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## Benchmarking

-a strategic management tool to drive organization-wide practices

The networked economy today is awash with an information explosion on all manner of topics and fields. In a similar vein, the technological and economic boom we have witnessed in the past decade has led to increased consumption chains. Today, the consumer has a wide variety of options in products and services. Enterprises that stay ahead of the curve are those that are either able to create benchmarks for others to follow or those that are able to scale up to existing benchmarks.

### Introduction

The UNESCO definition of Benchmarking is that it is “a standardized method for collecting and reporting critical operational data in a way that enables relevant comparisons among the performances of different organizations or programmes, usually with a view to establishing good practices, diagnosing problems in performance, and identifying areas of strength. Benchmarking gives the organization (or the programme) the external references and the best practices on which to base its evaluation and to design its working processes.”

Benchmarking is a powerful method of doing comparative studies of best practices existing in similar (or disparate) industries. It helps firms to calibrate and scale up to perform at optimum levels. How? By analyzing and measuring existing knowledge and standards; and by adapting best practices to suit the firm and its industry. Benchmarking is useful in defining strategies for an organization's intellectual asset management, using this knowledge:

- To draw synergies,
- Set internal standards,
- Measure up to industry benchmarks,
- Transfer and leverage knowledge, and
- Use customer-focused knowledge to drive innovation and create more knowledge to stay on a path of continuous improvement.

Benchmarking has tangible commercial benefits too. It helps in streamlining processes that result in cost savings to the organization. Benchmarking is an indispensable tool for the management to constantly measure and compare the performance of the organization against industry best practices. It provides key data and information that helps drive strategic decisions, brings in client-focus, adds value to the customer and enables product differentiation.

### Drivers for Benchmarking, Analysis and Knowledge Management

Organizations that have well-designed Knowledge Management (KM) strategies are those that have understood the importance of Benchmarking to stay ahead of the game. So, what is the business case for Benchmarking?

The business case for Benchmarking is driven by the four current realities, all of which have an impact on the bottom line:

- Current speed of global competition and the need to create decentralized organizations

- The knowledge-gap to be successful in new markets
- The significantly important voice of customers demanding added value from products and services
- Constant innovation to co-create value for the customer

For benchmarking to be effective, firms should look at the organization as a whole rather than in pockets or specific aspects of the operations. A piecemeal approach might prove to be futile, amounting to a clumsy plug-and-play exercise. Benchmarking at its most effective includes aspects that matter to the customer as much as they are relevant to the bottom line of the company.

### The Benefits of External Benchmarking

External benchmarking is a useful way of studying the various systems, processes and performance measures of successful organizations within the same industry or different industries and learning from them.

External benchmarking may focus on various aspects such as:

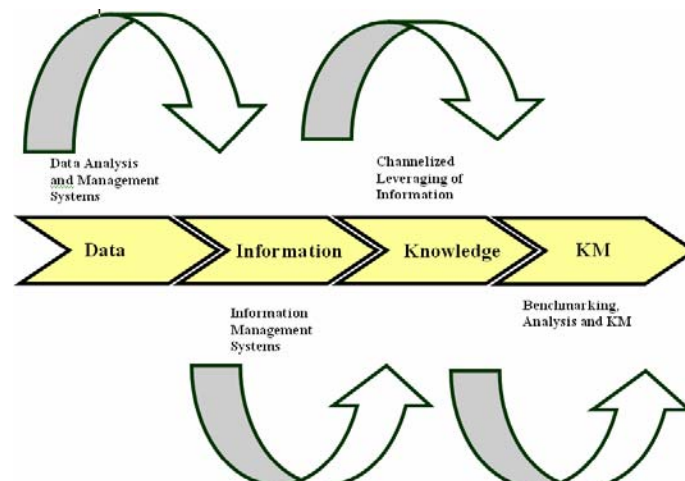
- *Operational Benchmarking* – with a focus on how other organizations perform and the manner in which they run their businesses
- *Strategic Benchmarking* – studying the strategies used by other organizations to perform successfully
- *Competitive Benchmarking* – looking at what, how and how well the competition is doing and learning from those practices
- *Generic Benchmarking* – this is all about comparing how well larger organizations in the same field run their systems and processes and deep dives into how other organizations function at each step of the processes for similar products or services
- *Implicit Benchmarking* – a study of the performance indicators in the industry based on data or published reports to do a comparison of how well an organization fares against the rest of the industry.

### Implementing Internal Benchmarking

“How you gather, manage and use information will determine whether you win or lose.”

– Bill Gates, Business @ The Speed of Thought

An important part of an organization's internal strategy should be Internal Benchmarking. A simple, logical process for implementation could look like this:



Organizations have a wealth of data, but many lag behind in systematically mining this data through the use of sound information management systems. Systems alone are not enough; the firm needs to embrace benchmarking as a strategy to effectively leverage such information cross-functionally. Benchmarking fosters sharing of best practices and, often, drives creativity and innovation.

### Reasons for Failure

Some may argue there are entirely too many organizations that have not been too successful with benchmarking. Here are some reasons for failure:

- Poor definition of projects
- Poor use of implicit and explicit knowledge
- Leadership failure to be strategic and have long term vision
- Failure of the organization to educate all levels of the organization of the KM intent, process, measures and outcomes
- Non-alignment of KM initiative with the organization's strategic objectives
- Failure to manage the content of created knowledge repository
- Inadequate efforts to raise awareness and fix accountability in using KM
- Poorly defined measures and analyses to evaluate the utilization of KM
- Over-investment and dependency on technological systems without considering the people element
- Failure to promote cross-functional and cross-divisional collaboration to tap the full potential of KM efforts

Benchmarking efforts are lost even before their potential is fully leveraged if they do not adhere to well-defined parameters. Many organizations that have failed have started with well intentioned goals, but poorly thought through KM systems and processes. In order for KM initiatives to succeed in any organizations there needs to be a great level of coherence between the following:

- Organizational culture
- Total buy-in and commitment of the leadership
- Alignment of human capital to such efforts
- Alignment of such efforts to the strategic goals of the organization
- Compatible organizational model to technological architecture
- Clearly defined measures, methods of analyses and accountability to leverage KM

Failure in one or more areas could ring the death knell even with sophisticated understanding, processes and systems to support such initiatives.

### Market Landscape – Industry Best Practices

- *Wipro* has driven initiatives to benchmark itself to standards such PCMM, CMMi and Six Sigma very successfully over the last several years. It has gained expertise in this area and, today, shares its expertise with other business corporations to provide end-to-end Knowledge Management systems backed by its technical expertise. This allows Wipro to do both collaborative and competitive benchmarking to contribute positively to its bottom line.
- *Procter and Gamble (P&G)* has set up a Working Group to study best practices from the industry and to draw up guidelines on transactions between FMCG manufacturers, retailers and the margins each of them makes. This benchmarking study looks at national and Asian best practices.

- Collaborative benchmarking is a process by which organizations benefit by participating in industry benchmarking exercises. *Hewitt Associates*, for example, regularly reaches out to various organizations to conduct compensation benchmarking surveys. These results are usually shared with participating organizations. Several organizations from various industries participate and can benefit from it as *Hewitt* will provide cuts by industry.
- *The Transport Corporation of India (TCI)* has launched a benchmarking study in collaboration with other industry players such as *HLL*, *J&J* and *Nestle* to overhaul their transportation and storage methods in order to minimize wasteful practices with the intention of attaining considerable cost-savings.
- *FoodWorld* benchmarks itself against the *Pricewaterhouse Coopers* scorecard to fine tune the time taken for products to reach its shelves and to create a product range by comparing its processes for strengths and weaknesses against industry best practices.

## Conclusion

More and more organizations in India are striving to become best-of-breed companies. Worthy of mention are enterprises like MindTree Consulting, TCS, Eureka Forbes and Bharti Airtel, among others. Benchmarking is the need of the hour for companies to know where they stand amongst competitors. Internal benchmarks offer a two-fold benefit. They keep firms vibrant and alive to scale up to existing benchmarks. They also provide strategic insight to the leadership of the enterprise on the quality of their intellectual capital and help them raise the bar continuously. External benchmarks, on the other hand, are a critical aspect of how an enterprise should and can do better than its competitors. It allows the defining of product and service differentiation, and highlights value addition to customers and shareholders. Allowing such knowledge to reside in a coherent Knowledge Management system allows organizations to measure, analyze and strategize their operating and business models.

## Additional Reading

- [http://www.knowledge-portal.com/km\\_history.htm](http://www.knowledge-portal.com/km_history.htm)
- <http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/2610320301.html>
- [http://72.14.235.104/search?q=cache:JYOwDNH48iAJ:www.cw360ms.com/research/butler/km\\_benchmark.PDF+KM+and+benchmarking&hl=en&ct=clnk&cd=3&gl=in](http://72.14.235.104/search?q=cache:JYOwDNH48iAJ:www.cw360ms.com/research/butler/km_benchmark.PDF+KM+and+benchmarking&hl=en&ct=clnk&cd=3&gl=in)
- <http://www.ellementk.com/blog/archives/2005/06/01/372>
- <http://www.baldrige21.com/BALDRIGE%20CRITERIA-ALL%20YEARS/2007%20Business-Nonprofit%20Criteria/07%20BN%204.1.pdf>
- <http://www.allbusiness.com/sector-92-public-administration/administration/1186189-1.html>

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