MANAGEMENT ACCOUNTING GUIDELINES
MAG - I

IMPLEMENTING BENCHMARKING

The Institute of Cost and Works Accountants of India
(Statutory Body under an Act of Parliament)

Management Accounting Guidelines
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Issued by
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FOREWORD

Benchmarking is an answer to various issues confronted by a Management Accountant. Some of these are ‘Matching Costing systems with the best in the world’, ‘Controlling the processes for monitoring and guiding operations’, ‘Quantifying the effects of strategies on future cost levels’ and ‘to be in position to measure the cost effects on ongoing changes’.

Benchmarking can be used for Products/Services and Functions/Processes with respect to Internal operations, evaluating the competitors and comparing to the best in class. Benchmarking provides movement from gut feeling to market reality, perception to objectivity, low fit to conforming highly to industry standards. It helps in selecting the goals and objectives in an effective manner and in measuring the productivity quite accurately. Competitiveness can be achieved and sustained with benchmarking with dramatic improvements. Outlining the industry best practices is another way to benchmark. To me, benchmarking could be a starter for Total Quality Management.

I am happy to note ICWAI is bringing out the new printing of Management Accounting Guidelines on “Implementing Benchmarking”. This is not only a timely intervention in the increasing importance of the issue, but a bold step to underline the role of Management Accountants for Benchmarking.

The framework proposed in these guidelines is relevant to Management Accountants, Regulators and different types of Enterprises

B M Sharma,

President

PREFACE

The guideline brought out by Professional Development Committee of ICWAI on Benchmarking is the first one in this series of Guidelines on Management Accounting. These guidelines cover the essentials of the subject from conception stage to implementation and review crisply and comprehensively to guide the Management Accountant and the Management to successfully implement the technique of benchmarking in their priority areas and reap immense benefits. This is part of their TQM and CPI Continuous Process Improvement programmes.

Superior performance in meeting customer requirements produces competitive advantage in today's marketplace. An integral part of strategic planning, benchmarking compares a firm's performance to that of world-class organizations in order to measure business excellence and establish realistic goals for improvement.

Organisations in India must be benchmarking to be able to monitor and analyse the strategies which ensures proper monitoring and control whereas cost remains on target. It is up to the Management Accountants to provide their clients with competitive cost and strategic information in addition to the information provided on internal operations in this context.

This book provides a blueprint of the benchmarking process used by leading practitioners, describes concrete tools and techniques, prescribes a framework for effective implementation, and discusses the issues and challenges involved in introducing benchmarking into a company's continuous improvement program. The concepts, approaches and examples presented can be applied to all organizations regardless of size, business sector, product or service.

I would like to place on record efforts put in by Mr. A. N. Raman Central Council Member of the Institute, Mr. R. Narayanan Past Chairman of SIRC, Mr. Veer Raghavan Iyengar member of the Institute and Ms. Nalinee Jagtap student of ICWAI in bringing out these guidelines by the Institute. We are also thankful to CMA Canada for extending their helping hand in producing the publication.

We are grateful to Mr. Chandra Wadhwa President of ICWAI, Mr. Kunal Banerjee vice-president of ICWAI, the members of Central council and the members of the Professional Development Committee in particular who have given their valuable Guidance and support in bringing out this publication.

Brijmohan Sharma
Chairman
(Professional Development Committee)

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AN APPROACH TO BENCH MARKING IN INDIA

Benchmarking is a process used by entities to target key areas for improvement. This becomes very necessary in globally competitive environment to sustain and enhance performance. This is taken up by entities as a continuous process of measuring their functions, processes, products and services against competition. The International Benchmarking Clearing House a service of the American Productivity and Quality centre defines it as "a process in which companies target key improvement areas within their firms, identify and study best practices by others in these areas and implement new process and systems to enhance their own productivity and Quality.

Companies in India are investing millions of Rupees on new technologies, new manufacturing processes & systems, Research & development, Vendor development, Education and training. These companies need to know in advance the benefits derived from these investments. There must be benchmarking system in place to monitor and analyse the strategies as they unfold so that control is maintained and cost remains on target. They need to know:

- the effects of changes
- alterations to their plans
- their current costs and
- what they will be in near future.

The call for improved information systems has focused primarily in the past on process control and product costing. A further requirement is to provide financial and cost information on future strategies. But beyond the need for good internal information, is the need to understand the competitive situation better. Thus, it is up to the Management Accountants to match the strategy of their companies with that of the competitor's strategic information in addition to the information provided on internal operations.

The management accountant's challenges are significant:

- Outstanding process controls to monitor and guide operations,
- 'World class' product-specific costing systems,
- systems to quantify the effects of strategies on future cost levels, and
- the ability to measure the cost effects on ongoing changes.

These typify the needs for 'in-house' managerial information. In addition, we must have trained Management Accountants who can not only generate information but also bring it to life in new and innovative ways – ways that will help them and other managers to manage the affairs of the Company in a better way.

Types of Benchmarking:

There are two types of Benchmarking. One is on Products/Services. The other is on Functions/Proceses.

While there are two basic areas or types of Benchmarking, there are three different groups against which you can benchmark your operations. They are :

Benchmark internal operations – the best performing in your company

Benchmark your competitors – Generally the most relevant point of comparison for Products/Services

Best-in-class benchmarking – You compare your level to companies in any industry engaged in functions or processes analogous to yours and are the best at what they do.

The results achieved by Benchmarking are better than those attained through informal methods as shown below:

Without Benchmarking	**With Benchmarking**
Defining customer requirement	
Based on history or gut feel	Market Reality
Perception	Objective evaluation
Low Fit	High conformance
	Industry trends
Selecting effective goals and objectives	
Lacking external focus	Based on working examples
Lagging Industry	Credible, Unarguable
Historically based	Proactive
Incremental increases	
Determining True Measures of Productivity	
Pursuing pet projects	Solving real problems
Strengths and weakness not Understood	Understanding outputs
Route of least resistance	Based on Best Industry Practices

Achieving and sustaining Competitiveness

Internally focused	Concrete understanding of competition
Evolutionary change	New ideas proven practices and
Low commitment	Technology – dramatic Improvements possible

Industry best practices

Not invented here	Proactive search for new paradigm
Few solutions	Business practice
Average of industry Progress	Breakthrough
Frantic catch-up activity	Superior performance

Getting started in Benchmarking:

Making a philosophical commitment to Benchmarking is essential to initiate Benchmarking. Enthusiasm itself is not enough. Theoretical understanding of Benchmarking is no enough. Benchmarking can not be approached formally or haphazardly. It is not merely copying what someone else is doing. It is critical that it has to be integrated in to the TOTAL QUALITY MANAGEMENT initiatives of the organization. Managers apply business process skills in the co duct of business units and the needs of customers in the market with in a company. Some processes are common to different business areas while others are specific – usually related to particular product or customer needs.

The strategic planning process aims to establish, on the basis of competitive and market analysis, business unit strength and weaknesses. Our definition of strategic benchmarking is the development of measures for a business unit which quantify its key strengths and weaknesses, to give some external reference to the strategic planning process. Quantification of such measures, to permit comparison with other business experience, is what justifies the term 'benchmark'.

A Benchmarking coordinator will be necessary to keep track of topics; visits and reports generated by the benchmarking projects and help disseminate this information. By imaginative and willing to embrace change, the by word of benchmarking has to be "why not here?" Look at tings with an open mind, step away from your operation and look at all the possibilities. If you can do this, you can make strides.

In a competitive analysis of manufactured products, a single point observation like comparing features of competing products can reveal features, technologies, design rules and safety standards incorporated in to a product. But it fails to reveal the trend. A robust approach to competitive analysis looks beyond today's product features and production methods to development of a broad profile on a competitor - its core capabilities, its technological velocity and trajectory, its strategic investments. These characteristics can not be learnt from single-point analysis.

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IMPLEMENTING BENCHMARKING
INTRODUCTION

The long-term viability of an organization - whether in a competitive or not-for-profit sector- depends largely upon how well it understands and meets its customer requirements on a daily basis. These requirements, and the ways to achieve them, are constantly changing thereby creating opportunities and challenges. By studying and emulating world-class performance in meeting these challenges, an organization can improve its odds of survival.

Forms of benchmarking have been used in industry for years. Walter Chrysler used to tear apart one of each new Ford model as soon as it came off the assembly line at the beginning of a model year. He sought to determine what components went into the car, how much it cost, and how it was made. Armed with this information, Chrysler had a better understanding of his major competitor's strengths and weaknesses. But it wasn't until the 1980s, with the advent of world-wide competition in key industries, that benchmarking came of age. Xerox, Motorola, AT&T, DuPont, Ford, and other leading-edge companies pioneered a much broader form of benchmarking. These companies found benchmarking a valuable means of improving their competitiveness and effectiveness. It became an integral part of their strategic planning, Total Quality Management (TQM) process, and Continuous Process Improvement (CPI) program.

As worldwide competition has spread to other industries, it has driven them to adopt benchmarking and other quality improvement tools. The U.S. Department of Commerce incorporated benchmarking into the Malcolm Baldrige National Quality Award (NQA) criteria as a way to reinforce continuous improvement in all business processes. The 1989 NQA board of examiners held a specific session on benchmarking during their site visit and included it as the key reason for the award. In 1991, benchmarking was cited in 12 of the 32 evaluation criteria.

Besides the United States, other countries, such as Japan (the Deming award), Europe (the ISO 9000 Standard), and Canada (the Award for Business Excellence), have adopted benchmarking as a prerequisite for quality certification.

Benchmarking is a performance measure that provides the driving force to establish goals of high performance and the means to accomplish these goals.

This guideline describes a prescriptive model for the basic benchmarking process that is being used by leading practitioners. It provides practical operating principles and recommended approaches for implementing benchmarking. It is addressed to management accountants so that they can accelerate the introduction of benchmarking into their company's CPI program. It is designed to help make the management accountant a key contributor to the continuous improvement process in the organization.

This guideline assumes an organization where the decision to implement benchmarking has already been made. It is, of necessity, both descriptive and prescriptive. It describes benchmarking terms and processes, presents a framework for building commitment to change, and defines benchmarking concepts and techniques. It prescribes how the management accountant can facilitate benchmarking. The concepts, techniques, and case study included in the guideline are structured to be applicable to:

- businesses that produce a product or a service;
- all levels of an enterprise;
- all functions in an enterprise;
- enterprises in all business sectors;
- the public and private sectors; and
- small and large organizations

Today, many management accountants are no longer in traditional accounting roles and need to acquire the necessary skills and knowledge to participate in the benchmarking process. This guideline will, accordingly, help management accountants:

- comprehend the benefits of benchmarking;
- understand the phases of the benchmarking process;
- understand their roles and responsibilities in a benchmarking project;
- appreciate how benchmarking activities can be used to set goals for an enterprise or a function;

- appreciate the ethical and legal issues involved in benchmarking;
- understand how to incorporate benchmarking into the organisation's strategic processes;
- explore opportunities to use benchmarking in the management accounting function; and
- comprehend the organizational and management accounting challenges in implementing benchmarking.

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THE ROLE OF THE MANAGEMENT ACCOUNTANT

Traditionally, benchmarking-related functions such as industry intelligence gathering, market research, reverse engineering, etc., have been seen as the exclusive domain of manufacturing, marketing, or strategic planning personnel. These functions are generally staffed and operated by non-accountants. Today, however, the evolving concept of benchmarking is seen as a company-wide function that requires many new participants. Since management accountants are trained in analysing, measuring, and reporting information focused on user needs, their expertise can be of assistance in the design and operation of comprehensive benchmarking data gathering, performance gap analysis, and reporting systems. These management accounting skills can give credibility to the corporate benchmarking process. They also position management accountants as the key link between strategic objectives and operations.

To leverage this advantage, the management accountant should integrate benchmark derived standards, competitive performance gaps, and recommendations into the existing management reporting systems. These efforts will enhance the role and responsibility of management accountants as change agents in the enterprise. They can highlight the fact that a performance gap to the best in the industry can be the source of a major disadvantage and keep management focused on closing the gap.

Benchmarking cannot be undertaken without the support of senior management, but once support is obtained, management accountants should be totally involved in the enterprise's benchmarking activities such as:

- contributing to priority setting, from the business point of view;
- ensuring that they are well represented in the selection of key benchmarking priorities for the company;
- providing leadership in initiating benchmarking projects;
- leading the discussion in gaining agreements on the benefits to be achieved, companies to be studied, the approach to be used, and the role of each member on the benchmarking team;
- ensuring that the company knows the competitive and best-in-class benchmarks, performance gaps, costs of quality, and that benchmark performance is projected into the future and periodically recalibrated;
- helping identify the greatest areas of opportunity to close the performance gap;
- identifying the costs and benefits of changes based upon performance gaps;
- creating a system of financial and performance measures to monitor ongoing progress against benchmark-based standards; and

- incorporating benchmarking as a key ingredient in the strategic planning and budgeting process and the enterprise's TQM and CPI efforts.

Management accountants could therefore have any number of roles in a benchmarking project. As they work with benchmarking and become more comfortable with its use, they will gain confidence in their ability to produce hard, reliable data upon which to plan and execute business strategies that meet customer requirements.

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DEFINING BENCHMARKING

Several relevant definitions of benchmarking provide various insights. Common to all definitions is a process designed to allow both an internal and external assessment in order to develop and implement a plan to achieve leadership in the marketplace.

According to D.T. Kearns of Xerox, “Benchmarking is the continuous systematic process of measuring products, services, and practices of companies that are recognized as industry leaders for the purpose of achieving superior performance.”

Gerald J. Balm of IBM has a similar definition: “[Benchmarking is] the ongoing activity of comparing one’s own process, product, or service against the best known similar activity, so that challenging but attainable goals can be set and a realistic course of action implemented to efficiently become and remain best of the best in a reasonable time.”

Both definitions encompass several points:

Ongoing process

Since the external environment is continually changing, benchmarking has to be a continuous process as well. It cannot be this year’s management slogan or a fad. Competitive market forces tend to drive benchmark performance trends to ever higher levels of attainment. A rule of thumb is that if the benchmark measurements are more than three years old, they are likely to be out of date. If an enterprise is not driven by the competition to be the best, it is likely to fall behind. Currently, only about 10% of all companies survive for more than 30 years. An ongoing benchmarking process can help improve the odds.

Measuring

Webster's Dictionary defines benchmark as "a point of reference from which measurement of any sort can be made." Measuring involves far more than just quantitative analysis. It includes measuring the difference in processes with the benchmark company. The quantitative component defines "what needs to change" and the qualitative component (best practices or enablers) defines "how to change."

In many instances, a large part of the benchmarking effort will need to be focused on understanding practice differences that contribute to benchmark performance.

Products, services, and practices

Benchmarking today is much broader than the competitive analysis function that traditionally focused on product features or price comparisons. Benchmarking not only analyzes and measures the key outputs of a given process or function against the best, but also identifies the underlying key actions and root causes that contribute to the performance difference. This focus on means, many of which can be emulated or adapted, is a key concept of benchmarking.

Best of the best/industry leaders

Achieving parity against the best in the industry may not always guarantee success. The benchmarking goal should be to analyze one's performance against the best in the world for the output being benchmarked. This may be with a non-competitor organization outside one's industry. For example, a multinational manufacturing company used Emery Air freight company as the benchmark for its billing function.

Benchmarking is an ongoing learning experience that emphasizes the discovery of best practices and the adaptation of these practices for superior performance. Ultimately, it reflects an attitude that is driven by customer requirements and competition to strive constantly for excellence. It is not always easy and can demand a great deal of creativity in gathering data. Even when the data are gathered and analysed, the affected organizations may react defensively and question both the data and their implications. Benchmarking and its resulting changes and actions can pose significant challenges to organizations.

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BENCHMARKING TYPES

Benchmarking, with its roots in competitive or industry analysis, initially focused on competitive benchmarking. With practice, several distinct types of benchmarking have evolved. Each has its benefits and Short-comings and, therefore, each may be more appropriate in certain circumstances than others. The common types of benchmarking are described below. Organizations should be aware that the types are not always clear-cut and that a benchmark may meet two or more of the following definitions. Typically, however, benchmarks can be reasonably divided into two categories:

i) what is to be measured; and

ii) who is to be measured

In deciding what is to be measured, three types of benchmarks should be given consideration:

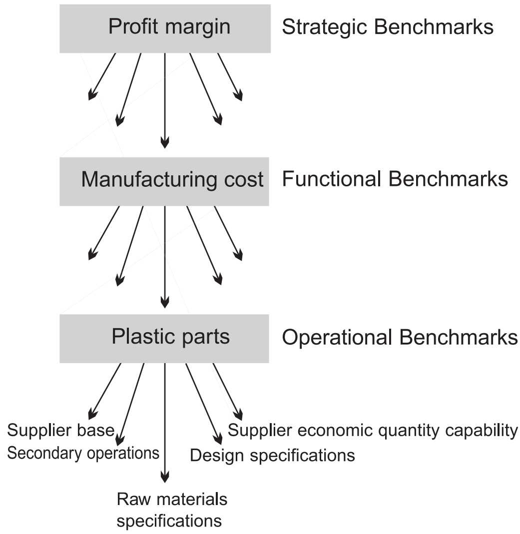
i) strategic benchmarks;

ii) functional benchmarks; and

iii) operational benchmarks

The relationship between these three benchmarks is described in Exhibit 1.

Exhibit 1 - Types of Benchmarks Based Upon What Is Being Measured



Strategic benchmarks measure and compare the relative position of a particular company or an organization within an industry and are the results of a company's performance at the functional and operational levels as described below. These are the benchmarks for the organization's core competencies, key business processes, and success factors, such as return on sales, productivity, customer satisfaction, or other factors unique to the industry (e.g., cost/passenger mile).

Examples of key strategic benchmarks are:

- market share;
- return on assets;

- debt-equity ratio;
- gross margin percent; and
- time to market.

Functional benchmarks identify products, services, and work processes from organizations that are not necessarily direct competitors. These are benchmarks at a level below the strategic benchmarks. They most often involve specific business activities within a given functional area such as manufacturing, marketing, or engineering. Their objective is to identify best practices in any type of organization with a reputation for excellence in the area being benchmarked.

Examples of functional benchmarks are:

- warranty as a percent of sales;
- on-time delivery;
- cost/order; and
- order turnaround time

Operational benchmarks are at a level below functional benchmarks. They yield the reasons for a functional performance gap. An organization has to understand the benchmarks at the operational level to identify the corrective actions required to close the performance gap.

What approach should the organization take to benchmarking: strategic, functional, or operational? Most companies use a hybrid approach, with management driving the strategic and functional benchmarking and encouraging grassroots to determine the operational benchmarks. The added benefit of the grassroots-level benchmarking is that the participants are also the implementors. This three-pronged approach can facilitate the organization to gradually build up its benchmarking capability.

In deciding who is to be measured, three types of benchmarks should be given consideration:

i) competitive benchmarks;

ii) internal benchmarks; and

iii) analogous benchmarks

Competitive benchmarks identify the products, services, and work processes of an organization's direct and strongest competitors in the industry. (The best in the industry are usually easy to identify.) The objective is to compare the competitor's products, processes, and business results with your own. Competitive benchmarking is useful in positioning an organization's products, services, and processes relative to the market-place.

There are, however, some drawbacks associated with this type of benchmarking. It is hard to gain the cooperation of competitors to share information at the functional or operational level. The information is unlikely to result in any breakthrough innovations. Opportunities may be limited to relatively known competitive practices. And, this type of benchmarking may be limited to a small pool of participants, depending upon the industry.

Trade associations and other established industry groups are beginning to address the collection and distribution of benchmarking information among their membership for their mutual benefit.

Internal benchmarks compare an organization's own similar processes, products, or services. This is perhaps the easiest form of benchmarking, since the potential benchmarking partners can be easily identified and are usually willing to share the information. This form of benchmarking, if applicable, should be considered first to establish a baseline performance against which to compare external performance, and to identify the magnitude of improvement opportunities.

While internal benchmarking provides a quick, less threatening, and cost-effective means of promoting benchmarking, the opportunities for improvement, however, are limited to the firm's best internal practices.

Analogous benchmarks are the most difficult type of benchmarks because they compare performance to a world-class organization that may be in a very different industry but performs a similar process. These companies may be hard to identify and a direct comparison may require adjustments for accounting and other practice differences, but analogous benchmarking offers substantial opportunities for innovation. For example, analogous benchmarking can result in performance, technology, or methodology breakthrough opportunities.

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IMPLEMENTATION GUIDELINES

Benchmarking is deliberate, time consuming, and, at times, difficult. It requires organizational discipline to be sustained in the face of day-to-day pressures. Like TQM, CPI, etc., benchmarking has significant resource requirements that need to be focused during implementation. These are often drawn from other areas in the organization and these areas may suffer.

Most companies seeking to implement benchmarking have found the transition challenging to achieve without the direct involvement of the CEO, senior managers, and process owners. The drive to be the best in the industry or the world cannot be delegated. It requires active, unwavering leadership from the CEO and the senior team. The senior team must be seen to be championing benchmarking. To close the benchmark gap in many instances will require tough operational, organizational, and investment choices that must be supported by the senior management.

The second critical element to ensure success is a willingness to adapt and learn from others. Benchmarking is a valuable tool for introducing positive changes into an organization. Companies, therefore, need to invest in the development of their capacity to learn and empower people to translate learning into changes.

In general, the movement from traditional competitive analysis to company-wide benchmarking will take between two to four years and will be challenging as well as time consuming.

Many specific projects along the way, however, can yield high returns quickly.

The benchmarking process has been formalised by the leading practitioners into several phases. They all use an integrated, systematic, and measured approach to benchmarking reflected in the following five general phases: planning; data gathering; analysis and integration; implementation/execution; and recalibration.

In each of these phases, there are specific actions to be completed as described below. While organizations can modify them to meet a particular situation, these actions are recommended as guides for the successful implementation of the overall benchmarking process. The five essential phasesof benchmarking are illustrated in Exhibit 2.

Planning

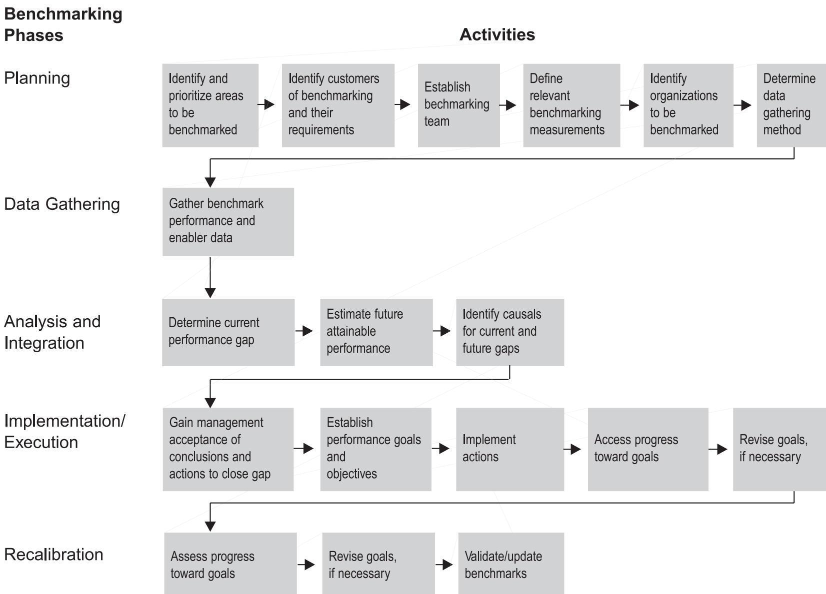
The objectives of this phase are to identify what will be benchmarked, who the best competitors or performers are, and how the data will be collected. This is perhaps the most crucial part of the project. As much as 50% of the total benchmarking effort can be spent in this phase.

The benchmarking planning phase is similar to project plans for successful process improvement team activities. It consists of six activities; the sequence of these activities can be customized depending upon the benchmarking needs, but usually all six should be carried out.

Identify and prioritize the areas to be benchmarked. If the benchmarking activity has never been performed in the organization, this step would examine the critical success factors, products, services, and processes, and brainstorm as many ideas as possible. Then, using decision criteria such as cost of quality expenditures, areas of competitive pressures, or major customer dissatisfaction, organizations can select the projects requiring immediate benchmarking focus. Potential benchmarking opportunities must be in areas critical to the success of the company as identified in the mission statement.

Identify the internal customers' of benchmarking, customers requirements, and outputs of the benchmarking effort and gain the endorsement from management. The guideline Managing Quality Improvements highlights the process to be used to identify customers' requirements and how to develop a work process to meet these requirements. Given the resources and time constraints of benchmarking partners, the organization's requirements may have to be prioritized. Once the organization(s) to be benchmarked have been contacted, their willingness to share information may require further priority negotiation.

Exhibit 2 – The Five Phases of Benchmarking



Establish the benchmarking or process improvement team. Ideally, this should include the persons who are most knowledgeable about the internal operations and will be directly affected by changes due to benchmarking. Often the recommendations based upon benchmarking are so far-reaching that, if given by an external organization, the audience may dispute the reliability of the data and conclusions.

The team members should also be flexible and open to change. Benchmarking is about change and the benchmarking team will have the rewarding opportunity to be the change agents in the organization.

Most successful companies use a wide variety of employee and management teams led by a process owner. These are temporary process improvement teams that are trained on benchmarking as well as TQM tools. Where possible, the management accountant should serve as a facilitator on these teams.

Define the relevant benchmarking measurements. Relevant measures will probably not be the measures used by the organization today but will be refined measures that comprehend the true performance differences. The actual process of benchmarking may change some of these measures if a significant re-engineering of the process is desired.

Developing good measurements is the key to successful benchmarking. The best measures are defined from the customer's viewpoint - both internal and external. Management accountants may want to develop a balanced set of measures that look at the functional performance from a customer perspective, an internal perspective, a shareholder's perspective, and a need for continuous improvement perspective. The financial measures are difficult to compare at face value as they are heavily dependent on accounting practices that can vary widely across organizations.

With their unique skills, management accountants can identify the right measures and their implications. For example, an overhead rate benchmark at the functional level may not be a good measure if it has been established for controlling, monitoring, and auditing purposes. This measure may be closely tied to the internal processes but may be inappropriate for a benchmarking comparison with other groups with different internal processes, as shown below.

	Company X	**Company Y**
Direct labour cost	$200m	$75m
Overhead rate	15%	30%

In this example, company X may not be twice as efficient in the assembly function as company Y if the latter company is highly automated and has substituted direct labour with capital investments.

While most business activities are measurable, it is sometimes not possible to develop an appropriate numerical measure. Examples of this are an organization's structure/ design and philosophy, strategic planning processes, etc. In these cases, the benchmarking team can use a case study approach to identify important differences and lessons for the organization.

Identify the organization(s) to be benchmarked. The first step in the identification of benchmarking partners is to develop a set of criteria for evaluation. The candidate organizations can be matched to this criteria for selection. The purpose is not to select a successful organization from a market perspective, but rather those organizations that are doing something particularly well in the area to be benchmarked. The above steps would have determined if the output is a benchmark against internal, competitive, generic, or world-class organizations. This will help determine the companies to include in the benchmarking process. For example, if the output is generic benchmarking in the area of consistent and timely service, the benchmarking team should consider companies in the express delivery industry. To help prepare a list of companies that are considered to be industry leaders or best in class, the team should consult:

- customers;
- members of professional or trade associations;
- securities analysts; and
- business directories and the people in their own organization

It should be recognized that no one company, however successful, is best at everything it does. The benchmarking team should, therefore, satisfy itself that the industry leader clearly has an advantage in the area under consideration for benchmarking.

If unable to find the best performer, the benchmarking team should consider the help of a business consultant. This may be especially necessary if the company being sought is outside the industry. The plans to benchmark against the best companies may have to be tempered by cost, time, value, and the incentive for these companies to share data. Once the list of companies is developed, it needs to be narrowed based upon several factors such as:

- Is the benchmarking partner friendly and willing to share the information?

- Are the businesses or the functions being benchmarked similar enough to produce valid results?
- Has the value of the information as related to its importance to the organization been taken into account?
- What information must be provided to the benchmarking partner?

Determine the data-gathering methods:

The benchmarking team should decide on the best method for data gathering. This could be through national/international clearinghouses, mail surveys, internal sources, suppliers, consultant research, company visits, telephone interviews, or secondary literature searches.

Finding credible information to convince management to implement changes is the heart of the whole benchmarking process.

It is a good practice to explore the internal and public domain sources before conducting original research. Several people inside the company may have access to benchmark company performance such as:

- sales representatives;
- company suppliers; and
- professional or trade associations members.

Public domain sources of information include:

- trade publications;
- trade shows;
- user groups;
- security analysts reports;
- annual reports;
- patent records;
- research papers;
- newspapers;
- buyers' guides; and
- government documents

Some of these sources, such as Dun & Bradstreet, Value Line, and Standard & Poor's, can be accessed easily with the help of personal computers through "keyword" searches.

In recent years, national and international clearinghouses have been set up to share generic benchmarks with a variety of users. One of these is The International Benchmarking Clearinghouse, which is a service of The American Productivity and Quality Centre. Its mission is to foster the use of benchmarking and facilitate the sharing of information and techniques among a wider audience of organizations to improve quality and productivity. Another is the SPI Council on Benchmarking established in 1990 by The Strategic Planning Institute, a non-profit organization in Cambridge, Massachusetts.

If these sources do not meet customer requirements, an original study may be required. The original study method will depend upon the time available, the complexity of the information being gathered, the level of accuracy desired, the special skills needed, and the cost constraints. In some cases, a combination of two or more data-gathering methods may be necessary, such as a telephone follow-up after a site visit.

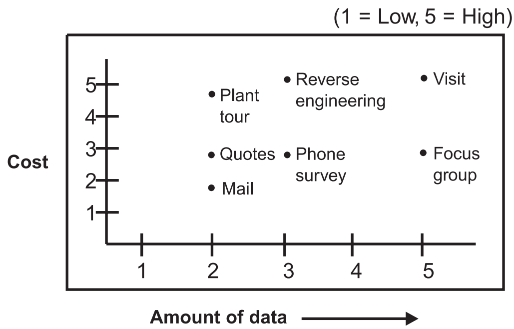
The relative pros and cons of some of the more popular methods of data gathering are shown in Exhibit 3.

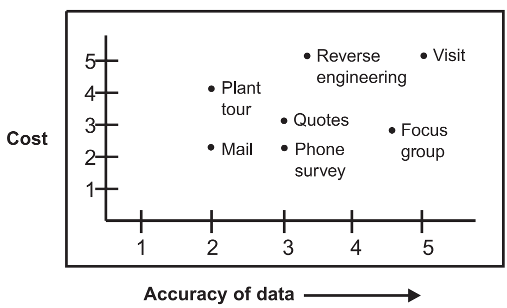
The benchmarking objectives and information needs will dictate the data-gathering mechanism.

Before the data-gathering phase is begun, the individual responsible for overseeing the project (the benchmarking process champion) should once again:

- review the full project plan with management sponsors, other stakeholders, and the team;
- validate senior management ownership and commitment; and
- validate team members and support.

Exhibit 3 - Pros and Cons of Data Gathering





Data Gathering

Some general guidelines for data gathering include:

Questionnaire

Preparing a list of questions ahead of the contact ensures a productive outcome. This implies that the team has an accurate understanding of their own processes, verified by those who do the actual work. Each of the questions should be consistent with the purpose of the study. A good questionnaire is the foundation for any good benchmarking study. It begins by developing questions using the various quality tools that define or characterize the benchmarking project. It also provides a common communication link among the benchmarking participants.

While preparing the questionnaire, the benchmarking team should weigh the pros and cons of various types of questions such as open ended, multiple choice, forced choice, and scaled questions. The intensity of question phrasing can influence the response.

After the questionnaire is developed, the benchmarking team should answer it using the internal data. This will uncover some additional questions and/or modify others. It will also provide a base for analysis of the responses from the benchmark company. Sharing the answered questionnaire, prior to the visit, also helps develop a focused agenda during the visit.

Survey

If mail or telephone surveys are the preferred method, the benchmarking team will need to select the appropriate target population, obtain a mailing/telephone list, and provide an incentive so that the target audience will respond.

Personal visit and interview

The initial contact is usually made by the benchmarking team leader. If the cope is broad or the benchmarking is in a sensitive area, the initial contact could be made by senior management. The initial contact should be followed up with a letter confirming the following:

- visit date;
- visit objectives;
- potential number of attendees;
- the background of your organization; and
- topic areas and the questionnaire.

The analysis methodology should be carefully considered to ensure that the data collected will be in a format or sequence conducive to analysis. The team should then identify the appropriate contact, request a visit, and send a copy of the completed questionnaire prior to the visit. This shows that the team is serious, and competent, and allows for a more efficient visit. During the interview, the benchmarking team leader should represent himself / herself honestly and clearly state the objectives of the visit. He/she should be prepared to answer why a particular question is being asked and should also be willing to share his/her own organization's performance if asked. At the conclusion of the visit, the door should be left open with the partner company for follow-up in the event that clarification of information is needed, or that another visit is required. The team leader should follow up, ensuring that the participants get copies of the best practices findings.

The benchmarking experience has identified three team members as the ideal number to visit the benchmarking partner. One to ask the question, one to record, and the third to think of the next question.

The company's market research department can be an additional resource to the team in structuring and conducting questionnaires, surveys, and interviews.

Legal / ethical considerations

The benchmarking team should be aware of the legal and ethical considerations in data gathering. For example, covert photography is illegal. Most companies have written policies regarding such information sharing. In general, the following practices should be observed:

- Do not misrepresent yourself, your company, or the purpose of your research.
- Do not entice others to divulge information through illegal means.
- Do not ask for or obtain data on proprietary products or processes.

A good guideline is "not to do to your benchmarking partner what you wouldn't want them to do to you."

An excellent guide on accepted moral *standard is the Professional Code of Conduct* jointly approved by The Strategic Planning Institute's Council on Benchmarking and The American Productivity and Quality Centre's International Benchmarking Clearinghouse; it is included in Appendix B. The code summarizes the protocol of benchmarking. There are similar guidelines developed by Xerox, AT&T, and other companies.

In addition to these guidelines, there are legal considerations that may govern the relationship between benchmarking partners, such as antitrust laws, industrial espionage, and restrictive clauses related to intellectual property. When in doubt, the benchmarking team should consult their company's legal department.

Analysis and Integration - After the data have been gathered, the benchmarking team should review them to ensure that they are complete and consistent with the questions asked in the data gathering phase.

Depending upon the nature and the amount of data, the benchmarking team may want to use the following seven quality tools described in the guideline Managing

Quality Improvements:

i. Check sheets

ii. Cause and effect diagrams

iii. Histograms

iv. Pareto diagrams

v. Control charts

vi. Scatter diagrams

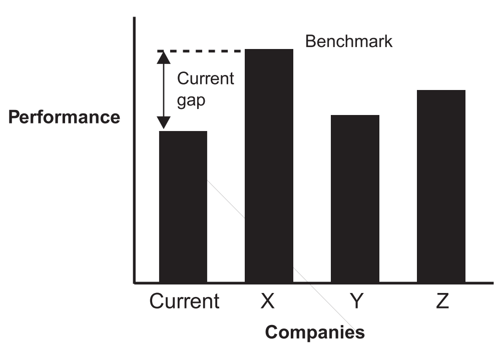
vii. Graphs

If the purpose of the study is to gather qualitative business practices and methods, organizations will still need to synthesize the raw data using the above steps to capture key messages in a meaningful format.

The analysis should be related to the original purpose of the study. It should also comprehend the industrial, economic, cultural, and other environmental factors in which the benchmark company is operating. Some of these may be difficult to duplicate in organizations.

Analysis of the data should lead to the determination of benchmark performance and the practices used to achieve them. In a balanced approach, more than half the benchmarking effort is likely to be understanding the practices that lead to benchmark performance and their application to the organization. It should represent a superior performance that is being attained by at least one company in the study. The difference between this benchmark and the current internal performance represents the current performance gap, as shown in Exhibit 4.

Exhibit 4 - Current Performance Gap



The current performance gap is a measure of the difference between the internal performance and the best in the industry. This could be positive, negative, or zero. The negative gap is the one highlighted in this guideline because:

- it indicates an undesirable competitive position; and
- it provides a basis for performance improvement.

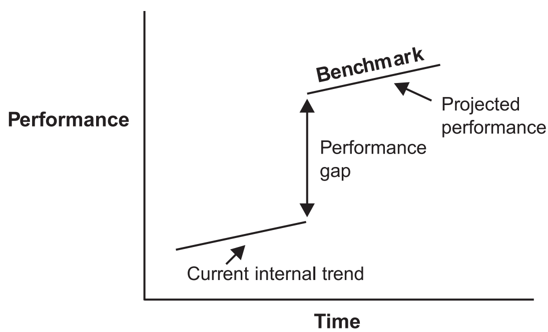
If there is no gap (zero), it may indicate a neutral position relative to the performance being benchmarked. However, a zero performance gap can be short lived and is likely to be a point in time. The zero position should be analyzed for any contributing factors and the organization should identify the means to transform its performance to a level of superiority or positive gap.

To arrive at a level of superior performance should be the ultimate goal of benchmarking. The benchmarking team is, however, unlikely to find many instances of positive performance gaps in the beginning. The challenge in the positive performance gap areas would be to maintain the superior performance. A periodic recalibration may be necessary to identify the size and trend of competitive advantage.

Irrespective of the nature of the performance gap, the competition is unlikely to stand still and, therefore, benchmarking teams should also estimate what the benchmark performance will be for the next two to four years. The future projections could be based upon a literature search, benchmarking study findings, historical trends, industry trends, and any expected technology or process breakthroughs. The same process can also be applied to project the internal performance. This will help determine if the performance gap is widening or closing, as illustrated in Exhibit 5.

A properly conducted benchmarking study should lead to the causes of the current performance gap. From the information gathered, the benchmarking team should develop a list of factors that appear to be driving the benchmark performance.

Exhibit 5 - Projected Performance Gap



Implementation/Execution

During this phase, the benchmarking team presents the findings to management and obtains acceptance of the analysis, conclusions, and implementation actions necessary to close the performance gap.

Implementation/execution is a crucial phase because all can be lost if the results are communicated poorly. The benchmarking recommendations may include sweeping changes or requests for resources. To ensure

that acceptance is as high as possible, the benchmarking team needs to document credible data and present clear and convincing arguments - specifically, the benefits to the organization - using effective presentation techniques. Otherwise, the benchmarking findings may end up as another report that contains recommendations that never get implemented.

The benchmarking team should document their results in a manner appropriate to the organization, audience, and nature of study. The documentation would also serve as reference material for recalibration as well as for future benchmarking projects and teams.

In general, the documentation would include the following:

- the business needs being addressed by the benchmarking project;
- the benchmarking project plan;
- detailed process diagram and flow charts for the internal process;
- performance measurements;
- secondary research;
- best-in-class selection criteria;
- the questionnaire;

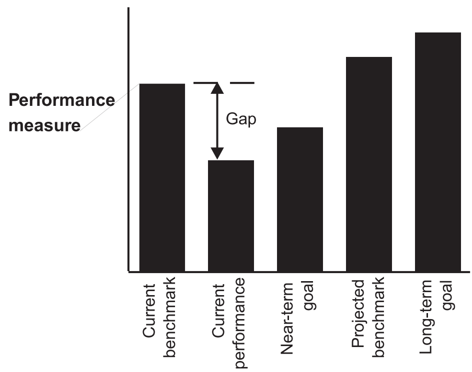
- visit reports;
- assessment reports;
- recommendations;
- operational plans that describe the new process; and
- implementation plans for recommended enablers

The presentation to management should include the functional goals or planned performance to narrow, close, or exceed the benchmark standard based upon the organization's objectives. Establishing functional goals based upon benchmarks is a productive way to integrate benchmarking into the strategic planning process. To ensure an enduring sustainable advantage, an organization should establish both short-term and long-term functional goals. These should be attainable, but challenging, goals that stretch the company's ability to perform. If benchmarking requires a major change, the new goals should comprehend the effects on other parts of the organization, capital investments, and pay-back periods. (See Exhibit 6.)

Once management acceptance is obtained, the organization needs to develop a set of action plans to achieve the new functional goals. The data gathered should be reviewed in the analysis and integration phase to understand how the benchmarking partner is achieving its performance relative to its business practices and work processes.

Implementing these will help to facilitate the transfer of best practices from the benchmark company. But these actions may not be universal and must be carefully assessed before adapted.

Exhibit 6 - Closing the Performance Gap



Actions can also be defined by the benchmarking team and the subject matter experts, using brainstorming, force field, and other quality tools. The actions can include, for example, process re-engineering, investment, or training.

It is critical that the actions are well defined to ensure their successful implementation. For each action, a description of time frame, responsibility, resource requirements, and its impact on the performance gap should be included in the recommendations. This is related to conventional project management and is crucial to benchmarking because without it, the previous benchmarking steps would only be of academic interest.

The action plan should also be reviewed with the functional staffs to obtain their commitment. All parties should understand the role they must play in implementation of the action plan.

After the implementation phase begins, it is important that the benchmarking process owner monitors progress against the milestones established in the action plans. He/she should be prepared to adjust the implementation plan as a result of the organization's resistance to change. Often people who were wholeheartedly enthusiastic at the beginning may change their mind once they realize the magnitude of change on their functions. Additional training, coaching, and nurturing may be necessary. Additionally, management should be kept apprised of the status to ensure continual involvement and commitment.

Recalibration

Benchmarking, like quality, is a journey rather than a destination. As organizations are well aware, the nature of competition is constantly changing. Competition is likely to redefine the rules of competition by raising the benchmark performance threshold. Also, new entrants are likely to exploit a market opportunity that has been left exposed.

Organizations, therefore, need to recalibrate benchmarks periodically to support continuous process improvements. To be fully effective, benchmarks must be kept current and the best-in-class designation regularly reviewed. The process owner will need to determine how often and how extensively the benchmarks need to be recalibrated. This will depend upon the nature of industry, performance measures, and the characteristics of the business environment. A suggested format for tracking process improvement is shown in Exhibit 7.

Generally, strategic benchmarks will need to be recalibrated more frequently to assess the relative position of the company in the industry. The frequency of recalibration will depend upon the following factors:

- new innovations and practices;
- critical external developments;
- process improvement needs;
- experiences from the past benchmarking effort; and
- a specified interval since the last bench marking effort

Depending upon the business need, recalibration can, however, use an abridged customized approach through each of the five benchmarking phases.

Exhibit 7 - Format for Tracking Process Improvements

Process Description:	Benchmark: Company: Date:			
Current Performance	Near-Term Goal	Long-Term Goal	Benchmark	Proposed Recalibration Date
Performance Enablers				
Short Term: – – – –				
Long Term: – – – –				

BENCHMARKING PROCESS TOOLS

Traditional accounting systems do not always provide sufficient information to personnel responsible for closing the benchmark performance gap. Management accountants, therefore, need to understand the use of statistical tools and process measures, data stratification methods, and other quality management tools so that they can actively participate in, and contribute to, the benchmarking process. A sample listing and description of these tools is presented in the guideline *Managing Quality Improvements*. Some additional management tools that an organization may find useful throughout the five benchmarking phases are:

i. Affinity diagram;

ii. Interrelationship digraph (I.D.);

iii. Tree diagram;

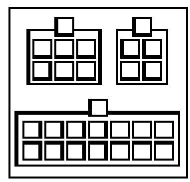
iv. Process decision program chart (PDPC);

v. Prioritisation matrices;

vi. Matrix diagram; and

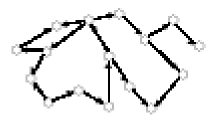
vii. Activity network diagram.

Affinity diagram



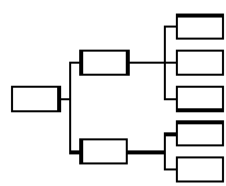
This tool gathers large amounts of language data (ideas, opinions, issues, etc.) and organizes them into groupings based on the natural relationship between each item. It is largely a creative rather than a logical process. First, group members generate ideas and write each one on a card. Then, they sort the cards into categories and assign labels to each category of cards.

Interrelationship



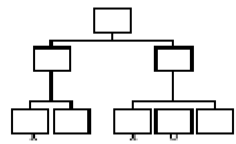
digraph (I.D.). This tool takes complex, multi-variable problems or desired outcomes and explores and displays all of the interrelated factors involved. It graphically shows the logical (and often causal) relationships between factors. It may be used to help create the future vision and develop operational and implementation plans; it may also be used to evaluate triggers during recalibration.

Tree diagram



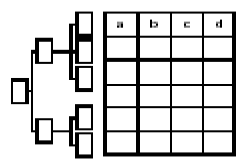
This tool systematically maps out in increasing detail the full range of paths and tasks that need to be accomplished in order to achieve a primary goal and every related sub-goal. Graphically, it resembles an organization chart or family tree. This tool may be used to develop the benchmarking project plan and implementation plans.

Process decision program chart (PDPC)



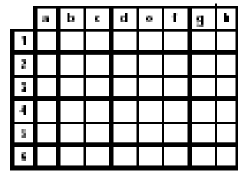
This tool maps out every conceivable event and contingency that can occur when moving from a problem statement to possible solutions. This is used to plan each possible chain of events that needs to happen when the problem or goal is unfamiliar. This tool is useful during planning for contingencies.

Prioritization matrices



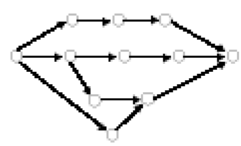
These tools take tasks, issues, or possible actions and prioritise them based on known, weighted criteria. They use a combination of Tree and Matrix Diagram techniques, thus narrowing d own options to those that are the most desirable or effective. These tools are useful during planning.

Matrix diagram



This versatile tool shows the connection (or correlation) between each idea/issue in one group of items and each idea/issue in one or more other groups of items. At each intersecting point between a vertical set of items and horizontal set of items a relationship is indicated as being either present or absent. I n its most common use, the matrix diagram takes the necessary tasks (often from the tree diagram) and graphically displays their relationships with people, functions, or other tasks. This is frequently used to determine who has responsibility for the different parts of an implementation plan. This tool is very useful during the planning stage in benchmarking.

Activity network diagram



This tool is used to plan the most appropriate schedule for any complex task and all of its related sub-tasks. It projects likely completion time and monitors all subtasks for adherence to the necessary schedule. This is used when the task at hand is a familiar one with sub-tasks that are of a known duration.

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MANAGEMENT ACCOUNTING CHALLENGES

Management accountants have a significant role in ensuring that best practices are institutionalized throughout the organization to achieve and maintain world-class performance. In support of these objectives, they will need to supplement and enrich existing costing and reporting systems to create a system of performance gap analysis and to evaluate exactly what is required by each organization to meet the benchmark performance. In addition, management accountants, along with the benchmarking process owner, will be challenged in several areas as listed below.

Securing senior management support

Benchmarking is a company-wide need and management accountants, if playing the lead role, will need to secure senior management support to make it a part of the organization's culture. If it means no more than a few speeches and a lapel pin, benchmarking will not work. While senior management does not need to be involved in all benchmarking processes, it needs to provide leadership such as encouraging the integration of benchmarking into strategic planning, recognizing benchmarking teams and individuals for their efforts, and visibly communicating about benchmarking to the entire organization.

To facilitate management approval, management accountants may consider suggesting a pilot benchmarking project in one of the areas in which senior management has a special interest and one that can be successfully benchmarked.

These areas may include:

- customer satisfaction;
- unit manufacturing cost;
- product development cycle time;
- overhead analysis;
- customer service;
- product requirement analysis;
- supplier management;
- distribution; and
- customer complaint handling

Once accepted, the organization will need to institutionalize benchmarking. Some companies establish an executive level council to oversee the implementation process. To support the council, these companies also assign a small staff to provide an infrastructure for the daily management of benchmarking such as:

- coordination;
- training programs;
- communication;
- a benchmarking library; and
- a database.

Benchmarking training

Once management commitment is obtained, the organization will need to invest considerable time and effort in training the various levels of the organization in benchmarking concepts, methods, data analysis, and problem-solving skills to create a common knowledge base. Training can be conducted by the Quality Office but it should be from the top down: managers who participate in staff training reinforce the importance the organization attaches to benchmarking. The management accountant will need to participate and support this training.

The training program can cover the general outline described in this guide, i.e., the benchmarking definition, the need for benchmarking, benchmarking phases and examples, and the benchmarking role in setting functional goals. It should also include the identification of contacts for further information or training.

Measurement systems

Crucial to the success of benchmarking is the ability of management accountants to develop a better understanding of their internal and external customer needs and expectations, and to develop measures that truly reflect these expectations. Frequently companies find that traditional measures are not only inadequate, but misleading and must be overhauled and discarded. They should ensure that the organization performance measures are based upon the viewpoints of customers, employees, shareholders, and need for continuous improvement.

Performance gap analysis:

Management accountants will need to facilitate the performance gap analysis activity to determine what the organization lacks to move from one point to the other or to leapfrog the competition to become the new industry leader. To close the performance gap, they should ensure that the organization's goals, mission, and objectives are tied to the benchmarking process.

Financial practices

As management accountants are aware, different companies, and different functions within the same company, are likely to use different accounting practices. If differences in accounting practices are not considered, the benchmark results could be very misleading. Management accountants will need to comprehend how these figures were derived and normalise them for comparison.

To meet the above challenges, management accountants will also need to enhance their proficiency in several areas such as project management, problem-solving skills, meeting facilitation, communication skills, TQM principles and methods, and interviewing skills.

■

CONCLUSION

The objective of benchmarking is to provide a goal for realistic process improvement and an understanding of changes necessary to facilitate that improvement. It is coming of age both as a process and as a profession. The leading-edge practitioners of benchmarking have made it an integral part of strategic planning and TQM.

While many companies can expect a successful transition, others will achieve only partial success. The change process facilitated by benchmarking can be difficult and can take several years to institutionalise. Several behavioural factors common to organizations can become inhibitors. For example, the functional areas identified to be at a significant performance gap may question the findings and resist the necessary changes. This guide is designed to alleviate some of these pitfalls.

APPENDIX A: CASE STUDY

A case study in functional and operational benchmarking is described below to highlight how benchmarking can facilitate superior performance.

The manufacturing company in this example operates in a highly competitive industry and has been experiencing increasing pricing pressures from new Japanese entrants. Gradual but steady loss in market share caused the company to institute corporate-wide TQM and benchmarking programs to win customers back and rebuild its core competencies.

The corporate senior management identified itself as the primary customer for the strategic benchmarks, with the understanding that the functional and operational benchmarks be carried out as well to sustain competitive advantages.

The strategic benchmarking process used literature surveys, industry reports, and internal market analysis. It indicated the following relative positions of key competitors in the industry, (see chart below).

The company, though still at a number two relative position, was losing market share to competitors x and y.

A major reason for market share decline was the company's selling price premium as shown below. Management decided to lower their prices aggressively but to maintain their ROA by:

- benchmarking unit manufacturing costs;

- understanding the causes for the differences; and
- lowering costs sufficiently to make them a source of competitive advantage.

	Company	Competitor		
		x	y	z
Market Share	19%	17%	26%	9%
Year Over Year Market Share Change (points)	-3	2	3	-2
Return on Assets (ROA)	10%	16%	19%	10%
Customer Satisfaction	92%	94%	97%	90%
Selling Price Higher/ Lower than Industry	15%	parity	(10%)	5%

A preliminary benchmarking team was formed to develop a plan to conduct these functional and operational benchmarking studies.

1. The team met with senior management and the customers of the output to further understand the customer requirements. Management assigned a process champion from its ranks to be in charge of the project for the duration and requested that the benchmarking team and process champion hold periodic reviews with senior management throughout the study.

2. Based upon the above meeting, the benchmarking team composition was altered to ensure that it included a management accountant as well as representatives from:

- manufacturing;
- design; and
- procurement.

The team members were selected based upon their knowledge of their respective fields, their willingness to adopt new ideas, and the respect they commanded from their peers.

3. The team then translated the senior management requirements into a detailed work plan including:

- time schedule;
- team roles/responsibilities; and
- measurements

It was agreed that the unit manufacturing cost measure would be benchmarked at the product sub-system and commodity part levels.

4. The team determined that competitors x and y should be included in the study. In view of the emerging Japanese competition, it was also agreed to include a few Japanese vendors as well as leading-edge manufacturing companies from other industries who

were known to be efficient producers in the study. The team brainstormed 30 companies that were narrowed down to three using the following criteria:

- The companies had to be large, internationally known, and leaders in the markets they served.
- The companies had to have closely integrated design, procurement, and manufacturing functions.
- The end product had to be in a similar level of complexity within excess of 1,000 piece parts that are electro-mechanical in nature.
- The output volumes should be in small daily lots.

5. The team then began the process of developing questions and identifying the data-gathering method. It was agreed to use reverse engineering for competitors x and y's products to analyze their designs and unit costs at the piece part level. The other three companies would be contacted through a mail survey followed by personal interviews.

   After the questionnaire was developed, the benchmarking team answered it using the internal data. This uncovered some additional questions and modified a few others. The team discovered that it had to reconcile the accounting and outsourcing differences among the companies.

6. Prior to the visit, the team reviewed all relevant data, available in the public domain, about the three

companies. This information was also helpful in identifying appropriate initial contacts.

7. Once the data were collected, the team proceeded to tabulate, analyze, and determine the benchmarks. The team calculated the performance gaps and advantages as they analyzed their current designs, processes, and sourcing against competitors and three benchmark participants. In-house reverse engineering indicated a negative 20% performance gap against competitor y. This was revised to negative 28% in subsequent benchmarking meetings with the three Japanese companies.

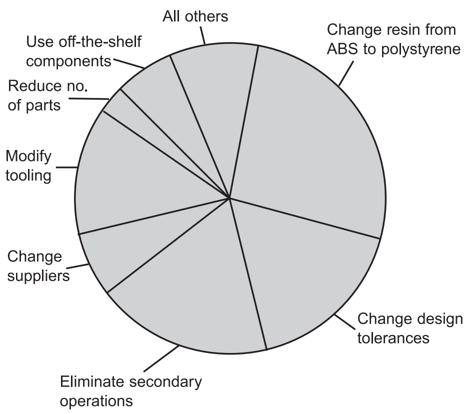
8. After reviewing the benchmark data, the team identified several areas that appeared to be causing the performance gap. The major portion of the performance gap appeared to be in the plastics based components.

9. Further analysis of the plastics piece parts showed root causes that spanned virtually all functions - from market specifications, design, and manufacturing to vendor selection.

10. Based upon the industry trends and the benchmarking study results, the benchmarking team projected the negative gap would grow by two points each year, causing further deterioration of the firm's competitive position if no new actions were taken.

11. The benchmarking team then organized the major findings and recommendations to close the

performance gap. The recommendations were ranked based upon their impact on the unit manufacturing costs (see pie graph).



12. The team identified additional audiences for the study results. In addition to the senior management as the primary customers, division and functional managers were also included. The method of communication depended somewhat on the audience.

➢ A memo of the conclusions and recommendations was first distributed to the senior management, which was followed up with a formal presentation.

➢ Once the results of the study were accepted by the senior management, the results were cascaded within the division and functional groups to ensure that all parties understood the role they must play in the implementation plans.

- The results were also distributed to all employees via a newsletter.

13. The recommendations and functional goals were integrated into the company's strategic plans and periodic operational reviews.

14. The benchmarking team leader was appointed as the process champion for the implementation phase. He monitored progress against milestones on a periodic basis. If not on plan, he identified causes and recommended either corrective actions or modified plans. He also advised senior and functional management of the status on a periodic basis.

15. By adapting the best practices, the team was able to demonstrate improvements rapidly. With two years, unit costs declined 10% for products in production and 21% for new products, declines that reflected some of the new design guidelines. This brought the company near parity with competitor y. Management was confident that the actions in place would give the company a cost advantage within two years.

16. Based upon the success of this effort, management resolved to build unit cost as a competitive advantage, and the team developed a plan to recalibrate the benchmarks. In addition to the prior companies, it was decided to include leading-edge companies from other industries as well.

APPENDIX B: THE BENCHMARKING CODE OF CONDUCT

To contribute to efficient, effective and ethical benchmarking, individuals agree for themselves and their organization to abide by the following principles for benchmarking with other organizations.

Principle of Legality

Avoid discussions or actions that might lead to or imply an interest in restraint of trade: market or customer allocation schemes, price fixing, dealing arrangements, bid rigging, bribery, or misappropriation. Do not discuss costs with competitors if costs are an element of pricing.

Principle of Exchange

Be willing to provide the same level of information that you request in any benchmarking exchange.

Principle of Confidentiality

Treat benchmarking interchange as something confidential to the individuals and organizations involved. Information obtained must not be communicated outside the partnering organizations without prior consent of participating benchmarking partners. An organization's participation in a study should not be communicated externally without their permission.

Principle of Use

Use information obtained through benchmarking partnering only for the purpose of improvement of operations within the partnering companies themselves. External use or communication of a benchmarking partner's name with the data or observed practices requires permission of that partner. Do not, as a consultant or client, extend one company's benchmarking study findings to another without the first Company's permission.

Principle of First Party Contact

Initiate contacts, wherever possible, through a benchmarking contact designated by the partner company. Obtain mutual agreement with the contact on any hand-off of com-munication or responsibility to other parties.

Principle of Third Party Contact

Obtain an individual's permission before providing their name in response to a contact request.

Principle of Preparation

Demonstrate commitment to the efficiency and effectiveness of the benchmarking process with adequate preparation at each process step, particularly at initial partnering contact.

ETIQUETTE AND ETHICS

In actions between benchmarking partners, the emphasis is on openness and trust. The following guidelines apply to both partners in a benchmarking encounter:

- In benchmarking with competitors, establish specific ground rules up front, e.g., "We don't want to talk about those things that will give either of us a competitive advantage, rather, we want to see where we both can mutually improve or gain benefit."

- Do not ask competitors for sensitive data or cause the benchmarking partner to feel that sensitive data must be provided to keep the process going.
- Use an ethical third party to assemble and blind competitive data, with inputs from legal counsel, for direct competitor comparisons.
- Consult with legal counsel if any information gathering procedure is in doubt, e.g., before contacting a direct competitor.
- Any information obtained from a benchmarking partner should be treated as internal, privileged information.
- Do not:
  - Disparage a competitor_s business or operations to a third party.
  - Attempt to limit competition or gain business through the benchmarking relationship.
  - Misrepresent oneself as working for another employer.

BENCHMARKING EXCHANGE PROTOCOL

As the benchmarking process proceeds to the exchange of information, bench-markers are expected to:

- Know and abide by The Benchmarking Code of Conduct.
- Have basic knowledge of benchmarking and follow a benchmarking process.

- Have determined what to benchmark, identified key performance variables, recognized superior performing companies, and completed a rigorous self-assessment.
- Have developed a questionnaire and interview guide, and will share these in advance if requested.
- Have the authority to share information.
- Work through a specified host and mutually agree on scheduling and meeting arrangements.
- Follow these guidelines in face-to-face site visits:
- Provide a meeting agenda in advance.
- Be professional, honest, courteous and prompt.
- Introduce all attendees and explain why they are present.
- Adhere to the agenda: maintain focus on benchmarking issues.
- Use language that is universal, not one's own jargon.
- Do not share proprietary information without prior approval from the proper authority, of both parties.
- Share information about your process, if asked, and consider sharing study results.
- Offer to set up a reciprocal visit.
- Conclude meetings and visits on schedule.
- Thank the benchmarking partner for the time and for the sharing.