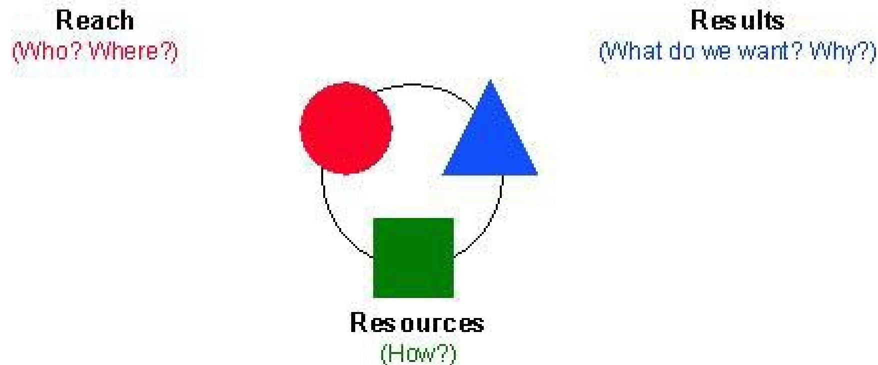
THREE RS OF PERFORMANCE-BASED MANAGEMENT AND A BALANCED PERFORMANCE SCORECARD

Three Rs of Performance-Based Management

Public and private organizations have struggled to achieve a balanced approach to performance management which provides a strategic and comprehensive context for decision-making. In order to focus on key areas of performance, and to emphasize user value-added, a simple conceptual framework is required. For each goal/service and/or program, analysts should consider three Rs in the form of a triangle as shown in Figure 1.



RESOURCES refer to both the **amount** of time, money and/or energy exerted and the **type** of resources used. Types of resources include capital and labour, skill types and core competencies required, as well as the physical and spatial location of resources. It is important, therefore, to know the total resources committed to a goal (service or program) as well as the key characteristics of the resources.

REACH refers to breadth and depth of influence over which we wish to spread our resources. Physical (spatial) reach is one dimension, as well as the type of groups we wish to affect. For many services and programs, reach goals relate to the amount and extent of clients served.

Copyright © Performance Management Network Inc.

RESULTS refer to the impact on the groups reached by the resources used. Desired results usually include the attainment of a desired mental or physical state. There is thought to be "*value-added*" when results are desirable. When referring to clients, this means they are satisfied and/or that they will willingly behave in a desired way.

For some, the three Rs of resources, reach, and results may seem quite foreign. In fact, these concepts have been developed and have evolved through the popular management mainstream for years.

Consider the concept of resources. Economic concepts (e.g. productivity) and financial constructs (e.g. cost accounting and profit) combined with strategic planners to dominate management thinking in the 1960s and 1970s producing performance indicators like return on investment (ROI) and net present value (NPV). The key idea in both public and private management was to optimize resource usage by maximizing the financial return on investment.

Unfortunately, North America's obsession with financial resources and maximizing short-run returns on investment caused firms and whole industry groups to either run into the ground at the feet of less financially focused competitors, or to be systemically dismantled by financial market marauders.

Gradually, mainstream management thinking came to recognize that a concentration on resources, especially financial resources, was not useful. Michael Porter and other prominent theorists of the late 1970s and early 1980s began to shift the collective business focus over to **reach**, which they called **market share**. As *'competitiveness'* became an increasing concern, Porter-based analysis presented market-share (for companies, industry sectors and even countries) as the ultimate indicator of success.

Unfortunately, market-share and profitability have also proven to be less than fully successful in predicting even medium term success. Consider GM and IBM which both dominated their markets and had strong financial performance just a few short years before heading into record losses. The problem is that reach and resources indicators don't really get at a vital ingredient for success - **the value-added to the customer**.

Finally, with the work of Tom Peters and other recent management thinkers, supported by quality experts like Deming, prevailing management theory shifted to the **results** of resources and reach - the value-added. Service quality in particular has been touted as the **main** focus for business.

Alas, recent research is starting to show that service quality is not the '*holy grail*' of management performance. There is evidence that in certain industries, in certain conditions, the high quality service performers do not always earn the most profits, gain the biggest market share, or last the longest.

Copyright © Performance Management Network Inc.

Indeed, it is clear that the best strategy is not to focus on resources, reach or results individually, but rather to **optimize** among them to achieve goals.

In summary, the MBA translation of the 3Rs performance model is as follows:

Three Rs Analyst	MBA
Resources	Productivity Cost Accounting ROI/NPV/Profitability Share Value Core Competence
Reach	Market Share Market Segmentation
Results	Product/Service Quality Value-Added Client Satisfaction
Organizations Must Manage and Measure All Three Rs for Balanced Success.	

These concepts have now been used by public sector, not for profit, and private sector organizations to balance their performance vision, enhance planning, measurement, reporting, and management decision-making.

They can form the basis of a new type of measurement system or scorecard, as outlined below.

A Balanced Performance Scorecard

Think about your organization's scorecard for a moment. What does it tell you? If you are like most organizations your scorecards systematically report past financial performance while providing sketchy details of clients served, quality, and value-added achievements.

Public and private organizations worldwide have struggled to develop a *'scorecard'* which portrays performance in a balanced fashion. Public and private sectors have tended to place heavy quantitative emphasis on financial resource results - and this in turn has skewed management attention towards internal financial control, at the expense of other areas. *"When you measure financial performance you learn about the past,"* said one CEO recently, *"with (a more balanced scorecard) you focus on the future."* (See *Implementing the Balanced Scorecard*, **Harvard Business Review**, September-October 1993 and book out in September 1996.)

For both public and private sector organizations, a more balanced performance scorecard based on the **Three Rs of Performance** (see above), can:

- broaden all participants' performance perspective
- provide an understanding of the trade-offs inherent in decisions. (e.g., A reduction in resources may result in a narrowing of client reach or a requisite reduction in service levels.)
- allow for performance-oriented strategic and operational planning
- provide a tool for quality management and continuous improvement

A generic balanced performance scorecard is shown below:

A *'Blueprint'* for Performance Reporting - Balancing the Scorecard		
Performance Area	Indicators/Measures	Systems
Resources	- Investment in Core Competencies - Cost by Service Offered	- Time Reporting - Cost Accounting
Reach	- Clients served by segment - Clients served by target population	- Client Tracking - Project/client database
Results (Direct Impacts)	- Service Quality - Influence - $ Benefits	- Feedback Mechanisms - Client Beneficiary Tracking (Socio-Economic Factors)
Key Ratios • Cost per client reached • Cost per result (service, influence, $)		

The Canadian Office of the Auditor General positively reviewed a technology assistance program using this approach in 1995. See OAG Report 1995, Chapter 14, reference section 14.64.

Would you like to see case examples for science and technology management, education, regulatory inspection, health care services, technology transfer, or other program areas? Contact S. Montague

©1996 Performance Management Network