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### Conceptualising the Praxis of Benchmarking through Institutional Theory

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# **Conceptualising the Praxis of Benchmarking through Institutional Theory**

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# **Conceptualising the Praxis of Benchmarking through Institutional Theory**

## **Abstract**

The objective of this research is to develop a conceptual framework based on classical institutional theory to explain the key drivers or mechanisms behind the adoption and use of the business practice of benchmarking. The paper commences with the development of a conceptual view of benchmarking placing the four dimensions of benchmarking on a continuum from passive to active actions that improve performance. This is followed by the development of a construct for investigation using institutional theory through its major components, organisational isomorphism and organisational legitimacy and their drivers. Overlaying the conceptual view of benchmarking and the institutional theory construct a conceptual crossover is developed identifying the specific drivers of institutional theory and their relevant benchmarking dimension. In so doing the study provides a base that creates meaning and significance through linking the subjective and objective realms of theory and practice. This, in part, answers the critics who argue that managerial accounting research focuses on the description of business practices and has failed in developing appropriate theories. It also provides a model to test the institutional theory/benchmarking relationships

# Conceptualising the Praxis of Benchmarking through Institutional Theory

## Introduction

During the 1980s and 1990s a plethora of innovative tools or techniques evolved within the management and management accounting literature, each purporting to be the solution to many business ills (Johnson and Kaplan, 1987; Cooper, 1989; Johnson, 1992; Shank and Govindarajan, 1993; Noreen, Smith and Mackay, 1995). One such technique was benchmarking, currently seen as an atheoretical application in the literature and in practice. The focus of this paper is to present a conceptual framework for benchmarking; arguing that by conceptual framing in an applied field like management accounting provides greater understandings within the areas we study, managers, organisations and society. Drawing on institutional theory, in particular the seminal work of Meyer and Rowan (1977), Pfeffer and Salancik (1978) and DiMaggio and Powel (1983), and specifically the concepts of organisational isomorphism and organisational legitimacy, the authors analyse the role of benchmarking as part of organisational change.

At the hart of the argument that institutional theory provides a conceptual framework for benchmarking is the belief that institutional theory provides processes, by which structures, including rules, norms and routines become established and authorised as acceptable business practice. The literature provides two complementary mechanisms of how this can occur:

1. Institutional isomorphic change, is seen as the desire of organisations to adopt similar structures, strategies, and processes to other organisations in their environment through three key drivers (a) coercive isomorphism, stemming from political influence and the problem of legitimacy; mimetic isomorphism resulting from standard responses to uncertainty; and (c) normative isomorphism associated with professionalism (DiMaggio and Powell, 1983).
2. Organisational legitimacy flows from the institutional perspective that an organisation's survival requires it to conform with social norms of acceptable behaviour, arising from the status conferred by external interested parties, usually the government, the public, or the professions (Meyer and Rowan, 1977; Deephouse, 1996; (Covaleski and Dirsmith, 1988)

Institutional theory, then, provides a useful framework for analysing the adoption of benchmarking, as well as providing insights into the forces that bring about change in the structures of acceptable business practice. The paper contends that the increased managerial requirements of today's complex business environment, as depicted in the development of performance models and expressed through the drive for best practice, parallel the pillars of organisational isomorphism and organisational legitimacy.

### **The Purpose of Theory and Praxis**

Where does the paradox of theory and praxis fit within the management accounting arena? The recent debate on the state of management accounting research and theory provides some answers (Zimmerman, 2001; Ittner and Larcker, 2001; Ittner and Larcker, 2002). Ittner and Larcker's (2001) raised the issue of theory and praxis with their general observations that current empirical managerial accounting research is motivated purely by the fact that certain topic have received considerable attention in the business press, with little effort to place the practice or study within some broader theoretical context which leave us with an underdeveloped body of research that fails to build on prior studies that may increase our understanding of the topic. Zimmerman (2001) further provoked this argument when he stated that the literature had failed to move from describing practice to developing and testing theories because the management accounting literature has failed to produce a coherent body of knowledge as the literature's objective is not to test theories.

On the other hand Luft and Shields (2003) point to theory consistent research in management accounting, specifically those relating to causes and effect. Baxter and Chua (2003, 99-100) summarise the purpose of management accounting as "mobilising research to provide a platform for critique and improvement within organisations, in particular, and society in general". This theme supports the earlier aims of management accounting research, specifically that management accounting is "in the end, a practical field where theory without pragmatic implications is empty (Kasanen, Lukka and Siitonen 1993)

While the above provides insight into the mainstream conceptions of the academic community it does not explain the lack of theory development in mainstream

managerial accounting journals to provide a theoretical underpinning for recent accounting innovations in general, and benchmarking in particular. Specifically related to benchmarking are suggestions that a theoretical underpinning has been developed to provide legitimacy to this approach to improving quality (Rolstadas, 1995; Stork and Morgan, 2001; Kelessidis, 2002). However, on closer inspection the claims to a ‘theory’ appear to relate more to ‘application’ (Merchant, 1997).

This then leaves the question of whether Institutional Theory is appropriate device to investigate benchmarking. How does it fit into the notion of building a body of knowledge within a practical arena? Much of what has informed management accounting research has developed within the natural and social sciences and as such provides what Llewelyn (2003) refers to as a bewildering array of theoretical forms. To negotiate a conceptual path Llewelyn (2003) identifies ‘explanation’ as one level of research. The notion of explanation fits well within one of Llewelyn’s (2003) insight of theorisation, that of concept theories. As Llewelyn (2003) states, concepts constitute theories of practice, which provide “fundamental tools used in social practice both to observe and represent the world”. As such the concept of institutional theory, which provides a process by which structures are established and authorised, and benchmarking, which provides a tool through which organisations strive towards best practice appear mutually compatible.

Therefore, the motivation for this paper springs from a desire to understand the cause and effect on benchmarking of institutional theory in order to improve systems of practice. In other words to use the understandings provided by institutional theory to provide better practices, in terms of content, form and use (Chenhall, 2003) for the multiple users of the benchmarking practice.

## **Literature Review**

### **The Dimensions of Benchmarking**

Past factors critical to corporate success focused on the development of mass production, which resulted in cost accounting practices designed largely to permit managerial drive towards direct labour and raw material efficiencies (Lothian, 1987). These bear little resemblance to those encountered in today’s fast-changing manufacturing and service environments. The current environment requires tools that

can obtain productivity information on all factors of production. It is argued that benchmarking provides such a tool through the comparison of performance with the best performance in any business anywhere. Benchmarking assumes that what one organisation does, any organisation can do as well, and that being at least as good as the leader is a prerequisite to being competitive (Drucker, 1998).

Seen by many as a performance evaluation measure within the budgetary control function benchmarking found support within the strategic management accounting process (Smith, 1994), while others have exulted its virtues as an output measure (McNair and Leibfried, 1992). However, within these fundamental concepts the practice of benchmarking needs to be understood at the various organisational levels. Generally the literature has divided benchmarking into four forms, internal, direct competition, industry, and best-in-class/process (McNair and Leibfried, 1992; Macneil, Testi, Cupples and Rimmer, 1994).

*Internal benchmarking* commences with a thorough understanding of the myriad of functional areas within the organisation. It questions all existing practices through the value chain, that is, the processes which start with the receipt of a request from a customer and terminate when that request has been answered to the satisfaction of all concerned. Only activities which add value for the customer in the long run should be supported; non-value adding costs and activities must not be tolerated (McNair and Leibfried, 19992).

*Direct competition benchmarking* looks outside the organisation to identify the performance levels of direct competitors. The focus is to identify the strengths and weaknesses of the competition and therefore is an important step in planning a successful strategy. In addition it can assist with prioritising areas of importance as specific issues are identified and measured (McNair and Leibfried, 1992).

*Industry benchmarking* extends beyond the one-to-one comparison of competitive benchmarking to look for trends. The focus is now on key production or service methods and characteristics which can provide a competitive advantage over a business's direct competitors. This form of benchmarking involves a business

comparing itself with organisations that demonstrate best practice in the way they produce similar products or services.

*Best-in-class benchmarking* is an operation undertaken between businesses in different sectors that share some common process, such as purchasing, marketing methods, staff training, delivery channel responsiveness, etc. (Maciariello and Kirby, 1994). In this way best-in-class benchmarking is used to establish performance standards and detect trends across a number of related processes (Hazell and Morrow, 1992). While this may appear to be close to industry benchmarking, the difference can be distinguished by separating the organisation from the product, which has direct competition within the industry, and the business, which participates within a conglomeration of organisations in a similar market segment.

Thus benchmarking can be conceptualised as a journey from internal benchmarking to best-in-class benchmarking, a journey that takes the organisation from a functional process focus to a strategic focus for attaining world-class status. As such it should be understood in terms of a continuum from passive to active actions that improve upon existing performance. This is shown in Figure 1.

[Insert Figure 1 about here]

### **The Drivers of Institutional Theory**

From the seminal works of (Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983; Scott, 1987) institutional theory has been considered to be a legitimate vehicle for the study of business phenomena. Whether the focus is profoundly political and reflects the relative power of organised interests (Tolbert, 1988; DiMaggio and Powell, 1991) or the reinforcement of the distinction between outcomes and process (Covaleski, Dirsmith and Samuel, 1996) is immaterial. From the developments of these early works a concept of institutional theory for examining the adoption of business practices emerges. As discussed above this places the emphasis of institutional theory on organisational isomorphism and organisational legitimacy. This allows for the construction of a model that can be used to conceptualise the major constructs of institutional theory, and a mechanism for investigation of different phenomenon. The model is depicted in Figure 2, below.

[Insert Figure 2 about here]

*Organisational isomorphism* is the desire of organisations to adopt similar structures, strategies, and processes that result in the resemblance of a focal organisation, or practices espoused by other organisations in its environment (DiMaggio and Powell, 1983; Tolbert and Zucker, 1983; Davis, 1991). To understand the process underlying the tendency for organisations to become isomorphic in their use of technically rational practices, produces, functions and activities DiMaggio and Powell (1983) considered three closely linked mechanisms. They argue that the processes of coercive, mimetic and normative isomorphism compel this tendency toward organisational isomorphism and the accompanying use of management and productivity practices perceived to be more successful.

*Coercive isomorphism* stems from organisational dependence and political influence. It results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent, and by cultural expectations in the society within which these organisations function (DiMaggio and Powell, 1983). In developing their environmental perspective DiMaggio and Powell (1983) argue that coercive isomorphism is one mechanism by which institutional effects are diffused through a field of organisations. The notion is that coercion is the primary mechanism of control, which is felt as force or as persuasion. Scott (1987) suggests that the power and inducement relationships allow external parties to influence management practice.

*Mimetic isomorphism* describes the tendency of organisations faced with environmental uncertainty or difficulties to imitate the practices of other organisations. The mechanism that captures the cognitive elements of the isomorphic process is the mimetic process. Scott (1995) believes this occurs where organisations perceive other organisation's systems, products, functions and activities as superior or more successful. Thus, the spread of perceived superior functions and activities could occur through the emulation of these practices within organisations that, in the absence of adequate practices, accept functions and activities developed outside the organisational field.

*Normative isomorphism* stems primarily from professional, social or moral obligations. DiMaggio and Powell (1983) define this as the collective struggle by members of an organisational field or occupational group to define, control and/or

make legitimate, their occupational autonomy. The legitimacy flows from the notion of social legitimacy and the conformance with social values and actions, as well as from the rationale and framework provided from the relevant rules and laws. The basis for compliance is seen as expedience, with legitimacy provided through the organisation acting in accordance with relevant legal or quasi-legal requirements (Scott, 1995)

*Organisational legitimacy* is defined as a status conferred by external interested parties (Pfeffer and Salancik, 1978; Ashforth and Gibbs, 1990). From the perspective of a particular party, a legitimate organisation is one whose values and actions are congruent with the external party's values and expectations for action (Pfeffer and Salancik, 1978; Deephouse, 1996). Given that organisational legitimacy is the endorsement of an organisation by external parties, the identification of these parties is important. It is argued that only certain groups have the standing to confer legitimacy. These are the government, or government agency, which has control over the organisation, the public, through setting and maintaining standards of acceptability, and the professions, through setting and maintaining standards of professional competence and accountability (Meyer and Scott, 1983; Baum and Oliver, 1991; Elsbach, 1994).

## **Discussion**

The literature review of the dimensions of benchmarking reinforce the view that benchmarking is based in the philosophy of continuous improvement as it is a continuous process of evaluating current performance, setting future goals, and identifying areas for improvement and change (McNair and Leibfried, 1992; Macneil et al, 1994) thereby driving the organisation from an internal functional focus to a best-in-class strategic focus. This dynamic view of benchmarking is reflected in the continuum from passive to active actions (Figure 1). Reconciling the key drivers of organisational isomorphism and organisational legitimacy (Figure 2) to the four dimensions of benchmarking (Figure 1) the conceptual face of benchmarking can be posited within an institutional theory framework. The concept of institutional theory providing a conceptual focus for benchmarking is shown in Figure 3. This conceptual

crossover links the drivers of the components of institutional theory to the relevant dimension of benchmarking in a hierarchical structure.

[Insert Figure 3 about here]

It is argued that *coercive isomorphism* - pressures exerted on organisations by other organisations - primarily impacts on the practice of internal benchmarking through aspects of control, eg, the adoption of specific performance measures to refocus the results of desired outcomes. However, where the pressures are greater, or a dependency relationship exists, it will also impact on direct competitive benchmarking.

*Mimetic isomorphism* - the perceived need to imitate the practices of other organisations - impacts on direct competition, industry, and best-in-class benchmarking. Such a process is almost self explanatory as organisations mimic practices they perceive as being superior or which will add value as they move along the benchmark continuum from a passive observer to an active competitor. In this case the benchmarking function comes about through copying the concept, and gaining knowledge through a learning process.

The final driver of organisational isomorphism, *normative isomorphism* - the influence of members of an organisational or occupational group to control and/or make legitimate aspects of structures and processes - operate at the industry benchmarking and best-in-class benchmarking levels. In this case the argument is that members of organisational fields or occupational group define, control and/or make legitimate aspects of their occupational autonomy through the notions of social legitimacy and the conformance with social values and actions. The focus starts at the industry benchmarking level but is more obvious at the best-in-class benchmarking level. The adoption of accounting standards across a variety of institutional settings, irrespective of industry, could be seen as an example of normative isomorphic behaviour by the accounting profession to achieve a best-in-class outcome through the perception of a value-adding process.

The final component of institutional theory, *organisational legitimacy* - a status conferred by external interested parties - is driven by three drivers, government

endorsement, public endorsement, and professional endorsement. Government endorsement impacts on industry benchmarking and best-in-class benchmarking through organisations benchmarking particular aspects of conformity to regulatory requirements. While public endorsement also impacts on these two levels of benchmarking the benchmarking exercise flows from an organisations desire to compare itself with similar organisations requiring public acceptance. The final driver of organisational legitimacy, professional endorsement, provides a measure of maintaining standards of professional competence and accountability and focuses specifically on best-in-class benchmarking. In this way it allows organisations to establish accountability standards acceptable to society and works in consort with normative isomorphism.

Therefore, organisational legitimacy, depicted through government, public, and professional endorsement, reflects the organisations perception of its acceptance by society (Scott, 1995). In this respect it is argued that organisations will benchmark other organisations in order to align themselves with symbols, values, and practices which are perceived as legitimate (Dowling and Pfeffer, 1975; Milne and Patten, 2002). In this context it is most influential at the industry and best-in-class dimension of benchmarking

### **Conclusion**

The purpose of this paper was to provide a conceptual framework, using institutional theory, in which to locate the practice of benchmarking, thus providing a theoretical underpinning for a practical application. In this way the paper addresses the concerns of Zimmerman (2001), and Ittner and Larcker (2001), by providing a theoretical concept that supports practitioner-oriented techniques. The first step was to translate the focus of a practitioner technology that is used to implement and measure practical performance, into the concepts and language of Institutional Theory, which provides the framework for organising the insights, derived from the practice.

The second step was to construct a conceptual model that would provide the theoretical rigor required by the critics. To do so the paper considered the notion of “theory” and the definitional constructs used by Llewelyn (2003) to posit the practice

of benchmarking within the “theoretical” landscape. As such Llewelyn’s (2003) notion of conceptual theory provides a base that creates meaning and significance through linking the subjective and objective realms of experience by linking institutional theory with benchmarking.

Both steps, articulated above, provide the translation of the practitioner-oriented technique into the concepts and language of institutional theory and the construct of a conceptual model that provides the theoretical framework. How this addresses the concerns of Ittner and Larcker (2001) and Zimmerman (2001) as to whether the benchmarking represents solutions to real problems or is simply a fad promulgated by consultants, and if it places the practice within some broader theoretical context, depends on the importance placed on theory by the reader. However, the paper has endeavoured to meet its stated purpose of filling the gap, or at least raising the interest, in “developing and testing theories explaining observed practice.

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### A Conceptual View of Benchmarking

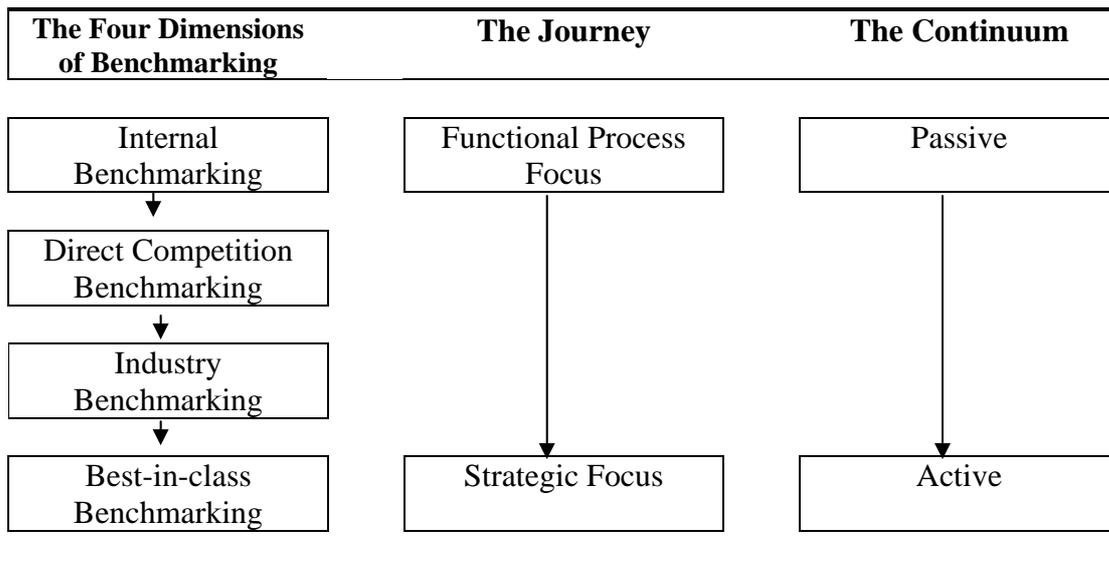


Figure 1

### A Construct for Investigation Using Institutional Theory

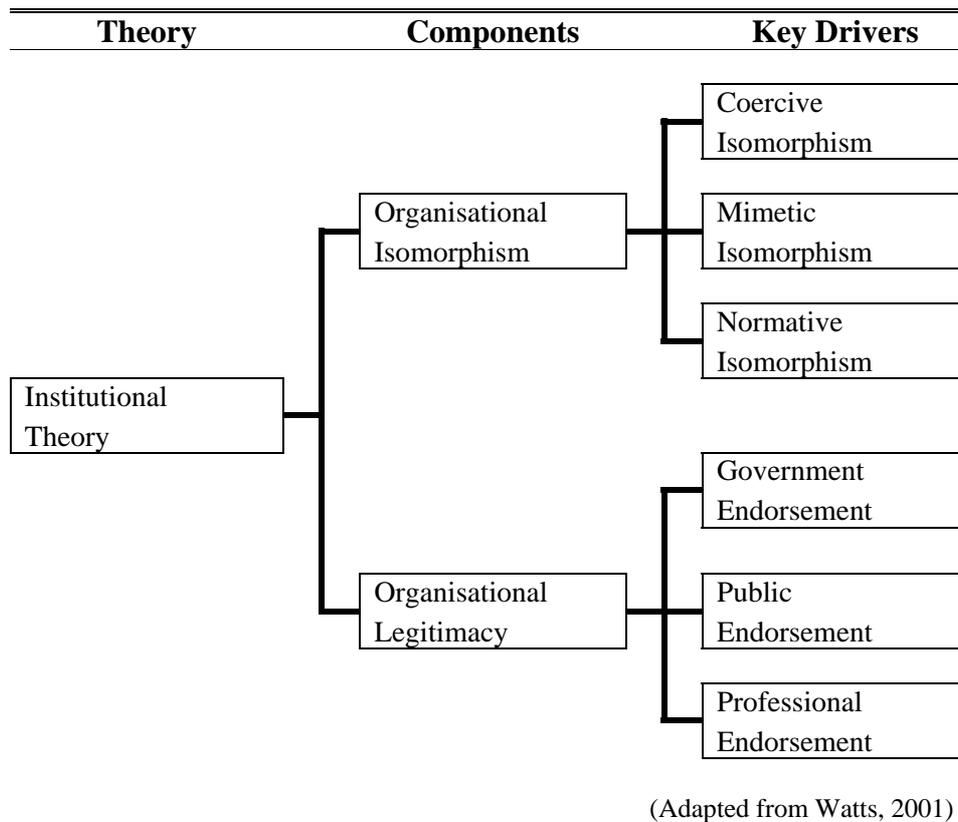
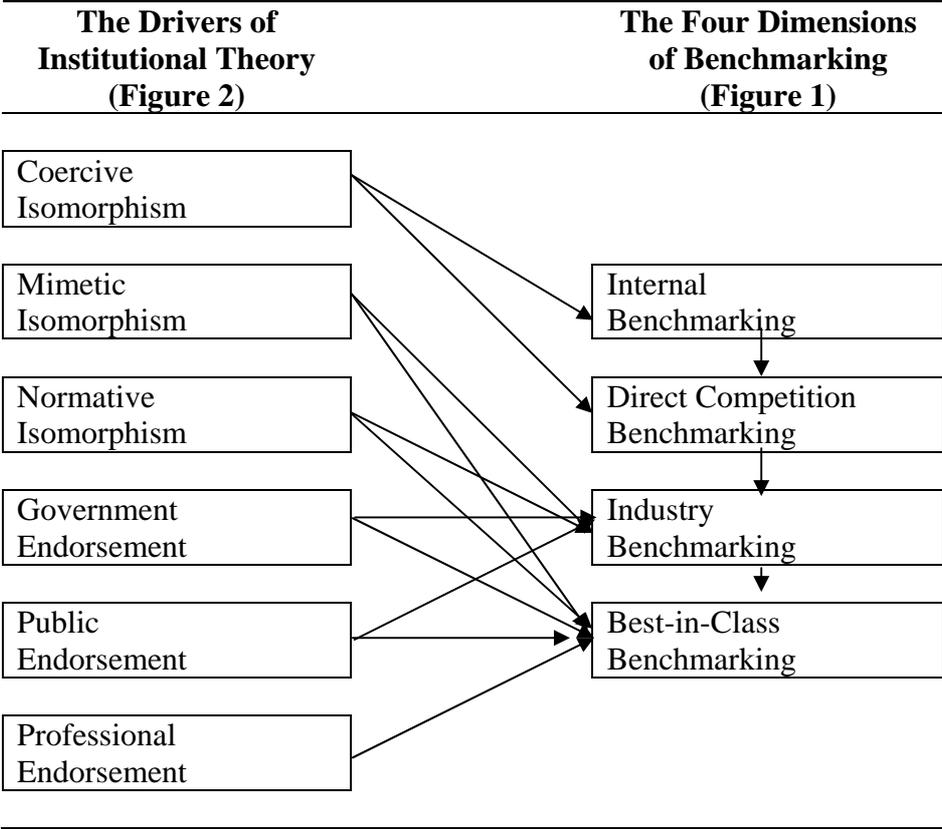


Figure 2

**The Conceptual Crossover**



**Figure 3**