.g. Zairi, 1996; Zairi and Leonard, 1994; Keegan, 1998) primarily from highly successful companies, which were already famous in other management aspects, signalling a sign of success. Although Zairi and Leonard (1994) discussed the benchmarking failure, but these are also among the large and established companies. The adoption in smaller companies and emerging enterprises is at its nascent stage and therefore can be considered rare.

Among the adopters, there are two significant lines of emphases, i.e. focuses on comparative performance measurement and the ‘real’ benchmarking. The former groups concerned with comparing how they are doing relative to other similar organisations in their industries. The latter group challenges their own current positions and try to find ways to change it. These emphases are consistent with earlier studies, which reported that firms prefer to concentrate on matrix, quantitative or results rather than on the qualitative aspects or processes. These findings are quite natural, because such latter measures are easier to be
identified (Holloway et al., 1998).

Rank Xerox, who pioneered benchmarking in the late 1970’s (Ransley, 1993) and popularised it in the early 1980’s (Von Bergen and Soper, 1995) defined the concept as the continuous process of measuring a company’s products, services, and practices against the world’s toughest competitors to identify areas for improvement. It is a means of setting goals for performance improvement effort that “leads to profitable businesses that meet customer needs and have a competitive advantage” (Camp, 1989, p.3).

The linkage between BM and TQM are clear-establishing objectives based on industry best practice and should directly contribute to better meeting of the internal and external customer requirements. He argued that the real BM is when the organisation focuses on all aspects of the total business performance, across all functions and aspects, and addresses current and projected performance gaps. This should lead to firms’ focus on true continuous improvement.

Huton and Zairi (1995) noted that BM surpassed the traditional competitor analysis by providing deeper understanding of the processes and skills that create superior performance. It generates outward perspectives, identifies performance gaps, and provides an approach to close the gaps by dramatic rather than gradual improvement in process performance. Other traditional TQM tools, which often emphasise internal orientation, can only help managers in making improvement in their internal processes and product improvements.

Kaplan and Norton (1996, p.227) suggested that best in class benchmarking typifies the fragmented approach in stretch targeting. It may not lead to a desired breakthrough in future financial performance. Their balance score-card tool, which they advocated, stresses linkages for achieving outstanding performance in related measures, not just in isolated measures. Supporting the use of benchmarking as a means to gain acceptance for aggressive targets, they further argued that targets represent a discontinuity in business unit performance e.g. doubling stock price, ROI, etc. Benchmarking therefore, provides credible stretch targets for organisations to adopt.

Jan Sijnave, benchmarking manager at the European Foundation for Quality Management commented “ Whether practices are called exemplary, best or good, they are rarely the ultimate that can be achieved, since best practice is always contextual.” In another cliché, “Best practice is any practice, which works best for you” says Cindy Johnson. He agreed that these quotations implied that benchmarking is contingent to the firm and its contextual environment, but he does not rule out the use of documented external sources.

One of the leading experts on benchmarking and pioneering writer in this subject, Sabic professor of Best Practice Management at the Bradford University, considers benchmarking as beyond a mere tool or technique but as an all-encompassing concept of change methodology. To him, the concept instigates a systematic way of managing processes on behalf of the customers through developing behavioural modification of employees to enhance internal capabilities based on stretch targets learnt from the firm’s internal and external environment. He further argues that benchmarking as a change agent, involves changing the human capital mindset toward being constantly creative, wanting to learn, believing in stretch targets, and putting new learning into practice. Sustaining Benchmarking is therefore about developing “a continuous approach to learning and the prevention of complacency through a mindset of Plan-Do-Check-Act.” (Zairi, 1996, p.2).

According to Zairi, the working definition for benchmarking exists at two levels. First, often of lower complexity, is to understand the best practices or processes that lead to world class performance at operational level. This is a tactical
aspect of business excellence. Second, is the search for industry best practices at strategic level that can lead to superior performance in key strategic areas: customer value, employee satisfaction, market performance, and financial performance. The two working definitions are often related and may coexist. However, the latter is more complex and resource-consuming to implement.

The terms benchmarking and best practices remain fuzzy, all-encompassing phrases that can mean all things to all people. However, the two terms are essentially two sides of the same coin. Contrasting the blurring different, Camp (1989) calls benchmarking “the search for and implementation of best practices”. While benchmark comes from geographical surveying to mean a measurement against a reference point, benchmarking, invented by corporate managers in managerial lexicon describes a process of using benchmark levels of performance as measurement for excellence (Keegan, 1998, pp. 12-15). A benchmark is defined as a standard by which an item is judged, whereas benchmarking is a systematic way to identify, understand, and creatively evolve superior products, services, design, equipment, processes, and practices to improve organisation’s real performance (Harrington in Zairi, 1996, p.xvii).

In Chevron, benchmarking is defined as;

“Any practice, knowledge, know-how, or experience that has proven to be valuable or effective within one organisation that may have applicability to other organisations”. This company recognises 4 levels of best practices; good idea; good practice; local best practice, and industry best practice (O’Dell and Grayson, 1998).

The IBM’s working definition for benchmarking is “The continuous and systematic search for best practices that will lead to superior performance through the implementation of process improvement.” While the American Productivity and Quality Center (APQC) defined it as “the process of continuously comparing and measuring against other organisation anywhere in the world to gain information on philosophies, policies, practices, and measures which will help our organisation take action to improve its performance.” (Keegan, 1998, p.47).

Benchmarking is not surveying and is much more than business intelligence - a mere form of competitor analysis. Unlike surveying, which almost always focuses on history rather than cause, benchmarking aims to locate the best practice, develop a data-sharing relationship with willing partners for mutual learning (Fitz-enz, 1992). The benchmarks of benchmarking make quality management efforts more directed towards proven tangible end points at the end of the processes, thus serve like a compass to the TQM journey. It strengthens the TQM movement among the various stakeholders groups by not only ‘supercharged continuous improvement’ (after Bogan and English, 1993), but more important it promotes organisational change. Consistent with Zairi (1996), these authors argue that benchmarking is an effective tool for change, because benchmarking process itself is based on a clear and steady focus on best practices, which can provide impetus for change, guide the decision for what must change, and where the firms would be after change (Bogan and English, 1993).

Types of benchmarking

There are basically three approaches to classify benchmarking in the literature. The first, is activity-based classification, such as product comparison, process benchmarking, functional benchmarking and strategic benchmarking. The second method relates it to the sources of benchmarks like internal benchmarking, sectoral benchmarking, and cross industry benchmarking. The latter two types are external benchmarking (Keegan, 1998).
The third method uses combination approach or adopts evolutionary phases. For example, hybrid benchmarking applies all process and functional approaches and uses benchmarks from all over the world, including both public and private sector of any size. Another name for hybrid benchmarking is generic benchmarking, which focuses on multifunction business processes that form the critical business processes of an organisation. In generic benchmarking, an organisation compares the critical part of the firms’ value chain or the firms’ entire value chain with another similar generic process elsewhere (Zairi and Leonard, 1994, p.50). Business process benchmarking is another name for generic benchmarking.

Keegan (1998, p.11) for example, states that benchmarking evolves in five steps: reverse engineering, competitive benchmarking, process benchmarking, strategic benchmarking, and global benchmarking. By applying the potential improvement on Y-axis and benchmarking effort on the x-axis he derived benchmarking classification as internal, industry standard, best-in-class, and world class. On the contrary, Zairi and Leonard (1994, p. 48) derived the evolutionary phases of benchmarking using two dimensional grid i.e. proactivity and the relative ease of obtaining sources, thus describe the evolution beginning with competitive benchmarking to functional benchmarking, to internal benchmarking, and to generic benchmarking.

Subsequent patterns of benchmarking efforts are functional, internal and generic types (Camp, 1989; Zairi, 1992; Watson, 1992;), which are specific cases of co-operative benchmarking. Co-operative benchmarking is based on identifying and sharing experience with other best practices organisations, who are willing to co-operate. Another specific example of co-operative benchmarking is customer-supplier relationships. In this particular collaboration, the benchmarking customers identify the needs, set the time frame, and fund the benchmarking activities.

Process and functional benchmarking are among the most common types found in reported cases. Table 1.3 shows different features of benchmarking.

Benchmarking is an important management tool with wide scope of applications. Its adoption ranges from competitor analysis in marketing discipline, to internal benchmarking for process improvement, to competitive tools for operational excellence towards the world-class standards, to the managerial performance evaluation tools for board of directors and CEO’s.

<table>
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<tr>
<th>Competitive</th>
<th>Functional</th>
<th>Internal</th>
<th>Generic</th>
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<tr>
<td>Reverse engineering of products and process technology</td>
<td>Non-competitor</td>
<td>Against one self</td>
<td>Rate owns’ performance against world-best.</td>
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<tr>
<td>Compare with direct competitors</td>
<td>Reactive or proactive</td>
<td>Internal sources</td>
<td>Focus on customer value</td>
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<tr>
<td>Reactive</td>
<td>Against best in industry and best in class</td>
<td>Internal continuous effort</td>
<td>Latest art of benchmarking</td>
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<tr>
<td>Non-pervasive</td>
<td>Relatively easier access</td>
<td>By function of business process</td>
<td>Any business operations</td>
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<td>Operational focus</td>
<td>Two-way partnership</td>
<td>Inter-business unit of the same corporation</td>
<td>The most complex</td>
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<td></td>
<td>Greater potential for</td>
<td>across demographic</td>
<td>Relatively difficult access</td>
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logistic against Volvo, 3M, Ford, IBM, and Sainsbury’s; Xerox BM distribution against L.L.Bean.
- Operational focus

may not necessarily be world class
- Easier access
- Low to medium resources required
- Operational focus

- Often strategic focus
- High resources required


The first type concerns with comparing one’s current performance with what others are doing and the results they are getting. The second type comparing wider issues as what others are doing, how it is being done, why they achieve their results, and keeping abreast of current practice. The third type is the most problematic since it involves transfer of examples of better practices internally to close negative gap, while it aims to creating competitive advantage or positive gap and to add value to the customer.

The importance of benchmarking as managerial tools is reflected in the increasing influence of benchmarking in the MBNQA framework, ever since its first published in 1988. During that year, there were only seven indirect references to benchmarking under the competitor awareness category, which accounted for less than 18% of the total points. In 1993, barely 5 years later, benchmarking influences 55% of the total points in all the seven categories including the subcategory focusing on senior executive leadership (e.g. Bogan and English, 1993). Charted by this movement, benchmarking has grown from an operational tool to a leadership responsibility, which in a way is a good sign for a concept to command more serious attention by top management.

As an operational tool, benchmarking has traditionally not been part of strategy setting and strategic planning. With increasing importance of the tool at a strategic level, and the benefits it offers as evaluation tools for comparing the state of health of company at present and future, benchmarking thus has an important role in long-range planning. Managers see benchmarking at operational levels as a form of synergy in business and at the corporate level as a barometer for checking the quality of decisions for investment or change efforts.

As a strategic tool, benchmarking integrates various management disciplines such as strategic management, market orientation, and accounting management and quality management into a practical framework for rational performance improvement. This cross-discipline integration makes it become an all-encompassing tool that can be applied at operational and strategic business level, having a clear deployment methodology, and with a definitive measure of return on investment. Unlike some other business philosophy, such as traditional TQM or market orientation, though also customer focused, but have a hazy way of determining return on investment in the short-term.

Benchmarking is a tool with a clear feature of competitor orientation and market orientation. Ultimately, its purpose is to satisfy the end customer therefore, best practices must be for the interest of the customers. This means that a best practice is assessed as valid or really best when it results in adding value for the customer. Its processes require creativity and innovative thinking yet it also concurrently promotes these qualities, and at the end should result in an innovative culture for the organisation. Innovative thinking or continuous learning is the antecedent as well as consequence of benchmarking projects.
Indirectly or unconsciously, benchmarking effort will help organisations improve their competitor orientation, because those organisations usually collect information from the marketplace, including from collaborative competitors. It may strengthen the firms’ marketing practices particularly in operationalising the marketing and sales objectives. This is because the set-goals based on proven achievable target could motivate the staff. Additionally, management will gain greater confidence in allocating resources when a product is under competitive threat. This will result in a proactive strategy and may yield an effective management of company’s products portfolio.

As benchmarking implementation relies on measurement, therefore a greater rational control of management processes in the organisation is expected to occur. Initially, this may increase the number of various costs and accounting ratio to be calculated. Cost control and the level of process improvement, are two important criteria for any benchmarking project. This translates into efficiency awareness among employees. Benchmarking means the firms’ efficiency level during and after benchmarking project is under constant measurement and review. As a result of these rigorous activities, benchmarking becomes a form of complacency check - a trigger for continuous improvement. Benchmarking is therefore more proactive than the traditional form of product or service comparison.

Some argued that with benchmarking, which gathers information in advance, many of the failed efforts might have been avoided in the first place (Bogan and English, 1993). So, benchmarking in this context has become a strategic tool - a ‘must technique’ for senior managers and CEOs of this decade. They further defined strategic benchmarking, as the strategic planning process applying the benchmarking technique, thus are useful for:

1. Validating the adequacy of short and long-term goals.
2. Setting and refining corporate strategy that has the highest likely hood of succeeding.
3. Ensuring that core processes critical to the organisation’s success are compatible with the rest of the market.
4. Ensuring that the company’s use of technology is adequate to maintain its position within its chosen market.
5. Ensuring that critical success factors (CSF’s) are adequate to compete.
6. Ensuring supplier capabilities are adequate to enable company to succeed in the chosen market.
7. Identify key factors to attain market leadership.

Strategic benchmarking has also shifted the TQM paradigm of internally-focused on continuous improvement and reducing the ‘negative quality’ such as defect reduction, to an outwards effort on improving the quality of decision making itself, which has a more profound effect on performance. This shifting in focus is especially useful for organisations that are seeking a fast approach to best practice frontiers. Consistent with earlier argument, benchmarking in essence is shifting efforts from cost reduction in internal and value chain processes to cost avoidance in investment and change efforts. Benchmarking is a new paradigm TQM.

Firms at the frontier of best practices have likely achieved the industry productivity frontiers thus being better able to optimise their benchmarking efforts in both operational terms as well as finding unique market position in delivery value to the customers. Contemporary strategic discussion (e.g. Porter, 1996) suggests that balancing these two efforts is likely to produce a lasting competitive advantage and sustainable performance. The reasons being best practice in finding and creating unique market position unlike the best practice in operational excellence, is less imitable, i.e. is harder for competitors to
At the heart of any business strategy is the ability to create competitive advantage and able to defend it at a profit to the organisation. The process leading to creating competitive advantage and sustainability of advantage created are interdependent, in terms of the latter is determined by the types of advantage created, and whether it meets the criteria for sustainability. Guided by sustainability of advantage, benchmarking efforts must be integrated into strategic goals of the organisation in order to maximise its real benefits.

Benchmarking can be seen as an effort to move upward the firm’s competency levels in delivering customer value. Based on the industries’ best practices, benchmarking can create competitive advance through enhancement of organisational capabilities covering all activities in the value chain, and thus lifting the performance standard higher than those key competitors (Kay, 1993). Since it is a competitive tool to learn competitive strategy from collaborative competitors, benchmarking as implied by Kay (1993, p. 195) is a tool to measure competitive advantage. To him, strategy and competitive advantage are what distinguishes the best companies from the ordinary, not the good from the bad. In this way it is possible to measure the size of a competitive advantage as he further argues:

“Where no explicit comparator is stated, the relevant benchmark is the marginal firm in the industry. The weakest firm which still finds it worthwhile to serve the market provides the baseline against which the competitive advantage of all other firms can be set.”

Comparing benchmarking to ‘path-breaking’ towards creating sustainable advantage, Hamel and Prahalad (1994, p. 302) argued that benchmarking and competitor analysis are much better suited to describing the ‘what aspects’ rather than finding the ‘why aspects’ of competitiveness or differences between the advantage creators and advantage imitators. They argued that this tool alone will not make laggards an innovator, because benchmarking is seen as a catching up game instead of for getting out in front. They instead, advocated the idea of path breaking - exploiting strategic intent to create industry foresight. To them, firms must look far beyond the existing served market and develop a capability to leverage their resources or competency to create new industry.

Certainly, these two approaches to competitiveness are operating under different paradigms. Benchmarking assumes that companies are in the environment where “incrementalism” and ‘quantum-leap’ improvement are constant features of continuous improvement for organisations. This means that organisations are always operating below optimum level of excellence, therefore absolute ‘best-in-class’ were not always achieved. The concept itself is in fact dynamic and relative, since industry best practice itself is in the state of constant change. On the contrary, path-breaking routes search for new terrain and industry boundaries created by industry foresight based on technological mapping, trend forecasting and demographic migration (Hamel and Prahalad, 1994).

Linking benchmarking to competitive advantage is the leadership job, which requires the change of mindset among the company’s senior managers. Three fundamental beliefs can trigger this shift: (1) investment in people ‘assets’, (2) enabling continuous learning, (3) injecting best practices to spur innovation. Zairi suggested that, firms should position benchmarking as a top-down approach, involving top management in the process, because as he believes, 80 per cent of
the impacts would have come from 20 per cent of the best practices undertaken, in which the latter is linked to firm’s strategy.

By adopting this ‘20/80’ principle and coupled with evidence of strategic and tactical contributions of benchmarking to competitiveness, will facilitate best practice adoption. Successfully enabling best practices correlates strongly with effective change management. Consistent with Robert Camp, founder and president of the Best Practice Institute, and many others that leadership is the vital factor in enabling best practices. Enabling benchmarking is discussed in later part of this article.

Behind the benchmarking effort is the need to create sustainable advantage. Benchmarking helps organisations achieve dual purpose that is operational result and improved intellectual capital. The latter one is a form of intangible assets - accumulated tacit knowledge, thus represent a more lasting source of competitive advantage. Competitive advantages, which are built on learning competencies, tend to be more sustainable, because innovation and learning makes competitive advantage by any other means possible.

Benefits of Benchmarking

Firms implementing Benchmarking tend to gain multiple tangible and intangible benefits. Zairi and Leonard (1996, pp.31-32) listed the following potential gain from an effective benchmarking effort:

1. Benchmarking complements other performance improvement initiatives such as continuous improvement and reengineering.  
2. It helps to shorten the problem solving cycle of continuous improvement or speeding up the redesign of processes in reengineering effort by providing a yardstick to gauge the amount of improvement possible.  
3. Setting direction for the end position after improvement.  
4. Providing the absolute benchmarks for key performance levels.  
5. It helps management of the company to select the improvement tools such as continuous improvement, process simplification or more radical reengineering approach appropriate to the performance gap identified.

Continuously applying fact-based improvement cycle will lead to greater awareness for the need for change and learning. By involving them in the benchmarking programme the teams and employees in general will undergo a form of behavioural change guided by management by fact, quest for excellence and create ready culture for subsequent change.

Because benchmarking is customer-focused or market-driven, successfully implemented the programme will make the organisations even more market oriented. Benchmarking, as a form of health check, will help management crafting business strategy with greater clarity. Some organisations benefit from benchmarking in their make or buy decision; processes that are below benchmark performance could be out-sourced.

Process benchmarking will enable a company to find an innovative solution to the existing problem, understand their own work processes better, stimulate continuous improvement, and appreciate and be committed to stretch goals. It is also a way to pressure and effect change to support functions which might not face direct competition thus otherwise, less courage to adopt benchmarking (Keegan, 1998).

Those major reported benefits from effective benchmarking can be grouped into three levels. The strategic level benefits and operational benefits are directly associated with the types of benchmarking programmes implemented, while the intangible benefits are common to all types of benchmarking. These benefits are
really self-reinforcing. Xerox for example, benefited directly from benchmarking but the improved process and climate later on indirectly improved the rest of the organisation.

A- Strategic and operational benefits

It has been reported that financial gain from BM practice can be substantial. Depending on the goal the firms pursue, their BM efforts, the possible gains are always great in the areas of cost saving, investment avoidance and revenue generation. Known cases for examples, include Texas Instruments investment avoided over $1.5 billion, Xerox Europe gains $400 million revenue improvement, Smith & Nephew Medical Division saved $11 million by eliminating non-value added activities, Australian MLC Fund Management emerged as global player in just 18 months. According to this survey, the top six expected benefits were positive performance outcome in quality, productivity, customer responsiveness, cost reduction, flexibility, and financial results.

The International Benchmarking Clearinghouse 1995 survey of 111 organisations, reported a 40% of the members made a gain between $1million to $9.9 million per year. The entire group saving was over $76 million per year (Zairi, 1996, xvi). Research has indicated that the use of benchmarking is linked strongly to both improved operational performance and business performance (. However, not all benchmarking facilitate improved performance and produce positive results on bottom-line variables. For example, the International Quality Study by APQC (1997) found that BM leads to bottom line performance only in the best performing companies but not in those rated low or medium performing categories. Even some firms, who benchmark marketing and sales system, actually suffer in performance (APQC, 1997).

B- Intangible benefits

Holloway et al., (1998) study showed that one third of respondents saw benchmarking as source of new ideas. The inclusion of benchmarking in the MBNQA assessment serves as a method of learning or getting new ideas. It is also a selling point for the award since benchmarking technique gives extra benefits for firms doing self assessment using the Baldrige criteria (Heaphy and Gruska, 1995, p.384). Their experience as Baldrige assessor (one of the authors) privileged them to suggest that potential benefits of benchmarking include increased customer satisfaction through maximum value products and services. Internally, a firm’s benchmarking programme can assist the change efforts by securing acceptance and compliance to new goals because externally adopted best practice provides neutral examples.

Successful benchmarking projects would not only pay-off in terms of the tangible investment but also tend to create a spirit of teamwork and team methods among staff during and after completion of the projects. This is because those staff often spent considerable time together on the process. In addition, those staff involved with external partners, are part of the knowledge networks, which can always participate in future projects (Fitz-enz, 1992).

Since benchmarking is also measurement to gauge performance of a function, operations, or business, benchmarking becomes an important diagnostic test for the firm’s health. This enables competitive measures against their peers, which at the same time evaluates managerial performance of a firm. Managers believe that organisations, which are seen as having best practices gain enhanced corporate image.
**Consequences of Benchmarking**

Competitive advantage is the strategic output of benchmarking process-performance related best practices: new learning, innovation, building capability, customer performance, supply chain processes, and new product development. At the operational level, the improved operational practices or tactical result includes productivity improvement. Total benchmarking means firms are in constant search for performance levels that drastically improve efficiency of their value chain (Zairi, 1996).

According to the BI survey (1998), the reasons for adopting best practice as reported by respondent companies are: change, competitiveness, costs, and customers. These factors are strongly agreed by the respondents in the survey, while 53% reported that best practice had been identified as part of wider corporate change, in tandem with other change programmes like business excellence methodologies, re-engineering, re-organisation, process renewal and strategic decision-making.

Various surveys have reported the main reasons why organisations tend to adopt the concept of benchmarking and search for Best Practice applications. In most cases the reasons are to drive quality improvement, reduce cost and focus better on the customer. Furthermore, many organisations see Benchmarking as a useful catalyst for industry and supporting change programmes.

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