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The False Promise of the Single Metric

Graham Kenny

Managers and boards are often pushed by investors, fund managers, and analysts to focus intently on a single measure of success, such as shareholder value or profit, and then they do everything they can to maximize it. As a result, they tend to overlook other important measures — for instance, customer satisfaction, employee motivation, and supplier support — and their narrow view of the organization can do long-term damage. Consider "Chainsaw Al" Dunlap, infamous for his profit-at-any-price approach to corporate turnarounds. He left a trail of failed companies behind him, including the iconic Sunbeam. He's an extreme example, but one that shows what happens when you lose sight of organizational complexity.

Companies should be managed much more holistically. As complex systems, they require systems of measurement to track progress against key goals. It's common sense, but it bears repeating, given how many companies don't operate that way.

I know firsthand how challenging it can be to take a holistic approach, especially when your organization is in crisis. I was once a CEO leading a corporate turnaround. After I'd taken the reins of a loss-making manufacturer of trusses and frames for houses, the management team had to give the bottom-line its sole attention to get the company back to profitability. In short, we had to be a bit myopic to survive. Unprofitable, but still promising, product lines were cut, timber stocks were reduced to a bare minimum, employee numbers were razored, and long-term development activities were curtailed. We saved the company from being wound up — barely. But we also cut away the company's muscle, leaving only the skeleton. It was no way to run a firm over the long term.

Certainly, some enlightened CEOs and boards understand this. When Paul Polman became the CEO of Unilever, for example, he stopped giving analysts earnings guidance, dispensed with quarterly profit reports, and said there'd be no special treatment for hedge funds. Instead, he focused his metrics on the long-term needs of a full range of stakeholders, as Unilever's annual reports demonstrate. Initially the market took a dim view of this shift, punishing the stock price. But it rebounded months later, after analysts accepted Polman's wider lens.

Think of it this way: Organizations are a lot like individuals. To live a full, satisfying life, you probably wouldn't focus exclusively on wealth, sacrificing every bit of joy so you can have a large bank balance on your deathbed. Nor, most likely, would you concentrate only on your health, wrapping yourself in cotton wool to take zero risks with your well-being. Maximizing one thing would mean giving up too much in other areas. Most of us have found that it's better to work on a combination of things — to look after the whole self's best interests — by making many choices over time, from the foods we eat to the relationships we build.

Similarly, business leaders and governance teams must look after the whole company. Indeed, they're charged by corporate law to do so. Their mandate is to improve the probability of their organizations' long-term survival and growth. To gauge their success, they need a composite scorecard with both objective and subjective targets for key stakeholders. For instance, they may want to gauge employees' productivity, innovation, and contentment, and customers' profitable revenue and satisfaction. And so it goes, stakeholder by stakeholder.

But here's the thing: Even if a metric is classed as objective, someone ultimately has to apply the "good enough" test, which is subjective. This requires continual judgment and adjustment —it's much messier than using a single metric — but it's what executives and boards get paid for.

Graham Kenny is the managing director of Strategic Factors, a Sydney, Australia-based consultancy that specializes in strategic planning and performance measurement. He is the author of *Crack Strategy's Code* (President Press, 2013) and *Strategic Performance Measurement* (President Press, 2014).

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