

## thinktank series



# Benchmarking: *a load of old cobbles?*

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## Benchmarking: *a load of old cobblers?*

### Go beyond the comfort zones to innovate, challenge and improve organisational performance.

When, as procurement experts, we hear the term benchmarking, we often relate this to an exercise we must do to check prices and therefore justify our decision to buy from one supplier over the other. Benchmarking though, can be so much more than just a price comparison, it is a popular practice to help organisations evaluate their performance against others. The term was originally used by professional cobblers to measure people's feet for shoes, but nowadays, benchmarking compares one's business processes and performance metrics to industry bests and/or best practices from other industries. The underlying assumption is that what one organisation does, any other can do equally as well, and that being at least as good as the leader will drive commercial success and healthy competition.

This rationale attracts criticism from both the academic and professional communities despite the prominence of benchmarking in most industries and sectors. However, it would be wrong to dismiss benchmarking when studies suggest that assessing performance against your internal strategy and external competition is crucial to procurement as it directly correlates to cost reduction and adding value.

In this article, the first of our *Thought Leader* series, Dr Jo Meehan argues that certain problems reside in inappropriate approaches to benchmarking and explains how it should be used to drive true organisational value.

### Why are you benchmarking?

Procurement professionals commonly benchmark prices and operating process metrics to demonstrate the value of leveraged agreements, frameworks and outsourced services. But do you actually spend much time thinking about *why* you are benchmarking? This may appear an obvious question, but all too often it is overlooked, not given enough thought or honesty or dismissed by managers.

The first question you must ask is: what is your key driver for benchmarking? Is it to demonstrate value-for-money and if so how are you defining value for money? Challenge existing arrangements? Explore potential opportunities? To innovate? It's tempting to say 'all of the above' but benchmarking, like any other management activity needs clear objectives and a planned design or the data gathered is worthless.

Aims and objectives serve as the foundations for continuous improvement. Without these, the data amassed might be important on an individual level, but can lack structure and purpose – the equivalent of doing a jigsaw without the picture to help you fit the pieces together. The danger here is that without the ‘picture on the box’ the focus of benchmarking slides towards making the measurable things important, rather than measuring the important things – a sure-fire route to customer disengagement, poor service delivery and failure.

Evidence-based decisions have been shown to deliver superior outcomes when integrating data, expertise and customer preferences - yet there’s a cautionary tale to this...it does not mean that benchmarking per se provides superior outcomes. The benefits are only available if the information gathered is fit for purpose and actually used in the decision making, which brings in a much harder question to answer.

How honest and transparent are you being on “why” you are benchmarking? If it is predominantly a ‘tick-boxing’ exercise, it is doubtful that the data will be used to pioneer or drive innovation or new business practice. Are you really trying to challenge and innovate or are you justifying the decisions made? Or worst of all, is it just something you think you need to do or other organisations do?

New Institutional Theory explains how organisations strive for legitimacy and provides a valid explanation as to why people feel compelled to conform to cultural pressures in an organisation. A legitimate organisation is one whose values and actions are aligned with external values and expectations. However, organisations, particularly those in the public sector or regulated environments, often rely more on the support of external stakeholders than their own actual performance in maintaining this legitimacy. Therefore, they may establish benchmarking to provide an outward impression of rationality and efficiency to avoid questions surrounding their conduct, but will not necessarily use the data to their benefit.

## **What to benchmark?**

There are a seemingly endless amount of procurement performance measures that can be benchmarked, although only a relatively small number of these will have significant impact on the organisation. The key issue is relevance and focusing on those areas that have the biggest effect. There is some debate in professional circles about whether aiming to be the best-in-class in all procurement areas is an appropriate ambition. There is consensus, however, that procurement should deliver value – the assumption here being that procurement managers know which aspects of their operations truly add value, and equally important, which don’t. For example, if an organisation, and its customers, does not gain significant value from the instantaneous ordering of office stationery, then there seems little point in committing resource to benchmarking and developing this. Being best-in-class

in an area that offers no internal or external customer benefit is meaningless and highlights a lack of customer empathy.

Procurement managers need clarity on what value attributes they are benchmarking. In the social housing sector, as well as commercial benchmarks such as price, it is equally important to analyse against other measures of value, such as social and sustainability impacts or tenant impact. This is a crucial point in the context of benchmarking. An obsession with purely commercial benchmarks can compromise other areas of value, particularly if these lead to decisions that might harm local economies, existing suppliers or end user outcomes.

Often procurement professionals within social housing are continuously battling over benchmarking and value for money metrics. A key example of this at present is, should we benchmark on price or utilise local businesses? Neither is a bad thing and can both often deliver significant financial savings. What is important, though, is ensuring informed choice and what criteria is valuable to your customers. Management must ask themselves a number of questions: is this a critical area of spend where we need to derive commercial impact? By changing one provider, do we risk any issues with our current and/or local suppliers? How do we reinvest the savings generated? How would a move predicate our strategic values and objectives? What other options can we explore?

More complex areas of procurement value in the social housing sector include community engagement, partnership working with public sector agencies, local economic growth and sustainability. One of the problems with purely quantitative, commercial benchmarking is that procurement's contribution to these complex areas can become obscured. An increasingly simplistic view to benchmarking focusing on unyielding metrics makes comparisons difficult. Even price is not always clear cut. Is it the average price, does it cover delivery, supplier rebates etc? Paying the same price as a competitor for the same item is rarely a straight-forward comparison in terms of costs, as there is often a multitude of 'hidden' costs, caveats and overheads that need consideration.

### **Who to benchmark with?**

Benchmarking is traditionally divided into four types:

- internal;
- direct competition;
- industry; and
- best-in-class, moving from a focus on functional processes towards strategic world-class performance.

The risks of overextending procurement into areas that add little value have already been discussed, but other issues arise when deciding who to benchmark with.

Despite the difficulties of getting meaningful data from other organisations, the prevalence of industry benchmarking is often seen as best practice given the shared external environment. However, a risk here is known in academic circles as ‘mimetic isomorphism’, one of the most widely applied theories of organisational phenomena. This theory explains the imitation of organisations to others in its industry, believing the structure of the latter to be superior – and thus best to be mimicked as organisations assume a collective wisdom on optimum performance levels.

This can only reiterate the importance of understanding the reasons for benchmarking. Benchmarking with similar organisations in the same industry clearly provides the best assessment if you need to ensure you are paying comparable prices for key spend areas. But if benchmarking is to be used to drive innovation and growth or true cost reduction, you should scrutinise completely different sectors. Many innovations in modern organisations have explored new avenues in different industries – and totally avoided direct competition.

Organisational creativity and transformation arise when diverse disciplines, sectors and industries converge. Imagine the impact you could have on your cost base if you explored how you could be a better customer to a supplier as may have occurred in other sectors whereby through your specification of requirements or delivery demands you help suppliers deliver in a more efficient manner. This involves benchmarking beyond the realms of metrics to employ information and knowledge to transform how and where you add value.

## How to benchmark?

There are some fundamental principles for successful benchmarking.

- **Understand the data.** Evidence and data are not neutral tools and benchmarking is not an exact science. Statistics can be analysed subjectively, particularly when these are taken out of context or cherry-picked to show if something is successful or not. Similarly, be wary of making causal claims. Two things happening at the same time are not necessarily correlated in a simple ‘cause and effect’ relationship.
- **Promote transparency and dialogue.** Organisations are fraught with politics. The judgement of decision-makers is often questioned, particularly if there is a perception of cherry-picked data. Secrecy breeds suspicion and the criticism becomes not just ‘what is the evidence?’ but also ‘who says so?’ The use of third-party benchmarking providers and having an open repository for data that encourages debate and dialogue can help minimise these risks. A desire for consensus and compliance can marginalise some people or groups making them reluctant to engage. Ostracising these groups can

potentially exclude creativity and ideas. Debate does not have to become conflict; rather it helps to question underlying assumptions, values and different viewpoints.

- **Provide relevant comparisons.** Ensure you benchmark against appropriate organisations, consider the aims, use appropriate time scales and understand the constraints of the data. This might require multiple comparisons and multiple methodologies using a mix of quantitative and qualitative data to provide a more rounded, robust perspective. Retrospective assessments in dynamic markets also require caution for relevancy.
- **Turn information into knowledge.** Data is a statement about an observation; adding context turns it into information. Many organisations fail to take their benchmarking activity any further than this, particularly if it is being used to satisfy our governance requirements or stakeholders - for legitimacy. The real value is in adding an additional layer of understanding to turn information into knowledge. This requires exploration and deeper analysis of the information. Knowledge demands a more holistic and broad benchmarking process which addresses customers' key value drivers as well as supply-side opportunities to enhance the supply chain and look for mutually beneficial improvements.

## After benchmarking?

Presenting benchmarking results may be interesting, but the results are not particularly useful unless they drive improvement. Senior managers must ensure the relevant resources are available to implement improvements. Benchmarking should be transformative. However, while all improvement is change, not all change is improvement. Change must have focus, concern for consequence and take a holistic view to avoid those isolated benefits that achieve little strategic value or sub-optimize other areas of performance.

Implicit in change is choice and engaged dialogue. Managers develop informal mechanisms to facilitate their decision-making that manifest through 'satisficing' behaviours, a term coined by Herbert Simon in the 1950s by blending the words satisfy and suffice. Satisficing explains the tendency to select the first option that adequately meets the given criteria, rather than continuing to explore an optimal solution. If benchmarking data shows that your arrangements are seen as satisfactory this should not be the end of the process. Performing equally to others in your field will not bring transformative change or innovation. Organisational development requires a willingness to explore, challenge the status quo and identify new risks and opportunities.

Benchmarking is fundamentally about improving your performance and driving value. Let's move procurement beyond price comparisons and box ticking and into transforming, learning and sharing knowledge.

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