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Editor's foreword

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This paper is by Sylvia Rohlfer, lecturer in the Industrial Relations and Organisational Behaviour (IROB) Group here at Warwick. It addresses benchmarking, the collection and comparison of data on organisational processes and outcomes. This has become an increasingly important influence on employment practice in large firms. It is often used by multinational companies, for example, to inform decision-making about investment in subsidiaries. Like many such practices, however, there is often enormous variation in practice between what appear to be similar processes. Rohlfer distinguishes between three levels of benchmarking, from collection of simple data to more systematic surveys and reviews. Case studies in financial services and mass-process production are used to explore implementation of the practice. Variations in the take-up and extent of benchmarking are explained by sector level influences and organisational characteristics.

Trevor Colling

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The different faces of benchmarking: structural limits to benchmarking and the implications for Human Resource Management

Sylvia Rohlfer

Abstract

This paper examines the structural boundaries of benchmarking activity and their implications for the area of Human Resource Management (HRM). Drawing on empirical research in the financial services (FS) and the mass-process production (MPP) sectors, the paper demonstrates that specific patterns in benchmarking practice can be attributed to sector and organisational characteristics. Although similarities in practices are observed, these structural limits on benchmarking have various implications for the management of HR. The research shows that benchmarking in HR is not currently widespread; that it is more likely to be adopted by companies in FS; and that it concentrates mainly on the collection and comparison of statistical data. At the moment there is little involvement of employee representatives in benchmarking activities, but this is likely to change once management extends its benchmarking activities into the area of HRM.

1. Introduction

The working practices of multinationals (MNC) reflect the international nature of the business environment: through their practices the 'reality' of the transformation of the economic system is played out. Understanding how these working practices are formed is not only of managerial importance but can also inform discussion about the management of HR within the organisation. This paper explores the relationship between the day-to-day activities of managers in MNCs and the structural context within which they operate. It focuses attention on benchmarking practice in four British and German MNCs with operating business units in the financial services (FS) and mass-process production (MPP) sectors and analyses the impact of sector and organisational characteristics on benchmarking practice. It then examines how far benchmarking is taken up by companies in the area of HR and discusses some implications for management.

Categories of Benchmarking

This paper adopts the categorisation of benchmarking developed by Sisson and Marginson (2001:1). They observed that benchmarking commonly encompasses three main activities:

- The provision of basic information for comparison, sharing of experiences and mutual learning (BC1);
- The detection of best or preferred practices for implementation in business processes (BC2); or
- The approval of a set of benchmarks, which the parties commit themselves to follow, with some form of peer group comparisons to help moral persuasion (BC3).

This distinction into three different categories (BC1-3) is particularly useful as it categorises benchmarking activity according to its outcomes rather than the benchmarking process itself, a common drawback in much of the descriptive and prescriptive literature on benchmarking. Concentrating on outcomes helps in identifying the objectives of organisational actors in their use of benchmarking in recognising the implications for these actors in their dealing with each other.

A review of existing industrial relations research suggests that most of the evidence about the use of benchmarking relates to the provision of basic information for comparison (BC1). Marginson et al. (1995) report that headquarters of MNCs increasingly control their subsidiaries through intensive monitoring on a battery of financial and other performance indicators. Even though their research demonstrates that central data collection is far from universal in MNCs, these organisations commonly gather data on industrial relations and HR issues, such as labour costs, pay settlements, turnover, productivity and management remuneration. Similar findings are reported by Bélanger et al. (1999) who demonstrate the use of plant performance monitoring, supplemented by the measurement of labour productivity and basic labour performance indicators (1999:61). There is also evidence from a range of sectors (automobile: Mueller and

Purcell, 1992; pharmaceutical: Frenkel, 1994; food: Coller, 1996) that large companies are engaging in BC1 activity at international level.

BC1 activities are sometimes linked with the detection and transfer of best or preferred practices (BC2 activities). Berggren (1999:11) demonstrates in his study of ABB power transformers that some companies set up benchmarking information systems explicitly to 'drive' the sharing of experiences and to enable mutual learning through the dissemination of best practice. This is made more explicit in the study by Bélanger et al. (2003: 478-482). This study of ABB's Canadian plants shows how the corporation monitors local management through the use of benchmarking. The corporate principles of managing by comparing results and continuous performance measurement fostered comparison and emulation between plants. Progress in improving efficiency was noted by business stream management and selected plants were used as examples of the way to improve enabling experiences to be shared and mutual learning to take place.

Looking at BC2 activity in HR, Mueller and Purcell (1992:230) showed that General Motors started a review of labour relations and work organisations in its European plants, which led to the adoption of radical changes in working patterns and best working practices. They observed that the optimisation of machine running time and the use of flexible shift arrangements had become two areas where the business context set common parameters for companies and where similar working practices were adopted across companies and countries.

Turning to BC3 activities, research has shown that benchmarking is inextricably linked with the establishment of benchmarks and the use of 'coercive comparison' (Ferner and Edwards, 1995; Coller, 1996). For example, in the automobile industry (Mueller and Purcell, 1992) corporate managers systematically compare the performance of their sites in different countries and use these comparisons against benchmarks to exert pressure on actors at plant level to improve quality and costs. Commonly, these comparisons are tied to investment decisions and production order allocation so that, in effect, the plants compete against one another for the allocation of investment or production orders.

In his food sector case study Coller (1996) shows that it is common practice for the corporate centre to collate information from plants on financial and labour performance data (BC1) in order to facilitate pressure for improved performance. Standards are set by better performers. Managers at plants which underperformed on key financial targets or on productivity indicators were put under pressure to adopt measures of functional flexibility (BC3) with the implicit threat that any future investment in new machinery would be jeopardised by failure to address the problem. Coller's research also highlights the links between BC2 and BC3 activities. In many cases the adoption of corporate best practices at plant level depends upon the exercise of power by the corporate centre, usually in association with systems of management control, such as coercive comparison. The headquarters intervenes by suggesting, or ordering, the implementation of a given practice including specific working practices. Martinez, Lucio and Weston (1994) go even further and suggest that such coercive comparisons allow workforce and union representatives to be drawn into a competitive game to preserve jobs at the expense of 'competitors' in rival plants in other countries. This review demonstrates the multifaceted nature of benchmarking activity. In order to provide useful insights for organisational actors, however, further analysis is required. What are the determining factors behind specific types of benchmarking and how far are these different types being applied to the management of HR?

Structural Boundaries

A number of writers have suggested that distinctive ways of organising economic activities are largely sector-based and that these compete not only for domination in national economies, but also for dominance in organisational practice (Räsänen and Whipp, 1992; Whitley 1992). In a study of an American MNC operating in a US-dominated engineering process contracting industry, Colling and Clark (2002) show that the impact of sector on company-level working practices and employment relations is not only direct (especially in relation to team working), but also indirect: shaping the 'first order' strategic issues of what (and where) to produce, and 'second order' choices about organisational form (ibid., 320). Their findings support the argument that national level

institutions are not the sole determinant of organisational practices and that sector influence also plays a significant role.

Evidence also suggests that organisational factors influence business conduct, particularly in the area of HRM. For instance, Rosenzweig and Nohria (1994) examine the forces that shape HRM practices in MNC affiliates. Their findings suggest that HRM practices are primarily shaped by local isomorphism. Indeed, Ferner (1997:22) points out that some employment relations practices are more locally isomorphic than others. Wage determination, hours of work, forms of job contract, redundancy procedures, training, work organisation and employee participation, in tightly regulated systems all tend to resemble local practices, whereas other aspects of employment relations such as payment systems, management development and employee communication are closer to the parent. Findings from detailed case studies also confirm a cross-border dimension to employment practices (Edwards, 2000:126; Muller-Camen et al., 2001). Edwards et al. (1999:302) conclude that control over employment practice in general, and the diffusion of practices in particular, differ according to certain environmental and organisational characteristics such as country of origin, integration of production, nature of international management structures and method of growth. Their findings indicate that not all MNCs are likely to engage in cross-border diffusion (BC2 activity) and uniform standards (BC3 activity) and that MNCs seek international integration in general and the diffusion of employment practices across borders in particular, to differing degrees.

The aim of the paper is to illustrate the extent to which benchmarking practice in MNCs is shaped by sector and organisational characteristics using systematic comparative analysis which differentiates between the three benchmarking categories described above.

2. Research Design

In order to demonstrate that international trends and practices are mediated by structural determinants and not translated into common pressures across all organisations a qualitative research strategy was required. The main consideration in the selection of research sites was to find MNC's that operated in two contrasting sectors. The key

selection criteria were the degree of benchmarking application by companies within the industry and sufficient variation in sector characteristics to allow for the detection of sector differences in benchmarking. According to the Workplace Employment Relations Survey 1998 nearly half of all workplaces in Britain engaged in benchmarking in the five years prior to the survey. A sector breakdown shows that Wholesale and Retail (60.1%), Hotels and Restaurants (53.3%), Transport and Communications (52.5%) and Financial Services (51.5%) used benchmarking most extensively. In Germany a survey carried out by IZB Berlin in 1999 provides a comprehensive picture of benchmarking in the German ‘Top 1000 companies’. While the findings suggest that more than 70% of companies used benchmarking (Heising and Vorbeck, 2001:115) no breakdown by sector is provided.

In light of these findings, it was decided to select the financial services (FS) sector. Not only is it, at least in the UK, one of the leading sectors in applying benchmarking it is also a sector of growing importance in both the UK and Germany. The mass-production process (MPP) sector was selected to increase the scope of comparison and Table 1 shows how the two sectors differ in four main characteristics. They are unlike each other regarding the nature of the product markets, the scope of product competition within the sector, the nature of products and the nature of the production process. There are sufficient variations in these characteristics to allow for the detection of sector differences in benchmarking.

Table 1: Overview of the sector characteristics

Sector characteristics	Financial services	Mass process production
Nature of product market	Transnationalisation of activities within local markets	Transnational product markets and business activities
Scope of product competition	Local competition, intensified	Global competition, intensified
Nature of products	Locally created and consumed	Produced globally and distributed
Nature of production process	Importance of human resource factor	Optimisation of operational routines

The number of MNCs that fulfilled these sector requirements was small¹. Furthermore, some companies considered themselves too inexperienced in benchmarking to take part in the research. Research access was finally agreed with four MNCs. The key organisational characteristics are set out in Table 2 below. Within each sector the MNCs shared common features regarding global spread, method of growth, business strategy², organisational structure and degree of internationalisation in business activity, features which they also share with other firms within these sectors. Such commonalities in sector and firm context not only allow a ‘contextualised comparison’ regarding their impact on benchmarking but also permit the research findings to be generalised to similar types of companies within these sectors.

The case study companies

The financial service sector (FS)

Real Estate, a German MNC, is the leading real estate financier in Europe. It is headquartered in Germany and employs a global workforce of 3,850. Two business units took part in the research: the German business unit employs about 1,000 people and encompasses the activities of domestic mortgage banks and real estate finance services. The UK business unit employs about 60 people and is one of the UK’s largest real estate financiers. Real Estate has a typical multi-national structure, key strategic activities are located at the German headquarters but are also duplicated in the foreign units. Real Estate’s business strategy is based upon competitive advantage achieved through scope. It grants each business unit as much autonomy as possible, managing and operating international subsidiaries as independent units. This is necessary because of the degree of national regulation in real estate markets, but it also permits easy assessment of

¹ The potential pool of suitable companies was further limited by an additional requirement, i.e. German or UK ownership, due to another stream of the research project.

² One may view strategy as a matter of choice by business actors. However, in relation to its implications for benchmarking practice here it is considered as a structural element. Business strategy represents a unified set of plans and actions designed to secure the basic, long-term objectives of a business (Chandler, 1962). It therefore provides the overall rationale for specific business practices to be adopted necessary for those objectives rather than practices that are chosen according to tactics, which are based on short-term considerations. Business strategy therefore creates a relatively stable framework that managers apply to determine the business practices that run the company. As such it structures strategic decisions by managers on how to utilise benchmarking, if at all.

individual unit performance. There is a limited amount of integration across units, especially amongst foreign business units. For example, a single Management Resource Unit controls the key aspects of resource management for all foreign commercial Real Estate units, including HR. However, this cross-border management of HR covers only very basic people strategy and policy. At Real Estate Germany there is a works council and the unit is covered by a sector agreement, but there are no collective employment relations arrangements at Real Estate UK.

The second FS MNC, Credit Card, is one of five business streams of a UK-based financial services group. It offers a full range of credit card services to individual customers and card payment facilities to retailers and other businesses. Competition takes place in multi-domestic markets. Its core market is the UK home market although Credit Card has grown since the early 90s by launching new business units (mostly greenfield sites) across Western Europe. At the time of the research Credit Card employed a total of 4,700 staff worldwide, 4,100 of whom were employed in the UK, 600 at Credit Card International. Credit Card is divided into three units centred in the UK: Credit Card International, Credit Card UK and Corporate Credit Card. Credit Card International has a main call centre in Ireland as well as having a call centre and operations in Germany. Although the company is moving toward a more international structure its strategy is best described as 'Anglo-Centred'; business units rely strongly on Group Centre service provisions, which act as a 'custodian of company standards'. Despite distinct regulatory and supervisory national contexts the degree of product differentiation across both domestic and foreign markets is low. Credit Card attempts to secure economies of replication by co-ordinating the activities of its different operations and businesses and providing similar services in numerous locations.

Credit Card is supported by Group Centre HR which provides specialist activities, advice and strategic direction in areas such as resourcing, development and employee relations and reward. However, a hybrid approach is evident. Whilst key elements of the employment relationship across Credit Card are developed and negotiated at Group level and cascaded down to individual UK locations, day-to-day employment relations within

Credit Card International are defined by local management and there is no collective employee representation forum. Credit Card Germany is part of FS Credit International and is the most mature of the foreign business units. Here too employment relations are locally negotiated. They are not covered by a sector level collective agreement, although agreements concluded between local management and the works council (which are often similar to the provisions in the sector agreement) do have a direct and binding effect on individual employment relations.

Credit Card and Real Estate reflect the complexity and diversity within FS. Both companies are concerned with the creation and distribution of credit in various forms (Dicken, 2003:441) and both companies operate in product markets characterised by strong domestic regulatory frameworks but with increasing domestic competition which has resulted in the transnationalisation of business activities through expansion into foreign markets. Moreover, in both cases the services provided are locally created and consumed and service competition happens on a local basis.

The mass-process production sector (MPP)

Fabricated Product produces an assortment of refractory metal powders, metal products and their alloys for the world market. Its product portfolio consists mainly of products based on high volume production. Several varieties of product may be produced on the same line without affecting the process, which is almost totally repetitive. Fabricated Product was established as a business stream of the MPP Group in 2001. The Group's headquarters is located in Germany, although Fabricated Product's headquarters is located in the US. Fabricated Product employs approximately 660 people, 87 of whom are located in Germany and 88 in the UK. Fabricated Product Germany, was founded in former East Germany in 1961. In 1996, it was purchased by a British company which later became part of a US-based company and subsequently part of the MPP Group in 2000. Fabricated Product has two small operations in Britain. These sites were also originally acquired by the US company before being bought by the MPP Group. At the time of the field work, 59 people were employed at Fabricated Product UK1 and 29 at UK2.

The MPP Group's organisational structure is the hybrid form of a 'global' and 'transnational' strategy (Bartlett and Ghoshal, 1989). The acquisition of the US company in 2000 increased the diversity of the Group's business activities and led to the tightening of existing overseeing functions and procedures, particularly the financial monitoring system. At the same time the Group started to integrate the different business units under a transnational structure. Even though the headquarters is small and relatively autonomous it pursues a global agenda, including rationalisation programmes, management practices and corporate expansion plans. There is a MPP Group Directive requiring all sites to purchase as much as possible from sister plants, in order to use the Group's production facilities to full capacity. However, there has not been a fully integrated approach to HRM. HRM is seen as something which is best dealt with at site level and which is determined within country specific boundaries. Thus the co-ordination of coherent HRM policies and practices is only a small part of the personnel function's role at the German and US headquarters level. A works council represents the interests of the workforce at FP Germany, but the site is not covered by sector collective agreements. Neither of the UK sites are unionised nor are there employee representatives.

The other MPP MNC is Household which has five core product categories – surface care, fabric care, dishwashing, home care and health & personal care. It produces high-volume consumer goods and its production processes are essentially repetitive and predictable. The company is the result of a merger in the late 1990s between a UK and a largely German-owned business. It is headquartered in the UK and employs 22,400 people worldwide. Household UK1 belongs to the company's Surface Care product category, producing aerosols and other liquid products for the whole of Europe. It employed 230 people. Household UK2, is Household's main Healthcare factory worldwide, employing 652 people. The two German sites produce for the Health and Personal Care category of the company's product portfolio. Household Germany1 employs 560 people and Household Germany2 employs 112 employees on site. Both sites were covered by collective agreements of the chemical industry.

Its business activities are globally spread and its organisational structure reflects a hybrid/transnational strategy (Bartlett and Ghoshal, 1989). As part of the merger process the company divided its supply chain and commercial sides of the business in an attempt to achieve financial economies. This separation of different aspects of the business creates a specific system of control and influence within the Group. Management of the headquarters and individual business units is influenced by a partial replacement of hierarchical with market relationships; the production process no longer works on the basis of hierarchical commands, but on the basis of contracts between equal partners. This internal market requires increasing transparency in the calculation of production costs, placing a commercial discipline on a factory as if it were dealing with external suppliers and buyers. The production of specific brands is often concentrated at individual plants supplying entire regions, or even the world market, with the intention of achieving economies of scale.

One consequence of Household's recent business strategy has been the closure of 7 and major restructuring of 18 plants. The implications for HRM are gradually emerging as headquarters attempts to harmonise HR approaches across factories in order to achieve internal consistency, whereas previously management of the workforce had been the responsibility of local management. At the two UK sites the TGWU and Amicus are recognised but there are no works councils. Both the German sites are covered by collective agreements of the chemical industry. There are works councils at both sites and the head of MPP Chemical's EWC was a works council member from Household Germany¹.

The product portfolios of the two MPP MNCs show that both operate at the margins between the chemical sector and other industries. In addition, all of the German sites are covered by the chemical sector collective agreement (with the exception of the Eastern German Fabricated Product site). Hence the benchmarking actors within these companies face a comparable context for important aspects of employment relations.

Table 2: Overview of the four case study companies

	Real Estate	Credit Card	Fabricated Product	Household
Employees (global)	3,846	4,700	660	22,400
Employees in the home country	1,000 (Germany)	4,100 (UK)	87 (Germany)	1,300 (UK)
Employees in the host country	60 (UK)	265 (Germany)	86 (UK)	672 (Germany)
Global spread	Europe, US	Europe	Europe, US	Europe, US, Asia
Method of growth	Greenfield	Greenfield	Acquisitions	Acquisitions
Business strategy	Economies of replication	Economies of replication	Financial economies	Financial economies
Organisational structure	Multinational	Multinational	Global / transnational	Global / transnational
Degree of internationalisation in business activities	Multi-domestic industry	Multi-domestic industry	Global industry	Global industry

Data Collection

Twenty seven in-depth, semi-structured interviews were conducted across the four MNCs between January 2002 and April 2003. Face to face interviews were held with organisational members responsible for benchmarking and with HR staff at headquarters and subsidiary level (except the interview with the personnel manager at FS Real Estate UK which was conducted via telephone, at her request). Overall, a balance in the number of interviews for each MNCs was achieved, except for the German business unit of FS Credit, where access could only be agreed through a top-down approach through its headquarters. An interview was granted with the HR manager of the unit, although interviews with other organisational members were denied.

Attempts were made to include employee representatives in the pool of interviewees. However at Credit Card UK and Germany access to employee representatives was denied. A direct approach bypassing management was considered but rejected to avoid the risk of losing access to the company. Interviews with employee representatives were therefore undertaken only at the two MPP MNCs and at Fabricated Product there

were no employee representatives at the UK site, so interviews were only carried out with representatives at the German site. This unfortunately reduces the scope for consideration of employee responses to, and involvement in, benchmarking. However, at all the MNCs personnel specialists participated in the research, which may have helped to counterbalance the managerial bias in the interview data to some extent.

3. Benchmarking practice at the four case study MNCs

The research evidence reveals that benchmarking practice differed across each of the MNCs both in terms of the type of activity carried out and the level at which benchmarking activities occurred. Each of the case studies is examined in turn.

Benchmarking at Real Estate

At Real Estate, the largest share of benchmarking fell into the BC1 category. Group management collected key business data monthly on a cross-national basis from all businesses (large and small) through an existing auditing process. On the basis of this they formulated traditional performance parameters and standards related to output (for example, headcounts, operational profits, net income, along with critical financial) and performance indicators (such as market position, profitability and cost effectiveness) for each business unit. While this had not yet resulted in the explicit establishment of a league table based on business unit performances, these comparisons were tied directly to future investment decisions in the Group's investment controlling process (BC3). The Group also initiated benchmarking projects on an occasional basis for key business areas including HRM. For instance, data were collected not only on the use of human resources but also on organisational effectiveness ratios such as overheads/turnover, turnover/employees, direct overheads/total overheads. The figures were subsequently used to benchmark the effectiveness of HR across other German private banks, facilitated through the Employers' Association for Private Banking.

Data for all foreign business units were collected for internal and external performance comparison. Foreign business unit managers had been asked to evaluate themselves across a range of qualitative and quantitative measures including service products, speed

of decision-making and operational processes. Business and employer associations also provided data for external comparison and this was used to gain the approval of a set of benchmarks that all foreign business units were expected to follow. The results showed the unit's positioning against the peer group but did not provide sufficient information for more detailed comparisons between locations.

In the UK, the majority of benchmarking activity related to the preparation of information to help managers to plan and control the UK unit. In Germany, one key initiative was a project named 'ARIS' in which benchmarking was related to the establishment of an operational process management team. The team used ARIS, as an IT tool, to capture key processes, highlight potential improvements and design target processes. It was envisaged that once all operational processes were plotted, improvements could be assessed against established internal performance targets and standards set by internal 'regional' collaborators. In this context 'regions' were defined as areas of the business that exhibited the same or similar features as the benchmarker. Comparisons based on BC1 activity could then be drawn between units in Germany and Austria or Germany and Poland.

The only evidence of benchmarking activity aimed at identifying best practices (BC2) was at business unit level, and even this was limited. The UK business unit was recognised as a 'Centre of Excellence' in terms of its products and operational processes and had been visited by sister unit managers. However, there were no concrete examples of how the knowledge gained from these visits was used in any sister unit, nor was there any evidence that benchmarking had fostered the detection and transfer of policies and practices in HR from Germany to the UK or vice versa. The British business unit oriented its HR policies to a local sister unit of the Group and coordination remained mainly focused within the UK business context. There was some limited evidence of BC2 activity at the German business unit level in relation to ARIS. Here management hoped to detect best practices from which other units could benefit once all processes were plotted.

Benchmarking at Credit Card

At Credit Card, BC1 activities were often launched at Group level and cascaded down the hierarchy. Management utilised existing routines for the collection and reporting of essential performance figures. These figures were used for positioning according to output-oriented variables such as economic performance and cost indicators. The selection of areas for comparison and the setting of benchmarks for individual business units were done at Group level (BC1 and BC3 activities). In HR, the indicators for BC1 comparison included cost per hire, composition of the workforce in terms of salary grades, gender, age, trainee programmes. The collection and provision of information on these basic indicators were facilitated through the group-wide reporting system maintained by Group Centre HR. Areas such as training, pay and performance management were compared internally (often group-wide), as well as externally with other financial service organisations or against a UK norm. Benchmarking was mainly based on quantitative statistical data and could only be used to verify whether or not standards had been achieved.

The BC1 activities at Group level were often linked with BC3 activities: management had established various sets of benchmarks by focusing on financial performances and cost considerations. One example was the focus on total shareholder return (TSR) over time. The TSR reflected the sum of share price growth and dividends relative to the Group's peers. The make-up of this peer group consisted of an international group of financial service providers.

At business unit level, benchmarking data were often collected on additional indicators to those identified by Group management. In HR causes of ill health, the number of and reasons for industrial tribunals and the use of internal counselling services were collected to provide a complete picture of local employment relations. The data were then compared both internally and externally against organisations in the banking sector whose data were stored in the Group's 'fact base'. Individual benchmarking projects were also carried out at both business units. Credit Card UK had conducted an employee survey which was designed, administered and analysed by a global employee research

and survey consultancy to benchmark the UK business against other financial service providers in the UK, a high performance portfolio of UK companies in general, and financial service providers world-wide (BC2). It looked at a traditional set of HRM tasks, but also included questions about employees' perception of the Group's business strategy and the HR function. Recommendations for actions following the benchmarking report were initiated by Credit Card UK, rather than the consultants. In Credit Card Germany additional specific working practices were also benchmarked occasionally, though the scope of these activities remained internal and comparison was only made against sister business units.

The Group's HR Performance Manager admitted that, at present, the formulation of HR practices and policies were modelled on the UK, but no attempt had been made to formally transfer HR 'best practices' from the UK to Germany. An example of this was an attempt to implement a performance development model in Germany, according to UK guidelines. The model established personal development goals for individual employees tied to bonus payments. After six months, the German HR Director made two major modifications. First, more detailed assessment criteria were incorporated into the model and second, the performance assessment of individual employees (e.g. achievement of objectives and employee behaviour) was separated from the bonus payment system. At the time of the interviews however, the German HR Manager was unable to say how Group management had perceived these modifications.

Benchmarking at Fabricated Product

Turning to companies in the MPP sector, at Fabricated Product benchmarking for the provision of basic information for comparisons occurred at Group and subsidiary levels. At Group level, key performance data were monitored on a monthly basis through a centralized system consisting of a dozen parameters, such as orders, revenues, calculated results, productivity, quality and headcounts. Additional reports were created for machinery-related data including figures on capital expenditure, depreciation and capacity utilisation. The comparisons were usually established internally with reference

to historical performance and estimates. In contrast, in HRM the Group collected only the most basic parameters such as headcount and ‘critical man-hours’, although this information was not currently used by Group management to compare current performance against historical performance (BC3) or to share experience with other sites (BC2).

At all three participating sites, BC1 activities were alike in many respects and were often linked with BC3 activities. Performance parameters as well as indicators for manufacturing processes, such as lead times and throughput times, were monitored at site level. One example was the ‘standard costing system’. Comparisons on standard cost measures were carried out between the two UK sites but not between the UK and the German sites and benchmarks were established only according to historical performance.

Detection of best or preferred practices for implementation in business processes (BC2) were considered by Group management to be the responsibility of the business units, but were promoted at Group level, for example, through the establishment of ‘material’ and ‘best practice’ teams, both created in 2001. A ‘material team’ was established among various Fabricated Product sites to address issues of cost and quality. Basic information derived from BC1 activities was shared across team members. Interviewees maintained that it presented an opportunity to exchange data on practices in order to generate permanent solutions to recurrent problems in manufacturing processes, therefore leading to BC2 activities. Members of the ‘best practice’ team from Germany and the UK had also been able to see practices in operation at sites operating the same technology or producing similar products at very different international locations. Nevertheless, interviewees at the German site acknowledged that practice exchanges were hampered by internal competition for production orders:

In general, there is competition between individual sites. To deny this is pointless – we all know about it. [...] Our production manager won't give away the final hint about how we do a specific task and other won't do so either. [...] Also I will always argue that something is done over here even though it might be better to do it somewhere

else because they have better machinery which is more efficient.

(Managing Director, Fabricated Product Germany)

Site managers believed that the provision of benchmarking data for comparison enabled Fabricated Product to create league tables according to site performance and ‘to identify the black sheep’, as they put it, although they had not actually been presented with a competitive ranking across sites based on performance indicators:

I don't think that they set up a league table ranking individual sites according to their performance. Ok, they may do so, but they don't tell us because they don't want to de-motivate the one at the bottom of the list. (UK Finance Controller, Fabricated Product UK2)

There were no BC2 activities in relation to HR matters. According to the General Manager HR at Group headquarters a transfer of and harmonisation in practices across the various subsidiaries was unlikely because of the limited leeway for German management to introduce things such as a performance-related element in a remuneration system even if they wanted to follow best practices detected in their US subsidiaries. He anticipated also that German managers and works councillors may be negative about UK and US generated practices and reluctant to accept practices unknown in the German context.

While information on relative site performance was reported regularly in the company newspaper it rarely explicitly related to benchmarking investigations. There was also little use of benchmarking statistics by management, for instance, in negotiations with the works councils. The works council's chair commented that benchmarking matters took up very little works council time and had not been discussed with works councillors at sister sites. Although the works council chair was a member of the ‘best practice team’ the information he reported back to employees was in his role as production manager, not as an employee representative.

Benchmarking at Household

At Household the majority of benchmarking at Group level also fell into the BC1 category. This is carried out through existing reporting routines that gather quantitative data on performance indicators from all factories worldwide. Output-oriented HR indicators such as headcounts, output per headcount, staffing levels in HR, vacancy rates, are also used. Despite its diverse product portfolio, comparisons were conducted and identical standards applied across the Group.

The concentration and potential relocation of production facilities were also assessed according to their business and operational performances:

We are doing the analysis of closing the factory every 2 or 3 years. [...] We analyse to move Germany2 into Germany1. And people are not afraid anymore. When you do it continuously, the continuous benchmark, it changes your way of thinking. (Site Director Household Germany1)

At site level the German and UK factories benchmarked their key business performances on indicators covered by the group-wide monitoring system. Additional benchmarking activity was also initiated by local management. For example, at the two UK factories an additional battery of local performance indicators were applied which resulted in the establishment of a set of standards all UK sites had to follow. An example of this combination of BC1 and BC3 activity was the system of recording and improving 'Overall Equipment Effectiveness' (OEE). To generate the OEE, the theoretical maximum production per hour for each line was calculated and used as a benchmark to assess the actual performance, with no allowance for set-ups or disruptions, or rejects. Downtimes and their causes were continuously captured and entered onto a spreadsheet for each machine. These calculations generated a 'hard' measure that provided ranked sources of lost production so that areas for improvement could be identified.

[...] we already reported a measure of machine efficiency to Group finance – but it was a 'soft' one, and gave allowances for interruptions such as planned maintenance and material shortages. A

harsher OEE measure would take away these excuses: there wouldn't be anywhere to hide. (Managing Director, Household UK2)

The two German sites used an associate factory of the Group as an internal collaborator for benchmarking. PROPACK produced for the own-brand labels of large retailers such as ALDI and TESCO. PROPACK's comparative performance led to a set of internal benchmarks, as PROPACK needed to outperform direct competitors in order to win tenders and, therefore, had to conform to competitive market standards. Moreover, when bargaining for a tender by large retailers, the two German sites occasionally competed with PROPACK, running the risk of losing a tender to them. Hence, the German factories were aware of product prices of direct competitors, which enabled them to carry out an in-depth product analysis (cost of packaging, product ingredients and formula) to identify opportunities to match the lowest price for the private label market.

At business unit level, managers in the UK attempted to detect better practices across the Group. They visited sister factories (identified on the basis of BC1 activities) to find out how they achieved superior performance. Management also used an external company network based on the DTI's IUK (Inside UK Enterprises) programme. This provided opportunities to visit pharmaceuticals and 'fast moving consumer goods' companies and to get inspiration for the fine-tuning of individual operations. Similarly, in Germany, the factories were members of associations that consist of leading edge companies including Mars, Unilever, and Procter & Gamble which were available for site visits.

HRM practices were benchmarked at UK1 and UK2, but not at either of the German factories, apart from the continuous reporting of key HR data to superior management. The HR Manager at UK2 and the HR Director for the UK and Northern Europe were members of a company network facilitating the identification of external collaborators for benchmarking in HRM. The effectiveness of the function, as well as specific HR practices affecting annualised hours, pay rates, absenteeism and labour turnover were assessed. BC2 activities on HR practices were less widespread than on operational processes and products:

I don't think we are advanced in HR terms and in benchmarking terms. We will get better and we still do some more benchmarking - no question about that. [...] We are not, and I don't think that we will be, a 'best practice organisation' in terms of HR; we are not an HR led organisation. (HR Director UK & Northern Europe)

At the UK and German sites BC1 data about the Group's and sites' performance were communicated in site meetings and in work group meetings. In addition, charts and tables on financial and performance figures were presented in the entrance area at the UK site, informing visitors and employees alike about the current performance of the factory as compared to its historical performance, but not to the performance of its sister sites. At Germany¹ the chair of the works council pointed to the lack of continuity in management activities at individual sites. Even though benchmarking was a routine activity for management, and works councils 'had learned to live with this', he would have liked to see a "consolidation in activities in order to assess the outcomes and consequences of benchmarking measures". In general he thought he was at a disadvantage since he was not allowed to take part in the company visits to see how other sites achieved superior performance. Similarly, the UK TGW representative found himself:

[...] at the receiving end of benchmarking, after it has been carried out. [...] It would be nice to be actually involved more in the benchmarking of it, more in the benchmarking process, actually, how the data are collected and things like that. I've got to help manage any changes but again as a result of benchmarking." (TGW representative, Household UK2):

4. The structural boundaries for benchmarking activity

To determine the extent to which sector and organisational structure provide an explanation for the different patterns of benchmarking activity across the case study companies this section of the paper provides a systematic cross-sector and cross-organisational comparison.

Sector boundaries for benchmarking practice

The research findings show that benchmarking is a continuous activity conducted by all of the participating MNCs and that particularly at Group level, BC1 activity tends to concentrate on scanning data for comparison. Despite these similarities there are also some clear differences across the four companies which result from sector influence.

Collaborators for benchmarking

At Real Estate collaborators were either German private banks or business units operating in foreign regions within a similar business context. At Credit Card, collaborators included local and foreign FS companies provided they operated in the appropriate local market. In contrast, at the MPP MNCs benchmarking activities were more international in outlook. At Fabricated Product benchmarking was conducted across the Group. Even though entirely internal in scope, performance comparisons and best practice detection were carried out in collaboration with overseas business units, facilitated through the best practice and material team initiatives. At Household international industry standards and performance data of external companies provided by employer and benchmarking associations and business networks were used.

These sector differences in the selection of benchmarking collaborators can be explained through differences in the scope of the product markets. Bertrand and Novelle (1988:16) observe that since the late 1970s the worldwide FS industry has been characterised by an intensification of competition combined with a rapid transformation of product markets, leading to the emergence of more dynamic market environments. Deregulatory pressure within the sector has opened up opportunities for firms to operate outside national regulatory boundaries (Dicken, 2003:448; Meyer et al., 1999:376). Dicken (2003:435-457) discussing the transnationalisation of the FS industry, concludes that FS MNCs have been basing their strategies on a direct presence in each of the major geographical markets and on providing a local service based on global resources. Although a full integration of FS MNCs into a transnational product market cannot be assumed, an increasing penetration of the FS sector by foreign firms is evident generally. Hence it is not surprising that collaborators for benchmarking include key European competitors and

that European-wide standards are considered, despite the continuing local scope of product markets.

In contrast to FS, MPP product markets are highly internationalised and more integrated. Until the early 1980s, the bulk of FDI was in manufacturing, including MPP and was an integrated part of the rapid growth and internationalisation of economic activity (Dicken, 2003:62; 67). Because of this transnationalisation of product markets and business activities, it is not surprising that benchmarking uses industry-based benchmarks which adhere to world-wide standards and involve collaborators who are identified on a worldwide basis rather than within the local product market.

Detection and Implementation of Best Practices

Sector differences are also apparent in the detection and implementation of best practices (BC2). At the two FS firms BC2 activity was mainly locally focused. At Real Estate best practices were detected either within the domestic market or in foreign markets within a similar business context. At Credit Card management sought to capture internally local market developments and elicit internal best practices in order to respond to increasing market competition within the local product market. This reflects a local, rather than a global scope of product market competition.

At the MPP companies the effects of the global scope of product market competition were very evident. At Fabricated Product management explicitly referred to the international competition which required them to look for practices regardless of the country context in which they developed and at Household visits to foreign sister sites were used to detect best practices in operational processes. At both MPP MNCs a harmonisation in practices inside the organisation was seen as attainable.

Competitive Nature of BC3 Activities

None of the four MNCs carried out BC3 activities in isolation. BC1 activities were often interlinked with the establishment of benchmarks (BC3). However, varying patterns were found with regard to the competitive nature of BC3 activities. Although at Real Estate

investment decisions were tied directly to benchmarking comparison this was not an issue that was mentioned by any of the interviewees at the FS companies. However, at Household, decisions about the company structure and potential relocation of production facilities were made according to competitiveness indicators related to business and operational performances and at Fabricated Product, although the empirical evidence is less strong, the Managing Director at FP Germany pointed out that business units may be reluctant to share best practices as they had to obtain production orders on a competitive basis. Furthermore, at both MNCs plant managers know how efficient their operations are in comparison with others, through benchmarking reports or best practice or material team meetings.

These differences in the competitive nature of benchmarking appear to be influenced by the nature of the production process and the product. In MPP work operations are usually based on precisely determined processes that can be split into small tasks to reduce the complexity of an operation and to reduce the skill demand of production operatives. This means that the Group is able to assess performance for very detailed operative processes and to single out poor performers based on comparable evidence which is difficult to contest. FS production processes usually involve considerable human activity which is more difficult to break down in this way. Similarly, in MPP, goods are usually produced on a large scale, not tailor-made. Repetitive production processes and identical product units enable a systematic comparison and provide compelling evidence, whereas most FS provisions require a high degree of interaction between client and service provider. Given the more intangible nature of the service itself, such thorough benchmarking comparison is unlikely to happen in FS. Solid and undisputable arguments about business performance resulting in the same degree of competition in benchmarking activity, as at the MPP companies, are more difficult to establish.

Organisational boundaries for benchmarking

Geographical Coverage

The geographical coverage of benchmarking appears to be influenced by the company's degree of internationalisation in business activity, particularly in MPP. For the two FS MNCs operating in multi-domestic industries, competition in Germany and the UK is essentially independent, i.e. it takes place on a country by country basis. However, it also covered business units in the UK, Ireland and Germany (Credit Card) and business units in Poland (Real Estate) though Real Estate management emphasised that this was only possible because of the high degree of similarity in services (Credit Card) and business contexts (Real Estate) across the different local markets.

In contrast, the degree of internationalisation in business activity is much more extensive in the MPP companies. At both MNCs, the worldwide search for best practice for implementation (BC2) was evident. All business units tried to draw on competitive advantages that grow out of their entire network of worldwide activities, including benchmarking initiatives.

The Role of Headquarters

Differences in the role of the headquarters in benchmarking also appear to be influenced by organisational structure. Even though at Real Estate headquarters influence in relation to BC1 activity is clearly visible, the German business units carry out BC2 activities quite independently. This pattern is associated with a multinational strategy (Bartlett and Ghoshal, 1989). Benchmarking activities are devolved to business unit level and best practices identified mainly within the local environment. However, the same pattern is not evident at Credit Card. Group management and Group Centre HR collected benchmarking data on a cross-national basis for comparison (BC1) and centrally promoted certain HR practices although implementation remained the responsibility of the local business units. Unlike the FS MNCs the two MPP MNCs are characterised by an organisational structure which supports a hybrid global/transnational strategy. Their products are traded internationally in mainly homogeneous markets, although business

units tailor certain aspects of their strategies to local conditions. While business units at both MPP MNCs transferred expertise in the form of best practices in operational processes across the Group, the role of the headquarters was largely unimportant – even though they remained vigilant and wanted the best practice transfer happening. At both MNCs Group management required local management to provide data for comparison (BC1), but headquarters did not enforce benchmarking for the detection of best practices (BC2). Only in Fabricated Product were BC2 initiatives triggered by the Group (the establishment of the ‘material’ and ‘best practice’ teams). Overall, it appears that organisational structure was a more important influence on benchmarking practice in the two MPP MNCs than in the FS companies.

Benchmarking Activity and Business Strategy

Further patterns in benchmarking activities can be partly explained by the organisation’s business strategy. At the two FS MNCs, attempts to develop common policy approaches to work organisation and practices through the detection and diffusion of best practices (BC2 activity) were evident, mainly at business unit level. This reflects the low degree of diversification in the FS MNCs’ product portfolio and their attempt to achieve synergistic economies through replication (Marginson et al., 1995). This is seen in the replication of best practice operative processes through ARIS at Real Estate and through best HR models at Credit Card. Indeed, at Credit Card Group Centre HR attempted to develop a common approach to HR practices and policies. This was less evident at headquarters level at Real Estate because business units were physically dispersed and coordination without a central HR function was therefore difficult to maintain.

Both Household and Fabricated Product’s product portfolios are diversified and they both rely on intra-enterprise trade in order to achieve financial economies (Fabricated Product Group’s directive to buy internally and in Household’s customer-like relationship between the supply and the commercial side of the organisation). As Marginson (1992:534) points out, realising financial economies necessitates business unit autonomy. In such circumstances benchmarking is more likely to be used to obtain basic information for comparisons (BC1) and to monitor the performance of individual sites. Such

extensive BC1 activities were found at both MNCs but BC2 activities were also evident. This was unexpected: the detection and diffusion of best practices is less likely to be pursued by headquarters, as the autonomy of units makes the adoption of at least similar working practices across the MNC a matter of choice by business unit management. Here the organisations' business strategy appears to be only partially useful in accounting for patterns in benchmarking. It appears that similarities in production processes facilitated the diffusion of working practices and that sector influence is stronger than the impact of business strategy.

The influences of further organisational characteristics on benchmarking such as the method of growth and affiliate size were tested but appear to have little or no impact on benchmarking activity. For example, transnational growth strategies based on acquisition have been distinguished from those based on investment in new sites. The acquisition of local, well-established firms may impede any significant centralisation of management organisation along pan-European lines and the realisation of benchmarking outcomes (BC2 activity) might be constrained by pre-existing local practices that are difficult to change (Walsh, 1996:646). In contrast, managers at greenfield sites generally enjoy a greater choice of employment practices and hence greenfield business units may be more susceptible to the exercise of transnational corporate influence through benchmarking activity. In this research neither of the greenfield sites of the two FS companies were susceptible to the exercise of transnational corporate influence through benchmarking practice. The greenfield site at Real Estate UK was acknowledged by senior management as a 'centre of excellence'. In this capacity it was often visited by managers from established German sites, but there was no formal policy that these capabilities should be leveraged by and/or disseminated from the UK to other parts of the company. At Credit Card there was no evidence to suggest that the German site, which was originally established as a greenfield site, was more susceptible to the exercise of the Groups' influence through benchmarking than their already well-established UK counterparts. At Fabricated Product the research findings showed that practices were exchanged between acquired and established business units. Restructuring activity across Europe at Household meant that this dimension was not applicable. There was, therefore, very

limited evidence in benchmarking activity to suggest that Group management differentiated benchmarking practice according to the history of business units. Neither was there any evidence to suggest that benchmarking activities differed according to size (in terms of employee numbers). All of the business units participating in the research engaged in BC1 activities – even the smaller business units of Fabricated Product and Real Estate UK. This was because the use of existing reporting routines to gather data did not consume extra individual business unit resources. This was true even in relation to BC2 activities which were carried out at Household, Credit Card and Fabricated Product across various business units. The only exception was the small business unit of Real Estate UK, which did not carry out BC2 activities at all.

In summary, it appears that not only sector characteristics but also organisational features such as degree of internationalisation in business activity, organisational structure and business strategy, place some limits on benchmarking activity, as set out in table 3. Table 3 also demonstrates that patterns in benchmarking are more likely to be influenced by organisational characteristics at the MPP MNCs than at the FS companies. In FS, sector characteristics appear to mitigate the effects of organisational characteristics, since similar patterns are found for the pairs according to sector affiliation.

Table 3: Pattern in benchmarking due to organisational characteristics by MNCs

	Real Estate	Credit Card	Fabricated Product	Household
Degree of internationalisation in business activities	Multi-domestic industry [✓]	Multi-domestic industry [✓]	Global industry ✓	Global industry ✓
Organisational structure	Multi-national [✓]	Multi-national ✗	Global / transnational ✓	Global / transnational ✓
Business strategy	Economies of replication [✓]	Economies of replication ✓	Financial economies [✓]	Financial economies [✓]
Method of growth	Greenfield ✗	Greenfield ✗	Acquisition ✓	Acquisition N/A
Affiliate size	Small & medium sized ✗	Medium sized ✗	Small & medium sized ✗	Medium sized ✗

Index:✓: impact discernible; [✓]: impact only partly discernible; ✕: impact not discernible; N/A: not applicable

5. The implications for the management of HR

When benchmarking activity specifically in relation to HR issues is considered a sector influence is hardly observed. This is mainly because benchmarking activities in HR were much less extensive than those related to operational and financial performances. At Real Estate there was little emphasis on benchmarking in HR and activities focused mainly on the provision of data on HR performances (BC1). Benchmarking with the purpose of detecting best HR practice (BC2) was simply not carried out. The desire to detect best HR practices was more distinct at Credit Card than at Real Estate, but this had resulted in infrequent rather than regular transfers of best practice. Benchmarking focused on servicing processes and HRM issues both in respect of the provision of data for comparison (BC1) and the detection of best practices for implementation (BC2), and Group Centre HR took an active role in detecting and promoting best practices. The example of the transfer of the performance development models between business units in the UK, Ireland and Germany showed that the Centre obtained some direct control of local HR practices even though the implementation of HR best practices remained largely the responsibility of the HR business partners at business unit level. At business unit level, management continued to follow the data collection activities of Group Centre HR, though adding further indicators to the set of HR benchmarks investigated.

By contrast, in MPP the focus was largely on operational processes. At Fabricated Product benchmarking activity in all categories focused on operational processes and on cost issues, almost to the exclusion of HR. Although some business performance data were collected for HR (BC1), the bulk of statistical data related to operational and financial aspects, largely because of the costs involved and the intangible outcomes of benchmarking in HR. The absence of BC2 activities in HR indicates that the Group does not currently seek role models among the UK or US business systems, despite the fact that these are commonly seen as better versed in the demands of the global economy.

At Household benchmarking activities in HR were less common. There was collection of key HR performance data, but best HR practices were rarely identified. Subjects for

benchmarking were defined with the focus on operational processes, rather than HR practices, since the former were seen to have an immediate impact on bottom line results shown in benchmarking figures.

The reason why the FS MNCs were more likely than the MPP MNCs to choose HRM as an appropriate benchmarking subject can be explained through a sector characteristic, namely the nature of the production process. In FS, service provisions rely more heavily on the performance of human resources and hence effort is made to benchmark in the area of HR. By contrast MPP processes are usually precisely determined processes that can be broken down into small tasks to reduce the complexity of an operation and to reduce the skill demand of production operatives. Changes to the operative processes rather than in HR practices are seen to result directly in cost savings and are concrete and measurable achievements.

Apart from this direct impact of benchmarking on the area of HRM, some further conclusions, relevant to the management of HR, can be drawn. First, the research shows that sector and organisational variables impact on benchmarking and give a specific twist to its practice. Hence it is difficult to generalise about the impact of benchmarking on the management of human resources. Whereas implications for firms operating in the same sector and between firms with similar organisational features may be feasible, practitioners and researchers in the area of HRM need to be careful about extending advice beyond the pool of companies with similar structural characteristics. General hands-on advice for organisational actors is hard to conclude and requires, at least, company-tailored research.

Second, the research shows that to date benchmarking practice hardly extends into the area of HRM. In both sectors BC1-3 activities were barely used to put pressure on local managers to introduce HRM or working practices that have proved successful elsewhere as Coller (1996) and Muller and Purcell (1992) suggest for the food and automobile industry. At present, this practice has not yet spread to FS and MPP. The limited use of benchmarking in HRM might also explain why employee representatives in these case study companies have not tried harder to extend their influence on management initiated

benchmarking activity. Although robust conclusions can only be drawn for MPP, there was no evidence that workforce and union representatives were drawn into a competitive game to preserve jobs at the expense of the 'competitors' in rival plants in other countries as observed in the automobile sector (Martinez Lucio and Weston, 1994). As yet, this pattern does not seem to extend to the MPP sector. However, if management attempts to move further into the area of HRM employee representatives' are likely to endeavour to become stakeholders in benchmarking. Indeed, employee representatives in MPP voiced their frustration at being at present only on the receiving end of the benchmarking process.

Third, the use of BC3 activity and the practice of tying BC3 activities to investment decisions and production order allocations, as found in the food, pharmaceuticals and automobile industry (Coller; 1996; Frenkel, 1994, Muller and Purcell, 1992) were partly evident in both the FS and MPP sectors. However, the explicit connection of BC3 activity with the aim to concentrate production facilities and to restructure the organisation was only evident in one of the MPP MNCs and not at all in the FS MNCs. Hence such a direct impact of benchmarking on employment levels as observed by Bélanger et al. (1999) is only partly evident in MPP and not at all in FS.

In summary, the paper has shown that structural boundaries for the three categories of benchmarking activity exist. The empirical evidence suggests that in addition to sector influences (such as scope of the product market; the scope of competition in the product market; the nature of the production process; and the nature of the product) organisational characteristics, including the degree of internationalisation in business activity, business strategy and organisational structure, influence benchmarking practice. Although similarities in practices are found, these structural boundaries to benchmarking have varying implications for the management of HR; both practitioners and academics need to be careful when drawing general conclusions. Whereas benchmarking in HR is more likely to be taken up by FS companies, this research shows that at present there is little emphasis on HR in either sector. Benchmarking concentrates mainly on the collection and comparison of statistical data and is less concerned with the sharing of HR practices.

At the moment, employee representatives are hardly involved, but this is likely to change once management extends their benchmarking activities into the area of HRM.

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