After a global downturn that made executives cautious and conservative, companies are now preparing for a return to growth.

Management Tools & Trends 2011

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After a global downturn that made executives cautious and conservative, companies are now preparing for a return to growth.

Since launching our first survey of Management Tools & Trends in 1993, we have tracked executives' attitudes and behaviors through a wide range of economic cycles. We watched as managers pulled away from the recession of 1990–91, maneuvered through the speed bumps of 1996, slowed for the painful 2001 recession and slammed into the Great Recession of 2007–09. Familiar patterns are emerging: profound fear that the world has deteriorated forever is followed by increasing optimism that economic challenges strengthened companies' positions and the future will now be brighter.

In 2009, executives expressed deep concerns about the long-term effects of the downturn (see Figure 1). Seven out of 10 worried about their ability to meet earnings targets, and growing numbers turned to cost-cutting tools such as downsizing and outsourcing to cope with slowing sales. Today, executives overwhelmingly cite revenue growth as their organizations' most important priority over the next three years—three times more often than any other priority, and six times more often than cost containment (see Figure 2).

Figure 1: The view on management trends

	Agree	Disagree
Culture is as important as strategy for business success	89%	4%
Our ability to change is a significant competitive advantage	81%	8%
Innovation is more important than cost reduction for long-term success	80%	8%
It feels like economic conditions are improving in our industry	74%	13%
Countries should reduce trade barriers and increase free trade agreements	69%	8%
Taking care of customers and employees should come before shareholders	68%	17%
We have used the recession to improve our competitive position	65%	13%
The recent downturn has changed consumer behavior for at least three more years	64%	17%
Government regulation of business will increase over the next five years	64%	14%
Over the next three years, we will focus more on revenue growth than cost reduction	63%	21%
A growing percentage of our products and services behave like commodities	59%	20%
Outsourcing may be politically unpopular, but everyone benefits in the end	51%	22%
Our top executives are comfortable taking higher risks for potentially higher returns	50%	29%
I am very concerned about how we will meet earnings targets in 2011	49%	31%
We will pursue sustainability initiatives even if they hurt our profits	46%	28%
Insufficient consumer insight is hurting our performance	45%	30%
Our international revenues will grow faster than domestic revenues over the next five years	45%	31%
Local companies will be more successful than multinationals in emerging markets	39%	31%
Almost all of today's market leaders will still be leaders five years from now	35%	44%
We are planning for economic stagnation over the next two to three years	24%	56%

Source: Bain survey

Figure 2: Revenue growth is a key priority for executives

Source: Bain survey

Executives are concerned that consumer behaviors won't immediately bounce back to pre-recession levels. Among large companies (those with more than $2 billion in revenues), 59 percent fear that the downturn has changed consumer behavior for at least three more years, suggesting that consumers will be less willing to spend money in certain product categories. Still, that's down from 75 percent who believed so in 2009. Furthermore, three-quarters of the 1,230 executive participants from a broad range of industries, countries and company sizes told us that it feels like economic conditions are improving in their industry. Only a quarter of our respondents expect the economy to stagnate over the next two or three years. And an increasing number of respondents believe that today's market leaders still will be leaders in five years—a sentiment that reflects confidence in the ability of top businesses to continue to outperform competitors that were weakened by the downturn.

Feeling better positioned for the future

While the majority of these executives believe the impact of the downturn will persist into the future, they also feel they're well prepared for the challenges. Two-thirds of the executives believe they're emerging from this recession in a stronger competitive position. We asked the same question in 2002, when many economies were still reeling from the dotcom bust. At that time, less than half of those executives had reported using the downturn to get in better shape.

Many companies undoubtedly used the recent turbulence to trim organizational layers, tighten operations and take other moves that contribute to becoming a more effective and efficient player. Many managed to improve sales and profits. However, we see a risk in too readily believing that a company has put itself on a superior, lasting competitive footing. First, it's difficult for two-thirds of all companies to improve faster than their competitors. The math just doesn't work. Second, this attitude can breed complacency, putting at risk the hard-earned benefits companies achieved during the downturn.

Nevertheless, renewed confidence encourages prudent risk taking, and executives are now focusing on growth over cost cutting. As we mentioned earlier, when we asked executives to state their top priority over the next three years, one theme dominated: growth, including international expansion. Almost two-thirds of the respondents are planning to put more emphasis on growing revenues over the next three years—that's a 10 percent rise from our 2009 survey, and it's the highest level since we began asking it in 2001. In addition, almost half of the executives see growth coming from foreign markets, as they believe international revenue growth will outpace domestic revenue growth between now and 2015.

This focus on growth is reflected throughout our survey findings. For example, despite the sting of the downturn, 80 percent of the executives still believe innovation is more important than cost reduction for long-term success. Also, 68 percent of respondents believe that taking care of customers and employees should come before shareholders. One way to interpret this finding: executives realize that growth depends on having happy, productive employees and satisfied customers. Shareholder returns will be the natural byproduct. A third sign that companies are favoring growth over cost cutting: downsizing and outsourcing are much less likely to be added to manager's tool kits than are other tools in 2011.

Tools to spur growth

Our survey looks at the usage and satisfaction rates of 25 of the most popular management tools (see Figure 3). Given the renewed emphasis on growth, it is no surprise that executives are less likely to rely on downsizing or outsourcing and more likely to lean on a variety of growth-related management tools in the year ahead. The three tools that the largest number of executives say they will start using in 2011 are open innovation, scenario and contingency planning and price optimization (see Figure 4). Although we have consistently found that executives predict higher increases in usage than actually ends up happening, the fact that these tools currently have the largest

Figure 3: We focused on 25 of the most popular tools

• Balanced scorecard	• Enterprise risk management*	• Satisfaction and loyalty management
• Benchmarking	• Knowledge management	• Scenario and contingency planning
• Business process reengineering	• Mergers & acquisitions	• Shared service centers
• Change management programs*	• Mission and vision statements	• Social media programs*
• Core competencies	• Open innovation	• Strategic alliances
• Customer relationship management	• Outsourcing	• Strategic planning
• Customer segmentation	• Price optimization models	• Supply chain management
• Decision rights tools	• Rapid prototyping*	• Total quality management
• Downsizing		

*Tool added to the survey in 2011

Figure 4: Expected change in usage

	Projected increase	Projected 2011 usage	Actual 2010 usage
Open innovation	36%	57%	21%
Scenario and contingency planning	35%	65%	30%
Price optimization models	34%	55%	21%
Satisfaction and loyalty management	32%	64%	32%
Knowledge management	31%	69%	38%
Customer segmentation	29%	71%	42%
Decision rights tools	29%	46%	17%
Business process reengineering	29%	67%	38%
Strategic alliances	28%	73%	45%
Core competencies	27%	73%	46%
Social media programs	27%	56%	29%
Enterprise risk management	27%	57%	30%
Shared services centers	25%	53%	28%
Total quality management	24%	62%	38%
Customer relationship management	24%	82%	58%
Change management programs	23%	69%	46%
Supply chain management	21%	60%	39%
Rapid prototyping	21%	32%	11%
Strategic planning	21%	86%	65%
Mergers & acquisitions	18%	53%	35%
Benchmarking	16%	83%	67%
Balanced scorecard	16%	63%	47%
Mission and vision statements	15%	78%	63%
Outsourcing	13%	68%	55%
Downsizing	6%	31%	25%

Source: Bain survey

predicted increases—more than 30 percent—reflects the current mindset of executives.

Open innovation allows companies to expand the sources of breakthrough products; scenario and contingency planning helps executives test the "what ifs" to prepare for the future better and minimize risks; price optimization addresses another future concern—rising commodity prices. As prices increase, executives are unsure about how much of the cost they realistically can pass on to customers, especially in uncertain economic times. Price optimization models, used correctly, will help them identify the optimal price point.

The pursuit of growth is also leading executives to try new tools like social media programs. As more and more companies climb aboard the social media bandwagon, executives feel pressure to test out its promise: using online communities like Facebook, micro-blogging sites such as Twitter and corporate websites to try to strengthen bonds and grow loyalty with employees, customers and partners.

While only 29 percent of all respondents say they used social media in 2010, usage is expected to surge to 56 percent in 2011. Even so, executives tell us they're uncertain about how to measure the effectiveness of this tool. To determine if social media is a passing fad or a valued tool to help spur growth, companies often start by testing the waters—beginning with a limited investment. If they're satisfied with the results, then they up the ante.

But this approach carries two risks. First, while it's understandable that companies do not want to make major investments before they fully understand how a tool will work, we have found that using tools on a limited basis consistently leads to lower satisfaction, so caution may inadvertently result in failure. The second risk we have found: companies start using a tool because their competitors are using it, or because it's the hot topic in the business press, but if they do not fully understand how and why to use it, the experience ends up in failure. Think of business process reengineering, where we witnessed an inverse relationship between usage and satisfaction rates when it was the hot tool of the 1990s. We witnessed reengineering drop from the tool with the fifth highest satisfaction rate in 1993 all the way to 21st in the late 1990s. It was only after usage rates declined that satisfaction began to improve again. Any time we see high usage but low satisfaction, there is cause for concern.

We are not suggesting companies should not use social media programs, only that they need to be thoughtful about why they are using it, they need to invest enough to make it successful and they should have a plan to measure whether they are receiving the desired return on investment.

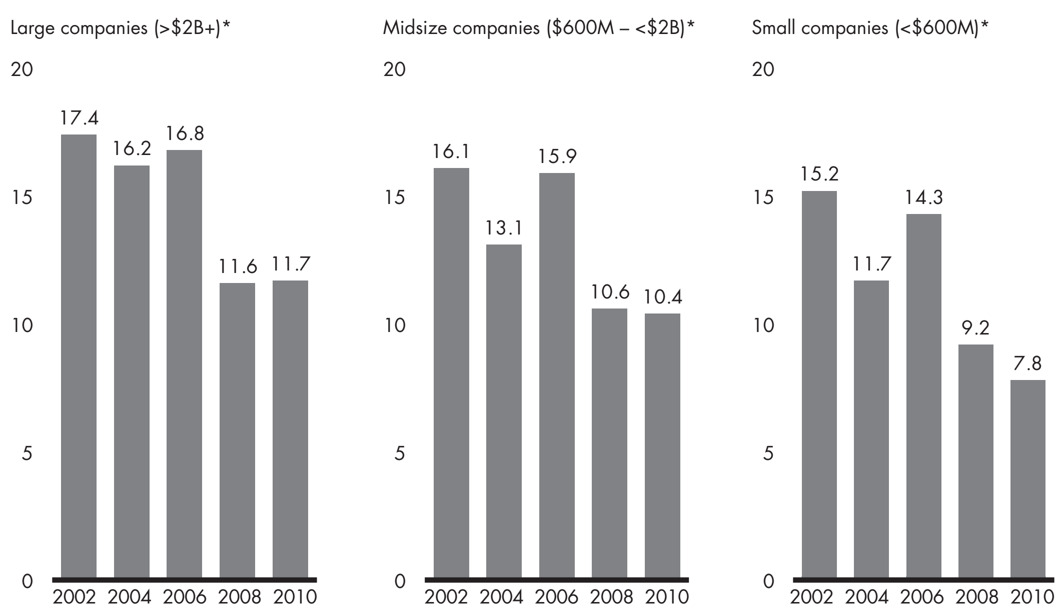
The big picture: Tool use and satisfaction

Tool usage tends to ebb and flow with economic conditions. In boom years, companies use more tools, rising with larger budgets and the launching of more initiatives. In tough times, companies cut back on almost everything, including management tools. Therefore, it is no surprise that worldwide tool use has steadily declined since 2006, hitting the lowest level this year since we started our survey in 1993. The average now is 10 tools, down from 11 tools when we surveyed executives in 2008 and 15 tools in 2006.

Large companies consistently use more tools than smaller firms (see Figure 5). On average, they use about 30 percent more tools, and in downturns the gap actually expands. In 2010, large and midsize companies used approximately the same number of tools as they did when we conducted our survey two years ago. Small companies used an average of nine tools in 2008 and only eight in 2010. Typically, smaller, budget-constrained companies are the first to abandon tools when the economy sours. These companies used 10 of the tools less in 2010 than they did in 2008. The only tool smaller companies used more in 2010 than in 2008 was satisfaction and loyalty management.

Two years ago, the worldwide downturn reordered the list of most used tools, as companies searched for effective ways to execute fast-shifting priorities. Benchmarking, ranked as the most popular tool for the first time in a decade, displaced strategic planning, a perennial No. 1. In 2010, benchmarking still tops the

Figure 5: Larger firms use more management tools



*Based on annual revenues
Source: Bain survey

list overall, but use varies by region, reflecting changing short- and long-term strategies.

Our survey found that tried-and-true tools provided continued comfort through the downturn (see Figure 6). In addition to benchmarking, the most widely used tools were strategic planning and mission and vision statements. These are time-tested tools that have rated in the top 10 for usage over the years, regardless of the economic climate.

The least used tools include open innovation, price optimization models, decision rights tools and rapid prototyping. One tool that was surprisingly unpopular was mergers & acquisitions. During a downturn, M&A deals often create bargains that give the acquiring company increased scale and broadened scope. Yet in each recession we see relatively few deals. Only 35 percent of the executives in our current survey took advantage of M&A. Even though price tags for some deals are on the rise, more executives—more than half—now say they expect to use M&A in 2011. That's in line with past trends: M&A activity typically increases in boom times.

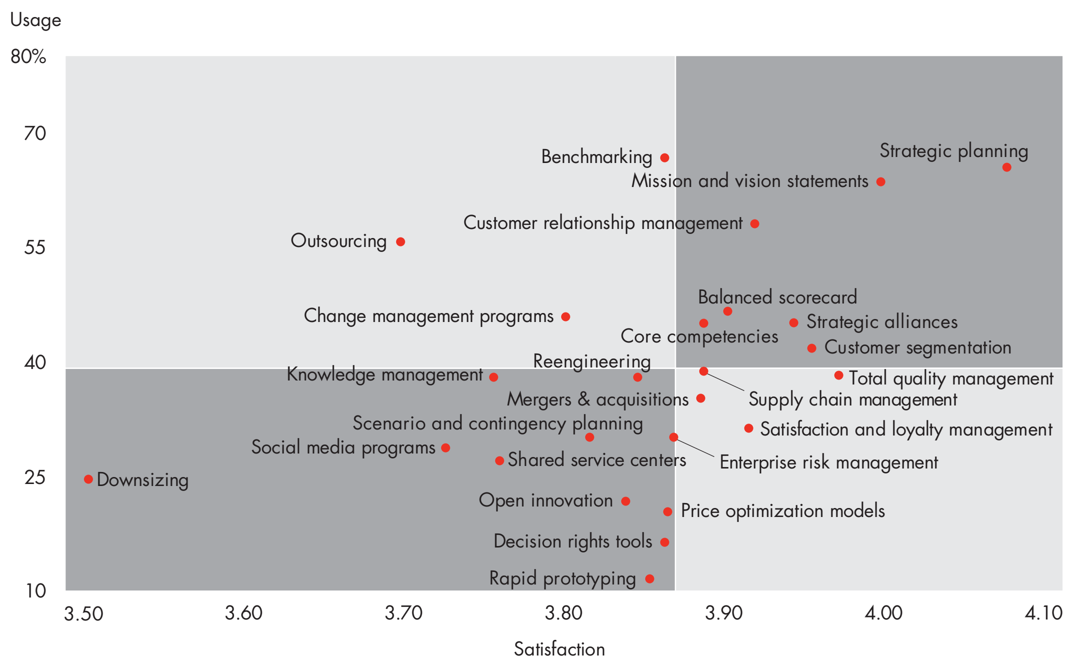
We ask executives to rate their satisfaction with the tools they use (see Figure 7). Strategic planning is the tool with the highest satisfaction rating. Other tools with above-average satisfaction scores include mission and vision statements, total quality management, customer segmentation and strategic alliances. There were clear satisfaction losers. Downsizing,

Figure 6: Top 10 most used tools

	Global	North America	Europe	Asia	Latin America
Benchmarking	1	3	1	4	3
Strategic planning	2	2	3	2	1(t)
Mission and vision statements	3	4	5(t)	3	1(t)
Customer relationship management	4	1	2	1	6
Outsourcing	5	6	5(t)	5	4
Balanced scorecard	6	12(t)	8(t)	10(t)	5
Change management programs	7(t)	9	4	8(t)	9
Core competencies	7(t)	5	8(t)	6	10(t)
Strategic alliances	9	7	7	8(t)	8
Customer segmentation	10	15(t)	12	10(t)	7

Note: (t) = tied
Source: Bain survey

Figure 7: 2010 usage and satisfaction (on a scale of one to five)



Soruce: Bain survey

outsourcing and shared services centers—all of which are used to reduce head count—are three of the five tools with below-average satisfaction scores. The other two tools with low satisfaction ratings are knowledge management and social media programs.

Tool use by region

This year marks the first time that firms in emerging markets used more tools than their counterparts in developed markets. Their increased interest in management tools suggests that companies in areas with booming economies—places like Brazil, India and China—are becoming more sophisticated competitors, relying more heavily on business tools to improve their chances at success.

Sometimes the difference is dramatic. Take balanced scorecards. Over half of the emerging-market executives have used the tool to help gauge whether their strategies are delivering results. In contrast, more than one-third of the established market respondents are using the tool. The disparity in the use of decision rights is even greater: three times as many emerging-market users are employing it to improve their decision making than executives in established markets.

Tool use helps give us a clear view of regional priorities. For example, benchmarking surfaced as the most widely used tool for firms in Europe, where economic uncertainty persists. But in North America, customer relationship management (CRM) ranked as the most used tool,

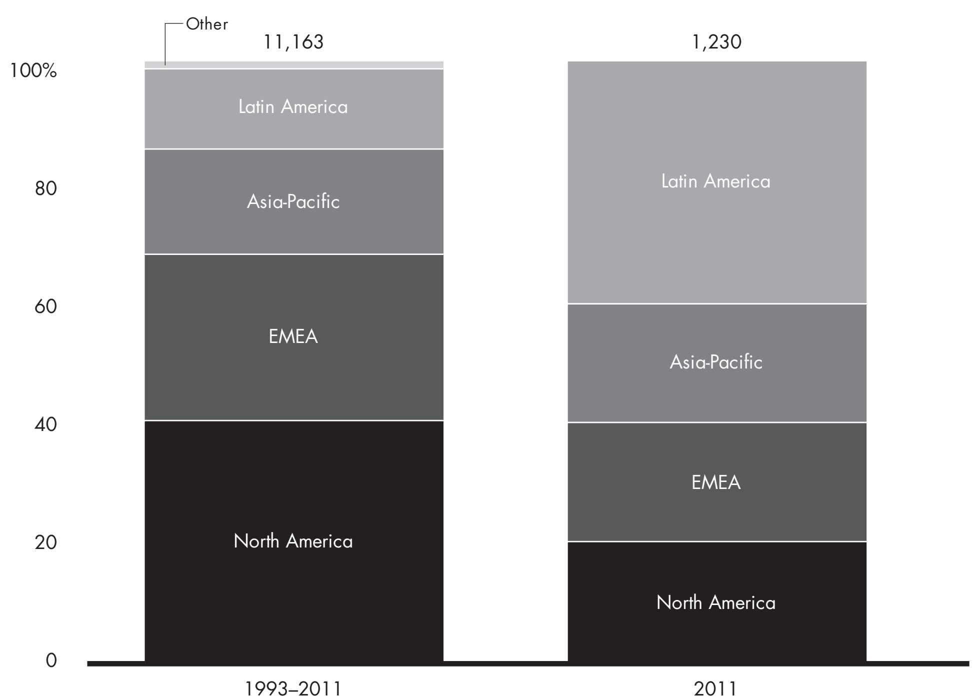
A history of Bain's Management Tools & Trends Survey

Starting in 1993, Bain & Company has surveyed executives around the world about the management tools they use and how effectively those tools have performed (see figure below). We focus on 25 tools, honing the list each year. To be included in our survey, the tools need to be relevant to senior management, topical and measurable. By tracking which tools companies are using, under what circumstances and how satisfied managers are with the results, we've been able to help them make better choices in selecting, implementing and integrating the tools to improve their performance.

With this, our 13th survey, we now have a database of more than 11,000 respondents and can systematically trace the effectiveness of management tools over the years. As part of our survey, we also ask executives for their opinions on a range of important business issues. As a result, we are able to track and report on changing management priorities.

For a full definition of the 25 tools, along with a bibliographical guide to resources on each one, please see the Bain & Company booklet *Management Tools 2011: An Executive's Guide* on www.bain.com.

Surveys and 11,163 respondents covering an 18-year span



as executives put more emphasis on using customer insights to jump-start—and sustain—revenue growth. North American executives also are quicker than their counterparts elsewhere in the world to adopt social media programs, a tool that wasn't included in the survey two years ago but now ranks as number eight in North America. Nowhere else in the world does the tool land higher than 17th. That may be a result of the much higher Internet penetration rate of consumers in the US and the heavy use and publicity of sites such as Facebook and Twitter.

Breaking out tool use by region highlights distinct differences among the top 10 tools.

- In addition to being the heaviest users of social media programs, North American executives use downsizing more frequently than their counterparts elsewhere in the world.
- European firms lead in the use of change management programs.
- Asian companies are top users of knowledge management, a tool companies use to strengthen their organizations by taking full advantage of intellectual assets.
- Latin American firms use more tools than any other region. Their willingness to embrace a wide range of tools reflects their efforts to identify growth opportunities

Where's the optimism?

Where is optimism the strongest? To find out, we created an optimism scale, scoring executives based on their answers to four statements:

- We have used the recession to improve our competitive position.
- It feels like economic conditions are improving in our industry.
- I am very concerned about how we will meet earnings targets in 2011.
- We are planning for economic stagnation over the next two to three years.

We found that Latin American firms are the most optimistic: Companies in those countries scored the highest, followed by Asian firms. In contrast, companies in harder-hit North America and Europe are more pessimistic. When broken out by size, optimism is spread fairly evenly across different sized companies.

and increase revenues in a vigorous economy. They're the lightest users of downsizing, rapid prototyping and CRM.

When we looked at management trends by regions we also found distinct differences. For example, North American executives seem to be more cautionary than their counterparts elsewhere in the world. One clear message: they have become more resistant to free trade. We last asked executives opinions on free trade in 2003. At that time, 74 percent of North American and 81 percent of European executives believed that countries should reduce trade barriers and increase free trade agreements. This year, only 53 percent and 59 percent, respectively, agreed. In contrast, Asian and Latin American executives, who potentially have more to gain from fewer trade restrictions, remain strong supporters with 78 percent and 77 percent, respectively, agreeing.

In addition, North American executives are less likely to innovate. Only 72 percent of North American executives agree that innovation is more important than cost reduction—that's the lowest percentage globally. By comparison, 87 percent of Asian executives agree that innovation is more important.

Meanwhile, North Americans are less likely to push on sustainability if it hurts their profits. Among all regions, North American firms are the least interested in pursuing sustainability initiatives if they hurt profits. Asian executives are the group most interested in sustainability at all costs.

A comparison of emerging and established markets on these and other issues also revealed significant differences. Emerging-market executives are more concerned about meeting their earnings targets in 2011. And more of them believe that government regulations will increase over the next five years. They also believe that local companies will be more successful in emerging markets than multinationals, reflecting a confidence in their ability to compete with global players.

A look at large companies

Tool use by companies with $2 billion or more in revenues dropped dramatically between 2006 and 2008 as executives watched the recession start to take a toll on sales. Then, usage by large companies held steady between 2008 and 2010, as executives positioned themselves for recovery. Four tools were used by large companies significantly more often in 2010 than in 2008—strategic planning, total quality management, satisfaction and loyalty management and decisions rights tools—reflecting executives' shift from a short-term, cost-saving outlook to improving performance and cultivating more satisfied, loyal consumers. Over the past two years, large companies also reduced their reliance on two downturn-related tools: business process reengineering and downsizing.

The signs of recovery were also evident in large-company executives' responses to our management trends questions. For example, as compared with 2008, fewer executives are worried about meeting their earnings target.

More say they are emerging from the recession in better shape than they did in 2002. More top executives at large companies also say they are comfortable taking greater risks in pursuit of higher returns. And they're less likely to believe that products and services are being treated like commodities than in previous years.

When viewed on a regional basis, our survey responses to trends questions shed light on noteworthy shifts in opinion around the globe. For example, North American large-company executives may be losing enthusiasm for outsourcing. There was a 25 percent drop since 2004 in the number of those executives who agree that outsourcing benefits everyone. Meanwhile, Asian executives appear to have grown more confident as competitors as their economies have boomed. One indicator: fewer executives feel their products are being treated like commodities—the number has dropped from 92 percent in 2004 to 60 percent in 2010.

Latin American executives, too, are facing the near-term future with increasing self-assurance. In Latin America, we saw a significant boost in the number of large-company executives who believe that today's market leaders will still be in the lead five years from now. Fewer large firms are concerned about meeting their growth targets than were in 2008, and fewer believe they should focus on revenue growth over cost reduction than in 2004. One interpretation of these shifts: large Latin American companies are more confident and happy with their rate of growth and they're now looking for ways to trim costs and boost profit margins, particularly as they were less likely to downsize during the recession than their global counterparts.

As executives throughout the world make the decisions that will guide their companies into the future, they'll need to heed the lessons of past recessions. If our 18 years of surveying executives has taught us anything, it's that periods of gloom are typically followed by an exuberant optimism that makes it easy to forget the cautionary mindset of the recent past. Winners will avoid the over-confidence of too quickly believing they're in a better position than their competitors. They will avoid the complacency that could cause them to lose the efficiency gains they earned in the downturn. And they will remember that capturing the opportunities of a recovering economy takes risk-taking—but it should be prudent risk-taking.

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