

THE HIDDEN RESOURCE OF MANAGEMENT EFFICIENCY

Management is undoubtedly one of the most important professions of humankind. The full potential of management as a hidden resource of business growth is yet to be fully appreciated by local companies.

The leading and “opinion forming” executives of many international companies viewed the economic crisis as an opportunity to rethink their management approaches and become even more efficient. This shows the critical trait of best practice in management – seeing challenges as opportunities for further growth and development.

Armenia scored 117th in the Global Competitiveness Report's rankings (2010) on professional management out of 139 countries. The score denotes that the level of reliance on professional management in the country is rather low: it is yet to higher extent the relatives and friends that are positioned in higher management positions in local companies.

The management is yet not regarded as a profession by itself and management by intuition is the main approach adopted by most of the company executives.

However, as the era of chaotic business doing is close to exhaustion, it is the right time to turn to the best practice management approaches for Armenian companies.

Chaotic – as it was the first phase of business formation, where management was just a function to be carried out and the importance of it was rather low. Along with the growing business sophistication of local companies, the understanding of the need for professional management is also emerging. The latest trend is the intensified search for qualified managers, which turn out to be “the scarce resource” of our times... Hopefully, the healthy demand will facilitate the growth of professional managers in Armenia too.

While people are the essential part of professional management, the tools they use are of no less importance. The management practice is constantly in process of improving the available management tools and developing new ones, the need for which emerges with time. According to the annual survey of companies carried out by Bain&Company, the average number of management tools used by companies worldwide is about 10.¹

The knowledge and usage of such tools is a sound indicator of business sophistication of the country. The similar survey carried out by EV Consulting among 54 companies operating in various sectors in Armenia showed contradictory results. According to executives the companies use on average 7 management tools, which is still below the global average, however higher than conventional wisdom would expect.

Judging from our experience, we believe that the results we have received are inflated: the “claimed” rates of management tools seem to be higher than the realistic levels. The real essence of the tools seems to be not very well comprehended, which can be one of the causes of inflated results. This can be an indication of a rising need (or desire), which has not yet fully converted into a well comprehended and rationally substantiated demand.

¹ See Darrell Rigby and Barbara Bilodeau, “Management Tools and Trends 2009,” Bain & Company, Inc., 2009.

The management tools, ranked by their popularity in Armenian companies, are as follows:

Management Tools	Rate of usage in companies
Strategic Planning	80%
Budgeting	72%
Benchmarking	59%
Mission and Vision Statements	59%
Outsourcing	59%
Customer Relationship Management	57%
Customer Segmentation	56%
ISO / Quality management	48%
Scenario and Contingency Planning	43%
Strategic Alliances	39%
Business Process Reengineering	35%
Supply Chain Management	35%
Balanced Scorecard	31%
KPIs	28%
Mergers and Acquisitions	9%
Lean Six Sigma	6%

The most popular tools

The usage rate of these tools surpasses that of the rest by more than about 10 percentage points. As these tools are the ones more straightforward for usage, it is natural to have more companies having adopted the planning and budgeting processes in their management practices.

These tools are especially vital during the periods of economic crisis, when the cost cutting and downsizing were the popular tools of most companies globally. Although, the most forward looking management thinking pushes the agenda of abolishing the budgets whatsoever (see Jeremy Hope and Robin Frazer, "Who Needs Budgets?" Harvard Business Review 81(February 2003)), however – Armenian companies do need to yet go through the cycle of having a developed and mature budgeting process. As paradoxical as it may sound – the budgeting process will become outdated only after having become mature enough. True, budgeting process is rather rigid and budgets become obsolete not very long after they are approved. However, the value of the budgeting process is far more than the document it produces: it is the central planning process, which gathers all management on one table to think about the future of the company.

The prolongation of the budgeting horizon – is the main trend seen in local companies that will come as the next development level in management practice.

One of the trendiest tools

The rising popularity of CRM is inevitable in local companies. This is to indicate the shift of Armenian companies from being "production oriented" to becoming "customer oriented". Some confusion exists over understanding what is truly meant by CRM – the software? the work approach? the way processes are organized? This confusion is of course not an Armenian phenomenon and CRM is quite often mistakenly identified as just the software in most companies internationally too. There is more to CRM than the software. The relationship marketing is all about creating intimate relations with customers, first by gathering information about their consumption patterns, needs and wants and then by transforming that knowledge into tailored products. CRM systems are easier understood and more vastly used in service companies, and naturally banking and telecom industries seem to be the forerunners of the management tool usage in Armenia. Other industries are expected not to let us wait for long.

One of the least understood tools

Balanced scorecard is among the tools that has indicated rather low usage rate among the surveyed executives. Even this rate seems not realistic and indicates the low level of understanding of the tool. One of the indications is that KPIs as a separate tool are of lower usage than the Balanced Scorecard itself. Whereas, this cannot be possibly realistic, as balanced scorecard includes a system of performance measures or KPIs.

The next article of the Periodical is devoted to the Balanced Scorecard with the purpose of increasing the level of understanding of the tool so popular among international companies.