USING RESULTS CHAIN FRAMEWORK AS A TOOL FOR THE IMPROVEMENT OF PERFORMANCE EVALUATION IN FIRMS

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ABSTRACT

The stakeholder theory holds that a firm should enhance its relationship and role in the internal and external environment through the impact of its actions (Donaldson et al., 1995). However, many managers hold the view that a business should be run exclusively with to profit motive or shareholder returns. Therefore, the impact of profit or wealth outcomes is in many cases viewed simply as an instrument to increase further profitability, rather than a fundamental goal in itself. Beyond the widely held notion of a firm, returns chain perceives business impact as a fundamental end for corporate actions, rather than the justification for increasing corporate profits. The paper has demonstrated that results chain frameworks developed for specific programs and organizations could assist any firm in overall performance planning, measurement, and reporting. The results chain approach could help resolve traditional conceptual difficulties such as inappropriate narrow considerations of outputs, outcomes and impacts, and provide a practical, consistent template for information collection, analysis, and reporting on performance. The paper in addition encourages appropriate monitoring and evaluation based on understanding what works in different contexts and levels of returns chain.

Keywords: P*erformance evaluation,* Results *Chain, Inputs, Activities, Outputs, Outcomes, Impact.*

INTRODUCTION

Performance evaluation is the formal determination of a firm's actions and their outcomes. It is the essence of all management processes, and aims at establishing extent to which a firm attains its goals/objectives and whether a firm achievements are above or below the market or industry norms. Performance evaluation may also refer to winning from within where an organization focuses on its capabilities to create an impact to the stakeholders (http://www.businessdictionary.com). Evaluating and managing performance of a business is one of the most genuine desires of managers (Taticchi, 2010). Principally, performance evaluation is important in strategic management; as it provides basis for decision-making, strategic planning and connects vision and strategies with goals and objectives of the organization (Ristic and Balaban, 2006). According to Ristic and Balaban (2006, p 36) performance evaluation “describes if and how much the organization, process, program, project and job attain set goals…and provides the base for managing corrective actions”. In this context, the term performance evaluation means assessing attained results with a view of all the organization processes, procedures and resources that help the organization optimize performance. Further, unlike other performance evaluation models, results chain has an added benefit of showing more details and a direct relationship between one result and another.

Kaplan and Norton (1996) in agreement, posit that long term performance of an organization cannot be motivated or evaluated by use of the financial model alone because that model measures events of the past, but may not indicate consequences of those events. Montague and Birch-Jones (2017) acknowledges this by noting that despite impact of actions being the last step in the results chain, it is rarely evaluated as part of the components of performance of a firm. The reasoning behind the low emphasis of results impact is grounded on the notion that assessing of a good performing firm could only be on how well it is able to maximize profit or wealth, the key objectives of a firm. The contention suggests that an appropriate measure should evaluate impact, which can be made easy by using a results chain analysis. Moreover, unlike other management tools that perceive performance evaluation as a single activity, results chain identifies performance as a series of events. In agreement, Yip, Devinney and Johnson (2009) propose that a firm could evaluate extent it generates superior returns for the shareholders, while also meeting the claims of other stakeholders using a returns chain framework. Wyner (2014) supporting this view, asserts that value-based management approach should attempt to connect all firm´s activities together with people. Despite the importance of Returns chain framework as a monitoring and evaluation tool, literature reveals that it is largely ignored in overall performance evaluation (Yip, Devinney and Johnson, 2009). It is also common to find different firms considering performance at different levels of returns chain based on their vision, mission, goals and objectives. Considering the multidimensional nature of performance, failure to evaluate performance along the entire returns chain may be the cause of difficulties that managers face in evaluating long term performance. This paper suggests that overall firm performance could best be assessed along the entire returns chain.

Why use returns chain in performance evaluation

Performance evaluation produces a sequence of results of related events which form a results chain. A Results Chain is thus a simple visual diagram that maps out the intended pathway of performance management process. The chain is sometimes referred to as cause-effect chain or causal chain. The Results Chain provides a simple and convincing picture of what goals/objectives an organization is trying to achieve by showing the links between its intended outcomes (short, medium and long-term) and the inputs, activities and outputs required to achieve them (Montague and Birch-Jones, 2017). Results chain relates to measuring and tracking results, it is important to understand what results are, and how to distinguish between different levels of results i.e. outputs, outcomes and impact.

According to Gretchen Jordan, the Results chain framework can guide an organization "to develop an approach to performance measurement that drives their performance in the right direction". Gretchen Jordan, in addition argues that "describing success in this balanced way is not something people are used to doing, but makes intuitive sense once you introduce them to it". In this case though developed for evaluating performance of projects, returns chain could be replicated to assess performance of an entire firm.

Montague and Birch-Jones (2017) also notes that a Results chain could add value to an enterprise as it provides critical insights on performance management, measurement and improvement. It also effectively considers the components that strategic management scholars typically consider when discussing performance, such as inputs, activities, outputs, outcomes and impact which makes it easy to replicate use of returns chain framework in all forms of organizations as a performance management tool. It is also explains how short term performance could be assessed at each level of returns chain, while overall long-term performance is evaluated by impact of outcomes. Most importantly, use of returns chain in performance evaluation could simplify the process and reduce typical difficulties in performance measurements that arise due to the multidimensional and multi-sequential nature of performance.

Returns chain can also help organizations be accountable for achieving impacts that are external to the organisation and beyond their direct control. This would add value to management reports, which more often than not contains annually performance report that focus on short-term outcomes located within the sphere of direct influence and not the entire returns chain. Further, use of a returns chain could help managers to distinguish between short-term outcomes that are visible and attributable to an action and which they can directly influence, and those impacts that are beyond their influence. To facilitate this, Montague and Birch-Jones (2017) makes a useful expansion on the simple Results chain by overlaying it with three spheres of influence. Figure 1 distinguishes several of levels in results chain and where a firm has control or influence. The interconnected spheres and events imply that a complete performance evaluation that portrays the ultimate performance of a firm should encompass the entire results chain.

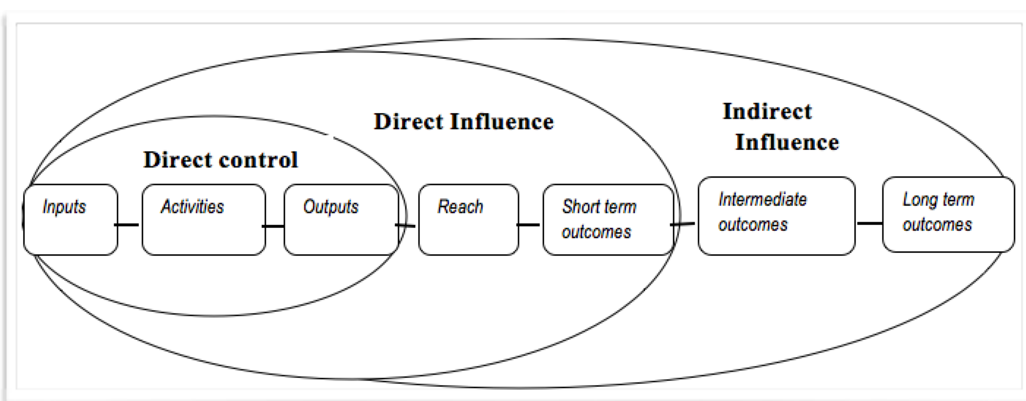

Figure 1: Results Chain with three spheres of influence *(Montague and Birch-Jones (2017)*

What is a Results Chain?

A results chain is a tool that shows how firm actions can lead to some desired consequence. More specifically, a results chain represents a firm's assumptions about how strategies will stimulate corporate actions that could produce impacts in key performance indicators (Foundations of Success, 2007). In essence, results chain is a series of causal statements that link short-, medium-, and long-term results in an "if…then" fashion. A result identifies key elements for attention by a manager. Using the elements, a firm is able to define objectives and goals that describe desired future outcomes and impacts, respectively. This minimizes instances where firms implement strategies without formally stating assumptions on how strategies will achieve their desired outcomes and impacts. With a returns chain, a manager could also map strategy on corporate actions and consequent superior performance.

Terms Used to Describe Results

According to Thomas Winderl (2016) to attain desired long-term results, an organization passes through a series of steps. Inputs, activities, outputs, outcomes and impact are terms used to describe changes at the different levels of performance from planning to long-term sustainable change in the performance indicator. The steps form a results chain framework. Definitions of these returns chain steps were originally developed by OECD DAC in 2002 (OECD, 2010). Results are defined by OECD DAC as the output, outcome or impact of a firm's actions. Some only use it to describe actual achievements whilst others use it to describe predicted change. On the other hand Roche (1999) defines impact as "lasting or significant change – positive or negative, intended or not – in people's lives brought about by an action or a series of actions" and outputs as the services or products delivered that are largely with in the control of an agency. Important to note is that different organizations may use different definitions of these terms. And most importantly, results are not inputs or activities. According to Foundations of Success (2007), inputs and activities refers to the planned work or process while the outputs, outcomes and impacts refer to planned results.

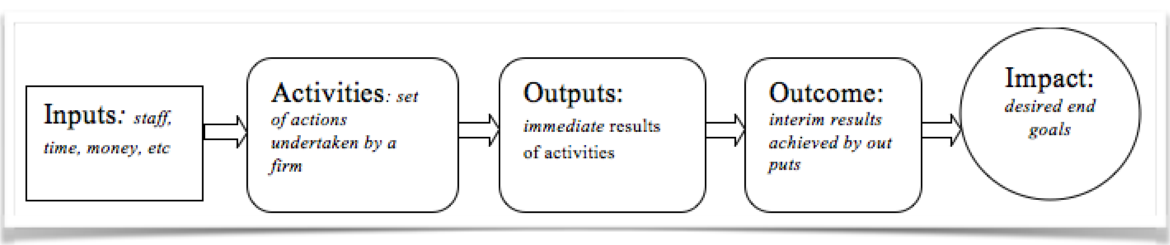

Figure 2: Elements of a returns chain

The results chain comprises of five logically connected elements, namely:

- inputs
- activities
- outputs
- outcomes, and
- impact

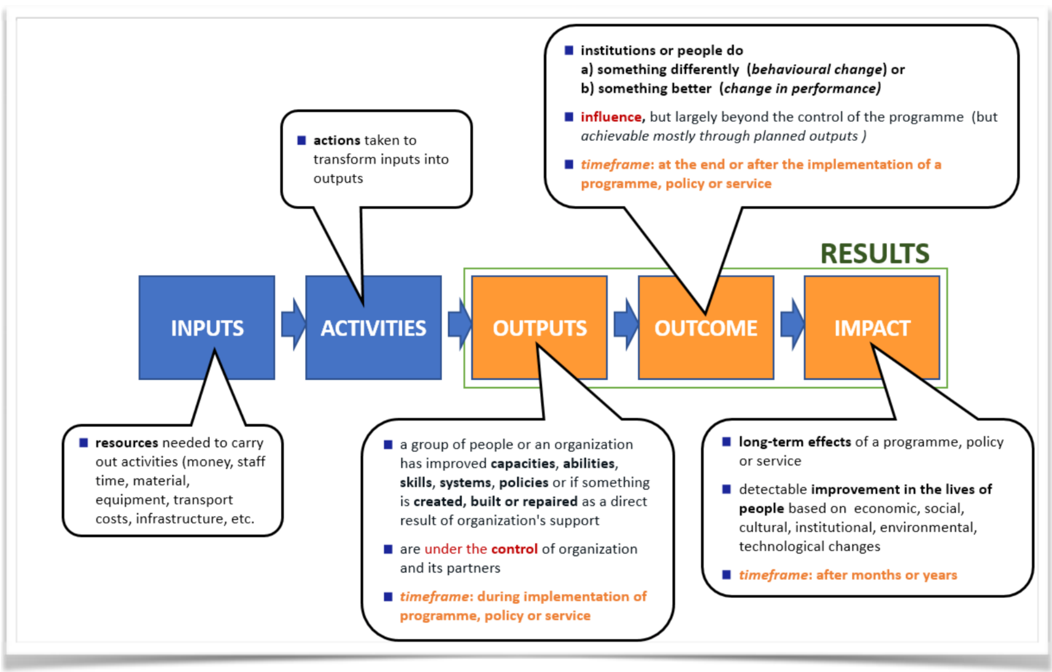

Figure 3: Elements of a results chain (http://winderl.net/resultschain/)

INPUTS

These are resources needed to carry out activities in the firm. Typically, inputs refer to money, staff time, materials and equipment, transport costs, infrastructure, etc.

ACTIVITIES

These are actions taken to transform inputs to outputs.

OUTPUT

Outputs are the direct results of a set of activities attained and delivered during the activities. An output is delivered if capacities, abilities, skills, systems, policies or if a good is created, built or repaired. An output may also include a new, innovative or improved offering to clients. Outputs differs from outcomes because firm largely have control over delivering outputs. This means that the firm fully responsible for delivering an output.

OUTCOME

An outcome is what a firm hopes to achieve from its actions. An outcome is largely achieved through planned outputs. However, unlike outputs which a firm can largely control, a firm can only influence the achievement of an outcome, but not ultimately control. Outcomes are typically achieved at the end or even after an activity.

IMPACT

An impact is the long-term effect of activities, policies or services. It implies a detectable improvement on economic, social, cultural, institutional, environmental, and technological aspects. An impact is typically detectable only after months or even years and is often related to broad national goals or international aspirations like the Sustainable Development Goals. The article suggests that to conclusively report a firm performance, such a report should go beyond outcomes to assessing the impact of all firm actions, outputs and outcomes. This would be within the firm corporate strategy and mission. To support the suggestion, the paper reviewed mission statements of several global firms. As is evidenced by the mission statements of various well performing global firms, a mission statement ideally indicate the business impact not the outcomes of actions as the ultimate performance measure. However, the business impact is often ignored or misinterpreted to imply outcomes of actions and firms consistently indicate to have achieved a mission after getting outcomes of activities rather than when the business make an impact on their stakeholders with the outcomes (Kinyuira, 2018, 2017).

Summarizing the results chain elements, Simister (2015) notes that inputs are used in order to carryout activities. Activities lead to services or products delivered (outputs). The outputs start to bring about change (outcomes) and eventually this will (hopefully) contribute to the impact. In a typical example, if an organization provides financial savings and credit services- money, rent, insurance, any transports costs, staff costs etc. would be inputs. Activities undertaken would include client recruitment, advertising, financial literacy, loan processing etc. The out puts could be loans and savings products and services available, number of clients with savings accounts, number of loan applications and amount of loans granted. The outcomes could be growth in loans and incomes, increase in profits, improved returns to shareholders among others. This might contribute to the impact of the organization, such as improved financial stability, ability to meet social needs such as health and education costs, increased acquisition of assets and properties, and more small business startups etc. These impacts would better standard of living in the long-term for clients and their families.

CONCLUSION

The paper has demonstrated that results chain frameworks developed for specific programs and organizations could assist any firm in overall performance planning, measurement, and reporting. The results chain approach could help resolve traditional conceptual difficulties such as inappropriate narrow considerations of outputs, outcomes and impacts, and provide a practical, consistent template for information collection, analysis, and reporting on performance. The paper in addition encourages appropriate monitoring and evaluation based on understanding what works in different contexts and levels of returns chain. The paper also argues that use of returns chain could:-

- Improve strategic management; as it provides the base for decision-making, strategic planning and connects the vision and strategies with the goals and objectives of the organization.
- Provide the base for managing corrective actions to optimize performance.
- Performance results would portray a view of entire organization's activities.
- Extend literature which is largely deficient of performance evaluation along entire results chain Reduce difficulties in evaluating long term performance that arises due to the inherent problems in accounting for the multidimensional nature of performance.
- Reduce confusion between that describe results i.e. outputs, outcomes and impact.
- Help managers to understand what results are, and how to distinguish between different levels of results i.e. outputs, outcomes and impact.
- Help managers, being able to distinguish between short-term outcomes that are visible and attributable to an action and which they can directly influence, and those impacts that are beyond their influence.
- Can guide an organization "to develop an approach to performance measurement that drives their performance in the right direction". Gretchen Jordan
- Though predominantly used to evaluate projects, returns chain could be replicated in overall performance evaluation of the entire firm.
- Evaluate the impact of profit or wealth outcomes is in many cases viewed simply as an instrument to increase further profitability, rather than a fundamental goal in itself.

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