My colleague, Laurent Giguère, wrote a KPMG Audit Point of View article, *The audit committee’s contribution to strategy*, suggesting that the audit committee (AC) has an emerging and expanded role to oversee the information that links strategy to financial performance and to risk appetite, and the systems that produce and control that information. In essence, the article asserts that the AC is increasingly asking three key questions:

1. Are the board and top team using the right KPIs to link strategy to financial performance and risk management?
2. Are the systems that capture and report the KPI information doing so in a robust, controlled and useful way?
3. Are the CEO, CFO and the rest of the top team aligned on the KPIs and their implications for strategic and financial performance?

This trend strikes me as a good thing. As a strategist and an observer of how human behaviour in top teams and the boardroom influences strategic decision making, I know that the scarcest resource in many organizations is neither capital nor labour. It is the attention of the leadership team and the board. What this group chooses to consistently pay attention to is a critical determinant of what gets done. As ACs bring oversight to the KPI measures that link strategy, risk and performance— that can only be helpful.

To support their efforts, I offer below three short propositions on measurement ACs should keep in mind and four additional questions they should have on their radar.

### Three propositions on measurement

1. **What gets measured gets attended to.** Organizations use KPIs and leader behaviour to guide people’s attention to what is considered important.
   
   **Action:** Match your measures to what matters.

2. **What gets measured often gets gamed.** Most measures are imperfect, meaning they don’t match the intent of what’s being measured in a clear easy-to-understand way. They also don’t measure everything that is considered important. Human beings will often take advantage of these imperfections to find ways to deliver on the measure without necessarily delivering on the intent behind the measure.
   
   **Action:** Think about how your measures could be gamed and adjust accordingly.

3. **What gets measured and compensated gets done.** Once the AC begins to review measurement, it must inevitably look at CEO (and sometimes leadership team) compensation. That means ACs should ask if the KPIs and financial measures selected do, in fact, align CEO and leadership team focus and behaviours with strategy. A great article was written back in 1995 called “On the folly of rewarding A while hoping for B.”
   
   **The title says it all and it is still relevant today.**

   **Action:** Check that your measures are well aligned with your strategic intent and that the CEO and leadership team are in fact aligned on those measures.

### Four additional questions the AC should consider

1. **Are we focused on the right financial outcome measures of performance?** Numerous articles have been written on the importance of including economic capital as a key measure of successful financial performance. Is the organization making a return over and above its cost of capital?

2. **Do we understand and agree on the key value drivers of performance?** All strategies aim to influence various intermediary variables (i.e., customer satisfaction, quality, market share, inventory turns, etc.) with the intent to positively improve financial performance. Yet many top management teams, ACs and boards do not clearly articulate the value drivers of the business and the measures that should support them. Not all organizational drivers are created equal. What are the key variables that drive the income statement and balance sheet? For a flavour of what may be needed, refer to this article Value Drivers Model – Mining organization example [PDF 46 KB].
3. **Are our risk appetite measures cascaded?** Assuming we have a risk appetite statement, are the measures clear and cascaded down to the level of operations where the front line and middle management can act as the first line of defense and take action in their daily decisions?

4. **Is there a single version of the truth?** Do our systems gather and report the KPI information in ways that allow us to make clear interpretations and draw actionable conclusions? Or do different systems produce different measures, resulting in reconciliations that take too much time and produce more heat than light?

By drawing on insights from strategy and behavioural science, ACs can gain an interesting perspective on their expanding responsibilities. While different organizations will take different approaches, AC oversight over strategic and operational KPIs—and not just financial measures—may herald a positive trend.

Recommended reading: *The audit committee’s contribution to strategy* by Laurent Giguère.