Keeping up with the neighbours

The futility of external benchmarking and the benefit of looking at your own backyard first

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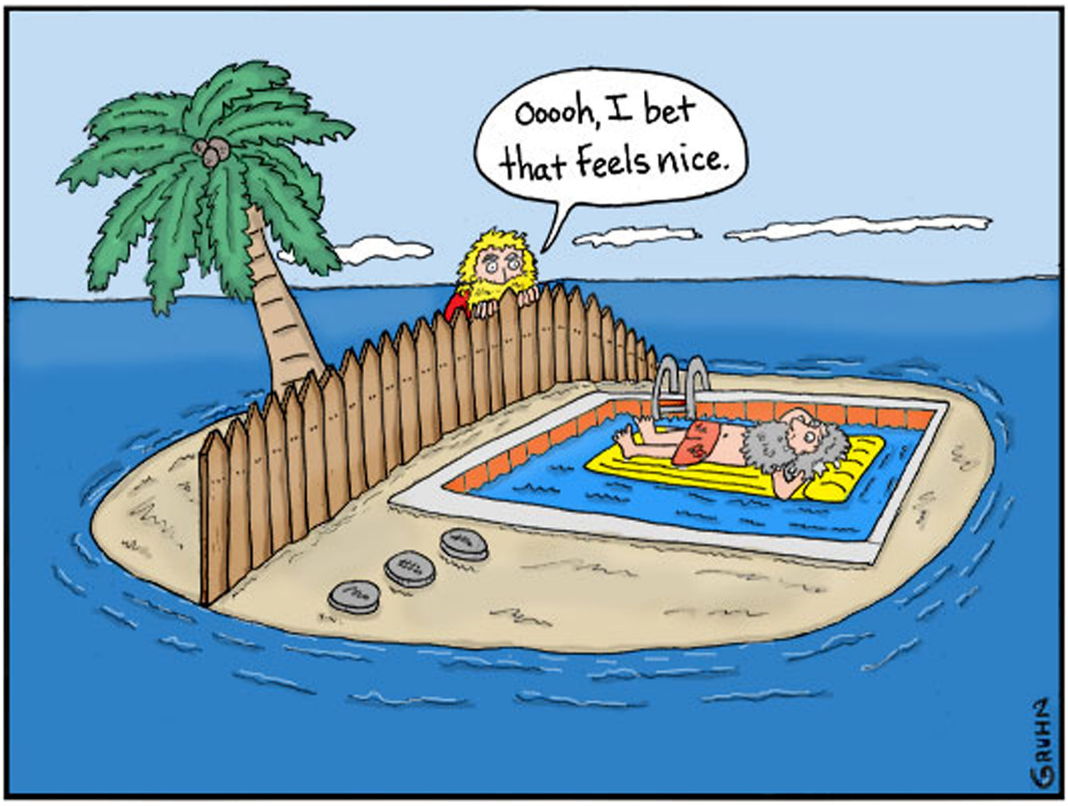
It is human nature to compare ourselves with one another. We all do it from time to time, subconsciously and consciously...the 'keeping up with the neighbours' syndrome. And we know the dangers that exists in doing this in our personal lives. Ultimately everyone is running their own race within different environments and with different underlying means and needs. I love this cartoon which shows how blinkered we can become, missing the bigger picture or opportunity.



The same is true of business. Simon Sinek wrote The Infinite Game which summarises perfectly why in the majority of cases external benchmarking is a futile exercise. Essentially playing an infinite game with a finite mindset. It's a great read.

We get asked often, whether we can add 'benchmarking' to the scope of the organisation design work we do. My central argument is that whilst often desired, external benchmarking - beyond a handful of standard functional performance metrics - generally has limited value. There are however, benefits to be realised by benchmarking across your organisation, in particular if you are a business of scale and span multiple territories and geographies. This article provides some of our thinking on this topic and offers a few tips we would recommend considering if you are planning an internal benchmarking activity.

In truth, 'benchmarking' rather undersells the opportunity.

What we are seeking to understand is the insight as to the efficiency and effectiveness of an organisation in order to make course corrections in line with your strategy...essentially an objective, non-politicised or financially skewed view of how an organisation is functioning and performing.

In our experience, many leaders love a benchmark - and for obvious reasons. Understanding how we fair against the 'the competition' gives us a sense of where we stand in the pecking order. It also provides a level of validation by having a quantitative measure to use rather than defining where you want to be or relying on gut feel.

I would argue that in general, there are dangers in comparing yourself with other organisations. Firstly, you are potentially limiting your ambition. Disrupters, more often than not, are not thinking how they compare with the average; they are thinking how they can change the game. "We don't have the same access to capital as Amazon" we will hear. I get the point but I'm not sure it's a great argument either.

There is limited value or insight to be gained by understanding for example, how 'our tech spend' compares against our peers. This doesn't mean there isn't value in interrogating this spend and indeed assessing how effective the technology outcomes for the business are. We do however see little value in comparing this spend against the next company or 'average' in a sector or market.

Secondly, you rarely have enough information to make the comparison meaningful. We often hear, "are we above or below x, y, z business" on a chosen metric where in reality, more information is required to determine whether your level of performance or investment is 'good' or 'bad'. It is at best impossible and at worst damaging to compare yourself with businesses with different DNAs, stories and contexts, revenue mixes or business models. There also tends to be a desire for external benchmarks to focus on efficiency measures, e.g. why are we spending so much on tech compared with others, rather than the outcomes the tech function are enabling in the business or what does it cost a publisher to produce a page or article rather than the revenue this effort generates.

There are of course a set of measures across functions and at the enterprise level that are truly comparable or certainly insightful. Even in this situation it is critical to apply nuance when using these comparisons in determining your performance. If anyone says 'give me your data and I'll compare you against our external data set' I would advise you to tread with extreme caution.

There is however, an area of benchmarking that can yield significant value and that is internal benchmarking. There can be rewards reaped in looking at how an organisation compares across its operations, especially across multi-locations within or across international borders. It can be incredibly insightful, unlocking significant value and this exercise has the added benefit of increasing the understanding of different parts of the business that very often work in a siloed manner from one another. In a number of business we work with, this insight simply does not exist. Investing time in this can identify everything from tactical procurement efficiencies through to strategic business and operating model opportunities. It can also be a highly engaging exercise too for the teams you get involved in this.

I've a few tips that you might find helpful when embarking on an internal benchmarking exercise yourself:

- **Secure senior sponsorship for the work.**

It might sound obvious but like any enterprise-wide programme, you must get sponsorship from the right level in the organisation. The output of this work, done properly, should be of immense interest to the whole executive team, including the CEO. It will also take the time of in particular the finance and HR teams so they will need to be supportive of this.

- **Carefully ringfence your P&L.**

Depending on the size of your organisation or scope of analysis, if you are not using the whole company P&L, ensue you can accurately identify the elements of the organisation contained within the headcount and non-headcount spent you have ringfenced for your analysis. A P&L will often have an 'other' category which can hide a multitude of different types of spend. Where you can, sub-categorise this 'other' spend in case you need to attribute it back into different elements of the P&L.

- **Translate elements of your P&L to headcount where required.**

To get an accurate view of the headcount spend in your business, you need to find those non-headcount line items that are essentially a proxy for headcount. Agency spend on contractors, for example, is a line item you need to split back out across the functions of your P&L to get a true comparison. There are lots of examples like this, each of them needed careful treatment. You will often find 'shadow' corporate functions can sit within a business and they need to be reclassified for accurate comparisons to be made.

- **Take the time upfront to ensure your organisation is truly comparable.**

It is no good comparing across an organisation if there is a different organisational make up in each area. For example, in some jurisdictions the property function might sit in finance, in another it might sit on its own or in another function. Depending on the complexity of your analysis you may well need to create a 'standard or template organisation' that each of the different areas of the business are then converted to, to enable true comparisons to be made.

- **Measure both efficiency and effectiveness.**

This means measuring both what it costs to produce a given output and then how effectively the output is in delivering a desired outcome. To give a basic example of this, how much does it cost to produce a product (efficiency) and how much of the product do you sell (effectiveness). So you will end up with a set of efficiency and effectiveness comparisons. The benefit of doing this also lies in finding effectiveness (in the case of sales or consumer facing functions this impacts top line) opportunities as well as efficiency (typically bottom line savings which can also impact top line outcomes too).

- **Adjust for the context of each part of the business.**

Especially for a business operating in multiple locations, across borders, the environment in which they are operating has to be taken into account. There are often different geographic or regulatory considerations, different product types or business models that will influence a region's perceived performance. Without recognising or adjusting for this, your modelling and subsequent insights will lose credibility when put under scrutiny. And under scrutiny they should be put!

- **Don't measure too much.**

For each part of the business, start with a few measures and build from there. To measure information accurately takes careful thought and so less is more...you can always add to it.

It is interesting to me that despite the amount of spend organisations have ploughed into ERP systems over the recent decades, there is still a distinct lack of insight to hand. This is due to the complexity of organisations, the quality of the information within these systems and also the process and change management required to get the most out of them. We have learned that there is very little substitute for thoughtful analysis, tailored for an organisation where disparate information is brought together to deliver actionable insight. We have seen this yield fantastic results and we call this understanding the True Economics of an organisation.

Benchmarking is an incredibly useful exercise... when used in the right way and when focused on your back yard, not that of your neighbour.

If you'd like to understand more, click here to get in touch.