Critical Success Factors in Benchmarking

If you are thinking about running a benchmarking project there are a number of critical success factors that are necessary to make it work. In this article, adapted from the Benchmarking Portfolio, Keki Bhote outlines **22 critical success factors** for anyone planning to benchmark their practices.

Why is it some leading companies, Xerox, Motorola, Federal Express, Hewlett-Packard and others, have succeeded in institutionalizing benchmarking and smiling all the way to profitability, while others, equally renowned, have not capitalized on their benchmarking efforts?

The answer lies in a series of critical success factors that characterize the winners and a corresponding series of pitfalls to which the also-rans have succumbed.

1. Tie-in with Corporate Strategy

If the objective of a corporation as a whole is to improve its performance in terms of typical business parameters, benchmarking must be closely tied into top corporate strategic issues. "It is a process for evaluating your strategic plans and either validating or redeeming them. It is not just an academic exercise or an end in itself."

2. Nothing Happens Without Top Management

It is a truism that no new technique, no matter how desirable, effective and proven, can see the light of day without the support of top management. One of the principal reasons for benchmarking as a non-starter, or its fading after initiation, is the lack of top management involvement. What are the success factors for management?

Belief. First, top management must believe in the effectiveness of benchmarking as a driver of business excellence.

Involvement, not just support. There is an old story of a farmer whose pig and chicken decided to reward him for taking such good care of them by providing a hearty breakfast. The hen brightly suggested bacon and eggs. "Oh no," said the pig, "yours is support, mine is involvement!" Benchmarking should not only be endorsed and supported by top management, it should be involved.

This is a tall order for top management, increasingly bombarded and harried by conflicting ideas, priorities, and requests, all reaching for a place in the corporate sun. But, if benchmarking is truly to succeed, this degree of top management involvement is essential - not for tactical projects, involving only a department or function, but most certainly for strategic projects.

3. Organization, the Imperative of an Infrastructure

Many companies rush headlong into benchmarking, without a comprehensive organizational infrastructure to sustain it. While some get results, more often than not this is a recipe for failure.

Companies with the most successful outcomes have the following organizational infrastructure in common:

The creation of a top management steering committee which:

- Selects projects that merit strategic benchmarking and teams to run the projects.
- Follows the progress of strategic benchmarking projects.
- Provides money, manpower and other resources.

The appointment of a senior-level executive as a benchmarking champion or 'czar', with the following responsibilities:

- Guidance to teams.
- Formulating budgets for benchmarking projects.
- Facilitating a comprehensive training program.
- Tracking results of all benchmarking projects and communicating them to employees.
- Becoming part of a benchmarking network.

4. Putting the Planning Horse before the Benchmarking Cart

In their haste, some companies put the benchmarking cart ahead of the planning horse! Without the discipline of planning, the benchmarking team is likely to enter at the third act of a play. The result can be confusion, misdirection and waste.
Successful companies integrate their benchmarking projects with the planning process - especially long-range planning.

5. 'Why' Before 'What' in Benchmarking

To illustrate this success factor, we draw on a technique called the 'five whys'. Why is a particular part, product, process, or service necessary in the first place? The response by the defenders of the current process could be 'because'. The second 'why' would challenge why the 'because' is needed. And so on, for five 'why and because' pairs, until a decision can be reached to radically simplify, modify or reduce the process and its costs, or better yet, eliminate it completely. This spells out the difference between efficiency and effectiveness. Efficiency can mean performing a process - usually of mediocre value - faster and cheaper.

Effectiveness, which is a truer measure of value, challenges why it has to be done at all and substitutes a totally different approach.

In benchmarking the whys must always be asked first.

6. Linking What to Benchmark with Key Business Outcomes

Once the question of 'why benchmarking?' has been satisfactorily resolved, the next success factor is what. This is both a quantitative and a qualitative evaluation, with an emphasis on the former.

One approach to assisting this effort, used by Xerox, is to pose the set of ten questions listed below.

1. What is the most critical factor to business success?
2. What areas are causing the most trouble?
3. What products or services are provided to customers?
4. What factors are responsible for customer satisfaction?
5. What specific problems have been identified in the organization?
6. Where are the competitive pressures most felt?
7. What are the major costs in the organization?
8. Which functions represent the highest percentage of costs?
9. Which functions have the greatest potential for improvement?
10. Which functions have the greatest potential as a leverage over competition?

7. Linking the Internal Customer to the Benchmarking Project

The importance of the internal customer is gradually sinking into the consciousness of the corporate world. Every process has an internal customer whose requirements must be met and who is increasingly called upon as scorekeeper and evaluator of the internal supplier.

Who is the internal customer? In most cases, it is a senior manager who either authorizes a team to conduct a benchmarking analysis, or may be directed to do so by the steering committee and/or the benchmarking czar. Sometimes, there may be multiple customers for larger benchmarking studies. Some companies use the term 'sponsor' to avoid confusion between external and internal customers.

8. The Benchmarking Team

A benchmarking team can play a pivotal role in a benchmarking project.

Behavioral scientists have stated that, on an effectiveness scale from 1 to 1000 with 1000 being the most effective pronouncements of policy by top management have an effectiveness of 1 whole the team has an effectiveness of 1000!

In fact, today the team is the work horse of benchmarking.

What is the ideal time team members should spend on a project? In the early stages, it should at least be 25% for team members and 50% for the team leader. In the middle and almost up to the end, it should be 100%. Part-time effort can render 'part-time' results.

9. Winning Over Support Services to the Cause

Benchmarking cannot be done in isolation. No matter how competent a benchmarking team may be, it needs support and nourishment from the 'white-collar' staff of the company. This is necessary before the team goes out to visit the benchmark company as well as during the implementation phase. Failure to enlist this support is one cause for a good benchmarking study being derailed.

As a minimum, the benchmarking teams should touch base with the following white-collar operations:

- Legal
- Benchmarking specialists
- Library services
- Management Information Systems (MIS)
- Accounting
- External benchmarking consultants

10. Training, Training, Training

A retailer once asked for advice on the important factors in retailing. Back came the response: location, location, location. In benchmarking, this could be paraphrased as training, training, training.

The preferred approach is a one-day overview for senior managers and support staff along with a detailed course for those likely to be assigned to benchmarking projects. A more recent model practised by some successful companies is less classroom training and more on-the-job training.

11. Internal Benchmarking as a Preamble

Sun Tzu, a Chinese general around 500 BC, wrote: "If you know your enemy and know yourself, you need not fear the result of a hundred battles." Modern-day benchmarkers sometimes heed only half of Sun Tzu's admonition - they know their 'enemy', without knowing much about their own company. A major objective of benchmarking is to measure, quantitatively, the gap between the benchmark company and your own. A gap requires two points to measure. it cannot be ascertained with just one point - the benchmark company's level of a given parameter. Yet one of the pitfalls is either to skip measuring your own company or to get just a fuzzy, non-quantitative idea of your own company's level on that parameter. Sun Tzu's advice can be paraphrased: "Know yourself before you know your competition."

12. Practice Pilot Run at a Nearby Company

One pitfall common to many benchmarking projects is to identify a benchmark company, or companies, and visit them straight away. But haste makes waste. this is especially true for a team whose members are benchmarking for the first time.

- Their thought processes may not be well trained to ask the right questions prior to the benchmarking visits.
- They may not have sufficiently decomposed the performance parameters in their own company and, therefore, could stumble in seeking the same details in the benchmark companies.

It is to overcome these obstacles that one success factor is visiting a nearby company, before reaching out to the benchmark companies. Preferably this company will not be a benchmark candidate. it should be in physical and benchmarking proximity to your own company. The principal advantage to such a practice run is that it affords a post-mortem evaluation of results, so the negatives uncovered and mistakes made during the practice run can be corrected.

This author, having used such pilot runs at nearby companies, believes it is a step in the benchmarking process that never should be by-passed.

13. The Dilemma of Choosing Benchmark Partners

Some eager companies go for broke and seek the world best-in-class company (Level 1). The next level (Level 2) is 'best practices' associated with specific parameters or functions of interest to the company. The lowest level (Level 3) is improvement over existing practices, where the goal is even more modest than benchmarking best practices. The appropriate level will depend on the size of a company, the urgency of the project and resources.

However, companies need not be discouraged in their search for a benchmark partner. The best starting points for information include: media attention; industry and governmental awards; professional associations; suppliers and customers; and word-of-mouth testimonials. Benchmarking networks are an even more powerful source of information.

14. The Questionnaire - an Indispensable Instrument

A written questionnaire is an absolute prerequisite. Teams that bypass the questionnaire journey without a compass. What are the successful pointers in preparing a questionnaire?

- There should be a balance between seeking quantitative information (the what) and qualitative information (the how - i.e., the narrative).
- The quantitative parameters must be precisely defined, so the benchmarking partner has the opportunity to compare how the parameters are measured in each company.
- Ask only for data you would be willing to share.

- Open-ended questions are preferable to multiple choice or scaled questions.
- On 'what' parameters, ask for ratios rather than absolute numbers to preserve benchmarking partner confidentiality.
- Limit the questionnaire to four or five pages, likely to take the respondent no more than 30 minutes to answer.
- Pre-test the questionnaire within your own company (internal benchmarking) and with a nearby company.

15. Early Data Collection - Telephone Interviews versus 'Blind' Surveys

There are two methods of gathering quantitative and qualitative data from potential benchmark partners - the telephone interview and the 'blind' survey. They can be used ahead of, or instead of, the site visit.

The advantages of the telephone interview are low cost and good feedback, including emotional factors. The disadvantages are not being sure you are reaching the people most qualified to provide answers; and not detecting vital body language clues over the phone.

A 'blind' survey is intended to preserve the anonymity of your company, while contacting several potential companies to be benchmarked. it is usually conducted by an external consultant. Some companies use this blind survey as a means of narrowing the number of benchmark partners.

The advantage of the survey lies in allowing useful information to be gathered from a competitor company without revealing your own identity. But there are also disadvantages: a low return rate unclear or unsatisfactory information from the respondent companies; one-way communication; and lack of important follow-up questions.

16. On-Site Visits

Resources permitting, there is no substitute for on-site visits as the best method of capturing meaningful benchmarking data. Its advantages are: body language can subtly alter the spoken word, full vetting of emotions; stimulating to both sides; further refining of feedback from telephone interviews and surveys; and opportunity to observe weaknesses as well as strengths of the benchmark partner.

Conditions for successful benchmarking are best when the two companies are comparable in size; in reputation; in success in different parameters of business or functional performance; and there is mutual friendship between their senior managers.

Nothing destroys trust faster than a benchmarking company attempting to take unfair advantage of a partner by prying into competitive or proprietary information. Benchmarking technology, prices, pricing policies, marketing strategies and customer information should be taboo. On the other hand, as contacts increase - even beyond the site visit - trust can build up to the point of free-flowing information on both sides, with confidence that such information will never be misused.

17. Analysis, Not Paralysis

When the team returns from the benchmark partner, two reactions can lead to a paralysis of further effort:

- The gap between the benchmark company and yours is so great it appears impossible to bridge. Defeatism can set in among the team members.
- Team members are sceptical about what they have observed. "Oh well, their business is so different from ours. We are unique," might be one refrain. Or, "Their method of measurement, when correctly correlated against ours, makes the gap almost non-existent." Or else, "We found as many weaknesses as strengths." This kind of "I'm OK" feeling also leads to a "do nothing" attitude.

Successful companies are not deterred by huge or small gaps, by differences in methods of measurement or the corporate cultures of the two companies. They do not copy blindly, but analyze, massage and modify the data they have collected.

18. Communicating Benchmark Findings

Communicating the results of the benchmarking effort, including site visits, may seem at first glance to be simple. Yet there are pitfalls that can be converted into success factors, if the following points are covered.

The team report

Besides highlights of the entire benchmarking roadmap, it should include: the gap; the Z-chart, if possible; the quantitative data and qualitative narratives; the conclusions; and, above all, the recommendations for implementation within the company, along with projected resources.

Its length should be ten pages or less, with a one or two page summary of the conclusions and recommendations up-front for quick management review. Additional details can be attached as an appendix.

Presentation to management

A request by top management for a formal presentation by the team is a hopeful sign of potential project implementation. if, by contrast, management is too busy to listen, the project is a possible DOA (dead on arrival)!

Implementation.

There is a story of the champion swimmer who swam the entire English channel but, as he approached the coastline, he drowned. A benchmarking study can have brilliantly crossed the high seas, passed the shoal of competitive sharks and still drown as it approaches the coastline of implementation.

Assuming management has approved the team's recommendations, an implementation plan has been formulated, communicated and disseminated to employees, the remaining challenge is 'selling it' to employees, especially those who may have to put it into action.

19. The Spirit of Renewal

A company must periodically renew itself, to examine, as Peter Drucker advises, "What is its business; what will be its business; what should be its business." We live in a world of breathtaking change in markets, technology, and competition. Therefore, a company must periodically renew itself and its mission to keep up with these changes. Benchmarking is a way to monitor such changes and their impact.

20. Networking

Wouldn't it be wonderful if the complex world of benchmarking could be reduced to a cookbook of simple recipes? That ideal may still be far off, but there are some developments toward it. Networking is a stepping-stone in short-cutting investigations and reducing time and money, especially useful for small companies that cannot engage in a comprehensive benchmarking study.

21. 'Out of Box' Thinking

One of the games played in creativity training is asking the participants to draw four continuous straight lines through nine dots, arranged three in a row, within a square. Once started, the pencil cannot be lifted from the paper. Most people will draw lines within the boundary of the square and thus fail the test. The creative ones will go beyond the square or box and succeed.

This 'out of box thinking' is the last step in benchmarking. Some call it 'beyond benchmarking'.. It combines traditional benchmarking with the discipline of business process re-engineering (BPR). The objective is not simply to tinker with a business process and improve it. It is to abolish the within-box thinking that created the process and start again - radically change and simplify it and still meet customer requirements at lower cost. It is the difference between efficiency - doing things right - and effectiveness - doing the right things right!

Determining the best practices of a benchmark partner and incorporating them, albeit with modifications, is the objective of benchmarking. Out of box thinking uses a best practice not as the finish line, but as the starting gate.

22. Business Process Improvement Needs Corporate Nurturing

In the final analysis, benchmarking and BPR to optimize business processes are not stand-alone issues. They need nurturing. The teams associated with business process improvement need organizational support. They need a management revolution in corporate culture, which requires a change in employee values and thus in the way employees are hired, evaluated, compensated, and promoted.

Keki Bhote

Keki Bhote led Motorola's first benchmarking project and developed the company's formal Benchmarking Course. He runs his own Illinois-based consulting firm specializing in Quality and Productivity Improvement.