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TO THE COUNCIL, THE EUROPEAN PARLIAMENT,
THE ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS

BENCHMARKING

**IMPLEMENTATION OF AN INSTRUMENT
AVAILABLE TO
ECONOMIC ACTORS AND PUBLIC AUTHORITIES**

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1. BENCHMARKING: AN INSTRUMENT TO PROMOTE CHANGE AND CONTINUOUS IMPROVEMENT OF EUROPE'S COMPETITIVE PERFORMANCE

Internal market integration within the Community, the perspective of Economic and Monetary Union as well as globalisation present European industry with the challenge to continuously improve its competitiveness.

In its Communication on "*Benchmarking the competitiveness of European industry*" COM (96) 463 of 9 October 1996, the Commission identified certain deficiencies in the performance of the European economy, in particular low growth of total factor productivity, insufficient adaptation of economic structures towards new markets and new technologies and massive underutilization of the population of working age;

These handicaps for the European economy are particularly difficult to bear because of the ever faster rate of change in the world economy, under the combined impulse of globalisation and the introduction of new technologies, in particular information and communication technologies.

In order to reply to this challenge and restore rapid growth in employment and productivity, Europe needs to address systematically and with determination factors which limit its growth potential.

The Commission proposed in order to assist this process to use **benchmarking** in the economy and society to compare performance in the different key areas and factors that determine economic success, including, in addition to the initiatives outlined below, the development and use of benchmarking in support of the European employment strategy.

A request from industry

On several occasions, industry has proposed that the Commission and Member States use benchmarking as an instrument to optimise policies affecting competitiveness.

The Competitiveness Advisory Group recommended extensive recourse to benchmarking of framework conditions, in particular those relating to public infrastructure, the labour market and internationalisation of the European economy.

In its report on *"Benchmarking for policy-makers - The way to competitiveness, growth and job creation"* (October 1996), the Round Table of European Industrialists (ERT) drew the Council and Commission's attention to the potential contribution of benchmarking for pursuing growth and employment. The ERT invited more particularly public authorities to examine priorities for, the objectives and methods of benchmarking, as well as the means of transposing results into their policies.

An invitation from the Council

In its conclusions on benchmarking (14 November 1996), the Council of Ministers invited the Commission to present proposals on developing use of this instrument as a means for improving the competitiveness of European industry. The European Council at its meeting in Dublin on 13 and 14 December, 1996 also considered that *"there should be regular monitoring and evaluation of the Union's competitiveness against world best practice"*.

An instrument for competitiveness

As noted in the Commission's Communication to the Dublin European Council on the mutually beneficial effects of greater co-ordination of economic and structural policies (Europe as an economic entity) CSE(96)8 final, "Competitiveness in the EU and the competitiveness of different regions, sectors, companies or even individuals can only be increased on a lasting basis by raising the productivity of companies and the people who work in them. Competition is not between countries but between companies - within and across borders." Benchmarking is an important tool in working towards these improvements in competitiveness, and is based on two elements:"

- the comparison of societal behaviour, commercial practice, market structures and public institutions across countries, regions, sectors and enterprises in order to identify best practice;
- applying reference to best practice as an instrument to identify changes required and to mobilise all actors of the economy and society to evolve in this direction.

The first step requires that all the actors concerned accept to question existing practices. Benchmarking can succeed only if it exposes weaknesses and inefficiencies. This is why the process can provoke resistance and increase opposition to change initially. Its benefits can nevertheless be substantial: better services for the individual and for enterprises, less costs, more user friendly administration, better economic performance, more work, improved health and safety, and wealth creation. It can also con-

tribute to economic convergence within the Union by closing gaps in productivity and reducing economic inequality.

The comparison of commercial practices and of market structures requires the development of reference indicators. To be supportive of the competitiveness of European industry, this exercise cannot be associated with anti-competitive practices such as exchanging between companies specific information on their prices, quantities produced, quantities sold, market shares, capacities and investments. Any exercise of benchmarking leading to the production of statistical reference indicators must be managed so that the companies do not have access to the individual data concerning the activity of their competitors.

The second step requires a commitment to undertake the changes required from all the actors involved. This implies not only that they be willing to adopt best practice but that the unceasing search for best practice becomes a permanent characteristic of the decision making process for enterprises, institutions and public administrations.

2. THREE LEVELS OF BENCHMARKING

Benchmarking can be implemented by enterprises, at the level of sectors and that of framework conditions for economy and society. Whichever the level of implementation, this tool serves the competitiveness of European industry. It serves to improve the competitive performance of enterprises, of industrial sectors as well as that of the environment in which people work, enterprises operate and society functions.

at enterprise level

Benchmarking at **enterprise level** is mainly a "quality" tool for continuous improvement of industrial processes and management. For those enterprises that have integrated quality as a determining element for strengthening competitiveness, it is an element of global strategy. It is identified as such in the framework of the European Quality Policy.

Establish the processes to be analysed, identify world-wide best practice for these processes, evaluate the gap in performance compared with this and understand the reasons behind the gap are the steps which should lead the enterprise in question to perform better, improve competitiveness and thereby surpass the competition.

Benchmarking at enterprise level is above all the responsibility of industry itself. Public authorities can usefully contribute to its promotion amongst a wide audience, in particular to small and medium sized enterprises which do not have the resources or the necessary experience to do it alone. The Commission proposes to examine with all the parties concerned the possibility of creating a European network for enterprise benchmarking. Such a network should ensure that coherent, trustworthy and equivalent services are available, in particular for SMEs, throughout the Union. To this effect, two initiatives are in the process of being sponsored by the Commission (see the following box).

Examples of enterprise benchmarking

The Commission sponsors two initiatives in this area:

- a pilot project from Forbairt (Ireland) to identify experience, services and methodologies developed at the current time in Europe, and to prepare an action plan for the creation of a European Network of enterprise benchmarking;
- a project from Eurochambres to use the existing network of European Chambers of Commerce and Industry to promote awareness programmes about quality to SMEs, to encourage them to apply benchmarking through pilot projects and to improve the conditions for SMEs access to the European network mentioned above.

The UK Department of Trade and Industry (DTI) sponsors a national benchmarking system which provides for the exchange of statistical information and the identification of best practice on a national level.

- this system was built on an initiative of the London Business School which created a panel of industrial enterprises, including many small and medium sized ones, and developed a benchmarking model with them for key aspects linked to business management and organisation;
- after demonstrating its value and faced with increasing interest from participants, including enterprises from overseas, the experiment received the backing of the Confederation of British Industries;
- the DTI then decided to approve and support the experiment through public statements and through the creation of a national network of outlets where enterprises could access the panel. With the increase in the size of the panel, its representativity as a reference tool also increased.

Some Member States and private bodies have also launched programmes for the diffusion of best environmental practice (for instance the UK Environmental Technology Best Practice programme).

at sectoral level

Sectoral benchmarking concentrates on specific factors for the sector concerned: in this way certain environmental regulations affect almost exclusively certain sectors (automobile emissions, dangerous substances, etc.).

Examples of sectoral benchmarking

Pilot programmes - managed jointly by the Commission and MITI - for consumer electronics and automobile parts and component suppliers are intended to improve the competitive performance of European industry compared with Japanese best practice.

Other initiatives are being launched by the chemicals and automobile industries. Benchmarking the European chemicals industry comprises the permanent review of improvements made to competitiveness, a comparison of the European competitive

situation against world-wide best practice and the implementation of actions to help convergence towards this best practice.

A joint Commission/industry working group was created in July 1996 to undertake this benchmarking. The working group decided to concentrate at first on the chemicals industry as a whole and subsequently on the different sectors of which it is made up, for example petrochemicals.

Although this benchmarking does not concern enterprises directly, a distinction can be made according to enterprise size. In this way, specific problems posed for large firms or SMEs can be examined separately.

In the same way, although benchmarking of Community policies is not the objective of the exercise in itself, operational proposals concerning framework conditions can still be formulated.

The working group is evaluating a limited number of indicators relating to the factors of competitiveness the most pertinent for the chemicals industry. Preference has been given to those indicators for which comparable data exists. Collection of data is difficult because of statistical confidentiality, differing definitions of various parameters and lack of data on third countries.

The Netherlands also undertook to evaluate the competitiveness of the European information and communications technology industry by benchmarking its principal competitors.

at the level of framework conditions

Benchmarking framework conditions - in particular factor costs, infrastructures, skills, innovation, the environment - enables the efficiency of public policies which affect competitiveness to be evaluated and to identify the steps required to improve them. Its main object should be the evaluation of those framework conditions which directly affect the competitiveness of European industry.

Benchmarking framework conditions relies on a full evaluation of industry's competitive situation and a diagnostic of the principal areas to be examined. In a second stage, it becomes the tool to address the areas of weakness identified.

If macro-economic indicators which enable the tracking of the development of competitiveness of the economy as a whole are readily available, the same does not go for more detailed indicators on framework conditions which affect competitiveness. Methodological difficulties and the lack of accurate and comparable statistical indicators are prevalent for certain indicators which relate to areas that either have a direct quantifiable impact on competitiveness or that have an effect on the long term.

To benchmark framework conditions is a very complex exercise because it can be difficult to isolate the effect of a specific policy from the effect of other policies. To implement it with success, a number of principles can be applied such as:

- benchmark the outcomes and the inputs (for example the share in sales of products introduced over the previous three years and expenditure on R&D);

- benchmark the causes not the symptoms (for example the situation in the labour market not the rate of unemployment);
- benchmark the process as well as the performance (for example the capacity of a training system to deliver skills as well as the level of skills attained).

Examples of benchmarking framework conditions

The Commission has undertaken to inventory Member States' experience with benchmarking framework conditions. It has also launched a benchmarking exercise with the Member States in the framework of the Employment and Labour Market Committee

The Dutch Ministry of Economic Affairs recently published a report on "*Benchmarking the Netherlands: Test of Dutch competitiveness*", which examined different approaches to benchmarking framework conditions. The analysis covered such areas as labour, capital, taxation, education and infrastructure. The results identified strengths of the Dutch economy, but also handicaps which prevented it to exploit its full potential. On this basis, the Dutch government has undertaken reforms to correct these handicaps. These corrections will be continued in 1997 on the basis of an update of the benchmarking exercise.

The OECD Industry Committee has set up a working group to develop criteria for benchmarking framework conditions. It has identified eight significant parameters for industrial competitiveness covering: R&D infrastructure, education and labour force, corporate governance, labour market regulation, labour costs, corporate taxation, energy costs, telecommunications costs and infrastructures.

3. A COMMUNITY FRAMEWORK

If the initiative on benchmarking lies with all the actors of economic life, the value added of the Community dimension is to ensure access to expertise with the capacity to develop and apply the most sophisticated methodologies, to make use of experience and to pool knowledge held by the different national systems, whilst still playing a stimulating rôle with regard to Member States.

It is what the Commission intends to do in the field of framework conditions' benchmarking by the implementation of pilot projects.

These pilot projects should permit a limited number of Member States to try out co-operation on specific areas which are of common interest to the Community and to put in place mechanisms for co-operation and transparency along with the networks of know-how which will be required for future actions:

- each Member State may not be equally interested in a benchmarking exercise. However, this should not be detrimental either to those Member States who are interested in such an exercise or to the efficiency of the business environment for European enterprises as a whole. This implies that the expertise and capacity for dialogue at Community level are made available to all those that are willing to undertake such an exercise;

- in the same way, each Member State does not necessarily have sufficient capacity for the requisite analysis and research to execute benchmarking in a way that it provides the appropriate elements of comparison and their interpretation to guide the necessary political choices to improve framework conditions for enterprises.

The Commission will implement a number of pilot projects, selected in particular among the themes in annexe, where possible with a financial contribution within the limits of current budgetary resources. This implementation will be conducted in such a way that a working procedure is developed ensuring transparency, dialogue and expertise. Other benchmarking exercises could then be undertaken on the basis of this procedure, in particular in the fields of the weight of regulation on SMEs, protection of intellectual property and innovation. ;

- to the extent that this action is intended to improve the competitive performance of the economic environment, all actors should be allowed to participate in setting out the guidelines and priorities for benchmarking. For this reason, the Commission will put in place a **High Level Group on Benchmarking** composed of industrialists, representatives of Chambers of Commerce, trade unions, consumers and the civil society. The Commission will ensure that the composition of this group will reflect the different aspects of society, and in particular small and medium sized enterprises, which suffer the most from rigidities in the regulatory framework. This group will help the Commission to fix priorities for benchmarking, organise the participation of industry in its implementation, cooperate with the Commission for the interpretation of results with a Community-wide impact and transmit to industry those results which are its responsibility;
- **Directors General for Industry** will follow all work and ensure coherence in the political approach taken. They will establish case by case the degree to which Member States participate in the individual projects identified by the High Level Group. They will also assist the Commission in exploiting the results obtained from the different benchmarking exercises;
- finally, on the basis of the inventory of experience of benchmarking in Member States, the Commission will invite those public and private research institutes with expertise in this field to form a **network of expertise** in order to assist the implementation of benchmarking. Respecting the rules on public procurement, this network will be invited to undertake benchmarking on the basis of terms of reference drawn up by the participants in and co-financiers of a project. As the implementation of pilot projects progresses, this network of expertise will be strengthened by establishing its visibility, credibility and therefore its autonomy.

Results will be communicated to all Member States, Community institutions and other interested parties. They will provide input to regular discussions on industrial competitiveness. In these debates, the Commission will make known its own position and the lessons that it will draw for itself from these results.

This working method should also allow continuity of the action. Experience will show whether continuity of the action can be based on annual budgeting or whether a pluri-annual programme is required.



ELIGIBLE THEMES FOR PILOT PROJECTS ON BENCHMARKING

New technological and organisational paradigm

The new technological and organisational paradigm driven by globalisation and the introduction of new technologies poses a number of challenges for European industry. In this context, benchmarking will cover mainly the diffusion and use of new information and communication technologies by enterprises. This exercise will be based either on existing data or on that of a new sample survey of enterprises.

Financing of innovation, in particular that of intellectual property

Financing of innovation is of critical importance because it enables the results of R&D to be translated into goods and services. Benchmarking in this area will be undertaken in close co-operation with industry and other economic actors. To begin with, benchmarking should be based on a few major indicators such as access to risk capital, its cost, quality, the cost of filing patents etc..

Logistics and transport

Bearing in mind the rôle of the European Union in world trade and the peripheral situation of certain Member States, logistics, which concerns the management of flows of raw materials, information and products between suppliers and clients, represents an essential factor for European competitiveness. The vast nature of this area means that it is difficult to adopt a focused approach, which instead should be developed step by step.

Development of human resources

In the area of vocational training, benchmarking of qualifications can contribute to the analysis of training systems and thereby improve training policy and business management. The pilot project will permit the evaluation of the approach adopted by certain systems of vocational training in industry, including both implementation of training in the enterprise and the forecasting of needs in the light of economic and technological change. The pilot project will concentrate on vocational training in SMES.

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