

Benchmarking: what is it and is it right for you?

(The following is an updated version of two published articles by Tony McNulty, both of which appeared in *Employers' Briefing*. It also draws on a presentation made by Tony as part of a two-day benchmarking conference at the Café Royal, London)

Asked what he thought of his spouse, James Thurber replied: "Compared with what?" Whether it is comparing spouses, product characteristics, car schemes, the performance of fund managers or executive share options, at times we all seek yardsticks or measures to help us to make comparisons with others. That in a nutshell explains the popularity of benchmarking.

So what is it?

Benchmarking involves measuring your own performance or that of your organisation against the best practices for your industry, function or activity and taking appropriate action to improve. The list of what can be benchmarked is endless. Examples include: processes, products, headcount, standards of service delivery, cycle times, pay, fund management performance.

Who benchmarks and why?

A variety of organisations continue to carry out benchmarking studies. These studies can: (1) be within an industry or sector; or (2) be "issues-based".

In the former category, McNulty Management Consultants has carried out numerous surveys. One example involved a firm seeking information about outsourcing practices in the utilities sector. Another instance was an organisation wishing to compare staff levels within research-based organisations.

The second category – "issues-based" benchmarking – is in our experience becoming ever more popular. One assignment began when a client asked us the following question: "We are planning to acquire a firm overseas: leading up to the deal, and in the weeks after it is done, what should we do to protect our interests?" They wanted information on best practices, problems and pitfalls, and to learn from the mistakes of others.

For this assignment we conducted thirty-seven interviews within twenty international organisations. We found: five factors which helped in the winning of bids; seven ways of assessing the people and culture of the target organisation; and seven red flags – possible problems or pitfalls – of which acquirers should be wary. As a result of the work, an action plan was developed to address the issues. An edited extract from the participants' report can be found on this website under "Sample Assignments" (alternatively use the following link:

www.mcnultymanagementconsultants.com/pdf/sample-benchmarking-report-extract).

What lessons can be drawn?

In reviewing the effectiveness of these and other benchmarking surveys, several conclusions can be drawn:

- what some organisations describe as their best practice simply means their “current trend”. It is important to understand the difference
- what works in one place will not necessarily work somewhere else
- there is often as much to be learned from the failures and the bad practices of comparator organisations as there is from their successes
- even if you take the best ingredients from a number of different sources, the real skill lies in knowing how to mix the ingredients properly.

What are the key steps in benchmarking?

Firms must be able to negotiate information-sharing with target organisations (usually through an intermediary such as ourselves, but it is conceivable that a firm could do this themselves), and they must then follow a logical sequence of steps:

Phase One: Planning

During this phase decisions must be made about what is to be benchmarked. You cannot benchmark everything at once. To avoid what we call “industrial voyeurism”, the golden rule of ‘focus’ applies. Put your energies into what is likely to deliver the greatest returns. What are your weak areas? Where are you failing? What needs to improve?

Having decided what to focus on, you then need to decide which organisations you will approach. Industry leaders in your field? Organisations with a reputation for excellence in a given technique? What contacts do you have? What do you want to know and what will you share in return?

Finally, decisions need to be made about the availability of in-house resources. How much time, effort and money will be required and how much are you prepared to commit?

Phase Two: Collecting Data

In gathering data, do not underestimate the more obvious sources such as database and literature searches of published materials. In collecting data from other organisations there are some simple yet vital rules: make sure you get to the right people, make sure you ask the right questions, and make sure you get a chance to check out through observation at least some of what you are told. Rhetoric about an organisation’s practices can sometimes outstrip the reality: the functional expert’s

beautifully embossed manuals describing an organisation's practices may not reflect how things are really done.

Experience shows that it is important to conduct a review within your own organisation in parallel. When you ask questions of others make sure you have the answers to those same questions within your own organisation.

It is also important to involve your own staff. They are often a source of untapped ideas, and their commitment, knowledge and experience will be vital later when you want to implement changes.

Phase Three: Analysing Results

This can be a painful phase: there is a wealth of data to analyse; the solutions of different organisations to the same problem may differ markedly; conclusions can be hard to reach. There is a need to assess in a dispassionate manner what can be learned and applied back home. Others' ideas will usually need to be adapted; direct transplants can often run up against your corporate immune system.

Phase Four: Implementing Changes

Once decisions have been taken about what improvements need to be made, then comes the hard work of implementation. Knowing what to do is always easier than doing it. As W. C. Fields put it: "Giving up drink is easy ... I've done it a thousand times". Securing the commitment of those affected by the proposed changes is more likely now if they were involved in the earlier phases.

Phase Five: Reviewing Progress

Despite the entreaties of the quality gurus it is not always possible to get it right first time. Some changes will have worked better than others and there is a need to take stock and take corrective action as necessary.

In conclusion, remember benchmarking is only a means to an end. Its purpose is to stimulate new ideas and to act as a catalyst for bringing about change. Improved performance is the sign that your benchmarking project has succeeded, and that it was worth the effort.