

## **BENCHMARKING – AN EFFICIENT MANAGEMENT INSTRUMENT OF PERFORMANCE**

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**Abstract:** The current article defines benchmarking by emphasizing its characteristics as a decision making support instrument for an organization.

We present different types of benchmarking, along with its characteristics providing utility and the ways it can be used, focusing on the fact that the success of its implementation is based on the efficiency of using available information and on the operational quality.

Performance is one of the most important fundamental goals of an organization. In order to achieve it, the company must face strong competition, under complex current economic circumstances. Therefore, the strategy must be adjusted promptly to both external and internal factors, by continuously monitoring the cost-value ratio and the competition.

Benchmarking is an accounting tool from the strategic perspective. It is not a new concept, R. Camp has studied it starting from 1979 and published his first work on benchmarking in 1998.

Benchmarking, along with reengineering and value chain concepts, are meant to measure performance. These tools analyze the constantly changing business environment and are intended to integrate the strategy at all corporate levels.

Using this tool facilitates the implementation of the competitive advantages determination technique, with regard to own products and services compared to the competition. Thus, benchmarking is firstly based on information. It assesses not only the internal operations and the means employed, but also competition's output, mainly the leaders ones. It implies a fair and proper own diagnosis.

It is important to overcome the previous considerations on organization, production reconfiguration, reengineering and competition imitations. With regard to organization, the focus shall be shifted from jobs and positions toward processes and activities. Production reconfiguration is determined not only by insufficient profit, it must become an active process, focusing on quality improvement. Reengineering is not meant only for cost decreasing, but also for customer satisfaction. Finally, the competition imitation must be considered as the ability to gain competitive advantages, comparable to the competition. Comparison and imitation can have positive effects on organization's performance.

There are two types of benchmarking: external and internal. External benchmarking can be competitive, functional and generic.

Competitive benchmarking consists in comparing a company's performance with the competitors in the same operating field. The gain from imitating the most performing competitors can reach up to 20%, but gathering information about competitors is a more difficult process, considering confidentiality as a form of data protection. This approach is used mainly in the distribution, automotive and pharmaceuticals activities.

In distribution field, comparison and imitation can be also employed to a company performing a different activity, but with respect to information accuracy.

Functional benchmarking investigates the performance of core business functions and does not need to focus on direct competition. It implies the comparison of similar functions, such as distribution, production, logistics, marketing, sales. It is easier to gather necessary

information and the gain generated can reach up to 35%. As most of these companies share their customers and providers and still are not competitors, the exchange of management tools and programs is achievable.

Generic benchmarking generates gains of up to 35% for the companies using it. It involves analysis across industries, and compares companies using the same efficient work methods. It is not limited to gathering information, but it also implies the exchange of available information.

For example, NASA and American Express use the same human resources management approach; British Telecom and Brooklyn Union Gas employ the same tools to assess customer satisfaction. There are developed different benchmarking programs employed by companies operating in different fields, such as Bank of America, Xerox, US Army, Kodak, covering various functions (purchases, distribution, payrolls, process improvement, etc.).

M. Niculescu and G. Lavalette, in their book called "Growth strategies", published at Economica Publishing House in 1999, describe another tool similar to benchmarking, that can improve performance on the basis of efficient companies operations models: "A tool similar to benchmarking, called PIMS – Profit Impact on Market Strategies, a research program initiated by General Electric in 1960 and developed further by Planning Institute of Cambridge in 1972, consists in information exchange inside a voluntary group of companies. Each participant provides financial, commercial and strategic information and receives diagnosis reports about its activities, reports that can be used in results justification and future strategy development. There is no spy risk as the data is adjusted by a predetermined coefficient. Such "groups" can be created also by consultancy organizations having access to data, such as McKinsey, A. Anderson, Brossard (pp125, 200).

Internal benchmarking involves benchmarking businesses or operations from within the same organization (different branches, stores, production units, processes, etc.). The main advantages of internal benchmarking are that access to sensitive data and information is easier, standardized data is often readily available and usually less time and resources are needed. Obviously, the management intends to spread the good performance of certain units within the organization throughout it. The marker is considered the group average, a segment of the group, similar sectors within the same organization.

The gains generated by internal benchmarking implementation are up to only 10%, but the most important benefits are:

- Helps identifying errors and their adjustment;
- Provides a reference basis that is different from historical or predicted data, usually used in control operations;
- Ensures updated procedures;
- Develops team spirit within the employees of an organization, creating a group that acts toward the same goals;
- Shares organizational intelligence through internal dialog;
- Is motivational because its implementation in internal procedures and payroll system encourages the action toward realistic goals achievement;
- Ensures set goals' legitimacy;
- Mobilizes necessary resources for solving the problems and for identifying opportunities.

There are also other tools to identify, explain and adjust errors, but benchmarking has the advantage of developing reference from the very beginning, of monitoring it through continuous reconfigurations for the benefit of the customer, who receives quality products and services, of encouraging initiative.

Benchmarking can be quantitative or qualitative. Quantitative benchmarking indicates the competition performance dimension, thus this information is not of much help to the organization. Qualitative benchmarking involves information that facilitates organization's progress, providing useful data on available performance, methods, competitors' practices. Benchmarking is efficiently used by implementing it in the management system along other tools. The same method can be used in forecasting and budgeting activities, along other methods, such as BBZ (zero based budget), which is not appropriate for all organization's departments (e.g. production operations, where costs are mainly determined by sales). Unlike traditional methods, that have proven their limits, the constant, coherent and exhaustive use of benchmarking allows an effective goals (targets) setting. The continuous comparison to the target, the frequent check on errors, the identification of causes, error adjustment and the imitation of the leaders' methods, the setting of operational plans are sources of activity improvement.

The information provided by benchmarking becomes management standards, stimulating goal achievement as its effectiveness is proved by other organizations' results.

The management standard is motivational by nature because it meets the following prerequisites:

- Unbiased – it is based on real data;
- Fair – it is realistic, being an average of reality;
- Updated – it is periodically updated and reconsidered;
- Attainable – it can be achieved.

Although benchmarking was initially used as a strategic tool, by considering competition's information from the strategic point of view, it can also be used within the organization, allowing the management to share and explain the strategy at all hierarchical levels. Therefore management control is no longer separated from strategic control.

Benchmarking implementation has to follow certain steps, with specific phases:

1. Planning:
  - Identification of research object (products, services, practices);
  - Identification of comparison standard (competitor, another organization, department, process);
  - Choice of the information gathering method.
2. Analysis:
  - Identification of differences;
  - Setting the next performance target.
3. Integration:
  - Data dissemination;
  - Data acknowledgement
4. Action:
  - Elaboration and development of action plans;
  - Implementation and monitoring of action plans.
5. Maturity:
  - Benchmarking integration in current tools and practices.

In order to be effective, the organization must use both the external and internal benchmarking. It must not be constrained to the projection phase, but it must be implemented into a flexible management process, with regard to current economical conditions, being itself a flexible and innovative tool.

To conclude, benchmarking is a tool employed by any competitive strategy, ensuring best practice, an auto-diagnosis tool, a progress provider. It must be considered as part of flexible management techniques that implies learning, initiative and self-evolvement.

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