

## BENCHMARKING FINANCIAL PERFORMANCE: A COMPARATIVE APPROACH

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### **Abstract**

*The concept of benchmarking comes from English, it is also known as comparative performance analysis and represents a strategic and operational management method adopted by companies with the aim of improving performance. Benchmarking is a complex process of comparing a company's products, services, indicators, results with those of market leaders, having in mind the same field or even different fields.*

*Benchmarking is a vast field, with most research and results focusing on methodologies, reference models and analysis of success or failure factors. It does not only measure the performance gap (difference), but also helps to understand the underlying processes, respectively the underlying processes, which are fundamental and less visible. Also, benchmarking is not limited to comparing financial data, but can be carried out depending on the object and the comparison partner, respectively: Internal Benchmarking, Functional Benchmarking (General), Competitive Benchmarking, Strategic Benchmarking. In conclusion, benchmarking is a strategic process that transforms external data and information into internal actions with the aim of improving the company's performance.*

**Keywords:** *benchmarking, performance, strategy, profitability, liquidity, debt ratio*

**Clasificare JEL :** *G30*

### **1. Introduction and context of the study**

#### **1.1. General Background - The Hook**

How can an organization/company know if what it is doing is good if it does not compare itself to those who are doing it very well? In other words, benchmarking does not mean imitating someone, but rather doing what someone else is doing in an intelligent way, namely observing, comparing and adapting best practices to create a competitive advantage.

Benchmarking is a structured process for comparing an organization's work practices with similar practices identified in other organizations and implementing the best ideas into its own processes. Benchmarking is a model for quality improvement. [8]

Benchmarking of financial performance is an important tool in the management of a company, focusing on comparative evaluation that allows the comparison of results in a report with the best practices in the field.

The main objectives of the paper are:

- synthetic analysis of the financial performance of the studied company through the main financial indicators;
- comparison of financial results with relevant benchmarks in the field;
- identification of directions for improving financial performance based on benchmarking results.

#### **1.2. Literature review – synthetic**

The specialized literature highlights the concept of financial performance benchmarking as a key tool in the comparative evaluation of performance with that of competitors. Studies show that it highlights performance gaps by reporting one's own indicators to the standards of the field of activity.

The specialized literature speaks of the following types: [8]

- internal benchmarking – involves making comparisons between departments, sectors, factories of the same company, after it is found that some of them have better performance. An advantage of internal benchmarking is that it is easy to define comparable processes, data and information are easily accessible and often, on a common standard;
- performance benchmarking – compares measures of one's own performance (often financial, but also operational performance) against those of direct competitors who produce the same products or services;
- process benchmarking consists of comparing the methods and practices of carrying out processes in your own company with the best real competitors, in order to know the best processes, in order to improve your own processes;
- generic benchmarking which consists of making comparisons between different companies with similar working methods and processes from different sectors, which present the highest performances;
- functional benchmarking makes comparisons of own functions in relation to external services or departments from the same industry or technological field;
- strategic benchmarking consists of comparing the strategic options and provisions adopted by other companies, in order to collect information, in order to improve one's own planning and strategic positioning.

Here are some specialized works that provide the theoretical framework that highlights the fact that benchmarking is a strategic tool in a company's activity:

- Camp, Robert C. – *Benchmarking: The Search for Industry Best Practices That Lead to Superior Performance*
- Kaplan, Robert S. & Norton, David P. – *The Balanced Scorecard: Translating Strategy into Action*
- Porter, Michael E. – *Competitive Strategy: Techniques for Analyzing Industries and Competitors*
- Helfert, Erich A. – *Financial Analysis – Tools and Techniques: A Guide for Managers*
- Soni P., Aseenababu Shaik, SriKanth A., *Financial performance benchmarking*, Scientific Digest Journal of Applied Engineering
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- Kelly Bailey, *Financial Benchmarking: Comparing Company Performance Relative to Peers*, *Financial Benchmarking: Comparing Company Performance | CFI*
- D.K. Malhotra, Rashmi Malhotra, Robert Nydick, *Benchmarking the Performance of Asset Management Banks*, *Benchmarking the Performance of Asset Management Banks - Modern Sciences*

## 2. Analyzing a company's financial performance through key financial indicators

The financial performance of a company is achieved through a complex system of indicators that highlight the health, performance and risk of a company, starting from the data from the financial statements, namely: balance sheet, profit and loss account, cash flow statement).

For the benchmarking analysis of financial performance we can use a minimal list of indicators such as:

- profitability indicators that evaluate the company's ability to generate profit: return on investment (ROA), return on equity (ROE), net profit margin;
- liquidity indicators that evaluate the company's ability to meet short-term obligations: current liquidity;
- solvency indicators evaluate long-term financial stability: debt ratio.

Considering that no indicator provides a complete picture, the importance of benchmarking analysis results from the following aspects:

- provides an analysis over time by comparing current indicators with those from previous years;
- compare indicators with the industry average or with those of competitors;
- correlate results in order to provide strategies for maintaining or increasing performance.

## 2.1.Evolution of the main indicators used in the benchmarking analysis

In summary, the calculation method and interpretation of the above indicators are presented in the table below:

**Table no. 1 – Financial indicators used in the benchmarking analysis**

Nr. crt.	Indicator	Calculation formula	Interpretation
1.	ROA (%)	Net profit / Total assets × 100	It measures the efficiency of asset use in generating profit.
2.	ROE (%)	Net profit / Equity × 100	It highlights the return on equity.
3.	Net profit margin (%)	Net profit / Turnover × 100	It reflects the ability to turn revenue into profit.
4.	Current liquidity	Current assets / Current liabilities	It shows the ability to honor short-term obligations.
5.	Degree of indebtedness (%)	Total liabilities / Total assets × 100	It expresses the share of debt in asset financing.

**Table nr. 2 – Evolution of financial indicators at the analyzed company**

Nr. crt.	Indicator	2024	2023	2022	Interpretation
1.	ROA (%)	3,86	5,21	5,17	ROA decreased in 2024 compared to 2023 and 2022, suggesting lower asset efficiency in generating profit in the last year, possibly influenced by market conditions and more modest financial results.
2.	ROE (%)	11	10	29	ROE decreased significantly, indicating a reduction in return on equity, possibly due to the more difficult economic context and profit fluctuations.
3.	Net profit margin (%)	14	12	18	The net profit margin of the analyzed company recorded values of 18% in 2022, 12% in 2023 and 14% in 2024, highlighting variations in the company's efficiency in transforming revenues into net profit depending on the economic and financial context of each year.
4.	Current liquidity	2,09	2,48	2,44	The company maintained a solid capacity to pay its short-term obligations in all three years analyzed, with current liquidity values considerably above 1, which suggests a satisfactory financial balance.
5.	Degree of indebtedness (%)	0	0	0	This value appears in the "Risk ratios" section of the 2024 annual report and suggests that in these years the company did not report any long-term interest-bearing debt relevant for calculating the debt ratio as defined in the report.

The analysis of the financial performance of the company analyzed for the period 2022–2024 highlights a stable and competitive company, with variable results depending on the economic context. Profitability indicators (ROA, ROE and net profit margin) recorded significant decreases in 2023 and 2024 compared to 2022, signaling a temporary reduction in asset efficiency and return on equity.

Current liquidity above 2 and debt ratio of 0% show that the company has maintained a solid financial position and a good capacity to honor its short-term obligations, without dependence on long-term debts. Overall, the results of the financial benchmarking confirm the stability and competitiveness of the company, while also providing benchmarks for possible directions for optimizing economic and financial performance in the coming years.

The graph shows the evolution of these indicators as follows:

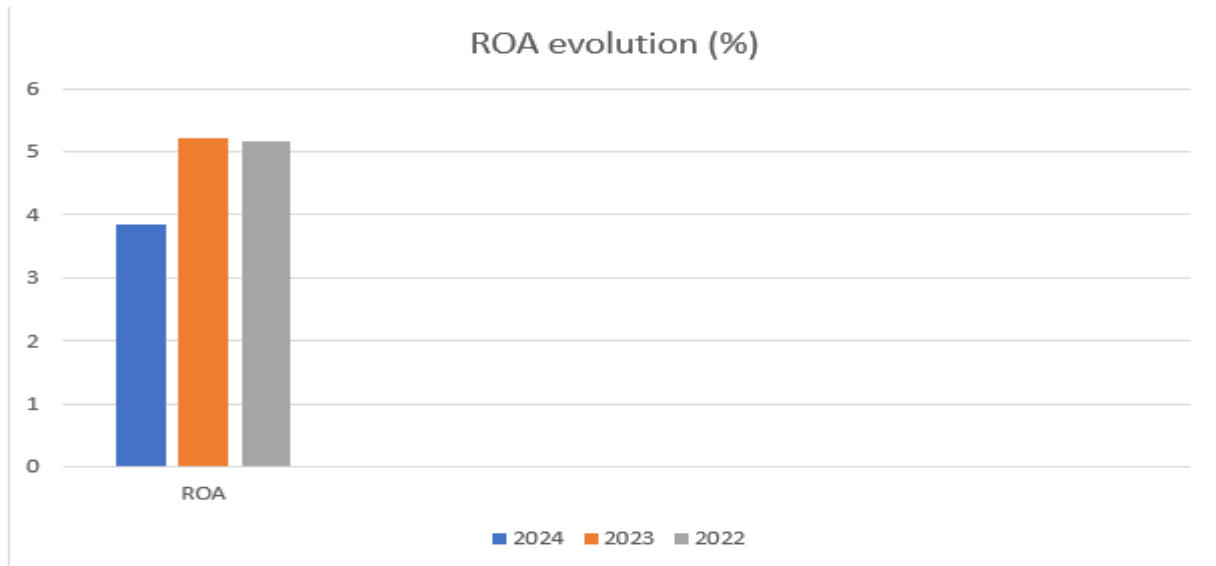


Chart no.1 - ROA evolution (%)

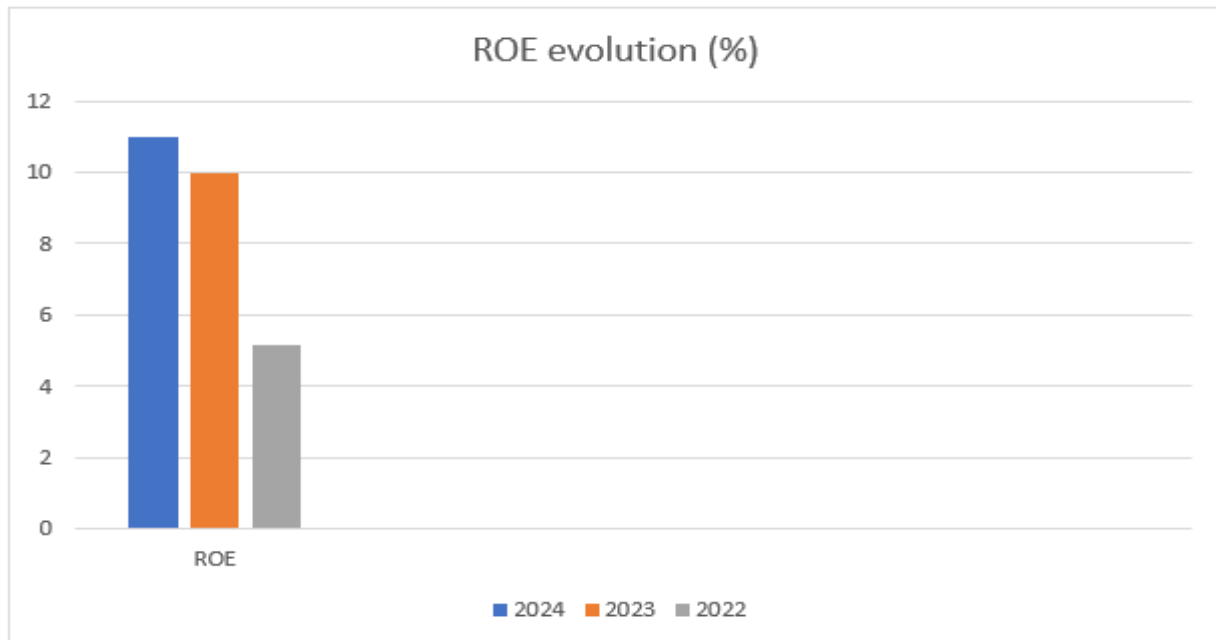


Chart no.2 - ROE evolution (%)

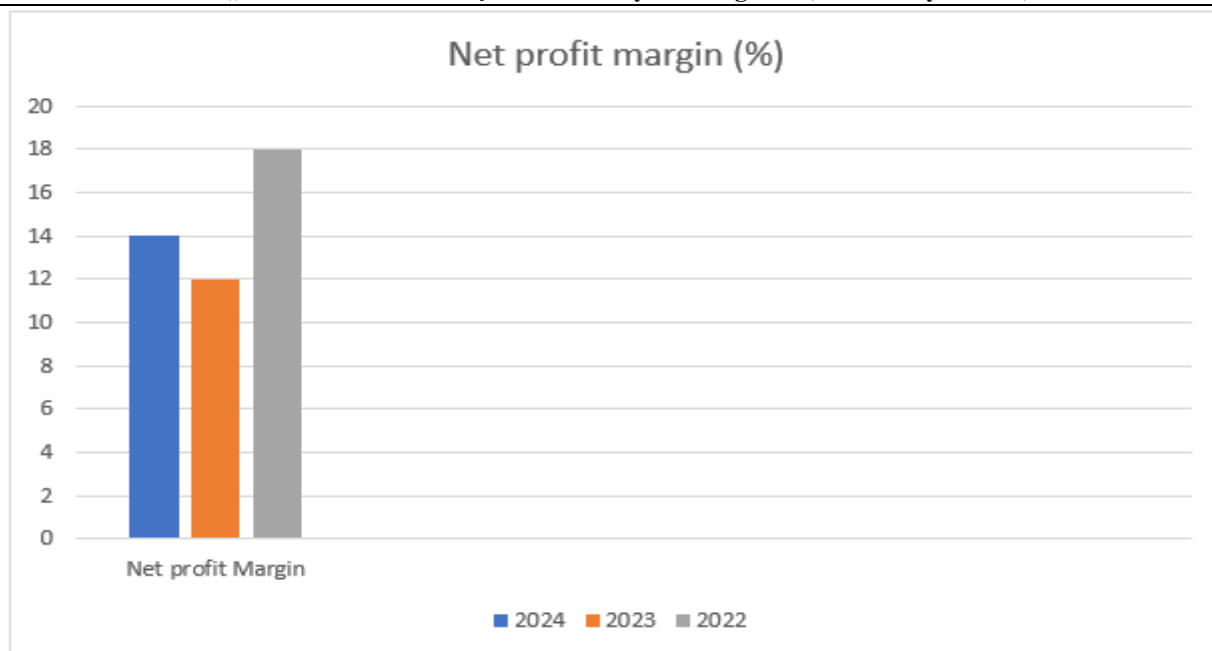


Chart no.3 - Net profit margin evolution (%)

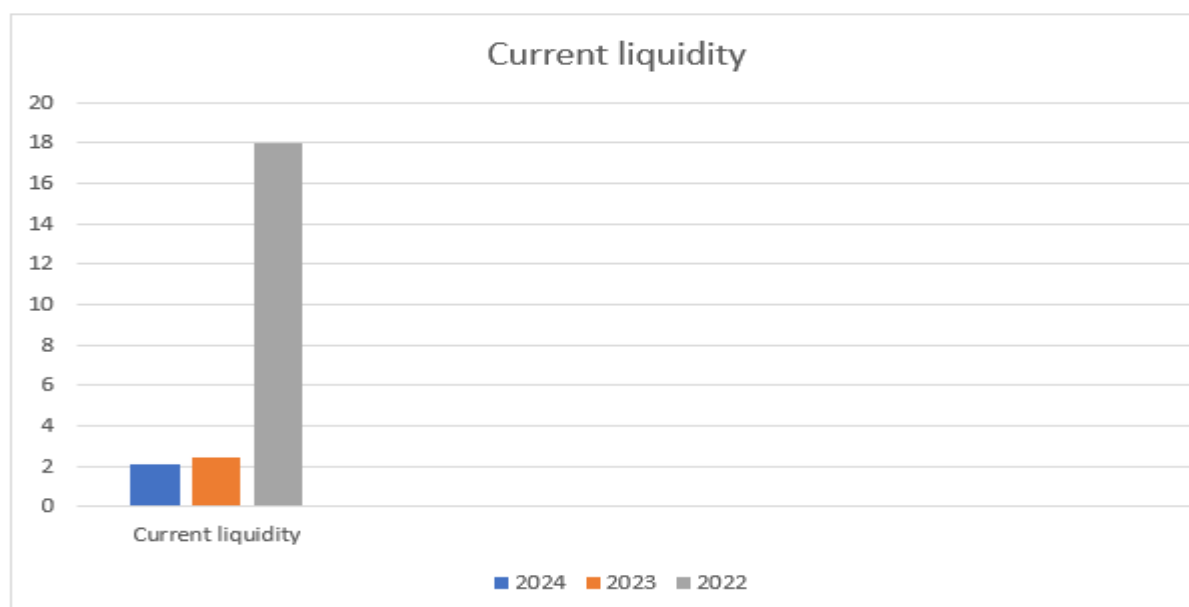


Chart no.4 - Current liquidity evolution (%)

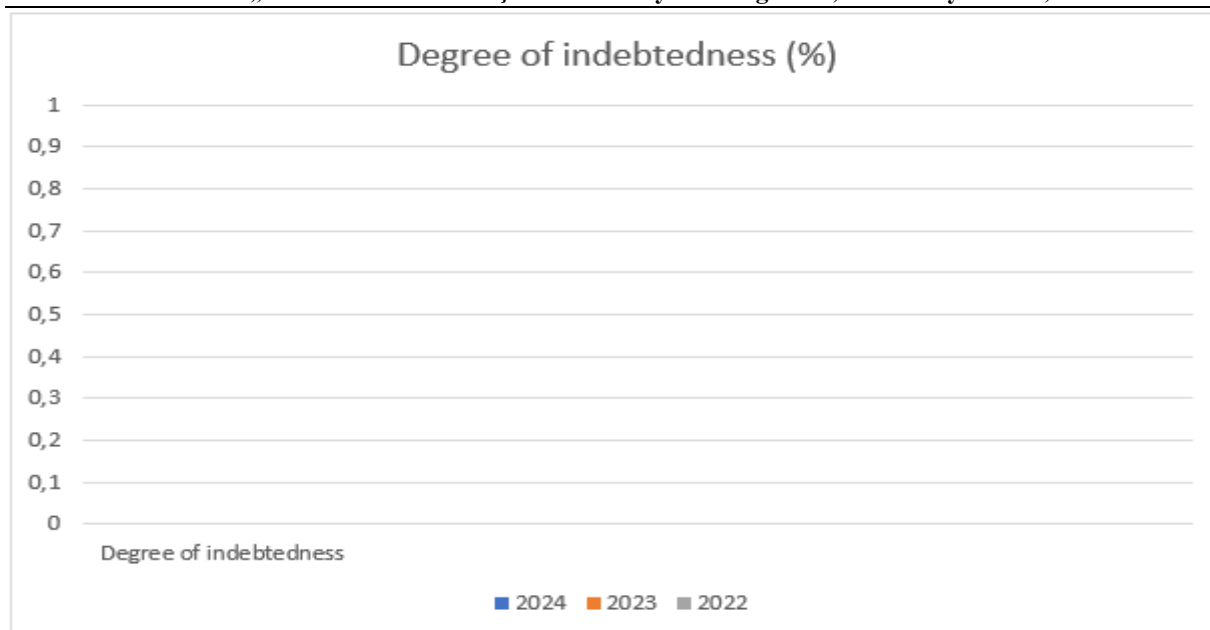


Chart no.5 - Degree of indebtedness evolution (%)

## 2.2. Average value of oil sector indicators used in the benchmarking analysis

In our country, the oil industry is dominated by a few strong players such as: OMV Petrom, Romgaz, Rompetrol Rafinare and Lukoil. For this reason, the "sector average" is strongly influenced by the performance of these giants, which have different business profiles, and before making a presentation of these giants I must mention that there is a difference depending on the production flow, as follows:

- upstream – refers to exploration and production;
- midstream – refers to transportation and storage;
- downstream – refers to refining and sales.

Depending on these aspects, the business profile for each of the four companies is:

OMV Petrom (Integrated Profile) - is the largest energy company in South-Eastern Europe and the only company in Romania with a fully vertically integrated business model (upstream, downstream Oil, downstream Gas & Power).

Romgaz (Upstream & Gas Specialist Profile) unlike Petrom, Romgaz is a specialized player, controlled by the Romanian state, focused almost exclusively on natural gas (upstream, storage, energy).

Rompetrol Rafinare (Downstream / Refining Profile) - is part of the KMG International (KazMunayGas) group. Their business model in Romania is focused on processing and distribution (downstream, activity - crude oil imports).

Lukoil Romania (Downstream Profile / Retail & Refining) -- part of the Russian Lukoil group, operates in Romania through a similar model to Rompetrol, but on a different scale (refining, retail, activity - crude oil processing and sale of petroleum products).

Briefly, these aspects are presented in the table below:

**Table no. 3 – Comparison of companies in the oil sector**

Oil company	Business type	Activity object	Raw material source
OMV Petrom	integrity	Oil, Gas, Electricity	Own production (RO)
Romgaz	Upstream	Natural Gas	Own production (RO)
Rompetrol	Downstream	Refining (Petromidia)	Import (Kazakhstan)
Lukoil	Downstream	Refining (Petrotel) & Retail	Import (Surse variate)

The average of the indicators used in the benchmarking analysis records the following values:

**Table no. 4 – Comparison of financial indicators with the sector average**

Nr. crt.	Indicator	2024	2023	2022	Oil sector average (RO)
1.	ROA (%)	3,86	5,21	5,17	5,5
2.	ROE (%)	11	10	29	12
3.	Net profit margin (%)	14	12	18	11
4.	Current liquidity	2,09	2,48	2,44	1,8

From the information studied, we drew the following conclusions:

-ROA (Return on Assets) - the industry average is pulled up by gas producers and down by the refining segment, which has very expensive assets and more volatile margins.

-ROE (Return on Equity) - the industry average in the Romanian energy sector, ROE is massively influenced by the large dividends paid by state-owned companies.

-Net Profit Margin (%) - the industry average shows discrepancies.

-Current Liquidity - the industry average shows that large oil and gas companies tend to keep large cash reserves for major investments.

### 2.3. Conclusions regarding the analysis of indicators used in benchmarking

The analysis of the ROA indicator over the three periods highlights a positive evolution, followed by a phase of consolidation of the efficiency of the use of the company's total assets. The company registers a trend of efficiency, which means that the analyzed company had the ability to generate more profit for each leu invested in assets and to optimize operational costs in a favorable market context.

An ROE value of 10-11% indicates that the management managed to provide a return double that of bank interest or government bonds at that time, demonstrating prudent management of equity. The increase in ROE to 29% in the recent period is a good result that places the company among the most profitable energy companies in the region.

The net margin analysis demonstrates the company's high capacity to transform gross revenues into pure profit, maintaining superior operational efficiency. The value of 12% shows that the company is above the European average of integrated oil companies (which usually oscillates between 8% and 10%). Achieving a margin of 18% is a remarkable result for a company of such magnitude.

The analysis of the current liquidity indicator highlights a secure financial situation, placing the analyzed company in a position of security much higher than the average of companies listed on the Bucharest Stock Exchange.

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[9] \*\*\* [OMV Petrom \(BVB:SNP\) Financial Ratios and Metrics](#)