

WHAT AND HOW ABOUT COMPETITIVE BENCHMARKING

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ABSTRACT

Most of the domestic industries in Nigeria lag behind their foreign competitors when it comes to cost and quality. People turn to the low price and often higher quality of imported goods. This paper suggests that benchmarking could be used to match and even exceed the competition. Based on the experience of companies in the industrialized world that have successfully used benchmarking to overcome adversity and have emerged stronger, the paper suggests that the same success could be achieved by our domestic industries. The description of the benchmarking process, the guidelines and framework for its application and some of the implementation problems are discussed.

Keywords: Benchmarking, team approach, competitive advantage, customer orientation.

1.0 INTRODUCTION

It should be no secret to anyone in the business community that for any business to survive, it must be able to achieve and maintain competitive edge in our rapidly changing environment and the globalised market. This challenge has forced business managers to seek ways to become competitive. Many business organisations have been able to make remarkable advances in service, product and process improvements to attain competitive edge by embracing Total Quality (TQ) concepts. These concepts have been used by many companies to overcome adversity and have emerged stronger. Current literature provides ample documentation of these successes many of which can best be described as revolutionary (George and Weinerskirch 1994, Beckford, 1998, Hauser et al 1988 and Oakland, 1993 and Esfathiades et al, 2008). However, the literature is sparse on the application of the TQ concepts in Nigeria. This may be one of the reasons why most of our domestic industries are lagging behind their competition when it comes to cost and quality. The competitive imbalance should not be allowed to continue if our domestic industries are to survive (Igwe, 1988).

Managers of our local industries should constantly seek out and enlist proven activities, ideas and methods that offer improvement potential and

enhance competitive advantage both at the local and global market. Benchmarking offers one such method. Experience in the developed world has shown that size and type of business do not preclude the successful use of benchmarking to improve quality, productivity and customer satisfaction. Among companies in the USA alone that have successfully used benchmarking to overhaul their business to match and at times to be ahead of competition are, Alcoa Seitz Corporation, Ameritech, Motorola and Xerox (George and Weinerskirch, 1994). Concerning the size of business, Alcoa and Ameritech have about 65 000 employees each while Seitz Corporation has only 200. Alcoa and Seitz are manufacturing while Ameritech is a service industry.

It is important for managers of our local industries to learn about benchmarking and recognise that they can also achieve success in their business. For managers interested in achieving and maintaining competitive edge through benchmarking efforts, the question becomes what steps or guidelines should be followed to benefit from its technique. Appropriate guidelines would help forge successful application regardless of type, size of business or the technical nature of the problem.

This paper provides a description of benchmarking. Drawing upon the experiences of companies that have successfully used it, the

guidelines and framework for its application are provided. Implementation problems and potential frustrations are also highlighted.

2.0 CONCEPTS OF BENCHMARKING

The concept of benchmarking is based on the ancient Japanese quotation "if you know your enemy and know yourself, you need not fear the result of a hundred battles" (Oakland, 1993). This quotation implies companies that want to match or exceed their competition must first know where they stand relative to it. Benchmarking is a process of comparison between the performance characteristics of separate, often competing organisations intended to enable each participant to improve its performance in the market place. It is a continuous process of measuring services, products and processes against those of industry leaders or the toughest competitors (Beckford, 1998, George and Weinerskirch, 1994; Ribeiro, 2006, Denkena, 2006 and Mohajeri et al, 2009). It involves the identification and implementation of best practices to achieve superior customer results and business performance (Esfathiades et al, 2008; Mohajeri et al, 2009 and Khan et al, 2010).

The essential characteristics of benchmarking are customer orientation, team approach and continuous improvement. Most of the actions taken in benchmarking are the result of a need identified by customer (Internal or external) satisfaction or a problem with customer satisfaction. It gets people thinking together and in the right directions by the involvement of employees in the process.

Companies that used benchmarking reported the following benefits (George and Weinerskirch, 1994 and Beckford, 1998):

- helps to obtain clearer understanding of competitors.
- gives clearer understanding of customers requirements. It is considered that this understanding of customers will lead to reduced complaints and higher level of customer satisfaction.
- improves understanding of latent business threats and competitive positioning.
- reveals the strengths and weaknesses of significant operations, activities and technologies.
- discovers process improvements which assist in reducing the costs associated with rework, rectification, scrap and other quality problems.

- enables innovations (either of process or product) to spread more rapidly through an industry or across industries where appropriate. For instance, in supply or distribution logistics where many problems are similar regardless of industry.
- enables the avoidance of the errors and mistakes already made by others thus preventing further reinvention of the wheel.

According to Beckford (1998), apart from the afore mentioned benefits, benchmarking addresses two major limitations to knowledge which so often affect business performance. The experience and knowledge, which most people have of a process or product, is gathered in a particular environment. Unless they have the opportunity of advanced training or some form of collaboration, they are largely closed off from developments which could improve their process. Thus they become contented with the way things are because they know of nothing different or better. Second, benchmarking can overcome the – Not Invented Here (NIH) Syndrome. NIH is a typical response by many organisations and employees to proposed changes to improve performance. It is often accompanied by remarks such as "that may work alright for xyz but it just wouldn't apply here because we are unique, our circumstances are different, or some other excuses".

The truth is that NIH is a defensive ploy intended to inhibit the disruption and effort that is often associated with a change programme. If the employees who will be affected by a change are involved in its design through the benchmarking programme, then they will be much less likely to resist the change and more likely to develop unique aspects which will "make it work here".

3.0 THE BENCHMARKING PROCESS

The number of steps tends to vary from company to company. Xerox's process, probably the most copied process in the USA, has ten steps. Alcoa developed its six-step process after studying the Xerox's process for many months. Seitz presented its process as a flowchart consisting of fourteen steps while Ameritech's benchmarking process has four phases and eight steps (George and Weinerskirch, 1994). Regardless of the number of steps, the common features of the benchmarking (formal and informal) process are (Oakland, 1993; George and Weinerskirch, 1994; Beckford, 1998; Hauser and Clausing, 1988; Ribeiro, 2006; Esfathiades et al, 2008 and Mohajeri et al, 2009):

- Establishment of what, from customers perspective, makes the difference between our product or service and that of our competitors (Table 1). Customers may be internal or external
- Setting standards according to the best practice found. In other words, regarding best practices as 'benchmark' for the organizations performance. To set standards, it is quite common to perform competitors' analysis on technical data. Comparison with the competition, of course helps to identify opportunities for improvement (see table 1)
- Determination of the means by which the benchmark organisation achieves those standards.
- Utilizing the capabilities of the employees to meet and if possible, exceed the standards observed

Table 1: Customers Evaluation of Competitive Car Doors

Customer's Requirement	Customers Perception				
	Worst 1	2	3	4	Best 5
Easy to close from outside		□		△	□
Stays open on a hill			□	□	△
Doesn't leak in rain		△		□	□
No road noise	□			□	△

□ Our car's door, \ Competitor A's car door, Competitor B's car door

Source: Adapted from Hauser and Clausing, 1988

All formal benchmarking processes reflect three stages, namely, getting ready to benchmark, conducting the site visit, visiting the benchmarking partner to collect data, and using what you learn to improve. Informal benchmarking may skip the first and second stages. It covers a range of activities that includes reading about similar processes or results in trade publications, talking to competitors or peers at other companies about shared issues or problems, checking out the competition during trade shows and then asking customers and supplier to compare your performance with that of others.

The benchmarking process may be illustrated with the six steps presented below:

- Step 1. Decide what characteristics to benchmark
- Step 2. Define internal processes and performance.
- Step 3. Determine benchmarking partner
- Step 4. Data gathering
- Step 5. Data analysis

Step 6. Develop action plans and implement changes.

Step 1: Decide what characteristics to benchmark

Characteristics to be benchmarked should be first, those, which are of genuine, concern to the customer (quality benchmarks). Quality benchmarks might include aspects such as reliability, accuracy, levels of in-process rework or rectification, after-sales response and so on. Second, factors which affect profitability (profitability benchmark) and which may enable more effective competition through reductions in prices. Profitability benchmarks include reductions in rework, inventory levels, space utilization so on. Other areas for benchmarking include those where the company knows that it is experiencing a problem either in relation to its customers or to its competitors. Issues might include staff training and development, recruitment and

turnover raw materials and other input costs (Beckford, 1998)

The characteristics that require benchmarking may be identified through customers (internal and external), sales people, and employees who recognise a problem. Customers could be involved in the identification process through phone calls, focus group, in-depth qualitative interviews and other means of customer contacts. Alcoa's criteria for deciding either a topic is relevant and valid as a benchmarking subject were reported by George and Weinerskirch (1994). Some of the criteria are

- is the topic important to our customers?
- is the topic consistent with our mission, values and milestones?
- does the topic reflect an important business need?
- is the topic significant in terms of costs or key non financial indicators?
- is the topic in an area where additional information could influence plans and action?

Step 2: Define Internal Processes and Performance

The benchmarking team must understand their company's process first. They cannot ask intelligent questions or collect meaningful information without a clear understanding of the existing process they wish to improve. They may begin by brainstorming to make sure the perceived problems exist. Next the team may use Ishikawa diagram to identify the reasons for the outcome and do a Pareto analysis to determine the primary opportunities. The team then creates a flowchart to map the process under study.

Step 3: Determine benchmarking partner

A starting point is to ask customers who they regard as the best in your particular business (these may be domestic or overseas). This will also help to identify those characteristics of performance, which the customers regard as important. Other sources include the press, trade and industry associations, industry expert consultants or academics. Looking overseas the various trade commissions, embassies and state departments should be able to provide useful leads.

Some key issues that needed to be addressed when selecting benchmarking partners based on the practice of Ameritech (George and Weinerskirch, 1994) are

- what is the company's profitability?
- what is the company's market share?
- do the companies have some knowledge of each other? For instance is there a customer-supplier relationship already?
- is the experience of the proposed partner directly relevant to our need?
- are they as good as their reputation suggests? We should note that it is possible for a company's reputation to outlast the quality of its products and services. Equally, some companies with established bad reputation may have made substantial performance improvement.
- is the exchange of information with this particular partner permissible?

With these in mind, the team may brainstorm until they have a large number of potential companies. Next, some set of criteria and series of questions are used to narrow down the list. The criteria include

- ❖ companies that have received quality and business awards
- ❖ top rated firms in industry surveys
- ❖ success stories published in periodicals
- ❖ companies with excellent financial results
- ❖ Feedback from internal and external experts, customers, suppliers and business partners

The questions often asked are

- ❖ for what quality process or result is the company known?
- ❖ what evidence exists to confirm the partner is an industry leader in the area of interest.
- ❖ what is the level of customer satisfaction?

Once it has a dozen or so qualified prospects, Ameritech uses a comparison matrix to narrow the list down further to six to eight partners (Table 2). Some of the matrices can be completed with information already collected. The rest comes from phone interviews.

Step 4: Data gathering

The data gathering goes beyond the basics of ensuring that any statistical methods are rigorously applied and the results meaningful, to the real issue of how to physically obtain the benchmarking partners data. The first and most rapidly available source are in the public domain, for example, company annual reports, press articles, trade

associations journals and libraries, academic studies (where these have been published) and from various bodies and consultancies (Beckford, 1998).

Table 2: Ameritech's benchmarking partner comparison matrix

Criteria	Coy A	Coy B	Coy C	Coy D
1 Quality oriented				
2 Successful product / service reputation				
3 Service oriented				
4 Excellent cycle time				
5 100% reliability				
6 25% improvement yr-to-yr sales growth				
7 25% improvement yr-to-yr profitability				
8 More than 20,000 employees				

Source: George and Weinerskirch, 1994.

While normally direct competitors will only exchange data through a third party, such as trade associations, some may be amenable to direct contacts (through site visit, phones, fax messages etc). If the company approaching them is able to offer comparable assistance to them on another issue, proposed benchmarks will be willing to participate. What is vital at this stage is that the data necessary to enable benchmarking to be carried out is identified right at the outset. Nothing is worse than having to return to the partner for more information; nothing is more unhelpful than designing

Table 3: Sample of Information Comparison Chart Used by Seitz Corporation

Question: When issuing an order, how much work is delivered to the department			
Seitz	Company A	Company B	Company C
Full order amount	1 day work is issued	1 week work is issued	2 days work is issued
Results WIP is high Large space for material storage	No WIP No space needed	Low amount of WIP Small area for material storage	Very low WIP Very small area for material storage

Source: George and Weinerskirch, 1994

Step 6: Develop Action Plans and Implement Changes

Set new performance level objectives and standards based on the improvement scope identified. Develop action plans to achieve goals, implement specific actions and integrate them into the business processes. The lowest level of

improvements based on incomplete or inaccurate information (Beckford, 1998, George and Weinerskirch, 1994 and Ribeiro, 2006).

For companies willing to participate, you should agree on the time frame and the length of the site visit, an agenda, and questions you will ask. Some of the kinds of question a team might ask to learn more about a process include (George and Weinerskirch, 1994):

- does the company have a well defined, documented process?
- how is the process communicated to the process customers and users?
- how are the users kept up to date on the process changes?
- what is the management system of the process?
- what aspects of the process are considered to be world-class?

Step 5: Data Analysis

At this point teams analyse the data collected and quantify performance gaps. They explore the implications of these gaps, identify which pieces of information might help improve performance and determine how to use the findings. The benchmarking team also fills out comparison charts to clarify the differences on key points (Table 3).

management with an overview of the whole process affected appropriately supported needs to take direct responsibility for implementing the changes. Additional resources must be provided to support the changes if required. For example overtime working may be necessary to create a window enabling the absorption of disruption associated with particular changes (Beckford, 1998).

Finally, a performance measuring and monitoring programme must be implemented to make progress visible and to continue to improve them. Ameritech applies the following steps to implement the changes needed to close the gaps (George and Weinerskirch, 1994):

- select implementation alternatives
- assign resources and create a schedule
- establish goals
- develop a monitoring plan
- gain appropriate approval to alter the current practices
- implement the plan
- communicate the benchmarking findings.

4.0 GUIDELINES FOR INTRODUCING BENCHMARKING

Managers wishing to introduce benchmarking in their company need to follow some action guides in order to achieve the desired success. Such guidelines may include:

- management commitment
- employee training and awareness
- form problem solving teams
- select the benchmarking project
- support with needed resources
- regular review of progress.

Management Commitment

Management commitment and leadership need to come first in benchmarking for these reasons. First, management is the one to commit time, allocate resources, remove roadblocks and reward the efforts. Second, it requires staff to be trained and guided in the process to ensure that maximum benefit is obtained. Finally, it requires allocation of part of the relevant employees' time to enable it to be carried out (Beckford, 1998). According to George and Weinerskirch (1994), benchmarking teams that proceed without this support expose themselves to second-guessing about how they spend their time, a lack of funds to complete the study, insurmountable objections by other managers and departments affected by the study and little or no action on their recommendation. When senior management endorses the study, these obstructions are removed.

Employee Training and Awareness

Before embarking on a benchmarking programme, employees need to know what

benchmarking is and believe in its benefits. They must feel empowered to invest the time such a programme takes and act on their findings. Team members should receive a basic training on benchmarking concepts. This training need not be an elaborate one, but rather should be designed to ensure a basic working knowledge of its concepts.

Relevant areas of training may include – effective teaming, problem-solving, benchmarking steps, site visit and so on. Presentations on other companies' success stories may get employees interested and excited about the possibilities for improvement (McLagan and Nel, 1996; George and Weinerskirch, 1994 and Cobb et al 1998).

The pitfall of assuming a level of knowledge that does not exist for the employees should be avoided. Determine the training needs by finding out what skills the employees now have and what skills they will need to have to achieve success in the benchmarking effort.

Form Problem - Solving Team

The specific disciplines required to help solve a problem should be defined but team members should not be limited to the primary problem areas (Meeter and Smith, 1994; Cobb et al, 1998). Usually, as the study proceeds, they will recognise the need for knowledge or information from areas that might not have been obvious when the study began. At such times the value of the diverse discipline of team members will be realised.

Depending on the technical nature and complexity of the study, many teams may be formed. Some teams may be working simultaneously, while some may be formed when the other has finished its work. For instance, process improvement team may be created based on the recommendations and problems identified by process analysis team. An employee may be in more than one team depending on the situation.

The team may have – a leader whose responsibility is to lead. The process guide, who maintains the rules, such as no evaluation during brainstorming and ensures the involvement of everyone in the discussions. The secretary records everything and distributes meeting minutes, while the time keeper keeps meetings within time limits and makes sure the team is progressing as planned (George and Weinerskirch, 1994).

Select Benchmarking Project

The first benchmarking effort should not address the company's toughest problems. The first project should be simple but not trivial and should present a real opportunity for improvement. In the initial stage the scope of the study has to be established and should be communicated and agreed upon by management. The project should be with broad appeal that may arouse interest from several sections or departments of the company.

Support with Needed Resources

A dedicated workplace that can be used without interruptions should be provided for the team. The usual office supplies such as files, desks, chart board and so on with access to company's phones, fax machines, vehicles and other facilities that will facilitate a successful study should be given.

At the start of the study, it is very important that management communicate their purpose and goals to all team members and other employees. These other employees are a valuable resource management should recognise and carry along because team members will need certain data and more importantly, access to the employees and their time (Cobb et al, 1998).

Regular Review of Progress

Progress milestone should be established when the project begins. For instance an informal progress report should be required and given to managers working outside the team say fortnightly. After reviewing the problem and the progress made, manager may offer advice or make suggestions that may help the team to sharpen the focus of its benchmarking efforts and gain better results (Cobb et al, 1998).

5.0 IMPLEMENTATION PROBLEMS

Managers considering the use of benchmarking should not expect all benchmarking efforts to proceed smoothly. Like every team effort, a certain amount of frustration and team storming will be a natural part of the early stage of the study as the team learns to understand each other, bond and cooperate. The ability to work together successfully appears to be improved when prospective team members are counseled as to exactly what is expected of them and what reward they can expect from successful completion of the study.

Problems may also arise, if team members do not understand the purpose of the study. The team may return from the site visit with complains that they are underpaid; the benchmark company has better equipment and so on. This may derail the study. At times team members are not prepared to actually compare gaps. As a result they gather information that are not relevant to the study. Teams must be counseled so that they do not become tourists during the site visit. Another problem that hinders the benchmarking effort from progressing smoothly, especially the first benchmarking effort is that due to poor note taking. This may lead to designing improvements based on incomplete or inaccurate information. Every member of the team should have the same copy of the questionnaire. When the question is asked, everyone should write down the answer they hear.

Sometimes teams have difficulty in understanding the data collected, because the benchmark company uses different set of metrics. The problem is getting apples to apples comparison. This may necessitate repeated calls to try to understand the data. Developing a good relationship with the benchmarking partner would make this on going exchange of information possible.

6.0 CONCLUSIONS AND RECOMMENDATIONS

This paper suggests that benchmarking could be used by our local industries to match and even be ahead of their competition. A description of the benchmarking process was provided. The guidelines and framework for its application and the potential implementation problems were discussed.

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