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## Using institutional theory to develop a conceptual framework for benchmarking

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## Abstract

The objective of this research was to develop a conceptual framework based on 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 conceptualisation of benchmarking identifying the four dimensions of benchmarking, internal, direct competition, industry, and best-in-class. This was followed by the development of a construct for investigation using institutional theory through its major components, organisational isomorphism, organisational dependency, and organisational legitimacy. Overlaying the benchmarking and institutional theory literature on the four dimensions of benchmarking and the institutional theory construct a conceptual crossover was developed identifying 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 practice and theory. This, in part, answers the critics who argue that managerial accounting research focuses on the description of business practices and has failed in developing and testing theories. It also provides a model to test the institutional theory/benchmarking relationships.

## Keywords

Using, Institutional, Theory, Develop, Conceptual, Framework, for, Benchmarking

## Disciplines

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# **Using Institutional Theory to Develop a Conceptual Framework for Benchmarking**

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# **Using Institutional Theory to Develop a Conceptual Framework Benchmarking**

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The objective of this research was to develop a conceptual framework based on 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 conceptualisation of benchmarking identifying the four dimensions of benchmarking, internal, direct competition, industry, and best-in-class. This was followed by the development of a construct for investigation using institutional theory through its major components, organisational isomorphism, organisational dependency, and organisational legitimacy. Overlaying the benchmarking and institutional theory literature on the four dimensions of benchmarking and the institutional theory construct a conceptual crossover was developed identifying 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 practice and theory. This, in part, answers the critics who argue that managerial accounting research focuses on the description of business practices and has failed in developing and testing theories. It also provides a model to test the institutional theory/benchmarking relationships

# **Using Institutional Theory to Develop a Conceptual Framework for Benchmarking**

## **Introduction**

During the 1980s and 1990s a raft of innovative tools or techniques evolved within the management and management accounting literature, each purporting to be the solution to many business ills. One such technique was benchmarking. Drawing on institutional theory, in particular the seminal work of Meyer and Rowan (1977), Pfeffer and Salancik (1978) and DiMaggio and Powel (1983), this paper attempts to relate a theory using the concepts of isomorphism to provide conceptual underpinning for the practice of benchmarking. In so doing the paper argues that the relationship between the three pillars of isomorphism – coercive, mimetic and nominative – together with the desire for organisational legitimacy (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Deephouse, 1996) and the influence of organisational dependency (Pfeffer and Salancik, 1978) can be observed in, and can provide an explanation for, benchmarking. 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, organisational legitimacy, and organisational dependency.

## **Benchmarking**

The factors critical to corporate success 95 years ago 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 environment. 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 budgetary control function it 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 three or four forms, internal, direct competition, industry, and best-in-class or 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, 1992).

*Competitive 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.

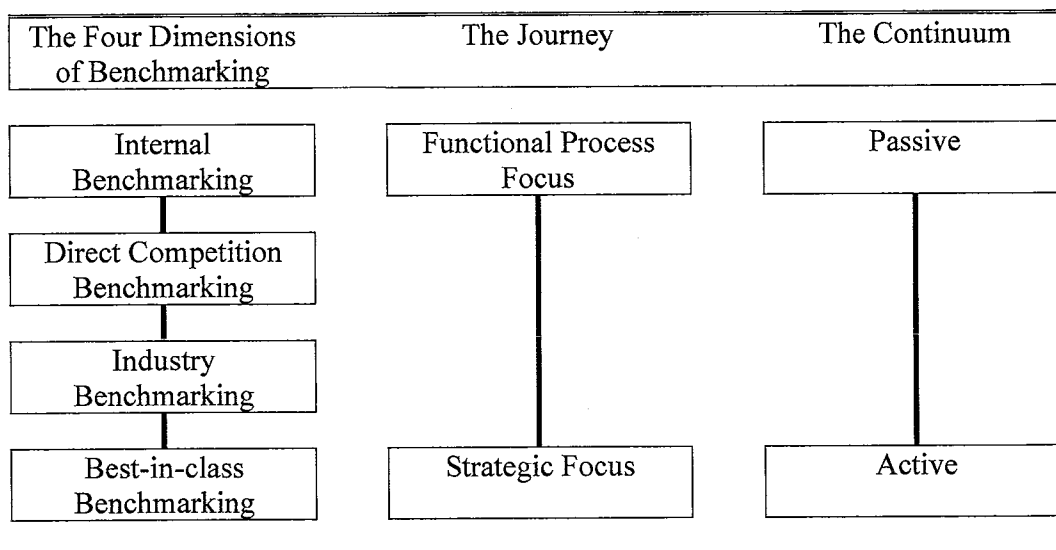
*Best-in-class or process benchmarking* is an operation undertaken between businesses in different sectors that share some common process, such as purchasing, marketing

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 within a similar market segment.

Thus benchmarking can be conceptualised as a journey from internal benchmarking to best-in-class or process 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.

Figure 1

#### The Conceptualisation of Benchmarking



#### Institutional Theory

*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. It is the processes of mimetic isomorphism, which it will be argued provides an underlying theory that explains the process of benchmarking through the implementation of expedient and superior systems (Scott, 1995; Covaleski, Dirsmith and Samuel, 1996; Geiger and Ittner, 1996).

*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, as persuasion, or as an invitation to join in collusion. 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 identified by DiMaggio and Powell (1983) 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 fields.

*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 the 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 has been argued that only certain groups have the standing to confer legitimacy. These have been identified as 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).

*Organisational dependency* is another aspect of institutional pressure. Many perspectives on organisational innovation assume an environmental motivation (Ulrich and Barney, 1984). An organisational dependency perspective conceptualises the environment in terms of other organisations with which the focal organisation engages in exchange relationships (Thompson, 1967; Pfeffer and Salancik, 1978). Most organisations depend on the resources traded in these exchanges for survival, and will make the necessary accommodations to guarantee exchange relationships with other organisations. Thus, changes in organisational structure or behaviour may reflect accommodations intended to secure a stable flow of resources from the resource provider (Oliver, 1991).

While an organisation will attempt to accommodate the demands of many external organisations, the organisation's likelihood of response to any given demand will increase with the importance of the resource provided and the external organisations level of control over that resource. If few alternative sources for a resource exist,

compliance becomes more likely. Pfeffer and Salancik (1978) argue that any organisation is vulnerable to extra organisational influence to the extent of its dependence on the resources provided or controlled by outside bodies.

### **Motivation**

In a review of research in managerial accounting, Ittner and Larcker (2001) made several general observations regarding empirical managerial accounting, as presented in both mainstream and practitioner-oriented accounting journals. These observations included "...the research is driven by changes in practice...", "...many papers are motivated purely by the fact that a certain topic has received considerable attention in the business press, with little effort to place the practice or study within some broader theoretical context..." and "...we are left with an underdeveloped body of research that fails to build on prior studies to increase our understanding of the topic...". This concern with theory development, builds on their work on innovations in various performance measurement models, including benchmarking (Ittner and Larcker, 1998).

Zimmerman (2001) supports this argument when he states, "The literature has failed to move from describing practice to developing and testing theories". He continues, "...one reason that the empirical managerial literature has failed to produce a coherent body of knowledge is because the literature's objective is not to test theories". While this may be so with respect to practitioner-oriented journals, 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.

The motivation for this paper springs from Zimmerman's (2001) challenge that without theory development our stock of knowledge in all areas of accounting inquiry will suffer. The challenge is to provide a theory that supports this particular practitioner-oriented technique given that there will always be some theoretical underpinning to any practice through reciprocity or mutual dependence.

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). The purpose of this study is to provide a conceptual framework into which the practice of benchmarking can be posited, thus adding to the strength of this particular management technique.

### **Conceptual Development**

Research within the discipline of accounting is concerned, in part, with interesting relationships and building a body of knowledge. Much of what has informed 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 this study draws on the insights of Bennett (1991) and Llewelyn (2003). Bennett (1991) identified four basic levels of research: description, classification, explanation, and prediction. It is the third level, explanation, which focuses this study. Explanation is seen as an attempt to make sense of observations, by explaining the relationships observed and attributing causality based on some appropriate theory (Smith, 2004). The notion of explanation fits well with Llewelyn's third level of theorisation, concept theories. As Llewelyn (2003) states, concepts constitute theories of practice, which provide "fundamental tools used in social practice (and in social science) both to observe and represent the world".

While the procedural and sometimes strategic aspects of benchmarking have continued to revive and/or develop a comprehensive framework of organisational improvement, there has been little development of a complementary theory that underpins this phenomenon. Therefore, the purpose of this paper is to consider some basic concepts that may align the practices of benchmarking with the theoretical aspects of institutional theory. In this way the paper follows the view of Llewelyn (2003) that theory reflects meaning and meaning reflects how something is connected or related to something else.

### **Conceptual Construct**

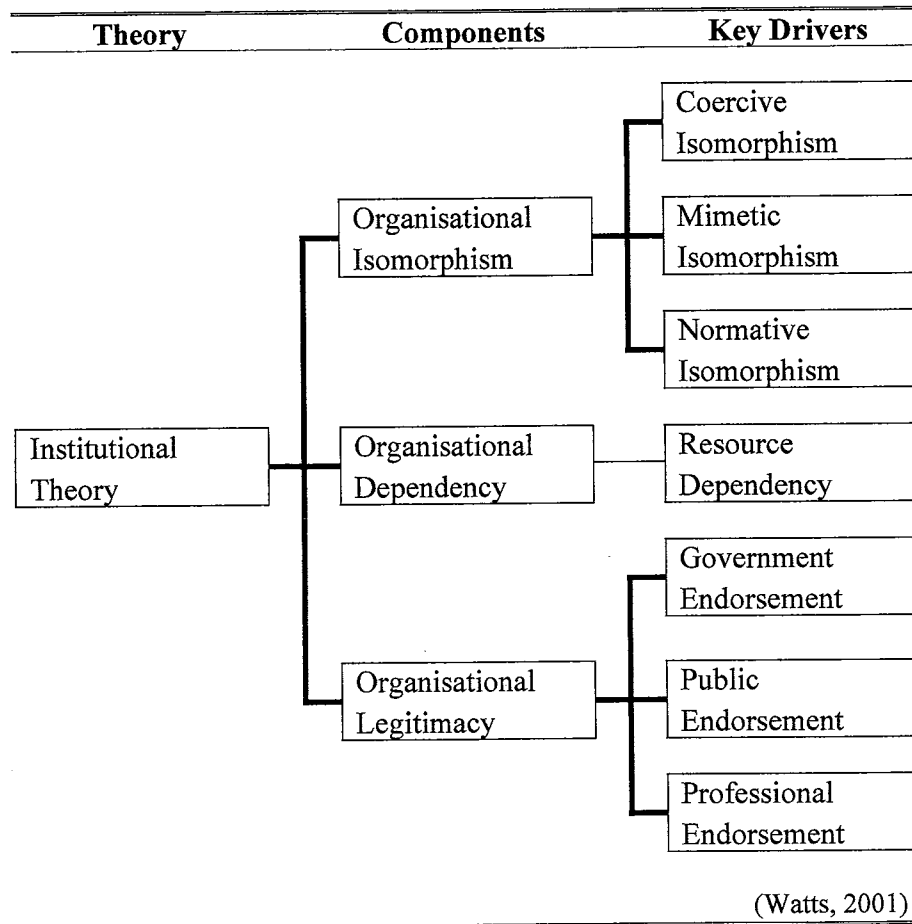
Drawing on Institutional Theory and in particular the concept of isomorphic behaviour, this study attempts to provide a theoretical underpinning for the commonly used business technique of benchmarking. In doing so the study will investigate the

relationships between aspects of institutional theory and the phenomenon of benchmarking and argue that the adoption of benchmarking, as a management tool, can be explained through the concepts of cohesive, mimetic, and nominative aspects of organisational isomorphism (DiMaggio and Powell, 1983), organisational dependency (Pfeffer and Salancik, 1978), and organisational legitimacy (Ashforth and Gibbs, 1990; Scott, 1995).

From the seminal works of early theorists (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. This places the emphasis of institutional theory on organisational isomorphism, organisational dependency, 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.

Figure 2

### A Construct for Investigation Using Institutional Theory



### Objectives

The following research objective has been identified for the project:

Develop a conceptual framework based on institutional theory to explain the key drivers or mechanisms behind the adoption and use of benchmarking by organisations.

### Discussion

The literature review of the dimensions of benchmarking reinforce the view that benchmarking is based in the philosophy of continuous improvement, and is reflected in a continuum from passive to active actions. This concept of benchmarking can be posited within an institutional theory framework, which consists of three components:

organisational isomorphism, organisational dependency, and organisational legitimacy.

Organisational isomorphism is defined as the desire of organisations to adopt similar structures, strategies, and processes that result in the resemblance of a focal organisation, or practice espoused by other organisations in its environment (DiMaggio and Powell, 1983; Tolbert and Zucker, 1983; Davis, 1991). Organisational dependency is depicted as a conditioning situation in which a process within one organisation is conditioned by the developments and expansion of an external organisation (dos Santos, 1970). Organisational legitimacy is identified as a need to accept as legitimate any structure or process which presented a higher level of accountability, and is seen as congruent with societal values and actions (Scott, 1995).

The components of organisational isomorphism were seen as coercive, mimetic, and normative isomorphism. It is argued within the literature that coercive isomorphism is a primary mechanism of control (Meyer and Rowan, 1977; Meyer and Scott, 1983; Scott, 1987). As such its influence is strongest at the internal benchmarking dimension, but also impacts on the direct competition dimension. Mimetic isomorphism, the tendency of organisations to imitate other organisations where organisations perceive other organisation's systems or processes as superior or more successful, appears to dominate the industry and best-in-class dimensions of benchmarking, while also influencing the direct competition dimension. This is described in the benchmarking literature as the process of searching for new, or innovative practices across multiple industries no matter what their source (McNair and Leibfried, 1992). Normative isomorphism is the influence applied by members of an organisational field or organisational group to define or control their occupational autonomy (DiMaggio and Powell 1983). This is primarily in the industry and best-in-class dimensions of benchmarking, where groups, such as accountants, cause the organisation to adopt common measurement practices as a gauge to the company's success in order to meet stakeholders expectations (McNair and Leibfried, 1992).

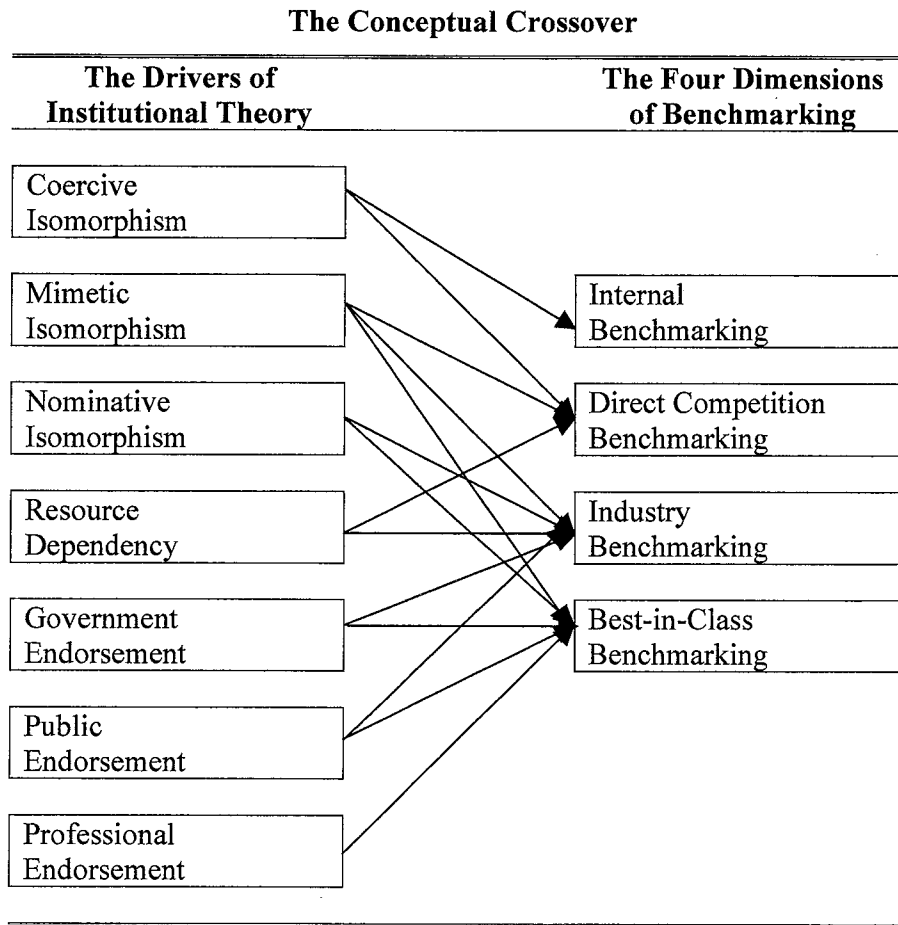
Resource dependency has been described as the vulnerability of as organisation to external influences to the extent that the organisation is dependent on the resources controlled or provided by the external organisation (Scott, 1987). While this is not

specifically discussed in the benchmarking literature it is suggested that resources provided could influence organisations to adopt practices that appear to be the result of benchmarking but are, on reflection, the result of a dependency relationship, eg, packaging of products or display space. As such it appears to focus on the dimension of direct competition and industry benchmarking.

Organisational legitimacy, depicted through government, public, and professional endorsement, reflects the organisations perception of its acceptance by society (Scott, 1995). In this respect it has been argued that organisations will benchmark other organisations in order to align themselves with symbols, values, and practices which are themselves 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.

This conceptual crossover of the drivers of institutional theory to the four dimensions of benchmarking is shown in Figure 3.

Figure 3



## 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 challenges of Zimmerman (2001), and to a lesser degree Ittner and Larcker (2001), by providing a theory 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 various authors to posit the practice



of benchmarking within the “theoretical” landscape. Godfrey, Hodgson, and Holmes (2003), describe a theory as the logical reasoning underlying a statement of a belief that is accepted when (i) it explains and predicts reality, (ii) is well constructed, and (iii) the implications of the theory are acceptable. This view supports the work of Llewelyn (2003), whose notion of conceptual theory provides a base that “creates meaning and significance through linking the subjective and objective realms of experience”. Further, Bennett’s (1991) explanatory research model that attempts to make sense of observations by explaining the relationship observed and attributing causality based on an appropriate theory provides a vehicle for the comparison.

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 (1998, 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” (Zimmerman (2001)).

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