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## **A GLOBAL VISION OVER BENCHMARKING PROCESS - BENCHMARKING BASED ENTERPRISES -**

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### **Abstract:**

Benchmarking uses the knowledge and the experience of others to improve the enterprise. Starting from the analysis of the performance and underlying the strengths and weaknesses of the enterprise it should be assessed what must be done in order to improve its activity. Using benchmarking techniques, an enterprise looks at how processes in the value chain are performed. The approach based on the vision “from the whole towards the parts” (a fragmented image of the enterprise’s value chain) reduces the focus of the benchmarking process of the enterprise. This is the reason why we introduce a new concept: “benchmarking based enterprises” (BBE). Accordingly to this, the enterprises, particularly corporations, gather common features, accept their industry leaders, adapt to their specific features and accept a new vision of benchmarking shifted “from part to the whole”.

**Keywords:** benchmarking based enterprises, value chain, corporation, SME

**JEL Classification:** L1, M21

## Overview of benchmarking and benchmarking process

As a general concept, the benchmarking is considered as the running of a set of standard tests on one company in order to compare its performance and capacity to that of other entities. Therefore, the benchmarks could measure:

- Performance of a company system;
- Performance of a specific subsystem;
- Performance of a particular application;
- Capacity of an company system.

As practice proved, benchmarking is not a complex concept but it needs much care and attention. Basically, benchmarking is using the knowledge and the experience of others to improve the enterprise. Starting from the analyze of the performance and underlying the strengths and weaknesses of the enterprise it should be assessed what must be done in order to improve its activity.

A practical benchmarking method consists of two parties:

- *benchmarker* which is the enterprise carrying out a benchmarking procedure;
- *benchmarkee* which refers to the enterprise being benchmarked.

Taking into consideration that the knowledge available for comparing operation and processes are wide, the information is the central point. The information is there for entities (benchmarker and benchmarkee as well) and it should be evaluated, implemented and spread. This is one of the primary purposes of benchmarking because it is the process of using all of the knowledge and experience of others to create and develop new ideas. This is basic teamwork, which is the trend followed by the modern entities nowadays. In that way, many entities understand the great achievement generated by a strong and efficient collaboration between leaders in an industry.

There are three reasons because benchmarking is becoming more commonly used in industry (Boxwell, 1994). They are the followings:

- Benchmarking is a more efficient way to make improvements. Managers can eliminate trial and error process improvements. Practicing benchmarking, they focus on tailoring existing processes to fit within the organization;
- Benchmarking speeds up organization's ability to make improvements. In corporate and global world today, time is of the essence;
- Benchmarking has the ability to bring corporate and global world 's performance up as a whole significantly. If every organization has excellent production and total quality management skills then every company will have world class standards.

Even though several classifications of benchmarking are recorded in the relevant literature, the typology of benchmarking is examined under two main categories *internal* and *external*. *Internal benchmarking* or auditing yourself is an approach which includes the analysis of own performance and the assessment on the basis of several criteria such as objectives or improvements compared to previous years. The reason of this approach consists on the

difficulty of using external benchmarking due to cultural and managerial differences and access to external data.

*External benchmarking* requires a comparison with external entities in order to discover new ideas, methods, products and services. The practice shows that the majority of benchmarking procedures have been refined aiming to identify performance gaps and learn about others' best practices. The rule is firstly to identify performance gaps regarding production and consumption within the enterprise and then to develop methods to close them. Next, benchmarking goes beyond comparison and looks at the assessment of operating and management skills producing best practices. Also, benchmarking seeks to find the best practices regardless of location and geographical areas of influence.

As a form of external benchmarking, *generic benchmarking* is a performance improvement process which suppose looking at best practices, recognized nationally and internationally, or world-class organizations. Nowadays, the core idea of benchmarking is to identify the best practices or the best performing businesses in the industry and improve one's own performance by adopting good practices used by others or guidelines established by professional national or international organizations.

Benchmarking is not just making changes and improvements but it is about adding value through a more focused value chain. No enterprise should make changes to their products, processes or systems if the changes are not beneficial.

When using benchmarking techniques, an enterprise looks at how processes in the value chain are performed (Stevenson, 1996):

1. Identifying a critical process that needs improvement;
2. Identify an organization that excels in the process, preferably the best;
3. Contact the benchmarked enterprise and study the process or activity;
4. Analyze the data;
5. Improve the critical process at your own enterprise.

But this approach reduces the focus of the benchmarking process to a vision “from the whole towards the parts” of the enterprise. This means a fragmented image of the enterprise’s value chain that requires a complex benchmarking process used at the enterprise level which will be named “*benchmarking based enterprises*” (BBE). In this new approach, the enterprises, particularly corporations, should be gathered on common features, should accept their industry leaders, should adapt to their specific features and must accept a new vision of benchmarking shifted “from part to the whole”.

There are two steps the paper will make:

1. first it will prove that is more practical and logical to implement benchmarking at a corporative level as culture and managerial practices can be easily adapted and accepted in an already global environment;
2. secondly, it will prove and underline the necessity of creating a *common benchmarking pattern*, as a result of the new *BBE concept*, for the whole value chain of an enterprise taking into consideration that there is a need for changing and adapting the whole in order to improve the parts.

## Why a new vision over benchmarking?

The benchmarking concept can not be generally applied to all kind of companies. Therefore, it appears differences in function of the type of firms, the form of property, the size and type of activity.

First of all, it is important to consider the difference between the private companies and the public ones. In the public market the benchmarking is applied to improve the quality and the efficiency of the services analyzing the standard of the best customers or users.

On the public market the benchmarking approach has a different aim linked to an improvement of the public services offered to the citizens. In particular this approach has the capability to:

- help the comparison among performances about services;
- favorite the improvement, the development and the opening to the external comparison among systems for planning and control of public administrations;
- support the introduction of new evaluating systems;
- develop new tools for the planning and control activity on the public market.

In the private market the benchmarking approach is used because of the business competition. Also, it allows to reach an endless improvement and a continuous evolution inside the firm and using this approach it can be possible to have better performances in the following business areas (Noni et al, 2007):

1. *To satisfy customer's expectations.* It becomes crucial to gain or to maintain a competitive advantage to comprehend customer's needs before the competition.
2. *Involvement of all the employees.* In a benchmarking process it's strategically important to involve all the business functions and all the employees. It doesn't matter their degree of responsibility in the project: the new perspective has to be completely shared inside the organization.
3. *To implement the competitiveness.* The benchmarking approach highlights the gap between the attended and the real results pushing the enterprise to improve in the weakest functions and processes.
4. *To determine clear, realistic and reachable goals.*
5. *To develop an appropriate indication for the productivity.* Only comparing the internal processes in a benchmarking perspective, a enterprise can better understand its strength and its weakness.
6. *To support and push an internal cultural change.* The benchmarking helps the management to understand the importance of a continuous improvement in areas as productivity, internal and external costs control.
7. *To define and sharpen business strategies.* Thanks to the benchmarking, through evaluation of the strategies for other firms, it can be possible to develop new business plans quicker and in a cheaper way without starting from zero.
8. *To preview the failure.* The benchmarking shows to the enterprise if and when it starts to loose competitiveness comparing with the competitors in term of costs, technology, management and customer satisfaction.
9. *To test the efficacy of the quality program.*

10. *To apply the reengineering.* The benchmarking becomes a necessity for companies that are reviewing their processes and systems.

11. *To promote more efficient methods for problems solving.*

12. *To push creativity.* A continuous benchmarking on the business key functions offers new perspectives to the management in order to look at the internal functions and processes.

Also, there are some differences in function of the size and importance of the firm. In the case of the SMEs, in terms of challenges and pitfalls, the main elements are the followings:

- Small and Medium Size Enterprises are often reluctant to participate in a benchmarking study due to lack of time;
- scarcity of financial resources;
- deficiency of personnel resources;
- lack of business process understanding;
- inadequacy of appropriate skills;
- and perplexity in selecting an appropriate partner. Those SMEs that do benchmark often restrict their partner search to their local environments.

Taking into consideration that the small and medium firms have to face all these deficiencies for applying the benchmarking concept, we consider that is more practical and logical to implement benchmarking at a corporative level as culture and managerial practices. In this context, there are the following characteristics which impose the corporate benchmarking:

- *Finding benchmarking partners willing to participate in the benchmarking studies.* This is one of the most difficult of all tasks, which is quite usual in benchmarking. In the case of corporations, identifying companies that seem to be comparable in terms of size, market conditions, industry, etc., that is believed to be sufficiently better to have something to teach others, and at the same time are willing to share their best practice information, is not as difficult as it seems. The large companies have the means to run searches through many different channels: the enterprise's own network, industry associations, area experts, etc.
- *Using both quantitative and qualitative benchmarking information.* The information sought in benchmarking normally consists of two parts:
  - quantitative performance data used to determine the differences in performance levels among companies;
  - qualitative business process descriptions used to create learning among them.

The development and the using of quantitative and qualitative indicators of performances needs a vision of the business in a perspective of value creation developed in contexts with different characteristics involved in a continuous cultural evolution. From the quantitative point of view, it has to be analyzed the difficulty of the heterogeneity of the data with an acceptable degree of generalization and this is more easy to be applied in the case of corporations.

In a qualitative perspective, it is quite difficult to conceptualize first and to concrete then the choice of the right variables that allow to explain different levels of success (performances) obtained by the firms inside their competitive arena and to identify the organizational model they depend on (practices).

The usable data present corporations that belong to different geographic zones, to different sectors and that present a dimensional component very different one from the others.

- *Business process understanding.* Many of the benchmarking partners (large companies) had modeled their business processes and could give a flow chart depicting these.

- *Comparability of companies and processes.* The benchmarking partners are chosen because they had a similarity or relationship with the industrial partner and this ensure comparability of their processes. Even though not all information are comparable, at corporate level there could be still generated new ideas for the industrial partners, much more easier than at the SMEs level due to multitude of available information, possibilities of adapting and generalization.

### **The new BBE concept**

In the new context, we could underline a necessity of creating a *common benchmarking pattern*, as a result of the new *BBE concept*, for the whole value chain of an enterprise as there is a need for changing and adapting the whole in order to improve the parts.

In the current economies, every benchmarking process is slightly different according to customer requirements. In this respect, there are differences between developed economies and transition economies, between the small and large enterprises and between the private and public enterprises and the list can continue.

Anyway, there are some important features outlining the major steps from inception of the benchmarking process to the final report and presentation of the benchmarking results. These make the benchmarking process to be seen as a common "backbone" on which every enterprise adapt its characteristics, combining the hard quantitative data with qualitative on-site research. Once gathered the data, they are transformed into the entire value chain - from suppliers via manufacturing facilities of the enterprise to customers - or parts of it in order to suit the enterprise's requirements according to the BBE concept.

#### ***1. Benchmarking project initiation***

Once the scope of the project is agreed, the date for the main on-site process benchmark is set. The performance questionnaires are distributed to the stakeholders (management, sales/marketing, logistics, production, quality, human resources departments within the enterprise, suppliers and customers).

Whilst detailed quantitative data is generated using benchmarking questionnaire, other elements allow to add an in-depth understanding of how process issues impact on performance levels, such as: the customer and supplier questionnaires that are sent to the enterprise's major customers and suppliers; the process benchmark, which encompasses management and labour interviews as well as factory measurements.

The benchmarking tool is moreover not restricted to the generation of only operational performance variables. Both firm-specific and value chain issues are covered by benchmarking product and process performance variables in a firm, as well as customer and

supplier demands pertaining to its performance. This is achieved through the use of five complementary components:

1. A comparative firm-level benchmarking questionnaire;
2. Customer competitiveness profiling tool;
3. Supplier competitiveness profiling tool;
4. Management and labour interview template;
5. Factory measurement template.

The customer benchmark outlines the manner in which a firm is meeting its "market drivers", whilst the detailed firm-specific benchmark questionnaire generates performance indicators of operational competitiveness, particularly as they pertain to these "market drivers". The management and labour interviews benchmark the processes and organizational issues impacting on the performance of the firm, whilst the factory measurements verify the accuracy of the information generated from the questionnaires and interviews.

The supplier questionnaire operates in a similar manner: it identifies key issues impacting on the relationship between the benchmarked firm and its most important suppliers. Therefore, the benchmarking process will be capable of providing a mechanism for diagnosis not only how an enterprise is performing relative to another enterprise (or group of enterprises) in a similar market segment, but also why a given enterprise's performance levels are what they are.

The analyzed market drivers are the followings:

1. *Cost control* (i.e. total inventory holding);
2. *Quality* (i.e. customer return rates);
3. *Value-chain flexibility* (i.e. customer lead times, delivery frequency to customers);
4. *Value-chain reliability* (i.e. on time and in-full delivery to customers/from suppliers);
5. *Human resource development* (i.e. employee development/training, employee output);
6. *Product innovation* (i.e. R&D expenditure and sources of R&D).

## **2. Data Processing – 1<sup>st</sup> Step**

All the questionnaires are collected and the data is analyzed. Once the five components of the benchmarking process are undertaken, a concise detailed report is compiled for clients, outlining their comparative, customer and supplier benchmark performance, as well as the principle reasons underpinning evident gaps. The discrepancies in the collected data are flagged for discussion on the day of the on-site process benchmark.

## **3. Benchmarking Process**

The process benchmark takes place at the enterprise to be benchmarked. The process starts off with presenting an overview of the benchmarking role on achieving global competitiveness. After this, there are conducted in-depth interviews with top management, sales/marketing, logistics, production, quality and human resources functions within the enterprise, focusing on specific aspects of their individual features as well as working through any issues that have become apparent from the 1<sup>st</sup> step data collection. Following the interviews, a visual enterprise evaluation is performed, facilitated by supervisors, and wrap up with a feedback session with top management.



#### ***4. Data Processing – 2<sup>nd</sup> Step***

Having completed the process benchmark, all data collected are analyzed and an extensive report is prepared outlining findings as well as statistical comparisons on the areas of:

- Economic performance;
- Cost control;
- Quality;
- Value chain flexibility;
- Value chain reliability;
- Human resource development.

#### ***5. Elaboration of final report***

The report is submitted to management and a formal on-site presentation will analyze the key findings in depth.

### **Conclusion**

International experience suggests that there are numerous key variables to benchmark across all industries. But, in addition to these general benchmarks, each industry also has specific parameters to be considered. The benchmarking concept can not be generally applied to all kind of companies. Therefore, it appears differences in function of the type of firms, the form of property, the size and type of activity.

In the modern economies, every benchmarking process is slightly different according to customer requirements. In this respect, there are differences between developed economies and transition economies, between the small and large enterprises and between the private and public enterprises and the list can continue.

In this new context, we could underline the necessity of creating a common benchmarking pattern, as a result of the new BBE concept, for the whole value chain of an enterprise as there is a need for changing and adapting the whole in order to improve the parts.

Therefore the BBE concept should be combined with a "like-with-like" vision (benchmarks between firms competing in the same or similar market segments) that proves to be the most useful particularly when the findings are being used to direct management action.

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