

**Opinion of the Economic and Social Committee on the 'Communication from the Commission on Benchmarking — Implementation of an instrument available to economic actors and public authorities'**

(97/C 296/03)

On 21 April 1997 the Commission decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Community, on the above-mentioned Communication.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 4 June 1997. The rapporteur was Mr Malosse.

At its 347th plenary session (meeting of 9 July 1997), the Economic and Social Committee adopted the following opinion by 99 votes to three, with one abstention.

## 1. Introduction

1.1. This communication and that on Benchmarking the competitiveness of European industry stem from a number of recent proposals and communications on the subject of competitiveness, in particular the Communication on An industrial competitiveness policy for the European Union (COM(94) 319 final) and the Action Programme and related timetable (COM(95) 87 final) which the Economic and Social Committee has already supported in principle while expressing the hope that the Commission will give its initiatives more practical form. In its opinion adopted at the meeting of 22 November 1995 (rapporteur: Mr Petersen)<sup>(1)</sup> the Committee regarded it as unfortunate that 'there appears to be no plan as yet as to the steps to be taken or the timetable'. Since then two communications have been published, on the competitiveness of the chemical industry and the competitiveness of subcontracting in the textile and clothing industry. In commenting on these two communications, the Committee deplored their unambitious nature.

1.2. The need to improve economic and, in particular, industrial competitiveness in the European Union is discussed at length in two documents of a more political nature: the White Paper on 'Growth, competitiveness and employment' submitted by the Delors Commission in 1993 and the 1996 document tabled by the Santer Commission entitled 'Action for employment in Europe: a confidence pact'. The competitiveness advisory group, chaired by Mr Ciampi, presented its initial conclusions at the request of President Santer. The first report, which takes a broad view of the subject, stresses that

competitiveness is not an end in itself but a means to improve the employment situation, raise standards of living and boost general welfare through improvements in productivity, efficiency and profitability.

1.3. The communication sets out a practical proposal for action. The Commission has recently produced two other working papers on this subject. The first, concerning A European quality promotion policy for improving European competitiveness (SEC(96) 2000), presents a background angle on benchmarking; the second is the report on the competitiveness of European industry published in 1996. On 20 November, while presenting an action plan to promote innovation, Mrs Cresson, the Commissioner responsible for this field, mentioned Europe-wide benchmarking, particularly in the quality sphere, as a means of promoting innovation.

1.4. Once again the Committee must stress the inconsistency and lack of transparency in the Commission's initiatives on this subject, which visibly proliferate and overlap. It would have been preferable to draw up a complete competitiveness action plan, with a precise timetable and including a quality scheme.

1.5. However, by presenting an additional communication on 16 April 1997<sup>(2)</sup>, the European Commission has met the desiderata of the Council of Ministers and the Committee. This communication sets out an overall Community framework and practical proposals to introduce a programme of Benchmarking.

<sup>(1)</sup> OJ C 39 of 12. 2. 1996.

<sup>(2)</sup> COM(97) 153 final.

## 2. The Commission's analysis of European competitiveness

2.1. The main reasons given in the Communication for the countries of the European Union lagging behind economically are the low level of intangible investment (in training and research particularly), of innovation and of fixed capital investment. It is above all the interaction of these factors which, it states, determines competitiveness. The communication also mentions structural problems such as a lack of labour mobility, high administrative costs for transport infrastructure, high levels of public deficit and the high share of taxation and similar charges in GDP, which rose from 34 % to 43 % between 1970 and 1995 in the European Union.

2.2. In its analysis of industrial growth, the Commission notes that the EU's share of OECD export markets has been declining. Its market share is said to have come down in the high-growth areas of east Asia and certain parts of Latin America. Over the last ten years, industrial value added increased by only 2,4 % in the European Union compared with 3 % in the United States and 3,8 % in Japan. In the manufacturing sector, productivity gains on a par with or above those of the EU's main competitors were achieved only in the food, drink, tobacco, wood and furniture sectors which enjoyed higher levels of investment than Europe's main competitors.

2.3. On structural analysis, the evidence points to generally higher costs in the European Union: higher prices for telecommunications and energy; interest rates in recent years higher than in the United States and Japan. By contrast, the analysis is not as clear about the role of labour costs, given that serious comparisons are complicated by the structural complexity of wage costs. However, the Commission notes that unit wage costs (trend in total emoluments in relation to production) have been falling slightly since 1992. These figures call for explanation and comment by the Commission.

2.4. In terms of investment, both tangible and intangible, the European Union's lag gives cause for great concern. The Commission document pays particular attention to the figures for research and development. Here, too, the Committee feels that further comment on these figures is called for, especially as regards investment in research and development.

2.5. In a chapter on the 'determinants of competitive performance', the Commission attributes the poor per-

formance of European industry principally to weaknesses in the functioning of the markets and in industry's innovation capacity. On the question of free access to markets, the Commission document sees the major obstacles as follows: insufficient liberalization in certain key infrastructure sectors (telecommunications and transport), poor functioning of the capital markets (in particular restrictions on the activity of pension funds); lack of flexibility on the labour market and obstacles to professional mobility, and labour market regulations.

2.6. In the same chapter, the Commission lists the factors hampering innovation: insufficient intangible investment; deficiencies in education and training systems — particularly their failure to adapt to the needs of economic operators; lack of mobility of labour; European research which is insufficiently market-oriented; inability to properly exploit and disseminate research findings; delays in implementing quality control systems; inadequate funding for innovation (venture capital and seed capital) and for small and medium-sized firms. In this respect it would have been useful for the Commission to take into account a territorial approach, based on the regions, in its analysis of competitiveness.

## 3. The Committee's proposals on measuring competitiveness

3.1. The Commission mentions two key yardsticks of competitiveness: productivity and employment. However, the Commission acknowledges in its communication that there is more to the question than these two factors alone. If one accepts that competitiveness is a way of achieving better living standards and increasing the welfare of the population, then the degree of environmental protection, the rational use of energy resources and the crime level can also be regarded as relevant criteria, as can the level of social protection.

3.2. It is somewhat surprising to find no reference in the Communication to exchange rates and their movements inside and outside the European Union. In many industrial sectors, exchange-rate fluctuations can have decisive impact on firms' profit margins and market shares. This is, however, a circumstantial factor over which a firm, a sector or a region has no real control.

3.3. The Committee therefore draws the Commission's attention to the risk of too comprehensive an analysis covering haphazardly too large a number of factors which are difficult to compare. Competitiveness

is always relative, and the results of the analysis can differ radically depending on whether the comparison is with the USA, Japan or the emerging-market countries of Asia. A firm's competitiveness is measured in relation to its competitors, while that of a locality can be analysed in terms of attracting investors or capacity to create added value and jobs.

3.4. The Commission's analyses emphasize the concept of the Union's overall competitiveness in relation to its competitors. The Committee's view, however, is that too global and generalized an approach is not conducive to practical benchmarking measures. As regards the overall conditions for competitiveness, it is important to select precise areas which can be the subject of objective operational analysis. The Committee therefore prefers a sectoral approach which would make it easier to judge the relative importance of different factors, such as research and development in the biotechnology sector or labour costs and marketing for the textile and clothing sector. The Committee also stresses the desirability in a territorial approach to competitiveness factors of taking into account the regional — or 'job catchment areas' dimension, which would make possible a more detailed analysis of general conditions: local taxation, infrastructure, investment in research, outward spread from a university 'pole', creation of jobs and firms, inward investment. Too global a kind of benchmarking would be too close to existing analyses and would have less operational impact. For example, where establishment of foreign firms is concerned, the concept of locality is often much more significant in regional than in national terms. The level of analysis must therefore be as close as possible to the appropriate decision-making level, which will vary according to subject and country (for example, in Germany the Länder are responsible for education).

3.5. Many of the factors mentioned in the Commission analysis have to do with growth and welfare, but not necessarily with competitiveness. For example, the performance of an educational system should be measured in relation to the needs and aspirations of a population. These needs can vary considerably from one country to another, and it is difficult to see how a performance 'scale' can be established in this field. The welfare of the population is also in itself a factor contributing towards competitiveness.

3.6. The Committee would prefer the Commission, in a measurement exercise such as benchmarking, to

follow a more rigorous and methodical definition of competition based on three key principles:

3.6.1. A clear differentiation between benchmarking measures at enterprise level and those relating to general conditions.

3.6.2. Prioritization and differentiation of the factors of competitiveness: general conditions of competitiveness (infrastructure, training), competitiveness of products (prices, and 'non-price' factors such as quality, after-sales service), results of competitiveness (firms' market shares, job creation in different areas).

3.6.3. Benchmarking differentiated according to the firms, sectors or localities with which a comparison is made: for example, for some industrial sectors it will be done in comparison with the main global competitors; for localities, it will make it possible to compare differing situations inside and outside the European Union.

3.7. On the basis of this more rigorous definition, the Committee identifies the following fields of analysis:

3.7.1. As regards localities, the Committee would prefer priority to be given to measuring the competitiveness of regions or employment areas (possibly frontier areas) within the European Union. Determining the causes of the success of a particular region within the Union and applying the same methods to less successful regions will be instructive, even if one must also consider including in the study external regions or localities where socio-economic conditions may be comparable to those in the European Union (e.g. in Japan, North America, Australia or New Zealand).

3.7.2. Benchmarking is already widely used by large companies, particularly multinationals. This benchmarking is a matter for them and cannot in itself be eligible for public support. The Community contribution should thus take the form of exchange of information and a selective approach by sector of activity, supplemented by analyses specific to small firms and to business start-ups. In this case, the approach must avoid any areal limitation and must cover European firms with branches in non-member countries and firms in non-member countries with branches in the European Union. Intra-firm analyses, particularly of multi-

nationals, will be very instructive in this context in terms of deciding on suitable indicators.

3.8. A combination of the territorial and sectoral approaches (including small firms and business start-ups) could yield valuable data on best practice and how to improve European competitiveness. In this area, with a view to avoiding general analyses which cannot be directly applied, the Committee recommends that the European Union, and particularly the Council and Commission, should analyse the fields where it intends to take initiatives. In the taxation sector, in the operation of the Single Market, in Community initiatives on regional development and on research and development, benchmarking the performance of the Union and its Member States in relation to other parts of the world would be an excellent aid to decision-making.

#### 4. Benchmarking

4.1. Benchmarking is a method of analysis which identifies gaps in performance and their causes with a view to determining and publicizing best procedures and practices. This method is akin to a permanent mechanism for the transfer of knowhow and to exchange of experience on best practice, based on an economic analysis of the conditions and criteria governing competitiveness.

4.2. The Committee stresses the value of this method as an objective aid to decision-making. Benchmarking makes it possible to establish objective facts, and the decision-makers concerned must then draw conclusions from them. Benchmarking must always be geared to operational decisions.

4.3. The Committee therefore supports the Commission's initiative to set up a European benchmarking programme in partnership with industry and the Member States. This programme should begin with pilot projects which will serve as validation tests for the method.

4.4. Benchmarking must be a continuous, developing process, since excellence and performance — relative concepts — are constantly evolving. Such an exercise would only be worthwhile if designed to run for a fairly long period, involving pilot projects over several years.

4.5. The point of the benchmarking exercise is to achieve a certain objectivity. It is therefore essential to take account only of facts and realities (objective data) and to rely on a consensus of the parties concerned and

if necessary public opinion. At the enterprise level employees must be closely involved, and the same applies to all the socio-economic forces at the locality level. It is only with objective data and a consensus on method that benchmarking can be effective. Indeed, best practice cannot be transposed without the agreement of those who will implement it. If the Community pilot projects pursue objectivity and consensus, they will really contribute to a better general awareness of the factors and means for improving competitiveness.

4.6. If applied directly at enterprise level, benchmarking falls solely within the responsibility of the enterprise itself. However, a certain number of programmes, both public and private, seek to promote benchmarking in respect of small and medium-sized enterprises (e.g. those of the Department of Trade and Industry in the United Kingdom). The Community's role in this case would be to organize exchanges of experience between Member States and to establish a 'European information network'. The Committee suggests that a pilot project be launched in the field of assistance and support for the setting up of firms, on the basis of the analysis already made by DG XXIII as part of the concerted measures for exchange of good practice. As well as the Community regions already studied, a number of countries or localities, within or outside the European Union, would be selected and pilot operations for transfer of good practice would be set up.

4.7. The Commission also suggests using benchmarking to analyse and develop competitiveness in specific sectors at Community level. Biotechnology, textiles and clothing, the automobile and chemical industries, already analysed at Community level, could be tackled first. It is important to select the sectors and comparison references carefully, for benchmarking, as an objective aid to decision-making, cannot ignore the socio-economic and cultural realities which can explain or justify differences in the underlying conditions of competitiveness, particularly in social terms. Benchmarking must also take care to analyse the performance and results of firms whose strategy can be multinational,

thus making it possible to study their strategies on internationalization and the attractiveness of certain countries or localities.

4.8. On the territorial approach, the Committee suggests that a study be made at the outset of the most important indicators for a region's performance (also using the results of analyses by large firms). The second stage would be the selection of regions (including cross-frontier regions) where there is a political, economic and social consensus on this experiment. As well as regions of the Union, this could cover comparable regions in non-member countries. Measuring the performance factors of these regions, on the basis of the indicators resulting from the study, would be done in close partnership with the socio-economic players concerned. On the basis of the results obtained, test knowhow-transfer projects would be carried out with assistance from the European Structural Funds (Article 10 of the ERDF).

4.9. As regards benchmarking the general economic conditions prevailing within the Union (costs and quality of essential services — transport, energy, telecommunications — information and administration, general productivity factors — cost of labour, cost of capital, taxation — level of skills and qualifications, development of innovation, efficiency in the environmental field), the Committee would prefer, for the reasons given above, pilot studies in precise fields where studies would facilitate Community-level decision-making, e.g. on the effectiveness of research and development programmes and regional development measures, on taxation systems as applied to firms, on the effectiveness of the Single Market, or on labour mobility. For a more global analysis, it would undoubtedly be wiser to refer to documents such as the 'World Competitiveness Report'.

4.10. The Commission's conclusions also refer to a European quality promotion policy which is dealt with in a separate working paper. Five specific measures are proposed at European level: a European quality prize, a quality benchmarking scheme, a European 'quality week', a European quality observatory and a European system for training quality professionals. The Committee would like to have more detailed information on this programme (budget, programme, consistency with benchmarking).

## 5. Conclusions

5.1. The two communications presented to the Economic and Social Committee constitute an appropriate working basis for implementing a benchmarking instru-

ment. The Committee stresses the need for full consistency between this initiative and the implementation of other Community policies, such as research and development, innovation, economic and social cohesion, and companies policy.

5.2. The Committee endorses the idea of benchmarking as long as it is really a matter of starting an ongoing process based on objective data and covering well-defined fields so as to provide real assistance to decision-making in specific areas with operational prospects, helping to make best practice more widespread:

5.2.1. Assistance to decision-making on framework conditions, in priority fields covered by the powers and activities of the Union (company taxation, research and development, operation of the single market, regional policy, policies to encourage the creation of jobs and enterprises, labour mobility within the European Union).

5.2.2. Assistance to decision-making by firms at sectoral level as regards industrial and commercial strategies and the choice of location for investments.

5.2.3. Pilot projects for transfer of best practice, particularly at the level of localities, as regards aid for creating activities, stimulating local development, and developing training and research activities with a view to encouraging economic growth and innovation.

5.3. The Committee stresses that these proposals should be rapidly put into effect. It suggests, in particular, test pilot projects whose objectives and arrangements would be agreed with the parties concerned, including the economic and social actors. The Committee is pleased that the Commission has presented an additional Communication, meeting the requests of the ESC and the Council by including a precise implementation timetable.

5.4. The Committee asks to be actively associated with identifying the themes selected through experimentation, studying the reference criteria and launching and monitoring the pilot projects under this programme. The Committee could 'co-pilot' certain benchmarking test projects. In this connection, it emphasizes the prime importance of effective involvement of the socio-economic players concerned, from the outset, in the choice of subjects and the implementation process, in order to create the conditions for the success of benchmarking.

5.5. The Committee recommends that the European Union submit its own policies to benchmarking with a

view to assessing their effectiveness (internal market, regional policy, research and development).

5.6. The Committee suggests that the European Commission, in its work on measuring the competi-

tiveness of framework conditions, should incorporate the regional dimension which makes possible better identification of performance factors for many fields: support for innovation, development of human resources, dissemination and use of information technology, etc.

Brussels, 9 July 1997.

*The President  
of the Economic and Social Committee*

Tom JENKINS

**Opinion of the Economic and Social Committee on the 'Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on Europe at the forefront of the global information society: rolling action plan'**

(97/C 296/04)

On 29 November 1996 the Commission decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Community, on the above-mentioned communication.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 4 June 1997. The rapporteur was Mr Pellarini.

At its 347th plenary session (meeting of 9 July 1997), the Economic and Social Committee adopted the following opinion by 119 votes to one.

## 1. Introduction

1.1. The Economic and Social Committee has been asked to prepare an opinion on the communication from the Commission on the strategy, adopted by the European Union in July 1994<sup>(1)</sup>, for ensuring the establishment of the information society (IS) in Europe.

1.2. The communication comes as a follow-up to the July 1996 communication on priorities<sup>(2)</sup>, which announced an amended and updated rolling action plan for phase II of the EU information society strategy.

1.3. The rolling plan is the result of a wide-ranging assessment of the information society, which has led to the identification of four new priority areas (see chapter II):

- improving the business environment, within a liberalized telecommunications framework, including new measures to assist SMEs;
- investing in the future, putting special emphasis on schools and young people;
- putting people first, with special emphasis on cohesion and employment;
- meeting the global challenge by establishing international rules on market access, intellectual property rights, privacy, protection against illegal uses, etc.

<sup>(1)</sup> Europe's way to the information society — an action plan (COM(94) 347, 19. 7. 1994).

<sup>(2)</sup> The information society: from Corfu to Dublin. The new emerging priorities (COM(96) 395 final).