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# **SERIE** RESEARCH MEMORANDA

## **De-Contextualising Competence: Can Business Best Practice be Bundled and Sold?**

**Jonathan Wareham**  
Han Cerrits

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# **De-Contextualising Competence:**

## **Can Business Best Practice be Bundled and Sold?**

**Jonathan Wareham<sup>1</sup> & Han Gerrits<sup>2</sup>**

### **ABSTRACT**

The study of Business Best Practice (BBP) currently enjoys broad popularity amongst IT-based consultancies as well as the academic community. Unfortunately, despite the growth of practice, BBP lacks sound theoretical foundations. This paper addresses the shortcomings of current best practice benchmarking literature and offers a first step towards a more solid foundation for the study of Business Best Practice.

We begin by surveying current normative trends in benchmarking and Business Best Practice literature. We continue by examining a group of BBP cases and show how these prescriptions can become quite problematic and complex when transferring knowledge across organisations, industries, institutional environments, and cultures. In illustrating these challenges, we form a context for a critical evaluation of BBP's underlying assumptions. Explicitly addressing these assumptions opens an avenue for analysing the epistemological challenges in identifying and defining 'best practice'. Concluding that apart from the identification of 'best practice', the mechanisms of best practice knowledge acquisition and co-ordination are of interest, we turn to contemporary economic 'theories of the firm', showing where these concepts do - and do not- provide guidance and foundations for the study of the accumulation and management of 'best practice' knowledge. Based upon the epistemological challenges, as well as the strengths and weaknesses of existing theory, we synthesise our argument by formulating premises and practical guidelines for the practice of BBP transfer.

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<sup>1</sup> Copenhagen Business School, [wareham@cbs.dk](mailto:wareham@cbs.dk)

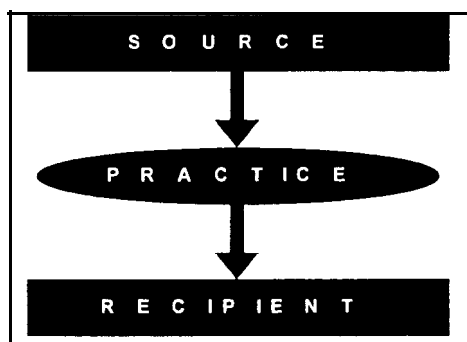
<sup>2</sup> Vrije Universiteit Amsterdam, [hgerrits@econ.vu.nl](mailto:hgerrits@econ.vu.nl)

## 1. INTRODUCTION

The study of BBP is of particular interest to the Information Systems community, as IT is often a central component in the Business Best Practices (BBP) of interest. The growth of 'best practice' databases within IT-based consulting practices attests to the extensive commercial attention the topic currently enjoys (Peters, 1992:387-390; CIO Magazine, 1992). Moreover, academic curiosity has followed closely thereafter, with technical studies attempting to probe the barriers and facilitators of 'best practice transfer' (e.g. Szulanski, 1994, 1995).

Although the concept of 'imitating excellent performers' may seem quite banal at first glance, the issue, as we will argue, is not altogether that simple after deeper consideration. Accordingly, the purpose of the paper is to explore many of the fundamental, often unquestioned, assumptions which underlie the philosophy and application of Business Best Practice transfer. In illuminating the central empirical and theoretical problems of this emerging discipline, we hope to refine our expectations of what the technique can yield, as well as contribute to theory and the improvement of practice.

We begin with a brief survey of the mainstream trends in BBP benchmarking. After establishing a common vocabulary, we examine a number of concrete BBP cases, demonstrating how the prescriptions of mainstream BBP practice can become complex and problematic when traversing processes, industries and cultures. This provides a context for a critical evaluation of BBP's underlying assumptions and establishes an agenda for defining the epistemological and theoretical foundations for 'best practice'. Guidance found in contemporary economic 'theories of the firm' allows us to formulate premises and practical guidelines for the successful and realistic application of BBP transfer.



## 2. OVERVIEW OF CURRENT PRACTICE

Before we critically evaluate the practice of BBP transfer, we develop an understanding of the present state of the art by surveying literature concerning best practice benchmarking. We explore the generic methods in benchmarking, as well as specific genres of benchmarking as they relate to BBP transfer.

### 2.1 Benchmarking implementation and knowledge transfer

Szulanski (1994) portrays the process of best practice benchmarking in figure 1. The main actors in a best practice transfer are the source unit and the recipient unit, where the source unit is the

entity that delivers the best practice, and the recipient unit is the entity that tries to implement the best practice in order to improve its own performance.

Camp, who might be seen as one of the authoritative authors on benchmarking, defines the benchmarking process in 5 specific phases (1995):

- In phase **1: Planning**, the project is planned. The preparation includes the identification of what to benchmark and the choice of organisations to benchmark against. The phase begins with the acknowledgement of the recipient organisation that its own performance can be improved.
- In **phase 2: Analysis**, the data gathered is analysed. The analysis should reveal the performance gap existing between the source and the recipient, as well as indicating the best practice the source employs to realise the superior performance.
- **Phase 3: Integration** is concerned with the preparation of the recipient to implement the best practice. This requires a redefinition of the process goals and commencement of the implementation process.
- In **phase 4: Action**, the best practices are implemented. The new process, which entails the best practice, is initiated.
- **Phase 5: Maturity** is growing towards superior performance. Benchmarking and continuous learning are required as ongoing routines to maintain and improve the performance of the process.

Clearly, these five phases are considered a template, and would vary according to the type of BBP benchmarking as well as the specific industry and companies. The model does, however, give a general idea of the benchmarking process. The specific process or information benchmarked will differ from situation to situation, often depending upon the relationship between the source and recipient entities. Bendell et al. (1993) address this relationship dimension in distinguishing between the following genres of benchmarking:

- **Competitive benchmarking.** In this form of benchmarking, one looks at the competitor that is achieving best in class performance. The benchmarking process in these situations is geared towards recognising and understanding the causes of the competitor's superior performance. As many of the variables concerning the product and competitive environment of the source and recipient organisations will be similar, the transferability of the best practices will be relatively high. On the other hand, this kind of benchmarking may be difficult to realise for competitive reasons. Competitive tensions could be alleviated, if, for example, the organisations were operating in different geographical markets.
- **Internal benchmarking.** Organisations having multiple units performing the same kind of tasks can transfer best practices between units or departments. For example, a multinational company having national sales offices world-wide might consider finding out why certain

sales offices are performing better than others. If the reasons for the better performance are not external to the organisation, but have to do with how the sales office conducts its work, it might be profitable to study the operations and transfer that knowledge to other sales offices.

- **Process benchmarking.** This type of benchmarking assumes that practices can be studied at the level of business processes. Different organisations delivering different products in different markets can learn by looking at the same type of processes. For example, an airline may study the catering process of a hospital in order to improve its own catering operations.
- **Generic benchmarking.** In generic benchmarking the main orientation is towards the technological aspects of the process. The best practice constitutes the optimal deployment of technology. Benchmarking in this case is used to advance along the learning curve of new technology implementation.

These different types of benchmarking are described in numerous practitioner's manuals, where guidelines concerning benchmarking execution are offered.

### **3. CRITICAL REVIEW**

While the overview of current practice in the previous section may appear fairly straightforward, application of the principles can be very problematic in practice. To illustrate this point, we will conduct a brief survey of a BBP case portfolio, demonstrating how many of the BBP underpinnings become complex or invalid when applied to multi-organisational/industry and cultural settings.

#### **3.1 BBP examples**

The CEBUSNET<sup>3</sup> case portfolio represents a collection of BBP cases collected within Europe. The participating companies come from the financial, manufacturing and service sector and represent a breadth of organisational scales - from a few hundred to several hundred thousand employees - and countries ranging from Italy to Norway. From the proceeding table, we will discuss several examples, attempting to show that BBP is not just technological determinism, but a complex product of organisational, institutional, cultural factors.

#### ***The CEBUSNET case portfolio***

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<sup>3</sup> CEBUSNET is the Community of European Management Schools Business Best Practice Network, sponsored by domain 7.8 of the EC's ESPRIT program. Participants include the University of Cologne, Stockholm School of Economics, the Copenhagen Business School, Erasmus University, Rotterdam, Bocconi University, Milan, and The Norwegian School of Economics and Business Administration. Additional information can be obtained on the web site: <http://www.wi-im.uni-koeln.de/CEBUSNET>.

Company	Industry	Process	Country
Bruhn	computer & copier service	service	Denmark
Diesel	sportswear manufacturing	design & manufacturing	Italy
Robeco Group	banking	transaction settlement	Holland
Svenska Handelsbanken	banking	software maintenance	Sweden
Vital	insurance	product sales & development	Norway
Weiden World	retailing	supply chain management	Germany
ABN-AMRO	banking	incident management	Holland
Alka	insurance	policy sales & administration	Denmark
Gewiss	electrical component production	product development	Italy
Norsk Hydro	oil production	purchasing/procurement	Norway
Sandvik	hand tool manufacturing	order/sales channel management	Sweden
VEW	electrical power utility	coal management/disposition	Germany

- *Diesel* is an Italian manufacturer of sportswear that has successfully implemented an IT based design and production process which has enabled it to shorten development cycles in the highly competitive fashion industry. While the application is exemplary, it is highly contingent upon the business relationships and sub-contracting norms that are part of the northern Italian industrial districts. Application of these principles in markets that do not employ the same business conventions would require substantial alterations.
- *Alka* is a Danish insurer who has recently undertaken a dramatic reengineering of both sales and administrative processes. The company has switched to telephone-based sales and claims administration, eliminating both the physical sales force as well as paper based claims administration, radically altering its organisation and expense profile. The system requires highly detailed registration of the telephone operators, which would otherwise not be permitted by the organised labour unions of the north European countries. However, as organised labour is the largest shareholders in Alka, they relaxed the requirement in order to regain investment returns in the company.
- *Norsk Hydro* currently enjoys the status as one of northern Europe's most profitable oil extractors and refiners. In order to increase yields on off shore oil platforms, the company has engaged in an innovative IT-based supply chain management that enables closer integration of suppliers. While such a system can easily be viewed as widely applicable, it is important to note that the Norsk Hydro was able to coerce its suppliers into the agreement due to its exceptional size and purchasing volume. Other organisations that do not enjoy similar scale or market dominance may have less success in implementing the system.

These are some examples to show that BBPs cannot only be viewed as an innovative application of technology in isolation. While it is not our intention to use these examples to argue that BBP transfer is impossible, we do offer it as a background to analyse the underlying - often unstated- assumptions of BBP transfer, showing how easily they can be convoluted in a cross institutional/cultural setting.

## **3.2 The tacit assumptions of BBP practice**

In the following section we define what we find to be the underlying assumptions of BBP transfer. It is our thesis that an explicit discussion of these issues will enable the definition of problematic areas and the formulation of guidelines, which can help overcome these challenges.

### ***3.2.1. Homogeneity of organisations***

To apply knowledge of one organisation in another organisation assumes some degree of homogeneity. The two organisations should resemble each other in certain ways in order to allow the transfer of best practice. The issue of homogeneity of organisations is barely addressed in current best practice benchmarking, although it is clearly assumed. How much and what kind of resemblance is needed will depend on the type of best practice transfer one is performing. For example, in generic benchmarking, only the type of technology used should be the same, whereas for process benchmarking, the processes of source and recipient should resemble each other in some degree. If we want to develop the transfer of best business practices, we should pay attention to the homogeneity of organisations. Among the questions to be answered are:

- What aspects of the organisations (source and recipient) need to resemble each other; the process, the technology, the environment, etc.?
- How can resemblance be identified and measured?
- What degree of resemblance is necessary to assure successful transfer of best practices?

A thorough analysis of these questions will improve the basis for assessing the potential success of the BBP transfer.

### ***3.2.2. Universal yardstick***

A basic assumption on which the exchange of best practices is based is that it is possible to define in some degree what is universally best. If we look at the best practice databases of consulting companies, it appears as if they have been able to define such a universal yardstick. This implies the existence of some kind of absolute measurement according to which the superior performance of the practice can be measured.

We think it is very questionable whether such a universal yardstick exists. As organisations each strive after the fulfilment of their own strategy, the scales with which performance is measured will be different. For example, a bank pursuing a low cost strategy might think that the cost of 'selling a loan' is an important yardstick. This measure will not be applicable in a bank that is pursuing to deliver high quality service for affluent clients who appreciate the quality above the low cost of a service.

### *3.2.3. Transferability*

One of the fundamental assumptions underlying the study of best practices is transferability. The BBP exercise implicitly assumes, in varying degrees, that a BBP from one organisation can be applied in another organisation and will provide similar results. However, practice has revealed that the adaptation of a best practice without any shaping of it to the receiving organisation is a unique curiosity; some revision will be needed to comply with the specific characteristics of the receiving party. Only in rare occasions can best practice be transplanted in another organisation with minimal modification. In most cases, adaptation of the best practice is needed. Each transfer can hence be positioned on a scale. At one extreme there is no adaptation, the carbon copy transfer; the best practice is replicated as is. At the other extreme, the best practice serves as a creativity-spawning example that makes the organisation rethink its own practices without necessarily re-using some of the best practice. Of course, one might question whether this might be called BBP transfer as the BBP has merely urged people to think about their own practices in a new perspective.

### *3.2.4. Alienability and stickiness*

Alienability and stickiness are concepts to describe the possibility of separating knowledge from its owner. In many instances, even if the source and recipient are much alike so that the exercise could be successful, the actual transfer may be hampered by difficulties in transferring the knowledge. Szulanski (1995) uses the concept 'stickiness' as a coefficient of the effort that is needed to successfully transfer a practice from the source to the recipient. He defines the main determining success factors as the willingness of the source and absorptive capacity of the recipient. Willingness of the source refers to the measure in which the source is co-operating in the transfer. Absorptive capacity refers to the measure in which the recipient is willing or able to assimilate the new practice.

Alienability refers to the question whether knowledge can be alienated, i.e. extracted from its context. This refers to so-called tacit knowledge, i.e. knowledge that is difficult to explicate. If a best practice applies tacit knowledge, the practice will be difficult to dissect from the organisational context. Another perspective on the same problem is to say that the best practice can not be transferred independent of moving human resources.

### *3.2.5. Validation*

Best practices are rarely validated. Practical belief is that those organisations that have 'best in class' performance have some practices that are excellent and produce the performance. Strassmann (1995) criticises many of the BBP databases: 'Their fundamental flaw is that none of these lists have been publicly validated by any independent measures of performance, such as profitability or gains in market share'.



### **3.3 Conclusion**

Above we provide a short review of the primary criticisms of both the practice and theory of business best practice transfer. The discussion suggests **that** we have limited methods for identifying practices that are 'best', let alone worthy of study as a source of inspiration. In addition, the discussion asks us to look at the factors that influence the transferability and challenges to state precisely what is pursued by transferring best practices: imitation or adaptation of modified best practices. Furthermore, attention should be paid to the possibilities of effectively separating best practice from its socially embedded context and external environment. Even more, methods of overcoming the loss of tacit information in best practice transfer are desirable.

Consequently, we believe that the following issues need to be addressed:

1. The nature of best practice. This has to do with questioning whether 'best practices' can exist and if so, how they can be recognised and measured.
2. The resemblance between the source and recipient. Application of a best practice from one organisation in another assumes that the organisations resemble each other in certain aspects. We distinguish two main perspectives of resemblance: (1) External - the organisation's relationship to the environment and (2) Internal - the organisation's composition and portfolio of resources.
3. The characteristics of the acquisition, co-ordination and transfer of best practice knowledge. How are best practices developed? Under what circumstances can best practice be transferred and when must it be developed internally?

To address these issues, we explore several theoretical streams that **can** illuminate these problems. We start with a discussion of the empirical challenges in identifying and isolating excellent practices, and proceed by surveying theories of economic organisation to highlight the role of environmental determinants, organisational resources and the co-ordination and transfer of productive knowledge.

## **4. EPISTEMOLOGICAL FOUNDATIONS**

Any use of the word 'best' is, . . .at best, problematic. We therefore examine some of the pretensions and implications of the term 'Business Best Practice' in an attempt pinpoint both the vernacular expectations, as well as the results, which can be realistically delivered in the study of BBP.

### **4.1 Does Best Practice exist?**

To support statements which posit the cause and effect of managerial practice, researchers will often conduct cross sectional studies which examine the correlation between some proxy for performance against the strategy/managerial technique/or technical practice in question. In these

studies the performance is a function of some practice, plus control variables and residuals. The coefficient estimate of 'practice choice' has been used to identify 'superior' practices, whereby managerial implications suggest that firms can increase their performance if they follow these practices posited by the coefficients.

There is, however, one major problem with this method of inquiry. Because organisations consciously choose the strategies and practices they follow, we are not able to make a comparison of management performance in an experimental setting where firms are randomly assigned strategies/practices. This yields empirical estimates of managerial performance deceptive (Matsen, 1993). Restated, we can say that when firms endogenously choose managerial practice, regressing performance on practice will not accurately capture the causal relationship unless one of the following two conditions hold (Shaver, 1997):

- firms regularly make errors when choosing strategies/actions, such that the process is entirely random, or,
- all factors that influence performance can be identified and controlled within the empirical model that estimates performance, such that no unobservable effects on performance exist<sup>4</sup>.

This problem can be reduced to the following question that has plagued a great many researchers concerning the causal relationship of managerial action and firm performance. Do firms achieve superior performance due to a specific managerial practice, or, do only firms with a given 'managerial surplus'-resulting from previously established performance • have the excess capacity to superfluously entertain a given practice?

We can quickly agree that managerial action is endogenous and self selected to the degree that we cannot claim that the process is random. Therefore, unless we can control for all factors that influence performance, it is meaningless to make statements on which practice or strategy is 'best', or will yield the highest performance.

Given that the epistemological foundations for defining 'business best practice' are weak, even in the most ideal conditions, we might wish to explore the objectives we wish to obtain in using the expression.

## **4.2 The evolution of best practice**

When discussing the question of how business best practice evolves, it may be useful to delineate what one means by the widely applied term "evolution". While the concept has received a great deal of attention from evolutionary economists (Nelson & Winter, 1982), pinning down the actual meaning of the word may be a bit of a challenge. By best accounts, the word evolution was first

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<sup>4</sup> This argument is formalised in Shaver, 1997. It is uncanny that econometric techniques that can be applied to resolve this problem have existed for almost 20 years in labour economics (Heckman, 1979), yet the issue remains largely 'tacit' in mainstream management studies today.

used by a German biologist Albrecht von Haller (Gould, 1977). Haller derived the word from the Latin, *evolvere*, which literally means “to unroll”, describing the ‘unfolding’ seen in embryonic development. This was a very specific technical term in the realm of biology. The word later acquired a markedly different meaning in the every day vocabulary of the English citizen when Charles Darwin published *The Origin of Species* (Darwin, 1859).

The common understanding of the word, which remains with us to this day, diverged significantly from both Darwin’s ideas **as** well as the technical definition coined by von Haller. Ironically, Darwin resisted the successful attempts of the public to categorise his theory of natural selection as a theory of evolution. To understand why, it is important to note that Darwin’s theory of natural selection describes ‘descent with modification’. However, the standard definition of evolution typically connotes ‘a concept of progressive development’; where the Oxford English Dictionary cites “developing from a rudimentary to more complete state”; and the American Heritage Dictionary cites “changes into a different and usually more complex or better form”. Thus, the standard understanding of the term evolution is closely tied to the concept of some kind of ‘universal progress’.

Darwin explicitly rejected the notion that the theory of natural selection had any connection with the concept of progress. For Darwin, adaptation with modification meant simply that; the ability of a species, through the natural selection of the organisms, to adapt to a particular environment. In some ecosystems, a single celled amoeba may be the best-suited organism for that environment. The concept of higher or lower, better or worse, of more or less advanced, did not exist in Darwin’s theory. To this day it remains a great paradox that Darwin stood largely alone in refuting any connection between his own theory of natural selection, evolution and progression (Gould, 1977).

### **4.3 Best practice: progression or adaptation?**

The previous discussion provides the context for an important discussion. In the study of BBP we can identify two abstract extremes: progression and adaptation. Progression states that the best business practices exist, in a universal, evolutionary sense. This implies that an empirical, comparative exercise is theoretically possible in identifying business practices that are objectively better than others. Furthermore, the practices, once identified, would represent a best in class such that the know-how embodied in the practice would have a value to third parties. In this extreme, concepts of universal applicability, transferability, and progress have central roles in justifying the exercise.

At the other extreme we find the concept of Darwin’s adaptation with modification. As we approach this limit, we find no universally prescribed best practices, only organisations that have effectively adapted to their environment. We should note that a purely Darwinian interpretation refutes the ability of organisations to learn or transform themselves. Rather, the stochastic generation of diverse organisation forms yields some more disposed to survival in a particular environment than others. This school maintains that any search for a best, or universally

applicable best practice is in vain, the only thing that matters is the inherent characteristics of the organisation, and their relationship to the environment.

Clearly, in this rather simplified continuum, there are other vital dimensions that we fail to address. If we choose to reject the notion of universal progress, yet somehow believe in the transformation of organisations beyond the stochastic generation and selection of entities, then we must address the possibility of endogenous change, i.e. the ability of organisations to organically adapt and transform. In a strictly Darwinian interpretation, we must assume that companies somehow are defined at birth, thereby excluding the possibility for organisations to accumulate knowledge, experience, or other resources through time. This is clearly absurd, but the tradition is pervasive in classical economics, where the dominance of equilibrium analyses and static comparative analyses have limited attention towards theories which can accommodate endogenous change (Nelson & Winter, 1982). Accordingly, we review emergent economic theories of the firm in search of a theoretical base for the acquisition of 'best practice knowledge'.

## 5. ECONOMIC FOUNDATIONS

### 5.1 Best practice: transactions or resources?

Despite the early contribution of Coase (1937), it has only been through the flag bearing of Williamson (1975, 1985) that economic theories of organisation have received considerable academic attention within the last 20-30 years. While many have criticised Transaction Cost theories for viewing organisations as second best failures to the market, denying the firm its own logic and purpose (Goshal & Moran, 1996), one cannot accuse them of being static. In fact, the concept of 'adaptation' is central to much of Williamson's work (1991, 1996), drawing upon Hayek (1945) for adaptation to external market stimulus, and Barnard (1938) for adaptation of internal co-ordination mechanisms. However, Williamson's primary interest is the adaptation of incentive structures resulting from changes in transaction costs. So while transaction based theories<sup>5</sup> are dynamic in certain dimensions, they can be validly criticised for their tendency to reduce all elements of economic organisation to the alignment of incentives in a **context** of asymmetric information. This perspective assumes that productive knowledge simply exists as in a production function - implying no problems in the differentiation and co-ordination of productive knowledge. Consequently, the sole purpose of management is the use of incentives, monitoring and sanctions to assuage opportunism and maximise productivity (Foss, 1997b).

As the transaction based theories hence are clearly insufficient as a theoretical base for BBP, we turn to theories which explicitly acknowledge endogenous change and the co-ordination of productive knowledge. Such theories can be found in what we broadly call 'Resource Based Perspectives' (RBP). The resource based approach, as it is commonly understood today, can be traced to two seminal publications in 1984; *A Resource-Based View of the Firm* (Wernerfelt, 1984)

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<sup>5</sup> Meaning the extended family of Agency Theory, Transaction Cost Theory and Incomplete Contracting Theory

and *Towards a Strategic Theory of the Firm* (Rumelt, 1984), which were followed by important works by Barney and Montgomery, amongst others. Disappointment with the failures of the long range and strategic planning schools of the late 70's has led to the acknowledgement that firms are essentially different and that the analysis of strategy and competitive advantage must begin from this fact, rather than from the analysis of more aggregate competitive forces. They concede that there are systematic differences across firms to the extent that they control resources, and that these resource endowments can cause performance differences. The main goal of RBP is to account for the creation, maintenance and renewal of competitive advantage in terms of the resource side of firms (Foss, 1997a).

## **5.2 Tracing endogenous change**

Within the evolution of the RBP literature we can identify two major streams of research (Foss, 1997a). The early publications, with its roots in traditional economics, focus upon the static conditions in which resources can yield economic rents (e.g. Barney, 1986). A latter stream of RBP work, inspired by Prahalad and Hamel (1990), has begun to play with constructs of resource and knowledge acquisition. These simple, yet elegant, concepts of endogenous transformation can be traced to Edith Penrose (1952, 1959), who is widely cited as the originator of evolutionary thinking in economics. Ironically, Penrose refers to the development of firms as an 'unfolding process'. While not directly analogous to von Haller's embryonic unrolling in biology, she acknowledges that the process of resource acquisition, renewal and transformation will be different across firms, and that these differences will be expressed as distinct strategies and managerial practices.

## **5.3 Remembering Darwin's environmental determinism**

If Darwin's theory of adaptation with modification places the environment as the primary determinant of biological development within ecosystems, the Resource Based Perspective, it has been argued, does exactly the opposite. In the public debate on strategy, the RBP has been sharply criticised for its complete neglect of the environment. While this criticism is extreme, it is not altogether unwarranted, particularly in the earlier work on RBP.

Despite the reasons for the lack of attention paid to environmental factors, some representatives of the Resource Based school have taken the criticism to heart. For example, the dynamic capabilities theory of Teece, Pisano & Shuen, (1997) defines the foundations of dynamic capabilities as; (1) how a firm learns new skills; (2) internal and external forces which focus or constrain the learning process; (3) the selection environment in which the firm competes for resources as well as customers. In this definition the interaction of internal capabilities and environmental factors - that is their influence on the learning process of the organisation- are of paramount importance.

Thus, it is in this most recent grain of RBP where we find an economic theory that most closely accommodates the study of BBP, where 'routines', 'competencies' or 'capabilities' are, in varying

degrees, synonymous with 'best practice'. Yet despite the eloquence and 'fit' of these theories, they do suffer with serious weaknesses, which largely undermine their utility in the study and execution of BBP.

1. In their present form, these theories lack predictive capabilities and are most successful as an ex post, explanatory framework, having yet to demonstrate any substantial normative value. Furthermore, the perspective is very difficult to test, risking irrefutability, and has a tendency to be applied tautologically<sup>6</sup>.
2. Relatedly - and of great relevance to BBP - the theories are particularly weak in explaining when and which capabilities matter. They merely claim that they do matter.

This relegates us to the conclusion that while resource based concepts potentially offer theoretical underpinnings in the study of BBP, further development in the field is necessary before we can claim that research and application of BBP can be firmly guided by or grounded in these theories.

#### **5.4 Critique of best practices**

Finally, any discussion of RBP, BBP and strategy must acknowledge the debate surrounding Michael Porter. In a recent article, 'What is Strategy' (1996), Michael Porter has responded to the recent fall in popularity of his positioning school, as well as the criticism by resource based proponents that positioning based strategy ignores internal differences within organisations. Porter argues that the last decade has seen a surge in productivity-based fundamentalism and the growth of managerial techniques that focus upon Operational Effectiveness (OE). While he does not deny that OE is necessary, he criticises the substitution of OE for a thoroughly planned strategy. The essence of strategy, he claims, is performing different activities from rivals, or performing similar activities in different ways. The proliferation of competitive benchmarking, as well as the expedient dissemination of best practice promotes a 'sameness' amongst companies. The consequence is a lethal spiral of margin erosion and bankruptcy. His critique is significant, for he suggests that not only does benchmarking and the study of BBP assume homogeneity amongst firms, it actually breeds it! Porter's claim remains unsubstantiated, however, but again provides an argument against inconsiderate best practice transfer.

#### **5.5 Conclusion**

We have argued that business best practice suffers from epistemological challenges, as well as lacks a solid foundation of economic and organisational theory. While we do see potential in the recent grains of Resource Based theories of the firm, the current status of these frameworks offers explanatory and anecdotal guidance at best. Further work is needed before these constructs can

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<sup>6</sup> In the same manner as argued in section 4. Epistemological Foundations.

provide rigorous, refutable underpinnings in the analysis of best practice acquisition, co-ordination and transfer.

## **6. SYNTHESIS**

In the following section we attempt to synthesise our criticisms of theory and practice, and formulate a realistic agenda for BBP transfer.

### **6.1 The subsequent premises**

First, we can conclude that defining any 'best' practice in the spirit of universal progress is not only very difficult, one may further question the value of such efforts. However, when this is said, we can agree that within the public domain we can identify what Porter (1996) calls the 'Productivity Frontier', that is, the generally accepted state of best practice. This frontier is always in a state of flux and its boundaries are certainly not distinct, but tracking the practices that constitute the outer ranges of this frontier can offer a significant source of inspiration for both theoreticians as well as practitioners.

Secondly, we cannot ignore Darwin's work, and therefore recognise that environmental determinants have a significant effect on the evolution of best practice as well as the eventual transfer thereof. Practices deemed efficient in one environment may not be appropriate in another. Caution is needed when practices are transplanted.

In addition, we believe that the environmental factors that influence the transferability relax Porter's claim that best practice benchmarking breeds organisational homogeneity. While we do not refute the possibility, we acknowledge that differences within the institutional and economic environments yield the direct transplant of best practice virtually impossible, and often, equally undesirable.

Finally, we acknowledge the work of the RBP in recognising that firms are essentially different. However, in contrast to a static mapping of the enablers and results of BBP, we emphasise the process of endogenous change in the formation of BBP<sup>7</sup>. That is, we acknowledge that the greatest value in the study of BBP lies in understanding the evolution of enabling factors and their formation and negotiation with the environment.

### **6.2 Emerging roles of best practice**

Given these premises, the definitions of applications of best practice assume new dimensions. Best practice transfer is not a simply a matter of imitating excellent performers, but involves a number of perspectives. We therefore distinguish the following types of best practice transfer.

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<sup>7</sup> Much like the Dynamic Capabilities theory of Teece et al. (1997).

### *6.2.1 Best practice to move up the learning curve*

One way to look at best practices is from a learning perspective. Organisations have to learn how to best exploit new technologies or ways of working. Kluge (1996) argues that everyday technologies are frequently located at a fairly low point on their S-curve, when measured as performance relative to price. The premise is that after initial deployment of a new technology, no further improvement in the use of the technology is realised. Best practice in this perspective should indicate how to move up along the S-curve. The focus of best practices in this case is on the implementation and increased exploitation of new technology.

Best practices will describe and analyse the application of the new technology in its context. Potential recipients of the best practice are organisations that are using the same technology, but did not achieve its full implementation.

### *6.2.2 Best practice to support creative insight*

Another perspective on best practices is to view it as a means to support creativity. Best practices seen from this perspective are not targeted for immediate implementation, but rather serve as a catalyst of creativity. Generic benchmarking in many cases will fuel creative insight in contrast to a carbon copy transfer.

In viewing BBP transfer in this manner, the extreme assumptions are moderated without a corresponding loss in value. Although many will concede that BBP may be implicitly understood as an exercise in learning or stimulating creative insight, it is valuable at the outset to explicitly define what best practices should actually achieve in order to maximise benefits. For example, if a best practice is to support creative insight, there is minimal need for resemblance between organisations. If best practices are seen as ways to move up the learning curve of a new technology, the basic condition for transferability is that the same technology is used in both organisations.

### *6.2.3 Best practice to support change*

A third way to view best practices is as a roadmap for change. Many organisations might be aware of the existence of best practices, but are not able to actually implement them. Many best practice studies will reveal the tactics of the change process, thus enabling other organisations to implement the best practice also.

These are the main emerging roles of best practices that we believe offer value to practitioners. Other roles may evolve in the future.

## **6.3 Execution of BBP transfer**

In addition to a realistic agenda for BBP transfer, we recommend consideration to the following dimensions when implementing best practice transfer.



- **Apply a broad spectrum of result factors.** Opposed to looking at a single result measurement, like processing cost per order or lead-time of production, we recommend a more holistic view of performance. A differentiated assessment of the BBP performance offers more nuanced guidance for which best practices to pursue, as well as elevating the empirical challenge of tracing causal links from practice to performance.
- **Explicitly acknowledge environmental determinants in the formation of BBP.** As we have claimed, firms are not homogenous, and managerial practices deemed successful in one environment may be inappropriate in another. Environmental determinants that may influence the results of the practice must be taken into account.
- **Focus on change process.** In general, best business processes do not just arrive, but are the results of a change process that eventually lead to best practice. Consequently, the learning process or process of change is an important part of 'best practice' knowledge that could be transferred to other organisations. As many of the best practices are IT based, the goal of studying best practices is not so much a question of acquiring new technology, but rather how to incorporate it into the present and emergent organisational routines. This is consistent with the parallel work in RBP and the emphasis on endogenous generation of best practices.
- **Assessment of factors that influence transferability.** A company that is looking for a best practice tries to build on the experience and knowledge of another company rather than generating the knowledge organically. This will lead to a lower cost of knowledge acquisition. Consequently, factors that determine transferability must be assessed. For example, if a best practice is based on specific human resources, socially embedded routines, or a large amount of tacit knowledge, transferring the human resources will be the only plausible model.

These four recommendations will improve best practice transfer.

## 7. CONCLUSION

The study of BBP transfer is growing in popularity, not only with practitioners of IT, but also in managerial studies, where the meagre performance of prescriptive strategy theories has resigned researchers to 'look at what good performers actually do and imitate them'. However, the realisation that:

1. organisations are fundamentally different,
2. operating in diverse institutional and cultural environments,
3. and that BBP knowledge can be tacit, socially embedded or inalienable,

can yield this apparently simple technique complex and problematic.

In this paper we have applied our experience in the study of business best practice cases to identify many underlying assumptions neglected in normative best practice and benchmarking literature. In explicating the challenges which can arise due to; organisational heterogeneity, lacking absolute measurements of performance, barriers to knowledge transfer, sticky and

embedded best practice routines, and missing validation, we have identified many of the fundamental challenges which must be addressed should improvements be made in practice.

Moreover, we have delineated the strengths and weaknesses of empirical and economic frameworks as a foundation for the study of business best practice, and, consequently, defined a number of challenges for future research. Specifically, we suggest that parallel developments in Resource Based economic theories potentially offer theoretical foundations in the analysis of best practice acquisition, co-ordination and transfer, but argue that further work is needed before these concepts can offer rigorous, refutable guidance. Consequently, we have formulated a pragmatic and holistic agenda for the study of best practice that emphasises the role of environmental determinants, the process of endogenous change, and factors that hinder or facilitate the transferability of BBP knowledge.

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