THE MANAGER'S GUIDE TO BENCHMARKING

Essential Skills for the New Competitive-Cooperative Economy

JEROME P. FINNIGAN

Coauthor of
TQManager and *The Race Without a Finish Line*

The Manager's Guide to Benchmarking

Essential Skills for the New Competitive-Cooperative Economy

Jossey-Bass Publishers • San Francisco

Manufactured in the United States of America on Lyons Falls Pathfinder Tradebook. This paper is acid-free and 100 percent totally chlorine-free.

Library of Congress Cataloging-in-Publication Data

Finnigan, Jerome P.
The manager's guide to benchmarking: essential skills for the new competitive-cooperative economy / Jerome P. Finnigan.
p. cm. — (Jossey-Bass business and management series)
Includes bibliographical references and index.
ISBN 0-7879-0279-9 (alk. paper)
1. Benchmarking (Management) I. Title. II. Series.
HD62. 15.F5 1996
658.5'62—dc20 96-15891

FIRST EDITION
HB Printing 10 9 8 7 6 5 4 3 2 1

This book is dedicated to the memory of Norman R. Deets, who for twenty-eight years was my colleague, mentor, and friend. An adult educator who devoted his last years to bringing total quality management to America's schools, Norm was as courageous and worthy as any Nitany Lion who ever lived. His dedication to excellence and his commitment to the people with whom he worked serve as a benchmark for all managers. I will always remember Norm Deets as a true gentleman and a truly gentle man.

This book is also dedicated to Diane Symons, whose natural sagacity, good cheer, and grit provide encouragement and inspiration to her family and friends. An exemplary wife, mother, sister, and aunt, she is most noble as a friend.

Preface

> Looking forward, the next half-century will be a competitive-cooperative three-way economic game among Japan, Europe, and the United States. In jockeying for competitive advantage, they will force each other to adjust. To prosper mutually, they will have to cooperate to create a world economy that works and a global environment that allows them to survive and to enjoy what they produce.
>
> —*Lester Thurow,* Head to Head

The advent of global competition and the new information economy has led companies like Xerox, Motorola, Federal Express, and AT&T to adopt benchmarking as a key tool for gathering intelligence from both competitors and industry leaders. Their purpose is to identify opportunities for breakthroughs in technology, work processes, and products. In the "competitive-cooperative" economy of the 1990s, as Thurow (1992) puts it, benchmarking offers a structured method for these organizations to share information with one another in their mutual quest for best practices. A growing number of organizations have discovered that by uncovering how the leaders became the best, they can fix their own shortcomings and emulate the leaders' strengths. The benchmarking process allows them to gain superiority by capitalizing on their existing strengths, correcting weaknesses to match the marketplace, and going beyond normal practices to incorporate the best of the best.

In a global information-driven economy, knowledge is not only a strategic asset but also a fluid commodity. It moves between people and organizations despite efforts to control it. Because the new global economy demands that organizations deliver what their customers want when they want it, organizations must be quicker and smarter. The successful organizations of the next century will be more flexible because they will know that in this kind of economy power moves with knowledge and transcends traditional limits. For example, the widespread availability of Internet resources and the emergence of electronic commerce are leading to novel types of organizational structures, knowledge transfer, and innovative market systems. These are facilitating a dramatic speed-up in the process of change itself. Whereas it took over a century to evolve from a farming economy to an industrial society, new types of socioeconomic structures and business models are starting to emerge in very short time cycles. This increased speed and flexibility in the marketplace is putting additional strains and demands on management to produce innovative methods and strategies that can lead to breakthroughs. With benchmarking, it may not be as difficult as was traditionally believed to achieve breakthroughs in technology and operating processes.

In the overview to *Technology and Global Identity*, Brooks and Guile (1987, p. 11) warn that in the United States there is an overemphasis "on creativity, originality, novelty, and sophistication at the leading edge of technological advance." They note that "this overemphasis comes at the expense of what could be called the 'creative imitation' or rapid incremental improvements that the Japanese are especially good at."

Because organizations have to move more quickly in the new economy, they are also losing the luxury of being able to correct mistakes after there is a problem. Instead, they have to learn to do things right the first time! As new technology is changing rapidly, straining most organizations' abilities to keep up, many organizations have learned that benchmarking helps them counter those pressures. They find that the information they gain through benchmarking, which is based on work processes, allows them to better meet their customers' requirements. It focuses them on current market realities rather than on traditional perceptions. With this knowledge they can avoid knee-jerk reactions to changes in the market and embrace goals and objectives that are proactive. In other words, managers who use benchmarking are able to manage based on the facts.

In *Head to Head*, Thurow (1992, p. 260) writes, "A country that wants to win starts by closely studying the competition. The purpose is not emulation but what the business world calls 'benchmarking.' Find those in the world that are best at each aspect of economic performance. Measure your performance against theirs. Understand why they are better. Set yourself the target of first equaling, and then surpassing, their performance."

According to Gerald Miller of the School of Information Science at Simmons College in Boston, because businesses have lost global market share, competitive intelligence skills have become highly sought after over the past decade. For example, the eighteen chapters of the Society of Competitive Intelligence Professionals has grown by about 8 percent every year over the past three years. Jan Herring, vice president of the Futures Group, a market research firm in Washington, D.C., says that companies are setting up competitive intelligence departments. "It's like thirty years ago, when companies were establishing market research," he says (Lee, 1993, p. 9). The reason for this surge in interest in competitive intelligence is that organizations that benchmark are better able to turn their focus away from internal competition toward competition in the marketplace as they gain a concrete understanding of why their competitors are successful. To put it in a nutshell: they benchmark and share data about themselves in order to survive.

In the benchmarking workshops I teach in the United States and abroad, I have heard one story, in one form or another, literally hundreds of times. Here is the story.

> My boss asked me to lead a benchmarking study. At first I was afraid when he said he wanted it completed in a month, but he relieved my concerns by explaining that all I had to do was make a few telephone calls and maybe visit a company or two to see what they are doing. So that's what I did, and I submitted my report on time. He was happy and I was happy. But it didn't last. Nothing happened in terms of any substantial improvements in the organization. So, I'm here to learn what we did wrong.

The truth is, neither these people nor their managers understood the process of benchmarking. Benchmarking isn't something you do halfheartedly. Calling a few companies and talking to them about what they've done in a particular area can be helpful but it isn't benchmarking. Indeed, calling that practice *benchmarking* is akin to describing the American troops' landing in Haiti as an invasion. Benchmarking is not a casual telephone call, and it is not a stroll through a plant. Bob Camp, the person most responsible for formalizing benchmarking as a process, refers to that practice as "industrial tourism."

Certainly it is necessary to make telephone calls and visit organizations when you are benchmarking, but the process entails much more. Benchmarking is a continuous, systematic process that requires, among other things, careful preparation, clear goals, strategic plans, team work, data analysis, and the discipline to see a project through. For this reason the benchmarking process must be carefully carried out.

In fact, benchmarking is hard work, often initiated against internal opposition, frequently incremental to one's current tasks, and requiring patience, discipline, and resources. These are all good reasons for avoiding benchmarking, yet the competitive advantages and productivity improvement opportunities to be gained for the organization more than offset benchmarking's inconveniences. For the manager and the project participants, the advantages are the discovery of breakthrough opportunities and process improvements and recognition by their organization as leading-edge experts in intelligence gathering.

Target Audience

It is my hope that managers at all levels of both private and public organizations will take advantage of the benefits of benchmarking. I wrote this book to help you all do so by providing a simple guide that answers the most frequently asked questions about benchmarking. Here are some of the questions:

- What is benchmarking, and what is it not?
- What are the advantages to benchmarking? Is it worth the effort?
- What is the benchmarking process and what investments are required?
- Are there common pitfalls and how can they be avoided?
- How do you select partners for a benchmarking study and get them to share data?
- What is an industry "best practice" and how do you identify it?
- What resources are available to help me?

For the purposes of this book, I have used the term *manager* to include CEOs, administrators, managers, and students of management who are curious about benchmarking. And I don't limit my definition to managers in the private sector alone. Benchmarking is a tool for expanding any organization's access to unique business practices by opening new horizons in planning, target setting, problem solving, work process improvement, and reengineering. Therefore, I think *The Manager's Guide to Benchmarking* will benefit managers in the public sector—from education to the national laboratories and from hospitals to military planning and logistics—just as it will those in industry—from engineering to manufacturing and from planning to human resources.

Purpose of This Book

The purpose of this book is to help managers understand what benchmarking is and what it can do for their organizations. You will learn why benchmarking has become an essential tool in the new global economy and an essential skill for all managers in all kinds of organizations. You will learn how benchmarking can help you to improve your own performance as well as that of your organization. The book describes how to plan and conduct a benchmarking project and how to become an advocate of the process within an organization. It is also a handbook for future reference.

After reading this book, a manager should be able to implement benchmarking in his or her organization and thereby assess the organization's strengths and weaknesses and compare it with the functional leaders. Readers should also expect to understand how to learn from the best by uncovering how they became the best. As a result of such analysis they will be able to fix their organization's shortcomings while emulating the leader's strengths. I believe so strongly in the benchmarking process that I am convinced that a manager who is committed to improve an organization and armed with the knowledge that benchmarking can provide can gain superiority in the field. The first step on the path to becoming an industry leader is reading this book.

Overview of Contents

The Introduction to this book is intended to give the reader an understanding of the process of gathering business intelligence and the reasons that organizations are willing to share information with one other. It covers such issues as how the new economy is affecting traditional management measures of productivity. The introduction focuses on the impact that value and knowledge are having on traditional productivity measures. It looks at the ways in which the "competitive-cooperative" environment has given rise to information sharing and, in particular, benchmarking. Finally, it examines what benchmarking is, what it is not, and what its benefits are. Perhaps most important of all, it suggests how to decide if benchmarking is a management tool that you should use.

Chapter One offers an overview of the benchmarking process. It introduces a four-phase, iterative process model that managers can follow to conduct a benchmarking study. The next four chapters get more specific about initiating and conducting a benchmarking study and putting to best use the data acquired.

Chapter Two describes Phase One: establishing a benchmarking plan. It explains how to determine what to benchmark and whom to benchmark and how to go about selecting partners. It then reviews research methods. Chapter Three describes Phase Two: implementing a benchmarking plan. It discusses establishing a benchmarking team and conducting visits to a benchmarking partner's site. It explains why ethics are so important in benchmarking.

Chapter Four examines Phase Three: analyzing the data gathered. It answers the following questions: What do the data say? Is the competition better? If so, how much better and why? What can now be put into action to improve an operation? Chapter Five presents Phase Four: implementing what was learned. It emphasizes two objectives: integrating the study results into an organization's business operations and taking the actions that will close the performance gaps between the followers and the leaders—or, if you are the leader, the actions that will maintain your position.

Chapter Six discusses what the future holds in the new economy in terms of how benchmarking data will be used in the quest for productivity improvements and organizational effectiveness. This chapter also looks at establishing a culture of learning and change, and how these efforts are supported by benchmarking.

Chapter Seven highlights six key concepts of the new economy that managers will have to focus on if their organizations are to succeed in the future.

Acknowledgments

The act of writing a book is a personal one, but no book—especially one such as *The Manager's Guide to Benchmarking*—could come to be without the help of many individuals and groups. This has been a difficult and challenging task, and I am grateful to many people for their encouragement, assistance, and persistent prodding that I complete the project. Because all of my previous writing efforts have been in collaboration, I did not initially appreciate the challenge of being the lone eagle at the keyboard. I am grateful to my past coauthor, Warren Schmidt, for his friendship, guidance, and encouragement to "go it alone."

I am also grateful to my friends and associates at the University of California, Los Angeles (UCLA), Engineering and Management Program for their support and encouragement, especially Bill Goodin and George Morrisey, who were generous with their time and advice. I am indebted to Bob Andrews for his review and feedback on pedagogy and materials; his feedback was especially helpful in the development of this book. Also, my sometimes co-instructor at UCLA and quality consultant Toro Iura provided timely advice and, as always, cogent criticism.

Were it not for Bill Hicks of Jossey-Bass this book would not exist. It was Bill's original idea, and it was with his blessing that I started assembling my material and researching the field of benchmarking. I wish him well in his new role at the New Lexington Press, a new Jossey-Bass company. But it was Cedric Crocker of Jossey-Bass who gave me the impetus to finish this project. Without Cedric's persistence and creative urging I would still be overwhelmed by my "full plate." His suggestions on structure and flow were invaluable in helping me complete a manuscript of which I am proud. In short, Cedric helped me heed the words of Jack London: "Dig can move more mountains than faith ever dreamed of" (Stone, 1977).

It wouldn't be possible to include everyone who helped with this book if I didn't acknowledge my associates at Xerox, both pre-

sent and past. First, I must thank the guru of benchmarking, Bob Camp, for his role-model behavior, his seminal writing, and his willingness to share. Without him, I do not believe benchmarking would be as broadly accepted today as it is. I have also to acknowledge the three creators of the first benchmarking training—Bob Edwards, Jules Cochoit, and Jack Kelley. If Bob Camp formalized the benchmarking process, these three legitimized it as a tool that could be learned and replicated.

I am grateful also to the lessons learned from so many others at Xerox, including Bob Osterhoff, John Kelsch, Sy Zivan, Fred Henderson, Joe Cahalan, Vic Muth, Norm Rickard, Jim Sierk, and especially Hal Tragash. I am indebted to Mike Spendolini, both a friend and a colleague, for the powerful contribution of his own work, *The Benchmarking Book* (1992), and for his counsel and encouragement. I am also grateful for the support and friendship of my many friends in Human Resource Management and Organization Development at Xerox, but especially Fred Nichols (and his wife, Sonya), Tom Kayser, Tim Tyler, Paul Carletta, Sam Malone, Frank Angevine, and Bill Skinner. Of course, I acknowledge my friend and mentor Norm Deets, to whom this book is dedicated. I must also express my gratitude for the support of the senior managers of Xerox Corporate Research and Technology with whom I have worked over the past few years: Joe Charlton, Don Post, Chip Holt, Ron Rider, and Herve Gallaire.

If I hadn't had the opportunity to teach benchmarking in a variety of settings I could not have written this book. For the opportunity, encouragement, and professional assistance they offered me, I am grateful to the staff at the UCLA Extension School as well as at the Technology Training Corporation, and their staffs in Los Angeles, Mexico City, and Caracas. Especially important to me were Jim Naphas and Steve Taylor. I am grateful for the advice and inspiration of Nancy Kuhn of the Drew Institute of the American Red Cross. I am especially thankful for the patience and understanding of Dr. Eddi Sutkato of Jakarta's Quality and Productivity Institute. I am equally grateful to Dr. Miguel

A. Cardenas and Nancy Martinez of the International Training Center (ITC) at San Diego State University and to the managers and students throughout Central and South America who have attended ITC's video lectures, especially the students and faculty of the Institute of Puebla.

Without the professional guidance and attention of Cheryl Greenway and Mary Garrett, who managed the production of this book, it would still be a jumble of keystrokes and paper. As in the past, Mary has been a joy to work with. I thank her. I am particularly indebted to Sandra Beris, whose patient editing and recommendations have greatly improved the manuscript.

I thank too my wife, Jo Ann, who has patiently tolerated the lost evenings and weekends. As she celebrated the arrival of my earlier books, after gracefully bearing the pains of their birthing, I look forward to celebrating this delivery with her as well—she has earned it as much as any midwife.

Rancho Palos Verdes, California Jerome P. Finnigan
May 1996

About the Author

JEROME P. FINNIGAN is human resources manager for Xerox Corporate Research and Technology. He earned his A.B. degree (1959) in English from the University of San Francisco and was an intern in public affairs with the Coro Foundation in 1960. He taught high school English and coached football before entering industry with Pan American Airways at Cape Canaveral, Florida. He joined Xerox in 1966 and has held a variety of human resource positions in Los Angeles and in Rochester, New York.

Finnigan's assignments have largely been in human resource development and organization development. He was an early advocate of quality circles in the late 1970s and was acting quality officer for the printing systems division during Xerox's implementation of total quality. He is a frequent lecturer on total quality management and benchmarking in this country at the University of California, Los Angeles (UCLA), as well as in Latin America.

Finnigan is affiliated with the American Society for Training and Development and the National Alliance for Business. He is past chairman of the California Business Consortium for Management in Education and was a member of the state committee that wrote California's *Strategic Plan for Educational Options in the Twenty-First Century: Roads to the Future*. He also served on the Adult Education Advisory Board, which established California's new adult education strategy. He was also a member of the National Center for Research in Vocation Education committee, which wrote *New Designs for the Comprehensive School*.

He has coauthored two books on total quality—*The Race Without a Finish Line: America's Quest for Total Quality* (1992) and *TQManager: A Practical Guide for Managing in a Total Quality Organization* (1992)—with Warren Schmidt, emeritus professor of the School of Public Administration at UCLA.

Finnigan lives with his wife, Jo Ann, in Rancho Palos Verdes, California.

Contents