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External Benchmarking Hinges on Internal Data

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The need to collect comparative data has become an obsession among large companies, particularly those pursuing process improvements or cost effectiveness. The fascination with benchmarking has ignited debate over what information to collect, how to collect it and ultimately, what to do with it.

A lot of benchmarking data is never productively utilized because companies spend more time denigrating the available or collected data than applying it. Managements argue that data is not relevant because it's from companies in different industries, unrelated markets, with conflicting demographics or for other reasons.

Why invest the resources to gather benchmarking data to measure company performance against any external standard if it becomes little more than ammunition for debating management factions or discounted as irrelevant? Why spend the time if the ever-present apples-to-apples argument looms in the background?

Accumulating benchmarking data that people can agree is relevant and comparable is vital and there are numerous benchmarking resources. Companies have discovered, however, that it's easy to spend a lot of money and still wind up with little to show for it.

Recently, a consulting organization was engaged by a major corporation to conduct a benchmarking study. The results were to be used to demonstrate to senior management that the company had problems with internal service delivery. The firm paid approximately \$50,000 for the comparative data on a single function, a high price but one that might have been rationalized had the data been focused at the service level, such as payroll check processing or curriculum design, where it could be translated into actionable improvements. However, the data was centered on subfunctions, such as payroll or training, a level too high to support effective service-based costing and too vague for external benchmarking comparisons.

The study embraced a widely-held benchmark that the function in question should represent no more than one percent of gross corporate revenues, but the results showed the firm's function was over two percent. Presumably, that knowledge provided an opportunity for capturing the difference. What the data did not tell the firm was where to go to find the differential, where to focus at the service level or which services were out of line. So while the information had some value from the subfunctional perspective, it did not lend itself to defining the specific areas of service inefficiencies and what changes were necessary to improve performance. Once the company's management realized the data was lacking, they were forced to revisit the benchmarking process and conduct a second, more detailed and costly analysis using a service-based costing approach.

It's time to bring some reason and sensibility into our thought process regarding the collection of internal and comparative data, whatever the intended use of that information. We should be taking a more holistic approach, versus the piecemeal or one-off methods employed by most service providers.

Historically, companies have not done a good job of collecting all the data necessary, including staff and non-staff costs at the service-based activity level on the first try. Often, the scope of the task is not immediately apparent. When it becomes evident, people throw up their hands and look for reasons to abandon the effort, declaring it too complex, too difficult, too time consuming. Or, they take short cuts just to get through with it. When that scenario is applied to benchmarking, companies that begin with high hopes and good intentions fall short because they fail to collect comprehensive internal data before going outside to gather external data. They fail to invest the up-front effort internally, then criticize the external data as being irrelevant. If the external data shows they are doing alright, they pat themselves on the back and do nothing.

The purpose in all this data accumulation is continuous improvement action planning. Companies seeking to better leverage their delivery of internal services, for example, typically begin with an official-sounding designation for the study, such as feasibility analysis, business case, a compelling case for change, etc. They amass a sufficient amount of data to be able to approach upper management with a "costs/benefits" study. They may use an outside consultant or benchmarking service to make their case, but their focus is on collecting data that will give dimension to the opportunity, rather than gathering detailed information to support improvement, or to redesign services as part of a total implementation planning effort.

Because of this, they are often forced to revisit the implementation planning and collect more information because they lacked the level of detail that enables work to be redesigned. The second time around, the lights come on and they discover not only do they need information for implementation planning, but also the data from internal operating performance metrics that will tell them how they are doing, whether they are on track with the plan, and so forth. Then, they must also gather additional data on what their customers expect. At this point, they may be forced into another round of data definition and collection.

Much or all of this could all be done in a single step by taking a more holistic approach in terms of getting all the data that may eventually be needed for the various purposes.

In effect, there are probably three distinct data collection targets. First, senior management needs to be sold on the magnitude of the opportunity and/or the extent of current inefficiencies in order to propel them to try something new. Assuming that approval is gained, a second set of data must be available that addresses where to focus energies and what changes are necessary to produce these benefits. The third plateau involves data collection not just at the corporate entity strata but in more detail by operating units or other sublevel, in order for providers to demonstrate benefits and value

to strategic business unit (SBU) heads, in other words, to be able to say at year's end, "Here's what we have done for you."

An internal service delivery organization that seeks to move to service-based costing must collect all the data needed to manage and understand its portfolio of services and activities at the operational level, so the people involved in those operations can gain an understanding of where they are, demonstrate that the changes they make add value to the corporation and have an ongoing set of data to evaluate year over year results.

The benchmarking component is truly at the heart of all this by providing the means of gauging whether or not the improvements being made within the company on service redesign, reengineering, work elimination or whatever, is as much or more than the improvements being made in the outside world.

That component should be part of any data gathered on internal customer satisfaction for later use in service-based costing and external benchmarking. It is a critical element to look for in web-based measurement tools because when doing service-based costing, whatever names or descriptions companies choose to assign to their services or activities can be mapped back to the master service and activity hierarchy, such as the one in web-based WorkInsights.com. When the time comes for benchmarking, the data is also mapped to the master service and hierarchy list, eliminating the apples-to-apples comparison arguments because regardless of what another company calls their services or activities, it's all mapped back to same set of comparative data. This also overcomes a common benchmarking obstacle by providing a sufficient level of detail so that it is actionable by service delivery teams.

Finally, because the data is integrated with a company's service-based costing information, management can see the impact of the changes they make in their services and activities in subsequent periods (assuming they maintain their internal data), thus they can assess the difference resulting from the changes in service delivery costs before and after intervention.

Companies must determine whether they are true benchmarking advocates or merely industrial tourists. The latter reflects a curiosity about evaluating data; the former indicates a genuine and abiding desire to identify and understand internal costs, systems, triggers and the reasons underlying a company's cost structure. There must be a recognition and appreciation for the benchmarking data, a comparative base for making meaningful assessments and a commitment to benchmarking, with all its frailties, before a company is able to identify who is most like it in terms of circumstances, evolution or whatever factors make it who and what it is. Only then can a company discern which external companies make sense to pursue, network and gather best practices information.

Companies that have not first done their internal homework should not go out to do external benchmarking. It's a waste of time because they don't know what they're looking for or why. They also waste the time of benchmark companies, who assume the information seekers know as much about their internal activities as the companies they

seek to benchmark. After all, if they don't know and have their own internal data to offer in exchange, why should benchmark companies cooperate? What do they have to gain? It must be a two-way street where each party has something to gain.

Organizations committed to pursuing best practices through benchmarking data must first pursue internal service-based costing at the activity level. Those who would seek benchmarking data from others must first take the time and effort to define their own services and collect the cost information or whatever it is they wish to measure. This is important because there are a lot of industrial tourists who are unlikely to do anything but question the validity and relevance of benchmark data because they don't know anything about their own.

There are a variety of consultancies and methodologies for doing this, and also benchmarking research initiatives available with access to benchmarking data, best practices and face-to-face discussions with peer companies regarding what they do, how they do it, what they've accomplished and the systems, tools and approaches they employ.

The primary criterion for determining which option is best is the level of activity-based costing sophistication that exists within an organization. If a company is already doing activity-based costing, as well as productivity and quality analysis, it likely has access to the internal data that makes it a legitimate candidate for interaction with others in a benchmarking research environment. Lacking that internal data, participation in an external benchmarking survey, particularly as a one-time effort, is probably a myopic exercise.

An organization lacking that capability should take a more systematic approach by first utilizing a methodology that best suits its requirements, such as paper or web-based measurement tools, that assures better collection of accurate, credible information in a format that allows detailed analysis at the service or activity level, and also provides data that overcomes the comparability, relevance and quality assurance obstacles inherent in external benchmarking.