

BENCHMARKING, OR THE BEST PRACTICE AS A SOLUTION OF BUSINESS REENGINEERING

GHICAJANU MIHAELA

LECTURER PH.D. UNIVERSITY OF PETROSANI

e-mail:ghicajanumihaela@yahoo.com

Abstract

In this paper I shall present "the best practice technique" or benchmarking, as a solution used in business process reengineering. Although known mainly as a technique in implementing Quality Management System, it can also be used and adapted to reengineering business processes. Thus, I shall present: what are the business environments where the benchmarking technique can be implemented, when and how to apply benchmarking in an organization, forms of this technique. As a case study I will present some of the solutions and methods of best practice in freight transport by rail, applied in some European countries like Hungary, England, Belgium, Holland and France, which can also be applied in our country.

Key words: benchmarking, business, process, practice, performance

Clasificare JEL : M10

1. Introduction

The benchmarking technique can be used in the reprojecting process of a business, having in mind the purpose of improving the performances of a company's dealings. In general, this technique consists in identifying the company which executes "*the best business process*", implementing and adjusting it to the conditions of the company in which the improvement of the business is desired for.

We can say that the benchmarking is a strategy of implementing success into a company, helping managers to identifying "*the best practices*" to adopt in order to execute a "*business process*". It determines a continuous comparison of "*internal actions and results*" of a company with the standards of rival companies, leaders inside their fields of business and the interest management of that company, so as the business to relate to those standards of performance.

In the redesigning process of a business, the usage of benchmarking inside of a company should respond to the following questions:

- *How good are we in comparison with others?*
- *How good do we want it to be?*
- *Who is the best?*
- *How can we assimilate to our company what others do?*
- *How can we be better than the best?*

Benchmarking is a technique which can be applied in the redesigning process of a business in order to obtain top performances, and it consists of the following:

-the evaluation of your own business and the recognition of the gaps, the shortcomings and the weak points, but also the strong points in order to get cognition of the competitive advantages.

-the knowledge of competitors in general, of those with maximum results and of the leaders in a special field because only by comparison with the practices they use can a company take action for improving its own activity in order to obtain superior results.

-the incorporation of the best practices in the field in your own business. This requires the identifying of those practices, the copying or modifying of process made by the company in question.

-gaining market superiority as a result of investigating and implementing of superior practices in the company's business.

2. A short history and the definition of the concept

If an immediate and direct translation of this American concept were made, it could mean „the best practices” or „superiority” in a certain domain. The word “benchmark” is an English word, meaning „terminal, reference” and signifies „a standard, a point of reference, landmark used for evaluating and appraised”¹. This concept is based on the fact that the outside world is in a continuous evolution and consist in comparing our own company with one or more companies identified as being a reference at some point in a domain.

Frederick Winslow Taylor² is an innovator of this technique. He is considered the first to use benchmarking (even if he named it simply “*the best way*”) along with other principles, in order to improve the performances in some business companies. The scientific management perspective dealt with the improving of labor productivity by using the labourer more efficiently at the job.

Frederick Taylor considered that in the line of work that one has to do there will always be “*the best way to do the job and the best way to solve things*”³ (*the best way*). So, Taylor came to the conclude that in order to increase productivity, you must identify:

- the best way to determine an optimal work load for one labourer;
- the best way to train him to fulfil his work load;
- the best way to remunerate the performances by using a stimulating salary system.

He published these principles in 1911 in „*The Principles of Scientific Management*” which were applied in large industrial organizations, in American steelworks: *Medieval Steel, Simonds Rolling Machine and Bethlehem Steel*. Taylor has been a manager at the last company mentioned.

The Benchmarking technique, as it is known and applied nowadays, has been used for the first time by the *Xerox Corporation*⁴ in the late 70” and the beginning of 80”. Facing with the competition represented by the imports in Japan, Xerox wanted to improve the process of clients making orders, such as another processes considered outdated. In 1992, Rob Walker (director of the Business and Quality Management System at Rank Xerox U.K) described in an article published in „*Rank Xerox-Management Revolution*” how “*competitive benchmarking*” has been applied and what results it brought for the Xerox Corporation.

Since then, lots of experts, such as *Robert Camp*⁵, *Tom Peters and Robert Waterman*⁶, Peter Drucker and companies in the field (The Benchmarking Exchange, Higher Education Funding Council for England, European Benchmarking Code of Practice, European Benchmarking Code of Practice, American Productivity and Quality Centre – APQC, English Universities Benchmarking Club, European Foundation for Quality Management (EFQM), have studied, developed and diversified forms of implementing this technique.

From the many definitions of this concept, we should remember the one given by The Benchmarking Exchange, wghich says that benchmarking is „*measuring the internal processes of an organization and, subsequently, identifying, understanding and adopting the remarkable practices of other organizations considered to be the best in the category they belong to. (best-in-class)*”⁷

3. Which are the business environments where “the best practice” can be applied

Starting from David T. Kearns’s definition from Xerox Company, benchmarking is „*a continuous process of measuring products, services and practices of a company with the most powerful competitors or with those companies considered to be leaders in one domain*”. It can be concluded that benchmarking can apply for:

- products (manufacturing enterprises);
- services, including public services;
- business processes;
- working procedures;

¹ Mitu Șt., Neagu M., Frumoșanu G., Benchmarking, Lower Danube University Foundation Publisher, 2000

² Frederick Winslow Taylor (1856 - 1915), american engineer, starting from the initial status laborer, and models, mechanical foreman and finally management consultant in mechanical engineering plants to *Midvale Steel Company*, then at *Bethlehem.Steel plants*. *Reprezentatives works: A Piece Rate Sistem* (1895), *Shop Management* (1903), *The Principles of Scientific Management* (1911)

³ Frederick W. Taylor, *The Principles of Scientific Management*” (New York: Harper Bros., 1911) *format pdf accesat pe* <http://www.saylor.org/site/wp-content/uploads/2011/08/HIST363-7.1.3-Frederick-W-Taylor.pdf>

⁴ „Benchmarking, Rank Xerox and Canon”, accessed on <http://www.indicatorideperformanta.ro>

⁵ Robert Camp “*Benchmarking: The Search for Industry Best Practices That Lead to Superior Performance*” 1989, books.google.com

⁶ Tom Peters, Robert Waterman „In search of Excellence”

⁷The Benchmarking Exchange, <http://www.benchnet.com/wib.htm>

-execution practices;

The study of “*the best technique*” or benchmarking can be applied to any facet of a business. So, it can be applied to products and services, can be applied to the process of manufacturing goods and services, it can be applied to all practices and methods which contribute to the fruition of goods and services until the customer is satisfied.

The best activities in the field of business can be analysed as processes. Thereby, most activities have a start, a result and a main action. Also, there is an exit from the process which consists of what the next customer wishes, even if he is an internal, external or final customer. A study of business processes, methods and practices will be the main objective in the approach of „the best practice” (benchmarking)

4. When does benchmarking apply in an organization?

The necessity of applying „*the best practice*” (benchmarking) in a company is determined by “*three key elements considered influential forces which act either separately or together*”.⁸ They are: clients, competition, the changes in the business environment. Their nomenclature is not new, but the characteristics are remarkably different than before.

- *clients*-they become more and more exacting and offensive;
- *competition*- which enhances and becomes more and more fierce in a global market;
- *the changes* in the business environment which are permanent, more complex and ample.

The authors H. Hammer and James Champy have said that companies which can implement the process of reengineering business or use the benchmarking technique could be⁹:

- organizations facing difficulties;
- viable organizations that face more and more powerful competition and deteriorating performance indicators;
- fruitful organizations wanting to become excellent, leaders in their business environment.

5. How can benchmarking can be applied

What is important in the applying of “*the best practice*” is the identification of the steps to be taken for each element isolated”¹⁰

In the opinion of most experts, de applying of “the best practice” implies following some steps¹¹:

-defining the mission and the object of “the best practice”;

- the identification of the referential organization: depending on the availability and accessibility of necessary informations, on the comparability of organizations and possibility of converting the differences and processing them;
- collecting and processing data;
- identifying the causes and deviations and setting corrective actions necessary for reducing them;
- the implementation of the correcting actions;
- evaluation of progresses obtained and the consolidation of acquired progresses.

Thereby, for an organization, the technique of “the best practice” consists of:

- analyzing thoroughly its own processes or steps- an identification an selection of points and criteria of excellence based on which the company desires improvement;
- comparing processes, practices and results with different locations, with the best inside or outside a domain of activity which can be located in the country or abroad- a constructive exchange with the exterior;
- acting to equalize or even overcome the best;
- a good understanding of the best practices and an adaptation of these practices to the organization’s conditions.

6. Methods and solutions of good practices in rail freight applied in Europe

Within this subsection I will present a few solutions of “the best practices” applied in rail freight in some countries in Europe, such as Hungary, Belgium, Netherlands, France or those in Eastern Europe, which have managed to develop this kind of business at national and international level. They could serve as model and benchmark for the actual rail freight situation in our country.

⁸ Hammer, M.; Champy, J., (1996) *Reengineering the corporation: A manifesto for business revolution* "p.41-43

⁹ Idem 8

¹⁰ Idem 7

¹¹ Moro N, Benchmarking-ul – research tool for internal assessment of the quality of education, The Army Academy "Nicolae Bălcescu" Sibiu

6.1. Identification situation "best practices" in Hungary

In Hungary, the freight transport operator is *Rail Cargo Austria Group*¹² since 2007 when the intern freight and passenger transport had been liberalized.

The plans in strategy of rail freight and passengers from Hungary are focused in three main areas:

- Liberalization of domestic freight and passenger transport;
- Development of rail infrastructure (freight and passenger);
- Development and implementation of information systems and e-ticketing system

The liberalization of intern freight and passenger transport and rail infrastructure development. For providing quality services competitive with road transport conditions offered by the road transport, it have been created the conditions for liberalization of rail freight and passenger transport .Now, there are developed the projects that aim at long distance main line, suburban and international rail routes , especially those with the Hungary neighbouring countries.

Development and implementation of information systems and e-ticketing system. In the freight and passenger rail transport in Hungary, there has been developed and implemented modern information system and the type of e-ticketing system. The ticketing system implemented by MÁV-START represents a renewal process of domestic and international sales. The purpose of such a system is to increase the share of electronic methods, in other words, to stimulate the sale of tickets on the internet and also to reduce the ticket sales counters by installing ticket vending machines. Using the method of purchasing online, tickets can then be printed at home or can be presented using a smartphone (using the barcode) in case of verifying. Currently, there is developed a system that makes subscriptions in card form.

6.2. General shortages of rail freight transport in our country

The main gaps or shortcomings of rail freight transport in our country are:

- High times of rail transportation compared to road transport;
- Lack of investment in the infrastructure of existing terminals and connections related to them;
- Disruption of rail transport , meaning that must be completed at some point by road or sea transport;

The biggest drawback is the failure of the privatization of the National Society of Railway Freight Transport "CFR Cargo SA" started in June 2013¹³. (The winner was declared Romanian Railway Group, which had offered a price of 202 million euros for a 51% stake. Assuming investment in company of 900 million euros plus 1.5 euro million investment in the environment. Because of the contractual disagreements between Government and the Romanian Railway Group, the privatization process was canceled). According to the Government Programme, the privatization of CFR Cargo will be resumed and completed by 2015, with a strategic investor.¹⁴

6.3. Action Plan after the best practices for CRF Cargo

In this section I will list some steps need to be taken into account in the future to redesign the business in rail freight tranport. They are:

- *The plan of outsourcing unprofitable activities* and concentrating activities in the system.
- *The plan of modernization of the rail infrastructure.* Primary in the rail system is making massive investments in railway infrastructure, creating rail connections, purchasing of modern railcars, and functional terminals. The new technologies developed for vehicles and traffic management will be essential to reduce the emissions caused by transport, both in the EU and elsewhere.
- *Plans to improve the computerization of rail cargo.* Implemented on a wide scale of instruments based on information tehnology, it allows the simplification of administrative procedures, tracking and tracing of cargo just in time, optimizing schedules and traffic flows, etc.

¹² <http://www.railwaypro.com>

¹³ <http://www.actualmm.ro/grup-feroviar-roman-a-cumparat-cfr-marfa/>

¹⁴ <http://www.wall-street.ro/tag/cfr-marfa.html>

7. Conclusions

"The best practice" (benchmarking) is "a management process that manifests through self-improvement, so it is a process that must be done continuously to prove its effectiveness."¹⁵ Best practice "must be an ongoing process because the practices are constantly changing. Therefore, leaders in all sectors are becoming increasingly powerful. In an environment where change is the order of the day, companies that do not account for this are doomed to bankruptcy.

The term of benchmarking involves measuring. Measurement can be achieved in two ways. The internal and external practices can be compared and the result of significant differences can be analyzed and taken into consideration. This result provides an opportunity to reach the best practice. However, benchmarking is not just a quantitative investigation, but it also determines what practices are used to get to performance improvement.

As a consequence, *"The best practice"* (benchmarking) is not only a study of the competition, but is a process for determining the effectiveness of leaders in a sector by measuring their results.

BIBLIOGRAPHY

- [1] **Hammer, M.; Champy, J.**, Reengineering the corporation: A manifesto for business revolution , 1996;
- [2] **Mitu Șt., Neagu M., Frumoșanu G.**, Benchmarking, Lower Danube University Foundation Publisher, 2000;
- [3] **Moro N.**, Benchmarking-ul – research tool for internal assessment of the quality of education, The Army Academy "Nicolae Bălcescu" Sibiu;
- [4] **Popescu I., Scurtu V., Russu C.**, Proposal of performance indicators to design a benchmarking process in institutions of higher education in Romania, pdf;
- [5] **Robert Camp**, Benchmarking. Looking fo the best industry practices that lead to superior performance, 1989;
- [6] **Scurtu V., Russu C., Popescu I.**, Benchmarking, theory and applications, Economica Publisher, Bucharst, 2006;
- [7] *** <http://www.benchnet.com/wib.htm>;
- [8] *** <http://www.ghidmanagement.ro/resurse/benchmarking-managementul +si+ ameliorarea + calității>

¹⁵ Scurtu V., Russu C., Popescu I., Benchmarking, theory and applications, Economica Publisher, Bucharest, 2006