

Management tools survey 2003: usage up as companies strive to make headway in tough times

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The year 2002 saw the economy in turmoil, investors in retreat and management under attack. No wonder corporate executives were grasping for all the help they could find. In a sign of the times, Bain & Company's 2003 Management Tools Survey of senior executives found sharp increases in tool use the prior year by companies around the world. Explained one respondent, "In hard times you have to drive as much efficiency as possible out of every tool at your disposal".

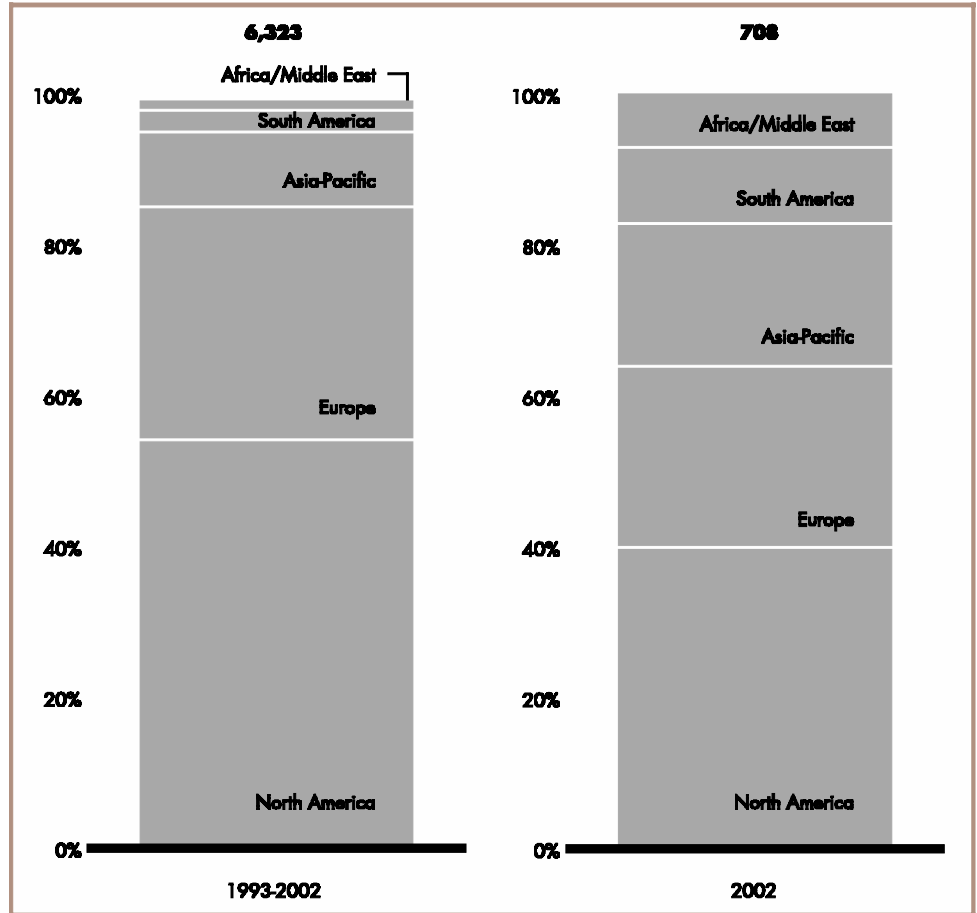
For nine years, Bain has tracked the adoption and usefulness of management tools. The 2003 survey gathered data on tool use and satisfaction in 2002 from 708 companies on five continents – North and South America, Europe, Asia and Africa (see Exhibit 1).

This year's survey reveals a dramatic increase in tool use during the past two years, with the heaviest reliance on tried and true "compass-setting" tools such as strategic planning, benchmarking, and mission and vision statements (see Exhibit 2).

The numbers tell the story. A typical company in this year's survey used 16 tools, up from ten in 2000 – a 55 percent leap. Most of the 25 tools surveyed showed significant increases in usage, averaging a 60 percent rise. More than 80 percent of the companies surveyed this year used the three most popular tools listed above. The same three topped the list two years ago, but usage rates were lower – around 70 percent.

Why are management tools in such heavy demand? A mixture of caution and optimism among the survey respondents may offer some clues. Senior executives had reservations about short-term prospects for their own markets and the global economy. But they also voiced strong confidence in their ability to manage during prolonged economic uncertainty. Surprisingly, given the pressure to control expenses, their choice of tools shows a clear bias toward growth over cost cutting. The message: moving ahead, not retrenching, is critical to control a firm's destiny.

Still, two-thirds of the survey respondents expressed concern about how they would meet their current growth targets. One-third said their base business was troubled and might require significant changes. At the same time, many executives believed that the post-bubble collapse had largely run its course, and that management moves they had made during the downturn would pay off when the economy rebounded. More than 40 percent of the group said economic conditions were improving, while 32 percent saw no improvement. A total of 54 percent believed they had used the recession to enhance their competitive position, compared with 20 percent who said they were no better off.



Tools for tough times

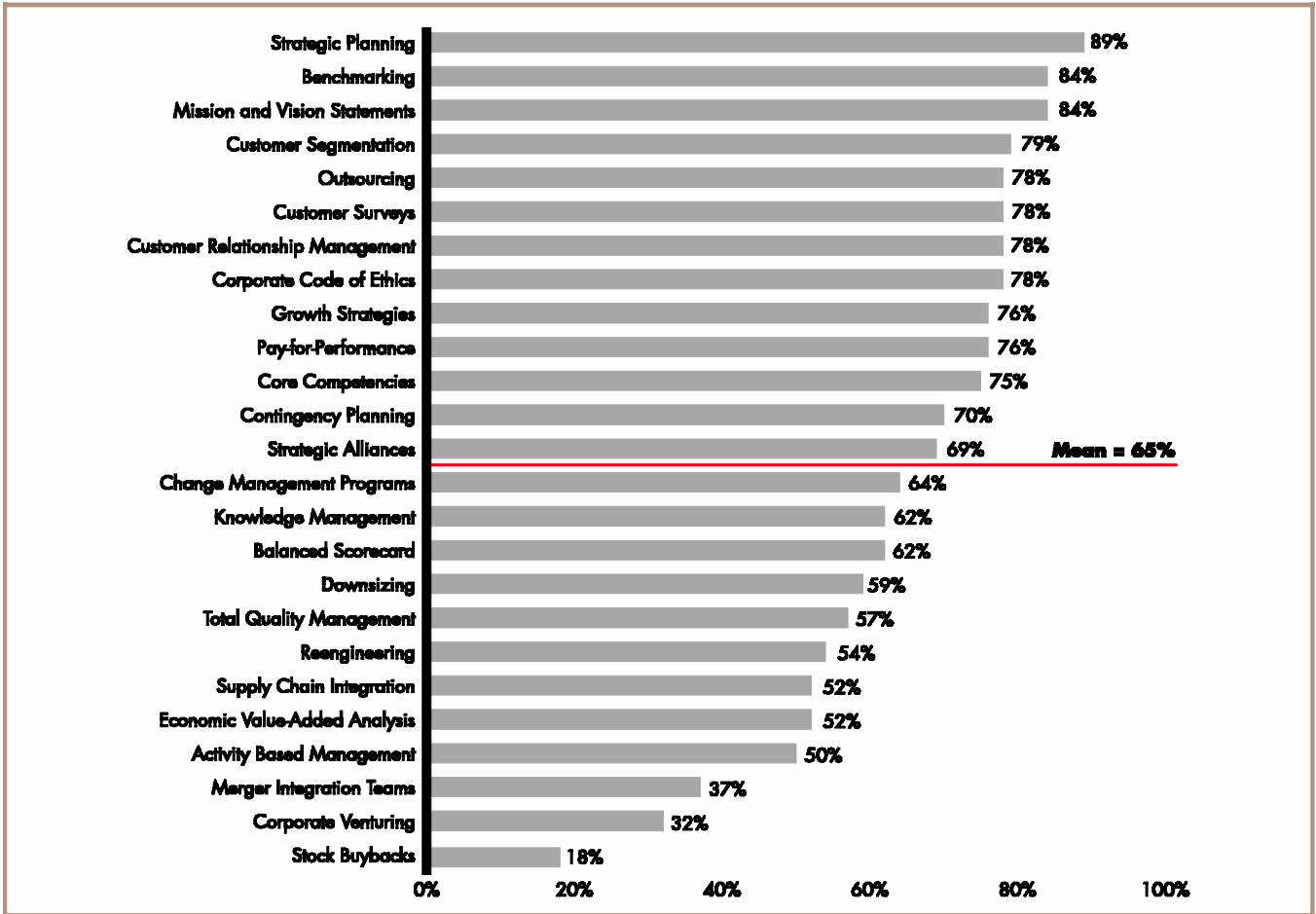
The resolve to turn the economic slump into advantage showed up in the types of tools companies adopted in 2002. Overwhelmingly, senior executives favored tools that help sharpen strategies and prepare managers for an increasingly hard road to growth. Proven disciplines like strategic planning and core competencies (which have consistently rated near the top since 1993) drew plaudits once again for helping companies stay on course. This year, they were joined in the satisfaction ratings by tools focused on defining markets and improving customer relationships – key activities as companies tried to eke out as much revenue from existing customers as possible.

At the same time, executives discarded tools that might divert management attention or require big cash outlays. Stock buybacks, corporate venturing and merger integration teams were least used; all three received below-average satisfaction scores (see Exhibit 3).

Survey respondents were decidedly cool on the value of acquisitions. Nearly 40 percent said acquisitions had not significantly increased their company's share price, roughly the same number that said they planned to avoid acquisitions in the future.

Some of the lowest ratings in satisfaction and usage were given to contingency planning and downsizing, a surprising result for tools designed to help companies cope with trouble. Contingency planning may have received low marks because many managers only began to plan for contingencies in the middle of a downturn, rather than during periods of growth, thus limiting the plan's effectiveness. As for downsizing, although 59 percent of respondents said they were forced to make staff cuts in 2002, many of them seemed to be feeling some discomfort afterward. They have learned from experience that staff cuts often have a negative

Exhibit 2 “Compass-setting” tools saw highest usage



effect on stock price, and layoffs sometimes cost more in the long run than they save in the short term.

Indeed, there are no easy fixes. Despite the dramatic surge in tool usage, satisfaction ratings remained flat. Overall, senior executives seemed about as satisfied with the average management tool in 2002 as they were in 2000 – maybe a little less. Cautioned the director of business development at a Japanese food group: “It’s easy to get wrapped up in tools, but you want to make sure that you pick few enough that you have time and resources to really make them work”. Added a respondent from the healthcare sector: “There are no magic answers, and it takes time, effort and commitment to get results”.

Closing the gap with customers

With spending at a standstill and little room to make further price cuts, senior executives recognized that satisfied customers are worth their weight in gold. Nearly 60 percent of respondents said that customers and employees take priority over shareholders. As they chase difficult growth targets, companies have been doing all they can to strengthen those fragile ties. Customer relationship management (CRM) – the complex art of devising sales strategies based on reams of data collected from existing and prospective customers – was the fastest-growing tool by a wide margin in the 2003 survey. Of the respondents, 78 percent said they use CRM systems, compared with 35 percent in 2000. Customer surveys and customer segmentation strategies both landed in the top ten in terms of usage and satisfaction.

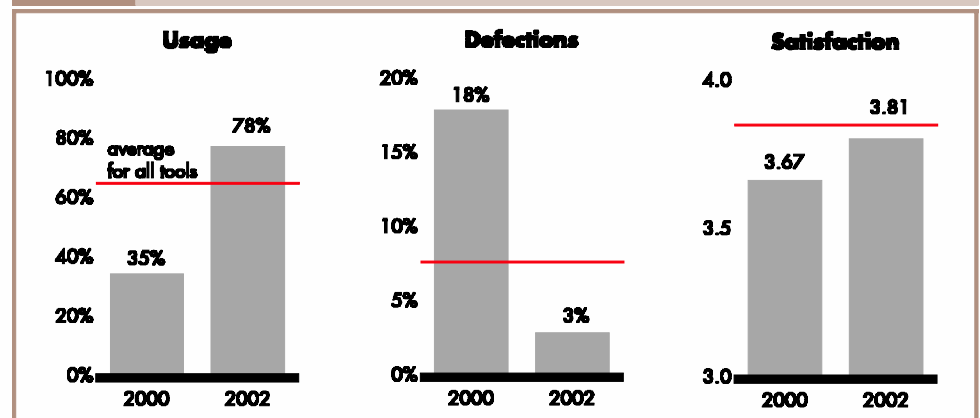
The turnaround is noteworthy. CRM was roundly chastised by survey respondents two years ago, when companies, flummoxed by expensive, Internet-based CRM software systems,

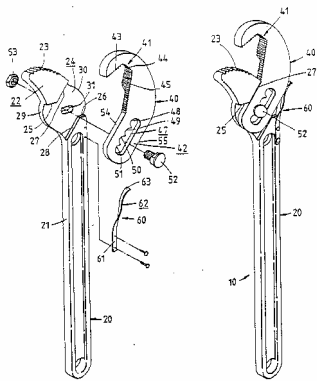
Exhibit 3 Corporate “discipline” tools saw highest satisfaction (scale out of 5)



placed this tool near the bottom of the satisfaction ratings with one of the highest defection rates (see Exhibit 4). By 2002, however, executives had learned how to deploy CRM systems more effectively; satisfaction jumped closer to the average for all tools, and defections plummeted, to 3 percent of respondents from 18 percent in 2000. The message? New disciplines often require a ramp-up period – sometimes a long one – and succeed only when they receive full management attention. “The challenge with tools like CRM has always been

Exhibit 4 CRM results 2000 vs. 2002





integration”, said the chief information officer of a large US manufacturer. “As technology matures, which we have observed this past year, integration becomes much easier”.

Desperately seeking growth

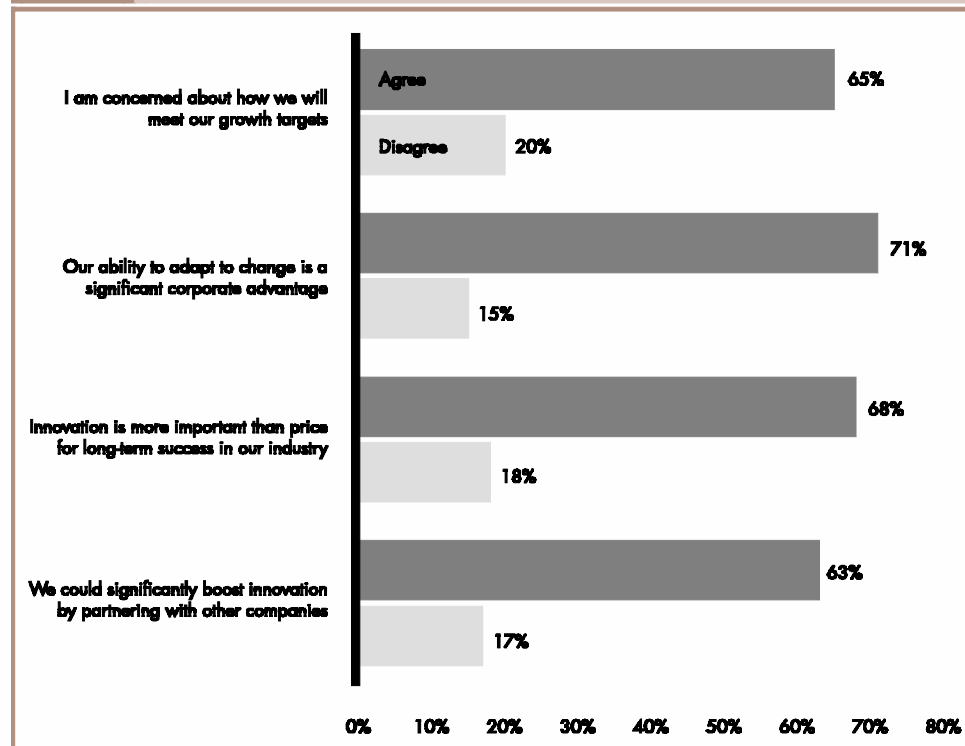
Two-thirds of the survey respondents said that they would focus on growth, not cost cutting, in 2003. Customer strategies are crucial in this effort, but executives know it will take more. So, they are gravitating to tools that help them focus on the most promising and productive areas of their businesses.

Strategic planning and core competency studies reached record usage this year. Benchmarking studies also hit a high, reflecting a surge of interest in setting smart goals and identifying opportunities for improvement. The sharper focus on doing what companies do best had a predictable side effect: nearly 80 percent of respondents said they had engaged in outsourcing – the use of third-party contractors to perform non-core business activities, such as data processing or manufacturing.

Innovation also was singled out as an important antidote to sluggish growth. Almost 75 percent of the respondents said that the ability to change is a major corporate advantage, while 68 percent believed that innovation is more important than price when it comes to long-term success in their industries. Growth strategies – the broad basket of tools that includes managing innovation – found wide usage over the last two years, rising from 55 percent adoption to around 76 percent. Said one respondent from the US government sector, “You can’t afford not to grow, and you can’t afford not to reduce costs given these economic conditions – you must be prepared to do both during a downturn. If you only do one or the other you’ll be in a bad place” (see Exhibit 5).

Yet, the data also indicated that senior executives had little appetite for blind spending or prospecting, despite their enthusiasm for ferreting out new products and technologies. Instead, they showed increased interest in the concept of open market innovation – an approach that seeks to use tools such as licensing agreements, joint ventures or strategic alliances to bring the benefits of free trade to the flow of ideas. Open market innovation can lower the cost

Exhibit 5 Companies want to grow, not cut their way out of recession



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and inefficiency of the “not invented here” syndrome by opening a company’s “borders” to ideas from vendors, customers or even competitors. More than two-thirds of the survey respondents agreed that they could significantly boost innovation by using such outside partnerships. An insurance company executive identified what is at stake: “If you can’t innovate, you can’t charge a premium and must rely on cost reductions, which can’t ensure long-term viability”.

Are we ethical?

A clear sign of the times in this year’s survey was the soaring popularity of the corporate code of ethics; 78 percent of respondents said they have enacted a code of ethics, and the tool beat both strategic planning and core competencies to top satisfaction rankings. Given the rash of corporate scandals, it is not surprising that top executives are promoting good conduct by setting a common standard for acceptable behavior. More astounding: 84 percent of respondents said they were proud of their corporate ethics. This raises an interesting question: are a few high profile scandals casting undeserved doubt on corporate mores? or are companies in denial about go-go ethics formed in the go-go years? A European executive suspected the latter when asked about the general optimism: “That shouldn’t be surprising in business – it’s always somebody else’s problem”.

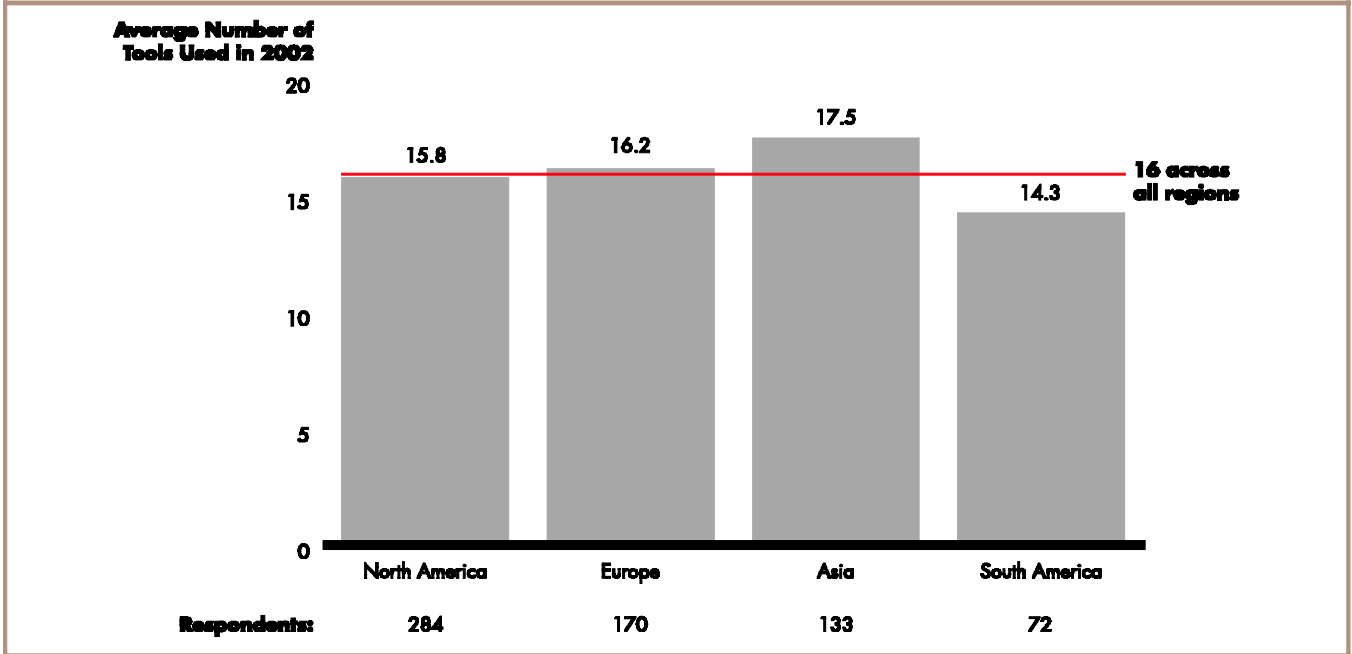
Other respondents felt firms were buckling down on behavioral norms, mindful that ethical lapses can damage a company’s stock price and productivity as well as its honor. Explained one survey respondent: “In light of scandals like Enron and Arthur Andersen, companies are beginning to take a long, hard look at themselves internally so they don’t end up on the front page of tomorrow’s newspaper”.

Appetites differ by region

Some key differences in the data showed up across regions, industries and company size. Most striking was the voracious appetite for tools among companies in Asia – especially for tools that relate to the customer. Among respondents in Asian countries, 92 percent use customer segmentation tools and almost 90 percent use CRM. European companies also use customer-related tools in high percentages. North American usage rates were closer to 70 percent (see Exhibit 6).

Other regional findings were:

- Companies in North America and Europe were less likely to focus on revenue growth over cost reduction, while revenue growth remained a higher priority in Asia, which used 17.5 tools on average.
- European executives indicated the greatest likelihood that they would lay off employees in 2003.
- Knowledge management was more widely used in Asia and Europe, and less in North and South America.
- European companies were less likely to use a corporate code of ethics.
- North America was the only region to have contingency planning in its “top-ten” list of tools.
- South American companies were the most enthusiastic about the power of innovation, but more than half said actions taken in this downturn would hurt long-term performance.



Tool use varied by industry as well. While the number of tools used by the average company spiked in all industries, the heaviest users were financial services firms, chemical and metals companies, and food and beverage companies. The least likely to use tools were consumer goods, manufacturing and media companies.

Larger enterprises seemed decidedly less sanguine about tool use than smaller ones. Whereas 70 percent of smaller company executives said they plan to focus on revenue growth ahead of cost cutting in 2003, only about half of executives from large companies surveyed put revenue growth first. More small companies said employee morale was high. That might have something to do with this next statistic: nearly half of large-company executives expected to lay people off in 2003, while just 22 percent of the small-company executives said they may have to.

Getting to results

What guidelines for getting results can beleaguered managers take away from the 2003 study? Here is some practical advice for those thinking about turning to management tools:

Tip #1: Get the facts. Every tool has strengths and weaknesses. Success requires understanding the full effects – and side effects – of each tool. Use the available research. Talk to managers who have experience using the tool you are thinking of trying. Don't expect a tool to provide a simple, easy solution. In the words of a strategy vice president at a large insurer, "A tool is only as good as the way it is used".

Tip #2: Champion enduring strategies, not fads. Tool gurus abound. And while they can often provoke stimulating discussion, they rarely know what's best for a given company. Managers who promote fleeting fads undermine the confidence of employees and generate increased skepticism of their programs. Explained a respondent in finance and planning, commenting on the attraction of fads, "It's a fear of being left behind". Executives should choose tools cautiously and put their weight behind those tools that can provide realistic and strategic direction. To wit, a chief executive of a South American manufacturer stated, "We're not after this year's fad. We want to see a proven track record before we begin implementation".

Tip #3: Choose the best tools for the job. You wouldn't use a wrench to hammer in a nail. Managers need a rational system for selecting, implementing, and integrating the tools and

techniques appropriate for their companies. As one respondent put it, “When [747] pilots fly, they have a panel full of instruments, but they only concentrate on the top five percent”. Before approving its adoption, executives should ascertain that a tool helps discover unmet customer needs, builds distinctive capabilities, exploits competitor vulnerabilities or develops breakthrough strategies.

Tip #4: Adapt tools to your business system (and not vice versa). Most tools gain exposure because a management guru touts them. They’ll point the way for companies to reorient management structures and processes around a specific approach. Unfortunately, this isn’t often practical. For one thing, most companies use multiple tools – in 2002 they used 16 tools on average. Managers can’t keep rebuilding their companies around each successive tool. For another, tools come and go, but corporate cultures last. Therefore, the company’s structure, culture and management processes should dictate the way a tool is implemented – not vice versa. “Adapt tools to your own industry and company” advised a research director who responded to the survey. “Just because something worked for the next guy doesn’t mean it’s going to fit right into your business system and culture”.

