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The Management Accounting Magazine

June 1992

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for continuous improvement**

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By John A. Miller

Benchmarking performance

In 1991, a major U. S. company completed its initial benchmarking project to document externally based performance indicators for key processes and activities critical to the long-term success of the company. In establishing benchmark performance for each key and critical activity, the company took a world view and selected the best of the best companies in each activity regardless of industry, location or other restriction. This broader view enabled them to benchmark against a variety of businesses and industries. For example, the activity of paying vendors could be benchmarked with American Express Company, who perhaps may handle this activity better than anyone in the world.

The purpose of the benchmark project was to compare internal performance with external benchmarked performance. In implementing the project, this company utilized the five-step approach developed by Carl Thor.¹

1. First, determine what process(es) to benchmark.

Clearly, effort is better directed to something that is important. What processes are (a) essential to achieving strategic goals, (b) of critical importance to your customer's satisfaction, and (c) suspected of not being operated well, and (d) are downstream cost drivers that affect performance of subsequent processes and activities? The answers will help in selection of priority processes for benchmarking.

2. Identify process measures and collect internal data

To benchmark with another organization you must understand your own process descriptions, performance measures and outcome data. Differences in approach may be discovered within the organization, and much progress may be possible before venturing out into the world of other organizations.

3. Select potential best companies in each process

Sources of best practitioner information are few and not too reliable. There is some public domain speculation but help may also come from consultants, distributors, customers, associations, and your own employees who have worked elsewhere.

4. Conduct the benchmarking activity

Contact and arrange to visit the target

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company only after you are thoroughly familiar with all that is printed and generally known about that target organization. Be sure that the benchmarking partner gets enough information from you on the selected process(es).

5. Analyze the harvested data and set appropriate improvement plans

Determine the gaps between your treatment of the issue and that of others, making appropriate adjustments for process non-comparabilities. Then set goals and action plans to meet or exceed by a predetermined time. Communicate those goals/plans throughout the organization and monitor progress as time passes. Arrange for occasional review and recalibration with the benchmarking partner.

By completing the benchmarking project through the basic five steps outlined above, the company accomplished two specific results:

1. Established benchmark performance and, more importantly

2. Identified specific areas to focus improvement efforts. Managers focus on activities with big gaps between actual performance and the benchmark.

Perhaps the most difficult step is the third as data are difficult to obtain and few companies, especially those with proprietary methods and practices deemed to be a competitive advantage, are willing to share data. However, several sources are available and should be considered.

1. Industry trade associations.
2. Malcolm Baldrige and other Quality Awards where the recipient is obliged to share practices.
3. American Productivity and Quality Center's International Benchmarking Clearinghouse.
4. Informal networks of companies that practise benchmarking.

No comprehensive performance measurement system is complete without the kind of comparable process-level measurement that is available from benchmarking projects. Continuous improvement is a fine rallying cry for any organization, but the "gradualism" sometimes implied in that phrase may not be sufficient. There are likely to be a few critical processes in which an organization is dangerously deficient but doesn't know it. For these, continuous improvement isn't enough. Quality improvement won't happen until the alarm bells have sounded. Benchmarking is a method of bringing the alarm bell forward in time. **CMA**

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¹ Source of Quote: Carl Thor, Executive Vice Chairman, American Productivity & Quality Center. Much of the content of this column is based on the writing and teaching of Carl.