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Benchmarking Corporate Headquarters – Instrumental, but not Strategic? Comments on Young (1998)

Sven Kunisch

University of St. Gallen, Switzerland

Introduction

Benchmarking is a widely applied management practice, but it is controversial from a strategy viewpoint. In business terms, "benchmarking" refers to the process of comparing one firm's practices or performance to best practices from other companies.[1] In his article entitled "Benchmarking Corporate Headquarters", David Young (1998) applies this general idea to the corporate headquarters (CHQ), which is the central organizational entity in large and diversified firms (cf. Menz et al., 2015). Whereas Young largely focuses on the potential *merits* of CHQ benchmarking, the purpose of this commentary is to draw attention to its potential *perils*.

It is useful to first briefly revisit Young's main assertions: The article is motived by two observations. One observation is that many firms are dissatisfied with their CHQ performance (Young, 1993; Young and Goold, 1993; Young et al., 2000). A second observation is that firms often struggle to challenge the CHQ's status quo owing to its highly political nature (also see Ferlie and Pettigrew, 1996). Based on these observations the article's main objective is to suggest a rather objective way for practicing managers to assess the design and performance of their CHQ. The author argues that a comparison of the firm's own CHQ activities and performance metrics with corresponding metrics for industry leaders or other corporations can be useful for improving performance and for triggering discussions about the corporation's parenting strategy.

Specifically, Young argues that benchmarking "core" CHQ staff across firms can help improve efficiency, while benchmarking "non-core" CHQ activities can raise questions and new ideas. This twofold argument draws on the distinction between *obligatory* CHQ staff – those CHQ staff needed for activities that every corporation has to perform – and *discretionary* CHQ staff – those staff at the CHQ involved in activities that a corporation may or may not perform (Chandler, 1991; Collis et al., 2007; Foss, 1997). The underlying logic is that benchmarking "core" CHQ activities can help improve CHQ efficiency simply because every corporation has to perform those activities. As such, any corporation can only do it better or worse than others. In addition, benchmarks of "non-core" CHQ activities may offer starting points for discussions about the corporation's parenting strategy.

Young's general observations still seem true today. Indeed, many firms are still dissatisfied with their CHQ performance (e.g. The Economist, 2008, 2014; Kunisch et al., 2012), and the CHQ can still be assumed to be a highly political entity (e.g. Campbell et al., 2011). In light of these observations, the potential merits of CHQ benchmarking that Young outlined intuitively make sense. However, several aspects related to this approach need to be problematized.

For this purpose, it is useful to briefly return to the definitions of the terms "benchmarking" and "benchmark". Benchmarking is understood as a "process in which a business evaluates its own operations (often specific procedures) by detailed comparison with those of another business (esp. a competitor), in order to establish best practice and improve performance;

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[1] See additional details below.

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the examination and emulation of other organizations' strengths" (*The Oxford English Dictionary Online*). Broadly, the noun "benchmark" means "something that can be used as a way to judge the quality or level of other, similar things" (*Merriam-Webster Online Dictionary*). More precisely, benchmark can be defined as: a) a point of reference from which measurements may be made; b) something that serves as a standard by which others may be measured or judged; c) a standardized problem or test that serves as a basis for evaluation or comparison (*Merriam-Webster Online Dictionary*).[2]

Applied to the CHQ, these definitions demonstrate that CHQ benchmarking represents a *heuristic* for decision making (Festinger, 1954; Tversky and Kahneman, 1974) – with respect to CHQ roles and designs. In essence, the definitions hold that CHQ benchmarking

- involves *comparing* one CHQ with other, similar CHQs
- with the aim of pinpointing *good practices* and
- ultimately, *improving performance*.

Notably, these key elements of the definitions reveal some central problems with benchmarking with respect to the CHQ.

Three central problems

The "comparison" problem

CHQ benchmarking – comparing CHQ activities across two or more firms – carries the danger of comparing "apples with oranges" for two reasons. The first is the assumption that it is possible to demarcate the CHQ entity conceptually and empirically. Recently, several studies have contested this assumption, pointing to the "blurring" of boundaries between the CHQ and other HQ units, such as divisional, regional HQs, and even operating units. Other studies have highlighted emerging CHQ types and designs, such as the virtual CHQ and the dual CHQ, and the geographic dispersion of CHQ activities and roles across multiple locations (cf. Menz et al., 2015). Altogether, there seems to be an increasing amount of evidence that the notion of the CHQ as a discrete organizational unit is no longer valid, making it more challenging than ever before to get a grasp of the CHQ.

The second is the assumption that it is possible to compare the same or similar CHQ activities across firms. If this assumption does not hold, then there is no basis for benchmarking. As discussed above, this applies to obligatory CHQ activities that all firms need to perform as part of their license to participate. Young takes this into consideration when he argues that all CHQ "have a 'core' staff who perform very similar activities regardless of the company. [...] Identifying and benchmarking the number of core staff is a useful first step in a headquarters' review. It gives the company an indication of whether corporate headquarters is performing its most basic functions effectively" (p. 934). However, the accuracy of this assumption (it is possible to compare) becomes far more obscure when it comes to discretionary CHQ activities. Although it might still be theoretically possible to compare specific activities, it would be practically infeasible given the profound differences among parenting strategies (e.g. Collis et al., 2007; Goold and Campbell, 1987).

In light of these two assumptions, at the very least when it comes to benachmarking CHQs there seems to be a need to shift attention from the CHQ as a whole toward individual CHQ activities. However, for now, I assume that it was possible to compare CHQs across firms. There are at least two more key considerations.

The "learning from successful examples" problem

Essentially, benchmarking is based on learning from successful firms. Young writes: "Ideally, benchmarks are based on good practice" (p. 934). In other words, benchmarking is a type of problemistic search (Cyert and March, 1963) that firms can use to learn from (external) performance feedback (Greve, 2003). In that sense, a firm looks for more successful firms and assumes that certain observable traits are responsible for the enhanced performance of those firms.

However, this approach[3] is controversial at least. Managers may identify firms that are considered successful, but the reasons for their success may not be the traits that the managers observe and then attribute to that success. In other words, managers may think that certain fims are successful because their CHQ is small or large, when in fact, the firms' success is due to other reasons. They may draw wrong conclusions. Young implicitly acknowledges this concern when he writes: "Benchmarks may not provide the right answer, but they can highlight areas where further investigation could be valuable, and they help prompt questions about the reasoning behind the structure and staffing of headquarters" (p. 934).

Nonetheless, one may question the use of this approach at all. It might be much more effective for a firm's managers to discuss the firm's own corporate-level value drivers (cf. Campbell et al., 2011, 2012; Kunisch et al., 2014). This leads to the third problem.

[2] Notably, there is another definition: "a mark on a permanent object indicating elevation and serving as a reference in topographic surveys and tidal observations". However, this definition seems less applicable.

[3] In academic terms, this approach is often referred to as "sampling on the dependent variable".

The "uniqueness" problem

Benchmarking in general and CHQ benchmarking specifically run counter one of the key tenets of strategy. Indeed, the (corporate) strategy literature largely agrees that sustainable advantages stem from performing unique activities – either activities that are different from those performed by other firms or the same activities performed differently (e.g. Litov et al., 2012; Porter, 1996). If each CHQ's activities are unique, how can we compare them with others? As with the previous point, this discussion raises questions regarding the subject of comparison.

In addition, the "uniqueness" problem draws attention to the objective of CHQ benchmarking, which is to help improve CHQ performance. Ultimately, the performance of the CHQ is directly related to its raison d'être which, according to Foss (1997), is to "create the positive" rather than merely "avoiding the negative". In other words, the CHQ is charged with achieving a "parenting advantage" and should, therefore, add value to the operating units in the firm's portfolio. Ideally, it should add more value than any other CHQ would be able to add (cf. Campbell et al., 1995).

Therefore, in order to evaluate the utility of benchmarking it is important to contemplate what one wants to achieve with benchmarking. Is the goal to improve operational effectiveness in obligatory CHQ activities or to look for sources of parenting advantage? While operational effectiveness, which occurs when similar activities are performed better by one firm than by its competitors, can help achieve superior profitability, it is usually not sufficient to gain a sustainable advantage and it is, simply, not a strategy (Porter, 1996). In the former case, benchmarking may indeed be useful. However, in the latter case, there is reason to doubt the merits of benchmarking simply because "[t]he more benchmarking companies do, the more they look alike" (Porter, 1996, 64). In other words, the more benchmarking firms do, the less they are distinctive. Several scholars have pointed to this problem. For examples, Campbell (1999) cautions that too many companies benchmark their "corporate planning" processes and, in so doing, prevent managers from focusing on what is unique to their companies' situations. In a similar vein, Kunisch et al. (2014) reveal that heads of mature corporate functions often benchmark their functions against peers and, consequently, tend to lose focus on their internal clients.

Conclusions

In summary, CHQ benchmarking can be useful for evaluating the efficiency of a given and comparable task, but its utility is questionable when it comes to searching for sources of parenting advantage. For academics, there are still ample research opportunities in this regard, especially with respect to the defining features and boundaries of the CHQ and benchmarking as a potential managerial heuristic at the corporate level.

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