MOTION SYSTEM DESIGN

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7 Steps to Better Benchmarking

By Brad Wood

Brad Wood is vice president at Juran Institute Inc., a training and consulting services firm, where he is responsible for the development and delivery of benchmarking and performance improvement services.

To get the best results from this powerful performance improvement tool, you need a clear understanding of what it can do for you and a well-structured process for your initiatives.

Largely unheard of in the business world until the mid-1990s, when Xerox Corp. used it to enhance its competitiveness, benchmarking has evolved to become an essential element of the business performance management (BPM) toolkit and a key input to financial and business improvement efforts. Despite this, it remains one of the most widely misunderstood improvement tools. The word means different things to different people, and, as a result, benchmarking projects all too frequently fail to deliver on their promise of real results.

However, when executed correctly, benchmarking can be a powerful focus for change, driving home sometimes uncomfortable facts and convincing leaders of the need to embark upon improvement efforts. Benchmarking is a tool that enables the investigation and ultimately the achievement of excellence, based on the realities of the business environment rather than on internal standards and historical trends.

There are two good reasons for organizations to benchmark. First, doing so can help them to stay in business by enabling them to outperform similar organizations, including competitors. Second, it ensures that the organization is continually striving to improve its performance through learning. Benchmarking opens minds to ideas from new sources, both within the same industry and in unrelated sectors.

In this article, I offer a definition of benchmarking and discuss the discipline's strategic role in the effective management of performance improvement.

WHAT IT IS, WHAT IT ISN'T

Let's start with a look at what benchmarking is not. It's not "industrial tourism," in which superficial visits are undertaken in the absence of any point of reference or any real prospect of supporting the improvement process. It's impossible to acquire detailed knowledge of an operation after only a quick glance or a short visit.

Benchmarking also should not be considered a personal performance appraisal tool. The focus should be on the organization, not the individuals within it.

Nor is it a stand-alone activity; to succeed, benchmarking must be part of a continuous improvement strategy. Organizations must ramp up their performance rapidly to remain competitive in business environments today, and the pace is further accelerated in sectors where benchmarking is commonplace, where businesses rapidly and continuously learn from one another. A prime example is the oil and gas industry, where companies have to respond with lightning speed to ever-increasing business, technological, and regulatory demands. The majority of the key players in this industry participate in focused benchmarking consortia annually.

Benchmarking is not just a competitive analysis. It goes much further than a simple examination of the pricing and features of competitors' products or services; it considers not only the output, but also the process by which the output is obtained. And benchmarking is much more than market research, because it considers the business practices that enable the satisfaction of customer needs and thus helps the organization to realize superior business performance. Many definitions of benchmarking exist, each offering slight variations on common themes. Here's my definition: Benchmarking is a systematic and continuous process that enables organizations to identify world-class performance and measure themselves against that. Its goals can be summarized as:

- Identify world-class performance levels;
- Determine the drivers of superior performance;
- Quantify gaps between the benchmarker's performance and world-class performance;
- Identify best practices in key business processes;
- Share knowledge of best practices;
- Build foundations for performance improvement

Benchmarking projects can be classified in many different ways --for example, by the subject matter of the analysis, by the type of participants, by data source, or by methodology. There's internal and external benchmarking; competitive and noncompetitive benchmarking; functional, process, and strategic benchmarking; and database and consortium benchmarking. While different approaches have their pros and cons, and some are clearly more effective than others, they all should have the same ultimate objective: to help an organization improve its business performance.

Irrespective of the type of benchmarking an organization undertakes, a well-structured and systematic process is critical to success. The Juran 7-Step Benchmarking Process) **(Exhibit 1)** has been developed over many years by the Juran Institute and has formed the basis of numerous annual benchmarking consortia since 1995. I'll describe it here in terms of external consortium benchmarking, but the process is generic and equally applicable in principle to all types of benchmarking.

The process is divided into two phases. **Phase 1** is a positioning analysis that provides the benchmarker with a comprehensive study of the relative performance of all of the benchmarking participants and identifies any gaps between the benchmarker's performance and that of "best-in-class" organizations:

- **Step 1: Preparation and planning.** As with any other project, thorough preparation and planning are essential at the outset. Recognize the need for benchmarking, determine the methodology you're going to use, and identify the participants in your project.
- **Step 2: Data collection.** This stage involves deciding what you're going to measure and how you'll measure it. You need to define the benchmarking envelope -- what is to be benchmarked and what is to be excluded. At this point, you can establish the metrics you intend to use; these, too, must be clearly and unambiguously defined in order to ensure comparability of the datasets that you will collect. Finally, you need to determine the most appropriate vehicle for data collection.
- **Step 3: Data analysis.** The key activities here are the validation and normalization of data. Before you can perform any meaningful analysis, it's essential that all data be validated to establish its accuracy and completeness. Some form of data normalization is usually required to enable like comparisons to be made between what may be very different operational subjects. Without it, direct comparisons of performance are normally impossible and may lead to misinformed conclusions. To be of value, the analysis must indicate the benchmarker's strengths and weaknesses, determine (and, where possible, quantify) gaps between the benchmarker's performance and the leaders', and provide recommendations for the focus of performance improvement efforts.
- **Step 4: Reporting.** The analysis must then be reported in a clear, concise, and easily understood format via an appropriate medium.

Unfortunately, many benchmarking exercises stop at this point. But to maximize the value of the initiative, organizations must go further: They must build an understanding of the practices that enable the leaders to attain their superior performance levels. This is the purpose of Phase 2 of the 7-step benchmarking process:

- **Step 5: Learning from best practices.** In this step, the top-performing organizations share their best practices, to the mutual benefit of all of the benchmarkers. Of course, when some of the benchmarkers are true competitors, the options for sharing may be limited, and alternative approaches may be required to establish learning.
- **Step 6: Planning and implementing improvement actions.** Once the learning points have been ascertained, each organization should develop and communicate an action plan for the changes that it will need to make in order to realize improvements. The learning points should feed into the organization's strategic plan and should be implemented via its performance improvement processes.
- **Step 7: Institutionalizing learning.** The insights that you've gained and the performance improvements that you've achieved must be fully embedded within the organization; it's critical to ensure that the gains are rolled out throughout the business and sustained over time. Benchmarking can take place at the corporate, operational, or functional levels of the organization. Make sure that these levels are linked via a cascading series of interlinked goals to ensure systematic progress toward the vision.

SHAPING THE STRATEGIC PLAN

Organizations' goals all too often fall short of stakeholder expectations. A primary contributor to this sad state of affairs is the fact that goal-setting tends to be based on past trends and current internal practices. The external perspective is frequently overlooked, yet customers' expectations are driven by their experiences with the best providers in the industry and superior providers in other industries. Benchmarking can capture these external references and provide a basis for comparative analysis.

Exhibit 2 shows some ways in which benchmarking can help to shape an organization's strategic direction. It depicts a typical strategic planning process for performance improvement that begins with an organization's vision for the future:

- **The vision** will always be influenced to some extent by the organization's business environment and what others have been able to achieve. Benchmarking supplies detailed analyses of this environment and a factual basis for understanding what it means to be world-class, thereby helping to bring the organization's vision into focus.

- **Assessing current performance** and measuring the distance from there to the vision are critical activities for ensuring an organization's long-term sustainability. While many tools are available for measuring current performance, including market research and competitor analysis, benchmarking adds the ability to clarify the organization's position in relation to both the external business environment and the vision and to identify performance gaps. It enables the organization to adjust its strategy so that it can close the gap between its current reality and its vision of the future.

- Long-term plans or key strategies derived from the vision comprise strategic goals that address all aspects of the organization's performance, including business process performance, product or service performance, competitive performance, and customer satisfaction. By necessity, these goals will be constantly evolving. Benchmarking analyses enable the organization to set these objectives based on the external reality.

HOW GOOD DO YOU NEED TO BE?

Benchmarking enables decision-makers to understand exactly how much improvement they'll need to accomplish in order to achieve superior performance. Frequent and regular benchmarking helps you to create specific and measurable short-term plans that are based on current reality rather than historical performance, and which can support step-by-step improvements in performance over time. The objective is to overtake the top performers, turning a performance deficit into performance leadership.

An implementation process is required to convert long- and short-term plans into operational plans. You'll need to know exactly how your specific strategic goals are to be met and who has responsibility for executing the necessary actions. You'll want to calculate and allocate the resources required and schedule and control the implementation. The output from your benchmarking effort feeds into this effort by providing vital information about best practices.

Benchmarking is a powerful tool that can significantly enhance an organization's ability to strategically manage its performance. It forces managers to consider the broader perspective, to learn from outstanding performers, and to push beyond their own comfort zones. By revealing the best practices of top-performing operations, it can place your organization firmly on the road to world-class leadership.

EXHIBIT 1

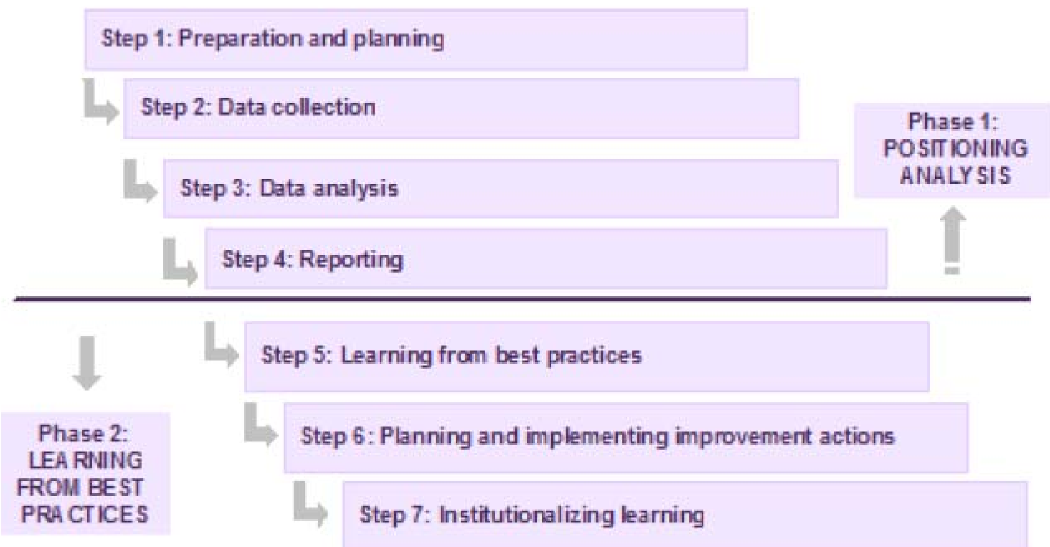

EXHIBIT 2