

"SURROGATION".

As we all know, a business strategy is typically long term oriented, and quite complex and abstract. So various tools and metrics like CSFs and KPIs, Strategy Maps, and Balanced Scorecards are being used to cascade the strategy downwards in the organization, to make it more concrete and simpler to grasp, and to measure the progress made (in the short run). All fine.

But sometimes managers and employees mentally mix up and replace the actual strategy with the hard metrics which were meant to assess whether the organization is succeeding at it. They might even start "gaming" the performance metrics.

According to an interesting article by Professors Harris and Tayler surrogation is destroying a lot of value in businesses. Why? Because business metrics are inherently imperfect. Especially if they are used to gauge intangible goals (like is the case in strategy). And still more so if the metrics being used are not well matched to the particular strategy.

Of course, metrics have their merits. They are useful to provide some direction where the strategy may otherwise be perceived as too abstract.

And they can also help to track the progress made and to coordinate behaviors and efforts. But it's important the inherent distortions of metrics are properly understood. That's why I prefer the term "indicators" over "metrics".

To counteract surrogation, the authors recommend companies to:

- Use multiple metrics. But also don't overdo it, see: "How Many CSFs and KPIs should there be?");
- Be careful with tying financial incentives (rewards) to some metric, because doing so increases the focus on making the numbers even more; See: Pay per Performance?

- Involve the people who have to implement a strategy in its formulation, so they understand and appreciate what's behind the KPI's.

I found the introduction of the term "surrogation" and its explanation by Harris and Tayler a useful addition to our management dictionary, because it explains the core issue in performance management so well. To use the famous words of Prof. William Bruce Cameron back in 1963: "Not everything that can be counted counts, and not everything that counts can be counted."

Source: Michael Harris and Bill Tayler, "Don't Let Metrics Undermine Your Business", HBR Sept–Oct 2019. 22-8-2019