

# **ADMINISTRATION AND MANAGEMENT SKILLS (LII312)**

## **3. BENCHMARKING**

### **3.1. Definition of Benchmarking**

Simply put, benchmarking is the basic comparison of one organization's practices and performance against those of others. It can be thought of as a way to conduct research on how to improve a company or business. Benchmarking seeks to identify standards, or "best practices," to apply in measuring and improving performance. The objective of benchmarking is to find examples of superior performance, in an industry or business, and to understand the processes and practices driving that performance. Companies then improve their performance by tailoring and incorporating these best practices into their own operations. This is done not by imitating, but by innovating. Additionally, in a business, benchmarking is a quality improvement tool that identifies:

- What you're doing
- How you're doing it
- How others do it
- How well you're doing it
- What and how to improve

### **3.2. Referential Comparables**

Once an initial set of comparable companies are selected and key financial statistics, ratios, and trading multiples are targeted, businesses then set out to perform benchmarking analysis. Benchmarking centers on analyzing and comparing each of the comparable companies with one another and a target. The ultimate objective is to determine the target's relative ranking so as to frame valuation accordingly. At the onset, managers typically hone in on a selected group of the closest comparables as the basis for establishing the target's implied valuation range. In this process, there is a two-stage progression. First, managers benchmark the key financial statistics and ratios for the target and their

comparables in order to establish relative positioning, with a focus on identifying the closest or “best” comparables and noting potential outliers. Second, managers then analyze and compare the data collected from the peer groups, placing particular emphasis on the best comparables.

### **3.3. Elements of Benchmarking**

To start the process of benchmarking, it is important to identify key elements by asking thought provoking questions. As Hedley suggests (2009), the following questions can be used by companies; “Do you benchmark "leadership" within your team, group and/or organization? If so, how? If not, how do you measure yourself, your colleagues or subordinates as leaders? How do you identify emerging leaders within your team, group or organization?” The answers to these questions will help you conduct the benchmarking process. He also mentions that when reviewing the answers, pay attention to the following tip; prioritize. Pick something significant to your organization that you have a good chance of changing and the resources to do. After choosing no more than 10 processes to focus on, you will be ready to begin the process.

The following tips can be used as a guide on how to conduct the critical steps of the benchmarking process;

- 1 . Select a benchmarking team
2. Research and document the processes or practices you've selected and identify performance measures
3. Select benchmarking partners
4. Decide what you want to find out and answer the question: What organizations are likely to have that information and what are their characteristics? Look for
  - Peer organizations or competitors and
  - Best-practice organizations - the top 20 percent or so of performers. This helps identify superior performance standards.

## 5. Plan data collection and then collect data

- List what you want to find out about practices, processes, performance measures, and problem areas.
- Formulate questions to uncover the information you want. How do they handle customer problems? What level of performance is realistic?

## 6. Choose data collection methods and collect the data

## 7. Compare performance to identify superior performers and performance gaps

## 8. Select areas for improvement and set targets

## 9. Develop and implement strategies for change

10. After implementing changes, re-measure performance and repeat Steps 5 through 9. This is a continuous improvement process.

### **3.3.1 Identification**

As McDougall and Hinks says (2000), “Benchmarking can be limited by the ability to identify the priorities, or performance indicators, that can measure contemporary issues such as customer satisfaction.” The search for benchmarking issues can be applied to the human environment, home of the much-discussed knowledge worker. Research indicates that, far from being static measurable constructs, the environmental conditions in such offices rely on the influence of the market, the organization culture, the type of users, and the external political conditions. Facilities and business managers often fail to consider these influences in the selection of the performance priorities. Summarily, the tendency to rely on a general set of indicators leads to benchmarking issues that are often not helpful in the pursuit of continuous improvement. Benchmarking issues are more clearly understood to need rich analysis that an investigative methodology could provide.

### **3.3.2. Assimilation**

The concept of assimilation is sometimes interchanged with adaptation. Assimilation is a term referring to another part of the adaptation process. Through assimilation, we take in new information or experiences and incorporate them into our existing ideas. The process is somewhat subjective, because we tend to modify

experience or information somewhat to fit in with our preexisting beliefs. Another way to define the term is the act of becoming part of something or the process of becoming part of or more like something greater. How does it work? There are two basic ways that we can adapt to new experiences and information. Assimilation is the easiest method because it does not require a great deal of adjustment. Through this process, we add new information to our existing knowledge base, sometimes reinterpreting these new experiences so that they will fit in with previously existing information.

### **3.3.3. Adaption**

In regards to the term adaptation, the concept refers to something that has been modified to suit different conditions or a different purpose. At the core, adaptation utilizes benchmarking, because benchmarking may entail adopting and adapting ideas, practices and methods, with permission, from other benchmarking participants. As Freiling and Huth states (2005), “Benchmarking has proven itself as a tool of management, not belonging to the typical management fads. Well-known both in research and business practice, employing benchmarking as a means of increasing the competitiveness incorporates considerable problems and challenges.” By analyzing the very nature of benchmarking, it turns out that the respective problems can be explained in a comprehensive way by referring to the competence-based view. There are numerous threats connected with benchmarking however. The isolating mechanisms, well-known from competence-based research, help to explain why it can be so difficult for firms to make use of benchmarking effectively. Understanding benchmarking as way to get access to firm addressable resources, the recognition, the assimilation, and the exploitation of the benchmarked “best practices” represent the crucial steps of an effective benchmarking process. So it is important to understand the implications of benchmarking by a competence-based analysis and to draw some managerial conclusions that can actually benefit management.

### **3.4. Benchmarking and Process Improvement**

Benchmarking improves performance by identifying and applying best demonstrated practices to operations and sales. Managers compare the performance of their products or processes externally with those of competitors and best-in-class companies and internally with other operations within their own

firms that perform similar activities. Below is a listing of criteria that can be coached (on a scale of zero to five), as key traits and behaviors for leadership performance improvement;

The Being Criteria – Relates to who you are being as a leader

- Authenticity: being and acting from one's true self without masks and personas
- Integrity: being as good as one's word, impeccably honest and fair-minded
- Congruence: applying the organization's principles etc. to self, so that one walks the talk

The Doing Criteria – Relates to what you are doing as a leader

- Contributing: giving of oneself to others, serving from the organization's principles and values
- Collaborating: operating as a team player, co-operating with others, seeking input from others to facilitate outcomes and objectives
- Pioneering: leading out into new areas
- Communicating: sharing and disclosing in ways that are clear, precise, succinct, engaging, and compelling

Overall, the importance of benchmarking for companies cannot be overstated. As Stapenhurst suggests (2009), “In the unforgiving climate of the global market, not keeping up with competitors often means going out of business.”

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