PERFORMANCE MEASUREMENT

Put Your Metrics Where Your Mouth Is

by Graham Kenny

October 02, 2020

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Like many firms, Rio Tinto, the world's second largest mining company, expresses solidarity with its stakeholders in strong terms. Here's its annual report:

> As a mining and metals company, we recognise the impact our business can have on our many stakeholders and the wider responsibilities this brings. We work hard to understand our stakeholders' needs and expectations. We want our success to allow us to invest to meet **our obligations to our employees, our customers, suppliers, local communities, and host governments,** as well as to generate superior returns for our shareholders. *[emphasis added]*

Yet on the 24th of May 2020, Rio Tinto blasted into oblivion the caves of the Juukan Gorge, a 46,000-year-old Aboriginal sacred site in the Pilbara region of Western Australia, where the company mines iron ore. Rio Tinto did this in the pursuit of further expansion and in full knowledge of the site's existence and importance. Not to proceed, the CEO has explained, would have cost the company $135 million. He was under pressure to maximize profits from iron ore.

The Australian community has reacted with horror. News outlets and social media have been running hot on the issue. The company's shareholders around the world have voiced their outrage. Large pension funds, including Hesta and Australian Super (Australia's largest), have demanded answers from Rio Tinto's board. The result – so far – has been that the CEO and two other senior executives have been forced to resign in disgrace. The predictions are that there's more fallout to come.

How could something like this have happened?

Metrics vs. stakeholders

You've no doubt heard the saying "what gets measured gets managed." And it's true. Why? Because what gets measured, gets noticed. CEOs and other executives respond to what boards and shareholders notice. You can see this in the mining industry where levels of safety are measured, highlighted by boards and trumpeted, when good, by CEOs. Measuring something raises its profile.

You would expect that Rio Tinto's key metrics would include measures for how well it is performing on the dimensions that each of its identified stakeholders value. But do they?

The company publishes its "key performance indicators" (KPIs) in its annual report; it highlights eight accountability measures. Of these, six relate to shareholders and concern metrics around profit, return on capital employed, and debt. One employee-related KPI relates concerns safety, measured by "all injury frequency rate." The remaining KPI, "total greenhouse gas emissions intensity," is the only one that concerns community.

It's clear that there's a mismatch between the stakeholders that Rio Tinto marks as vital and its measures of corporate success. To take a specific example from its annual report, the company acknowledges "suppliers" as "vital to our business success" yet fails to list a single KPI to track performance in that space.

Is Rio Tinto an exception?

To answer this question, I reviewed the annual reports of five other mining companies: BHP (the world's largest), Fortescue, Newcrest, Woodside Petroleum, and Santos. (All six are within the 20 largest Australian companies by market capitalization.)

Like Rio Tinto, BHP publishes its "key performance indicators." There are nine. Five of these relate to shareholders, two to employees (both about safety), and two to the community. Fortescue goes one step further and reduces its "key performance indicators" to a list of three. Clearly, Rio Tinto is not the only big Australian miner whose metrics don't match its rhetoric.

Miners aren't the only offenders. Commonwealth Bank (Australia's largest) identifies "customers, community, our people, and shareholders" as its key stakeholders in its annual report. But when it comes to the "key metrics" in its Annual Report report it it mentions eight, of which seven relate to shareholders and one to customers.

This is despite the 2018 finding by a Royal Commission (high level inquiry) into banking misconduct. One clear issue the Commission had identified in its report was that banks gave too little attention to monitoring organizational culture and over- emphasized measuring corporate profit. In that context you would have expected the bank to have developed a KPI that measured how well it served its employees.

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A stakeholder focus has been endorsed by none other than the U.S. Business Roundtable. Its CEOs represent big business from Apple to Walmart. On August 19 last year the body issued a statement that superseded all before it. Signed by 181 CEOs, it stated that the corporation existed for the benefit of all "stakeholders" including "customers, employees, suppliers, communities and shareholders." The Australian business community has moved in the same direction. At the Australian Institute of Company Directors Summit 2019 held in Sydney in March 2019, key speakers, including the AICD's CEO and President, called for boards and CEOs to broaden the scope of their corporate governance to take in "stakeholders."

But until companies like Rio Tinto start putting their metrics where their mouths are, I'm afraid to say that we are going to see more scandals like Juukan Caves.

Graham Kenny, CEO of Strategic Factors, is a recognized expert in strategy and performance measurement who helps managers, executives, and boards create successful organizations in the private, public, and not-for-profit sectors. You can connect to or follow him on LinkedIn.

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