CHAPTER 2

Review of Literature
# CHAPTER 2

## Review of Literature

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>History of Benchmarking</td>
<td>49</td>
</tr>
<tr>
<td>2.2</td>
<td>Benchmarking as Quality Improvement Tool</td>
<td>62</td>
</tr>
<tr>
<td>2.3</td>
<td>Development of Benchmarking</td>
<td>65</td>
</tr>
<tr>
<td>2.4</td>
<td>Benchmarking Process Applied by Different Companies</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>Graphical Presentation of Benchmarking Process</td>
<td>72</td>
</tr>
<tr>
<td>2.5</td>
<td>Benchmarking as Business Improvement Practice</td>
<td>74</td>
</tr>
<tr>
<td>2.6</td>
<td>Benchmarking Vs. Total Quality Management</td>
<td>75</td>
</tr>
<tr>
<td>2.7</td>
<td>Benchmarking Vs. Re-Engineering</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Distinction between TQM, Re-Engineering, and Benchmarking</td>
<td>77</td>
</tr>
<tr>
<td>2.8</td>
<td>Types of Benchmarking</td>
<td>79</td>
</tr>
<tr>
<td>2.9</td>
<td>Precautions in Application of Benchmarking</td>
<td>82</td>
</tr>
<tr>
<td>2.10</td>
<td>Quality Awards and Benchmarking</td>
<td>83</td>
</tr>
<tr>
<td>2.11</td>
<td>Old Vs. New Models of Organisation</td>
<td>86</td>
</tr>
<tr>
<td>2.12</td>
<td>Transformation of HR Function</td>
<td>87</td>
</tr>
<tr>
<td>2.13</td>
<td>Hard and Soft Models of HRM</td>
<td>90</td>
</tr>
<tr>
<td>2.14</td>
<td>New Business Environment and HR Function</td>
<td>93</td>
</tr>
<tr>
<td>2.15</td>
<td>Changing Role of HRM</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>Changing Role of HRM</td>
<td>98</td>
</tr>
<tr>
<td>2.16</td>
<td>HRM in India</td>
<td>98</td>
</tr>
<tr>
<td>2.17</td>
<td>Conclusion</td>
<td>101</td>
</tr>
</tbody>
</table>
CHAPTER 2

REVIEW OF LITERATURE

This chapter reviews the literature on benchmarking technique and on evolution of Human Resources Management. It also reviews the global and the Indian scenarios of HR Activity.

In the following section the history of Benchmarking technique, its development, and its application by different companies as well as its utility as performance improvement tool will be discussed in detail.

2.1 History of Benchmarking

Linguistically and metaphorically the term benchmarking comes from the land surveyors' jargon, where a benchmark was a distinctive mark made on a rock, wall, or building. In this context, a benchmark served as a reference point in determining one's current position or altitude in topographical surveys and tidal observations. In general, a benchmark was originally a sighting point from which measurements could be made, or it implied a standard against which the performance of others could be measured.
Mr. Fred D. Bowers, benchmarking programme manager of the Digital Equipment Corporation is of the opinion that the second person to light a fire is humankind's first benchmarking exponent. He thinks that the second person observed the first person's lighting of the fire and then he emulated that practice. A few other examples in the early benchmarking history are:

**Lowell, Massachusetts**

In the 1800s, British textile mills were absolutely the best in the world. In contrast, the American mills were still in their infancy when it came to producing all types of textiles. Mr. Francis Lowell, an industrialist from New England, set out to change this situation by upgrading business technology in the United States. He travelled to England, where he studied the manufacturing techniques and industrial design of the best British textile mills. He saw that the British plants had much more sophisticated equipment but the lay-outs of British plants did not effectively utilise labour. In short, there was room for improvement. In 1815, Mr. Francis Lowell built a factory that employed much of the technology in the British plants but was designed to be much less labour intensive than the British textile mills. It was a splendid example of
innovative adaptation. In 1820, this textile-mill centre came to be known as Lowell, Massachusetts. By 1840, just two decades later, Lowell had grown to become the second largest city in America and the largest manufacturing complex in the country. This dynamic growth was largely fueled by one man's vision and his ability to creatively adapt practices observed in the world's best mills.

**Ford Motor Company**

In 1912, Mr. Henry Ford watched men cut meat during a tour of a Chicago slaughterhouse. The carcasses were hanging on hooks mounted on a monorail. After each man performed his job, he would push the carcass to the next station. Less than six months later, the world's first assembly line started producing magnetos in the Ford Highland Park Plant. Mr. Henry Ford articulated his vision thus, "The man who places the part will not fasten it. The man who puts in the bolt does not put in the nut, and the man who starts the nut will not tighten it". The idea that revolutionised modern manufacturing and automotive history was imported from another industry.
**Toyota**

In 1950, General Motors was the world leader in the automobile industry, and Toyota was just a small supplier to the Japanese domestic car market. At this time, the founder of Toyota sent his son, Mr. Eliji Toyoda, to the United States on a mission to study American manufacturing processes and practices. During his visit, he visited General Motors, Chrysler, Ford, and even Stud Baker. He took extensive notes describing all that he saw. Mr. Toyoda also visited American supermarkets during his stay, where he was impressed by the speed and precision with which grocers restocked their shelves at night so that supplies were replenished in time for customers to shop during daytime. The observations and insights from Mr. Toyoda's study tour were transported back to Japan, where they were adopted, adapted, and improved upon. This tour planted the seeds for the development of Mr. Toyoda's now famous just-in-time total-quality-control programme. Toyota launched its U.S. presence on the west coast and then expanded across the country. During the next three decades, the Japanese carmaker began challenging the far larger American competitors. By 1983, Toyota had captured 23% of the United States auto market. In
1984, General Motors signed a joint venture agreement with Toyota to manufacture Toyota products in the United States. The GM's main reason for this joint venture was to see how Toyota ran its factory. The wheel had come full circle and now General Motors was studying Toyota to learn about its winning strategies.

**Bath Ironworks**

Bath Ironworks benchmarked the strategies and operations of 10 shipyards in Holland, when the end of Cold War rendered the 108-year-old shipyard's business strategy completely out of date. Bath, the U.S.'s fourth largest shipyard had assumed that the country's need for combat vessels would remain strong for the rest of the century. Since 1977, 86% of the vessels Bath delivered were naval combat ships. To quickly rethink its strategy and adjust to this radical change in the post-Cold-War economy, Bath studied the strategy of the Royal Schelde shipyard, Holland. Royal Schelde and other Dutch shipyards had already reorganised themselves to accommodate merchant shipbuilding, and the manufacturing of other complex structures, such as, bridges. Bath observed that through benchmarking the contingency plans could be developed and implemented much faster and at far less cost, than if they
were to be developed from the scratch. The strategic lessons learned from other organisations and industries can help one's own company refine its strategy, project the possible outcomes of changing its present course, and forecast potential shifts likely to occur by changing market circumstances.

**Remington Rifle Company**

In the 1980s, the Remington Rifle Company, a division of giant DuPont Corporation, was facing a technical problem. Market research revealed that customers wanted shinier rifle shells. The plant managers did not pay much attention to this piece of market research. After all, Remington was a company that manufactured some of the oldest and best-known rifles in the world. Unfortunately, the engineering teams of the company made little progress in their effort to solve the problem even after persistent requests from marketing executives to respond to the customer feedback. A short distance away from the Remington Rifle Company plant in Arkansas was a Mabelline cosmetics plant that produced shiny lipstick cartridges. Remington employees, who drove past the Mabelline plant each day on their way to and from work, observed that the lipstick cases were not much different in size and
shape from rifle shells. The site visit to the neighboring plant paid off and enabled the Remington team to solve the production difficulties that previously had proved next to impossible to solve.

In view of these historic examples of innovative adaptation, it is clear that learning by borrowing from the best and by adapting to their approaches in such a way that they meet one's own needs is the essence of benchmarking. By exposing companies and people to new ideas and approaches, the benchmarking experience often encourages extraordinary insights and breakthroughs in thinking. In the late 1980s and the early 1990s benchmarking had come to be widely regarded as a skill that should be communicated and utilised in day-to-day business operations.

Benchmarking has broad applications in problem solving, planning, goal setting, process improving, innovating, re-engineering, strategy setting, and in various other contexts. Benchmarking is a fundamental business skill that supports quality excellence.

In the 1970s, the concept of benchmark evolved beyond a technical term signifying a reference point. The term benchmarking hitherto confined only to the land surveyors' jargon entered into the terminology of
business, where it came to signify the process of measurement of carrying out comparisons.

**Xerox**

Back in the late 1970s, Xerox realised that it was on the verge of a crisis when the Japanese companies were marketing photocopiers cheaper than what it was to Xerox to manufacture a photocopier. However, by using benchmarking as an improvement tool, Xerox managed to improve their market position. Xerox started by benchmarking manufacturing and then included other areas of operation as well. Xerox was so successful in its efforts that it has since been using benchmarking for continuous improvement. Since then benchmarking has been used in a wide variety of settings. The company used benchmarking in a rather narrow sense, in that, it focused fundamentally on comparisons with its prime competitors.

During the 1980s, the scope and the focus of benchmarking grew. Benchmarking came to be recognised as the outreach activity of comparing one’s own activities with those of the others.
Avon

Avon, a US based manufacturer of cosmetics, used internal benchmarking to improve its customer services operation. The company realised that while each of its branches excelled in some areas of customer service, there was a need to develop a uniform standard of customer services to be adopted by all the branches. Avon Management identified the targets for improvement, culling out those that needed immediate attention. Then it collated the best practices from each of the geographically dispersed branches and set them out as the goal for all.

Janssen Pharmaceutica

Janssen Pharmaceutica, a large drug manufacturing company based in the USA, used competitive benchmarking to reduce administrative overheads. It is important to note that, despite being in a very strong competitive position, the Management of Janssen adopted external benchmarking as a precautionary measure to remain in the lead. Eventually, Janssen undertook two benchmarking studies. It is quite interesting to note that, even though these studies confirmed Janssen's competitive edge, they still enabled the company to identify opportunities for reduction in administrative and marketing costs.
Exxon Chemicals

Exxon Chemicals, a multi-billion-dollar multinational, used benchmarking to analyse how the company managed its information system and to see whether it could be improved. Although this study was limited to practices within the chemical industry, it can also be described as process benchmarking, since it focused on a particular process. As a result of this study, Exxon restructured its management information system, in spite of the fact that the company was one of the leading enterprises in chemical industry.

IBM

It is another example of a large multinational corporation using benchmarking not withstanding its being an established leader in the field. The IBM facility at Rochester is responsible for development and production of mid-range systems, storage products, and cards. It is known as a Computer-Integrated Manufacturing (CIM) site. The goal of the Management of IBM Rochester was to be the leader within the IBM as well as be the best global facility. Using the Analytical Hierarchy Process (AHP), the IBM Rochester was able to identify what needed to be compared and, subsequently, it proceeded with the exercise of
benchmarking. Although the results of benchmarking indicated that
IBM Rochester was one of the best, the process of benchmarking
enhanced its ability to achieve sustained leadership.

In view of the benefits associated with benchmarking, and the need for
continuous improvement, many large enterprises have created
permanent set-ups for this purpose. British Telecom has introduced BT
Benchmark Forum to co-ordinate benchmarking throughout the
enterprise and provide overall guidance to the Forum members. In
addition to information being made available to the benchmarking
partners, BT makes it available publicly for doing competitive costing.

BT has gained many benefits through benchmarking and continues this
project with the intention of becoming a benchmark itself. Similarly,
General Motors has also created “Worldwide Benchmarking and
Business Analysis”, a group that supports and guides GM's
benchmarking activities.

Mr. Cherett notes that benchmarking activity impacts on more than 40%
of European Quality Award markings and cited a Coopers and Lybrand
survey indicating that 67% of the top 1000 companies listed in The
Times were actively involved in benchmarking with a success rate of
82%. It is worth noting that benchmarking is practised not only by those enterprises that are lagging behind, but also by the internationally renowned successful companies as a tool for maintaining their competitive edge.

By 1992, in the USA, 65% of Fortune 1000, companies were using some form of benchmarking; AT&T, and Motorola having successfully carried out different applications of benchmarking joined Xerox.

The Boston Consulting Group\(^1\) reported in 1994 that 50% of the manufacturing companies, which had more than 20 employees, and which were in Australia and New Zealand, used benchmarking. A study report published in 1994, by UK based CBI/Coopers and Lybrand revealed that 78% of the Times Top 1000 companies, half of which were in manufacturing, used benchmarking, and 88% of those used the technique regularly.

The most benchmarked business functions in the companies in the order of preference were, “Customer Services”, 72%; “Manufacturing Services”, 68%; “Human Resources”, 60%; “Information Services”, 35%. 
A CBI/DTI study in 1996 found a slightly higher percentage in benchmarking in the case of the companies surveyed. This higher percentage was largely in the areas listed above.

Besides identifying benchmarking partners and undertaking benchmarking projects, the companies join voluntary networks, such as, the Financial Services Special Interests Group, which has a membership of 120 companies, or they employ the services of commercial consultancies to gain access to benchmarking data. International Survey Research (ISR), for example, a consultancy specialising in opinion surveys, makes available to its clients relevant benchmarking norms as regards a range of employee attitudes, opinions, and morale.

Even though the origin of formal benchmarking technique can be traced back to the 1970s in the USA, the underlying concept has been in existence for a long, long period. The studies on the scientific methods of work organisation performed by Mr. Frederick Taylor in the latter part of the 19th Century represent an early use of the benchmarking concept. Companies operating in an industrial environment originally developed benchmarking. It has, therefore, been applied most widely at the level of the business enterprise. In recent years such non-profit
organisations as hospitals, universities, etc., have also discovered the value of benchmarking and are applying it to improve their processes and systems. Most recently, even the public authorities in developed countries have begun to explore the use of benchmarking as a tool for improving their processes of policy implementation.

2.2 Benchmarking as Quality Improvement Tool

In the context of quality, benchmarking refers to the methodology of improving quality. While external comparisons, such as, competitive analysis, industry analysis, etc., have been used for centuries, Xerox significantly extended this approach during the 1980s when it realised the fact that its dominance over the market was rapidly slipping away. The first Japanese copiers to be sold in the US market were sold at prices below the manufacturing costs of similar products by Xerox. Although the company initially suspected that this was a case of dumping, it decided to investigate in depth the performance of its Japanese competitors. Two of the most valuable sources of information were the systematic study of its Japanese subsidiary, namely, Fuji-Xerox, and comparisons between Japanese and US operations. This experience proved so valuable that it prompted Xerox to set out a
standard approach for such work and to include it as one of the key elements of its corporate strategy for quality improvement, which came to be termed as “Leadership through Quality”. The term benchmarking was used to describe this approach. Benchmarking is now recognised as a very important component of the Company’s advanced quality improvement methodology.

The Xerox Case

In the 1970s, Xerox was the largest manufacturer of photocopiers in the world. However, Japanese manufacturers were producing better copiers, selling them for less, and even then were making a good profit. This prompted the company to directly compare itself with its direct and best competitors to determine what it could do to increase productivity and to decrease the costs.

The results of this benchmarking study revealed that:

- Xerox's ratio of indirect to direct staff was double;
- The number of its suppliers was nine times more than the number of products;
- Assembly line rejections were ten times worse;
- The time of its product’s entering the market was twice as long; and
• Defects per 100 machines were seven times worse.

However, Xerox's Japanese subsidiary, Fuji Xerox, was performing well. This study proposed that over the next five years Xerox would have to increase productivity by 18% to keep pace with its competitors. The company did this through a strategy known as "Leadership through Quality", which marked the beginning of its revival. Xerox then continued to undertake different benchmarking projects. It benchmarked L.L. Bean, a retailer of outdoor sporting goods, for its excellent warehouse procedures that are now considered standard by many other companies. It also benchmarked almost 230 performance areas by the time it won the Malcolm Baldrige National Quality award in 1989.\(^4\)

Since Shewhart, Deming, and Juran laid the foundation of the quality revolution, benchmarking has emerged as the most important contribution by the Western World to quality improvement methodology. Many of the recent innovations in quality improvement methodology between 1950 and 1990, such as, Just-in-Time production methods, Hoshin Planning, and Quality Function Deployment have ensued from comparisons between organisations based on the search of information about competitors. The practice of seeking inside
information of the opposition's technology, designs, and plans is as old as history. The purchase of competitors' products for detailed technical analysis is also an age-old industrial practice. However, benchmarking is quite different from such traditional approaches: the focus is not just on products or plans, but also on business practices. The aim is to discover the best practices, and, thus, to obtain a leadership position, neither by emulating the common practices nor by duping the competitors. In order to find the best practices, the search may go far beyond the local competitors or the industrial sector. The target companies used for comparison are often drawn from other sectors of industry and even from other countries. The search for information is carried out in an open and ethical manner. There is a very high level of co-operation between the parties involved, with an agreement to share information in both directions and to protect the confidentiality of sensitive information provided.

2.3 Development of Benchmarking

Mr. G. H. Watson outlines the development of benchmarking in five phases, namely: 5
Phase 1: 1950-1975  Reverse Engineering
Phase 2: 1976-1986  Competitive Benchmarking
Phase 4: 1988-     Till Date Strategic Benchmarking
Phase 5: 1993-     Till Date Global Benchmarking

Reverse Engineering was the process of dismantling the things for examining them, improving upon them, and putting them back together. However, benchmarking in its modern form really began with the introduction of Competitive Benchmarking. This was followed by Process Benchmarking, which included looking for ideas outside the direct competitors. Strategic Benchmarking involves changing the business fundamentally, not just the process. Global Benchmarking is the latest, which involves comparing one’s company on a global scale. Even though benchmarking is a standard tool used by the private sector companies, many other institutions and organisations world-wide are beginning to look at it as a tool to help them achieve better results for less efforts and costs.
2.4 Benchmarking Processes Applied by Different Companies

Five-Phase, Twelve-Step Process of Rank Xerox

Rank Xerox revolutionised business thinking with its benchmarking plan. Its determined top management team with a clear goal, under the leadership of Mr. Robert C. Camp, Manager of Benchmarking Competency, Quality, and Customer Satisfaction, developed a five-phase, twelve-step process: 7

Phase 1: Planning

1. Identify what to benchmark
2. Identify competitor companies
3. Determine data collection method and collect data

Phase 2: Analysis

4. Determine current performance gap
5. Project future performance levels

Phase 3: Integration

6. Communicate findings and gain acceptance
7. Establish functional goals

Phase 4: Action

8. Develop action plans
9. Implement specific actions and monitor progress
10. Recalibrate benchmarks

**Phase 5: Maturity**

11. Attain leadership position
12. Fully integrate practices into processes

**Nine-Step Process of AT&T**

AT&T, a company that has won Malcolm Balridge Award twice, is an active benchmarking exponent. It has developed a nine-step model: 

1. Identify what to benchmark
2. Develop a benchmarking plan
3. Choose data collection method
4. Collect data
5. Choose best-in-class companies
6. Collect data during a site visit
7. Compare processes, identify gaps, and develop recommendations
8. Implement recommendations
9. Recalibrate benchmarks

Other processes that have been developed are Motorola five-step process and the seven-step process. 
Five-Step Process of Motorola

1. Decide what to benchmark
2. Find companies to benchmark
3. Gather data
4. Analyse data and integrate results into action plans
5. Recalibrate and recycle the process

Seven-Step Process of Motorola

1. Determine which function(s) to benchmark
2. Identify key performance variable to measure
3. Identify best-in-class companies
4. Measure performance of best-in-class companies
5. Measure your own performance
6. Specify programmes and actions to meet and surpass
7. Implement and monitor results

Five-Phase Model of SPI

The model produced by the Council of Strategic Planning Institute (SPI) on Benchmarking summarises the five phases of benchmarking in generic terms. This can then be mapped over the above-mentioned processes. These five phases are:¹⁰
1. Launch
2. Organise
3. Reach out
4. Assimilate
5. Act

The steps given above can then be mapped onto the Motorola Five-Step Process as given in the table:

<table>
<thead>
<tr>
<th>Description</th>
<th>Launch</th>
<th>Organise</th>
<th>Reach Out</th>
<th>Assimilate</th>
<th>Act</th>
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<tbody>
<tr>
<td>1. Decide What to Benchmark</td>
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<td></td>
<td></td>
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<tr>
<td>2. Find Companies to Benchmark</td>
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<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Gather the Data</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Analyse Data and Integrate</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>5. Recalibrate and Recycle the Process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
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</tbody>
</table>

Ten-Step Benchmarking Process of U. S. Department of Energy

1. Identify what is to be benchmarked: service/ process/ practice
2. Identify the organisation(s) to benchmark: sister concern/ competitor/ unrelated companies
3. Determine the data collection method: measurement to provide a meaningful comparison, in personal meetings and site visits
4. Determine current performance level: identify the gap between two performances

5. Determine future performance level

6. Communicate the benchmark findings and gain acceptance from senior management and employees who will be asked to make improvement

7. Establish objectives

8. Develop action plans for each objective

9. Implement specific actions and monitor process

10. Recalibrate benchmarks: re-evaluation and updating of benchmarks based on the most recent performance data.
1. Determine which functions to benchmark

2. Determine the key performance variables to measure

3. Identify benchmark partners

4. Measure performance of benchmark partners

5. Measure ER program's performance

6. Compare performance to benchmark and identify causes

7. Develop programs to meet and surpass, then monitor results

June | July | August | September
--- | --- | --- | ---
1  | 2  | 3  | 4
5  | 6  | 7  | 8
9  | 10 |

1. Kickoff Meeting
2. Final Conceptual Design Report
3. Program Classification
4. Nationwide Survey Administration
5. Paired Cost Comparison Data Collection
6. Component Benchmarking Data Collection
7. Interested Party Update
8. Draft Report
10. Final Report

Benchmarking Readiness

Benchmarking readiness is to determine whether an organisation is capable of starting and sustaining a benchmarking process. There are five broad categories for assessing a company's readiness for benchmarking. These are:  

1. To ascertain benchmarking readiness, the benchmarking agency or the organisation has to locate its benchmarking partners based on similarity in various dimensions.

2. To ascertain culture readiness, the benchmarking organisation has to see that there is cultural readiness in its environment to enable it to import best practice(s).

3. To implement newly imported best practice(s), implementation readiness is necessary, which means the organisation has to set up a unit that will undertake all the activities necessary in this regard.

4. To ensure the successful on-going operation of the best practice(s) adopted, operational readiness is essential.
5. In order to conduct a benchmarking study and to import best practice(s), technical readiness is essential.

Various techniques are used to determine whether or not an organisation is ready. This can be accomplished by asking questions or by using a scoring system.

For benchmarking to be effective, it must become an integral part of an on-going improvement process, and the goal that has to keep abreast of ever-improving best practice. Open and committed high-level support is a basic prerequisite of any benchmarking initiative. Those in positions of authority must be prepared to accept criticism of current performance and provide the necessary leadership to bring about sustained improvement.

2.5 Benchmarking as Business Improvement Practice

Benchmarking is at once different and similar in many ways to other types of business improvement practices. These practices include total quality management (TQM), re-engineering, and performance measurement.
2.6 Benchmarking Vs. Total Quality Management (TQM)

Total Quality Management (TQM) consists of three main focal points: first, collaborating with suppliers to ensure that the supplies utilised in work processes are well designed and fit for use; second, taking continuous employee analysis of work processes to improve their functioning and reduce process variation; and third, maintaining close communication with customers to identify and understand what they want and how they define quality.

TQM works by either process: consultant-oriented TQM or project-oriented TQM. Consultant-oriented TQM typically involves the creation of separate quality control bodies that oversee the implementation of the steps agreed upon to bring about improvement and the control over quality improvement procedures. In project-oriented TQM, some of the shortcomings of consultant-oriented TQM are addressed. This entails incorporating all employees and their needs, establishing procedures and the needs of customers as a foundation rather than importing new procedures to base the quality improvement on.

In general, TQM uses internal methods and the ideas of people within the organisation to improve itself inside out. This does not include
comparing one's organisation with some other, which is essential to benchmarking.

Benchmarking, as an advanced quality improvement methodology, can be integrated into a Total Quality Management System, when it matures. Benchmarking is the search for best practices that will lead to improvement in performance in the business activity concerned. It can help quality improvement efforts to reach new heights by providing information about other organisations, their levels of performance, and the methods they use. This information enables the organisation to set for itself more challenging goals. It also provides valuable insights and ideas to accomplish these goals.

2.7 Benchmarking Vs. Re-Engineering

The second method of reviewing performance and thereby bringing about improvement is re-engineering. Re-engineering has been defined as "the fundamental rethinking and radical redesigning of business processes to achieve dramatic improvements in contemporary measures of performance, such as, cost, quality, service, and speed."

This generally involves completely replacing old practices by the new ones. The new practices are usually determined by a process, where a team
and its consultant evolve measures, and convince the employees concerned to adopt them. Re-engineering is very expensive and hence, it is prone to failure. It also requires TQM after its successful implementation.

While re-engineering is dramatic and encourages employees to think big, it is still an internal process. It does not involve the comparison of the practices of one organisation with those of the other. While benchmarking may result in the use of completely new ideas similar to re-engineering, it often is simply improving upon the existing ones. In addition, after performing re-engineering, organisations often turn to TQM, to sustain their newly improved performance.

**TABLE OF COMPARISON: TQM, RE-ENGINEERING, AND BENCHMARKING**

<table>
<thead>
<tr>
<th>Focus</th>
<th>TQM</th>
<th>Re-engineering</th>
<th>Benchmarking</th>
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<tbody>
<tr>
<td>Focus</td>
<td>Internal</td>
<td>Internal</td>
<td>External</td>
</tr>
<tr>
<td>Main Principles</td>
<td>Develop dialogue within a process to improve it through gradual increments</td>
<td>Develop completely new methods to replace obsolete or failing processes</td>
<td>Compare processes with those of others who do the same, and determine best methods</td>
</tr>
</tbody>
</table>

An organisation seeking improvement, takes the following steps: first, it takes performance measures and determines what processes need to be
improved; second, it employs TQM to improve these processes internally; and, third, it looks beyond itself to other organisations for insights, and benchmarks. If the organisation finds that both TQM and benchmarking are not enough for improvement, it may resort to re-engineering, and restructuring the whole process. In any case, it must employ performance measurement and TQM to ensure that the processes developed remain at proper levels of performance. Finally, it will have to repeat the whole process, as new improvements are needed.

Benchmarking is a tool for supporting management strategies. It is oriented towards continuous improvement through the identification and adaptation of best practices at the process-, organisation-, and management-levels. Thus, it leads to increased competitiveness. It is a tool that could be applied irrespective of the size of the company. Examples of best practices are usually found outside the industrial sector in which the company operates. Thus, it is neither necessary nor desirable to confine a benchmarking exercise to one's competitor companies.
2.8 Types of Benchmarking

**Process Benchmarking**

Process benchmarking emphasises such discrete work processes and operating systems as the customer-complaint process, the billing process, the order-and-fulfillment process, the recruitment process, and the strategic-planning process. This form of benchmarking seeks to identify the most effective operating practices of many companies that do similar work. A number of the most impressive American benchmarking success stories are of process benchmarking. Its strength lies in its ability to produce top-to-bottom results. If an organisation improves a core process, it can then quickly produce improvements in performance. These performance improvements can be calculated through increased productivity, lower costs, and improved sales. Their net effect frequently translates into improved short-term financial results.

**Performance Benchmarking**

Performance benchmarking enables managers to assess their competitive positions through comparisons of their products and services. Performance benchmarking usually focuses on such factors as
elements of price, technical quality, ancillary features of product or service, speed, reliability, and other performance related characteristics. Reverse engineering, direct product or service comparisons, and analysis of operating statistics are the primary techniques applied during performance benchmarking. The automotive, computer, photocopier industries, and financial services among others, regularly employ performance benchmarking as a standard competitive tool.

**Strategic Benchmarking**

In general, strategic benchmarking examines how companies compete with each other. Strategic benchmarking is seldom industry-focused; it seeks to identify the winning strategies that have enabled high performing companies to be successful in their marketplaces. Many Japanese companies are successful exponents of strategic benchmarking. Strategic benchmarking influences the long-term competitive preparedness of a company. Consequently, the benefits may accrue slowly but surely.

Strategic Benchmarking could be defined as “a systematic process of evaluating alternatives, implementing strategies, and improving performance by understanding and adapting successful strategies from
external partners who participate in the on-going business alliance”. In strategic benchmarking its scope as well as the commitment on the part of benchmarking partners are larger than those in the process benchmarking.

**Internal Benchmarking and External Benchmarking**

The internal benchmarking effort looks for internal best practices and tries to establish them uniformly throughout the company. This is achieved by comparing all the functions of various operations in the company. The main advantages of internal benchmarking are its ease of implementation, fewer requirements resources, and less time. However, it targets only internal standards since it is internally focused. For competitiveness, the internal standard should be measured against the *best-in-class* to determine if there is a gap in the performance and how wide it is. Most companies start benchmarking with an internal benchmarking exercise. Internal benchmarking is possible where there are a number of units, divisions, branches, or plants within a single organisation. It offers an opportunity of focusing on specific areas of improvement. Since the relevant data is available more readily, making a comparison of *like-with-like* becomes easier.
External benchmarking offers broader perspective and helps in redefining the possibilities of improvements in performance. In external benchmarking, the company looks beyond its own organisation and searches for the best practices in other companies and organisations. Therefore, it addresses the limitations associated with internal benchmarking. However, it will not produce expected results if the company fails in comparing like-with-like.

2.9 Precautions to be Taken While Applying Benchmarking

An earlier study in the USA by Ernst and Young suggested that benchmarking alone does not provide a sure guarantee of improved performance. Over 500 companies in automobiles, computers, banking, and healthcare were surveyed, and it was found that the success of benchmarking was dependent on the performance of the company prior to the benchmarking effort. The activity was found to have no significant impact on performance in areas such as delivery, distribution, and customer services in those organisations whose performance level was low to medium.

According to Cox and Thompson, the benchmarking may show disappointing impact on operational performance in some companies.
due to the “risks” inherent in the benchmarking practice. Based upon their experience in a supply chain they point to “generic” risks in benchmarking and argue that organisations may expect to make only short-term leaps in performance as compared to others because of the “generic” risks in all benchmarking exercises. These risks hamper the usefulness of the technique. The following are some of the generic risks identified by them:

- Selection of an inappropriate set of performance measures;
- Selection of a benchmarking partner not representing best practice;
- Inability to gain access to appropriate benchmarking data; and
- Insufficient understanding of the practices to be adopted based on the data collected.

2.10 Quality Awards and Benchmarking

Benchmarking is not limited to just succeeding and being recognised by peers; nowadays several awards are given to organisations for encouraging benchmarking. These include the Malcolm Baldrige National Quality Award (MBNQA), the European Quality Award (EQA), the Deming Prize, the Rajiv Gandhi National Quality Award,
etc. These awards focus on how an organisation plans and executes its functioning, focusing on quality, and improvement.

**The Malcolm Baldrige National Quality Award (MBNQA)**

This award was established in the USA in 1987. The award was established to give recognition to the U.S. companies, and later on to the government agencies, for outstanding business practices followed by them. These practices are judged on seven categories, namely, Leadership, Information and Analysis, Strategic Quality Planning, Human Resource Development and Management, Management of Process Quality, Quality and Operational Results, and Customer-Focus and Satisfaction.

Benchmarking was not included in the initial list of practices for this award. It was added in the year 1989 with the weight of 80 points. By 1993, however, the benchmarking was given the weight of 400 points out of the highest possible total of 1000 points.

The *human resource focus* category of this award considers how the organisation enables employees to develop and utilise their full potential that they may fulfill the objectives of the organisation. It also considers efforts of the organisation to build and maintain a work environment,
employee-support-climate conducive to excellence in performance, full participation of employees, and personal growth of employees as well as organisational growth.

**Rajiv Gandhi National Quality Award**

The Bureau of Indian Standards instituted the Rajiv Gandhi National Quality Award in 1991, to encourage Indian manufacturing and service organisations to strive for excellence, and to give special recognition to leaders of the quality movement in India. The past winners of this award are companies like BHEL, SAIL, L&T, and Tata Bearings. The award has been designed in line with reputed quality awards, such as the Malcolm Baldrige National Quality Award in USA, the Deming Prize in Japan, and the European Quality Award. This award examines, and gives recognition to, the Performance-improvement initiatives implemented by any organisation using various tools and techniques like quality circles, benchmarking, and so on.

After discussing the benchmarking technique in details, it is appropriate to take a review of the changes that have taken place in the organisational structure of the companies and in their functioning. On
account of these changes the role of Human Resource Department is changing and it is also facing unprecedented challenges.

2.11 Old Vs. New Models of Organisation

Mr. F. W. Taylor is viewed as “the first to synthesize and systematise the best that was known about the management of men and to print out the technique by which this art might be advanced in future.”

Mr. Henry Fayol identified the activities of an industrial undertaking and grouped them into six different categories. He analysed managerial activities as a separate group of activities and suggested 14 principles of management, which are still universally applied. The principle of *esprit de corps* defined by him can be considered the foundation of today's high performing work team.

After Mr. Taylor's scientific management and Mr. Fayol's administrative management, Mr. Weber's theory of bureaucracy came into prominence. In 1933, Mr. Mayo and Mr. Roethlisberger conducted their famous Hawthorne Studies and came out with their findings on the influence of social attitudes and informal groups on performance. The researchers such as Messrs Urwick, Herzberg, McGregor, Maslow, Drucker, and
Schmacher conducted research and theorised various aspects of organisation in the later years.

Such concepts as the learning organisation and team building have emerged in promoting competitive advantage. They are helpful in motivating employees and in securing their commitment to the goal of organisational success and excellence. Many organisations are undertaking major restructuring.

Thus, a new model of organisation is emerging, which is networked, flat, flexible, diverse, and global.

These organisations do not ensure long-term employability but do enhance employees' employability else where by enlarging their skills and by fine-tuning existing ones. They use competence in people as a strategic resource. Transparency, empowerment, and trust are the characteristics of these organisations. The human resource management function in these organisations is expected to match the desired corporate and business strategies.

2.12 Transformation of HR Function

The history of HRM as a function of management can be traced back to 1900 or even before, but its status rose during the 1930s and 1940s
because of war-time labour shortage, and the need to adjust to unionisation. Mr. Ulrich\textsuperscript{15} has identified each decade of the last century with a new set of HR tools, which are as under:

1940s- Labour relations and staffing;
1950s- Training;
1960s and 1970s- Regulatory issues, compensation, benefits, and appraisal;
1980s- Health care, cost containment, organisation design, teamwork, and communication; and
1990s- Mergers, acquisitions, downsizing, and diversity.

The 21\textsuperscript{st} Century is an era of subcontracting, out-sourcing, networking, and of virtual organisation.

Traditional Personnel Management (TPM) is a concept that can be conveniently related to the old model of organisation, where there is less flexibility with higher degree of centralisation and formalisation. However, Human Resource Management (HRM) is compatible with the systematic design of the new organisation, which has cross-functional and cross-hierarchical teams. These organisations are decentralised and flexible, and observe very few formalities.
Mr. Beaumont identifies that the differences between TPM and HRM arise because of the change in the perspective of looking at the employees. He argues “employees are now viewed as a valuable resource, rather than a cost to be minimised, which, if managed, rather than administered, effectively from the strategic point of view, will contribute significantly, catering to organisational effectiveness, and thus will be a source of competitive advantage to the organisation concerned.”

Most people use the term HRM uncritically. Mr. Saini observes “a number of people from students to managers mistakenly think that Personnel Management and HRM are synonymous concepts”. On the state of HR departments in Indian firms, he comments, “many organisations have no HRM policies and have simply named their personnel department as HRM department. This tendency has reinforced the obliteration of the distinction between the two terms.”

The paradigm of HRM emphasises employee commitment rather than compliance. Employees are selected carefully and prepared for their flexible roles, so that they may eventually become harbingers of the competitive edge. Hence, the HR function becomes crucial to them in
realising organisational goals. HRM is becoming increasingly result-oriented and integrated to cope with present-day state of affairs in business. It helps the organisations in their constant endeavour to establish and maintain competitive positions, and in balancing their objectives and strategies. Furthermore, the HRM function banks on self-regulating, committed, and loyal people, who continually strive for personal and professional excellence in a flexible setting.

2.13 Hard and Soft Models of HRM

In the 1980s, the hard and soft approaches to HRM emerged. These were based on the Michigan and Harvard models of HRM respectively.

The hard model 18 views employees as human resources to promote efficiency. It emphasises their strategic use in minimising cost and enhancing quality. This eventually promotes unitary perspective of employers in relations with employees. It does emphasise the need to create a work situation that is free from conflict and promote commonality of the goals of employers and employees. It stresses the necessity of a “tight fit” between HR strategy and business strategy.
The soft *Harvard* model can be described as neo-pluralist. It emphasises industrial pluralism half-heartedly, but shows commitment to individual interests and goals of the employees along with the organisational ones. Although this model also views employees as a resource, it differs from the hard model, in that, it views them as resourceful human beings. It views people as social capital that can be developed. While the hard model reflects *utilitarian instrumentalism*, that is, the most beneficial use of the human resources for the organisation, the soft model concerns itself with the promotion of individual dignity, involvement, and empowerment, that is, a kind of *developmental humanism*. The hard model emphasises that the top management should exercise control and minimise cost. The soft model focuses on the treatment of employees as proactive trustworthy resources whose competence can be built up. Some of the more talked-about features of soft HR policies include empowerment, trust, learning organisation, leadership, excellence, quality circles, and de-layering. Where as downsizing, lean production, business-process re-engineering (BPR), total quality management (TQM), and performance related pay (PPP) are some of the characteristics of hard HRM policy.
The new philosophy of Human Resource Management (HRM) promotes a more focused unitarist managerial perspective of employment relations, which is often strategically driven. Unitaristic employment relations emphasize that all the people in an organisation will have the same objective and work together in harmony. Conflict is viewed as negative and dysfunctional. Unions are seen as intruders in areas guided by managerial prerogatives. Unitarism in actuality is authoritarianism or paternalism.

HRM is treated as a neo-unitarist developmental model as opposed to the traditionally pluralistic collective employment model envisaged by Traditional Performance Management (TPM). Neo-unitary perspectives in employment relations refer to something closer to paternalism as well as soft-HRM policies; pluralism may be appreciated for its objectives but not for its methodology. Labour justice is promoted through individual empowerment and performance-related compensation policies, and not through pluralistic notions like collective bargaining and industrial democracy.
A large number of companies boast that they have invested immensely in human resources, implying that they have adopted the soft HRM policies. They also project their people as their most valuable assets.

2.14 New Business Environment and HR Function

The new enterprise will have what Ms. Legge\textsuperscript{20} describes as “the enterprise culture”. According to her, enterprise connotes initiative, energy, independence, boldness, self-reliance, and willingness to take risks and to take and accept responsibility for one’s actions.

Mr. Guest\textsuperscript{21} views the new enterprise as “rugged entrepreneurial individualism”, by which he means giving primacy to maximising the value of enterprising and individualism as opposed to collectivist concerns.

Cost-cuts, flexibility, and improved quality are the needs of the day. Therefore, every organisation requires a highly motivated and committed workforce. There is a very high concern for productivity, quality, team working, co-operation, and willingness to learn new knowledge and skills.

Human resource requires more attention and careful management than any other resource of an organisation. The last two decades have seen a
marked change in HRM, particularly in those activities that involve acquiring, developing, motivating, and utilising human resources actively in business.

The major purpose of HRM is to increase and improve the productive contribution of personnel to the organisation in more ethical, social, and administratively responsible manner. This purpose has emerged from the endeavour to remove the shortcomings in industrial relations, personnel administration, industrial psychology, and personal management. HRM is not just another personnel management fad. Research shows that its aim is to create a complete organisational culture that binds workers to the company's objectives with full professional commitment, integration, and quality work. The 21st Century has brought with it enormous opportunities but also enormous pressures. If the companies will not improve the productivity of the people and treat them as human beings that are the vital objects of all the economic activities leading towards industrial development, the companies will not be in a position to survive. Now there is a worldwide consensus on human resources' being one of the major means of increasing efficiency, productivity, and prosperity of the organisation.
As seen earlier, the present scenario of HRM did not suddenly emerge. A review of this evolution shows how the effort of early pioneers led today's more sophisticated and more proactive method of utilisation of 6 Ms, i.e., man, money, material, machine, method, and market. Indeed, the planning of human resources has been a function of management since the origin of modern organisation. However, the term HRM has challenged and frequently replaced the erstwhile popular disciplines, namely, Personnel Management and Industrial Relation (IR).

According to Dr. Mushtaq Sajid²² four stages of growth and evolution of the HRM function are as follows:

**Reactive Function**

Here the main purpose is seen as maintaining harmony and avoiding disruption through strikes, etc. The reactive function exists generally where organisations are operating in near monopoly situation with assured growth. The prerequisite for this is continuous interactions between HR and operating managers.
Independent Function

At this stage the HR is involved in the setting up of industrial systems and procedures for operating managers, it is not, however, fully responsible for the monitoring or correcting of the problems in the systems; it is only marginally involved in various processes, functions other than the HR, and results. Heads of other departments mostly seek help of the HR department in administrative issues. Line managers do not see HR as a repository of expertise.

Supportive Function

This function has its own direction with distinct status to HR within the organisation, and it actively contributes to the efforts of other functions in producing results. Organisations that require rapid changes in the product or technology in a competitive scenario with a high turnover and mobility generally need such HR involvement, which necessitates qualified and competent manpower. Such HR functions give top priority to development of employees and try to boost their motivation continuously.
Integrative Function

This is the stage where the competitive success of the organisation involves HRM significantly in an integrated manner, and demands such capabilities from the HR specialists as will help them become equal partners and functional peers. In other words, their roles will have to shift from facilitators to functional peers. The typical HRM in this case is geared to contribute to organisational objectives of profitability by monitoring and enhancing employees' satisfaction.

2.15 Changing Role of HRM

The world has advanced to the era of not just change, but that of an accelerated change. The organisations in the 21st Century are required to be market driven globally with the concept “invest anywhere and share everywhere”. They will have to build a positive organisational climate, within which improving level of performance becomes a way of life. The HR will have to be one of the important functions in the organisation that will certainly and equally contribute in improved organisational results.

Teamwork will be a key driver in any organisation, which will result in high continuous and consistent performance at individual level, and
across functions and teams. The effective management of human resources will have a high priority for the very survival of both the organisation as well as the jobs of employees. HRM will need far greater support and involvement from the top management as well as from other departments to ensure and maintain the success of the 21st Century organisations.

Thus, the changing role of HRM can be depicted pictorially in the following manner. From mere administrative experts the HRM is required to be transformed to the position of strategic partner.

**CHANGING ROLE OF HRM**

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     Strategic Partner
           ↑
      Change Agent
           ↑
     Employee Champion
           ↑
Administrative Expert
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**2.16 HRM in India**

The employment practices in the developing countries like India are considerably influenced by widespread poverty and large-scale
unemployment and underemployment. The presence of unions in the public sector has brought rigidity in employment procedure. In India, the legal framework of Industrial Relations (IR) has failed to ensure desirable standards of employment, especially in the private sector. The public sector, which employs a huge workforce, provides over-security to its employees, who resist change and innovations necessary for maintaining competitiveness. The need for modern methods of managing human resources is now quite urgent. A survey conducted by Xavier's Labour Relations Institution (XLRI), Jamshedpur, India, revealed that the most important function of management that MBAs should learn is Human Resource Development (HRD); information technology and systems is next in importance. In India the buzzword in the management of people is HRD and not HRM. HRD is a conscious proactive arrangement by employers that seeks to capacitate employees to give their maximum to the organisation and to use fully their potential to develop themselves. HRD is only one of the functions of HRM. Many organisations have no HRM policies - hard or soft - and uncritically name their personnel department the HRD department. One key reason for the slow growth of HRM is that Indian companies had not been
exposed to competition from the Multi National Companies (MNCs) in the pre-reforms era. In addition, the hierarchical nature of Indian organisations has an effect on empowerment process in general. The emphasis in India is on major HRD interventions. Most HR thinking is descriptive. Even in the Western world, both hard and soft HRM strategies coexist; but due to comparatively lower empowerment of labour in India, hard versions predominate. Only a few organisations resort to soft interventions.

The companies in India have adopted three sets of proactive employee policies, namely, positive work culture, HRD, and employee participation. The development of work culture has been one of the major concerns of many employers. Many public sector companies like CMC, LIC, SAIL, GAIL, IOC, Canara Bank, Oriental Bank of Commerce, etc., have developed positive work culture. In private sector, some of the companies that have made progress in initiating HRD interventions are Voltas Ltd., DCM Ltd., the Aditya Birla Group of Companies, Mahindra and Mahindra, Modi Xerox, Maruti Udyog Ltd., etc. Information Technology (IT) companies, as they are facing severe
problem of high labour turnover and attritions, are taking special efforts nowadays in developing positive work culture.

2.17 Conclusion

In the Indian economy, the HR profession is facing a twofold challenge, first, that which arises from the globalisation and the opening up of the economy; and, second, that which arises from the primitive nature of HR activities in India. Until recently, the HR was looked upon as a supportive function responsible for maintaining good Industrial Relations. Suddenly now, the HR is expected to play a vital role in strategic decision making and planning. The scope of HR Activity has increased manifold. In addition to such basic HR functions as recruitment, remuneration, performance appraisal, promotion, etc., it is expected to do career planning, organisational development, and career counselling for the employees. It has also to handle the situations of retrenchment and lay-off efficiently. At the same time, technological developments, especially in the fields of communication and information, have made the task of HR department more difficult as it has to keep the work force updated all the time.
The challenges faced by HR professionals in different sectors of the Indian economy also differ significantly. The major HR challenge for IT sector is that of high rate of turnover and attrition. There is a need for motivating the employees and retaining them by providing them job satisfaction. The HR departments in banking sector are facing the challenge of Voluntary Retirement Scheme and the resulting redeployment of the work force. In the public sector, development of work culture and competency building are the main HR challenges.

Despite manifold challenges faced by HR departments, it is well accepted that HR is to play a strategic role in any organisation. It has also to compete with other departments working in the organisation and will have to prove its worth in the chaotic industrial situation of the 21st Century. It is no longer considered to be a supportive department helping the top management in peculiar situations of strained industrial relations. The benchmarking technique will help HR departments in their endeavour to improve performance.

In the next chapter, the utility of benchmarking technique for HR departments as a tool for improving performance shall be discussed.
References:


2. Harry Pope, “Benchmarking a Technique of the 90s to be Used with Care”, ICSA CS Features, May 1999.


8. Ibid, p. 83.

9. Ibid, p. 84.

10. Ibid, p. 84.


17. Ibid, p.34.


