



Benchmarking Papers

FIRST REPORT BY THE HIGH LEVEL GROUP ON BENCHMARKING

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European Commission
DIRECTORATE-GENERAL III - INDUSTRY



EXECUTIVE SUMMARY

The High Level Group on Benchmarking was established by Commissioner Bangemann to advise the Commission on how to use benchmarking as a tool to improve European industrial competitiveness.

It has reviewed a number of activities carried out at European Union level and now submits its first conclusions and recommendations:

- 1** In an industrial and societal perspective, benchmarking is an essential policy instrument for improving the quality and the effectiveness of public services. Benchmarking should therefore not only be applied to private and public companies but also to hospitals, schools, universities, administrations, etc. It is crucial to involve the users of the service rendered by public institutions in order to find the key performance indicators in terms of quality, value for money, convenience and service. In the USA benchmarking of the public sector is already broadly applied through initiatives such as "Reinventing the Government". The High Level Group believes that the European Union should make a major effort to benchmark the quality and performance of services given by the public sector to its customers. The Commission should spread the knowledge of how to do it and the results.
- 2** It is particularly appropriate to improve the framework conditions for industrial development set or influenced by public authorities. Therefore, this is an important area of benchmarking in order to foster competitiveness and raise the standard of living in Europe. In this context SMEs require particular attention.
- 3** The pilot projects on benchmarking framework conditions for industry, undertaken by the Commission and the Member States have chosen to study relevant issues for industrial performance. The pilot projects constitute pioneering activities in inter-governmental co-operation. They have been a learning experience for all concerned and have now concluded a first phase. The next step is to determine practical requirements for future actions.

- 4** The active participation of industry experts in the definition, implementation and follow-up of benchmarking projects is indispensable. Without such involvement, it is unlikely that the benchmarking effort will be effective in focussing on the critical elements of framework conditions impacting on industrial competitiveness or in identifying industry-relevant best practice in these elements.

The High Level Group recommends, therefore, that attention be given to understanding and overcoming the reluctance of industry to commit to the process in practice, despite its endorsement of the Commission's benchmarking initiative from the outset.

- 5** Having discussed UNICE's report on benchmarking European competitiveness and the activities of the ERT, the Group suggests that there should be a closer link between the Commission's Competitiveness Report and its benchmarking actions. This would mean the development of a general monitoring instrument through the Competitiveness Report and undertaking specific benchmarking actions in fields targeted by the Report.

- 6** Benchmarking is spreading from the Commission's Industry department into other Commission departments. There is a real need for co-ordination between Commission departments on benchmarking. The Group recognises in particular DG V's activities concerning labour markets. The High Level Group will monitor the benchmarking work of other DGs. The Group emphasises that implementation of performance improvements has to involve the main concerned actors in order to succeed.

- 7** Globalisation requires benchmarking in order to achieve a competitive position. Benchmarks have to focus on world-wide developments and the objects of scrutiny should be Europe's main industrial competitors. The process should not be restricted to the European Union Member States. The group will therefore review global approaches like that of the US "Council for Industrial Competitiveness", the IMD "World Competitiveness Report", the OECD, or that of the activities of the "Decentralised Community Agencies".



- 8** The Group recommends strongly that the Commission continue its efforts to promote benchmarking at all levels. It should increase the dialogue with all of the actors involved. The transfer of benchmarking know-how should be fostered by the Commission.
- 9** The November 1998 Industry Council should call on the Commission to prepare an action plan for benchmarking in order to increase European competitiveness based on an evaluation of the experiences gained so far and by considering new areas. In this regard the High Level Group supports the Irish proposal on the future of Benchmarking. Furthermore, the Group would be prepared to co-operate and to contribute to the proposed Benchmarking Competitiveness Committee's work in the future.
- 10** The Group proposes the following areas in framework and infrastructure conditions for industry as priority candidates for benchmarking activities:
- > Labour regulation
(including workplace issues, industrial relations, skill creation and employment)
 - > Public services (including health and education systems)
 - > Technical innovation (including technology transfer to SMEs)
 - > Infrastructure (including tax systems)

The background

"The European economy has to overcome deficiencies which hinder its performance."

The Commission's Communication on "*Benchmarking the competitiveness of European Industry*" adopted in October 1996⁽¹⁾ stated that "the European economy has to overcome deficiencies which hinder its performance; in particular low growth of factor productivity, insufficient adaptation of economic structures towards new markets and new technologies and massive under utilisation of the population of working age". It is believed that these factors are affected by weaknesses in European framework conditions for industry.⁽²⁾ These statements pose a challenge for benchmarking.

The Communication on benchmarking concluded that it was necessary to meet this challenge and restore rapid growth in employment and productivity by addressing systematically the factors limiting their potential. Benchmarking was believed to assist in this process by providing a tool for comparing performance in the different key areas of the economy and society that determine economic success.

The Industry Council consequently called on the Commission and the Member States to initiate pilot projects to address key areas of competitiveness and to review in due course these activities.⁽³⁾

The Commission supported a flexible, multi-layer approach to benchmarking.

In a second Communication on benchmarking⁽⁴⁾ the Commission supported a flexible, multi-layer approach to benchmarking of framework conditions, sectors and enterprises. The objective was to widely promote the concept of benchmarking and at all levels. The report is based on the following considerations:

- > The responsibility for undertaking specific initiatives lies primarily with the various actors in the economy and society;
- > Public authorities could encourage and support initiatives but it was not for them to lead all the actions.

⁽¹⁾ *Benchmarking the competitiveness of European Industry*, COM (96) 463

⁽²⁾ *The competitiveness of European Industry: Competitiveness report*, working document of the Commission, Brussels 1996

⁽³⁾ *Conclusions of Industry Council of 14 November 1996*

⁽⁴⁾ *Benchmarking, Implementation of an instrument available to economic actors and public authorities* COM(97) 153



Industry has gathered practical experience with benchmarking from which the Commission can benefit. In addition, the Commission developed its novel approach to benchmarking framework conditions for competitiveness in partnership with industry and wishes to place that co-operation on a secure basis.

A number of other parties have an important role to play when it comes to designing and *implementing the results* of benchmarking exercises and they must be convinced of the value of the findings. Implementation is to involve all concerned parties from the start. This clearly applies to trade unions in the field of labour market reform or human resources. It also covers a wide range of other possible actors. For instance, competitive pressures on markets open to international competition are forcing firms and their employees to adjust rapidly to these conditions. However, many domestic and most public services are not open to such competition. It is in these areas that consumer organisations may be involved and the most extensive efficiency gains are to be made for the economy. Improving the efficiency of these services is of vital importance for the competitiveness of European industry.

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The high level group on benchmarking

Ensure that benchmarking becomes a tool for monitoring the efficiency of European economic institutions

In its second Communication on “*Benchmarking*”, the Commission announced the creation of a High Level Group on Benchmarking composed of representatives from industry, trade unions and civil society. The High Level Group (HLG or Group) was to take into account different aspects of the economy, and in particular that of small and medium sized enterprises, which suffer most from rigidities in the regulatory framework.

The objective of the Group was to ensure that benchmarking becomes a tool for monitoring the efficiency of European economic institutions by scrutinising those conditions that restrain the potential for competitiveness, growth and employment of Europe. The Group sees its role as:

- > helping the Commission fix priorities;
- > promoting the participation of industry in the implementation of benchmarking;
- > promoting the dissemination of results to the key actors in relevant fields;
- > tracking methodologies used and recommending ways to extend the concepts into new fields.

Benchmarking starts with the identification of problems with which industry is confronted.

The Members of the Group have been appointed by Commissioner Bangemann and the Group's function is to advise the Commissioner directly. The Group will study other benchmarking activities being carried out within the Commission to avoid duplication. See Annex I for list of the Group Members.

The strong industry orientation of the Group stems from the fact that the Commission's approach to benchmarking starts with the identification of problems with which industry is confronted.

The Group has met three times. The meetings were on 8 May 1998, 28 July 1998 and 7 October 1998. The Group discussed orientations given to the Commission on the approach and areas to be benchmarked. It monitored progress made with pilot projects on benchmarking framework conditions agreed between the Member States and the Commission and carried out by intergovernmental co-operation. It has now drawn-up its first conclusions for future activities in the field of benchmarking, taking into account how the pilot projects were set up and defined.



The four pilot projects

Four pilot projects for benchmarking framework conditions were defined and set up in an interactive procedure between the Ministries of the Member States and the Commission's services. The High Level Group was not involved in this process due to the fact that the projects had begun before the Group started work. However, the High Level Group took an interest in the content, the management and the methodology of the projects. Reports submitted from the four pilot projects are as follows:

- > Benchmarking Skills (Spain)
- > Benchmarking: Logistics (Ireland)
- > Benchmarking Financing of Innovation (Denmark)
- > Benchmarking the Diffusion and Utilisation of Information and Communication Technologies (ICT) and New Organisational Arrangements (Finland)

The reports of the pilot projects showed that major efforts were made in applying benchmarking as a tool to improve competitiveness. The projects were an important pioneering initiative and the High Level Group will maintain an interest in them, particularly in relation to monitoring the changes, which they bring about, and the dissemination of the methodology developed by the projects. The High Level Group did not possess enough special expertise to offer steering support to these projects. Therefore, the monitoring of their eventual continuation should be left to other bodies.

The High Level Group makes the following observations regarding benchmarking techniques, project handling and results.

- > As for the starting up of projects a procedure should be set up to secure a tighter design of the brief of prospective pilots, which understandably was a bit wide in the initial pilots. This could include the early definition of a set of Key Performance Indicators (KPIs) which could be tested and modified during the project.
- > The High Level Group would advise that the actors in the field of interest should drive future projects. Consultants must be carefully selected. Industrial expertise should be drawn on in the project management.

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The projects were an important pioneering initiative.

Actors in the field of interest should drive future projects.

**Get the
commitment of
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through on the
conclusions and
recommendations.**

**The High Level
Group believes that
it is important
to have general
regulatory systems.**

- > The four pilot projects should develop more specific conclusions and make action-oriented recommendations. This is particularly valid for results related to framework conditions and infrastructure.
- > An effort should be made to get the commitment of public authorities and policy makers to follow through on the conclusions and recommendations arising out of the projects in order to maximise their impact. Future projects should be based on a clear strategy.
- > The reports should make recommendations on how to work with the benchmarking technique.
- > The four pilot projects were concentrated on areas which cross over the traditional division into branches of trade and industry. The High Level Group feels that this was the right approach and that the areas chosen are relevant. It is important that any future projects can make use of the analysis and results of the previous work.
- > With regard to the pilot project “benchmarking skills”, the High Level Group believes it is a good idea to start from the needs of trade and industry and apply a “demand approach”. However, it is also important to look at the factors, which govern students’ demand for education and competence, i.e. wage structures, education premiums, tax systems etc. The acquisition of education and competencies in relevant areas must be worthwhile for the individual. A future study should also look more closely into the links between companies, universities and colleges, in particular the capacities of the institutions delivering vocational and quality training. More efforts should be directed towards SMEs and their need for vocational training.
- > Special measures to improve the conditions for SMEs are mentioned in several of the pilot projects. The High Level Group believes that it is important to have general regulatory systems, rather than separate rules for small companies, which risk creating threshold effects etc. On the other hand, the regulations should of course be designed to eliminate the obstacles that currently prevent small companies from growing. There is a serious lack of statistics in Europe on what proportion of companies are actually growing and on corporate growth rates. However, most indicators show that both rates are much higher in the USA. There is perhaps a need for more basic statistics that would allow us to define a number of parameters of importance for the growth of companies, which can then be examined in greater depth at different stages. This question has been looked at in connection with the pilot project “benchmarking the financing of innovation”, but merits a separate study to investigate the causes for growth differentials.



- > All benchmarking regarding framework conditions should be carried out on a global level to be meaningful. The strong points of different systems under comparison should be captured. For this purpose high quality appropriate key performance indicators should be developed in order to identify best practice countries or cases. Also, best practices on how an outstanding benchmark has been achieved should be made clear in order that implementation of changes and the learning process of practice transfer and improvement can be tackled. Only if benchmarks are developed and best practice is displayed can the usefulness of a practical oriented approach become apparent.
- > Benchmarking projects should include the concerned actors in the field from project definition to the interpretation of data. Identification of benchmarks sometimes involves looking at processes as well as measuring indicators, it is therefore important to maintain an appropriate balance between quantitative and qualitative measurements.
- > The High Level Group has observed that the pilot projects tended to consume much time and energy. The overall aspects of the methodology of benchmarking and on the content of benchmarking framework conditions and infrastructure must be given a greater weight.

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The three levels of benchmarking

Enterprise benchmarking

Mechanisms and incentives for the transfer of 'know-how' from larger enterprises to SMEs must be considered.

The High Level Group found that methodologies and processes for the benchmarking of enterprises are well established in some industrial sectors. The dissemination of information and the facilitation of access to benchmarking tools is important for the European economy (examples such as the dissemination of the "Facts" CD ROM and book are useful). The Commission's efforts should be limited to the organisation of systems and networks that could improve the techniques used and spread the knowledge, specifically to SMEs. Mechanisms and incentives for the transfer of 'know-how' from larger enterprises to SMEs must be considered. It may be important to help SMEs to develop competitive analysis but not necessarily to develop a formal process of benchmarking.

The High Level Group supports a wider use of concepts similar to the UK Benchmarking Index. However, the Group has some doubts about the effectiveness of a database for benchmarking. The risk with databases is that we put the focus solely on indices, and this will not drive real change in an efficient manner. Furthermore, one wonders, will companies put semi-secret data in an open access database? One must also be aware that the analysis of databases is about studying the past. One cannot extract from the databases the intentions and the strategic concepts for future developments.

A continuous improvement culture must be the aim.

Two vital driving forces in bringing about change are committed leadership and the participation of the people affected by the change. In Europe we need to foster a genuine commitment for change in all sectors. A continuous improvement culture must be the aim. The High Level Group believes that Benchmarking is a means to this end. Benchmarking should have a strong focus on the factors explaining good performance indicators, i.e. a focus beyond the core indicators.

One way to learn more about this is to have benchmarking between companies active in the EU and in other geographical areas. As stated above – benchmarking should be global.

It should also be noted that enterprise benchmarking is not limited to the benchmarking of public or private companies. A government-operated hospital should be benchmarked to a private hospital or another non-company government organised hospital. The same is valid for schools. It is important to include the users of the service offered. In the case of services it is important not just to copy manufacturing industry parameters but to find the proper key performance indicators in terms of quality, value for money, convenience and service. The Commission and Member States should try to promote this approach.



Sectoral Benchmarking

The Group has not had any reports from the sectoral projects but emphasises that a global approach should be applied. It should be observed that benchmarking projects should be started for sectors where the European companies are looked upon as better than the competition and not only for the reverse situation. Benchmarking work, based on best practices among National Public support policies at sectoral level could also be envisaged in the form of collaboration between the Commission and the Member States.

Benchmarking framework conditions

The objective of benchmarking framework conditions must be to identify the limiting factors which hinder the competitiveness of Industry in Europe. Framework conditions, i.e. tax systems, labour market regulations, infrastructure in a broad sense, monopolies in the public sector etc. have a direct bearing on growth, employment and competitiveness. Europe's problems have been analysed quite thoroughly. We therefore need to move from analysis to action. It is important that the current benchmarking projects do not delay even further the necessary structural reforms. The globalisation of the economy increases the need for reforms even more.

We therefore need to move from analysis to action.

Europe's markets must function more efficiently and more quickly, also with regard to the infrastructure (telecommunications, energy, transport etc). This involves further liberalisation, privatisation and demand with regard to public procurement, more flexible labour laws, lower government subsidies etc. The Commission has an important role to play in acting as a catalyst in promoting the use of benchmarking. There is a risk that pursuing a selective industrial policy on the basis of sector studies or pilot projects will become an expensive, ineffective and slow process. Thus, the main focus and strategies of the projects must be clearly identified.

The Commission has an important role to play in acting as a catalyst in promoting the use of benchmarking.

For enterprises the people involved in company or division of a company take the active part in the benchmarking process as it is a normal step for survival in a competitive environment. In a government organisation in charge of infrastructure, benchmarking should be looked upon as a tool to improve performance.

The Group has taken note of the Dutch and Australian government investments in benchmarking and the benchmarking of the EU against Ireland and New Zealand⁽¹⁾. Recent studies such as the UNICE-report⁽²⁾ point out that a number of framework conditions should be improved in the EU to increase competitiveness to the extent that limiting framework conditions are identified. These should be addressed and acted upon.

⁽¹⁾ European Commission, DG III-Industry: Benchmarking the EU against Ireland and New Zealand, Benchmarking Papers No1, Brussels 1998.

⁽²⁾ UNICE: Benchmarking Europe's Competitiveness: from analysis to action, Brussels 1998.

Benchmarking in general

**Benchmarking
must be applied
not only by private
enterprises but
also by the public
sector.**

Benchmarking shall be looked upon as a tool for improvement within a wider scope of customer focused improvement activities. For a number of years Benchmarking has been an efficient way of improving productivity and competitiveness. However, the High Level Group concludes that Europe in general lags behind the US in terms of awareness and use of benchmarking in various sectors. For the competitiveness of Europe, benchmarking must be applied not only by private enterprises but also by the public sector in order to focus and improve the value-added work. In the US we see benchmarking being promoted in the public sector through initiatives such as “Reinventing the Government”. Initiatives with similar aims must be taken in Europe.

As stated earlier, knowledge and experience in benchmarking are available in Europe. This must be utilised by the Commission in order to achieve a prompt and strong promotion effort across the community. Benchmarking promoters are today large enterprises, benchmarking centres (as facilitators and information brokers), consultants, some governments and business schools.

In a number of countries benchmarking centres have been established on a customer need basis with the mission to promote the benchmarking tool and act as the broker for benchmarking partners.

In order not to lose perspective, benchmarking must potentially be global. One existing network with that aim in mind is the “Global Benchmarking Network”. This network today includes some twenty benchmarking centres; half of these represent EU countries. Also, a European Benchmarking Network has been formed which consists of professionals and other individuals interested in promoting benchmarking. Benchmarking can be seen as a part of the quality movement, such as the European Foundation for Quality Management (EFQM), which has started benchmarking initiatives.

**Start a dialogue
to promote
benchmarking
efficiently**

The High Level Group recommends that the Commission establishes relations with industrial actors in order to start a dialogue to promote benchmarking efficiently at all three levels (company, sectoral and framework condition). Benchmarking, as with all improvement processes, must be driven by customer needs. The Commission can assist the development by providing an infrastructure including information about benchmarking case studies and its results as well as the transfer of know-how about the methodology of benchmarking.



Cross perspectives for european institutions

We have been encouraged by the cooperation shown by the Employment Department (DG V) in making an input to the work of the Group along with the Industry Department (DG III). This builds on the cooperation between DG III and other services in the development of the benchmarking framework conditions pilot projects.

We are strongly of the view however, that there is still considerable scope for improvement in the degree of cross Commission involvement and commitment in exercises in the further development of benchmarking.

New initiatives are demonstrating their value.

In order to support the Work of the Group in the coming twelve months, we hope that the President of the Commission will specifically acknowledge that the work on benchmarking – in line with the spirit of the White Paper on Jobs, Growth and Competitiveness⁽¹⁾ – needs to be integrated with the work of the European Council.

The High Level Group notes that new initiatives for cooperation between the Economic and the Employment Ministers, begun at the Special Luxembourg Council on Employment, are demonstrating their value. It is evident that in a number of fields – ranging from economic macro policy through the policy in specific sectors – new forms of cooperation are required between the Commission and the Council.

⁽¹⁾ European Commission: White paper on Jobs, Growth and Competitiveness, Brussels, December 1993

Future activities by the high level group

The High Level Group will concentrate on framework and infrastructure conditions.

The Group is currently working to identify the areas where future benchmarking efforts should be concentrated. The High Level Group will concentrate on framework and infrastructure conditions. Some objective basis for the selection of new projects or project areas can be found in existing publications on world competitiveness. There is a need for the Group to focus on those areas where improvement is important for competition.

While recognising the different sets of values in Europe and the USA there is a perception that the following areas should be examined in order to remove limiting framework factors in Europe and to increase competitiveness:

- > Labour regulations (including flexible work, labour markets, employment, equal opportunities, skills creation)
- > Public services (including health systems, administrative procedures, education systems)
- > Infrastructure relevant to industry (including tax systems, anti-trust laws, performance and cost of items such as energy or telecom)
- > Technical innovation (including technology transfer to SMEs, adoption of new technology, commercialisation of research)
- > Industrial relations (including modernisation of work organisation, motivation and participation as well as work place issues including health and safety)

As regards labour a range of different questions assume importance and need better regulation in order to adapt to new industrial and societal conditions. The most important are: Education and skills, flexible labour markets and flexible work in order to increase employment and foster equal opportunities.

In so far as the areas of “workplace, health and safety” or the “working environment area” are concerned, the High Level Group will prepare an overview of key research findings from bodies such as the Dublin Foundation for the Improvement of Living and Working Conditions and the Bilbao European Agency for Health and Safety at Work.

Competitiveness could be improved by scrutinising critical areas of framework conditions in Europe.

On the effectiveness of health systems in general, account must be taken of the difficulties of using techniques initially developed for the private sector. The competitive pressures are not the same. The objectives of public services in general are not defined by competition and consumers but through the democratic process. Nevertheless, there are relevant comparisons in terms of health system statistics (OECD) and information from such bodies as the World Health Organisation, which can assist in judging overall performance in the provision of health care.



The qualitative issues of “good industrial relations” motivation and participation are intrinsically difficult to address in an exercise of this sort. Nevertheless, it would be useful to update from relevant initiatives and to follow-up the green paper on modernising work organisation. Similarly, there may be scope for benchmarking results to emerge from the adaptability pillar of the guidelines of employment policy.

In the health and public service sectors, central performance indicators should be defined from the customer’s viewpoint. The group will assess how these sectors can be improved by the application of customer satisfaction indices.

Whereas the role of the High Level Group must not be overstated. It will be essential for a dedicated resource to be made available to it directly within the Commission for intensive work over the next few months and we are asking for this commitment to be made at a high level.

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Members of the High Level Group

Björn SVEDBERG (Chairman)

Board Member of Investor
Former Chairman of Ericsson
Chairman of the Royal Swedish Academy
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Reporter on Benchmarking

What is benchmarking?

Benchmarking is a tool or a means to initiate and direct *continuous improvement* processes.

It has been developed for enterprises in order to improve performance and productivity in global competition. For public authorities it serves to improve effectiveness and the quality of services.

Benchmarking is a systematic process of *comparison against the "best in the world"* aiming at exceeding that level. A benchmark (based on *key performance indicators*) serves as an orientation mark for improvement processes and the *analysis of "best practice"* serves to understand how the benchmark has been achieved in order to direct actions targeted to upgrade one's own performance. In this sense benchmarking could also be understood as an organised way to have a *collective learning process* for improvement towards higher quality of output and services. Several steps are undertaken from definition to implementation such as:

- > Identification of a target issue to be improved
- > Development of one or some specific performance indicators (benchmarks) for that particular issue
- > Comparison of own performance against the best world-wide
- > Analysis of best practice and improvement potential
- > Implementation of actions to improve
- > Continuous monitoring