

When one is interested in finding out what is to be compared, then there are three types of benchmarking: the performance, process and strategic benchmarking. *Performance benchmarking* is comparing one's own performance with that of some other organisation for the purpose of determining how good one's own organisation is. *Process benchmarking* is comparing the methods and practices for performing processes while *strategic benchmarking* is comparing the long-term, significant decisions and actions undertaken by other organisations to achieve their objectives.

When one is interested in determining against whom it should compare itself, then there could a different classification into four types of benchmarking. *Internal benchmarking* is comparison between units or departments of the same organisation. *Competitive benchmarking* is direct comparison of own performance against the best competitors. *Functional benchmarking* is comparison of processes or functions against non-competitive organisations within the same sector or technological area. *Generic benchmarking* is comparison of own processes against the best practices anywhere, in any type of organisation.

A firm could attempt benchmarking at several levels using the different types of benchmarking. The main purpose should be to find out the best practices so that one could conform to it. But before one does that, benchmarking is enough to show where a firm excels or lags behind. This is helpful in assessing the strengths and weaknesses of an organisation and determining its capability.

Despite its popularity in industry and elsewhere, benchmarking has some limitations. First, it is a tough process to use, is time-consuming and expensive and requires a high level of commitment. Secondly, it serves little purpose if it is used sporadically. It needs to be done on a continuous basis for effective results. Thirdly, financial statements of publicly-held companies are easily and openly available and therefore, organisations may be tempted to do much of benchmarking on the basis of these. However, it must be remembered that financial statements provide lagging indicators and may not be really useful as the basis for benchmarking. Lastly, it may be difficult to find comparable benchmarking candidates in all types of areas and activities and organisations may have to rely on the second-best available choice.

Comprehensive Analysis

While it would be useful to use a range of analytical methods to evaluate the strengths and weaknesses of a firm and to determine its capability, a better way is to use a combination of techniques, as each one of these have a different purpose and limitations. A comprehensive analysis helps to deal with these limitations. We describe below three popular methods and techniques of key factor rating, business intelligence systems and balanced scorecard for performing a comprehensive analysis.

1. Key Factor Rating A comprehensive method, which can be used in association with a financial analysis, is that of key factor rating.

Many systems have been evolved by consultants (for a detailed discussion, see Reference 14)¹⁵ to assess organisational strengths and weaknesses. Essentially, these systems are based on rating, depending on a number of key factors, each of which is analysed on the basis of a series of thoughtful and penetrating questions. A detailed study of the areas covered by these questions leads to a reliable appraisal of an organisation.

If we consider the different factors that have been mentioned in Section 4.2 under various headings of functional capabilities, we can suggest the following illustrative questions that can be asked with regard to the different functional areas. The sequence of questions roughly corresponds to factors included under different sub-sections dealing with functional capability in Section 4.2

For financial capability factors

1. *Questions related to sources of funds* Is the organisation's capital structure satisfactory? Can the organisation raise capital in the market? Where does the effective controllership rest? Is the debt-equity

ratio satisfactory as compared to other competitive organisations? Does the financing pattern cause the organisation to be dependent on outsiders? Is the reserves and surplus position healthy? Is relationship with banks and financial institutions cordial?

2. *Question related to usage of funds* Are adequate investment opportunities available? How does the organisation compare with others so far as the dividend record is concerned? What type of relationship exists with its shareholders?
3. *Questions related to management of funds* How effective and efficient are the financial, accounting and budgetary systems? Does the management control system satisfy the organisational needs? What trends do the various financial ratios indicate? Have they been satisfactory over the last few years? What strengths and weaknesses does the ratio analysis indicate? Has inflation been taken into account? What is the status of the ongoing projects? Have there been time-and cost-overruns? How far have the tax advantages accrued to the organisation?

For marketing capability factors

1. *Questions related to products or services* Does the organisation offer the requisite variety of products or services? What is the level of product differentiation? Does the product-mix satisfy market requirements? Are there products which do not contribute to profitability? What steps have been taken to phase out such products? How do the products compare with others in the industry in terms of quality, packaging, etc?
2. *Questions related to price* What pricing objectives are pursued? Are they oriented towards profit maximisation or sales revenue maximisation? Do the pricing policies conform to market requirements? Does the organisation avail of price protection and other advantages available to it?
3. *Questions related to promotion* Does the organisation use relevant promotional tools? Are the different forms of promotion used effectively in generating sales? What does market research indicate with regard to promotion and public relations? Are the funds allocated to promotion being used effectively?
4. *Questions related to integrative and systemic factors* How does the organisation compare with others of its kind in terms of market standing and image? What strengths and weaknesses are there in the marketing organisation? How effective is the marketing management information system?

For operations capability factors

1. *Questions related to the production system* Does the plant location offer any unique advantages or disadvantages? Is the layout appropriate? Is the plant capacity of the requisite level? Do work systems support efficiency and productivity? What is the extent of vertical integration? Does it offer certain unique advantages to the organisation?
2. *Questions related to operations and control* Is aggregate planning able to absorb short-term demand fluctuations? Is there an adequate supply of the factors of production? Does the organisation have any unique advantages with respect to its factors of production? Is the material supply system reliable? Does the organisation have access to sources of material supply not available to its competitors? What is the efficiency and effectiveness of the inventory control system? How effective are the cost, quality and maintenance systems?
3. *Questions related to the R & D system* Does the organisation possess certain distinct advantages with respect to its R & D personnel, facilities and technology? Does it possess patent rights? Does it have access to the latest technology? How far do technology collaborations benefit the organisation?

For personnel capability factors

1. *Questions related to the personnel system* How effective are the various personnel systems like manpower planning, selection, development, etc.? What importance does the personnel function enjoy within the organisation?

2. *Questions related to organisational and employee characteristics* How does the organisation compare with others of its kind in terms of corporate image? Does the organisation possess unique advantages with regard to the quality of its managers, staff and workers? How is the organisation perceived as an employer? What special benefits does the organisation offer to its employees that others do not offer?
3. *Questions related to industrial relations* What is the organisation's record with regard to industrial relations? Is the union-management relationship amicable? Have the outstanding issues been resolved? How effectively does the system of collective bargaining work? Does the organisation offer safety, welfare and security measures over and above the statutory requirements? What is the general level of employee satisfaction and morale? Does it benefit the organisation in terms of competitive advantage through increased productivity and low cost?

For information management capability factors

1. *Questions related to acquisition and retention of information* Where does the organisation stand with respect to the sources, quantity, quality and timeliness of information for decision making? What is the level of its retention capacity for information? How secure are its information systems?
2. *Questions related to processing and synthesis of information* How well does the database management work in the organisation? What is the state-of-the art with respect to computer systems and software capability of the organisation? What is the level of its ability to synthesise information?
3. *Questions related to retrieval and usage of information* Is the availability and appropriateness of the information format adequate? What is the capacity of the organisation to assimilate and use information?
4. *Questions related to transmission and dissemination* What are the speed, scope, width and depth of coverage of information in the organisation? What is the level of willingness on the part of managers to accept information?
5. *Questions related to integrative systemic and supportive factors* What is the situation regarding the availability of the IT infrastructure within the organisation? Is it relevant and compatible with the organisational needs? Does the organisation carry out regular and periodical upgradation of its IT facilities? Is there willingness on the part of the top management to invest in the latest IT systems? Are competent IT professionals available within the organisation? Does the top management support IT application within organisation?

For general management capability factors

1. *Questions related to general management system* Does the organisation use strategic management systems and what is the level of their effectiveness? Have the mission, purposes and objectives been identified clearly? What is the effectiveness level of the strategy formulation, implementation and evaluation processes? Is the management information system reliable? Does the organisation possess distinctive advantages with respect to its corporate planning system? Are the rewards and incentives systems for top managers consistent with the achievement of objectives?
2. *Questions related to general managers* Does the top management possess the required orientation to implement strategies? As compared to similar organisations, what are the qualities and capabilities of the general managers? Do these qualities and capabilities offer any unique advantages to the organisation?
3. *Questions related to external relationships* What is the level of influence that the organisation has on governmental regulatory institutions and financial institutions? Is the organisation able to manage its public relations well? Does the organisation discharge its social responsibilities well? How does the organisation compare with regard to its public image with respect to its competitors?
4. *Questions related to organisational climate* Does the organisational culture support the achievement of objectives? Is the use of power, political equations and the balance of vested interests conducive to the achievement of its objectives? Do these factors offer any unique advantages? How effectively does the organisation imbibe strategic changes? Is the nature of organisational structure and controls consistent with strategy implementation?

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4. *Questions related to organisational climate* : Does the organisational culture support the achievement of objectives? Is the use of power, political equations and the balance of vested interests conducive to the achievement of its objectives? Do these factors offer any unique advantages? How effectively does the organisation imbibe strategic changes? Is the nature of organisational structure and controls consistent with strategy implementation?

Key factors rating is quite a comprehensive method as you can observe from the range of issues covered. Yet, it has some limitations. First, its comprehensiveness may make it an unwieldy method to use. It will require a variety of information from different parts of an organisation, making it a slow and inefficient method. Secondly, this method is basically a subjective method as managers have to assign the rating on the basis of their judgement. Subjectivity has its limits and would require improvement based on reference to objective factors as one set of factors after the other are considered. Lastly, the key factor rating method needs to be dovetailed with the audit processes that are ongoing in organisations, otherwise there is a possibility of evaluation efforts being duplicated.

Having answered the questions for each of the functional areas detailed above, the strategists are in a position to pinpoint the strengths and weaknesses in each of the functional areas. Based on this, the organisational capability can be judged.

2. Business Intelligence Systems Information technology has made a huge impact on the way organisations use their information systems for organisational appraisal. Methods like key factors rating and balanced scorecard are implemented by the means of sophisticated IT tools to make them feasible for the purpose of decision-making. Business intelligence is one of the concepts used for discovering knowledge from various internal and external data repositories available to an organisation, to support effective decision-making.

Business intelligence (BI), a term coined by Howard J. Dresner of the Gartner Group in 1989, became popular in the late 1990s. BI is defined by the Gartner Group as 'a broad category of applications and technologies for gathering, storing, analysing, and providing access to data to help enterprise users make better business decisions.'¹⁶ The applications of BI include the activities of decision support systems, query and reporting, online analytical processing (OLAP), statistical analysis, forecasting and data mining.

BI can help an organisation in strategic and operational decision-making. A Gartner survey ranked the strategic use of BI in the following order:¹⁷

1. Corporate performance management
2. Optimising customer relations, monitoring business activity and traditional decision support
3. Packaged stand-alone BI applications for specific operations or strategies
4. Management reporting of business intelligence

Among these, the issue of corporate performance management is of interest to us here. This application can be used to uncover the strengths and weaknesses of the organisation and can help in determining the organisational capability. Among several techniques in corporate performance management, is the immensely popular one of the balanced scorecard.

3. Balanced Scorecard The balanced scorecard method is discussed in Section 2.5 where we described how it can be relevant for objective setting in organisations. Here we need to focus again on the balanced scorecard as a means of assessment of strengths and weaknesses of an organisation. Proposed by Robert S. Kaplan and David P. Norton, balanced scorecard attempts to do away with the bias in performance measures towards financial indices and tries to build a holistic system of measurement. Balanced scorecard is considered as 'a set of measures that gives top managers a fast but comprehensive view of the business.... (It) includes financial measures that tell the results of actions already taken. And it complements the financial measures on customer satisfaction, internal processes, and the organisation's innovation and improvement activities—operational measures that are the drivers of future financial performance.'¹⁸

The balanced scorecard identifies four key performance measures as follows:

1. Customer perspective: 'How do customers see us?'
2. Internal business perspective: 'What must we excel at?'

3. Innovation and learning perspective: 'Can we continue to improve and create value?'
4. Financial perspective: 'How do we look at shareholders?'

Each of these perspectives could be used individually, but using them in combination provides deeper insights and a balanced approach to strategy formulation. One perspective is not allowed to outweigh others when the strengths and weaknesses of an organisation are assessed. The balanced scorecard is *per se* a comprehensive strategic management system,¹⁹ but for our limited purpose here, it could as well be used as a means to identify the strengths and weaknesses in an organisation. Keeping score of the strengths and weaknesses in critical areas of performance enables a quantitative as well as qualitative analysis of the organisation.

A comprehensive picture of organisational capability can be prepared through structuring the process of organisational appraisal.

4.5 STRUCTURING ORGANISATIONAL APPRAISAL

Just as environmental appraisal is structured through an environmental threat and opportunity profile (for details, see Chapter 3), organisational appraisal can also be structured through various techniques. For instance, Glueck proposes a preparation of the strategic advantage profile (SAP) where the results of organisational appraisal are presented in a summarised form.²⁰ Another approach, suggested by Rowe *et al*, is to prepare a company capability profile as a means for assessing a company's strengths and weakness in dealing with the opportunities and threats in the external environment.²¹ We propose a similar approach here of making an organisational capability profile, which can be summarised in the form of a strategic advantage profile. The SAP is then matched with the environmental threats and opportunity profile, prepared while structuring the environmental appraisal, in order to look for strategic alternatives and exercise a strategic choice.

Preparing the Organisational Capability Profile

The organisational capability profile (OCP) is drawn in the form of a chart as depicted in Exhibit 4.12, which shows a summarised OCP. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub-factors, along a scale ranging from values of -5 to +5. A detailed OCP may run into several pages where each of the sub-factors constituting the different functional capability factors can be assessed. In this manner, a summarised OCP, as shown in Exhibit 4.12, may be prepared.

Exhibit 4.12 Summarised form of organisational capability profile

Capability factors	Weakness -5	Normal 0	Strength +5
1. Financial capability factors			
(a) Sources of funds			
(b) Usage of funds			
(c) Management of funds			
2. Marketing capability factors			
(a) Product-related			
(b) Price-related			
(c) Promotion-related			
(d) Integrative and systematic			

3. Operations capability factors
 - (a) Production system
 - (b) Operations and control system
 - (c) R & D system
4. Personnel capability factors
 - (a) Personnel system
 - (b) Organisational and employee characteristics
 - (c) Industrial relations
5. Information management capability factors
 - (a) Acquisition and retention of information
 - (b) Retrieval and usage of information
 - (c) Processing and usage of information
 - (d) Transmission and dissemination of information
 - (e) Integrative, systemic and supportive
6. General management capability factors
 - (a) General management system
 - (b) External relations
 - (c) Organisational climate

After completion of the chart, the strategists are in a position to assess the relative strengths and weaknesses of an organisation in each of the six functional areas and identify the gaps that need to be corrected or opportunities that could be used. The preparation of an OCP provides a convenient method to determine the relative priorities of an organisation *vis a vis* that of its competitors, its vulnerability to outside influences, the factors that support or pose a threats to its existence and its overall capability to compete in a given industry.

Preparing the Strategic Advantages Profile

Based on the detailed information presented in the OCP, it is possible to prepare a concise chart of strategic advantage profile. An SAP can also be prepared directly when students analyse cases during classroom learning, without making a detailed OCP. [An SAP provides 'a picture of the more critical areas which can have a relationship with the strategic posture of the firm in the future'.²²]

In Exhibit 4.13, we provide an illustration of an SAP drawn for a hypothetical company in the bicycle industry. The main business of the company is in the sports cycle manufacturing for domestic and exports markets. This example relates to a hypothetical company, but the illustration is realistic (recall that we used the same example to prepare an ETOP in Chapter 3; for details refer to Exhibit 3.15).

The SAP presented in Exhibit 4.13 clearly shows the strengths and weaknesses in different functional areas. For instance, the company has to use its strengths in the areas of operations and general management areas. A gap is also indicated in the finance area, which has to be overcome if the company has to survive and prosper in a competitive industry like the bicycle industry. In marketing, though the competitive position is secure at present, it cannot be said that it will remain so in the future. The SAP indicates that strategists initiate action to cover the gaps and use the company's strengths in the light of the environmental threats and opportunities.)

The probable line of action to be adopted for covering the gaps and using the company's strengths in the light of environmental threats and opportunities is found through considering strategic alternatives at the corporate-level (Chapter 6) and the business-level (Chapter 7) and exercising a strategic choice (Chapter 8).