Performance Benchmarking for Building Best Practice in Small and Medium Enterprises (SMEs)

Ketsaraporn Suttapong & Zhilong Tian
School of Management,
Huazhong University of Science and Technology,
CHINA

Abstract
Because of at the present, SMEs enterprises are facing with increased competitive pressure. This highlight is importance of adopting a benchmarking approach to identify best practices for achieving competitive advantage in the global market. Therefore, it is possible to develop effective benchmarking tools for SMEs, provided these tools take into consideration SMEs’ characteristics. The purpose of this paper had tried to review the literature on investigate performance benchmarking for building the best practice for SMEs organization. This paper select “Performance Benchmarking” to assess and find the best practice as knowledge or know-how by learning from SMEs to improve the competitive advantage and build potential in global competition. Moreover, the paper has three specific aims as first, characteristics of performance benchmarking in SMEs. Second, factors and indicators for SMEs performance benchmarking activity. Finally, performance benchmarking for building the best strategy in SMEs.

Key word: Benchmarking, Performance benchmarking, performance measurement, Best Practice, SMEs, small and medium enterprise.

Introduction
Small medium enterprises (SMEs) operate a major role in national economies and considered as machine for economic growth all over the world. After the local commercial become to globalization of market, SMEs have got many opportunities to deal business in integration with large-scale enterprises. They cannot exploit these opportunities and sustain their competitiveness if they focus only on certain aspects of their functioning and work in isolation. Therefore, majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations (Singh, Garg and Deshmukh, 2008).

Owing to, SMEs are forced with unfamiliar products and processes on a fairly regular basic thus; they must develop programs or equipments for improving their skills and competencies (Fuller-
Love, 2006). In addition to, they can get competitive advantage by developing internal and external capabilities (Lai-Yu, 2001). Consequently, the importance of evaluating performance is obvious for business enterprises in general, and for SMEs in particular (Yusof and Aspinwall, 2000). Because of at the present, SMEs enterprises are facing with increased competitive pressure due to globalization as well as increased quality and service requirements from their customers (Underdown and Talluri, 2002) thus, small and medium sized manufacturers must increase their productivity and their competitiveness in order to survive and prosper, even if they do not intend to become “world class” enterprises (St-Pierre and Delisle, 2006).

For continuous improvement performance and change in environment business, SMEs have to benchmark themselves with the best in the industry beside this, for sustainable growth in highly competitive global market. Additionally, performance measurement has become an essential component of strategy development by SMEs. Therefore, effective performance measurement system plays an important role in supporting managerial development in the SMEs organizations (Garengo, Biazzo, Simonetti and Bernardi, 2005). Performance measurement is defined as the process of quantifying the efficiency and effectiveness of organizations performance. The core of the current interpretation of benchmarking as follows (Denkena, Apitz and Liedtke, 2006):

- Measurement of the own and the benchmarking partners’ performance level.
- Comparison of performance levels, processes, practices, etc.
- Learning from the benchmarking partners to introduce improvements.
- Improvement, which is the ultimate objective of any benchmarking study.

This paper select “Performance Benchmarking” to assess and find the best practice as knowledge or know-how by learning from SMEs to improve the competitive advantage and build potential in global competition. Because of, this tool is able to allow SMEs to learn the best management practices and assess itself with respect to these practices and at the same time understand and to know what must be done to carry out improvement (Garengo, Biazzo, Simonetti and Bernardi, 2005). However, performance benchmarking activity to be effective for assessing SMEs enterprises performance should be dynamic and has to be modified as circumstances change so that performance measures remain relevant (Lynch and Cross, 1991). But performance benchmarking in SMEs has not received sufficient attention. Additionally, the process of benchmarking opens up numerous opportunities for SMEs in terms of evaluating their own performance against the best in class SMEs. Consequently, this will enable SMEs to identify gaps in their performance and to aware the suitable best practices. Because of global economy, SMEs are under constant pressure to improve their performance. This highlights as mentioned before are importance of adopting a benchmarking approach to identify best practices for achieving competitive advantage in the global market (Gunasekaran, 2003).

The purpose of this paper had tried to review the literature on investigate performance benchmarking for building the best practice for SMEs organization. Owing to, performance benchmarking allows SMEs to improve their operational performance thus, confirming the usefulness of benchmarking as a decision support tool and the benchmarking approach is tailored to SMEs’ characteristics as an adequate tool can be devised and used to help them improve performance (Delisle and St-Pierre, 2004).
As mentioned before, the paper has three specific aims: The contribution to this literature is especially focusing on performance benchmarking for small and medium enterprises as follow.

- Theme 1: Characteristics of performance benchmarking in SMEs.
- Theme 2: Factors and indicators for SMEs performance benchmarking activity.
- Theme 3: Performance benchmarking for building the best strategy in SMEs.

**Characteristics of Performance Benchmarking in SMEs.**

As management challenges have increased in complexity, performance benchmarking has become a strategic tool for organizations of all sizes. In fact, in order to be relevant for SMEs, a benchmarking tool must remain simple and comprehensive but not too demanding in terms of resources and it must be able to guide owners-managers toward action when appropriate. (St-Pierre and Delisle, 2006). In essence, the importance of benchmarking practices in SMEs with the objective of improving their organizational competitiveness and prosperity in the new economy (Gunasekaran, 2003). There is a need for benchmarking studies that are based on deep, rich grounded and inductive studies. These grounded benchmarking studies must look at the cultural and knowledge based measures such as leadership, people management and casual process measures (McAdam and Kelly, 2002).

However, the general requirements identified need to be adapted to the SME context thus, an analysis of the characteristics of SMEs is carried out along with an evaluation of the main weaknesses of their performance measurement current practice. On the basic of the elements collected, a list of features of a “good” performance measurement system for a SME is finally obtained. Consequently, a new way of interpreting the benchmarking tools present in practice and in the literature is illustrated and synthetic benchmarking on managerial practices is identified as the most suitable type of benchmarking for the managerial development in SMEs (Garengo, Biazzo, Simonetti and Bernardi, 2005).

Hence, it is possible to develop effective benchmarking tools for SMEs, provided these tools take into consideration SMEs’ characteristics, thus being different from simple miniatures of the benchmarking tools developed for large enterprises and performance benchmarking as the comparison of performance levels or result without taking into account, the practices that led to such performance (Adebanjo and Mann, 2007). Therefore, the very notion of benchmarking must be tailored to SMEs in order to target those that wish to progress, and not only those that wish to become world leaders or the best in their market but there are relatively few SMEs that set themselves such goals. In fact, in order to be relevant for SMEs, a performance benchmarking tool must remain simple, comprehensive, not too demanding in terms of resources and it must be able to guide owners-managers toward action when appropriate (St-Pierre and Delisle, 2006). Moreover, performance benchmarking allows the SMEs companies to get and know the best management practices which are codified in the tool to assess itself. And identify ways to carry out improvement in order to fill any gaps in the methods and tools used by management (Garengo, Biazzo, Simonetti and Bernardi, 2005).

But, if the goal is instead to measure the enterprise’s competitiveness, the performance benchmarking could be made relative to SMEs in the same branch; if the entrepreneur only wishes to perform a kind of self-evaluation, then SMEs of the same size (i.e. same number of
employees) could constitute the reference group. This variety of comparison bases is in agreement with SMEs’ heterogeneousness and emphasizes the fact that the SME’s branch of industry is not always the best criterion for benchmarking purposes, depending on the enterprise’s development stage and the owner-manager’s development strategy (Raymond and St-Pierre, 2004).

The ability of keeping the performance measurement system continuously updated is a challenge for every firm, but particularly for small and medium-sized enterprises (SMEs), which need to be extremely flexible and reactive to market changes while being characterized by lack of resources and managerial expertise (Garengo, Biazzo and Bernardi, 2007; Hudson, Smart and Bourne, 2001). However, the most of the literature on performance measurement treats the subject regardless of the size of the business (Carpinetti, Galda´mez, and Gerolamo, 2008) and even if many performance measurement approaches have been proposed, few are the publications focusing specifically on performance measurement in small and medium-sized enterprises (Garengo, Biazzo and Bernardi, 2007). On the other hand, obstacle of performance benchmarking for SMEs because of entrepreneurs are giving as an excuse the lack of time, resources, and even relevance, whereas those who have used benchmarking recognize its effectiveness and its usefulness for their organization (Cassell, Nadin and Gray, 2001). Moreover, a more complex business environment, and limited resources are all factors contributing to the justification of SME-specific benchmarking (Hendry, Arthur and Jones, 1995).

Therefore, we can conclude that one attribute to the assessment of a SME’s operation is to compare the firm’s business practices and performance with those of a group of similar firms, that is, to “performance benchmark” the organization. As management challenges have increased in complexity, benchmarking has become a strategic tool for organizations of all sizes (St-Pierre and Delisle, 2006). And the effective performance benchmarking for SMEs should consider into SMEs characteristics, benchmarking purpose and target for seeking the best management practice to operate business.

Factors and Indicators for SMEs Performance Benchmarking Activity

It has often been said that the critical factors for the success of SMEs can mostly be found in the attributes of a model of a company whose success basically depends on the figure of the entrepreneur-owner, who is personally responsible for managing the activities of the company (Cagliano and Spina, 2002). Because of, the competitive advantage of SMEs is often tied to contingent factors that cannot be foreseen and formalized (Jennings and Beaver, 1997; Bernardi and Biazzo, 2003). Therefore, the most popular benchmarking indices that SMEs used were financial performance, customer satisfaction and quality of products / services but benchmarking of human resource type measures was inconsistent and piecemeal. Beside this, SMEs find it difficult to envision themselves as anything different from what they are and they also find it difficult to use benchmarking tools (Cassell, Nadin and Gray, 2001), especially if these tools are defined without considering the characteristics of SMEs.

Also, there are essential factors to involve with effectively and elicit participation for SMEs benchmarking including (McAdam and Kelly, 2002):
• **The leadership role**: For a leader in a learning SME organization, there is a need to focus on the vital few areas for change from each important source of information exchange.

• **Best practice production processes**: SMEs organizations must be flexible to respond rapidly to competitive and market change. Thus, they must benchmark continuously to achieve best practice.

• **The knowledge creation and management role**: The benefit from new knowledge is not only to achieve the closing of gaps in performance but it is also building capability and enriching the knowledge base which is even more critical for sustaining long-term competitive advantage (Zairi and Whymark, 2000b).

• **People involvement-customers, employees**: Customer focus can affect organizational performance either directly or indirectly and also employee involvement and empowerment that dependent on having well trained and motivated staff (Lord and Maher, 1993).

• **Product innovation and design approach**: Assessing changes that can affect a company must be part of a deliberate process that can convert change concepts for new products, services, customers and markets (Zairi and Whymark, 2000b) such as product quality, service quality, time to delivery and customization of customer design.

Beside this, SMEs entrepreneurs should be focus on the so-called “critical factors” concerning the manufacturing perspective, innovation and improvement perspective and customer perspective; the selection of these three areas was inspired in the balanced scorecard methodology (Kaplan and Norton, 1996).

SMEs entrepreneurs are operating in a highly competitive environment. There are effectiveness and expected usefulness of benchmarking indices that the most common indicators on which the firms benchmark such as financial performance, customer satisfaction and quality of products/services. Those indicators used least were employee stress levels, team spirit, attitudes to quality, process innovation, employee job satisfaction and communication within the company (Cassell, Nadin and Gray, 2001).

Many researchers criticized performance measure models for SMEs because they rely on indicators that:

• Have little predictive power as to the future performance of the enterprise;

• Do not allow the identification of the problems’ sources, whenever there are problems; and

• Do not provide sufficient granularity to target immediate specific actions (Tan, Platts and Noble, 2003).

Beside that, an indication of the SME’s preference as to what reference group it wishes to be compared to. This information is crucial for benchmarking purposes. It is our experience that SMEs often have a hard time identifying their reference group, especially the first time around (St-Pierre and Delisle, 2006). The main benchmarking activities that can define for the management process and positioned them with regard to three factors impacting the efficiency, the robustness and the maintenance of this process (Maire, Bronet and Pillet, 2008):
An Organizational factor including a Structure variable (functional bonds, definition of responsibilities, etc.) on which the process manager steps into organize physical and informational flows, and a Performance indicators system variable which this manager uses to follow and organize the execution of a given activity;

A Human factor including a Individual Skills variable (theoretical knowledge, know-how, etc.) and a Collective skills variable (know-how of a set of people sharing the same objective) on which the responsible steps into ensure, maintain and improve the functioning of the process; and

A Technical factor including a Material variable (production equipment, raw materials, work environment, etc.) and an Information variable (results obtained, events, objectives, strategy, etc.) that the responsible must regularly communicate to the actors of the process.

Moreover, the indicators for SMEs enterprises should based on a relational and hierarchical structure of indicators grouped in three categories (Ribeiro and Cabral, 2006)

- Performance indicators focused on improvement practices (which are supposed to influence the performance outcomes on critical factors);
- Performance indicators for assessing the outcomes on critical factors (which, in turn, are supposed to explain, at least partially, the global business performance);
- Indicators that measure global business performance (Flapper, Fortuin and Stoop, 1996): profitability, productivity, growth and customer retention.

Beside this, the tools developed during this period (1990-1992) was Quick View (Simons, Wallace, O’Keefe and Rush, 1997), which is an expert system based assessment tool that compares the SME to other SME in similar businesses at United State with 13 indicators as follows (Laburu, Simons and Trachtenberg, 2005):

- Management practices (e.g. procedures, strategy, organizational structure);
- Human resources (e.g. procedures, training);
- Market management (e.g. customer service, trends);
- Bidding/Quoting (e.g. procedures, record keeping);
- Purchasing (e.g. materials management, supplier relations);
- Engineering/Design (e.g. procedures, technology);
- Operations management (e.g. scheduling, delivery);
- Manufacturing technology (e.g. equipment, tools, tolerances, maintenance procedures);
- Maintenance (e.g. repairs, calibration checks);
- Quality management (e.g. performance, procedures);
- Pollution prevention and waste minimization (e.g. “green manufacturing”, training);
- Information management
On the other hand, this indicates the importance of non-financial and intangible performance benchmarking in SMEs. The following are critical success factors for improving competitiveness of SMEs that need to be measured and benchmarked against the best-in-class performing companies (McAdam and Kelly, 2002):

- Leadership;
- Strategy and planning;
- People management;
- Resources;
- Quality systems and processes;
- Customer satisfaction;
- Employee satisfaction;
- Overall SME company results; and
- Impact on society.

We can conclude that, the appropriate variables for SMEs performance benchmarking depend on business environment such as competitors, industrial support or leadership style. The most important of factor characteristic must be flexible because it can be support the business environment change and business competitiveness. Furthermore, factors or indicators for SMEs performance benchmarking activity should be contribute or concern with management process, consistency and elicit participation for SMEs benchmarking. In particular, both critical factors and reference group are important indicators for evaluating SMEs performance.

**Performance Benchmarking For Building: The Best Strategy In SMEs**

During the 1990s, several performance measurement systems such as universal models and approaches were proposed to promote in general frameworks, which could be extended to different organizations and operating environments. Among the most widely cited of these frameworks was the performance measurement questionnaire (Dixon, Nanni and Vollmann, 1990), the performance measurement model in service business (Brignall, Fitzgerald, Johnston and Silvestro, 1991), the balanced scorecard (Kaplan and Norton, 1992) and the integrated dynamic performance measurement system (Ghalayini, Noble and Crowe, 1997). As, the comparison from performance benchmarking activity made the best practice and not with the direct competitor or with the management methods of specific SMEs companies. Therefore, not only can this benchmarking tool be used to help SMEs company understand what its positioning is, with respect to its competitors but it also allows the SMEs company to compare its practices with the best possible ones and thus stimulates the company to learn new management methods. In other words, this tool stimulates “bench-learning” processes (Freytag and Hollensen, 2001).

Also, this paper we identified the best practice for SMEs with three categories as follow;

*The best strategy for SMEs to competitive in global market*

Many SMEs enterprises are becoming global innovators of business practices and approaches to the global market (Hong and Roh, 2009). And the extent of organization globalization
involvement tends to significantly impact marketing strategies, technological requirements and cultural contexts under which global organizations have to operate (Hsu and Pereira, 2008). These variations could be managed and moderated by the organization through improving its learning processes based on effective utilization of internal and external benchmarking (Ford and Evans, 2001; Gleich, Motwani and Wald, 2008). This learning process tends to facilitate and promote organizational competitiveness in multifaceted operational and market realities. As such, these organizations are translating their innovative business models into improved sales, market exposure, and profitability. These gains and improvements are leading, in turn, to better economies of scale, market learning, and operational flexibility. In the process, this is allowing these organizations to reduce volatility and increase the growth potential of their earnings (Lee, Tang and Tikoo, 2006). To allow the performance measurement system of SMEs to monitor relevant performance concerns, a new benchmarking informational architecture is needed in order to avoid complexity, and to promote an effective performance measurement and benchmarking of all resources and activities that contribute to overall organization competitiveness. In this context, the market learning process is one of the most important competitive tools for SMEs choosing to become global (Hsu and Pereira, 2008). Therefore, the performance measurement system (PMS) of these organizations should promote a common language, practices and procedures (Busco, Giovannoni and Scapens, 2008).

As well as, the challenge is to position benchmarking, from the SMEs perspective, as a credible and feasible technique and to encourage its appropriate use but that many barriers (real or perceived) prevent many SMEs from undertaking benchmarking because of the competitive benchmarking include any form of financial or nonfinancial performance data relative to competitors, there is little information on the extent of its use, particularly by smaller organizations. It tends to be either theoretical (in which case, the impact of company size is evaded), or based on a case-study approach to a small number of large organizations (Monkhouse, 1995).

The Best Strategy for SMEs To Obtain World-Class In Manufacturing Industry

This model measures the performance of the collaborative process among supplier, customer, management, and employee. It also measures the performance of the whole extend enterprises in terms of financial, technology, operation, and environmental aspects (Lai, 2010). Moreover, for a cluster of SMEs, a benchmarking database can be a powerful instrument for information sharing and promotion of joint actions among companies within the cluster, so as to improve organizational learning and the collective efficiency of the cluster (Carpinetti and Oiko, 2008).

Therefore, the purpose a set of tools and methods to assist SMEs in the carrying out of a benchmarking. These tools and methods should focus on especially target including (Maire, Bronet and Pillet, 2008):

- The description of the processes (process to be improved and reference process) using the description of the current practices used (Observe step); and
- The comparison of these processes, leading to suggestions of improvements to carry out on the process to improve (Analyze step).
In spite of, The UK Government’s attempts at disseminating “best practice” (DTI/CBI, 1993) have tended to focus on the more tangible performance issues of the manufacturing sector, extrapolating general principles from the specific success of a small number of large companies. In doing so, they have failed to address the needs of the majority of businesses – the small- to medium-sized businesses with a significant and increasing reliance on intangible resources. When the management of such intangible resources (skills, ability to learn, creativity, flexibility, etc.) provides the greatest source of competitive advantage for SMEs across all sectors striving to compete in an increasingly global arena, the Government’s efforts look all the more irrelevant (Monkhouse, 1995).

In addition to, the best strategy for the local Turkish SMEs in electric – electronic industry to become a world-class manufacturer from the study found that the ten dimensions result from the factor analysis and the best strategy including (Hatice, 2007):

- **Information analysis** – to be carefully collecting data on all facets of the business and information should relate with personally conducting regular reviews of quality performance on the product/service.
- **Quality results** - quality issues top priority as criteria when making decisions and document the technical quality of my product/service as compared to other competitors.
- **Strategic planning** – doing regular strategic planning and linking the strategic plan to quality values.
- **Customer satisfaction** - collecting data to monitor changes in my customer satisfaction and asking a customer what they expect in my product/service for focusing customer need.
- **Leadership** - being trained in TQM and monitoring all production processes and introduces continuous improvement whenever possible.
- **Management process quality**- employees in the electric-electric industry are motivated to take innovative action by introduced at least one new product/service to customers and improved at least one feature of product/service in the past year.
- **Business outcome comparative** - businesses had compared themselves with their past and recognized that quality has helped them to improve due to our quality consciousness.
- **Human resource utilization** - there is good communication between the staff and the managers. The companies give importance to training their staff by being aware of long-term business goals and working as a team with clear goals.

Consequently, manufacturing is among the first functional areas in which benchmarking has been developed and tested (Voss, Chiesa and Coughlan, , 1994). Firms have to benchmark in terms of operational and managerial practices such as agile manufacturing and strategic manufacturing management (Sarkis, 2001; Sweeney, 1994). For example, firms have been compared in regard to advanced manufacturing technologies (AMT) and applications such as computer-aided manufacturing (CAM) and manufacturing resources planning II (MRP II) both within industries or countries (Swamidass, 1996) and between countries (Sohal, 1994; Sohal, Burcher, Millen and Lee, 1999). Furthermore, performance benchmarking activity is seen as assisting SMEs to
identify which manufacturing practices implement and benefits can be expected in return (Davis and Kochhar, 2002).

The best strategy for SMEs in service industry

The present contribution deals with benchmarking applications in a service sector such as the tourism sector which is increasingly important to many countries' national economy (Hwang and Lockwood, 2006), who stress the fact that small- and medium-sized enterprises within the tourism, hospitality and leisure industries are increasingly recognized as important to the competitiveness of the nation economy.

Benchmarking has repeatedly been investigated in the field of tourism (Cruz, 2007; Hwang and Lockwood, 2006; Kozak and Rimmington, 1998; Min and Min, 1997; Min, Min and Chung, 2002; Prayag, 2007). Thus, performance benchmarking in SMEs service industry can highly benefit from having a closer look at the customers involved. The service-center view in marketing means more than just being consumer-oriented. It is about continually learning with customers in order to respond to their individual and dynamic needs (Matthing, Sandé'n, and Edvardsson, 2004). Intangibility and inseparability as core characteristics of services have a considerable impact on the individual's psychological state when facing a purchase decision. Owing to the factor of inseparability, consumers, as participants in the service process, particularly provide a valuable source of information regarding customer-focused benchmarking processes (Smith, 2000).

In addition to, the uncertainty of definition of benchmarking concepts, its relevance to business service is likely to (Broderick, Garry and Beasley, 2010):

- The relationship between benchmarking and quality management;
- The identification and advocacy of the benefits of best practice in services operations; and
- In the emergence of a focus on process benchmarking.

In services marketing literature, process benchmarking is regarded as useful for managers to analyze the effectiveness of client handling, regarded as important within service sector studies (Levenburg, 2006; Hwang and Lockwood, 2006). Hence, small service organizations has been the emergence of qualitative benchmarking techniques that reflecting a simpler approach to facilitate comparisons (Holloway, Hinton, Mayle and Francis, 1997; Freytag and Hollensen, 2001).

**Conclusion and Suggestion**

From the above, we can be summarized that benchmarking is highly regarded as a good technique to encourage and enables business improvement. Thus, benefits from performance benchmarking in SME’s business found that a strong direct link between benchmarking and improved operational and business performance. Besides that, performance benchmarking promotes higher SME performance by identifying practices and setting challenging performance goals (Voss, Ahlstrom and Blackmon, 1997). Moreover, performances benchmarking also assists SME’s organization to understand their weaknesses and strengths relative to competitors. However, SME organizations that implemented the best practices were better business and operational
performers (Ulusoy and Ikiz, 2001). Also, the positive relationship between benchmarking and performance that relate with being stronger for operational performance and for business or global performance (Voss, Ahlstrom and Blackmon, 1997).

References


