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What can 'benchmarking' offer the open method of co-ordination?

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ABSTRACT Benchmarking offers actors a means of resolving the horizontal and vertical collective action problems that often bedevil the development and implementation of decision-making. It has assumed a vital role in the EU's 'open method of co-ordination' with its focus on the identification and dissemination of 'best practice' through mutual learning and peer review, offering new solutions for policy management in an increasingly complex, diverse and uncertain environment. Yet the evolution of benchmarking from management tool to regulatory instrument is also problematic, and not just because it remains conceptually ambiguous and technically difficult to effect in practice. More fundamentally, the mechanisms of control that underpin benchmarking in large companies are generally unavailable to public policy-makers. As a result, benchmarking must be looser at EU level, and perhaps ultimately viewed as a complementary rather than an alternative form of regulation.

KEY WORDS Benchmarking; EU regulation; open method of co-ordination.

1. INTRODUCTION

Benchmarking is now at the heart of the European Union's (EU's) approach to co-ordinating economic and social policy within, between and across the member states. It is a key instrument of the so-called 'open method of co-ordination' (OMC), which is based on mutual learning and the identification and transfer of best practice rather than a top-down regulatory approach. It appears at various levels (sector, national, transnational) and is widely used to help deliver both the economic goals of competitiveness and growth and the social goals of cohesion. In the EU, benchmarking, it seems, is everywhere.

With the growing complexity of governance deriving from the widening and deepening of the EU it is not too surprising to see why benchmarking has assumed such a status in recent years. Responding to the tensions between heteronomy (central regulation) and autonomy (local responsibility), it offers a solution to both the horizontal and vertical dimensions of the collective action problem. On the horizontal dimension, it enables the principals, be they policy-makers or the social partners, to set a sense of direction but avoid

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failures to agree over the details that often bedevil negotiations. At the same time, by delegating responsibility to representatives at lower levels for the elaboration of local, tailor-made solutions, it helps to relieve the collective action problem on the vertical dimension of implementation. It therefore offers to policy-makers an attractive 'logic of appropriateness' (Wallace 2001: 592).

Yet, fundamental problems remain. The first is that political consensus is still required to identify and implement benchmarking projects, and that peer group pressure may be insufficient to this end. A second, more technical problem is that the promise of benchmarking as a powerful tool of learning can be undermined by the elevation of quantitative criteria over more complicated issues to do with context and processes. At its worst, as some UK national level experience suggests, it can degenerate into 'checking and verifying rather than doing', with an obsession with placings in 'league tables' to the detriment of the quality of outcomes (Prowse 2001a, 2001b). In the circumstances it would be tempting to blame policy-makers for failing to implement benchmarking effectively. This would not be entirely fair, however, as benchmarking is not as straightforward – or as benign – as it is often claimed to be.

The remainder of this article develops this argument in greater detail, tracing the evolution of benchmarking from management tool to regulatory instrument. The next section explores the different meanings and forms of benchmarking at its point of origin, within companies. We argue that the discourse of best practice, learning and continuous improvement is only one part of the story, and that coercion and control are also strong features, especially within large companies. We then move on to review the growing appeal of benchmarking as an EU policy tool from the 1990s, showing how the lack of a control dynamic weakens benchmarking as a means of co-ordinating the economic and social policies of disparate member states. The final section draws the argument together and offers some implications.

2. THE ORIGINS AND USES OF BENCHMARKING

There is no universally accepted definition of benchmarking, and there are different forms of benchmarking exercise available. However, common features involve the analysis of internal practices and processes in systematic comparison with those of others in order to identify and implement 'best practice'. The evolution of benchmarking as a management tool at company level took four broad stages (Industrial Relations Services 1999: 15). 'Comparative statistical activity', dating from the 1950s, involves the evaluation of basic activities and outcomes such as materials handling or wastage rates in operations, or rates of pay, absenteeism, and turnover in employment. 'Competitive benchmarking' was associated first with attempts by the US company Xerox to match the quality and performance of Japanese competitors in the late 1970s and early 1980s. 'Generic benchmarking', also associated with Xerox, widens the field of potential 'best practice'. Both involve detailed scrutiny of the efficiency of particular business processes (for example, cellular manufacturing, 'just-in-time' operations, skills and training, teamworking, communication and consultation) using focus groups and surveys, plus arrangements such as quality standards accreditation. 'Strategic benchmarking' emerged in the 1990s and is closely associated with the concepts of the 'learning organization'. It focuses on the more qualitative driving forces behind successful organizations, including leadership, core competencies and the management of change.

The operationalization of benchmarking therefore involves a different set of obstacles according to the type adopted. It is important for later purposes, however, to note that the various stages were neither sequential nor did they come to form a coherent approach. In practice, benchmarking can cover one or all of the following activities: information provision, enabling comparisons to be made, experiences shared and mutual learning to take place; identification of 'best practice', which people are encouraged to follow; and agreement on and commitment to targets, with some form of peer group review of performance. Overall, we can identify three main types of benchmarking at company level. The first is a bottom-up process of networking and experience sharing. Small and medium-sized enterprises (SMEs) are often involved in such initiatives through their trade associations or with help from the public authorities (see, for example, www.dti.gov.uk/mbp/), though not without some difficulties (Edwards *et al.* 2002). The second type is a top-down approach, used by large (often multinational) companies, which may be focused internally as well as externally as a means of control and not just learning. The third type aspires to the Xerox model of continuous learning and improvement.

For large organizations in particular, the appeal of benchmarking rests on two foundations. The first is the concept of organizational learning, which is increasingly seen as 'the chief organizational principle around which business strategy and competitive advantage can be developed' (Keep and Rainbird 1999: 175). Benchmarking offers organizations a practical tool around which to structure organizational learning through dynamic comparisons with others. The second, which sits somewhat uneasily with the first, lies in its use as a means of control. Multinational companies (MNCs) in particular have well-established management systems and structures to diffuse 'best practices' across locations (Coller 1996; Marginson and Sisson 1998; Martin and Beamont 1998). An important consideration in Europe has been the adoption of continent-wide strategies for operations and the servicing of markets, involving a shift from geographic management to the formation of international divisions and business streams. Benchmarking enables senior management to withdraw from the 'murky plain of overwhelming detail' (Neave 1998: 12), but maintain 'control at a distance' through the use of comparisons and target setting.

'Top-down' benchmarking is therefore a product of the fundamental changes that have occurred in the way large organizations are managed. Three changes in particular are evident. Each involves a decentralization of management authority, hence requiring new forms of monitoring and control. The first, divisionalization, reconstitutes the large-scale hierarchical organization into a number of semi-autonomous businesses so that the firm becomes 'decentralised operationally, but centralised strategically' (Whittington and Mayer 1994). The second, budgetary devolution, reinforces local-level responsibility for managing activities, within prescribed financial resources or targets, down to individual units as profit or cost centres. A third development is the greater application of market principles to decision-making, reflected in developments such as the externalization of non-core activities, or the creation of an 'internal market' trading products and services within the firm. Perhaps even more fundamental for present purposes is the development of an internal market for investment which structures internal competition between different constituent businesses or sites.

It is in this context that benchmarking is to be seen as a device to help strike a balance between heteronomy and autonomy in the firm. Two of our colleagues (Wright and Edwards 2001) offer a valuable insight into different possible approaches in two major MNCs. An example of what might be described as a 'learning' or 'improvement' approach to benchmarking is that of the aluminium firm Alcan, where performance monitoring is extensive and involves internal as well as external benchmarks. However, data are treated as 'soft' indicators rather than hard targets, because it is recognized that aluminium smelters of different vintages cannot be compared directly and that even ostensibly similar plants have distinct performance characteristics. There is therefore a great deal of emphasis on personal contact and interpretation of data. Teams from headquarters visit different plants regularly and work with their managers to understand and to improve performance. There is also a set of values within which managers work, so that they have a shared context rather than developing their own approaches independently. Thus, for example, headquarters evolved a preference for teamworking which was not imposed on plants, but to which plant managers were exposed and which shaped their own concrete practices. Wright and Edwards (2001) contrast this approach with that of an anonymous large oil company. On the surface, benchmarking practice in the two companies appears similar, but the key difference lies in the interpretation and use of the data. In the oil company, the data assumed the status of reliable 'hard' indicators with little attention paid to the varying circumstances of plants. Site visits from headquarters were rare and, confronted with the results of the process, local managers were left to devise their own responses. Benchmarking was therefore a top-down, disciplining process.

However, the paradigm case of disciplinary benchmarking is the highly competitive auto sector, where the context for most manufacturers is over-capacity and rationalization. For example, General Motors Europe (GME) reached a number of collective agreements on flexibility and productivity in different countries in the late 1990s. Once an agreement had been concluded at the operations in one country, its contents assumed the status of 'best practice' elsewhere (Hancké 2000). Furthermore, an important consideration was the benchmarking of the system of work organization and associated personnel management practices experimented with at the Nummi 'greenfield' joint venture between General Motors and Toyota in California. Cost comparisons were also vital: under the so-called 'template' study of 1997, an international group compared labour costs in the General Motors operations across Europe, including the new Eisenach site in eastern Germany. Sites would have to show a clear commitment to improvement in order to retain investment and employment.

3. THE EU LEVEL: BENCHMARKING COMES INTO ITS OWN?

The rise of company-level benchmarking was followed by its rapid adoption by the EU, not least as a means of resolving similar issues of autonomy and heteronomy in relation to policy co-ordination through the member states. Two phases in the rise of EU-level benchmarking may be identified. In the mid-1990s, benchmarking was still largely seen as a management tool that policy-makers could use to help promote competitiveness. By the turn of the decade, however, it had become central to policy development and implementation across a broad range of activities. The current elevation of benchmarking reflects its status as a primary instrument of the OMC governing method. In fact, in a very real sense, benchmarking helped to give birth to the OMC. Though it now embraces such diverse fields as social inclusion, pensions, innovation policy, immigration, education and training, the origins of the OMC lie in the development of the European Employment Strategy (EES). Within the EES, benchmarking contributed an iterative process that promised to reconcile an intergovernmental logic with elements of a Community approach, something recognized and endorsed at the 2000 Lisbon summit (Goetschy 2003).

The launch phase

The concrete development of an EU employment policy began with concerns over 'euro-sclerosis' and the under-performance of the EU economy relative to Japan and the US in the early 1990s. In terms of benchmarking, the 1993 European Commission 'White Paper on Growth, Competitiveness and Employment' specifically referred to it as a means to improve the performance of SMEs in particular. The Commission also endorsed the self-organized networking and benchmarking activities of the European Foundation for Quality Management, which was founded in 1988 by the presidents of fourteen major European companies. However, the first significant reference to benchmarking was the Commission's Communication 'Benchmarking the Competitiveness of European Industry', COM (96) 463, in 1996. This document proposed using benchmarking, 'a tool which makes it possible to monitor progress on an ongoing basis and assess the situation against continuously improving best practice', as a means of enhancing the competitiveness of industry. It identified key areas for improvement, namely the functioning of markets, innovation and intangible investment and a number of priorities

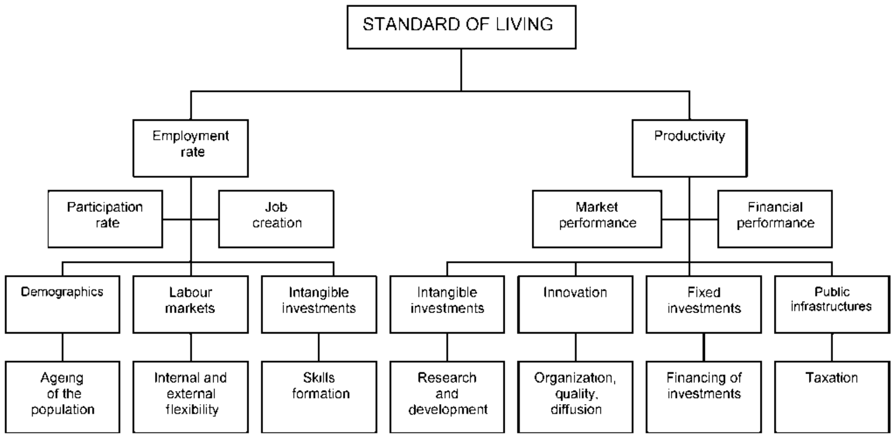

Figure 1 The competitiveness pyramid
Source: O'Reagain 2000: 2.

within these areas which may be suitable for benchmarking, such as price, quality of service and the number of innovatory services provided. It proposed drawing up a programme on benchmarking, in close consultation with industry and the member states, as well as a multi-annual quality promotion action programme aimed at reinforcing European competitiveness through the promotion of self-assessment, benchmarking, networking of information, and the development of European quality training programmes and techniques for measuring progress.

One immediate outcome was the specification of a 'performance pyramid' (see Figure 1) to identify the 'framework conditions' which could be subject to benchmarking at an operational level, promoting convergence towards best practice through an emphasis on learning (O'Reagain 2000). Framework conditions are broad areas of policy competence that set the context for business performance such as the labour market, innovation infrastructure, transport system and financial system. This form of benchmarking was also inspired by the OECD's promotion of policy transfer: its *Job Study* (OECD 1994) was a catalyst for subsequent EU developments.

A further Commission Communication in April 1997 entitled 'Benchmarking: Implementation of an Instrument Available to Economic Actors and Public Authorities' (COM (97) 153) was followed by four pilot schemes in the areas of skills, logistics, the financing of innovation, and the impact of new technologies on organizational structures. This was designed, according to one source within the Enterprise Directorate-General (formerly DG III), 'to test the usefulness of benchmarking as an instrument for promoting convergence towards best practice in the implementation of policies relating to competitiveness' (O'Reagain 2000: 2). The objective was 'to provide a diagnostic tool to identify key competitive weakness and an action tool to foster improvement in areas of weakness identified'. To this end, the Commission outlined three guiding principles:

- *Benchmark the outcomes and the inputs* – for example, the share in sales of products and expenditure on research and development.
- *Benchmark the causes rather than the symptoms* – for example, it is the situation in the labour market that should be the focus of attention, not the unemployment rate.
- *Benchmark the process as well as the performance* – for example, the capacity of a training system to deliver skills is important in explaining the level of skills attained.

Following the pilot programme, the Commission restated its commitment to benchmarking framework conditions, with a frame of reference set by the annual Competitiveness Report. The Report provides information on key trends, and weaknesses and impediments to international competitiveness, for which subsequent benchmarking exercises will provide practical actions to inform public policy debate. A dedicated Benchmarking Competitiveness Group was also established to support the future implementation of strategy, consisting of experts from member states and industry. This was but one of a number of groups and committees established by the Commission:[1]

- the Benchmarking Competitiveness Group (BCG) was established at the request of the Industry Council at its meeting on 29 April 1999. It consisted of nominees by the member states and met four times between 1999 and 2000 to develop and promote benchmarking from an industrial competitiveness perspective. Three initial benchmarking exercises were undertaken concerning the industry–research interface; the skills needs of industry for the information society; and the legal framework for start-up enterprises;
- the European Benchmarking Forum (EBF) was set up in 1997 to organize promotional events, networks and publications. It was part of the 'benchmarking for success' project initiated following a call of the Council of Industry Ministers on the Commission in 1996;
- the High Level Group on Benchmarking (HLGB) was appointed in 1998 at the personal invitation of the Enterprise Commissioner to give guidance on the implementation of the Commission's initiative to benchmark the key factors impacting on the competitiveness of European industry. Two comprehensive reports were produced during its tenure (HLGB 1998, 1999);
- various project groups were also set up, for example on 'benchmarking industry–science relations', 'benchmarking e-business policy for SMEs', 'monitoring information and communication technology (ICT) skills shortages', and a 'contact group on enterprise scoreboard and quantitative indicators'.

In its final report the HLGB identified three approaches to EU-level benchmarking, differentiated by degrees of political consensus, which closely resemble those that we noted earlier at company level. The first is top-down, or the 'surveillance approach', used to seek compliance at national and sub-national levels with Community policies or regulations already agreed on. The HLGB considers this a shortcut from its first phase of benchmarking framework conditions, 'securing political commitment', to the final stage, 'monitoring', so by-passing the intermediate stages of 'analytical preparation' and 'development of improvement and learning mechanisms' (HLGB 1999: 22). In contrast, these middle stages are the concern of the second form of Commission benchmarking, 'the learning approach', which is basically a bottom-up facilitator to the preparation or initiation of policy action. It focuses on analysing problems and making comparative assessment as a step towards best practice identification and building political consensus. The third form of benchmarking, 'the improvement approach', occupies an intermediate position embracing all four elements of the benchmarking process, combining an analytic and action orientation with 'measurement sticks for self-evaluation' and 'learning possibilities for improvement and adaptation' (HLGB 1999: 23). According to the HLGB, this form of benchmarking is characterized by a 'philosophy of a sustainable, comprehensive learning and improvement exercise' and 'is well suited to the multinational and multicultural environment of the European Union [and] for a policy which aims at voluntary best practice adaptation in economic behaviour instead of central legislation and regulation'. This learning cycle is the form of benchmarking to which the EU should aspire, according to the HLGB, at least as a means of improving business competitiveness.

The driving phase

Benchmarking began to gather steam as a driver of EU policy with the approach of economic and monetary union (EMU) and further enlargement. The Stability and Growth Pact underpinning EMU itself likens to a (top-down) benchmarking exercise. The Pact sets a target of a 3 per cent public deficit ceiling, clarifies the provisions of the excessive public deficit procedure and the conditions under which participants will be allowed to exceed it, and also provides for peer group review of performance. However, it is in the areas of employment and social policy that benchmarking really came to the fore. Following the Amsterdam Inter-Governmental Conference of June 1997, benchmarking moved to the centre of the EU's employment policy, acquiring a new treaty basis under Article 118 (Teague 2001). Subsequently, three so-called 'processes' were involved: the Luxembourg process involving the development and implementation of national action plans (NAPs) for employment; the Cardiff process related to the regional and structural funds; and the Cologne process referring to consultation on macro-economic policy between the European Central Bank, the social partners and the European Commission (for further details, see CEC 1998; Spineux *et al.* 2000). In the graphic words of the former Secretary General of the European Round Table of Industrialists (ERT), which had been closely involved in promoting benchmarking for competitiveness, these three processes can be seen as 'nothing more than glorified benchmarking exercises to deal with macro-economics, employment and structural reforms respectively, all tied together into a coherent package at Lisbon' (Richardson 2000: 22). It was at the Lisbon summit in 2000 that the EU goals were announced of 'more and better jobs', competitiveness and cohesion, to be met through the adoption by EU member states of common goals, indicators to allow them to measure achievements, and reliance on 'peer group pressure' to reinforce progress. There is now a rolling programme of yearly planning, monitoring, examination and re-adjustment based on the four so-called 'pillars' of priority action: improving employability; developing entrepreneurship; encouraging adaptability in businesses and their employees; and strengthening the policies for equal opportunities.

The answer to the policy-maker's prayer?

The appeal of benchmarking at EU level is its promise of greater democratic legitimacy *and* effectiveness in policy development and implementation. The centre adopts the role of strategy-maker, but only after the consultation and involvement of member states and other interested parties such as business and trade union representatives. Involvement of national actors means that interventions may be more appropriate and realistic, and consequently more likely to be put into practice. Rather than being bogged down with 'institutional harmonization', policy-makers are free to take a problem-solving approach with a longer-term focus that is flexible enough to adapt to changing circumstances and extend itself to new areas. The iterative cycle of benchmarking also means that the policy process becomes less opaque (and therefore more legitimate) with the elaboration of clear goals and targets, the identification of best performers, and scrutiny of member state progress. As such, benchmarking can help to ensure the value of the OMC as a coherent framework or policy paradigm which is more flexible, efficient and integrated than the traditional methods such as legislation, and one that strongly acknowledges the democratic principles of voluntarism and subsidiarity (Borrás and Jacobsson 2003).

In short, benchmarking was attractive because it offered to deal with both the horizontal and vertical dimensions of the collective action problem (Sisson and Marginson 2002). On the horizontal dimension, a broad direction could be set which minimized the scope for disagreement over detail. At the same time, deference to the principle of 'subsidiarity' helped to relieve the collective action problem on the vertical dimension by involving member states throughout the process of policy formulation, implementation and monitoring. The case for a light regulatory touch through benchmarking and target setting had obvious appeal to member states, as they would retain discretion over how to realize the policy goals and in interpreting and implementing 'best practice'. Benchmarking was therefore attractive as a policy tool because it declared that the Commission was not abdicating from the social and employment sphere just as its traditional legislative approach seemed to be running out of steam.

Instead of regulation, co-ordination would be the principal means of progress, of which benchmarking was the principal driver.

Problems of benchmarking

In reality, benchmarking at EU level is much more difficult to effect than might initially be supposed. In discussions of the weaknesses of benchmarking, much attention at both the micro and macro levels has focused on the technical problems (Delbridge *et al.* 1995; Tronti 1998; Schmid *et al.* 1999; Arrowsmith and Sisson 2001). Defining 'best practice' is no easy matter, especially when there are several and potentially conflicting policy goals. Data have to be collected and collated in comparable terms, and where benchmarking is co-operative, reaching agreement on the most appropriate bases can be difficult, especially if it involves significant changes to existing reporting arrangements. Agreement must be reached on the definition of measurable variables that deliver comparisons of like with like; the contingencies and timing of the exercise; and allocation of responsibility for the initiative and its co-ordination. All this is to be resolved before the issue of implementation of findings can be addressed. The process is therefore costly in terms of financial resources and time, and with no guarantee of clear benefits at the end.

Yet it is not necessarily the technology of benchmarking that is the main source of the problem. Rather it is the political nature of the process involved. Ironically, the elevation of benchmarking to the macro level has not only exposed its strengths, but also considerable weaknesses. A major reason why benchmarking faces problems at the macro level is that it cannot be imposed, unlike within companies, where benchmarking can be a powerful instrument of learning and communication, but also has a darker side. Within the EU, benchmarking is a consensual process, whereas at the micro level it is also a coercive one. This is a particularly acute problem given the heterogeneity of contexts and level of abstraction involved when dealing with benchmarking employment, labour market and competitiveness policies between different member states. This leads to a third problem, a tendency to focus on broad quantitative measures of inputs or outputs rather than the actual processes involved.

Consensus and coercion – the two faces of benchmarking

Much has been made of the fact that, in its present form, the OMC does not resolve the difficulties associated with the traditional Community method. Progress still requires generating sufficient consensus among member states. Discussing some of the problems experienced at the Stockholm conference in 2001, in particular relating to energy liberalization, Norman (2001) writes:

> In Lisbon, the method seemed an attractive alternative to the complexities of normal EU law making. It involves the adoption by EU member states of common goals, indicators to allow them to measure achievements, and

> relies on 'peer group pressure' to bring recalcitrant states into line. But EU summits depend for success on consensus. France showed how a powerful member state could stall progress.

That benchmarking at the macro level is an essentially consensual process has profound implications for the choice of comparisons and for implementation. Governments (and other interested parties such as trade unions) are democratic organizations, which complicates internal compliance. Additionally problematic is that the external dimension involves organizations that are sovereign bodies. The relationship is essentially horizontal and so the controls available in vertical relationships are of little avail. This means that there are difficulties not experienced at the company level, both on the horizontal dimension, concerning the nature of relationships between the participants, and on the vertical dimension, in terms of the credibility of the data collection and implementation exercises. Intergovernmental benchmarking relies on voluntary mechanisms of co-ordination, albeit backed up by various, 'softer', forms of 'enforcement' through peer review and even 'naming and shaming'.[2]

Quantity rather than quality

A fundamental criticism of the practice of benchmarking is that performance benchmarking rarely becomes process benchmarking, let alone strategic benchmarking. Instead of being about learning and continuous improvement, benchmarking is essentially about target setting and quantitative measurement, encouraging participants to manipulate the evidence to what is seen to be required. At company level, it can also mean a narrow attention to the costs and flexibility of labour rather than the adaptability of work organization in its widest sense. At national and EU levels, it can mean an obsession with placings in 'league tables' to the detriment of the quality of outcomes. 'Focusing on the numbers', as Elmuti and Kathawala (1997: 236) put it, is so much easier than analysing the contingent and multi-dimensional reasons for the differences behind them. At its worst, target setting becomes an end in itself and self-defeating; rather than 'benchmarking', we get 'auditing' as a means to replicate the top-down systems of control evident in much of company-level benchmarking. In Power's words:

> the audit process becomes a world to itself, self-referentially creating auditable images of performance. The audit process is *decoupled* or compartmentalized in such a way that it is remote from the very organizational processes which give it its point . . . [it] provides a dominant reference point for organizational activity . . . [and] can be said to fail because its side-effects may actually undermine performance.
>
> (Power 1997: 95)

4. DISCUSSION AND IMPLICATIONS

There would appear to be no immediate end to the rise of benchmarking. By the mid-1990s almost four out of five companies in Europe, North America and South East Asia were reported to be using it (Hastings 1997). The seemingly inexorable rise of benchmarking at firm level reflects both the growing scale and concentration of firms and the increasing decentralization and 'accountability' of management within them. Benchmarking is not merely the latest management fad but a means for managers at all levels to purchase greater legitimacy, and some insulation from blame, when making decisions. To this end they have been ably assisted by the rapid rise of the management consultancy industry (Cummings 2002). There is no comparable data on usage by national policy-makers, but it certainly seems extensive. In 2001 the European Trade Union Conference (ETUC) sponsored its first *Benchmarking Working Europe* report, to be followed by wider and deeper versions in 2002 and 2003 (ETUI 2003). Meanwhile, successive European Councils have extended the EU's own brand of benchmarking from supporting industrial competitiveness to the co-ordination of policy outcomes relating to the socio-economic infrastructure of so-called 'framework conditions'. However, the elevation of benchmarking to national and international levels has exposed its weaknesses as well as its strengths. First, the relative ease with which benchmarking has been implemented at corporate level reflects top-down, coercive mechanisms of control that are not available to sovereign bodies. Second, the promise of benchmarking as a powerful tool of learning has been largely unfulfilled. Benchmarking at the macro levels, it seems, has inherited the tendency to prioritize simple quantitative targets at the expense of qualitative issues of process.

Ideally, benchmarking is designed to be an iterative process of co-ordination through a cycle of information sharing and learning. When it works in organizations it is generally because of two key considerations that are absent at EU level. First, within the firm, there are clear compliance and control mechanisms, driven by coercive pressures, that make the exercise meaningful. Second, beyond the firm, there are well-established boundaries and commonalities between the actors that underpin the benchmarking process. Institutional analysis suggests that convergence tendencies, or 'institutional isomorphism', occur within 'organizational fields' because of objective and normative similarities in product markets, labour markets, technologies and the shared background and networks of participants (DiMaggio and Powell 1983). Such features provide a fruitful context for learning and co-ordination through benchmarking. Even so, benchmarking at this level is not without costs and risks. With insufficient deference to the contingencies of 'best fit', implementing the universalistic prescriptions of 'best practice' can be counterproductive. Hence the emergence in the management literature of concepts such as the 'learning organization', or the 'knowledge-based' or 'resource-based' view of the firm, which stress that sustained competitive advantage comes from an organization's intrinsic, often intangible, assets that are difficult to imitate (Boxall and Purcell 2002). In this view, benchmarking could actually retard long-term performance by stifling innovation and creativity, and by diverting attention away from the problems and solutions unique to the particular organization. Best-practice benchmarking, therefore, might best be reserved for addressing the technological and mechanistic problems that from time to time beset an organization (which is where benchmarking first came in) rather than the more complex matters of process and change management.

The situation at EU level is characterized by increasing unpredictability and heterogeneity, which makes the more directive forms of co-ordination difficult. However, benchmarking here faces a complexity that reflects not just growing diversity but also the nature of the problems and issues (many qualitative and dynamic) that it must address. It also lacks the coercive impetus that assures compliance at firm level. If the traditional community method, particularly legislation, is unsuited to these circumstances, so too, we would argue, is benchmarking – at least, that is, on its own.

To date, therefore, benchmarking at EU level has been an ambiguous process. This fundamentally reflects 'a sharp paradox in the European integration process', as Teague and Donaghey (2003: 105) put it, in that the EU has sufficient political muscle to destabilize existing national systems without the strength, in the employment sphere at least, to build alternative EU-wide systems of regulation. Thus, the authors continue:

> the EU is about managing the disequilibrium effects that arise from the deep interdependence that exists between the member states without the capacity to assign authoritative policy competencies to different tiers of government. In a sense the EU is a serial problem-solving institution in which sometimes imaginative solutions, and other times tawdry improvisations, are made to conjoin the 'European' and the 'national'.
>
> (Teague and Donaghey 2003: 105)

Without doubt, benchmarking has emerged as one of the most important problem-solving tools for the EU in recent years. A major consideration in the growth of benchmarking, and of 'soft' regulation more generally, is the growing complexity of economic and social issues that reflects increasing differentiation and interdependency. As Chouraqui (1998) insists, the development of 'dynamic complexity' is not a temporary phenomenon involving a transition from one fixed state to another, but a permanent feature of social life. Crucially, the management of complexity, diversity and uncertainty cannot be imposed from above but requires the involvement and participation of agents such as national governments and the social partners. This 'voluntarism' does not mean, however, that the state abdicates its role; rather it moves towards what Müller and Platzer (2003) have called, in a different context, a mode of 'regulated self-regulation'. This has strong parallels with the notion of 'reflexive law', in which regulation is concerned less with direct prescription than with inducing 'second-order effects' on the part of social actors (Barnard and Deakin 2000: 341). In this sense, the process is important as well as the results. In principle at least, benchmarking is a tool highly suited to such 'reflexive' methods as the OMC, because it relies on the elaboration of customized local solutions within a guiding framework of principles and a process of monitoring and review.

We identified at the outset that benchmarking at company level takes three main forms: a loose network of information exchange between firms; a top-down form of comparative measurement and control; and a real action-oriented learning cycle as typified by companies like Xerox. At Commission level, these are mirrored by what the HLGB (1999) terms the learning, surveillance or improvement approaches. Our analysis suggests that the third, arguably ideal or most 'pure' form of benchmarking, is most difficult to realize at European level. This is because of the need for political consensus between member states and because of their heterogeneity in terms of legal systems, regulatory frameworks, labour markets and economies, cultures and so on which takes the inherent technical problems of the benchmarking process to new extremes. Put simply, if companies like Alcan find it difficult to benchmark smelting processes between their different plants, how much more difficult is it to benchmark processes such as skills acquisition, innovation or knowledge transfer across different countries of the Union? The second type, target setting, is increasingly common in terms of setting the broad policy goals and sense of direction in areas such as labour force participation (see, for example, the so-called 'ten commandments' proposed by the Commission concerning the Employment Strategy in April 2003).[3] Of itself, this is fairly unproblematic, depending on the ambitions and consensus underlying the target-setting process, and as long as the key actors are aware of the risks associated with the 'audit society' referred to above. This leaves the first form of benchmarking, loose learning networks, as potentially having the greatest promise in generating improvement-oriented benchmarking with real ownership at the level of implementation.

Accepting that benchmarking at the EU level is essentially a consensual exercise allows it to be a complementary rather than alternative form of regulation, perhaps combining OMC-type arrangements with the harder edge of framework directives and/or collective agreements intended to be legally enforceable within national systems. In the same way as the prospect of legislation sharpens the minds of the social partners (employers in particular) in the social dialogue process, so the possibility of steps beyond voluntary benchmarking would boost the credibility of the OMC. Conceivably, there could even be 'differentiated framework directives' combined with the OMC (see Scharpf 2002). The vagueness of the underlying directives would matter less, since progress towards their realization would be directed by guidelines, with member states presenting action plans and reporting on their effects with periodic assessment by peer review. Yet, as Scharpf argues, if they should abuse this discretion in the political judgement of their peers in the Council, more centralized sanctions and enforcement procedures would still be available as a 'fleet in being'.

More problematic perhaps in ensuring that the benefits of benchmarking as a learning tool are maximized is guarding it from any tendency to degenerate into target setting and micro-management. To this end much greater effort needs to be put into developing the qualitative dimension of benchmarking (Tronti 1998). This is difficult, but not impossible as the recent work of the European Commission (2001: ch. 3; 2002: ch. 4) in connection with the 'quality of work' clearly shows. As far as possible, any targets should also be used as 'soft' indicators rather than hard and fast requirements. Models of evaluation that draw on impact surveys, case study work and knowledge sharing are also available and, given the will, would enable loose but coherent forms of process and strategic benchmarking to be prioritized. Furthermore, there needs to be regular interaction between those who monitor the targets and those who have to implement them. Involving those who are going to be affected by the outcomes of benchmarking maximizes commitment to the process, an internal motivation that is more powerful than that which is imposed. As Bessant and Rush (1999: 3) put it, 'the idea about benchmarking framework conditions is not to copy and replicate what is done in one relatively successful place in another, but to provide stimulus for thinking in new ways about developing (or improving) and implementing framework conditions.' Only in this way is mutual learning likely to take place and a serious appreciation realized of what might be done to improve performance. Here, paradoxically as it may seem, corporations and national governments have a great deal to learn from the OMC: benchmarking as a consensual rather than coercive process may have its frustrations, but could make more sense in the long run.

This brings us to our final and, in key respects, most important point. The potential of benchmarking is not limited to that of management tool or, indeed, high level governance. It offers the prospect of greater downwards as well as upwards accountability. For this potential to be realized, however, there needs to be much greater transparency of both the processes and the outcomes of decision-making. One of two necessary developments has already been set in train at firm level. This is the European Commission's support for employee information and consultation providing for both transnational and national level arrangements involving employee representatives. The other is a requirement to make public, in the form of a regular social audit, the organization's performance across a range of social and environmental issues. It is an issue that has been on the EU agenda since at least 1998 following the work of the Gyllenhammer high level group on the economic and social implications of industrial change. The Commission has yet to promote this with its full authority, however, because of opposition from employers. It is difficult to escape the conclusion that the reasons why employers are opposed are also the ones why the Commission should push ahead. Regular social audits developed in consultation with employee representatives would make it possible to use benchmarking to turn the spotlight on management performance and to ensure not simply a level of minimum rights, which is what legal enactment and collective bargaining are effectively limited to achieving, but continuously improving standards.

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NOTES

1 Further details are available at the official website of the Benchmarking Co-Ordination Office (BCO), <www.benchmarking-in-europe.com> launched in October 1998 by the Enterprise Directorate-General of the European Commission, in conjunction with the BCO.

2 One of us attended a recent seminar which was attended by a senior official of the UK Treasury, who spoke from personal experience about what it felt like to be involved in EU-level benchmarking with peer group review. He said that, like many people, he had been somewhat scornful about 'naming and shaming' as a method of enforcement. Having been personally exposed to the process, however, he could vouch for its impact. It was not at all a comfortable position, he pointed out, for senior officials and ministers of governments to be put in the dock in such an explicit way.

3 http://europa.eu.int/comm/employment_social/news/2003/apr/newees_en.html

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