Benchmarking and the Construction of Organizational Reform (provisional title)
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Introduction

“We went to a sorting center. As the center was doing its work, they were literally monitoring the sort in real-time. At the end of the night, it tells them how efficient the sort was. They knew what their greatest customer dissatisfiers were – lost packages were a bigger problem than same-day, late packages. Once you knew what mattered to the customer, you could focus on it. That very next day they would say, ‘Here’s how we did.’...One of the things we realized was we didn’t know what our problems were. We had assumed we knew what the problems were...we didn’t have good disciplines in place for understanding what our quality problems were.”

Global Financial manager

What do you regard as the most important recommendations or proposals advocated by your team?

1. Need to have a clear vision and mission
2. Need to define and embrace a set of behaviors that reflect our corporate values
3. Need to hold people accountable for their behaviors
4. Need to develop measurements and feedback tools.”

Global Financial manager

In good times, some academic and much popular discussion celebrates the rapid flow of ideas within the business world. In bad times, much academic and some popular discussion decries the corporate community’s odd mix of conservatism and faddishness. The grounds for both celebration and critique are evident. But so is the need for a closer analysis.

Mimetic behavior – action based on observing others and learning from what they do – is conceived in mechanical ways in organizational studies. It is often seen as
driven by the benefits of conformity: firms are portrayed as garnering a legitimacy dividend when they stick with the herd. Choice-theoretic models develop notions of rational mimicry; in the absence of well understood cause-effect relationships, managers imitate the successes of others. More sophisticated versions of the same principle view decision-makers as Bayesian statisticians, using vicarious learning to update guesses about a complex world.

The managers studied here provide support for none of these ideas. Consider the first quotation above, which describes a benchmarking visit conducted by a leading bank to a communications giant. Conformity pressures are absent from the Globalbanker’s account, which speaks of the operational benefits of real-time monitoring. Knightian ambiguity is also off-key; the site visit was useful precisely because the benefits of greater knowledge and rapid feedback are readily comprehended. And since the example itself is compelling, no Bayesian analysis is needed or undertaken.

Is imitation then a simple matter of empirical sense perceptions and self-evident conclusions? The second quotation, taken from a survey of members of Global Financial’s benchmarking teams, suggests not. Whatever else managers might have garnered from site visits, it is implausible that they witnessed “embracing behaviors that reflect corporate values” and “keeping people accountable” while touring a plant. These are coded principles of effective management that participants surely brought with them into the benchmarking arena.

Taken together, the two Globalbankers point to the interpretive structure that underlies diffusion. The managers move back and forth between the particular and the general: between specific practices observed elsewhere and theorized models of
organizational rationality. They mobilize external exemplars and discourses to fashion programs of action, and seek to sell these proposals (and in the process, to sell themselves) to senior leaders. And if they succeed, executives will do something similar – albeit from a more commanding position – within the corporation more generally.

This book studies Global Financial’s benchmarking program. “Team Challenge” was simultaneously a search for best practice, a corporate planning exercise, a piece of organizational theatre, a professional development opportunity, a symbolic display of organizational integration, a reflection of the strategic concerns of a leading bank, and a Rorschach test that probed the business imagination. The program is fascinating from all these points of view, and I hope to do them some justice.

My own perspective, however, is to treat benchmarking as a site where inter-organizational imitation, innovation, and diffusion takes place. Much social scientific research studies the spread of organizational practice, but generally from vantage points too distant to observe anything but the end result. By limiting our gaze to one company’s explicit and formalized effort to learn from its peers, we can develop a closer understanding. Core issues include: How did managers forge persuasive proposals for organizational action, and what role did external models play in these proposals (Chapter 4)? What kinds of organizations were treated as potential exemplars (Chapter 5), and among them, which were most influential (Chapter 6)? What sorts of proposals were generated by a process that centered on site visits and the pursuit of best practice (Chapter 7)? What impact did benchmarking have on Global Financial’s policies and programs, and on managers who participated in the process (Chapter 8)? How was an organizational initiative based on external models structured (Chapter 9)?
To put this project in context, I should emphasize the vitality of the contemporary research front. Quantitative modeling of diffusion is a growth industry, notable for some methodological sophistication and considerable empirical breadth. Careful studies have traced the spread of organizational forms, management practices, business strategies, and operational technologies. My own work has operated principally within this tradition, both in empirical studies and through the development of quantitative methods for the study of diffusion trajectories.

Despite the field’s vibrancy, however, models of innovation diffusion often take on an unreal character. Decision-makers are argued to rationally adopt practices although – or even because – they do not understand why they work. Or managers are depicted as cultural dopes who slavishly mimic each other’s smoke and mirror displays. Or innovations are portrayed as riding the rails of inter-organizational relationships, as though ties were the actors in the system. All work in this area works with the same ingredients – *rationality, uncertainty, legitimacy, social networks* – the question is how they fit together.

When we look more closely at the spread of ideas and practices, I argue that we see the social construction of organizational reform. At Global Financial, benchmarkers sought to persuade senior leaders to adopt practices they had witnessed in site visits. But the practices they advocated were selected to dovetail with the bank’s strategic objectives, and were assimilated to the logic of rational and progressive management. Exemplars were used to legitimate proposals as well as inform their content. And like reform efforts everywhere, the formulation of proposals was the easy part; the
implementation of new policies ran up against established routines and interests, and often involved a second stage process of intra-organizational diffusion.

Much theoretical analysis in sociology and in management studies provides rich resources for this project. The institutional perspective (Meyer and Rowan 1977; DiMaggio and Powell 1983) treats organizations as embedded in a cultural and social matrix bent on their rationalization and homogenization. Much recent work explores how culturally and politically dexterous actors promote change; seminal concepts include issue selling (Dutton and Ashford 1993), translation (Czarniawska and Sevon 1996; 2005), framing (Snow et al 1986), sensemaking (Weick 1993), and institutional entrepreneurship (Fligstein 2004). Studies of managerial fads and fashions (Abrahamson 1996) analyze the development and discrediting of organizational techniques. Social movement perspectives provide insight into dynamics of contestation and change (Rao et al 2003; Davis et al 2005).

My account draws on these ideas, and in many ways embodies an imagined dialogue with Meyer and Rowan (1977) and DiMaggio and Powell (1983). At the same time, the argument developed here can also be read as a quarrel with what Powell (1991) labeled the “institutionalization of the institutional perspective.” In my view, a focus on popularity, ceremonial conformity, and taken-for-grantedness misconstrues behavioral universals for what is culturally central about the modern organization. In business, as in other competitive domains, nothing legitimates like success! If managers are busy chasing the secrets of success in a messy world, as I think they are, the diffusion of innovations will center on communicable and compelling interpretations of what works, and why.
Diffusion research

Social scientific analyses of the spread of ideas and behavior fall under the general heading of the “diffusion of innovations,” defined by Rogers (2003) as “the process by which an innovation is communicated through certain channels over time among the members of a social system.” ¹ The verb “communicated” is the critical term, signaling the central role of interaction and interpretation. Something diffuses not only because more and more do it, but because they make it cognitively available to each other, and directly or indirectly shape each other’s behavior. The contacts involved can take many forms, from mass media campaigns to the adopter-initiated search for models that is central to this study.

While innovations can be independently adopted and familiar practices diffuse, the pairing possesses an elective affinity. An innovation’s newness suggests that its spread occurs through contact with carriers or prior adopters, since otherwise the adopter must also be the (re)inventor. Innovation also suggests improvement, which means that new information may have real power. Empirical research centers on the adopter’s stance towards change, social relations that underpin the influence of others, and the cultural construction of the diffusing practice’s meaning.²

¹ Rogers (2003) and prior editions provide authoritative reviews of the diffusion literature. For reviews of diffusion studies linked to the sociology of organizations, see Strang and Soule (1998), Wejnert (2002) and Simmons et al (2006).
² There is great conceptual overlap between the “diffusion” and “innovation” literatures – the former centers on the movement of innovations across actors, while the latter focuses on the development and modification of innovations within actors. (In diffusion research an innovation is a noun, in innovation research it is a verb.) The two processes are in many ways the duals of each other, especially when we find (as in this study) that the outside-in spread of practices and inter-organizational influence is conjoined with their active reinvention and inside-out processes of organizational change. For simplicity, however, I will frame this chapter’s literature review
Classic studies examine what might be thought of as pure examples of the diffusion of innovations: the spread of new technologies through a combination of organized dissemination and emergent dynamics within a population. For Everett Rogers, these include attempts to persuade Andean villagers to boil water and Korean couples to use birth control methods like the IUD. Landmark diffusion research in sociology includes Ryan and Gross’s (1943) study of the adoption of hybrid corn by farmers, Coleman, Katz, and Menzel’s (1966) analysis of tetracycline prescription within four physician communities, and Hagerstrand’s (1967) investigation of the spread of innovations like the telephone in rural Sweden.

This research tradition develops quite general insights. Correlates of early adoption often include education, high social status, open-mindedness, area-specific interest and knowledge, and integration into the community. Innovations are often introduced to communities by professional “change agents” and sometimes by “marginal men” unconstrained by community norms. But the process only takes off when prior adopters influence their fellows within the community, turning a series of independent actions into a self-reinforcing cascade. Potential adopters are most strongly influenced by those they frequently interact with, see as similar to themselves, and look up to as community leaders.

Insight into the spread of novel practices has great value. Much diffusion research is motivated by the puzzle of why demonstrably superior technologies or desirable...
behaviors are slow to gain acceptance, and by the goal of fostering their more complete and rapid diffusion. Why did it take two centuries for the discovery that citrus fruits prevent scurvy to precipitate change in the standard operating procedures of the British navy? How can governments be led to respect human rights?

Knowledge of how and why things spread is also valuable when the polarity is reversed, and the rampant diffusion of problematic innovations is worrisome. How can the global expansion of viral epidemics (the bird flu, say, or McDonalds) be slowed? Whether we applaud new technologies or oppose the erosion of cultural diversity, it is useful to know something about how and why they spread.

The diffusion perspective also resonates with contemporary understandings of social action. It envisages a world of sovereign actors who make formally autonomous decisions about whether or not to adopt a practice. Their actions are interdependent, but only in a behavioral sense. Adopters choose to take the other into account – they emulate exemplary models, or respond to the externalities of what others do, or are persuaded by the innovation’s champions. The broad picture is one of a culturally integrated world of voluntaristic action.

The idea of diffusion thus smuggles in, as it were, the modern social order. Where communities are held together by strong bonds of obligation or control, the choices of the few determine the status of the many. In the day of absolutist monarchies, for example, the king’s religious conversion converted the kingdom as well. We would not describe this as popular diffusion, any more than the acclamation “The King is dead! Long live the King!” constitutes an electoral victory. Along with voting and market exchange, diffusion reflects the ideology and reality of the contemporary social order.
The various social scientific disciplines and sub-fields have their own analytic concerns. In economics, innovation diffusion provides a good example of decision-making under uncertainty. In sociology, it offers an opportunity to develop relational accounts of influence, and to study how initially unfamiliar or contested ideas become taken-for-granted verities. In anthropology, diffusion is something of a nuisance that muddies the waters of cultural difference. And in organizational studies, the sub-field most relevant here, diffusion research is shaped by three main lines of research: studies of social networks, evolutionary and adaptive models of managerial cognition, and institutional accounts of organizational change. I describe each of the three briefly.

Network research focuses on the ties that serve as diffusion channels. A main line of theoretical analysis considers how relational structures speed or retard the spread of social material, emphasizing the contribution of non-redundant relationships that link otherwise disconnected populations. Granovetter (1973) describes the strength of weak ties, Burt (1992) the positional benefits of bridging a structural hole, and Watts (1999) the disproportionate impact of a few random ties in enlarging “small worlds.” A second line of analysis, forwarded by Burt (1987), is closely attentive to the relational triggers of imitation. Actors may be influenced by those they are in direct contact with (a cohesion effect, grounded in socialization) or by those whose network positions are parallel to theirs (a structural equivalence effect, via competition).³

While the network logic of inter-personal diffusion translates readily to the organization level, measurement of organizational ties presents a thornier problem. This

³ For small world models of inter-organizational relationships, see Powell et al (2004) and Uzzi and Spiro (2005). Interorganizational diffusion analyses focusing on structural equivalence include Galaskiewicz and Burt (1991) and Han (1993). A much larger literature examines related themes within the firm – see, for example, Burt (1992), Brass (1985), Hansen (1999), and Obstfeld (2005).
is most apparent when we consider that there is no corporate equivalent to face-to-face encounters. Only a tiny fraction of the members of two organizations can directly interact with each other at any given time. While individuals meet, in some fundamental sense, as “wholes,” organizations generally connect as “parts.”

Much research thus seeks to locate inter-organizational ties that matter. The workhorse in the literature is the board interlock, where the executives or directors of one firm sit on the board of another: these have been shown to mediate the spread of poison pills (Davis 1991), mergers and acquisitions (Haunschild 1993), multi-divisional structures (Palmer et al 1993), and entry and exit from stock exchanges (Rao et al 2000). Other channels of inter-organizational diffusion include market overlaps (Osterman 1992), executive mobility (Boeker 1997; Geletkanycz and Hambrick 1997), geographic proximity (Burns and Wholey 1993), and supplier relations (Cole 1989).

A second stream of organizational analysis focuses on the cognitions that underpin inter-dependence: knowledge flow, vicarious learning, and mimetic decision rules. These ideas can be traced to the Carnegie school’s treatment of decision-making as routinely structured by heuristics (March and Simon 1958; Cyert and March 1963). Due to information processing constraints, decision-makers are unable to arrive at optimal decisions by considering all contingencies. One of the best shortcuts is to see what others do.

Building from this perspective, Kogut and Zander (1993) develop an evolutionary theory of the firm as a knowledge sharing community, and analyze practice transfer as shaped by the codification of know-how (Zander and Kogut 1995; Szulanski 1996). Greve (1996) stresses imitation of sister firms operating in adjacent markets. Baum and
Ingram (1997) show that life chances improve through proximity to the experience of other organizations, while Haunschild and Beckmann (2002) demonstrate that organizations benefit from vicarious exposure to error.

The theoretical perspective most closely linked to diffusion in organizational studies, however, is institutionalism (Meyer and Rowan 1977; DiMaggio and Powell 1983). Institutional accounts focus on the way organizations are influenced by their social and cultural environments, construed broadly to include powerful actors, belief systems, taken-for-granted understandings, and more. This structural eclecticism points to a variety of diffusion processes: DiMaggio and Powell’s typology of coercive, mimetic, and normative isomorphism identify different pathways by which practices spread within bounded populations. Phenomenologically, institutionalism views the actor as a creature of her social and cultural context, a congenial position for diffusion research. And substantively, institutional accounts focus on the emergence and elaboration of modern forms of social organization; it is precisely these projects that are likely to spread.

Much institutional research thus examines the spread of efforts to rationalize the organization. This includes analyses of policies like civil service reform (Tolbert and Zucker 1983); design principles like the multidivisional structure and movement away from the conglomerate (Fligstein 1990; Davis et al 1989); the formalization of personnel practice (Baron et al 1985; Dobbin et al 1993) and its connections to affirmative action (Edelman 1992; Dobbin and Sutton 1998; Kalev et al 2006). The emphasis is on the role of authoritative “others” like the state and the professions rather than point-to-point mimicry.
Network, cognitive, and institutional perspectives provide interlocking accounts. DiMaggio and Powell’s (1983) treatment of mimicry draws directly on choice-theoretic accounts, for example, and relational and cognitive arguments return the favor by stressing broad processes of legitimation. Haunschild and Miner (1997) study modes of imitation based on frequency, similarity, and success. Davis and Greve (1997) find that the capacity of inter-organizational networks to serve as transmission belts depends on the legitimacy of the diffusing practice, while Hansen (1999) and Mizruchi and Stearns (2001) show that ambiguity increases reliance on strong ties. Westphal et al (1997) combine all three sets of ideas, arguing that the impact of network ties on organizational learning is contingent on levels of institutionalization.

While theoretical perspectives on diffusion show considerable (if nuanced) variation, research design is more standardized. Most studies develop a longitudinal analysis of the relative timing of adoption. This approach permits a regression-like analysis of the effects of organizational characteristics, prior adoption by network partners, and broader environmental conditions. For example, Davis (1991) links the dates of ‘poison pill’ adoption to organizational size, industry, the number of prior adoptions by firms sharing a board interlock, and the focal firm’s centrality within the governing board network.

A second research strategy investigates the public discourse that accompanies and often drives the spread of ideas and practices. Hirsch (1986) describes the imagery used in the Wall Street Journal to depict hostile mergers and acquisitions, demonstrating how a rhetoric of violation gave way to game-like analogies that normalized what had been

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Diffusion provides a robust conceptual framework, in organizational studies as elsewhere. It focuses attention on significant movements (where do merger waves come from? how did affirmative action policies spread?) and offers an explanatory framework that stresses general mechanisms. Rather than viewing organizational strategy and structure as the product of context-free optimization, diffusion research seeks contextualized accounts of change. Attention is directed to relational structures of influence, logics of imitation and learning, and interpretive frames that facilitate the adoption of new practices. Recent years have witnessed the continuing vigor of this line of empirical research.

Diffusion research: critique

While diffusion is an enormously fruitful construct, it can also be criticized as an unfortunate metaphor, the transposition of a physical process (the spread of particles from areas of high to low concentration) to the social realm. Its conceptual shortcomings are
evident and troubling precisely because the diffusion framework is so fruitful and widely diffused. I would emphasize the problematic character of three silences.\(^5\)

First, diffusion suggests a passive imagery that defocuses the agency of the organizational “adopter.” Managers do not interpret events, identify courses of action, and refashion the organization to accomplish their ends; they enact scripts written by others. Diffusion research focuses attention on the production of meaning and the malleability of organizational practice, but treats the creative role as monopolized by outsiders who construct and promote innovations – managers simply consume the product.\(^6\) In commenting on one unfortunate author’s reliance on “cultural dopery”, Bruce Kogut (2006) speaks out forcefully:

> “Set against an understanding of the multiplicity of logics in play, diffusion is an impoverished concept that hides the sense-making activities of rational agents trying to identify a means-ends relation in a messy world.”

Second, the concept of diffusion assumes the invariance and stability of a reified “innovation”. Causal forces are understood to evolve over time and vary from organization to organization – early adopters push against the crowd while late adopters are pulled along with it – but what spreads is treated as an unchanging object. All organizations are assumed to adopt the same practice. This is particularly problematic in organizational studies; many view popular management techniques as virtually devoid of

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\(^5\) Diffusion research is also frequently marked by the assumption that innovations are improvements on the status quo (see Kimberly 1981; Hirsch 2006). This pro-innovation bias can lead to poor explanations, but is not a problem for the applicability of a diffusion framework per se – any more than the fact that diseases are harmful is a logical problem for epidemiology.

\(^6\) Positive accounts along these lines often develop pointed critiques of the roles of consultants in mystifying management and managers – see for example Kieser (1997; 2002), Sorge and van Wittelstuijn (2005), David and Strang (2006).
content, and argue that “interpretive flexibility” bolsters their spread (Benders and van Veen 2001).

Third, and relatedly, the usual endpoint of a diffusion study is the formal adoption of an organizational policy or practice, with little organized attention to what follows. Indeed, researchers are often unsure whether new policies and practices are implemented at all, and even knowledgeable actors inside the organization sometimes agree with them. Institutional accounts emphasize decoupling, where organizations symbolically affirm valued principles but adjust to messy realities in more unscripted fashion (Meyer and Rowan 1977). This is a powerful insight, and one that applies not only to diffusing innovations but to all meaningful social categories. As a universal principle, however, decoupling is as unsatisfactory as faith in seamless implementation.

These silences have led a number of scholars to reject the physicalist imagery associated with diffusion, and to develop language that reflects the creative activities involved. Drawing on the work of Latour, for example, Czarniawska and Sevon (1996; 2005) propose “translation”: the key idea is that actors reshape global discourses in connection with their understandings and interests. Djelic (1998) and Engwall and Sahlin-Andersson (2002) speak in related terms of hybridization and creolization. Lillrank (1995) describes a three step process whereby (1) a concrete practice is

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7 Among the “rational myths” described by Meyer and Rowan (1977), for example, is the institution of the secretary – those familiar with administrative arrangements at Stanford’s sociology department a quarter century ago will understand. For a general argument asserting the anti-agentic implications of organizational rationalization, see Meyer (1983) and Meyer et (1987).

8 Recent work on decoupling generally focuses on the strategic manipulation of categories and formal innovations by corporate leaders – see for example Westphal and Zajac 2001; Fiss and Zajac 2006.

9 Also see inter-disciplinary research on the export of ideologies and national models (Hall 1989; Herrigel 2000; Zeitlin 2000; Campbell and Frank 2001).
represented by an abstract blueprint; (2) the blueprint is communicated to a potential adopter unfamiliar with the original; and (3) the adopter builds a new concrete practice following the blueprint’s instructions. All of these formulations reject the imagery of stable practices moving across space and alighting on passive organizations, while agreeing that external discourses and models provide valuable resources for local action.

While these conceptual innovations help move diffusion studies (or translation studies) in a useful direction, I would argue that what we most need is diversity in research design. Longitudinal research that tracks the adoption of a given practice is the design of choice if we want to test strong hypotheses about differences between early and late adopters; discourse analysis of the business press is a powerful way to grasp how practices are interpreted and contested. Both usefully focus attention on the big picture. But they are blunt tools if we want to observe how actors within organizations interpret and rework innovations, and pursue the slippages between formal corporate policies and actual programs. As Schneiberg and Clemens (2006: 200) argue

“Standard research strategies are much more attuned to the covariance of factors than to the processes that underlie the production of institutional effects (Scott 1995:64-66), particularly the dynamics of ‘imitation and innovation’…”

The sophistication of diffusion research, in short, often comes at the price of limited contact with the behaviors that models are supposed to represent. Reports from the field, where imitation and innovation are observed behavior rather than analytic assumptions, provide a useful corrective.

*Benchmarking as a Strategic Research Site*
The corporate benchmarking program studied here was instituted by one of the world’s major banks, which I will call Global Financial. The program, “Team Challenge,” operated for three years, from 1996 to 1998. During that time, twenty-two managerial teams were charged with developing proposals for corporate innovation in thirteen distinct domains including the Internet, Work/Life Balance, and Foreign Exchange.

In characteristic benchmarking fashion, managers participating in Team Challenge visited external firms and observed their practices. These study visits were combined with internal interviews within Global Financial and contacts with consultants, academics, and other area experts. Benchmarkers generated proposals for action at Global Financial and presented them to the bank’s CEO and top management team.

Team Challenge provides a rich context for investigating how managers identify external exemplars and learn from them – because this is what corporate benchmarking is all about. Robert Camp (1989: 12) influentially defined benchmarking as “… the search for industry best practices that lead to superior performance.” By turning inter-organizational imitation into a formal management technique, benchmarking renders its motives, rationales, and constituent elements visible. Decisions to visit specific organizations and base recommendations on those visits are palpable actions that leave a trace in participant memories and archival records.

Benchmarking thus puts a backstage process under the Klieg lights. Most accounts assume that corporations keep up, in some unobserved fashion, with what is happening in other firms and the business community at large. I conducted exploratory interviews at one of the money center’s regional banks that gave ample evidence of this sort of awareness. The area director and his lieutenants compared Global Financial to
other places they had worked, contrasted their approach to that of local competitors, and described a pilot program they had instituted at one of their branches. At the same time, terms like innovation and diffusion struck an oddly academic note for many. They were busy running the bank.

In Team Challenge, what is normally background awareness became a full-time job. “High potentials” selected to participate on benchmarking projects were freed from their regular responsibilities. For a month, their task was to immerse themselves in the topic of their challenge, visit other companies and units within the bank, and collaboratively develop proposals that would lead to change at Global Financial. The experience was intense – one manager described it as “the highlight of my career at the bank.” As a result, the Globalbankers who took part in Team Challenge are unusually well positioned to reflect on the role of external practices in organizational innovation.

The study of corporate benchmarking also provides an opportunity to develop empirical insight into the notion of “best practice.” The term has little currency within organizational studies. It begs the question “best at what?”suggesting that the firm’s multiple objectives can all be weighed on the same scale. And it begs the question “best for who?”, implying that the interests of owners, managers, workers, and customers all converge. Academic researchers investigate the effects of organizational structures and strategies, but generally avoid the Olympian posture of identifying a dominant perspective or interest from which practices can be ranked.

Even if we were to agree on an objective function, however, the notion of best practice has limited explanatory capacity. It suggests that some “one best way” holds across differences in the tasks that organizations perform, their internal cultures and
traditions, and the broader cultures, regulatory systems, and markets that they are embedded within. Early organizational scholarship looked for such universal principles, but met with little success. As Luther Gulick concluded,

“Students of administration have long sought a single principle of effective departmentalization just as alchemists sought the philosopher’s stone. But they have sought in vain. There is apparently no one most effective system of departmentalism.”

The ideas about optimal design that motivated early administrative science gave way to contingency analysis and models of evolution and change.

Efforts to learn from success can also be challenged on logical grounds. In a well-framed critique, Denrell (2007; also see March and Denrell 2001) points out that risky strategies generate highly variable outcomes. The decision to bet all your chips at once will sometimes leave you the evening’s big winner, and sometimes the big loser. If we observe only those who take home the largest pots, or contrast them to those too timid to ante up, we are liable to conclude that the secret of success is a foolish certitude and the unwillingness to back down, no matter the odds. By aggressively sampling on the dependent variable, benchmarking relies on an implicit comparison of observed cases to imagined alternatives, asking much of the practitioner.

Corporate benchmarking is not like an efficiency study, however, whose goal is the rigorous explanation of organizational outcomes. Instead, corporate benchmarking begins with (putative instances of) best practice, and ends with proposals for change. The technique is not plausibly conceived as an empirical demonstration that one approach is

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11 As phrases like ‘we choose to win’ or ‘our only option is victory’ indicate, the errant logician can go very far off track in his or her (usually his) misconstrual of the relationship between preferences, strategies, and outcomes.
more effective than all the others; instead, the notion of best practice is mobilized to fix attention on publicly recognized exemplars and to strengthen a call to action. Benchmarking centers not on ranking, but on interpretation and persuasion.

The absence of a strong technical rationale makes benchmarking more interesting, not less interesting. If best practice cannot be objectively located, social and cultural factors are sure to play a key role. If the transferability of success cannot be scientifically demonstrated, it falls to the benchmarker to identify a plausible strategy that can be embraced by the firm’s dominant coalition. Benchmarking becomes a matter of managerial insight and organizational politics.

The proposals for organizational innovation generated within Team Challenge are of interest in their own right. They provide a record of how experienced and motivated managers developed plans for action grounded in contact with external companies. Regardless of how these proposals were greeted by the bank’s top management team – whether they were formally adopted and implemented, formally adopted and not implemented, or rejected – they provide rich insight into the cognitive processes underlying efforts to imitate and to learn.

Team Challenge’s value as a research site is enhanced, however, by the fact that the bank’s top managers endorsed many of the proposals that benchmarkers generated. According to the program organizer, 80% of team recommendations were accepted. During the period studied here, a variety of business and managerial initiatives at Global Financial began with Team Challenge, or were significantly influenced by it. These included the restructuring of the bank’s headquarters operations, a total quality program,
business strategies in foreign exchange and e-commerce, a corporate culture initiative, and efforts to promote the cross-selling of financial products.

While benchmarking proposals helped generate corporate initiatives, they did not dictate the final form of those efforts, nor ensure their success. The strategies that entered the bank via benchmarking were modified over the course of often complex “innovation journeys.” This occurred for many reasons: because the vision of those who implemented programs differed from those who proposed them, because initial tactics met with resistance, and because the bank’s strategic direction was itself rapidly evolving. Team Challenge provided an initial frame for innovation efforts, but one that receded into the background as programs took on lives of their own.

This study does not trace the programs that emerged under the Team Challenge umbrella in the exhaustive (exhausting?) fashion that benchmarking itself is examined. Such an effort would be a book in itself, and in any case the materials needed for a complete account are lacking. But I am able to sketch some aspects of these programs and their trajectory. I focus particular attention on Global Financial’s Corporate Quality Initiative, a program that began with Team Challenge and was profoundly shaped by external models. The bank’s quality efforts provide insight into the structure, impact, and limits of externally-stimulated innovation.

Team Challenge and the initiatives it helped to shape were integral parts of the management vision that dominated Global Financial between 1996 and 1998. They were closely identified with the bank’s CEO and top leaders during that period, the business strategies they pursued, and the management style they embodied. 1999 was a transitional year, and by the turn of the millennium the bank had a new CEO and top management
team. As part of a broader strategic shift, Team Challenge was discontinued and the policies and programs associated with it were scaled back. Benchmarking thus forms a short chapter in Global Financial’s storied history, but one that we can learn from.

Theoretical Arguments

A few years ago, Michael Macy and I wrote down a computational model of innovation (Strang and Macy 2001) that provides a good starting point for the current study. The model, which we dubbed “adaptive emulation”, was concerned with collective trajectories of practice adoption and abandonment, not the motives that lead an individual firm to act in particular ways. While intended as a thought experiment, however, the model’s emphasis on learning from success stories makes for a natural fit to corporate benchmarking. And the spareness of a computational model makes an ideal structure to build upon.

Managers, we argued, are intensely focused on performance. They judge innovations based on whether they produce desirable outcomes, not on how popular they are. At the same time, managers face two key informational limits. First, their insight into true causal relationships is restricted. Like the rest of us, managers often reason backwards from outcomes to causes. Second, decision-makers are intimately aware of goings on within their own firm, but know less about what happens elsewhere. If managers search for effective innovations outside the boundaries of the firm, their gaze is likely to settle on the dramatic success stories that dominate business discourse.

Strang and Macy thus proposed that organizations are adaptive, in the sense that change is inversely related to outcomes. When things are going well, managers stay the
course; when things are going poorly, they are smart enough to try something different.

The model also views organizations as emulative, in that new strategies arrive via imitation rather than invention. Managers learn from the example of a particular sort of business community leader: the firm that achieves outstanding results.

A decision-making algorithm based on these ideas takes a simple form:

1. At a given point in time, all firms have selected an innovation from a pool of possible strategies.

2. Firms then receive outcomes, which may be linked to their chosen innovation. Firms know the outcome but not the probabilistic function that generated it.

3. Firms that experience more favorable outcomes are more likely to maintain their current innovation, while those that experience less favorable outcomes are more likely to abandon it for a new approach.

4. Firms that abandon their current innovation either adopt the innovation used by the firm with the best outcome in the prior round (with probability $p$) or select a new innovation at random.

The notion of adaptive emulation jibes with central lines of argument in organizational studies. The Carnegie School’s analysis of decision-making treats organizations as boundedly rational satisficers engaged in problem-driven search (March and Simon 1958; Cyert and March 1963). Institutional accounts view mimesis as a core motor of change (DiMaggio and Powell 1983; Mizruchi and Fein 2001), and argue that it is directed towards the emulation of more legitimate or successful others.

The model also fits with some simple empirical observations. When a country’s products invade overseas markets, managers flock to learn the secrets of its success. Japan hosted many such visits in the late 1970s and 1980s, as did the US in its pre- and post-war heyday. The business press talks much more about success than failure (or, for
that matter, legitimacy). Innovations tend to trickle down from larger to smaller firms, and from more to less successful ones (Haveman 1993; Han 1993).

The principal goal of computational modeling is to chart the implications of ideas that are hard to reason through in the abstract. Strang and Macy (2001) thus explore collective trajectories of adoption and abandonment that result from adaptive emulation. Our main interest was in conditions that generate faddish cycles, where one innovation’s popularity surges and then crashes, followed by a second wave, and then a third, and so on. Adaptive emulation can generate these cycles, we found, when innovations are effective but not too effective. Modestly worthwhile innovations are able to generate enough success stories to trigger a bandwagon, but not enough to maintain popularity over time. By contrast, worthless innovations are too inconsistently linked to success for bandwagons to form, while highly effective innovations lead to the emergence of a dominant design where one practice (not necessarily optimal, but robustly linked to good outcomes) never loses its hold on the population of adopters.

Adaptive emulation makes some good bets. Most importantly, it centers on competitive performance as the manager’s dominant concern. Business discourse is dominated by accounts of success and failure (Abrahamson and Fairchild 2001), and it is here that legitimacy is won and lost. Successful managers claim authority by virtue of their demonstrated ability to achieve results, while their less successful peers develop alternative accounts that locate responsibility elsewhere or demonstrate that effective countermeasures are being taken. Logics like conformity to tradition or adherence to common practice are not merely secondary – they are illegitimate and delegitimating.
At the same time, the naivete of adaptive emulation is painfully apparent. Real-world performance does not define an unambiguous ordering. Success comes in many uncommensurable forms: internal and external, financial and market-based, short and long term. Nor are the secrets of success self-evident, as early proponents of administrative science soon discovered. While Strang and Macy treated simulated organizations as possessing a single innovation, actual firms are characterized by many interdependent and weakly defined practices. Mimics have to decide not just who to take as a model, but what to learn from them. Performance alone does not answer this second question: A manager whose insight is limited to the stock price pages of the Wall Street Journal would not find a change strategy there.

While retaining the idea that managers are performance oriented, I thus want to move away from the notion of simple success following. Rather than copy success, managers interpret it. They fill in the blanks left open by the indeterminacy of outcomes with structured understandings of how organizations operate, of market opportunities and how to exploit them, of ways of motivating employees, and so on. In considering elaborations of adaptive emulation, Macy and I contend that “institutional accounts can help explain why some high performers become exemplars while others are overlooked, and why some practices are interpreted as transferable solutions while others are ignored” (2001: 179-80).

This argument draws on the notion of theorization (Strang and Meyer 1993). Diffusion is accelerated when a social domain is theorized – when causal or functional relationships are mapped in an abstract and systematic way. Theories abstract away from particulars, and in so doing highlight organizational commonalities and correspondences
at the expense of historical complexity. They provide a calculus for distinguishing more versus less effective approaches, and for separating central, meaningful elements from superficial or context-dependent details. Theories cut through the complexity of empirical relationships to identify a connecting logic that motivates convergent movement, not towards current practice, but towards an organizational ideal.

For example, a theory of how children learn provides a basis for the spread of educational practices, and highlights domains where educators can profitably learn from each other. A theory of how the human body processes nutrients generates diets that should work for everyone, and makes their elements meaningful (explaining, for instance, why eating foods rich in fat will make you thinner). A theory of economic growth abstracts away from the historical experience of different nations and provides an interpretive frame that facilitates theoretically-driven learning and imitation.

In the organizational arena, benchmarking itself provides a good example of the imagined, theorized character of innovations and the way they spread. As the next chapter discusses, the idea of systematic, routine learning from best practice was pioneered by Xerox Corporation in the early 1980s. While not based on a Japanese model, much of benchmarking’s early plausibility was linked to widespread perceptions that Japanese success was founded on the ability to replicate and improve on American technological breakthroughs. In fact, a number of commentators inaccurately identified Japan as the original source of benchmarking, stretching ad hoc events (like Taiichi Ohno’s observation of a supermarket as a young tourist) into management techniques.

The structuring power of theorized interpretation also appears in Lee and Strang’s (2006) analysis of the size of the public sector. In the last several decades, neoliberal
public policy analysis has argued that government is a drag on economic growth, while organizational commentary has extolled the virtues of decentralization and leanness. The dominance of these perspectives lead learning and contagion to be biased towards downsizing. Lee and Strang show that downsizing is spatially contagious while upsizing is not; countries are more likely to downsize if their neighbors and exchange partners have done so, but are unmoved by proximate upsizing. Downsizing is boosted by correlational evidence that it works – cutbacks are larger when prior downsizing has been associated with high growth rates, and when prior upsizing has been associated with low growth rates. Parallel evidence of the effectiveness of government upsizing has no apparent effect.

As the above examples suggest, interpretation is selective and opportunistic. Some practices are identified as transferable secrets of success while others are ignored. Some successes become a warrant for action while others are viewed as anomalous and inconsequential. And since interpretation mediates the relationship between prior outcomes and future action, it is theorized versions of practices that diffuse rather the concrete actions of others.

In the case of benchmarking at Global Financial, a conceptual map of the business community provided a framework within which mimicry, borrowing, and inter-organizational learning make sense. It indicated both commonalities across organizations (which motivate imitation) and a hierarchy of relative standing (which gives emulation its direction). Global Financial’s own identity and standing within the community further defines the reference group it sought to learn from. Benchmarkers made use of prevailing
discourses and models to interpret the organizations they visit, and to translate their visits into imperative lessons for the bank.

I draw some inspiration here from Lamont (2007; Guetzkow et al 2004), who investigates how scholars evaluate the funding proposals of their peers. While the context that Lamont studies differs radically from the corporate setting studied here, in both cases judgements of worth appear most clearly driven by the evaluator’s ideals and self-concept. This approach stands in opposition to the exposé tradition in the sociology of science, which emphasizes the intrusion of extraneous social factors like social class, race, and gender. While discounting neither these factors nor their corporate equivalents, like Lamont I would argue that a robust account begins with public identities and legitimate purposes, not hidden and illegitimate ones.

When benchmarkers in Team Challenge conducted site visits, for example, they constructed a reference group consistent with Global Financial’s identity. While a bank is a service provider, manufacturing ideals of efficiency and technological leadership were central to Global Financial’s self-image. Manufacturers, especially firms in high-technology industries dominated by professionals, were frequently benchmarked. Companies linked to the bank by executive migration were particularly influential, not only due to the lubricating quality of the personal tie but also because the sending firm often embodied the bank’s strategic direction.

Global Financial’s efforts at emulation were also shaped by its stature as an elite institution, one viewed by many as the world’s greatest bank. Globalbankers were loath to treat competitors, particularly close competitors, as models to be imitated and learned from. Teams focused on highly prestigious companies in other industries, a choice of
exemplars that affirmed rather than undermined the bank’s stature as a leader in financial services.

Benchmarkers skillfully employed what they saw in site visits to develop and legitimate recommendations for change at Global Financial. Proposals developed through a dialogue between internal and external benchmarking, where internal interviews defined the problem and external visits the solution. Rather than mimic a single exemplar, benchmarkers sought out commonalities across the pool of visited companies, an approach that permitted them to weave together new policy combinations that could be tailored to the challenges faced by Global Financial. Innovation diffusion took the form of creative bricolage rather than straightforward practice transfer.

Benchmarking proposals sought to reform Global Financial in line with notions of organizational rationality and progressive management. Teams sought a more integrated bank via the consolidation of sub-units, better coordination, and improved mechanisms for bottom-up communication. They also identified new functions around expanded conceptions of organizational competence, like proposals to create the position of a Chief Learning Officer and a corporate university. Teams concerned with business opportunities like the Internet sought to move the bank towards a stronger sales orientation, while more managerially-focused teams argued for incentive systems that would reward long-run goals (like customer and employee satisfaction) as well as short-term financial gains. Benchmarkers argued for new norms of behavior at Global Financial, advocating a culture of greater openness and respect.

Arguments that emphasize cultural logics presuppose a community that is oriented to those logics, and that can serve as their carrier. In most institutional accounts,
that community is primarily composed of professionals and outside experts (see, for example, Edelman 1992; Dobbin et al 1993; Strang and Bradburn 2001; Greenwood et al 2002; Lounsbury 2002). These groups have the opportunity and the inclination to theorize, and considerable distance from concrete organizational problems, so the approaches they advocate can make self-consistent but partial contact with working realities. Professionals and outside experts also have the cultural responsibility to propose reforms intended to clean up the organizational status quo.

In Team Challenge, however, the carrier community was composed of managers, not academics or professionals or consultants. Team members were general managers with modest expertise in the issues they benchmarked, not professionals who would have entered Team Challenge with disciplinary commitments. They learned from other managers, both within Global Financial and outside, paying scant attention to the experts who also took part in the benchmarking process. In Team Challenge, managers did their own theorizing.

The managerial community has historically been considered something other than a profession, both because its form of knowledge is relatively uncodified and because the classical notion of a profession emphasizes occupational autonomy in opposition to organizational motives. This contrast is decreasingly useful, however (Alvarez 1998; Sahlin-Andersson and Engwall 2002). The dramatic growth of the business school and the MBA, management consulting, the business press, and the spread of popular techniques themselves all act to construct a professional community of managers with a

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12 As Abbott (1981) argues, intra-professional status is correlated with distance from one’s material and the consequent capacity to pursue a disciplinarily pure account unblemished by adjustment to messy realities. See Owen-Smith (2007) for an account of professional labor that combines its problem-solving and model-codifying components.
language of its own. High rates of mobility, across firms and into and out of consulting roles, foster identification with this community and diminish the salience of distinctive corporate traditions.

While this project centers on the formulation of proposals for organizational reform, it also seeks insight into what happens after proposals are accepted. In many ways, formal adoption sets into motion a second stage diffusion process within the organization, one that is often more complex than the diffusion processes that arise between organizations. While some benchmarking proposals were implemented in a fairly straightforward fashion, many took the form of social movement-like campaigns. For example, the bank’s Corporate Quality Initiative was a decentralized program that sought to enlist Globalbankers in a wide array of operational improvement activities on a quasi voluntary basis, while also promoting an ethic of personal responsibility and teamwork. Where the political and infrastructural conditions were right, rationalizing reforms were pursued directly and forcefully. Where they were not, programs lacked organizational authority and institutionalized incentives, and often appeared more symbolic than real to Globalbankers.

Questions about implementation thus return us to another key argument made by the institutional school: the idea that prevailing rational models of organization will be adopted in name only, garnering the adopter a legitimacy dividend while not interfering with its actual tasks (Meyer and Rowan 1977). But the programs that began under the umbrella of Team Challenge suggest the value of reconsidering our assumptions about decoupling. Programs organized as social movements were more productive, less
legitimate, and more fragile than ideas about ceremonial conformity would lead us to expect.

The first ambition of this project is to better understand how, in a particular place and time, managers turned examples into exemplars, and exemplars into efforts at organizational reform. Team Challenge provides a rich opportunity to get close to the action, and address some of the characteristic silences in diffusion research. The scope of the case study presented here is limited, of course, and even within the world of Global Financial provides just one slice of a larger innovation dynamic. But like Team Challenge, this project is pursued with the conviction that we can glean insights from one setting that will be useful elsewhere. Like Globalbankers, we should strive for nothing less.