

BENCHMARKING –AN INNOVATION INSTRUMENT OF MANAGEMENT ACCOUNTING

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This work proposes an analysis of dynamics and changes occurred in the competition domain where the entities operate in present, but also an identification of the necessities in finding a durable competitive advantage through a number of two fundamental instruments of administration "Activity Based Management" and "Benchmarking" which in the administration accounting acquire an important role, constituting the base for the strategic planning process.

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JEL codes: M41

The increasing quality and the innovation of new products represent a compulsory objective for the enterprises which operate within a global market, being forced to improve their production processes, to render their organization more efficient and more effective. From this perspective, using an innovative quality instrument, which has an intrinsic link with the quality concept and the competitive dynamics, is that of benchmarking, which can become strategic for MSEs.

This may offer useful information to the entities for a concrete approach of the benchmarking; explaining what it is, to what it is useful, illustrating the common operational model for each application pointing out the main benchmarking models for MSEs, used in present on national territories. The concrete benchmarking definition consists in "the continuous and systematic measurement activity of the administration processes of an entity with the aim to confront them with the economical processes developed by the leader enterprises, wherever they are situated with the aim to obtain some precious information which will help that company in improving its own performances". We have to retain the fact that an administration accounting system ABM⁶¹⁸, can represent an efficient instrument in making the benchmarking philosophy to spread all over the entities and to be integrated by the management in a transversal way to the different action area. Another objective followed in this paper represents the benchmarking approach as a necessary theory for giving birth to a learn-organization, understood as an organization able to produce and to obtain, to transfer knowledge, and also to modify its own behaviour according to its newly acquired information.

Under this profile the benchmarking, due to the study of the practices adopted by the best companies (best practices), they agree on an entity to know in an adequate manner its own functioning and identification mechanisms, the levels of optimum performance which define the best of breed (the best in the branch). In this situation we pass to a short analysis of the evolution which gave birth to the ABM. Broadcasting in industrial companies the methods of emphasizing,

⁶¹⁸ Ostinelli, Toscana (1995)- "Does Benchmarking needs Activity Based Management: A critical analysis's of some-Italian Cases. Paper presented 18-th European Accounting Association Congress, Birmingham (UX), May

analyzing and accounting costs, founded on activities (Activity Based Costing, Activity Based Management), starts with the 80's.

In the ABC as we can deduce from the acronyms, the activities constitute the base for following the specific objectives, such as: "cost modelling (representing the production cost); cost management (cost administration); cost assignment (appropriation cost); process management (which consists in the process administration as assembly of activities)". In the area of this methodologies, the ABC represents the most important answer for the rebuilding necessities and the administration accounting systems, satisfying the new economic information needs. The ABC is founded on the principles that cost derive from activities which consume resources, and products generate cost, as a result of the necessary activities of projecting, production, distribution and selling them. In this matter the ABC gets to the total production cost, different than that obtained with the help of traditional measurement systems, from different considerations, of indirect costs, un-correlated to the volume of "out put", but by the auxiliary activities and by the support.

Among others, the ABC constitutes not only an accounting methodology, but it represents even a starting point for introducing a managerial style founded on the analysis of the activity and the correlation between them, with the purpose of guaranteeing the realization of the economic objective. In conclusion, its main aspect is not based only on the correct measurement total cost per product, but also in the analysis of the activities which represent for the management an extraordinary instrument of knowledge regarding what's happening in the company, giving a well known contribution to the management, improving and administrating these activities.

In many cases, imposing an ABC system, having in view the administration aspect, significant of information, has constituted the bases in the ABM (Activity Based Management) system implementation. The ABM represents a more advanced ABC which configures as a strategic initiative, which has as a goal the implication of the entire organization in satisfying the client's needs, in the administration of processes and in the continuous improvement, un-restricting itself as in the case of the ABC, to monitoring the efficiency of the activity.

Recurring to the ABM, derives from shifting the attention which has been verified in the last years, from product to process, from a functional vision of the activity to an administrative vision and to a competition of the process. In particular is understood that a simple analysis of the activity in view to determinate the total cost, the ABC logic, doesn't consent the identification of the activities which produce value to the client or which impose improving interventions. Only by knowing the processes, it is possible to obtain such information, putting in view the transition towards different functional areas and the problems which may come out. The approach of the ABM represents a managerial accounting system, capable the necessary managerial administration processes, favouring the management, broadcasting a culture founded on following the improving objectives of the process and on the orientation of the their effective realization. In view of applying the ABM, it is necessary to proceed by using the documents afferent to the economic process. These procedures consist in representing the organization system as an integrated ensemble of administrative processes, among which the limits of activities are verified of which also the implied organizational units are composed. Through the documents afferent to a process, they aim at understanding of its current state and which are the contributing modifications for improving the results and raising the generation of value for the clients. In the operational plan, there are two types of different approaches for reaching the decomposing of the economic system in the elementary activities and in the successive mixture of such activities and administration processes: tackling the economic functions; tackling the economic processes objectives

The first approach, by not taking into account the market consumer, is unable to perceive the existing connections between the different activities which are carried on within a company and the contribution through which each activity offers value creation.

In the second approach, the economic processes are individualized starting with the consumers' preferences and expectations. The attention is concentrated on those activities which allow the company to be different compared to the competitors, with the aim to point out the interdependences that exist between the different organization unities in relation with the economic objectives⁶¹⁹ and strategies.

A fundamental importance in the implementation of an ABM project represents the reading and the understanding of the processes and activities, on the base of the performance parameters, for understanding how the practices have to be improved and the causes that constitute the base for the existing problems have to be removed. For this, it is necessary to establish a target of performance, for each process, on the base of the relevant optimal elements on the reference market. Each deviation from the performance level of a process from prefixed optimal parameters will be investigated with the aim to discover the causes of the differences, subsequently intervening on the variables that provoked these deviations.

Passing on to examining the role that the managerial accounting can have in the benchmarking initiatives, we stress upon the fact that the ABM, which fundamentals on the profound knowledge of the economic activities and processes, we introduce an adequate and efficient approach for giving birth to benchmarking initiatives. With the aim to clarify the benchmarking concept, which can remind the definition, emerged from the first benchmarking initiatives, conduct to David. T. Kearnes, a managing director of Xerox Corporation.

The implementation of the benchmarking system, as part of the top management within the Xerox company, at the end of the '70's, depended on the necessity to face the competitive challenges launched by the Japanese competitors. Those years, Xerox initiates a series of initiatives against "L.L.Bean", the leader company in selling through correspondence, with the aim to study the logistics activities, the deposition techniques and the expedition processes. Thanks to these initiatives, Xerox discovers which of them was able, even beyond its own sector, to gather important information for administrating and solving in an optimal manner the problems related to deposition and distribution.

These initiatives aimed to evaluate the internal performance⁶²⁰ in order to be able to compare it to the external one – taken as reference parameter, identifying the high "gap" for improving the economic competition. At the same time, Xerox concentrates these initiatives on the processes and methodologies adopted by the leader companies, and the benchmarking has been extended in a systematic manner towards all the economic phenomena, becoming more and more integrated in the administration process. The success obtained by Xerox in this experience, in terms of improving the practices and the economic processes, determined many companies to follow its example. It is sufficient to remind that, nowadays, over 50% of the first 500 companies considered the most efficient ones, have adopted the benchmarking initiative.

The operational methodology by means of which the benchmarking is implemented consists in the following phases: the confrontation of their own performances with the best and the most competitive companies (Best in Class), in the basic sector in which the company operates, as well as in totally different sectors; the choosing and the interpretation of the organizational system through the processes optics; the pointing of the "optimal", identifying the adequate practice and performance standard for following those efficiency levels with the aim to consent to the management to establish more rationally its own objectives, its own strategies and the criteria of increasing the value of the optimal levels research.

⁶¹⁹ Fabrizio De Filippis, "Le politiche di sviluppo rurale nell'Unione Europea: un secondo pilastro tutto da inventare", Working Paper 13/01 Dicembre ,2001, Roma.
http://vrlab.epfl.ch/Publications/pdf/Herbelin_Vexo_Thalmann_VRMHR_02.pdf

⁶²⁰ David Cannon, Joseph H. Godwin, Stephen R. Goldberg, (2008), Corporate Governance and Enterprise Risk Management (p 83-85), The Journal of Corporate accounting & Finance, Volume 19 Issue 2 , Pages 1 - 106 (January/February 2008)

So, the benchmarking allows the manager to identify through the confrontation with the leader companies the critical areas of the administration on which we can effectuate opportune interventions. At the same time, through the benchmarking, the management orientation is perfected towards performance and efficiency, especially for the areas which are not directly exposed to the concurrence and the performance of which is measured through costs and incomes. As regards the subject of the empiric cases, we report the results of a research effectuated in 1994, with the aim to understand if the companies which complied with the benchmarking initiatives for using the ABM accounting managerial systems in order to identify the best practice, introducing them within the company and externalising them over all the economic functions. In this research, eight companies with consolidated experience in benchmarking have been analysed: Alcatel Face, Standard, Himont, Digital, Equipment Italy, Motorola Division – cellular phones, 3M Italy, IBM SEmea, Nones, Rank Xerox. From the analyse of these cases (excepting Himont and Motorola Division – cellular phones), we observed that six out of eight examined companies included, in different forms, an ABM managerial accounting system⁶²¹. We can say that the efficiency of the benchmarking initiative can have well-defined advantages in adopting the ABM managerial accounting systems.

The optimizing management of the quality through

At the locally level, a very big importance will have the European strategies. The Member States apply now the main lines of the European orientation in employment and in drafting the national reform programs.

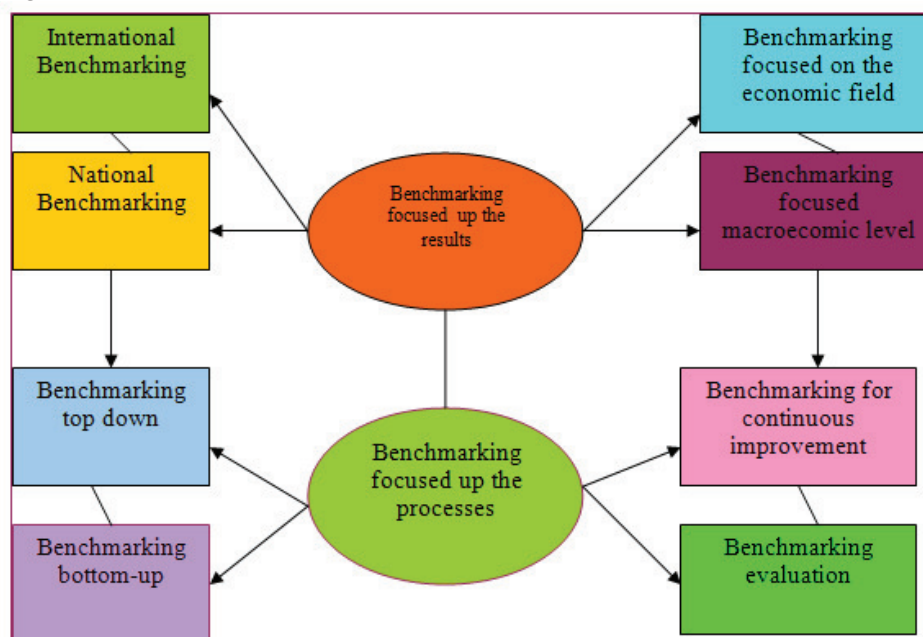


Fig. no.1- Benchmarking in the public sector
Source: Ministry of Finance of Denmark

- Prior to initiating a benchmarking activity it is necessary to consider three frequently questions:
- what is intentionally a measure?
 - who want to perform the confrontation?
 - Why analogies we expect to find?

⁶²¹ Jagdish Pathak, Mary R. Lind, (2007), *Integrated information systems: SAS 94 and auditors* (p 57-67), (2007), Volume 18 Issue 6 , Pages 1 - 108 (September/October 2007), The Journal of Corporate Accounting & Finance

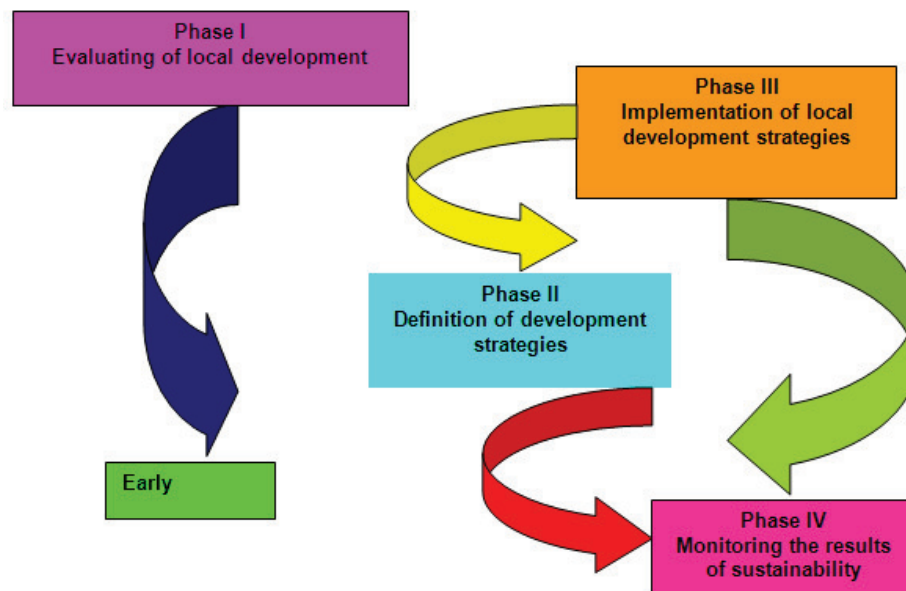


Fig no.2 -The process of local development

Benchmarking bottom-down is initiated at the level of which is carried out. Different by top-down approach it is based on horizontal cooperation at locally level⁶²². Frequently, using bottom-down approach is a successful evaluation of a lower number of units, in comparison with top-down benchmarking, but can ensure a better script to put in evidence improved proceedings of benchmarking, and that does not call for reason reduce the number of participants but due to sharing and trust experience which establishes between partners during cooperation.

Conclusions

Benchmarking can be considered a process of learning through continue confrontation with operators some of the same sphere of activity and not also. It represents a systematic and continuous approach for identification of performance standards (benchmarking), to confront them and to identify the practices that allow to become the new standard reference (new best in class), who focuses on the observation of processes, products and more. Benchmarking suggest strategies to improve to follow of performance. In summary, the main objective of benchmarking is to identify the best areas and most competitive in stimulating change. These changes can be achieved by identifying and adopting "excellent practice".

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⁶²² Marangoni A., *La gestione ambientale: la variabile ecologica nell'economia delle aziende industriali*, EGEA;5.NMC, New Media Consortium and EDUCAUSE (2007) The Horizon report 2007 edition. www.nmc.org/pdf/2007_Horizon_Report.pdf

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