

In this chapter we begin our study of management control and performance measures. Quite often, these terms carry with them negative connotations. Indeed, performance measurements can be used counterproductively to create fear, to cast blame, and to punish. However, if used properly, as explained in the following quotation, performance measurement serves a vital function in both daily life and in organizations:

Imagine you want to improve your basketball shooting skill. You know that practice will help, so you [go] to the basketball court. There you start shooting toward the hoop, but as soon as the ball gets close to the rim your vision goes blurry for a second, so that you cannot observe where the ball ended up in relation to the target (left, right, in front, too far back, inside the hoop?). It would be pretty difficult to improve under those conditions. . . . (And by the way, how long would [shooting baskets] sustain your interest if you couldn't observe the outcome of your efforts?)

Or imagine someone engaging in a weight loss program. A normal step in such programs is to purchase a scale to be able to track one's progress: Is this program working? Am I losing weight? A positive answer would be encouraging and would motivate me to keep up the effort, while a negative answer might lead me to reflect on the process: Am I working on the right diet and exercise program? Am I doing everything I am supposed to?, etc. Suppose you don't want to set up a sophisticated measurement system and decide to forgo the scale. You would still have some idea of how well you are doing from simple methods such as clothes feeling looser, a belt that fastens at a different hole, or simply via observation in a mirror! Now, imagine trying to sustain a weight loss program without *any* feedback on how well you are doing.

In these . . . examples, availability of quantitative measures of performance can yield two types of benefits: First, performance feedback can help improve the "production process" through a better understanding of what works and what doesn't; e.g., shooting this way works better than shooting that way. Secondly, feedback on performance can sustain motivation and effort, because it is encouraging and/or because it suggests that more effort is required for the goal to be met.¹

In the same way, performance measurement can be helpful in an organization. It can provide feedback concerning what works and what does not work, and it can help motivate people to sustain their efforts.

IN BUSINESS



FOCUSING ON THE NUMBERS

Joe Knight is the CEO of Setpoint, a company that designs and builds factory-automation equipment. Knight uses a large whiteboard, with about 20 rows and 10 columns, to focus worker attention on key factors involved in managing projects. A visitor to the plant, Steve Petersen, asked Knight to explain the board, but Knight instead motioned one of his workers to come over. The young man, with a baseball cap turned backward on his head, proceeded to walk the visitor through the board, explaining the calculation of gross margin and other key indicators on the board.

"I was just amazed," Petersen recalls. "He knew that board inside and out. He knew every number on it. He knew exactly where the company was and where they had to focus their attention. There was no hesitation . . . I was so impressed . . . that the people on the shop floor had it down like that. It was their scoreboard. It was the way they could tell if they were winning or losing. I talked to several of them, and I just couldn't get over the positive attitude they had and their understanding of the numbers."

Source: Bo Burlinghan, "What's Your Culture Worth?," *Inc.*, September 2001, pp. 124-133.

¹ Soumitra Dutta and Jean-François Manzoni, *Process Reengineering, Organizational Change and Performance Improvement* (New York: McGraw-Hill, 1999), Chapter IV.