

THE IMPORTANCE OF BENCHMARKING IN MAKING MANAGEMENT DECISIONS

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Abstract

Launching a new business or project leads managers to make decisions and choose strategies that will then apply in their company. Most often, they take decisions only on instinct, but there are also companies that use benchmarking studies. Benchmarking is a highly effective management tool and is useful in the new competitive environment that has emerged from the need of organizations to constantly improve their performance in order to be competitive. Using this benchmarking process, organizations try to find the best practices applied in a business, learn from famous leaders and identify ways to increase their performance and competitiveness. Thus, managers gather information about market trends and about competitors, especially about the leaders in the field, and use these information in finding ideas and setting of guidelines for development. Benchmarking studies are often used in businesses of commerce, real estate, and industry and high-tech software.

Keywords: *benchmarking, performance, competitiveness, decisions, management.*

1. Introduction

This paper identifies a performance management tool that can be applied to business practices and performance of any enterprise, which can be compared with those of other companies, to identify opportunities for improvement.

The study develops the concept of benchmarking and shows the importance of comparative analysis in identifying, understanding and adoption of best practices within and outside the organization. By choosing as comparator the performance of companies that have achieved outstanding results in a certain area and by comparing these with its own results, the company that uses benchmarking is able to find the most appropriate ways to acquire practices which are reachable and to improve own performance.

In the first part of the paper are presented the concept of benchmarking and its usefulness. In the second part of the paper, are presented the stages of benchmarking and are highlighted the advantages and disadvantages of using it.

The subject in our paper has been the subject of numerous research reflected in scholarly articles, in journals, in books of accounting and management control. Existing studies support our approach and are summarized in section of scholarly literature.

Benchmarking was originally applied in manufacturing industries, and subsequently in other sectors such as trade, tourism, transport, real estate, high-tech software and even education. Modern Benchmarking was initiated by Rank Xerox in the

'80s and promoted by large companies, such as Toyota, General Motors, Motorola, in tough competition with rivals, and is considered a method of achieving competitive goals, promote strategic thinking and to help organizations to develop their strengths and reduce weaknesses.

Benchmarking is a dynamic and evolutionary tool, and its main features are played, still, through a review of the literature:

- Benchmarking is the process of identifying, analyzing and adopting the practices of the best performing companies, in order to improve business in own company. Benchmarking is not limited to identifying best practices, but also consists in analyzing and deepening their own practices, those of the competition and also their application within the organization. (*Bouin, X., Simon, F., 2001*);

- Benchmarking is a continuous process of performance evaluation [...], perhaps the only way to remain among the best;

- Benchmarking is a tool for learning about how to improve activity, processes and management;

- Benchmarking is an information system that allows an enterprise to display their development strategy;

- Benchmarking means a way of identifying potential improvements in the field of efficiency and effectiveness, of current operations, but also of strategy, by comparing company performance with the performance of others;

- Benchmarking is defined as the process of measuring and continuous comparing of business processes with comparable processes of dominant organizations in order to get information that will

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help the organization to identify and implement improvements. (Andersen, B., Pettersen .mu.g., 1996);

- Benchmarking can be defined as a continuous process of measuring of products, services and business practices of a company, compared with its best performing competitors and with companies recognized as being performant. Also, it is a continuous and systematic process of evaluation of companies as market leaders, of determination of business and manufacturing processes that represent best practice and to obtain reasonable performance targets. (Rank Xerox company)

2. Benchmarking - a new path towards organizational performance

2.1. Typologies concerning benchmarking

Managers of a company may choose one of the following types of benchmarking:

Internal benchmarking is done by the comparative analysis of processes between two compartments of the same organization (one of them being considered as reference). Regarding access to information, this is unlimited. The potential gains can only reach 10%, a lower level than the external benchmarking. Experts believe that internal benchmarking should be considered an intermediate step in the process of reporting at the identified leader in the field.

External benchmarking targets organizations outside the company. If you cannot establish a partnership in practice of benchmarking, getting data in this case is done with great difficulty.

External benchmarking can be applied in the following forms:

- **Competitive benchmarking** consists in analyzing strategies, processes and practices of other competing organizations or of those with same activity. Data collection is performed with difficulty, fearing industrial espionage. Earnings can range up to 20%;

- **Functional benchmarking** aims comparison a certain functions of the organization performing benchmarking with a similar function of a particular organization taken as reference in order to identify new options for improving future work. The advantage of this type of benchmarking practice consists in easier way to collecting data, because non-competitive ratio that exists between companies showing interest in creating these partnerships that can generate positive results for all parties. Earnings may reach 35%;

- **Generic Benchmarking** is realized between enterprises from different sectors, related to the processes and working methods. Data exchange is done relatively easily, and the gain obtained by this method can be up to 35%;

- **Benchmarking strategic** (long-term) involves the analysis and evaluation of strategies that have generated high performances; implies the comparison of strategy, allowing the quantification of future development strategies of the company, regarding processes, technology and distribution;

- **Horizontal benchmarking** - aimed at identifying best practices in operation processes of organizations that are recognized as market leaders, but who are not direct competitors of the organization that conducts benchmarking. The main advantage lies, in this case, in the ease with which data can be obtained, because organizations are not competing.

2.2 Implementation and deployment of benchmarking process

Implementing a benchmarking process helps the management to obtain data to support decision-making, to formulate and implement the strategy, but also requires the full support from management (time, effort, financial resources). The purpose of the benchmarking process should be clearly defined at the outset: what you want to know, why, and what you intend to do with the results?

In the process of benchmarking must be taken decisions regarding the purpose and expected results and must be identified areas or aspects of the organization's activities which will be subject of benchmarking process. These must be consistent with the organization's profile and mission and organizational development. It is essential to have a clear understanding of the issues and, depending on needs, these must be prioritized so as to be launched a realistic benchmarking exercise, having adequate resources.

The reasons for making, in a company, a benchmarking with leading organizations are numerous. Benchmarking can be applied in situations in which the organization:

- is still competitive, but competition is becoming stronger and stronger and key indicators of the company are deteriorated;

- is in difficulty and the management trying to reach a level of total quality (according to ISO 9000);

- needs innovative ideas, other than those proposed by its collaborators;

- is occasionally and sincerely interested how unfolds various processes in the highest rated companies on the market;

- is in a survival situation.

In order for benchmarking to become an effective process to improve the functioning of a company, the following need to be pursued:

- evaluating its own work, identifying strengths and weaknesses, which can be turned into opportunities for improvement;

- knowing the competitors and the leader in its

field of activity;

- incorporating best practices in its work.

Implementation of the benchmarking process supposes four main stages:

PLAN – DO – CHECK – ACT

- g) **Planning** is the first step and aims to establish the object of comparison (products, services, working methods) that needs benchmarking, selecting the comparison item (competitor, another firm, departments, processes) and choosing the methods of collection, evaluation and comparison of the data.
23. Training Team - it is a decisive factor in the success of the analysis because are very important the qualities of team members, knowledge of the process and detailed knowledge of the organization studied;
 24. Documentation concerning the process of analysis - includes activities such as identifying the area of analysis, identifying critical success factors, development of factors for their quantification; it is recommended to use quality management tools such as flow charts or others that can serve this purpose.
 25. Identification of the subject of Benchmarking analysis - it is important to take a decision in this regard in the first moments of designing benchmarking, because of the possibility carrying out a superficial analysis on a wide range of investigation or a thorough analysis focused on a small area.
 26. Elaborating a statement of the purpose of benchmarking - prevents any deviation of the team from the purpose originally set.
 27. Determination of criteria for the selection of partners - directly related to the critical success factors that will determine the selection of partners
 28. Identifying potential partners - based on the selection criteria specified in the previous step.
 29. Establishing the plan for data collection - are chosen tools and techniques of data collection (interview, surveillance, drafting of questionnaires).

h) **Application** - aims actual choice of partner for comparison and data collection.
 30. Research regarding data collection in order to select partners - identifying and selecting information sources for processes of partners.
 31. Evaluation of results and identification of potential partners - between partners identified in the planning stage are selected only partners that best fit with the purpose of benchmarking designed, by assessing depending on critical success factors selected in the planning stage.
 32. Development of instruments for data collection - after selecting target organizations, the information relating to them must be reevaluated, collected and processed.
 33. Internal evaluation of selected instruments for analysis - it's recommended that before the practical application of selected tools for analysis, these be tested within their own organization.
 34. Contacting partners to identify and request for participation in Benchmarking - partners selected for reviews have to be contacted and solicited for cooperation in the designed Benchmarking.
 35. Selection of partners - is done according to the interest for the proposed analysis.
 36. Drafting the questionnaires
 37. The management of detailed investigations - involves implementation of all tools and methods selected.
 - i) **Checking (analysis)** aims to identify and quantify the differences between their own performance and those of the chosen partner and also to establish the causes which explain the performance of the best one. Also future performance targets are identified and approved (improvements resulting as necessary) and action plans are established.
 - Comparing the performance of their own organization with those of the partners - it involves processing and transposing the information gathered in a manner that allows comparison and subsequent identifying of differences.
 - Identifying operations such as "the best practice" - will answer questions like: What do partners do and the organization that is subject to this study does not? How do partners do that?
 - Formulating the strategy of implementation - it involves assessment of adaptability of solutions, identifying improvement opportunities, cost analysis.
 - Preparing the action plan.
 - j) **The action** aims to release the action plans and monitor the progress. Also are identified standard targets achieved and new practices are fully integrated into the organization.
 - Implementing the action plan - at this level it is important to pursue the implementation of all solutions developed initially without them to be "dissolved" or interpreted.
 - Monitoring and reporting progress - it's important that periodically request reports from senior management regarding the implementation of the improvements plan.
 - Develop a plan of continuous improvement - identifying new opportunities for benchmarking, identifying new occurred lack, etc.

Each Benchmarking study is specific. There is no universal recipe to be followed in drawing up a Benchmarking study. As a starting point is essential the understanding of the functional and risk profile of the tested company. This profile is obtained after performing a functional analysis. Particularities and terms of the transaction analyzed also have a significant role in establishing the strategy of searching of potential comparable companies.

2.3 The advantages and the disadvantages of the benchmarking

Advantages

A major advantage of practicing internal benchmarking is the possibility of integrating benchmarking between tools and practices of the company, which can support standard tools by following:

- using benchmarking as a reference in the **dashboard**;
- including information obtained through benchmarking in business **forecasting and budgeting**, with a role in determining the performance targets and hence the establishment and analysis of deviations from target and achieve continuous adjustments needed.

The trend of integration of benchmarking with other tools is often cited in the literature, resulting in *a proactive model that integrates the environmental, cost and improvement (Andersen and Moen, 1998)* and favors strategic actions, leading the company to superior performance.

Applying benchmarking can bring many benefits for company such as:

- implementation within the enterprise of the best practices in the field;
- definition of objectives credible, ambitious and accessible;
- maintaining the viability, competitiveness and profitability;
- improving main financial indicators;
- trying to surpass himself, becoming as good as possible;
- better definition of the expectations of customers;
- identifying strengths and weaknesses;
- achieve of the objectives set faster, taking lowest risks;
- increased credibility of improvement processes;
- enrichment and growth of all the good ideas in the field;
- establishing a network of contacts and professional exchanges;
- reduced staff reluctance to change.

Disadvantages

Poorly defined reference values can lead to wasted effort and inconclusive / without meaning.

Just copying a factor or politics may not lead to obtaining desired performance.

Incorrect comparison. It finds the limited results obtained in the absence of detection of great practices or due to the failure to define its own process before data collection in order to ensure comparability.

Reluctance to share information. Study of the performance of successful firms, although promoted and supported at European level, is still difficult to deploy, because it collide with secrets of firm, successful practices and intellectual property rights which will not be transferred transparently, without limitations, from the one „who is better“.

Moreover, the importance of certain data requires the signing of confidentiality agreements concerning the use and communication of data, which cannot be transmitted to third parties without the consent of those who offer it.

Choosing the wrong partner used for comparative analysis. What is good for someone else may not fit our organization.

Among the weaknesses of benchmarking is also found:

- lack of involvement of employees who will use the information and improve process
- inconsistency of process improvement goals and company strategy
- own creativity is impeded
- may be lost sight of customer needs

3. Conclusions

In summary, benchmarking is one of the most useful and effective tools that help managers in making decisions to achieve the objectives included in the company's strategy, knowing that success in business depends on achieving these goals. Its aim is improving performance by identifying competitive advantages and learning about products, services, own operations, by comparison with the best.

The benchmarking forces the company to establish goals and objectives, based on customer demands on quality, costs and delivery terms of products or services. If the objective of improving the quality is to become the best in everything that is done, benchmarking allows to know if the target was reached or when it will be achieved. This is the only tool that teaches us how "good" can turn into "best". Benchmarking shows what is today's "best" and how to achieve this level of excellence. It is therefore important for the success of the benchmarking process to identify best practices and determine how such practices can be adopted by the organization.

Although many people consider Benchmarking a safe method for success, an organization will not improve performance if there is no proper infrastructure for a total quality program. Without a culture of quality and other basic

elements of Total Quality Management, such as information systems, process control, human resource management programs, trying to imitate the leader can register failure.

Research shows that small firms are heavily interested in applying this method, since involve imitation and adaptation, rather than innovation, and offers enhanced competitiveness, shorter time to perform analysis and to apply the results and the ability to acquire good practice. Finally, through continuous monitoring and comparison with similar

organizations that are successful will get improved performance.

The approach that the authors of this paper have done is theoretical and it recognizes the need for some case studies to understand the complexity of situations that involve the use of benchmarking analysis.

Other lines of research could be identifying other tools that can help managers in making decisions or submission of operational budgets included in the budgets network of the enterprise.

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