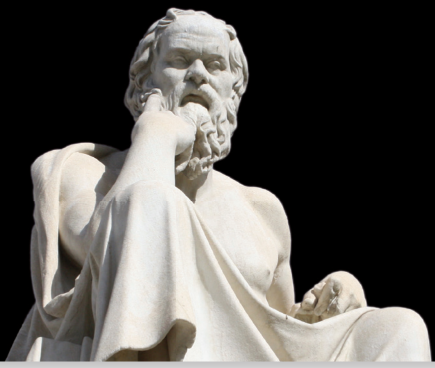

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Global Advisory Board

An article from the board that merits your attention

Benchmarking and the execution gap

Going for bronze

The Olympic Games serve as an apt metaphor for any kind of competition in terms of the price that must be paid to achieve a winning performance. The best athletes the world has to offer compete for the much coveted gold medal. They do not devote years of painfully hard work and tireless dedication to their sport so they can merely be as good as their competition, simply ‘going for bronze’. They strive to be the best and will not settle for any place but first.

The same can be seen in the world of business, particularly when it comes to benchmarking. While the saying goes that ‘imitation is the sincerest form of flattery,’ it is hardly a recipe for sustainable competitive advantage or enduring, winning financial performance. Benchmarking is a method by which an organisation identifies and examines key facets of another entity and then implements changes into its own operations. This process can be advantageous, yielding cost reductions, increased productivity and higher revenues. However, benchmarking basically levels the playing field—but a level playing field means the game has yet to be played. Businesses must seek an edge that distinguishes them from the field, not one that mimics the competition. This edge is both a way of outperforming the competition and, maybe more importantly, the ability and discipline to ensure a championship level of execution.

Mike Critelli. former CEO of Pitney Bowes, “Benchmarking only works with previously diagnosed problems for which other organisations have found solutions. It helps an organisation improve, but does not transform it. To make execution-related improvements transformative, leaders have to strive to attack the most deeply embedded habits.”

Michael Miles, former CEO of Cathay Pacific Airways, “We in the UK have witnessed first-hand during these current Olympic Games the winning-edge that is required to be the best. Having personally managed Cathay Pacific, one of the world’s consistently best airlines—not just as good as the rest—this lesson is one that I have always tried to emulate.”

The experiences of organisations in every industry are pooled together to forge best practices that guide executives as they try to determine the best way forward. Critics of benchmarking argue that it is a 'nice to do' but is also an insufficient and incomplete way to achieve winning performance. Imitating industry best practices does not require an organisation to look deep within its walls to define its own competitive edge. According to Michael Porter, the leading authority on corporate strategy, a company 'wins' when its strategy is based on the ability to do the same processes as its competitors differently or to pursue entirely different processes and practices. Finding this differentiator is both strategic and tactical. A winning differentiator is equally a unique and different way of going to market coupled with the ability to execute with discipline in order to reach the targets identified in the business plan.

Hank McKinnell, former CEO of Pfizer, "Be the team everyone wants to play for, and hates to play against. One message from this year's Summer Olympics is that world class performance can truly be inspiring. Inspire your team to reach for greatness. Benchmarking has its place, but being above average may not be a high enough goal to achieving performance that is truly inspirational."

There is an execution gap between a company's best demonstrated performance and the level at which it could be performing if it adopted a culture of disciplined execution; this gap can result in missed opportunities for revenue increases of eight to 15 percent, cost decreases of 15 to 20 percent and asset productivity improvements of up to 30 percent. The first step to capture these opportunities is to define a company's unique and different market position. From there, a company must execute at a level necessary to ensure lasting success.

Bernard Atalli, former CEO of Air France, "In French we say: 'comparaison n'est pas raison.' Translated it means, 'comparisons are misleading.' Yes, benchmarking is key in a competitive world. It is an important tool to better understand your positioning in the market. But once it is done, you still have to find a way to overcome the challenges your company is facing. If you just try to imitate your competitors, it will not work. A successful company always has a unique culture, a specific DNA. Comparaison n'est pas raison."

Alexandre Silva, Chairman of Embraer and former CEO of GE Brazil, "Benchmarking is a good tool, but becoming 'as good as' won't differentiate you. Understanding the market dynamics, listening to your customers, combined with innovative products and services, along with very special leadership and strong execution will make you the best in class."

Benchmarking does have its place as peer comparisons can provide valuable insights. These include helping to identify weak areas, uncovering industry innovations, creating a sense of urgency for improvement, encouraging continuous improvement, challenging operational complacency and preventing companies from falling behind the competition. Benchmarking can also bring about peace of mind from minimising the likelihood of being caught off guard by a competitor's action.

Alfredo Ovalle, former President of the Chilean Mining Association, "A benchmarking process is difficult to apply to mining, due to differences in the type of mineral, grade, granularity and hardness that generally result in procedures which make it materially impossible to analyse the distinct production costs and financial results.

On the other hand, mining companies are continuously experimenting internally with a special type of benchmarking—visiting companies that produce concentrates, cements or cathodes to verify that they are utilising the best techniques and ultimately good behaviour practices in their processes."

Yet, benchmarking should not be used as a crutch. Companies cannot overlook the execution gap nor can they settle for simply operating at the level of the competition. One ready example comes from the World Trade Organisation, which has liberalised trade to a great extent and established a set of rules to govern international trade and commerce. As a consequence, the organisation removed many of the protectionisms that previously guarded domestic companies from international competition. This has, in essence, turned the world upside down for many countries where the level of competitiveness just cannot keep pace with worldwide competition. Benchmarking amid changes such as these is not only difficult to do but also virtually useless. Instead, a country must harness and amplify its unique capabilities to stand apart from the rest.

Prof. h.c. Manfred Maus, Founder, former CEO and Supervisory Board Member of OBI, "Benchmarking one's competitors may enable one to survive by copying industry best practices. However, long term success requires more than survival. The implementation of a value-driven corporate strategy is inevitable. This requires one to live the most important corporate values: consequence and discipline. It is necessary to separate from those members of the board who do not fulfill these values. Only sustainably exemplifying these values leads to a meaningful implementation."

Allen Morgan, former CEO of Eskom, South Africa, "To sustain success, the main benchmark we should always strive to exceed is that of customer expectations. This requires identifying the winning characteristics of one's competitors and then exceeding those with an offering that differentiates in a compelling way."

The execution gap is that level of improvement between current performance and a future state where a company is both differentiated and efficient. This is the equivalent of going for gold.

Fortune favours the bold:

Most CEOs are expected by their shareholders and Boards of Directors to strive to be the best. The end result of a benchmarking approach is that a company will only become as good as the rest; and, by the time a level of parity with the competition is reached, they most likely will have moved on and left the company behind again. It becomes a vicious cycle of 'analyse, imitate, fall behind and catch up.'

Ray Wilcox, former CEO of Chevron Phillips Chemical and former President of Chevron USA Exploration and Production, "While benchmarking can be a very useful tool for any company or business segment, the results don't always drive the behaviours that result in top performance. A 'top quartile' or better rating can give a comfort level that stops the pursuit of continued improvement. Achieving execution excellence that continuously drives performance to top levels, requires one not to be satisfied just because the report card is good."

A better approach is first to understand the competition, but not to stop there. Companies must concentrate on the capabilities that will differentiate and elevate its products and services in the eyes of the customer. Then, with a strong focus on the point of execution, a company can ensure a seamless customer experience and ensure revenue, cost and asset productivity targets are clearly identified, measured, supervised and achieved.

Bob Lutz, former Vice Chairman of General Motors, "Benchmarking is a valuable tool, like so many in the toolbox of leadership, but it is often seen as a panacea, which it is not. It can easily lead to incorrect and even damaging conclusions and actions if the competitor activity being examined is not fully understood in its overall context.

An example of early benchmarking of Japanese automotive assembly plants revealed that, unlike Western plants at the time, they had no inspectors, who comprised a substantial portion of our workforce.

Knee-jerk elimination of inspectors in non-Japanese plants of the period would have had calamitous outcomes: We did not have the robust upstream quality assurance training and six-sigma supplier qualification systems in place which are a prerequisite for a fully error-proofed, inspector-less assembly plant. It was only an understanding of the entire, complex defect-prevention system pioneered by the Japanese that rendered inspectors redundant. Observing that the Japanese had none provided little value per se."

This requires special leadership on the part of the C-suite because it requires both thinking creatively and pushing the boundaries. Mid-level managers are often the biggest advocates of benchmarking because they believe the CEO will not be demanding if they can somehow reach the heights of industry's top-quartile. 'Good enough' is not going to cut it in the eyes of a company's stakeholders. Thus, the effective and top-performing CEO is always driving a culture of excellence and pushing for the next level of performance, not resting on top-quartile complacency.