

WHITEPAPER: Benchmarking: Why? How?

In spite of benchmarking's popularity, some critics have called it a short-sighted, surface approach.

Keywords & Concepts

Customer Experience
Reverse Engineering Management
Strategy
Best Practices

Benchmarking: The Good

Considering alternative ways of doing things can spur the development of creative new ideas.

Benchmarking: The Bad

Benchmarking doesn't explain what makes another company successful and it can't tell you how to outperform your competition. In some situations, it can even lead to the adoption of detrimental policies and procedures.

Benchmarking

In a nutshell it's comparative think—companies measure themselves against the attributes of top performing competitors. The question is: Which attributes make for meaningful comparisons?

From Inside the Trenches: A Practitioner's Perspective on Benchmarking

When it comes to customer service, we find that too many companies disregard their unique sales propositions in favor of "what the other guys are doing." But copy-cat approaches don't define how your customer interactions need to unfold to reflect your specific brand and business objectives.

Call center experiences (including email and chat performance) **suffer the most from benchmarking's shortcomings.** This is because the accepted practice among operations and customer service managers is to rely on benchmarked averages to set their service levels for abandonment rate, time-to-answer and other prosaic metrics. While these attributes are fundamental to call center functioning, they have nothing to do with creating a compelling customer experience.

Clearly operations managers must specify tolerance levels for efficiency, but what customers remember are things like this: I took the time to write out my question and I got a gibberish, idiotic reply. Or: The guy answered my question but he was just plain rude. Failing to define your tolerance levels for memorable attributes such as information quality shorts your business objectives and shorts the customer experience. **Bottom Line:** Make sure your service level agreements include more than benchmarked metrics.

Strategy To Consider

When conducting benchmarking studies, don't limit your scope to competitor companies; also look at the array of companies that your customers are likely to compare you against.

An instructive story from AAA (American Automobile Association) illustrates the importance of comparables. At one point, one of their executives remarked that they found it most useful to benchmark against Domino's pizza. Why? Because their customers felt that if you could make a pizza AND deliver it within 30 minutes then surely it was possible to get a tow-truck out in the same amount of time. The moral of the story: When benchmarking, make sure you consider including comparables in your customer experience analysis.

Academic Roundtable

Benchmarking: Overview and History

In the 1970s, Xerox, then the world's top producer of photocopiers, saw its market eroding. Japanese competitors were making better products and selling them for less. So Xerox commissioned research to measure the competition's processes and procedures. The company discovered that it was lagging in a variety of areas including staffing ratios, assembly line rejects, product time to market, and machine defects. Alarmed by the results, executives at Xerox began a process of radical catch-up.

Going back two decades, in the 1950s companies like GE and Toyota relied heavily on the precursor to modern-day benchmarking, a system called "reverse engineering." Its purpose was to examine competitive product components to find out how to make their own products better. Xerox's key innovation of the '70s was to shift the focus from product components to the processes that drive success.^[i]

Since then, benchmarking practices have spread like wildfire. Benchmarking has been widely adopted across industries and among governmental bodies (especially in an increasingly unified Europe).^[ii] By the mid-1990s benchmarking was identified as "one of the top five most popular business processes" by Industrial Management magazine. The magazine's 1997 article on the subject asserted that "more than 70 percent of Fortune 500 companies use benchmarking on a regular basis."^[iii]

There are Three Main Types of Benchmarking

- Performance Benchmarking: Makes quantitative comparisons of other companies' input and/or output measures.
- Process Benchmarking: Evaluates the business procedures that other companies use.
- Strategic Benchmarking: Analyzes the driving strategies behind successful organizations to "identify possible alternative strategies and ways of improving performance."^[ii]

In practice, companies seem to rely most heavily on "performance benchmarking," perhaps because comparing simple quantitative metrics (time-to-answer, for example) is simple and straight-forward.

Benchmarking Loses its Luster

Although benchmarking has become extensively used in top-level management practice, something of a backlash has developed against it. Its sharpest critics have even referred to it as a "virus that has spread among finance directors."^[iv]

At first blush, the problem appears to be merely a technical issue. Namely, how do you standardize data coming from different sources to create meaningful, useful comparisons? However, more fundamentally, benchmarking critics identify problems inherent in comparing "best practices" to inform broad policy shifts. Some detractors go so far as to call it a short-sighted, surface approach that may hinder a superior "evidence-based approach to management."^[v]

Innovation Versus Benchmarking

Business strategists who focus on innovation tend to find these problems with benchmarking:

Problem #1. Benchmarking Aims Low: Because benchmarking strives only to copy others' performance levels, it doesn't reach for the excellent and the extraordinary. ^[v]

Benchmarking can only tell you how to live up, not how to break ahead of the pack. And

because it regularly fails to go beyond simple quantitative comparisons, benchmarking often leads to an uncreative approach to management strategy that may not even work. Instead of using benchmarking as a source for new ideas, it is often limited to establishing basic cost-cutting measures.^[ii] By definition "stacking up" does not confer the competitive edge necessary in today's economy.

Problem #2. Benchmarking Doesn't Uncover Root Causes: Benchmarking usually exposes only the most superficial qualities or strategies of a company or industry. Not to mention the fact that even the most successful companies employ a range of good and bad practices. So, without knowing what works and why it works you could find yourself on the road to decline.

Benchmarking critics Jeffrey Pfeffer and Robert Sutton summed the problem up with the following example:

"...when United Airlines tried to copy Southwest Airlines, it put its flight attendants and gate agents in casual clothes, flew only Boeing 737 airplanes, and stopped serving meals on the flights. However, these practices were not the key to Southwest's ongoing success; Southwest's unique culture...is much more important than the physical, more readily copied elements of its approach."^[v]

Benchmarking: Interaction Metrics Weighs In

In some situations benchmarking can be a helpful antidote to a closed-system approach that rejects outside ideas. On the other hand, companies must work vigilantly to avoid the desperate, "mindless" kind of benchmarking that "is a recipe for myopia, me-tooism, and mediocrity."^[iv] It isn't enough to be a copy-cat—companies need to be strategic about what they take from elsewhere.

Here is what seems clear: Benchmarking does not spot growth opportunities and it does not help with innovation, which is for many companies essential to competing in a global marketplace. If you must use benchmarking, combine it with other methods that measure your performance relative to your unique value proposition.

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