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## The Problem With Pinball

While few will admit it, many firms manage their product development groups according to the principle of pinball -- if you win you get to play again. This strategy leads to actions that are short-term and risk avoiding.

Pinball can come in many forms. The design team that developed the last successful product gets a new exciting challenge. The salesperson who gets a high customer satisfaction score, gets a larger territory and more resources. The sales forecaster who successfully predicted a win gets the call for the next new product launch.

I would be the last to argue that these people should not be rewarded. Those who succeeded in the past are likely to succeed in the future. Rewards for past success create loyalty and encourage hard work on future projects. These aspects of pinball are good and ought to be encouraged. But there are some downsides as well.

**Short-termism.** Consider two products. Product A is based on a fundamental change in the system's platform. It takes longer to develop, but once it is developed the payoffs continue for a long time. Product B is a minor change using the current platform. It will be obsolete in three years, but it will have a large immediate payback. Even if Product A were better for the long-term profitability of the firm, "pinball management" may reward Product B. The developer of Product A may not even get to stay around long enough to see the completion of the product or, worse, the developer of Product B may move up the promotion ladder faster.

**Risk Avoidance.** Employees have mortgages, car payments, and college tuitions to face each month. They cannot afford to bet their careers on risky products, even if those products have the potential for a fundamental change in the product line. On the other hand, firms can diversify their risk across many projects and, even if they cannot, their stockholders can. Employees are, by definition, more risk averse than the firm. In an analogy to short-termism, they are more likely to choose the minor change using the current platform over a fundamental change in the platform.

**Internal Competition.** Pinball means that if I win, you lose -- that is, you have to wait while I get to play again. This does not engender cooperation -- it fosters potentially destructive internal competition. Furthermore, it gives little reward for actions that help to improve another department's game.

Fortunately there are alternatives to pinball management. Ongoing measurement systems make sure that employees are rewarded rapidly and effectively. For example, short-termism is reduced when customer-contact people are judged on sales and actions that address long-term customer needs rather than sales alone. This long-term market perspective can be pushed deep within the firm by explicit internal-customer satisfaction systems that recognize the interdependence of employees. Explicit risk measurement systems and good forecasting systems can reward employees who take necessary risks. By linking voice-of-the-customer and voice-of-the-employee measurement the firm can develop metrics that align employee motivations with those of the firm. With the right metrics (and perceived rewards), employees will, acting in their own best interests, choose those actions that have the best expected long-term payoff for the firm.

-- John Hauser

(544 words)