**BENCHMARKING: APPLICATION, VALIDITY OF APPLICATION AND BUSINESS ETHICS**

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**ABSTRACT**

Every company should apply benchmarking if it aims at reaching a high international level, competitiveness, and to prosper in global economy, and above all, if it wants to survive. In absence of benchmarking, a company will never get to know what its business looks like with respect to the competition and internationally recognized companies. Benchmarking poses new ways of thinking necessary to stimulate development and it facilitates measurement of the efficiency of our work procedures. The disadvantages of benchmarking are often neglected, as well as its ethical aspects. The paper directly analyses the validity of benchmarking application and business ethics in benchmarking. This problems can be overcome in the largest part by appropriate application of benchmarking. That is why it is important to bear in mind the negative consequences of benchmarking so that they can be mitigated.

**Keywords:** Benchmarking, Application, Validity of application, Business Ethics.

**1. INTRODUCTION**

The present-day situation on the world market is characterised by the presence of very strong competition, and numerous and fast changes in the setting. In the new millennium, one fact is crystal clear – only those companies which have got used to changing and adapting quickly, which means to learning fast, will succeed.

The modern management has developed numerous techniques for achieving better business results in order to live with the changes. This is how the techniques like Canban, Just in Time, Re-Engineering, TQM, and others were originally developed. During the 1980s, managerial techniques were completed with benchmarking, which is now a widely acknowledged and verified tool of modern management. This technique implies that the objectives and methods of their accomplishment are defined by following the practice of the best companies worldwide. Benchmarking, as a part of strategic management, offers a company guidelines for enhancing its business processes, technical solutions and functions.

Benchmarking represents a useful management tool, which is now to a large degree confirmed in both theory and practice. Although benchmarking is a very efficient means which can generate changes and improvements, it would not be fair to emphasize only the benefits which arise by its application, but also potential dangers and traps in badly-measured application of benchmarking should be considered. They can result in very negative consequences for the company, especially if the company starts relying too much on benchmarking. It can happen that the company starts losing its recognizability in respect to other organizations and individuals. Also, unselective and badly-measured application of benchmarking could lead to modifications and application of the one and same ideas and procedures. In this way, it would restrain creativity and coming to new ideas.
2. BENCHMARKING AND ITS APPLICATION

The term ‘benchmarking’ has been reported and defined in widely different ways. For instance, Venetucci (1992) defined benchmarking as a process of gathering standards for improvement and insights which may lead the organization to better performance. McNair and Leibfried (1992) described benchmarking as an external focus on internal activities in order to obtain continuous improvement. According to (Camp, 1995), benchmarking is a continuous process of evaluation of production process, products, and services with reference to those of the strongest competitors, known as best practice.

There is a significant number of different approaches to the methods of organising, i.e., carrying out benchmarking research. Most of these researches have in common that certain parameters (relevant for the observed process) are in a certain way quantified, and then compared with the best practice. The data are usually compiled by surveying, and are then statistically processed and compared. A similar approach is present in many reference as in, for example (Alshawaf et al., 2005; Bouchereau and Rowlands, 2000; Garg and Ma, 2005; Koh et al., 2005; Ungan, 2004).

Performance measurement and benchmarking are the main techniques that have been used by many leading researches on improving companies’ performance (Camp, 1989; Gunasekaran et al., 2001; Zairi, 1998). Neely (1998) suggested that measuring performance of companies would enable areas of improvement to be prioritised and actions to be taken.

However, despite its great potentials, quantitative approach is still insufficiently present in benchmarking. This particularly refers to the application of benchmarking in real-life conditions in Serbia (and the majority of countries in transition). Benchmarking is very rarely practiced in Serbian companies. Among other things, problems arise because of the lack of concrete, practical, simple, and defined quantitative method which would enable obtaining applicable and useful results. This method is to a considerable extent adapted to the conditions in Serbian economy, and would represent encouragement and incentive for a wider application of benchmarking.

The reference (Nikolić, Nikolić, Vukonjaski, 2007) offers some suggestions as to how to use quantitative approach when comparing a company with its competitors, selecting a competent benchmarking partner and choosing the optimal strategic action. The same reference also presents a two-criteria selection of the benchmarking partner, which is based on the partner’s quality, and also on the possibilities of the company which performs benchmarking. This procedure originated as a reply to the current situation in Serbia. In other words, benchmarking is still not studied and accepted in Serbian economy. Most companies in Serbia hardly apply this technique at all, or if they do, they do it in some sort of improvised form. The reasons for this situation (together with the above-mentioned) can be found in considerable technological underdevelopment and very poor financial potentials. Despite all this, there is a rising awareness that the application of quality and systematic benchmarking is a necessary prerequisite for the development and survival of Serbian companies on the increasingly demanding international market. There is also a view that Serbian companies ought not to aim at maximising their performance by following the ‘Best in Practice’ model. The highest aspirations are still unachievable, which does not mean that benchmarking should be given up. On the contrary, its application should be intensified, but with somewhat more modest objectives. Once these objectives have been achieved, it is possible to aim at achieving a higher level. Such an approach could be characterised as setting targets in steps, which is one of the possibilities set out in (Walsh, 2000).
3. VALIDITY OF BENCHMARKING APPLICATION

According to Harrington (1996), by correct carrying out of benchmarking all possible traps will be overcome, but there will still remain three which should be highlighted:

1. Companies which are leaders in a certain area are constantly in danger of their positions being overtaken by other companies. For example, out of ten celebrities in Fortune Magazine in 1989, only two remained on the same list in 1995. Xerox, which made fame with the benchmarking process, is one of these companies. Companies must not exclusively or too much rely on benchmarking. Benchmarking itself is not sufficient to enable one to get into the company of the best ones and stay there.

2. Some companies which have not applied the process of benchmarking and observed the business operations of their competitors, have not achieved a more substantial competitive advantage. The reason is in that many companies today make exponential progress, whereas some other companies, despite enhancing their business, lag behind them. If today a company copies the best ‘in the class’, it usually takes more time (18–30 months) to apply the best solution. This solution will be outdated at the moment of application, and the company will not reach the comparative advantage it has been looking for.

3. Efficiency of benchmarking process significantly varies depending on the degree of the company’s maturity. It can also have a negative influence on organizations which do not do business well. This claim is based on the report of an international study of quality of the best, and the report was compiled by Ernst and Young LLP and American Foundation for Quality in 1992.

Elmuti, Kathawala and Lloyd cite the following limitations and disadvantages of benchmarking:

(Elmuti, Kathawala and Lloyd, 1997)

- Focusing on figures. Many financial managers have ‘sunk’ in figures, but the value of the benchmarking process is in understanding the process which offers valuable data and formulating the ways for the company to accept them.
- Lack of clarity of sources of data. Lack of understanding of the data can lead to errors in comparison.
- Loss of focus on consumers and employees. Benchmarking can cause a company to lose focus on consumers and employees, because the companies which are aiming at achieving good numerical results can cause ‘burning out’ of workforce and mistakes in work. In order to achieve a particular goal, a company can also hurry up or postpone payments.
- Resistance to changes by the employees. Ford Motor Company emphasizes that one of the impediments to carrying out changes was the resistance by the employees. Some employees are always opposing the new company policy.
- Lack of appropriate application. One example is non-involvement of the employees in the process itself.
- Benchmarking should not be viewed as a one-time procedure, but as a continuous process.
- Some companies do not apply benchmarking because it exposes their weaknesses.
- Benchmarking is, according to some views, too expensive. Its costs vary significantly. They are usually travelling expenses and indirect costs and expenses. These costs and expenses can be reduced to minimum by careful planning.
- A company gives too much quality information about its business by benchmarking. The employees who provide information should bear in mind not to give away the ‘heart and soul’ of the company.

On the basis of the above-mentioned, the most important disadvantages of benchmarking can be observed, as well as possible methods of their elimination:

- The best solution can become dated during the implementation period. When a company reaches the desired position (competitor’s position for a moment), the competitor can be far ahead of the observed company. An important rule is that competitors must not be simply copied. Managers should not only watch what the best ones are doing today, but also what they will be doing in the future. People who apply benchmarking are also required to have a certain
dose of intuition and ability to notice processes and ways of becoming the best, and not only to notice the final results of the best companies.

- The time period required for benchmarking is sometimes longer than the period available for a company to solve a certain problem. Indeed, benchmarking requires a relatively long period of time necessary to come to a solution to a problem. It was earlier explained that this leads to the solutions becoming dated, and sometimes it is not the question of becoming dated, but there is simply no time for implementation. In such cases it is necessary to simplify and shorten the benchmarking process, apply already existing solutions or apply some other method. Therefore, benchmarking is in some situations good, and in some it is not, but this can not be taken as its disadvantage. It simply should be applied in situations in which it is useful.

- Benchmarking requires certain expenses, which are sometimes high, for implementation. This disadvantage is particularly serious with less rich companies. However, there is no success without investment. It is always necessary to bring to a relationship total costs and possible use of the whole process and apply benchmarking if the benefits are greater that the costs. It should also be remembered what is being lost if benchmarking is not applied (lack of information, ideas, lagging behind the competition and the like). For the start, internal benchmarking could be performed, as well as benchmarking with the companies from the immediate environment.

- Once benchmarking which has given positive results has been carried out, a company begins to apply it more or regularly even there where it is not necessary. In that case a fall in creativity of the employees and unnecessary expenses may occur. Benchmarking should be applied only in those segments where it is necessary and possible, while in other situations, priority should be given to the creativity of the people in one’s own company.

- Great concentration of a company on benchmarking can lead to the loss of basic and original contact with customers. In other words, benchmarking as a management tool has a focus on competition and comparison with it. If too much time and attention is dedicated to the ambition of continually ‘chasing’ the competition, real consumers’ needs, which change with time, may be neglected. This disadvantage is different from others which are most easily and most efficiently solved by appropriate application of benchmarking. Appropriate application is of significant help also here, but it seems that this disadvantage stems from the very philosophy of benchmarking.

- Reliability of the information obtained from the benchmarking partner. This disadvantage can hardly be influenced, and it is most pronounced in the case of external competition benchmarking.

4. BENCHMARKING AND BUSINESS ETHICS

Weichrich and Koontz (1993) define ethics as a ‘discipline which deals with the good and the bad, as well as moral duties and obligations’. Business ethics refers to the truthfulness and fairness and contains many aspects like (Walton, 1977): society’s expectations, fair competition, advertising, public relationships, social responsibility, customers’ independence, conduct of companies at home and abroad.

Business ethics implies that personal interests are not put above the company’s. In his study of business ethics within a company, Booz Allen et al. came to the conclusion that the problem of business ethics is greatest in the units where relationships are insufficiently defined by regulations (management board and marketing personnel), and least in the units where the relationships are clearly defined by regulations (production, accounting).

Many unethical activities are set practice in a large number of companies. Why is that so? One of the answers to this question stems from the fact that companies often reward the conduct by which ethical standards are infringed. However, companies which insist on their unethical conduct very soon realize that this conduct will not pay off in the long run. Although the impression has lately been that companies tend to care more of ethicality of their conduct, it is still not easy to establish the extent of such trends.
Benchmarking implies the need for collecting information and study of positive (but also negative) experiences of others in order to enhance one’s own business. From this stems the link of benchmarking with the notions of business ethics and industrial espionage. Collecting information on competitors has its limitations: limitation of business ethics (good business practice), limitations of professional ethics, legal restrictions.

In the business world, there is much talk about business ethics, on the limits to business, what is moral and what is not, what is on the limits of the lawful, and in the so-called grey areas of business, etc. There is also the European association of public opinion researchers and marketing which regulates the methods of collecting information on competition, on exclusivity of information and the like. The dominant question today is: Can one stay competitive and still do business in a human and ethical way? Efforts to make decisions in a human and ethical way are ever more expressed lately. There also exist ethical codices in many world companies, but most of them are inefficient and inadequate. Ethical codex does not refer only to the company’s business, but also to the conduct of the individual in everyday life.

Every manager can help his or her company in creating a positive and productive environment, which will foster healthy ethical decision making and conduct. Every employee must follow the highest standards of honesty, faultlessness and fairness in every action, especially in relationships with the competition, customers, suppliers and other employees. It is to be expected that no employees in the company will undertake any activity which is wrong, illegal, immoral or in any way endangers the interests of the company and its customers.

Is benchmarking ethical? Business Week described it in 1993 as a euphemism for legal pilferage of other people’s ideas (Sajfert and Adamović, 2004). Some of the general rules for appropriate (and with it ethical) implementation of benchmarking: laws should be respected, the information offered should be returned, privacy respected, trust should not be abused, information used internally, nothing should be done without authorization, no blackmailing, etc.

To verify ethicality in benchmarking, the answers to the following three questions can be used:

1. ‘Is the thing I have doubts about legal?’ A business decision can lead to violation of civil laws or company’s ethical codices. It is important to highlight that every employee in the company is responsible for honesty and consequences of his or her conduct. In case of negative answer to the first question, the other two questions should not be taken into account.
2. ‘Is there a balance of relationships?’ Is it fair and just to all the participants? This group of questions should prevent making a decision which would favour only one side.
3. ‘How will I feel after that?’ The third question speaks most about the attitude to morality. This question should arouse consciousness with the people who perform benchmarking and bring business decisions. In solving this problem, a secondary question of the type: ‘Would I like my family to get to know for this?’ can be helpful.

5. CONCLUSION

Analysis of disadvantages of benchmarking has shown that these disadvantages are above all the consequence of inadequate application of benchmarking. Disadvantages of benchmarking can be minimized by adequate use which, among other things implies: quality, creativity, intuition, objectivity and expertise of the people who apply it, the right way of application, application in the right situations, etc. Real disadvantages of benchmarking are: possible neglecting real consumers’ needs due to a high concentration on the competition and reliability of the information obtained in the case of external competition benchmarking.

As well as in the analysis of disadvantages, a similar conclusion can also be drawn when ethical aspects of benchmarking are in question: benchmarking is ethical when it is carried out
appropriately. Benchmarking can not be an excuse for unethical conduct, industrial espionage and the like.

REFERENCES


