Cost Control and Enhancing Competitiveness through Benchmarking: An Analysis

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Abstract

Numerous innovative cost control practices have been evolved during the last two decades. The entire gamut of the cost accounting system has been broadened to equip and assist managers to better serve the needs of the customers and manage the firm's business processes that are used to create customer value. The vital aspect here is providing customer value for less cost than its competitors, thus enhancing the competitiveness and profitability of the firm.

Bench marking is one such innovative cost control tool which basically involves measuring an organizations operation, products, and services against those of its competitors. It is a means by which targets, priorities and operational strategies are evolved based on external realities that will lead to competitive advantage which in turn improves the profitability and competitiveness of an organization.

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The last two decades has witnessed the genesis of various innovative cost management practices. The focus and thrust of these cost accounting systems has been broadened to enable managers to better serve the needs of the customers and manage the firm's business processes that are used to create customer value. These innovative cost management tools help a firm to establish a competitive advantage by providing more customer value for less cost than its competitors. The three strategic areas that give the firm the extra competitive advantage over its rivals are the Time Based Performance, Quality and Cost Control. These three strategic components influence the competitive feature of an organization in the contemporary liberal free market economy.

Hansen -Mowen (2003) has identified the following factors affecting cost management.

(a) Global Competition-
Free market economic policies and improvement in transportation and communication system have led to a global market for manufacturing and service firms. This new competitive environment has increased the demand not only for more cost information but also for more accurate cost information.

(b) Growth of the Service Industry.
The service sector had a meteoric rise in the last decade and a half. The liberalization and deregulation of many services like Airlines, Telecommunications and other Utility sectors has resulted in fierce competition in this segment. The increased competition has made managers in this industry more conscious of the need to have accurate cost information for planning, controlling and decision-making.

(c) Advances in Information Technology
The Information Technology innovations have revolutionized every aspect of business management. The Enterprise Resource planning (ERP) which provides an integrated software system that can run all the operations of a company, the availability of Personal Computer (P.C), Online Analytic Programs (OLAP), Decision Support System (DSS) and the Electronic Data Interchange (EDI) which involves the exchange of documents between computers using telephone lines have empowered the cost accountant to become more flexible to respond to the managerial need for more complex product costing.

(d) Advances in Manufacturing Environment
Innovative manufacturing approaches like the Theory of Constraints (TOC) and Just in Time Management (JIT) have allowed firms to increase quality, reduce inventories, eliminate waste, and reduce cost. The Computer Aided Design (CAD) Computer Aided Manufacturing

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(CAM), Computer Aided Engineering (CAE) and the Flexible Manufacturing System (FMS) have all contributed in cost reduction and increasing productivity.

(e) Total Quality Management

Non stop improvement and the elimination of waste are the two basic criteria of contemporary manufacturing. Product Quality is the key to success in today's highly competitive business environment. Cost management supports the concept of Total Quality Management by providing crucial information concerning quality related activities and quality cost control.

(f) Time and Efficiency as a Competitive Element.

Time and Efficiency are two vital components in the phases of the value chain. The highly competitive environment forces modern day firms to reduce time to market by redesigning products and processes, by eliminating waste and non value- added activities. Similarly improving efficiency is also an essential concern. Cost is a critical measure of efficiency. For the various efficiency measures to be of values, cost must be properly defined, measured and accurately assigned.

All these factors have resulted in the need to innovate and introduce strategic cost control techniques in order to withstand the prevailing competitive business environment and enhancing competitiveness.

Bench marking has been evolved as a potent tool to be used for Strategic Cost Control and improving and enhancing competitiveness.

Defining Benchmarking

The word 'Bench mark" is a reference or measurement standard used for comparison and it is a continuous process of identifying, understanding and adapting best practice and processes which result in superior performance along with cost effectiveness. Stamatis (1997) has defined benchmarking "as the process of gathering, analyzing and evaluating the world on outside your organization and comparing it to your own". The findings and the results of this process becomes the vital foundation and basis of your improvement

Genesis of Benchmarking

This concept was evolved and used in as early as 1950s by W. Edward Deming when he taught the Japanese the idea of quality control, but after this the concept of bench marking lost its relevance. This concept again became prominent in the early 1980's when multinational giants IBM, Motorola and Xerox used Bench marking for their strategic advantage. From then onwards till today bench marking is being used as an effective tool for various managerial functions including cost control.

Levels of Benchmarking

Benchmarking is a systematic method by which organizations can measures themselves against the best industry practices. The main focal point or critical aspect of Benchmarking is the process of borrowing ideas and adapting them according to the strategy of an organization to gain competitive advantage

Richard Chang and Keith Kelly (1998) have evolved four common approaches to benchmarking These Include:

a) Internal Bench Marking- It is done within an organization, or perhaps in conjunction with another branch office. Internal bench marking is typically the easiest to conduct since data and information should be readily available and confidentiality concerns are minimized.

b) Competitive Bench marking- Generally each organization has at least one competitor that excels at the exact processes which an organization wants to study. However in this approach bench marking will be slightly difficult when compared to internal bench marking because it is very difficult to collect or learn a competitor's trade secret. Firms usually hire the services of a third party consultant to gather strategic information relating with the competitors.

c) Non-competitive Benchmarking – Non competitive benchmarking helps an organization to improve its core-competencies. The benefits of non competitive benchmarking include:

A related process in your industry with a firm you do not directly compete with.

ii) A related process in a different industry.

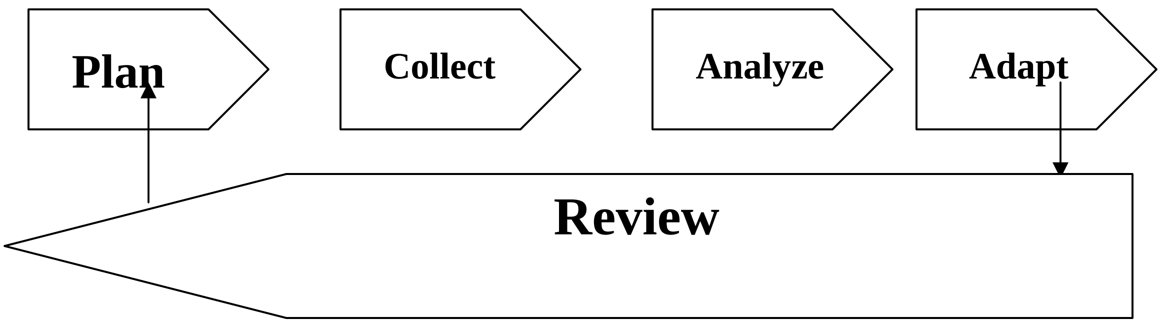
iii) An unrelated process in a different industry.

The most striking phenomenon of noncompetitive benchmarking is that new and innovative processes can be find out and adapted in an organization.

(d) World class benchmarking – This approach is the most ambitious and broad form of bench marking. It involves the process of making comparison with the strategies of the world's best establishments and analyzing and learning from their strategic approaches.

Benchmarking Process

John S Oakland (2003) has classified the bench marking process into five main stages. Figure No. 1 highlights the various stages of bench marking in the following manner.



The bench marking process commence with the plan phase. The managers of the organization share their views and objectives for the study and establish roles and responsibilities. They will analyze their own organization to study and investigate the strengths and areas of improvement.

The next phase belongs to the data collection aspect. It is during this phase that the bench marking partners are identified. The main objective is to identify organizations that are superior so that the firms own operation can be targeted. The quickest way to identify excellent performance is through site visits with appropriate training. Five to seven site visits might take place in one visit. Databases are an expanding source of comparison information. The two most important difficulties that organizations face are identifying top performing companies in specific functions and finding companies that have already conducted studies in specific areas. The American Productivity and Quality Center (AP&QC) is a premier organization in The United States which maintains sizable database information and serves as a central networking source and has the support of top benchmarkers.Cooperative sharing agreements between companies is another source of best-in-class identification. Members of the agreement may or may not be competitors and may or may not be in the same industry.

The Data collected from the site visits and from other sources will be analyzed in the next phase to identity best practices and the enablers which deliver outstanding performance. At this step an organizations own performance should have been pre-measured; other wise there is nothing to compare against the bench marking data.

In the Adapt phase, the managers will attend a feed back session where all relevant conclusions from the site visit analysis and its comparison with their own performance level will be discussed upon. The best practices from the bench mark studies will be adapted in the organization.

The last phase of the bench marking process is the post Completion Review Stage. The managers will assess the performance of the bench marked area of operation and decide on what actions are required to sustain improved performance. Best practice data bases many be created in the organization which must be shared among all the members of the organization.

Benchmarking and Key Cost Variables

Benchmarking can be used as an important strategy for cost and quality improvements. The functions, activities, and processes can be measured in terms of specific output measures of operations and performance. Swift (1998) evolved two broad categories of cost variables which can be effectively benchmarked in order to attain improved cost efficiency and cost effectiveness. These two categories are as follows:

(a) Cost and Productivity - Overhead costs and labour efficiency, total cost per unit, direct labour per unit are some of the vital cost drivers which result in a very high proportion of expenditure in any production process. These variables provide an excellent platform for benchmarking and enable an organization to become cost efficient. Comparing one company's financial statements and cost breakdowns against those of others is an effective strategy to improve especially when you are comparing with a detailed financial statement of your competitors or the best- in class.

(b) Business Processes – It includes all those processes which are not directly related to product design, production, sales and service. Human resources, data processing, accounts receivables, marketing services, security warehousing, public relation are some of the key variables in this segment. A number of companies develop severe cash flow and profit problems due to uncontrolled cost of these business or support processes. All these costs can be grouped under general and administration expenses and these expenditures have tremendous scope of improvement through benchmarking.

Myths and Realities about Benchmarking

Bench marking is a new concept in the management scenario and as a result people are having varying notions about the concept of bench marking. The common myths and the actual realities that surround the bench marking concept are as follows:

Myth	Reality
Bench marking is copying or imitating	Although Bench marking involves observing and learning from others, it Does not involve copying a process. Rather successful approaches should be adopted to improve performance.
Bench marking is simply a matter of raising your sights to the levels of top Organizations.	Bench marking looks beyond the numbers to the processes that produce the results.
Bench marking is only for stream Lining manufacturing processes.	Benchmarking can be applied to every other organizational process thus it is a multifaceted concept.
Once you have bench marked the best, You are ready for the long term	Bench marking should be thought of and planned as an or going process, as part of continually improving to meet and exceed customer requirement Thus it is not a one time event but an ongoing process.

Conclusion

After an in-depth analysis on the various aspects of bench marking it can be concluded that it is a systematic process which enables an organization to compare itself with the best industry practice. It is an increasing popular tool used exclusively by manufacturing and service organization. Vital decisions relating to cost efficiency and cost effectiveness can be evolved by the bench marking process. Cost and productivity, such as overheads and labour efficiency, total cost per unit, or per ton, cost related to inventories and supply chain, marketing cost are some of the key variables which can be bench marked with the market leaders and effective results can be produced. It forces an organization to set goals and objective based on external reality. It is neither a panacea nor a strategy but it is an important tool which will bring organizational efficiency and effectiveness if prudently used.

References

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