

The importance of benchmarking in evaluating the financial performance of economic companies

Bouadam Mounir

Department of Finance and Accounting, University Center of Abdelhafid Boussouf Mila, Algeria
bouadam.m@centre-univ-mila.dz

Hafassa Amina

Department of Finance and Accounting, University of Constantine2 -Abdelhamid Mehri, Algeria
amina.hafassa@univ-constantine2.dz


Louafi Hamza

Department of Management Sciences, University Center of Abdelhafid Boussouf Mila, Algeria
louafi.hamza@centre-univ-mila.dz

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Abstract---The study addressed the importance of using benchmarking in evaluating the financial performance of economic companies, where financial information is obtained for two Algerian companies listed on the stock exchange. The results indicate that benchmarking is an important method for evaluating and improving performance by addressing weaknesses and learning from leading companies operating in the same sector.

Keywords---Benchmarking, Algerian, Companies, Performance, Financial.

Introduction

Many researchers trace the origins of Benchmarking back to 1810, when the British studied the best practices used in British flour mills to develop the most efficient applications in this field. In 1913, Ford Henry developed the assembly line as an innovative method after visiting cattle slaughterhouses in Chicago.

Japan was one of the first countries to widely implement benchmarking starting in the last century, following the example of American companies.

Economic companies face increasing difficulties and challenges, which put them in constant conflict with their competitors on the one hand, and in order to ensure their survival and continuity on the other hand, and to be able to overcome these challenges, companies have found that their ability to continue and survive depends on their ability to learn and transform their strategy and policies.

In light of the above, the main problematic of our study is as follows:

What is the importance of using benchmarking in evaluating the financial performance of economic companies?

1.The concept of benchmarking :

The term benchmarking became widespread in the mid-1990s and is a term derived from surveying the land by identifying a reference point.

The expressions applied to the concept of benchmarking vary. Some call it a tool, others a method, and a third group considers it a manner or process. However, there is almost complete consensus on the intended meaning, which is improving by learning from others.

(Beyer & al, 2015) defined benchmarking as :A continuous process of comparing the company's performance with that of leading companies engaged in the same activity, with the aim of understanding how these companies achieve high levels of performance, and using this information to improve processes and develop the performance of the company carrying out the benchmarking process. Discover new ideas for improvement and try to develop them in the future through strategies, products, services and operational processes.

Benchmarking is the process of measuring and comparing production processes with those of the same organization or other organizations, with the aim of improving processes and products. The goal of benchmarking is to improve in order to better meet consumer needs and desires, and this process is crucial to the effectiveness of benchmarking. (Olawumi, T.O. and Chan, D.W.M. ,2019)

(Ziegler & al, 2021) defined benchmarking as: a systematic and continuous process of researching, learning, adapting, and implementing best practices from within the same organization, or from other organizations, with the aim of achieving excellence in performance.

(Lankford w m, 2002) defined benchmarking as: a systematic and continuous measurement processes to compare and measure the organization's performance with that of leading organizations anywhere in the world, with the aim of obtaining information that can help the organization take what it deems appropriate to improve its performance.

2. Types of benchmarking :

Benchmarking can be classified into four categories as follows:

2.1 Internal Benchmarking :

This type of benchmarking focuses on the successful experiences of units, activities, or departments within an organization, through efficiency in resource management and speed of execution. Controlling deviations is considered one of the most important foundations of the internal benchmarking process.

2.2 External Benchmarking :

The comparison includes benchmarking against leading companies in the same field and sector, which achieves openness to the experiences and successes of others.

2.3 Functional Benchmarking:

This includes comparing specific areas with leading organizations in the world that are active in the same sector by providing the necessary data for functions common to the organizations.

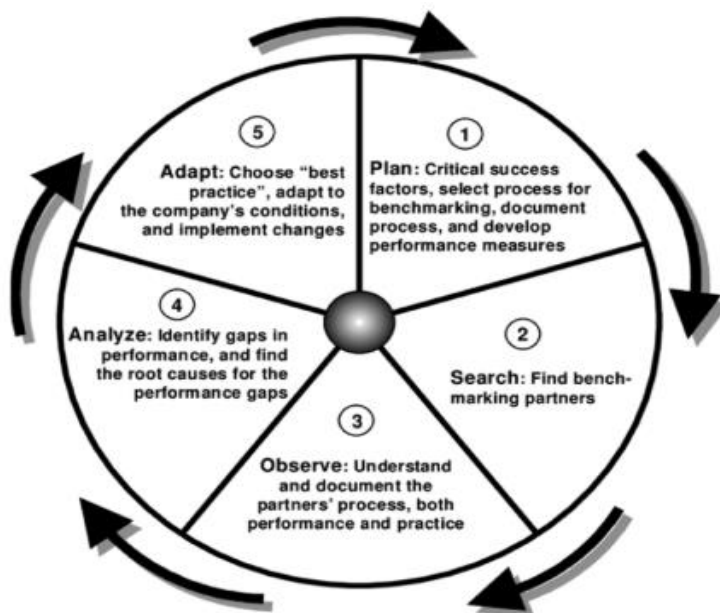
2.4 Comprehensive Benchmarking:

Expanding the scope of comparison to include dissimilar sectors allows for generating creative ideas and identifying outstanding companies.

3. Benchmarking steps :

The steps for implementing the benchmarking can be summarized in the following figure:

Figure .1 The benchmarking wheel



Source: (Andersen, 1999)

The diagram shows that the Benchmarking wheel includes five stages: the first stage is concerned with selecting the processes that will be subjected to Benchmarking, while the second stage is concerned with finding Benchmarking partners, followed by a stage of observing and documenting the application processes or best practices in order to fully understand and comprehend.

The analysis phase is the phase that clarifies the practical knowledge gained in order to identify performance gaps. The final phase relates to the improvement process based on the inputs, and this phase is often longer-term compared to the previous phases.

Method

This study was designed to assess the importance of Benchmarking in evaluating the financial performance of two Algerian companies over the periods 2016-2018 and 2021-2023, using data from their annual and quarterly financial reports. These reports served as an ideal source for the study, and the data was often sourced from company websites or the Algiers Stock Exchange website.

In our study, we focused on two companies listed on the Algiers Stock Exchange, taking into account the availability of the necessary information to conduct the study and that they operate in the same sector.

We chose both Saidal and Biopharm as the companies under study, as the pharmaceutical industry is considered one of the vital emerging sectors in Algeria, achieving good growth rates, despite the great interest and strategies adopted by the state, which focus on encouraging investment in this sector.

Discussion

We decided to begin by presenting the most important indicators used in our study, as shown in the following table.

Table .1 Development of financial indicators for Saidal and Biopharm during the period (2016-2018)

Financial information	2016	2017	2018
General liquidity ratio	2,18	2,03	2,42
	2,21	2,20	2,24
Permanent financing ratio	1,29	1,21	1,37
	5,62	6,15	5,09
Self-financing ratio	0,91	0,82	0,82
	5,45	6,03	5,01
Financial independence	1,46	1,37	1,02
	1,37	1,37	1,48
Return on assets	0,04	0,03	0,03
	0,14	0,13	0,14
Return on equity	0,06	0,05	0,07
	0,24	0,23	0,23
Asset turnover rate	0,22	0,21	0,26
	1,40	1,21	1,14
Fixed assets turnover rate	0,33	0,30	0,42
	13,19	12,57	9,55

Source: Prepared by the researchers based on : SGBV Bourse d'Algérie, available on: http://www.sgbv.dz/?page=communiqu_cote&lang=fr

General Liquidity Ratio: From the table above, it is clear that the current assets of the two companies are sufficient to pay the current liabilities, as the standard and accepted measure is 1, and therefore increasing this ratio is a positive indicator in the case of investing in a sound manner without accumulating funds.

Permanent funding ratio: We note that the permanent funding ratio for the two companies during the period is greater than 1, and this is evidence that there is full coverage of their fixed assets by permanent funds.

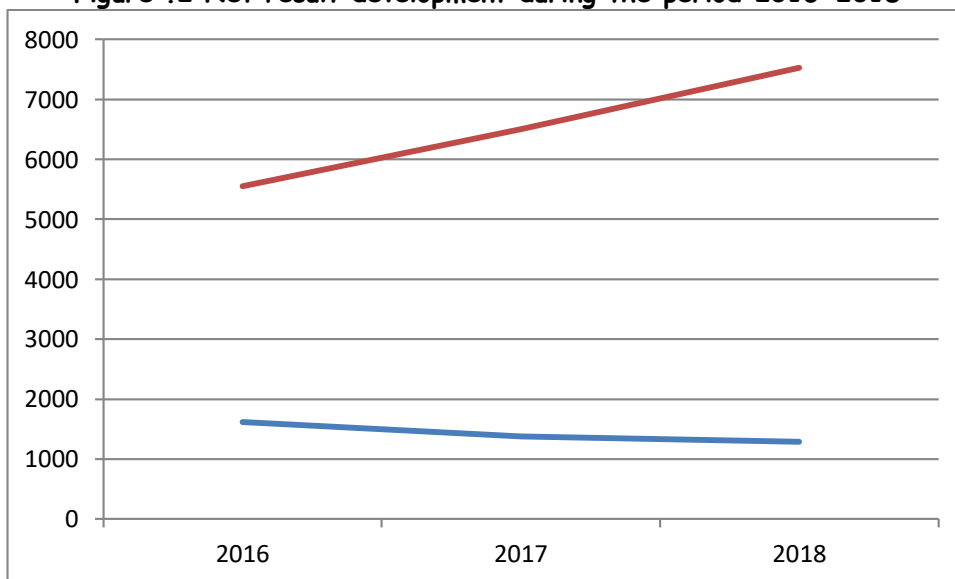
Self-financing: Biopharm's ratio during the study period was greater than 01, which means that it finances its fixed assets with its own funds, which is the ideal situation, allowing the company to easily obtain additional loans, while Saidal's ratio was less than 01, and this situation is not good for the company.

Financial independence ratio: The two companies have the ability to meet their obligations as the debts do not exceed the private funds, which gives them financial independence and increases the returns for the owners of the two companies.

Return on Assets and Equity: The table above shows that Saidal is weak in utilizing its assets to generate profits, while Biopharm demonstrates operational efficiency, as evidenced by Biopharm's better return on assets. Furthermore, Biopharm's ROE results indicate its ability to maximize shareholder returns.

The asset turnover ratio is used to measure asset activities, and the results show that Saidal Company is unable to utilize its assets to generate sales, while Biopharm Company utilizes its assets efficiently and effectively, which is reflected positively in sales.

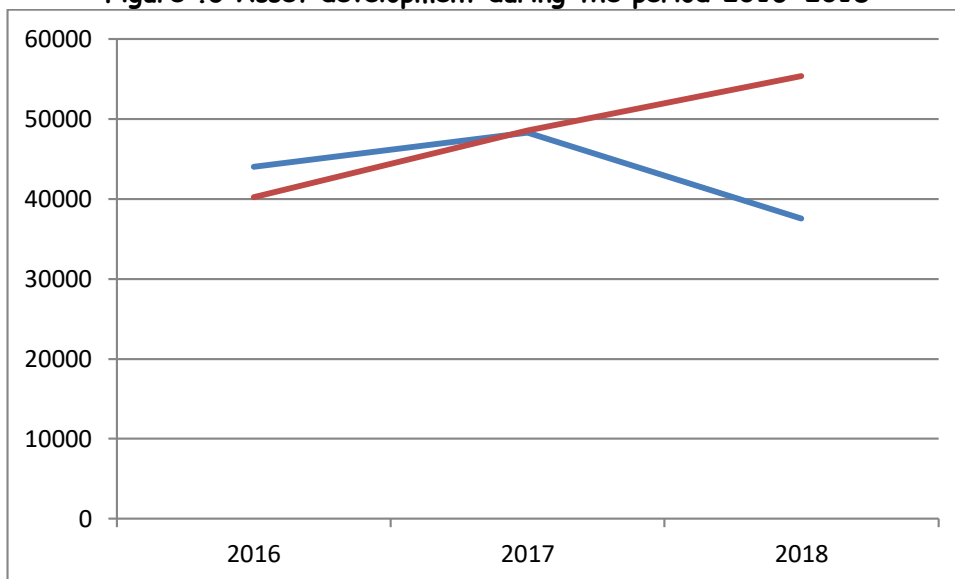
Figure .2 Net result development during the period 2016-2018



Source: Prepared by the researchers

The net result witnessed a continuous decline in Saidal, while it continued to rise in Biopharm, as sales in Saidal deteriorated during the period 2016-2018, while sales in Biopharm witnessed a continuous rise at varying rates.

Figure .3 Asset development during the period 2016-2018



Source: Prepared by the researchers

The analysis shows an increase in Biopharm's assets, due to an increase in both fixed and current assets. We also recorded a rise in the company's own funds by 41.94%, compared to a decrease of -27.43% for Saidal.

Table .2 Financial information of Saidal and Biopharm during (2021 -2023)

Financial Information	2021	2022	2023
Fixed assets	26393	25740	25986
	16351	18529	29355
Current assets	18418	19141	23332
	63208	64166	65569
Equity	22913	18965	21924
	45293	49258	54367
Non-current liabilities	15177	15612	16285
	4722	3346	8299
Current liabilities	6722	10304	11108
	29544	30091	32248
permanent capital	38090	34577	38209
	50015	52604	92666

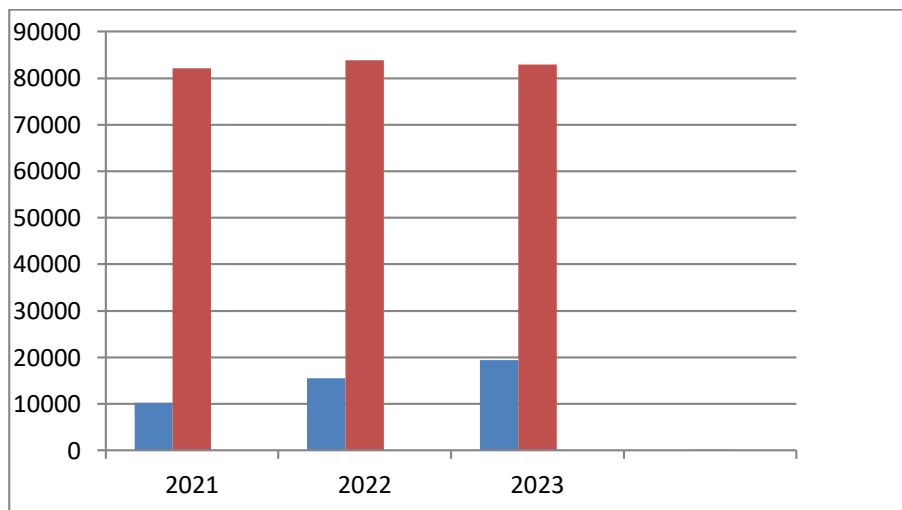
Sales	10211	15518	19410
	82139	83818	82917
Net Result	48	2987-	1991
	7814	8431	8505

Source: Prepared by the researchers based on : SGBV Bourse d'Algérie, available on: http://www.sgbv.dz/?page=communiqu_cote&lang=fr

As for sales at Saidal, they amounted to 10,211 million Algerian dinars in 2021, then decreased to 19,410 million Algerian dinars in 2023, which is a decrease of 25% compared to 2022.

As for Biopharm, sales in 2021 amounted to 82,139 million Algerian dinars, and it achieved slight growth in 2022, reaching 83,818 million Algerian dinars, an annual growth rate of 2%. In 2023, the group witnessed a slight decline in sales value, with turnover reaching 82,139 million Algerian dinars, a decrease of 2%. However, there remains a significant gap between sales in the two companies, as illustrated in the following figure.

Figure .4 sales of saidal and biopharm during (2021-2023)



Source: Prepared by the researchers

If we rely on the financial information recorded in Table No. 01 to determine the financial indicators, we arrive at the following table:

Table .3 Development of financial indicators for Saidal and Biopharm during the period (2021-2023)

Self-financing ratio			
	2021	2022	2023
SAIDAL	0,86	0,73	0,84
BIOPHARM	2,77	2,66	1,85
Financial independence			
	2021	2022	2023
SAIDAL	1,04	0,7	0,8
BIOPHARM	1,32	1,47	1,34
Fixed assets turnover rate			
	2021	2022	2023
SAIDAL	0,39	0,6	0,74
BIOPHARM	5,02	4,52	2,82

Source: Prepared by the researchers based on : SGBV Bourse d'Algérie, available on: http://www.sgbv.dz/?page=communiqu_cote&lang=fr

From the table above, we observe that Saidal's self-financing ratio is less than 1, indicating insufficient equity to cover non-current assets during the study period, placing the company in a precarious position. In contrast, Biopharm enjoys a significantly greater advantage in financing its fixed assets with its own funds, as its ratio far exceeds 1, placing the company in an optimal financial position.

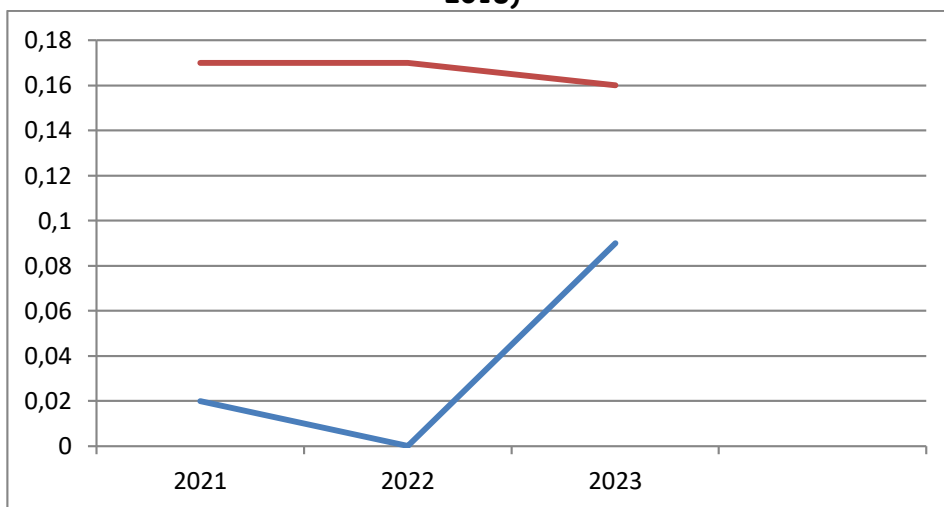
The financial independence ratio indicates the weight of debt within the financial structure of the institution. In the Saidal Group, equity constitutes an average of 0.84 of the debt over the three years, which is less than 1, meaning that the group suffers from a deficit of 0.16 to cover the debt with equity. This makes the group vulnerable to falling into a state of financial distress towards creditors. It also finds it difficult to obtain additional loans as long as it does not have guarantees that enable it to repay. As for the Biopharm complex, the ratio of financial independence exceeds 1 in the three years, and this enables the complex to obtain additional financial resources as long as it has guarantees to meet its obligations, and makes it flexible with creditors without falling into the risks of financial distress.

The fixed asset turnover ratio is used to measure the activities of non-current assets. The results show that every dinar invested in fixed assets contributes 0.39 DZD to sales in 2021, rising to 0.6 DZD in 2022, and reaching 0.74 DZD in 2023. This is mainly due to the increase in sales during the years under study.

In Biopharm, every one dinar invested in fixed assets generates the value of 5.02 dinars in 2021, then 4.42 dinars in 2022, before decreasing to 2.82 dinars in 2023.

The reason for this decrease is the decline in sales value due to the end of the Corona pandemic. Despite this decline, the complex remains able to utilize its fixed assets to generate sales with full efficiency and effectiveness.

Figure .5 Development of ROE for Saidal and Biopharm during the period (2016-2018)



Source: Prepared by the researchers

The return on equity is the result of dividing net profit by equity. We find that this indicator is much higher in the Biopharm Group than in the Saidal Group, especially in 2021 when Saidal achieved a return rate estimated at 2%, then a negative result in 2022, to recover in 2023 and achieve a rate of 9%.

As for Biopharm, the rate of return on equity is relatively stable, reaching 17% in 2021 and 2023, before decreasing slightly to 16% in 2023. Therefore, Biopharm is able to maximize returns for shareholders more than Saidal.

This discrepancy can be explained by referring to the financial statements of the two institutions, as we find that the development of net profits in Biopharm is greater than in Saidal, and from this it can be said that there is a difference between the performance of the two institutions according to the rate of return on equity.

Benchmarking allows for enhancing the competitive advantage of economic companies by addressing weaknesses and improving financial performance.

Conclusion

Our study, using financial structure indicators, also concluded that both companies are able to cover their fixed assets with permanent funds, but Biopharm performs

better than Saidal, due to Saidal's reliance on long-term debt to finance its investments.

Evaluating the profitability of the two companies through the return on assets and return on equity shows that Saidal is weak in using its assets to generate profits, unlike Biopharm, which is able to maximize shareholder wealth, with operational efficiency.

Benchmarking is an important method for evaluating the financial performance of organizations by narrowing the performance gap between them.

The correct application of benchmarking enables organizations to benefit from its results and catch up with leading institutions.

Benchmarking is essential as an effective tool for evaluating and improving performance. Regular benchmarking is also crucial for understanding the organization's status.

For Benchmarking to be successful and to extract maximum benefit from it, the stages of its application must be respected, with senior management convinced that in order to be able to recruit employees to implement the necessary improvements to keep pace with change.

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