

## BENCHMARKING AS A PERFORMANCE MANAGEMENT METHOD

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**Abstract:** The paper is devoted to the theoretical ground of benchmarking as a method for performance management. The concept, evolution, typology, a model and some practical aspects of benchmarking are described. Main advantages and problems for applying the benchmarking in performance management are defined. It is proved a variety of benchmarking lies in its types, which allow the improvement of various aspects of the enterprise due to different sources of improvement. Authors conclude that the main objective of performance management is to ensure continuous and sustainable growth of enterprise performance. And the benchmarking, both independently and in combination with other important tools like a motivation, is able to solve this problem.

**Key words:** benchmarking, performance management, enterprise, comparison, efficiency.

### Introduction

In today's highly competitive economy it is difficult to reinvent the wheel and engage in costly innovations from scratch. Most businesses especially small and medium enterprises do not have the opportunity to develop their own methods and provide high efficiency through internal capacity. It is much easier and more effective to borrow advanced technologies and methods of implementing the best practices from other successful companies.

It only remains to choose the right way to select and learn from the best practice, which is best for our business. In such a situation a benchmarking can really help.

Benchmarking is one of the most well-known methods for business improvement. There are various definitions of this term in the literature for example, benchmarking is:

- An improvement process that is used to find and implement the best practices in own activity (Damelio, 1995), the best practice here refers to a method or technology used for production (marketing, business, purchasing, etc.) process;
- A method of establishing the current projects and plans for productivity based on the best practices in the industry, aimed at improving a performance (Camp, 2006);
- A useful and high-quality tool to help company to continuously improve own process by learning how other companies to carry out this process, which includes an estimation of its own operational processes and the identification, study and adapt the best practices from the other companies (Patterson, 1996);

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- An external view of the internal activities, functions and operations to achieve continuous improvement (McNair and Leibfried, 1995);
- A constant process of learning and evaluation of the products, services and practices of the most serious competitors or companies that are leaders in their fields (Kearns and Nadler, 1992);
- An excellent tool to identify targets for performance improvement, identify partners who have attained such goals and identify appropriate practices for the adoption of the transformation program (Kleine, 1994);
- A process of continuous evaluation and comparison of the organization with the worldwide leading companies to obtain information that will help the organization to take action to improve its performance (APQC, 2006);
- A process of continuous comparison of the organization performance with the best practices in industry, given the significant customer needs and determine what needs to be improved (Vaziri, 1992);
- A tool for continuous improvement of competitive performance of the company in its core business processes; the implementation of continuous evaluation of the effectiveness of business process (Watson, 1992).

So different definitions are not enable to understand uniquely this concept. In this study we will try to define the concept of benchmarking from the point of view of its role in the enterprise performance management. But for understanding this multiaspect concept at first we will disclose the origins of benchmarking, and set its nature and diversity.

### **Benchmarking Evolution and Practice**

The concept of benchmarking is not totally new, since in the history of business development there were many cases where one company took over the experiences of others to achieve success. Back in the early twentieth century, H. Ford enacted his famous conveyor to assemble cars after a trip to Chicago, where he watched the slaughterhouse butchering, hanging on hooks that are moved along the monorail from one workplace to another (Foreman-Peck, 2006).

However, benchmarking in its modern sense as a method of management was first introduced in 1979, when the firm rank Xerox decided to investigate the activities of Japanese competitors. Thus, the firm was investigated in detail the experience of Japanese company Fuji. Its top managers even moved to some time in japan to examine not only the technical achievements, but also innovations in management, implemented by various companies, including other businesses. Use of this experience has allowed Xerox to reduce costs, increase productivity and efficiency. Since then, benchmarking has become part of business strategy of Xerox and many other companies have adopted its experience (Kozak, 2004).

Benchmarking in development has passed through several stages:

- 1) First it was interpreted as reengineering or a retrospective analysis of the products;

- 2) Competitive benchmarking (late 1970 - early 1980);
- 3) Functional benchmarking (second half of 1980) is associated not only with the comparison of its product with a competitor, as the study of successful companies in other industries;
- 4) Development of strategic benchmarking, which is regarded as a systematic process for evaluating successful strategies of business partners (not only competitors) in order to improve business strategy;
- 5) Global (international) benchmarking, which in future may become a tool for exchange of international experiences, taking into account national cultural processes of companies (Goncharuk, 2011).

For the science and practice of the post-socialist countries a concept of benchmarking is quite new. In recent years, the works of Ukrainian scientists there are some aspects of the use of benchmarking as a tool for marketing and strategic management to ensure the competitiveness of the organization (Goncharuk and Getman, 2014; Goncharuk, 2014a). However, its content in Ukrainian studies more closely aligned with a second phase of benchmarking. The following important aspects still remain open:

- Method of performance management for industrial enterprise or in non-production sphere like medicine or tourism;
- A learning tool and application of a practice of the leading enterprises in other sectors of the economy;
- A systematic process of ensuring an enterprise performance;
- A tool for exchange of international experiences in implementing the processes, operations and business.

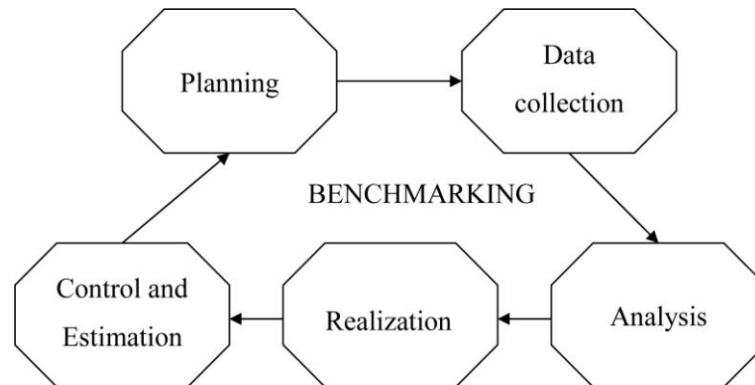
In addition, benchmarking is almost never used in the practice of Ukrainian enterprises. This is due to: the weakness of the existing methodological framework and the lack of guidelines for its application in practice; the practical problems emerging when using benchmarking in Ukrainian business, such as obtaining information about competitors (Ashuev, 2004) or when searching for foreign partners for benchmarking.

Thereby there is a need for models to use of benchmarking in the enterprise performance management and solving practical problems hindering its development in the domestic industry. For this could be an important study of foreign experience.

### **The Model**

World experience of benchmarking shows that benchmarking technique is usually reduced to determining the number of consecutive steps that should lead to the desired result. Number of steps can be different, because the process can be broken down into smaller steps. For example, the IBM has 15-stage model, the other companies may have less stages (Owen, 1999). However, the basic principles of benchmarking are the same everywhere. One of the most common schemes of

benchmarking is shown in Figure 1.



**Figure 1. The Basic Stages of Benchmarking (Zairi, 2004)**

In the first stage “planning” the next processes should be executed:

- a) selection of the areas of benchmarking and its goals;
- b) establishment of the priorities for improvement;
- c) identification of key processes (factors) that affect performance;
- d) identification of resources;
- e) allocation of key performance indicators, which will be compared;
- f) definition of data collection methodology for the analysis.

The second stage “data collection” includes:

- a) selection of the group (industry, region) of companies for comparison;
- b) collection of the data about industrial companies of selected group and its processes (production);
- c) collection of the data about own processes (production) of the company;
- d) definition of the methodology for data analysis.

On the third stage a comparative analysis includes the following areas:

- a) estimation of the efficiency of own and comparable companies;
- b) identification of the gap in performance on the main analyzed process (product);
- c) analysis of the causes (factors) of the gap in performance;
- d) finding of the ways and making of recommendations to bridge the gap in the level of efficiency.

The purpose of the fourth stage “realization” is the implementation of changes in the company processes (manufacturing) to improve performance. It may include an individual event or action plan, with managerial, organizational, financial, technical, marketing or other character.

The fifth stage “control and estimation” is to monitor a progress in the implementation of benchmarking plan and its impact on the basic processes by measuring the relevant performance indicators (Goncharuk, 2014b). If the goal is

achieved, we identify the other problems to decide them in the future, and benchmarking process is repeated.

Thus, the process of benchmarking is closed, forming a cycle (see Figure 1), thus providing a constant and continuous process of the company improvement.

Benchmarking is fairly universal method that can be used to satisfy a wide range of requirements for improvement on the various directions. To characterize the various ways of its application the different terms are used. Therefore, before benchmarking it is important to clearly define what the company wants to achieve as a result of its use, and then go to the selection of appropriate methodology.

### The Typology

Modern science distinguishes several types of benchmarking:

- 1) *Strategic Benchmarking* is used when a company wants to improve its overall performance, exploring the long-term strategies and common approaches, which ensured the success for highly efficient companies. It includes high-level perspectives: core competencies, development of new products and services, shifting of the balance of operations, an increase of resistance to environmental change. The changes, which should result in this type of benchmarking, can be difficult to implement, and the effect of its implementation, as a rule, can be felt only after a long period of time.
- 2) *Competitive Benchmarking* is used when the enterprise considers their position in relation to performance characteristics of key products and services. Here only the enterprises which work in the same branch are analysed, i.e. direct competitors. This type of benchmarking is appropriate when it is a decrease or low level of relative efficiency in key areas or activity kinds in comparison with other enterprises working in the same sector (branch) or if it is a necessity of finding ways of closing gaps in performance.
- 3) *Process Benchmarking* is used when enterprise focuses on improving specific critical processes and operations. It searches for the most successful enterprises that perform similar work or providing similar services. Process benchmarking in order to facilitate comparison and analysis must include the card of creation process. This kind of benchmarking, as a rule, gives the short-term effect.
- 4) *Functional Benchmarking* or *Generic Benchmarking* analyses the enterprises from different business sectors or fields of activity to find ways for improvement of similar functions or work processes. It is in use when: enterprise has a necessity of improvement of activity, the goods or services, for which there are no analogues (competitors) in the market; There are some difficulties (inaccessibility of the information, resistance of competitors, etc.) with carrying out benchmarking in the branch; A full inefficiency (the lowest efficiency) activity or the impossibility of the further development demanding cardinal changes in business, innovations. This type of benchmarking can lead to innovations and dramatic improvements.

- 5) *Internal Benchmarking* includes comparative analysis of performance of divisions (groups, workers) within the limits of enterprise. The main advantages of internal benchmarking are: open access to information; usually less time and resources are needed; less barriers on implementation stage. However, real innovation may be lacking and best and ability and the effectiveness is limited. Internal benchmarking can be of use under the following conditions: presence of apparent leaders and-or outsiders among structural divisions of the enterprise; presence of privacy or other obstacles for information interchange with other enterprises of branch; total absence of experience of carrying out of benchmarking; limitation of time and resources.
- 6) *External Benchmarking* includes a search for best practices outside the enterprise. It provides opportunities to study those companies that have a major competitive advantage, i.e. are the industry leaders. However one needs to bear in mind that not every one of the best practices can be successfully applied in another enterprise. This type of benchmarking may require more time and resources to guarantee the comparability of information, the reliability of the data and make sound recommendations.
- 7) *International Benchmarking* is used when the best practices are realised abroad and-or the number of the enterprises working in given branch (market) in the same country is not enough to produce valid results. It is in use when enterprise needs an improvement of quality and competitiveness to world class for an entry on a foreign market, etc. Globalisation and advances in information technology lead for increase the opportunities for international projects. However, such the projects can take more time and resources to set up and the implement and the results may need careful analysis because of national differences.

As a result of the study of methodology and practice of benchmarking, we can formulate and group the conditions and problems that are optimally solved by some types of benchmarking on the enterprise (Table 1).

**Table 1. Conditions and problems that solved by various types of benchmarking**

Type of Benchmarking	Conditions and Problems
Strategic Benchmarking	Need to replace the existing strategy, which has become ineffective for any reason: the emergence of new technologies; changing conditions on the market; the dramatic changes of customer requirements, etc.
Competitive Benchmarking	Reduce or low relative performance in key areas or activities in comparison with other firms operating in the same sector (industry). Need to find the ways to bridge the gap in performance.
Process Benchmarking	Deficiencies in some operations or a whole production (supply, logistics, etc.) Process, which not permit to achieve high production efficiency. The need for rapid improvements in key processes.

Functional Benchmarking/ Generic Benchmarking	The need to improve the performance, goods or services for which there are no analogues (competitors) on the market. There are various kinds of difficulties (lack of access to information, the resistance of competitors, etc.) For benchmarking in your industry. Completely inefficiency (very low efficiency) of or inability to further development, which requires fundamental changes in business, innovations.
Internal Benchmarking	The presence of apparent leaders and / or outsiders among the structural units of the enterprise. The presence of secrecy or other barriers to sharing information with other companies in the industry. Complete lack of experience with benchmarking. Limited resources and time.
External Benchmarking	The complete absence or lack of effective methods of work within the enterprise. Lack of innovation in the enterprise.
International Benchmarking	Lack of effective competition on the domestic market. A small number of companies-competitors on the domestic market. Need to improve the quality and competitiveness to world-class to access to the foreign markets, etc.

The choice of a type of benchmarking is predetermined by the following terms:

- the nature and aspects of the problems that need to be solved,
- available resources and a time for the benchmarking,
- experience of benchmarking,
- adequacy of resources for the implementation of possible actions to improve performance.

Enterprises, first conducting benchmarking, and more often choose an inside view to obtaining and learning in the future, go to an external or functional benchmarking.

### **Benchmarking in Performance Management**

The choice of benchmarking as a method of performance management is predetermined by its advantages before the other management methods. Various authors (Camp, 2006; Zairi, 2004; Smith et al., 1993; Rogers et al., 1995) stated the following advantages of benchmarking:

- it helps the enterprise to define its strength and weaknesses, depending on changes of the supply, demand and market conditions;
- it helps to satisfy better consumer inquiries on a quality, price, goods and services by establishment of new standards and purposes;
- it stimulates workers to achievement of new standards and aspiration to new development in the connected fields of activity, improves motivation of the personnel;
- it allows the enterprise to realise what level of efficiency is really achievable and how is possible to reach improvements;
- it documents the reasons of existing distinctions;

- it helps the enterprises to raise their competitiveness by stimulation of constant perfection for a maintenance of the international level of efficiency and an increase of competition level;
- it promotes changes and provides improvement of quality, productivity and efficiency, which in turn bring innovations and competitiveness;
- it is fast and inexpensive way of creation of a pool of innovative ideas, which can be used in the decision of the majority of nascent practical problems.

Moreover a number of problems, which can put obstacles in the way of successful execution of benchmarking, are emphasized by Bendell et al. (1998) and Hurmelinna et al. (2002):

- time limits, shortage of resources,
- competitive barriers, inaccessibility or hard-to-reach of the necessary information about competitors,
- shortage of administrative and professional staff,
- resistance to changes,
- imperfection of planning and short-term expectations.

The objections of strategic nature are expressed by the opponents of general interest in benchmarking: since benchmarking basically calls on to equal on the successful competitor or the leader then if all participants of the market will operate in this way, it can lead to creation of firms-clones, which will apply the same technologies in struggle for the same consumers. In accordance with their opinion such a position can lead to market crisis. However here it is necessary to oppose that the capacity of any market is limited and its satiety by goods of firms-clones sooner or later will force them to search for new ways for a conquest of the consumers, which search will pay their attention to other markets, branches; there will occur a requirement for studying of experience of the firms working in other countries, other fields of activity. Therefore process and competitive benchmarking will substitute for international and functional benchmarking that provide inflow of new ideas, methods, technologies, innovations, which capable to give a new impulse for development of firms and the market.

### Summary

Thus, benchmarking is universal method. Its various types mutually supplement each other that make it one of the most effective methods of enterprise performance management.

As noted above, a variety of benchmarking lies in its types, which allow the improvement of various aspects of the enterprise due to different sources of improvement. In our opinion, the main objective of performance management is to ensure continuous and sustainable growth of enterprise performance. And the benchmarking, both independently and in combination with other important tools, e.g. a motivation (Goncharuk and Monat, 2009), is able to solve this problem.

Future research will focus on the development of technologies for implementing



methodology of benchmarking in the specific areas of production and services to improve their performance.

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## BENCHMARKING JAKO METODA ZARZĄDZANIA WYDAJNOŚCIĄ

**Streszczenie:** Niniejszy artykuł poświęcony jest teoretycznemu podłożu benchmarkingu, jako metody zarządzania wydajnością. Opisane zostały: koncepcja, ewolucja, typologia, model oraz niektóre praktyczne aspekty benchmarkingu. Zdefiniowano główne zalety i problemy dotyczące stosowania benchmarkingu w zarządzaniu wydajnością. Udowodniono, że różnorodność benchmarkingu leży w jego rodzajach, co pozwala na poprawę różnych aspektów przedsiębiorstwa ze względu na różne źródła poprawy. Autorzy konkludują, że głównym celem zarządzania wydajnością jest zapewnienie stałego i zrównoważonego wzrostu wydajności przedsiębiorstwa, a benchmarking zarówno samodzielnie, jak i w połączeniu z innymi ważnymi narzędziami, takimi jak motywacja, jest w stanie rozwiązać ten problem.

**Słowa kluczowe:** benchmarking, zarządzanie wydajnością, przedsiębiorstwo, porównanie, wydajność.

### 基準作為績效管理方法

**摘要:** 本文是專門為基準的理論依據，作為績效管理的方法。的概念，演變，類型學，模型和基準的一些實際問題進行了描述。主要優點和問題的應用在績效管理標杆的定義。事實證明，各種標杆在於其類型，允許企業各方面的改善，由於不同的改進來源。作者得出結論，績效管理的主要目標是確保企業業績持續和可持續增長。和基準化，既獨立地以及與像動機其它重要的工具組合，能夠解決這個問題

**關鍵詞:** 標杆管理，績效管理，企業比較，效率