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Why Management Tools Don't Work

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Management tools and techniques such as economic value added, activity-based costing and benchmarking are the building blocks of consulting businesses. But the evidence suggests that many consulting companies fail to meet the expectations of their users. While there are many reasons for such shortfalls, one common thread is a lack of cultural context. Many companies also fail to consider the fundamental question "What problem are we trying to solve?"

In this paper, Jeremy Hope advises how managers can choose better tools or derive more value from existing investments in tools. He looks at four management tools— Balanced Scorecard, customer relationship management, ISO 9000 and Benchmarking—and examines why each fails to work. Jeremy also explains the steps that can lead to success with tools and practices:

- Examine the evidence
- Make a clear and compelling business case
- Define success
- Obtain "C" level sponsorship
- Make a total commitment
- Involve key people in the implementation process
- Communicate continuously
- Be patient

"Why Management Tools Don't Work" is the seventh in a series of papers written for the IBM Cognos Innovation Center for Performance Management by Jeremy Hope, Research Director of the Beyond Budgeting Round Table. Jeremy is an advisor to the Innovation Center. He is also a tireless champion for innovation in performance management theory and practice, believing that business-as-usual is NOT a route to success.

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Over the past 25 years, business leaders have spent billions of dollars implementing a range of management tools and practices in their efforts to migrate from command-and-control to learning-and-adaptive organizations. But the evidence of success is thin—80 percent of tools-based improvement efforts fail to achieve their goals. Why is it that tools such as Balanced Scorecard, Six Sigma and customer relationship management (CRM), so loudly trumpeted by the management consulting industry, have not garnered the results that their sponsors proclaimed? Why are some companies addicted to tools while others—including some of the most successful companies on the planet—use few, if any, of them? And why do some organizations derive real value while others write off millions? Many of the answers lie in ineffective leadership, lack of commitment and poor implementation. But other answers are less obvious, relating to how tools are used in practice.

There are two ways to use tools. One is to liberate and empower people. The other is to tighten the coils of command and control around them. Whether intentional or not, the vast majority of organizations choose the latter course. The reason: senior management is afraid to let go. Management implements new tools and systems to tighten top-down control rather than empower front-line people. It uses new technology to direct and dictate what people do, rather than trust them to analyze and interpret new information and take the right action. Management says, "Meet the numbers, or we'll find someone who will," rather than helping their people make good decisions. A lack of faith in front-line capability and the intense fear of failure undermine teams and disempower individuals. Both attitudes cause leaders to hold on to a command-and-control management model, which emphasizes measurement over management and which, according to just about every academic or business leader you care to name, is long past its sell-by date.

The real problem, as any seasoned change-management expert will tell you, is cultural. Our mental models of how organizations work and what it takes to succeed don't change easily. For example, many leaders still believe they can plan, coordinate and control their businesses from the center, when discontinuous change is now the norm, and speed of response is critical to success. Operations managers hold fast to their plan-make-and-sell business models, when many customers want their exact needs satisfied and will look to another company when those needs are not met. Sales managers look for large marketing budgets to attract new customers, when keeping disaffected, but highly profitable existing customers is likely to be a better use of resources. And finance managers spend inordinate amounts of time on transaction processing and "managing the numbers," when their time would be better spent helping operating people manage the business.

Management tools *can* focus people on doing the right things. Most are based on sound theory but suffer from poor practice, which means that after companies expend huge amounts of management time and expense, many abandon the tools after consultants leave and internal project champions move on. Abortive tools and systems are a major source of management frustration, added complexity, and wasted time and cost. Most should not have been used in the first place. Many organizations rush into buying and implementing tools without first considering the fundamental question "What problem are we trying to solve?" Framing and answering the question would help companies avoid many expensive mistakes. Management consultant Peter Drucker put it this way: "I was taught that you make a diagnosis before you operate. And nine times out of ten, when you make the diagnosis, you don't operate."[1]

Use of tools

The consulting firm Bain & Company has tracked the use of management tools since 1993. Its 2004 survey garnered 960 responses from organizations throughout the world and from numerous industries. Of Bain & Company's evolving list of 25 tools, on average companies report using 13.4 tools, and among large companies (more than $2 billion) average use increases to 16.2 tools. European and American companies are more active users than Asian companies, with an average usage of 16 versus 10. Tools are least popular in China. The level of usage has not changed much over the years. The average was 11.8 in 1993 versus 13.4 in 2004. Some tools are consistently popular. Strategic planning (79 percent usage), mission statements (72 percent) and benchmarking (73 percent), for example, have remained in the top five since 1993. Other tools come and go. Bain & Co. also found regional differences; for example, CRM is the most popular tool in Asia but only ninth in North America.[2]

Surveys of companies also show consistent levels of dissatisfaction with management tools. In 2004, only one tool – strategic planning – had a composite score of more than four out of five. Satisfaction scores are not linear: research shows that in product satisfaction surveys, companies scoring a as tool as a five (extremely satisfied) are up to six times more likely to repurchase than those scoring a tool as a four. The most satisfactory tool (strategic planning) was rated a five by just 36 percent of respondents (the next best was 26 percent). Only 15 percent of respondents rated the Balanced Scorecard a five. These findings provide strong evidence that most tools are either badly chosen or poorly implemented.

After studying many organizations over the years, I have developed a healthy scepticism toward most management tools and techniques. U.K. occupational psychologist John Seddon summed it up neatly when he said, "Teaching tools very rarely result in a change to the system. Command-and-control managers like to buy change by training and projects, unaware that change really requires changing the system and unaware that *that* means first being prepared to change the way they think about the design and management of work."[3]

Let's look at four management tools and examine why they fail to work.

The Balanced Scorecard (BSC) is designed to

- help leaders mobilize the organization around strategic goals
- translate strategy into operational terms
- provide alignment between strategic goals, measures and action plans
- involve everyone in thinking about strategy and business improvement
- turn strategy into a continual process

But does the BSC work in practice? The answer is probably a qualified "yes" in a predictable world, but an unqualified "no" in an unpredictable one. In fact, for a leader who wants to build a more empowered, innovative and adaptive organization, the BSC can be a dangerous weapon. In their 2006 article "The Tyranny of the Balanced Scorecard in the Innovation Economy" Voelpel, Leibold and Davenport note, "As heavy hiking boots are a blessing when trying to climb a mountain and a curse for the 100 metres sprint, the BSC in the innovation economy exerts a tyrannical impact and influence on the firm and its shareholders."[4] Similarly, instead of using the scorecard as an iterative feedback and learning loop, managers try to change the scorecard every year, too difficult an endeavor on a regular basis. Most organizations treat the BSC as an annual performance contract, similar to the budget, with the same behavioral outcomes.

Customer relationship management (CRM) models aim to standardize sales and customer support processes and simplify customer-relationship building for front-line teams. But the reality is often quite different. Most CRM systems treat customers as data, not as real people. Call centers are notorious for employing low-skilled employees (with high staff turnover rates), who make sophisticated customers feel undervalued or even poorly treated by their supplier. While this is bad enough, few organizations have put their finger on the fundamental problem: a misalignment between inside-out planning and sales processes and outside-in customer processes, which should drive the provision of products and services. Solving the problem requires a major culture change for most marketing and sales teams. The teams must adapt to building relationships instead of selling products and special deals. Adapting starts by a team gaining a clear understanding of the meaning of CRM and deciding whether it is prepared to make the commitments necessary. CRM is a philosophy rather than a process or IT system. It is also a tough challenge.

The aim of **ISO 9000** (and its subsequent series) is to enable organizations to improve the quality of products and services. But evidence of success is patchy at best. Most applications are bureaucratic and impose rigid standards (one-size-fits-all models)—not only with product development but also with a company's business-management processes. The result is that managers "check boxes" rather than embed quality into their process-management cultures. The ISO 9000 standard asserts that preventing non-conformance achieves customer satisfaction. But British occupational psychologist and "management guru" John Seddon warns that there is no guarantee the standard will ensure such a result. Furthermore, with respect to what they value, customers take a total view of an organization, asking themselves, "How easy it is to do business with this company?"[5] Because it is based on bad theory, ISO 9000 does not improve organizations. Its underlying concepts are specification and control, rather than understanding and improvement, which is the heart of real quality. Understanding how an organization works, rather than how someone thinks it should work, is a far better place from which to start change.[6]

Benchmarking seeks to help companies compare their performance with best-in-class results. But comparing apples with apples can be difficult, and benchmarking can lead to a blame culture and thus the wrong management behavior. In fact, in the wrong hands, benchmarking can easily be seen as a "big stick" that beats managers into submitting to impossible targets and blames managers if they don't perform. The reaction of many managers is to be suspicious of achievements elsewhere and invariably claim, "We're different and can't be compared with others." Benchmarking should be a tool for learning and improvement that challenges and engages process owners and leads to innovation. In other words, managers must see benchmarking as something that they do for self-improvement as opposed to something imposed upon them. The best organizations continuously examine their work flows and seek to improve instead of starting by bringing in consultants. Their first step is to talk with people on the front lines who know the problems and may have some brilliant ideas for solving them.

There is little doubt that some management tools and practices have improved efficiency and enabled organizations to reduce costs. But too often, they offer only a temporary respite as better-managed rivals continue to move ahead. General Motors and Ford have both implemented nearly every tool and practice ever invented, yet have failed to change their cultures and successfully compete with Toyota and Honda. Abortive tools and systems are a major source of management frustration, added complexity, and wasted time and cost. Most should never have been tried in the first place.

Generic success factors

Advocates of management tools and practices claim potentially powerful results *if implemented in the right way*. What they mean is if the business case is clearly articulated, if the culture of the organization is supportive, and if its leaders are committed. These are big ifs. Management tools and practices can be undermined by a command-and-control mentality, with its dependency culture and budget contracts. On the other hand, several steps can lead to success with tools and practices. They include the following:

- **Examine the evidence.** Every tool has strengths and weaknesses. According to Bain & Co., companies must understand the full effects—and side effects—of each tool and creatively combine the right ones in the right ways at the right time. Bain advises companies to look at the research, talk to other users and not accept hyperbole and simplistic solutions.[7]

- **Make a clear and compelling business case.** Managers must carefully think through an objective business case before investing in any tool. How will it add value? Does it meet customer needs? Does it build distinctive capabilities? Does it support strategic objectives? What are the hidden side effects and hidden costs? How long will it take to implement? Who is accountable? Management must answer these and other questions before proceeding.

- **Define success.** One reason why so many change projects fail is that no one stops to ask what success might look like. Companies must clearly define their expectations. In a CRM context, success might mean sharing customer information across the organization, having more real-time sales information, doing better forecasting or enhancing cross-selling. Too many managers believe that tool X or Y is something they must have, but they don't know what's driving the decision. If you don't have criteria for success, it's hard to know if and when you've succeeded.

- **Obtain "C" level sponsorship.** A key change-management conundrum can be expressed as follows: "You can't expect to sustain top executive support without producing consistent bottom-line results, yet consistent results are unlikely without sustained top executive support." Getting the CXO behind a project can improve its chances significantly. Line managers will be more likely to engage if respected senior people back a change project.

- **Make a total commitment.** Bain & Co. survey findings indicate a strong correlation between *total commitment* to a tool and users' levels of satisfaction. In other words, low-level experimentation without the backing of the leadership team and without the resources to maintain a longer-term program will likely end in disappointment.

- **Involve key people in the implementation process.** A successful implementation should involve the people affected by the tool. If alienated, people will see the tool as just another top-down control system and fail to engage in the process. Reporting progress is also important: Show results graphically on intranets and bulletin boards, and make them available to everyone.

- **Communicate continuously.** Effective communication is essential to the success of any project. Harvard Business School Professor John Kotter, widely regarded as the world's foremost authority on leadership and change, recommends eliminating jargon and techno babble. He also reminds us that two-way communication is always more powerful than one-way.

- **Be patient.** Most tools can only be fully implemented, and their benefits realized, over the course of several years, yet many leaders expect bottom-line results in a fraction of that time.

Most of the tools I have reviewed have existed for many years, and the accumulated knowledge about what works—and what doesn't—is quite extensive. But too often, companies take the wrong approach, selecting a tool because it is the "flavor of the month" or to fix a particular problem—for example, using the Balanced Scorecard to fix a strategy problem or using rolling forecasts to fix a budgeting problem. Performance management is not composed of disconnected pieces that can be separately improved. It is a holistic model within which all moving parts must combine and connect to execute the organization's strategy in a seamless and coherent way.

If the business community has learned anything over the past 10 or 15 years, it's that big top-down change programs don't work well. Leaders first must understand their own organizations: What works for them? And how does change happen? All my experience as a management educator tells me that true change comes from within. The people affected must be involved. Many of the best ideas for change are already in the heads of people working in the organization—they just need releasing. Taking a list of "best practices" from somewhere else and parachuting them into a poorly performing system or unit will not result in success.

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Endnotes

1 Interview with Peter Drucker, "A Meeting of Minds," *CIO Magazine,* September 15, 1997.

2 Darrell Rigby and Barbara Bilodeau *Management Tools and Trends 2005*, Bain & Co, www.bain.com/management_tools/Management_Tools_and_Trends_2005.pdf

3 John Seddon, *Watchout for Toolheads!* www.lean-service.com

4 Sven C. Voelpel, Marius Leibold, Robert A. Eckhoff and Thomas H. Davenport, "The Tyranny of the Balanced Scorecard in the Innovation Economy," *Journal of Intellectual Capital*, Vol. 7, No. 1 2006, pp. 43-60

5 John Seddon, "A Brief History of ISO9000 – Where Did We Go Wrong?" www.lean-service.com/6.asp

6 John Seddon, "Death to ISO9000 – An Economic Disease,". www.lean-service.com/6-22.asp

7 Darrell Rigby and Barbara Bilodeau, *Management Tools and Trends 2005*, Bain & Co. www.bain.com/management_tools/Management_Tools_and_Trends_2005.pdf

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