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Scorekeeping

If you can't measure it, you can't manage it.

—George Odiorne

Have you ever noticed the difference between figure-skating and ice-hockey crowds? The figure-skating crowd offers polite applause when they see a good skating exhibition. The ice-hockey fans scream and yell when they see something they like, or don't like, on the ice. What's the difference? Both sports take place on the ice and both involve skilled skaters who have spent many years in preparing to perform.

One reason figure-skating crowds are so timid is that they don't know for sure what is happening on the ice. They know that someone is skating, but they don't know the score. After the skating is over, the judges flip up their cards—5.7, 5.6, 5.2, 6.0. It is such a bad system that they throw out the high and low scores. And the skater doesn't know if he's ahead or behind until it's too late to do anything about it. It's a terrible scorekeeping system, but until something better comes along, we'll have to live with it.

Ice hockey is different. Every fan and every player knows the score at all times. The team that is ahead knows it and takes appropriate action to protect that lead. The team that's behind knows the score too and can take catch-up action. The fans know the score and can cheer their team to victory.

Scorekeeping is the heart of athletics, and it must be the heart of every successful business. What is the first thing news reports

mention about any sporting event? The score: who won, the points earned by each team. Then come the stats, the specific measurements of individual and team accomplishments. In sports, we start with the scoreboard page and add the editorial comment. Too often in business we get this reversed.

In sports, especially professional sports, measurements are continually added to increase interest in the game. Baseball has added what they call the slugging percentage, in addition to the batting average and runs batted in. Golf has added driving-accuracy, putting percentages, number of greens hit, and putts per round. Some basketball coaches are monitoring points per possession in an effort to measure the effectiveness of both offensive and defensive strategies.

Every sport has its scorecards, scoreboards, and stat sheets—and so must every business. Business managers must be on constant lookout for new measurements to improve productivity.

The primary responsibility of managers is to set the rules and create the scorecards. Archaic scorekeeping systems, or no systems at all, force employees to wait, wait, and wait for feedback from management, thinking, "I won't venture beyond where I am until I know how well I did."

Sometimes I am asked how soon scorecards should be set up for new employees. I tell them about Little League baseball. The first day the kids put on the uniform, they start tracking their batting average. They track every hitter and every fielder from the minute they step onto the field. Yet in business we frequently tell new employees to sit around for ninety days and then we'll get back to them. Too often all we measure is how they wear their hair, what they eat for lunch, or what time they like to go home. Tracking or scorekeeping must begin on day one.

Three Management Methods

There are three ways to manage a company—by observation, by judgment, or by measurement. When we manage by measurement, we keep score.

Observation management occurs when John, the sales manager, comes back from a tough sales appointment to find two of his

sales representatives sitting on the table in the salesroom laughing and having a generally jolly time. What John doesn't know is that one of them has just written up the biggest contract of the month, and the other has just lined up appointments with the executive officers of two companies John has been chasing for four years.

John doesn't know any of this, and having just been blown out on a sales presentation himself, he's not in a very good mood. As he walks by the salesroom he leans in and says, "Listen, if you two would get to work we wouldn't be in this sales slump."

Situations like that occur in companies all the time.

There are three basic problems with management by observation:

1. It is almost always inaccurate, like trying to judge a book by the cover, or a movie by the preview.

2. It is not relevant to what is going on. John observed two people sitting on a table having a good time. You can't capture all of the events in a single frame. It's like the cheerleader yelling at the referee for making the wrong call while the cheerleader's back was turned.

3. It is generally negative. There seems to be something in human nature that makes it easier to observe the negative than the positive. Had the two young salespeople been on the phone, John probably wouldn't have said anything. There's no way to win when you use observation management.

Management by judgment occurs when John walks by the salesroom a second time and the two salespeople are still sitting on the table gabbing. John is likely to make a judgment: "Kids today don't work as hard as I did when I broke into the business."

In some corporations you hear the nautical phrase "He can't get rid of his barnacles." That means the person made a mistake back in 1957 and everybody remembers it. Every time he looks as if he is getting close to that same kind of decision, they say, "Oh, yeah, you remember when he did that back in . . ." The danger with management by judgment is that too often generalizations are made from insufficient data.

When you have to correct someone, always be ultra-specific. Say, "You were forty-five minutes late for that Tuesday afternoon

appointment," rather than "How come you are always late?" Unfortunately most managers manage by judgment and observation rather than by measurement. Judgment leads to prejudgment, which leads to prejudice. Prejudice leads to blindness.

Too often people make negative generalizations—that's when somebody says on Monday morning that the economy is in tough shape and nobody is buying that day. Too often businesspeople let their thoughts about one or two negative events grow like a cancer.

"You always . . ."

"You never have . . ."

"You won't . . ."

Never make a negative generalization! Even if you think it is true, it will do more harm than good. Instead, when describing a negative situation always be ultra-specific. How much are sales down? How many calls did not get made? What specific behavior is it that you are concerned about? Don't make wandering generalities.

Management by measurement is the one management method that works. I believe that our progress in business, or life, relates directly to our ability to measure. Four hundred years ago the most portable mechanical timepiece you could have was a water clock on a wagon. It was ten feet high and weighed three hundred pounds, and you had to pull it around with horses. And it didn't keep good time if the water slopped around. The smallest unit of distance measurement at that time was the distance from King Henry's thumb to his nose, a meter. Everything people built was designed around that unit of measurement.

Today we are much better at measuring things. We have memory chips and integrated circuits. Thousands of numbers can be stored on a surface no larger than a pinhead. Without measuring and counting, such technology would not be possible. Quartz watches are all based on the fact that we can split a second into thousands of beats based on the frequency at which the quartz crystal vibrates. Our progress is based on our ability to improve measurement.

Management by measurement is relevant to the process being measured. The ability to sit on a table and carry on a friendly con-

versation with another salesperson is not relevant to sales success, though too much time sitting can certainly take time away from more productive activities.

So, first, measurement is relevant to the process. It tells you what happened, especially on the bottom line.

Second, measurement is usually exact. By that I mean when you measure something, you get the real numbers. You know where you stand. For example, if I asked you to sit down and create a financial statement, listing all your assets and liabilities, in most cases you'd discover you are better off financially than you thought you were. You are always better off when you know where you stand.

Third, exact measurements make work as enjoyable as play because participants have a way to win. When specific measurements are employed, it suddenly becomes possible for the employee to win.

You may be asking, if there are so many obvious benefits to maintaining exact measurements, why then is not more measuring going on? Perhaps some people think it is just too much trouble, or that it is too time consuming. Others may be afraid of the truth—suspecting they may not be doing a very good job. They don't think they are winning, so they don't want to know the score. What they don't realize is that they cannot win unless they keep score. There is no way to win without a score.

There are three kinds of workers or players:

1. Those who know they are winning.
2. Those who know they are losing.
3. Those who don't know the score.

It is a fact of life that those who keep score, whether they are winning or losing, win more over the long run. These are the people who accept personal responsibility for their own actions. They would rather know the score while losing than not know the score. The people who achieve financial independence do so by knowing the score. They are the people who set specific goals and keep track of progress toward those goals, even when things are not going smoothly.

I have never met a winner who didn't know the score. I have

never met a professional golfer who didn't know who else was on the leader board. People play and modify their behavior based on the feedback of their progress against an acceptable standard—the scorecard.

The great tradition of Notre Dame football is reflected in a subtle fashion on the locker-room wall at Notre Dame. As you leave this locker-room, you can't help but notice all the scores of the great Notre Dame victories over their great rivals emblazoned on those walls. The impact is awesome. *Winners keep track of results. Losers keep track of reasons.*

George Brett, the great .375-plus hitter for the Kansas City Royals, was once asked in an interview what his batting average was that day. This was during his quest for the second .400 season.

He said, "I've got 169 hits in 450 at bats. My batting average is .375, and if I go three for four today it will go to .379."

One of the reporters was astonished at Brett's command of mathematics and questioned him on it.

George said, "It's not very unusual. All the .350-plus hitters in the league can tell you what today's performance will mean to their overall batting averages."

But let a reporter ask any of the players batting under .200 what their averages are, and they'll say, "Oh, I'm not sure, a buck and some change," meaning somewhere over .100.

Winners like George Brett understand that there is no joy in victory without running the risk of defeat.

You cannot sit by as a spectator in the game of work. You must trade your season tickets for a pair of shoes and come down on the field, the only place where points can be scored.

Management by measurement is facing the truth, taking away the language and thinking of noncommitment. When you ask people if they have completed their work yet, and they say, "Basically," "Pretty much," or "Just about," that means they have accomplished somewhere around twenty percent of the goal. These verbal diversions are a way to run away from the truth. English teachers call them euphemisms.

Euphemisms, or escape words, are rampant in business. We

use the phrase "pretty much" when we have no idea at all—"pretty close" when we haven't even started. When we haven't finished a job, we say we're "just about done." *Avoiding* euphemisms vastly improves the level of communications.

There is too much truth in exact measurement for some people. Losers don't have the courage to face the truth of exact measurement. They want to run away from the truth by focusing on activities instead of results. When exact measurements are made, things are brought into clear focus, and there is no place to hide.

If you have the courage to keep score, even when you are losing, you will win more in the long run. The elimination of uncertainty through scorekeeping increases the ability to take calculated risks.

The Cash-Flow Euphemism

One of the greatest rituals in America today takes place in the private clubs where business leaders meet to eat, exercise, and share problems with each other. When you walk into your club, somebody is likely to say, "How's business?"

You might respond, "Not bad. I just have a little cash-flow problem."

The person that asks the question, and everybody else, nod their heads knowingly like the great gods of Egypt and say, "Boy, we sure know what you mean. We're in the same situation."

What are these people saying? How can the problem not be bad if the cash won't flow, not even dribble a bit?

The *cash-flow problem* is a euphemism, a form of escapism, a way to avoid a serious business problem. *Cash flow is the barometer of business health.* Saying everything is fine except for cash flow is like saying the patient is fine except for a 105-degree temperature. Executives have to pull their heads out of the sand to face their problems and deal with them.

There's no such thing as a cash-flow problem. Cash-flow problems, as people call them, are symptoms of deeper problems. Maybe the problem is not being able to collect the money owed you. It may be that you purchased too much inventory, or the

wrong kind of inventory, and don't have the courage to liquidate the excess. Maybe you don't have the courage to raise prices and go out and sell value. Or you don't have the backbone to cut unnecessary overhead—you think you can't cut anybody back even though you have enough help to do fifty percent more business. Perhaps you are bleeding the business by taking more out of the business than it is earning.

On the other hand, if you walked into the athletic club and someone asked, "How's it going?" and you said, "Well, not too bad, except I've bought more inventory than I know what to do with. I'm afraid to collect what people owe me. I don't have the courage to raise prices and sell on value. I'm afraid to lay off some of the employees I don't need. I'm bleeding the business by taking out more money than it is earning. But basically, things aren't bad"—if you responded like that, everybody in the club would look at you and say, "Gosh, what a terrible manager you are. How dare you call yourself a member of this club!"

Hitler's propaganda minister, Joseph Goebbels, said that if a lie is repeated long enough and loud enough everybody will believe it. That's the way it is with cash flow. If we are smart, we will look past the cash-flow generality to the specific places where our cash flew when we thought it was going to flow.

Cash-flow problems originate from five major problems:

1. *Too much inventory and other nonliquid assets.* Inventory is not being turned over fast enough to justify the cost of holding and handling it.

2. *Overly-high receivables.* Receivables are not being collected fast enough. Perhaps credit policies have remained weak as we have moved into a time of tight cash. Our courage to collect is being dampened by our concern for additional business. Maybe we are operating on the false assumption that sales from people who won't pay are somehow beneficial to our company.

3. *Inadequate gross-profit percentages.* We are unwilling to demand the markup necessary to survive and even prosper when sales are down.

4. *Unwillingness to implement cost-cutting measures.* I never cease to be amazed at the number of people who think they

can increase sales from, say, $5 to $7 million without increasing costs, and if sales drop from $5 to $3 million, who don't think they can decrease costs. When they started their business, sales were at $2 or $3 million with proportionate costs, but they think there is no way they can cut costs back when sales go into a slump.

I acknowledge the fact that some costs are irreversible without doing long-term damage to the organization—space, buildings, real estate—solidly fixed things that have ongoing costs. But it is imperative that we recognize that a building too full of people and inventory can drain off a lot of unnecessary cash. The goal is to find that optimum level of operation where we can achieve maximum profitability and productivity. We've got to be able to bite the bullet.

5. *Inappropriate compensation for the owner or key decision-makers.* Owners or managers who combine a decrease in profitability with an increase in personal compensation are contributing to their own demise. Good farmers don't eat the seed corn.

Too often in business we forget a valuable lesson learned so well on the athletic field—that we don't negotiate the value of points. When a team scores a touchdown on an interception or fluke play, we don't run over to the field judge and say, "That one is worth only four points." No, the team gets six points, regardless of how easy the touchdown might have been. Yet in business, too often we try to mask the truth with words. We need to get back to firing people instead of outplacing them. We need to return to a communication style that says, "They messed up," not "Their performance is substandard, a little below the absolute minimum required in order to identify and get the job done." We have to have the courage to communicate accurately, to get to the bottom line.

We have enjoyed the comfortable euphemism of "cash-flow problems" long enough. If your cash flow has dried up—if it is simply a drip where it used to be a gusher—then look along the pipeline for the holes. Don't be content with the wandering generality that growth, that benevolent dragon, kindly gobbled up your cash and stripped away the profits. Growth is no good unless it is profitable and funded from earnings. Legitimate earnings

always were and always will be the best indication of a healthy company.

Remember, there is no such thing as a cash-flow problem by itself. A shortage of cash is the result of other problems that you can do something about by keeping score.

Scorekeeping Basics

Following are some of the basics of good scorekeeping.

1. *Scorekeeping must be simple and objective.* One beautiful day as I was approaching the eighteenth hole, a golfer hit a ball that bounced off a rock in a stream, hit a tree, dribbled through a sand trap, and finally rolled onto the green. The resident pro looked over at me and said, "It's a good thing the scorecard doesn't make you tell how—just how many." A basketball score doesn't tell you about lucky tip-ins or hard-fought rebounds. A football score doesn't tell you how many interceptions were made or about the dropped receptions that should have been caught. But the individual players who got the tips, blocks, interceptions, or fumble recoveries know exactly how many they got, not just for the game but for the entire season, and for last year too. Keep it simple.

2. *Scorekeeping must be self administered.* A scorecard is most effective when it is kept and updated by the player, as in golf and tennis. That's why three people in a tent can handle all the scorekeeping responsibilities for 140 participants in a golf tournament, or why four people can handle all the record keeping for a tennis tournament with thousands of participants. Periodically managers make the mistake of having their secretaries draw all the graphs and charts, or they have computers print out the scores two or three days after the fact. Self-administered graphing and scorekeeping is best.

When people keep their own scorecards, they know whether they won or lost that day and also how much they improved, regardless of whether or not the coach had a bad day. The players will also correct any deficiencies in their scores before the cards

are turned in. Our self-concept or self-image is based on what we know and can prove about ourselves.

3. *Scorekeeping must offer a comparison between current personal performance, past personal performance, and an accepted standard.* Golf would no longer be a favorite national pastime if the only opportunity for comparison was whether or not we could beat Johnny Miller's record-setting score in the U.S. Open.

Golf survives and thrives because it has a scorekeeping system that allows me, for example, to compare myself, an 18 handicapper, with myself. If I go to the golf course and break 90, I get very excited. I compare my performance to my own past performance as well as to what the pros are doing.

Marathoning has a similar scorekeeping system. How many people would fight and kick and scream to get into the Boston Marathon if the clock was turned off after getting the time for the first-place finisher in each category?

The success of a scorekeeping system in recreation depends upon how well it compares his current performance with his past performance and with the accepted national average. Too often in business we generate a scorekeeping system that tells how well we did only in comparison to an arbitrary, artificially imposed standard.

4. *Scorekeeping should be dynamic.* It should allow players to review their performance during the game. In your business, is your scorekeeping more like ice hockey or figure skating? With the availability of the microcomputer, almost every kind of business information can be immediately available. Businesses no longer have to wait until the end of the month to know how they are doing. They can know daily, even hourly. As in ice hockey, employees can know the score as the game is being played. Yet most businesses still have twelve accounting periods just like before World War II. You don't know what you did in March until the middle of April—too late to make any adjustments for March.

To sum up the principles discussed in this chapter, consider bowling-league competition. Have you ever seen a non-motivated bowler? Everybody knows how to keep score. They throw those balls, knock down pins, and jump up and down, and you get the

impression they would do almost anything for the prize money.

Work is a lot like bowling, except there's a person called a supervisor who stands in front of the pins with a curtain. The supervisor can see the pins, but the bowler can't. The bowler throws the ball, hears something, and says, "How'd I do?"

The supervisor says, "Change your grip."

The bowler says, "But how did I do?"

The supervisor says, "Move your foot." The bowler changes his grip and moves his foot and throws another ball.

The bowler hears the pins fall and asks, "How am I doing?" The supervisor says, "Put some tape in the thumb hole."

"How am I doing?" repeats the persistent bowler.

"Don't worry about it. We've got a review coming up in six months. We'll let you know then."

How long would bowling remain a popular activity under these conditions? Not very long.

Comparing business to bowling, supervisors who believe in management by measurement don't hold a blanket in front of the pins while the team members are bowling. They allow the players to know exactly how many pins they knock down with each ball.

Implementing a Scorekeeping System

The measurement principles discussed in this book need to be introduced carefully into the workplace. There is almost always resistance to change, and managers or employees who in the past have focused their attention on activity can be intimidated into inactivity by the threat of disclosing performance they may feel is less than acceptable. The truth can be painful and frightening. Employees who are sold on management by measurement and want to get involved of their own free will and choice generally benefit the most from the measurement system.

Too many middle managers today feel impotent in their ability to manage, to talk, to create, to discipline, to go, to move, to build with people. Our traditional American management philosophy to manage by exception, to focus on problems, to put out fires, results in a reluctance to regularly compliment and praise. We talk

about the things that are going wrong instead of the things that are going right. As a result, subordinates are depreciated with more emphasis on shortcomings than accomplishments.

A singing group by the name of Three Dog Night had a hit song in the '60s called "Celebrate" that needs to be the theme song for managers. We have taken the emotion out of our management style. And yet we all watch the NBA champs, the winners of the Stanley Cup in the champagne showers of celebration. IBM has developed a real corporate culture around their ability to celebrate beyond expectation the accomplishment of their goals. Score-keeping exists primarily so that we know when to begin the party.

A good scorekeeping system allows the worker or manager to establish his own self-worth in the eyes of his peers, subordinates, and supervisors. Everybody becomes more accurately and justly rewarded, stroked, or chastised, based on accurate performance records or scorecards.