Benchmarking Analysis, TQM and Management Acconnting: Some thonghts on their linkages

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Abstract

In a complex, dynamic, fast-changing environment, companies must strive for superiority in order to survive. Competitive edge cannot be achieved or maintained by setting goals based on past or even present performance. Benchmarking is a management practice that can be used to pursue excellence. It does this by identifying, comparing, and emulating best practice wherever it occurs. TQM (total quality management) philosophy offers excellence in 'continuous improvement' programs in organizations. Management accounting data play an important role in both of these approaches that managers use. This paper offers some thoughts on the linkages among benchmarking, TQM and management accounting.

Introduction

In recent years benchmarking has become increasingly popular in many organizations worldwide. The concept of benchmarking originated in Rank Xerox in 1979 and it became a company-wide effort in 1981. Rank Xerox defined benchmarking as "a continuous systematic process of evaluating companies recognized as industry leaders, to determine business and work processes that represent best practices and establish rational performance goals". It is a search for industry best practices that lead to superior performance. It illustrates how good a company currently is in comparison to its competitors, that is, benchmarking analysis demonstrates what others are doing as well as what others are achieving. This paper is an attempt to offer some thoughts on the linkages among benchmarking, total quality management and management accounting. It illustrates how they can in combination contribute to organizational effectiveness.

The remainder of the paper is organized as follows. First, it discusses the role of benchmarking in organizational effectiveness. Second, it

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illustrates the relation between TQM and benchmarking. This is followed by a discussion of the role of management accounting in benchmarking analysis. The paper concludes in the final section.

What does benchmarking analysis offer?

Benchmarking is an integral part of the organizational improvement process, and it looks for ideas to borrow from those who are doing better, perhaps in one very specific aspect (Bendell, Boutier and Goodstadt, 1998). In Rank Xerox benchmarking has become a lifestyle and is applied across all aspects of the Organization - from environment, purchasing, human resources through to software design, the audit function and so on.

Traditional competitive analysis focuses on performance indicators, strategic choices and products or services within a given industry sector. This indicates the company's performance with its peers and how much it deviates from the standards.

Benchmarking is broad and focuses on an ongoing process of measuring and improving products, services and practices against the best that can be identified worldwide. Performances are evaluated based on the performance of the best organizations in the world.

Benchmarking technique has now been applied to many world class companies like AT & T, DuPont, American Express, General Electric (GE), General Motors, Honda Motors, Proctor and Gamble, Apple Computer, IBM, and Motorola. Benchmarking is also spreading as a direct result of its inclusion in the assessment criteria for the quality award. For organizations the word 'benchmark' denotes an acceptable standard, specification, or performance, which is identified in order to devise strategies to ensure they achieved that standards.

Benchmarking is the cornerstone of the total quality management, business process reengineering and time-based management. Benchmarking literature identifies numerous advantages, among those are, as follows:

- Provides direction and impetus for continuous improvement;

- Indicates early warning of competitive disadvantage;
- Promotes competitive awareness;
- Becomes the stepping stone to 'breakthrough' thinking;
- Identifies the 'best practice';
- Provides an objective attainment standard for key areas of business operation;
- Links operational tactics to corporate vision and strategy;
- Exposes performance gaps;
- Triggers major step changes in business performance;
- Helps companies redefine their objectives;
- Challenges the 'status quo'; and
- Allows realistic stretch goals.

Benchmarking activities may be divided into three major groups: internal benchmarking, external benchmarking and best practice benchmarking.

Internal bencbmarking is a process of comparing performance within the company or division; that is, it looks for internal comparisons (comparing yourself to the best). A comparison is made across internal operations and parameters, such as purchasing, marketing, research and development, administration, and so on.

External heuchmarking focuses on external comparisons. That is, performance is compared with a spread of "look-alike" businesses in similar positions experiencing similar market growth, fluctuations, and circumstances.

Best practice henchmarking requires seeking out the undisputed leader in a particular process that is critical to the entire business process - regardless of sector, industry, or location and company with your own.

The benchmarking process may be divided into the following stages (Codling, 1996):

Stages of Benchmarking

Stage 1: Planning: (a) Select the broad functional or procedural area to be benchmarked - manufacturing, warehousing, marketing, etc., (b) Identify comparative companies or activity centers, and (c) Determine data collection method and collect data.

Stage 2: Beuchmark partners: Identify potential benchmarking partners from three locations, internally, externally and global best practice.

Stage 3: Data analysis: Collect the data, and from these confirm the most likely benchmark partners to contact, Determine current performance gap and project future performance levels.

Stage 4: Action: Develop action plans, communicate benchmark objectives and results throughout the Organization, and other companies, implement specific actions and monitor progress.

Stage 5: Review and recycle: Monitor performance, review and analyze progress, and calibrate performance improvements and targets.

Rank Xerox devised a ten-step benchmarking process:

Phase 1: Plauning:

1. Identify benchmark outputs;
2. Identify best competitors;
3. Determine data collection method;

Phase 2: Analysis:

4. Determine current competitive gap;
5. Project future performance levels;
6. Establish functional goals;
7. Develop functional action plans;

Phase 3: Action:

8. Implement specifications;
9. Monitor results/report progress; and
10. Recalibrate benchmarks.

The relation hetween TQM and benchmarking

The TQM culture influences the way in which benchmarking develops in the organization (Codling, 1996). So benchmarking is a natural evolution from quality measurement and TQM concepts. TQM firms have a clear mission with a better understanding of their customers' needs and they are more confident in their activities. TQM firms devote considerable time and resources to employee training and development in the area of the company-customer relationship.

With these understandings TQM firms encounter less of a struggle in focusing their efforts to produce useable results or actionable recommendations. Emphasis on these factors grows as organizations progress along the benchmarking learning curve. Although in theory any company can implement benchmarking, whether going down the TQM path or not, in practice the more that quality is ingrained, the easier it is for people to relate to benchmarking (Codling, 1996). In a TQM environment top-level commitment is essential for an effective TQM philosophy. This is also central to best practice benchmarking.

TQM has limited ability to monitor developments outside a specific industry sector. Taking some of the tools of quality improvement and problem solving and developing them into the rigorous benchmarking process adds the external dimension that, over time, provides a cutting edge to achieve competitive superiority (Codling, 1996).

Benchmarking literature (Swift, Gailwey and Swift, 1996) reveals that in one form or another, the following elements are common to both TQM and benchmarking tools:

- Continuous improvement;
- Meeting customer requirements;
- Certain performance standards;
- Understanding industries' best practices;
- Concurrent engineering; and
- Measuring of elements (targets).

It has been suggested in the literature that benchmarking could be incorporated directly into the TQM model. The biggest obstacle would be the idea of getting used to using dissimilar companies as benchmarks. Just as managers had to be educated in achieving customer satisfaction to yield a high quality product, they will need to be educated in the principles of "competitive benchmarking", and will have to be shown its benefits (Swift, Gailway and Swift, 1996).

Management accounting for benchmarking

Management accounting can supply useful data for benchmarking analysis. In benchmarking it is not sufficient to look only at traditional cost and budget data. It is necessary to look at a wide range of external information on the company customers, suppliers and competitors. As discussed in Chapter 1, management accounting literature labels them as "broad-scope" management accounting systems (MAS) information. This means that organizations adopting benchmarking practice need MAS that has such a broad focus.

A typical benchmarking team is comprised of leader; representation of the analytical skills; work process documentation skills; information search and analysis capability; and customer (internal and/or external). This indicates that management accountants can play a significant role in the data collection and analysis with their analytical skills. When collecting and analyzing information it must be remembered that irrelevant and "nice to know" data should be ruthlessly discarded. Because more does not necessarily help to provide a clearer picture. Benchmarking oriented MAS focuses more on non-financial information, for example, to measure good working atmosphere - MAS collects the following information:

- Labor turnover over a fixed period;
- Reward and recognition systems (levels/frequency/reviews);
- Off-site or on-the-job training per person per year (days/spend);
- Number/variety of shared social events; and
- Employee well-being initiatives (canteen/health care, etc.)

Likewise satisfied customers can be established by measuring:

- Number/type of complaints
- Number of repeat orders
- Technical backup (team/specific initiatives)
- Average "age" of customer relationships
- Special promotion packages (number/type).

It has been suggested that good benchmarking combines a measurement of quantitative and qualitative data, and management accounting can play important role in this process. Note that it is best to collect data as many as possible and gradually draw out and emphasize the few that are most meaningful.

Conclnsion

As discussed above, benchmarking supports companies in the effort to improve their competitive situation. Benchmarking should not be thought of as a one-time event, it's a continuous performance assessment process in at least two different environments, the company's own and the reference object. Most of the activities discussed above involve organizational change and that a benchmarking process benefits from dynamic cross-functional organizational structures (Hansen and Riis, 1996).

Benchmarking is an important element of the company's total quality management program. Benchmarking helps a company to be competitive with the "best of the best" and it needs to be understood that this is a dynamic and continuous process (Swift, Gailwey and Swift, 1996).

When benchmarking is used as a performance improvement tool, it is important to process a wide range of both financial and non-financial information for assessing the effectiveness of benchmarking and that management accountants can play a significant role in this matter. Thus, benchmarking companies benefit from a dynamic management accounting system. Probably the most significant focus in the management accounting system should be the redirection of the reference point from an internal one to an external one. Research studies using surveys or case study approach may be undertaken to explore how they relate to each other and the role this linkage can play in organizational effectiveness.

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