Is Benchmarking Destined to Fail?

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Abstract. This paper presents a theoretical framework for studying best practice benchmarking – a framework that was developed to address a critical paradox plaguing research on this topic: *Why is it that best practices benchmarking, which was designed to help individual organizations attain a competitive advantage by introducing best practices, resulted in a convergence of performance within industries, rather than a divergence of performance?* The framework argues that the resolution of this paradox lies in the extent to which an organization incorporates new practices into its core routines, and the extent to which learning about best practices of other organizations supports innovation within core processes.

Introduction. Since its introduction in the 1980s, best practice benchmarking (BPB) has become a staple of business practice intended to help organizations improve performance by adopting and incorporating new practices. Underlying the concept of BPB is a simple but compelling premise: by learning best practices from successful organizations, firms can incorporate these practices into their existing routines without incurring the cost of development. Yet organizations that benchmark best practices appear to seek to duplicate the performance benefits achieved by first-movers in adopting practices; thus, they are unlikely to be market pioneers (Drew, 1997). But, are organizations that engage in benchmarking seeking only to catch up to more successful organizations?

BPB is a form of exploration outside of a firm, where organizations seek to efficiently incorporate new practices; in this sense, it is designed to reduce the classic tradeoff between

exploration and exploitation (March, 1991), where resources expended on one activity cannot be applied to the other. Organizations can seek to compare their processes with competitors within their industry, or with other relevant entities within their organizational field, such as customers, suppliers, regulators, etc. (DiMaggio and Powell, 1983). We retain a broad focus on the organizational field rather than a narrow focus on the organization's industry, because organizations that engage in BPB may be seeking competitive parity, or may be pursing an agenda other than performance improvement. Indeed, if BPB results only in the adoption of existing "best" practices, it should result in a convergence between the organizations that develop best practices and those that learn about them through benchmarking. Do organizations really engage in BPB to seek performance *parity* with other organizations, or the *disparity* of enhanced performance? Do those that learn about new practices through benchmarking successfully incorporating those practices into their existing routines? Does learning through BPB enable them to develop innovative processes internally? Or do organizations simply gain enough knowledge about best practice to create the appearance of being process leaders, while buffering their core routines from outside influences? To address and resolve these questions, this study proposes a comprehensive and integrated framework to explain the benchmarking process and to identify the factors that influence its effectiveness.

We view BPB as a strategic inter-organizational learning process intended to improve efficiency and effectiveness, or to increase the organization's legitimacy (DiMaggio and Powell 1983) with important members of its an organizational field, or to accomplish *both* legitimacy and improved performance. To gain a deeper understanding of BPB, we divide the benchmarking process into six sequential stages; and identify critical questions related to each stage.

Rethinking the Best Practice Benchmarking Process. The overall benchmarking process can be roughly decomposed into six sequential steps: initiation, identification, evaluation, deployment, validation, and routinization.

Initiation. The first phase focuses on understanding why an organization decides to undertake the benchmarking process. Benchmarking may be initiated for a variety of reasons, spanning everything from top management's social ties to executives of successful organizations, to poor performance results, to government regulation. In this stage, we look at factors such as whether the organization is doing BPB as a response to competitive pressures (such as poor performance results or loss of clients), external pressure from related organizations (such as customers that demand the organization adopt certain practices to maintain preferred supplier status), as a response to internal processes or procedures (such as those that identify promising areas for improvement), or top management learning that successful or comparable organizations are engaging in benchmarking. We focus on issues such as the perceived urgency of the need for a best practice benchmark, receptiveness of the organization and its members to the need for a "new" best practice, and the time available for action. In this phase, we are particularly interested in the perceived nature of the need for benchmarking – whether BPB is driven by increasing legitimacy or improving efficiency or effectiveness, or both.

Identification. In this phase, we focus on the various sources of information, particularly the

degree to which BPB provides information new to the organization, and the degree to which it provides information the organization can interpret. There are two dimensions to our discussion of benchmarking sources: the type of organization engaged to conduct BPB studies, and whether the comparison group is composed of intra- or inter-industry organizations. BPB studies can be conducted by a variety of organizations, from in-house studies of published reports of relevant organizations, to participating in processes facilitated by professional societies with an interest in improving standards (e.g. agricultural practices associated with food safety, hospital procedures associated with patient outcomes, or environmental practices associated with "green" products), to engaging consultancies with proprietary databases. The focal organization's practices can be measured for the purpose of the BPB study or can be drawn from its records.

Intra-industry data may be easier to obtain. Repositories for certain data may be available for participation in an industry trade association. There are likely limits to proprietary processes for operational capabilities that could give a firm a competitive advantage. Comparing to peers and competitors, however, may not allow a company to achieve its maximum potential. It allows a firm to "stay in the game" by incremental changes that everyone should be making and not necessarily those that allow them to move into a higher level of performance to excel and be a leader. Only companies with efficient operative processes will remain competitive (Binder and Clegg 2006), and possibly remain as an ongoing entity. In other words, they are preventing failure to remain a player in the industry. Intra-industry benchmarking is a given to remain in the market. Benchmarking is a generally accepted business practice and management tool (Yasin 2002). The superior performer, as recognized in terms of market leadership or achievements, may not be willing to disclose the business practices; thereby, this is a major deterrent in the benchmarking process (Dattakumar and Jagadeesh 2003).

Organizations that use inter-industry comparisons are more likely to gain novel information, but this process is also not without risk. Francis and Holloway (2002) found that inter-industry BPB was more likely to lead to an in-depth understanding of top performers and that these organizations exhibited strong organizational learning and knowledge management, leading to increased customer satisfaction. Garvin (1991) stressed that the core of successful benchmarking lies in regular and documented global scanning for organizations with superior processes, regardless of industry. Inter-industry process benchmarking requires that a organization is able to identify similarities between its processes and those of the organization providing the benchmark, even when they appear to be different (Kyro, 2003).

Evaluation. This phase has been ignored by much of the previous literature, but we see this step as a critical contribution of our research. There are two ways of evaluating benchmarked information: 1) focusing on characteristics of the benchmarked information, which we have discussed above and 2) focusing on characteristics of the organization that is doing the benchmarking. House and Sign (1987) focus on characteristics of the knowledge and practices that are benchmarked, stating that mimicry occurs primarily when technologies are poorly understood and when goals are ambiguous. In contrast, Hayes and Wheelwright (1984) believe that indiscriminate benchmarking is symptomatic of an organization (Stage II) where the operations function isn't believed to be capable of making strategic decisions; because it isn't perceived as capable of evaluating the practices of other organizations, it adopts them all.

Thus, there are some interesting research questions related to the Evaluation step. What information and technology characteristics are more likely to be benchmarked? What organizational characteristics are more likely to be associated with benchmarking? What is the relationship of each of these types of characteristics to ultimate performance? How does benchmarking by Stage II organizations differ from benchmarking by Stage III organizations, both in terms of what is benchmarked and how effective benchmarking is?

Deployment. The deployment stage focuses on the implementation of benchmarked practices. Research questions related to this stage deal with why benchmarking is effective for some organizations, but not for others. The organizational learning literature indicates that learning does not always increase the learner's effectiveness, or even potential effectiveness. Learners can incorrectly learn, and they can correctly learn what is incorrect (Huber 1991). This perspective provides at least two explanations for why companies fail to improve performance from best practice benchmarking.

First, they may imperfectly imitate practices that have been successful for other firms. This is supported by the resource-based view and may also have to do with the capabilities of the firm that is doing the imitating. It may morph the practices that are being imitated so that they are consistent with its capabilities, leading to imperfect imitation. In contrast, however, there is evidence that organizations that put more emphasis on best practice customization, extension, and reconfiguration will develop, through experimentation, the best asset portfolio for their own businesses. For example, Westphal et al. (1997) found that companies that customized TQM practices gained efficiency in performance whereas companies that adopted TQM practices motivated by legitimacy effects gained little. Thus, there are interesting research questions that deal with the extent to which benchmarked practices are adapted and their relationship to the benchmarking organization's capabilities.

Second, organizations may effectively imitate practices and technologies that are inappropriate for their strategic goals and objectives. Thus, this relates back to the evaluation phase. If evaluation is not done effectively, a firm may put a great deal of effort into imitating practices that do not have the potential for improving its performance.

Validation. Although benchmarking starts with borrowing best practices from other organizations, the organizational learning does not end there. Organizations also acquire knowledge through direct experience in the implementation/deployment process, where they evaluate whether they have reached the desired outcomes and determine which elements of the benchmarked practice should be improved or reinforced. Therefore, the validation process provides an opportunity for the firm to refine its knowledge, which serves as a feedback loop to adjust the best practices implementation. This is consistent with the literature on double-loop learning (Argyris 2003; Argyris 2004), as well as the Toyota Production System (Spear and Bowen 1999), which views operations as a series of controlled experiments. Following this perspective, a potential best practice should be viewed as a hypothesis that can be tested through action.

Routinization. This phase happens after a company successfully benchmarks best practices. It prepares employees to draw upon best practices, prevents them from returning to the old

practices (backsliding), and provides a structure for dissemination of the knowledge, experiences, practices, and lessons learned. In this stage, we build on our evaluation of deployment, asking whether the best practice becomes part of the organization's standard operating procedures, becoming part of the core routines and processes of the organization. Is the organization able to incorporate new practices into existing routines? Does learning about the practices of other organizations enable the focal organization to develop its own unique practices (e.g. by combining parts of other organizations routines in novel ways)?

Summary. This study provides a comprehensive conceptual framework to gain a deeper understanding of why BPB may fail to reach the expectations of organizations that engage in it. The overall benchmarking process is divided into six phases and critical questions are raised for each phase, in order to materially improve our understanding of both the outcomes and the process of benchmarking. Our model shows that organizations may fail to improve their performance relative to competitors due to clearly identifiable factors at each stage of the BPB process. Without an awareness of these issues, BPB may lead to competitive parity rather than competitive advantage. We also build on research of other practices, notably TQM, that some firms may engage in BPB in order to gain the appearance of improving their processes, without intending to improve their core routines and processes, in order to improve the opinions of key constituencies, such as consumers, regulators, or even supply chain partners. Other organizations may seek to achieve competitive parity rather than to improve their competitive position. Some may lack the ability to integrate best practices into their existing routines, while others may not realize that achieving competitive parity is unlikely unless they are able to understand how to build on best practices by supporting innovation within.

BPB will only lead to competitive advantage if firms understand the potential issues of each stage of the process. As well, future research into BPB will fail to produce insight unless each of these issues is explored and identified. Given the variety of issues associated with the type of information gained through benchmarking, the divergence of goals for engaging in it, and the issues associated with the firm's ability to integrate new practices into existing routines, more detailed, careful research into BPB is needed. Our research will attempt to validate our model first using detailed case studies to develop our research questions into testable propositions, and subsequently through surveys to establish the relationship between variables at each stage of the model. By asking when and why BPB may lead to competitive parity, rather than competitive advantage, we take a realistic approach to benchmarking that builds on previous studies, while also seeking to make significant improvements.

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