The Public Value Scorecard:
A Rejoinder and an Alternative to "Strategic Performance Measurement and Management in Non-Profit Organizations" by Robert Kaplan

By
Mark H. Moore

The Hauser Center for Nonprofit Organizations
The Kennedy School of Government
Harvard University

May 2003
Working Paper #18

Mark H. Moore is Professor of Criminal Justice Policy and Management and Director of the Hauser Center for Nonprofit Organizations at the John F. Kennedy School of Government at Harvard University.

Abstract

Robert Kaplan's *Balanced Scorecard* has played an important and welcome role in the nonprofit world as nonprofit organizations have struggled to measure their performance. Many nonprofit organizations have taken both general inspiration and specific operational guidance from the ideas advanced in this important work. Their pioneering efforts to apply these concepts to their own particular settings have added a layer of richness to the important concepts. Given the great contribution of this work to helping nonprofits meet the challenge of measuring their performance, it seems both ungracious and unhelpful to criticize it. Yet, as I review the concepts of the *Balanced Scorecard*, and look closely at the cases of organizations that have tried to use these concepts to measure their performance, I believe that some systematic confusions arise. Further, I think the source of these confusions lies in the fact the basic concepts of the *Balanced Scorecard* have not been sufficiently adapted from the private, for-profit world where they were born to the world of the nonprofit manager where they are now being applied. Finally, I think a different way of thinking about nonprofit strategy and linking that to performance measurement exists that is simpler that and more reliable for nonprofit organizations to rely upon. The purpose of this paper is to set out these contrarian ideas.

The Public Value Scorecard:
A Rejoinder and an Alternative to "Strategic Performance Measurement and Management in Non-Profit Organizations" by Robert Kaplan

by
Mark H. Moore

I. The Revolutionary Impact of the *Balanced Scorecard* in Business and Non-Profit Management

For commercial, business enterprises, the *Balanced Scorecard* posed a significant -- even revolutionary – challenge. In the past, business firms had relied primarily on the famed "bottom line" to measure their performance. Kaplan and Norton argued that this essentially backward-looking financial measure was not adequate to guide strategic decision-making in the fast-paced world of business at the end of the 20th century. They criticized this common practice on three grounds.

- First, they challenged the for-profit's world reliance on *financial* measures as the exclusive focus of measurement. While they agreed that the financial performance of the firm was the ultimate measure of the firm's success, they went on to argue that measures of financial success alone would not be adequate to guide choices about how to become and remain financially successful. To be financially successful, a private sector firm had to know more than its financial results. It had to understand many more particular concrete things about how the firm was positioned, how it was operating, and how it was developing its capabilities over time. For these purposes, financial measures alone were inadequate. A firm had to develop and use non-financial measures focusing on customer relations, operations, and learning to be able to plan for sustained profitability in the future.

- Second, they criticized the financial "bottom line" as too backward looking to be of much use. They argued that instead of focusing attention on the organization's *past performance,* the organization should develop measures that focused the attention of the firm on the factors that could sustain financial performance in the future. Indeed, the principal reason to add the non-financial measures was not to change the purpose of the firm (that remained to maximize profits over the long run), but instead to focus attention on the aspects of the organization's operations that would allow it to become even more profitable in the future.

- Third, since the long run success of a firm depended on its ability to imagine and reliably execute a value creating strategy, it was important that the measures developed for any particular organization be closely aligned with the particulars of its overall strategic vision. The organization had to be looking not only at its financial results, but also at the way it was executing its basic strategy, and the extent to which that basic strategy still seemed a viable one.

In short, the *Balanced Scorecard* took a giant leap into the future for business managers by urging them to go well beyond their traditional reliance on the "financial bottom line." It focused their attention not on what their financial performance had been in the past, but what they needed to do to sustain that financial performance into the future. That, in turn, shifted their attention from an exclusive focus on financial measures to the importance of developing a set of non-financial measures that tracked their success in implementing an agreed upon strategy.

Important as these ideas were to the for-profit sector, they resonated even more powerfully in the non-profit world. The reasons are not hard to see.

- First, for non-profit boards and managers who had long struggled to create a something equivalent to a "financial bottom line" for their organizations, it came as a great relief to have a leading business expert claim that financial measures were inadequate to the task of measuring business performance and guiding business operations. If business, with all its emphasis on financial performance, needed non-financial measures to complement the financial measures, then how much more important would it be for nonprofit enterprises to rely heavily on non-financial measures. After all, while the ultimate goal of business was financial performance, that was not true for nonprofits. Most nonprofits understood that their goal was to produce valuable social results, not maximize financial performance. Of course, nonprofits had to pay attention to their financial performance to ensure their viability. And, it always seemed like it might be possible for nonprofits to find ways of monetizing the value the social results they produced. (Indeed, the interest in producing a true bottom line for nonprofits had stimulated major efforts to achieve this particular goal.) But the starting point for the measurement of nonprofit performance was the achievement of social results, and that would necessarily involve the use of non-financial measures. To be "authorized" to rely on non-financial measures as an acceptable way of measuring organizational performance allowed nonprofits to focus on their primary mission.

- Second, the idea that it was important to monitor not only ultimate results, but also the state of relationships and processes that could be expected to lead to the desired ultimate results was also important to nonprofit organizations. After all, most nonprofits lived in a world where the results they sought were both uncertain, and far into the future. This fact left them in an awkward position. On one hand, if they stayed true to the principle that they ought to measure only ultimate results, they would have to wait a long time for the results to appear. That made it difficult for them to make themselves accountable to those who had entrusted them with assets in the short run. It also made it difficult for them to hold their own managers accountable for a result that was so far in the future. On the other hand, if they measured intermediate processes, while they could create some kind of accountability, they could not be sure that they were actually producing the social results that justified their existence. When Kaplan and Norton explained to business that they had to monitor both intermediate processes (through non-financial measures), and ultimate results (measured through financial measures), they simultaneously encouraged nonprofit managers to measure both intermediate processes (measured through non-financial measures) and ultimate results (also measure through non-financial measures).

- Third, the idea that measurement systems should be closely tied to the execution of a particular forward looking strategy for creating ultimate value also resonated strongly in the nonprofit world. Nonprofit entities were learning about the importance of having an explicit “logic model” or “value proposition” that would establish the link between their own activities and the results they were trying to achieve now and in the future. They increasingly thought of this as a “strategy” of value creation they were trying to pursue. The idea that they should measure intermediate results as well as ultimate outcomes forced them to think more explicitly about these connections. Indeed, it seemed obvious that once they had worked out their particular theory or strategy of value creation that they would also then have identified some key points along the way where (non-financial) measures could be used to monitor how reliably they were executing the strategy they had agreed upon. If that strategy seemed to be succeeding, they could stay the course. If, on the other hand, it seemed to be faltering, they would be forced to learn and to change. That was far better than continuing along a path that had no particular logic or evidence to commend it.

- Fourth, the fact that the *Balanced Scorecard* recommended the use of multiple measures that could not easily be compared or combined also offered some welcome relief from the idea that nonprofit organizations needed some simple summary statistic that could reveal their ultimate value. Instead of being forced to figure out how accomplishments in changing adolescent attitudes towards premarital sex could be evaluated against accomplishments in reducing out adolescent out of wedlock births, both could be measured and used in the evaluation of the overall efforts of a nonprofit organization devoted to reducing the rate at which children were having children.

The fact that this discussion of ultimate goals, strategies to achieve them, and measurements to check on both these things could be carried on using multiple, non-financial metrics was a huge and welcome relief to the nonprofit world. It meant that they didn't necessarily have to monetize the value of the results they intended to achieve. It meant that they would be allowed to measure intermediate as well as final results. It meant that they could look at multiple as well as single measures. It is no wonder that nonprofit firms that had previously struggled with the challenge of developing “financial bottom lines” took comfort in these ideas. Instead of having to twist themselves into the shape of a for profit enterprise, they could turn their energies to doing what they should have been doing from the outset: getting clear about the social results they were trying to produce, the strategy that they thought would be successful in producing the results, and measuring the extent to which they were being successful in implementing their strategy.

It is here, however, that the more specific ideas of the *Balanced Scorecard* began to get into trouble, and to lead to confusion rather than enlightenment. The trouble comes from both the general categorization of the different kinds of measures to be developed, and with the emphasis to be given to the various families of measurements. These difficulties, in turn, come from not sufficiently adapting the concepts to the unique characteristics of the nonprofit environment.

II. Problems with the Balanced Scorecard in Non-Profit Management

The *Balanced Scorecard* (famously) argued that organizations should develop measures that could be fitted within four different perspectives:

- the financial perspective,
- the customer perspective,
- the operational perspective, and
- the learning and growth perspective.

It also seemed to argue that these perspectives should be attended to roughly in that particular order. The financial perspective remained at the top of this pyramid because financial performance was the ultimate objective of a for-profit firm. The customer perspective was second because it was understood that holding on to the loyalty and enthusiasm of customers was a key future oriented strategy for maintaining financial performance. Operations and learning were third and fourth because it was here that the organization built value into the products and services it offered, and found ways to reduce costs and/or increase quality, and/or when combined with marketing and strategic planning, to develop new products that were important for the future.

While this framework can be made to work for nonprofit organizations, several features seem incongruent with key aspects of nonprofit management.

A. Financial Measures as a Means Not an End

The most important difficulty lies in the emphasis that the *Balanced Scorecard* continues to give to *financial* measures of performance. True, the *Balanced Scorecard* argued for relaxing the stranglehold of financial measures on the imagination of for profit managers. True also, Kaplan is clear to say in subsequent work addressed to nonprofit managers that the “mission” of the nonprofit organization should occupy the place at the top of the organization’s goal hierarchy. But the shift away from financial measures and toward measures of mission accomplishment is less decisive than it needs to be to reflect the important difference between the ultimate goals of for-profit and non-profit management.

The *Balanced Scorecard* recommended the use of non-financial measures to business firms not because it sought to change the ultimate purposes of the firm. It did not attempt to bring in measures of social responsibility that could "balance" the financial goals of the firm and social goals such as protecting the environment, or living up to responsibilities to communities in which they became important social, economic, and political forces, or ensuring fair hiring practices and good working conditions for employees. The whole purpose of the *Balanced Scorecard* was to help business entities do even better in maximizing profits over time. The *Balanced Scorecard* recommended the use of non-financial measures not to change the goal from maximizing profits to something else, but *because financial measures alone could not help managers figure out how to sustain financial performance in the future*.

In the non-profit sector, in contrast, what is important about non-financial measures is not that they help us to understand how to make more money; it is that the goals we seek to achieve through nonprofit organizations are social rather than financial, and that these accomplishments are best measured by non-financial measures. Essentially, the ultimate goal that nonprofit organizations seek to achieve – the ultimate value they hope to create for society – is not sustained profitability, but the social ambitions outlined in their mission. Typically, nonprofit missions are conceptualized and denominated in terms of individual needs to be met, or social conditions to be brought about, or good works to be completed. Ordinarily, the best way to measure such things is to do so concretely: to see how many have been fed and how well, to see how many have been educated and to what degree, etc. Of course, as noted above, it might be possible to impute some financial or economic value to the accomplishments of nonprofit organizations by finding a way to measure the concrete results they have and then monetizing those concrete results. But that is always a poor substitute for the information about value that a business firm obtains when willing customers plunk down hard earned dollars to consume a bit of what the organization has on offer. In the common case, the best way to measure the value created by nonprofit organizations is by developing measures of their success in achieving their mission. That usually requires non-financial rather than financial measures.

Note that this is not meant to imply that financial measures are unimportant to nonprofit organizations. Nonprofit organizations have to be as concerned about their financial viability – their ability to cover the costs of operating with revenues – as their private sector peers. Otherwise, they will pass out of existence. They also have the same kind of obligation (and many of the same kind of opportunities) to examine the costs of their operation, and to figure out how to reduce the costs without sacrificing quality in what they do. So, it is important for nonprofit organizations to have strong financial measures that can tell them about their overall financial viability, and the costs of their operations.

The difficulty they have with the financial measures is that the financial measures alone cannot tell them whether they are creating the public value they intended to create. They have all the same financial information that their private sector counterparts have with respect to their operating costs. They also have the same financial information their private sector counterparts have with respect to their financial viability (i.e. their ability to cover their operating costs with revenues from various sources). What the financial measures do not tell them, however, is how much public value they have produced through their efforts. To repeat, their goals are social goals, not financial ones. Their value is not measured primarily by the willingness of customers to plunk down money to consume the goods and services they offered. It is measured instead by non-financial measures consistent with their social mission. For the Balanced Scorecard to keep the financial measures at the top of the list of things to measure is, from the point of view of the nonprofit manager, to treat what should be the means to an end (financial solvency to sustain public good production) as the end in itself (financial profitability). It is also to distract attention from the urgent task of being clear about what the organization means to produce, and how to measure that in a reliable and effective way.

The important difference betweens for-profit and non-profit managers' use of financial and nonfinancial measures can be described in the following simple aphorism: For profit managers need non-financial measures to help them find the *means* to achieve the *end* of remaining profitable. Nonprofit managers, on the other hand, need non-financial measures to tell them whether they have used their financial resources as effective means for creating publicly valuable results. These are two very different ideas about why non-financial measures of performance are important, with importantly different implications for how non-financial measures are developed and deployed in the two different kinds of enterprises.

B. Third Party Payers and Upstream Customers

A similar problem arises with the emphasis given to customers in the Balanced Scorecard. Again, it is not surprising that a commercial enterprise would see the satisfaction of customers, and the relationship that the firm has with its customers as an important relationship to monitor as it tries to find and stay on a value-creating course. Customers are important to a private firm both as a practical means of surviving and remaining profitable, and as an important part of the social justification of the firm's activities. It is the customers' continued willingness to buy a company's products that allows a company to survive and succeed. It is the customer's decision to buy a product or service that sustains the claim that the organization is creating something valuable for society.

The difficulty in applying this concept to the nonprofit world, of course, is that it is by no means clear who the important "customers" of nonprofit organizations are. Of course, if a nonprofit organization is providing a service of some kind to individuals, and if those individuals are paying a (more or less subsidized) price for the service, nonprofits have customers who resemble customers in the for-profit world quite closely. Just as in the private sector, the existence of customers who pay for the products and services supplied by non-profits solves a (larger or smaller) part of the problem of staying alive and profitable as a firm. And, it is their interest in consuming the product that provides part of the social justification for the nonprofit's activities.

Even if a nonprofit firm is providing beneficial services to individuals who pay nothing for the good or service being provided, we might still say that the clients of the enterprise are essentially "customers." After all, they are the ones who get the service and benefit from it, and they are where we expect to see customers – “downstream” in the production process where the work of the organization finally achieves its purpose.

Yet, it should be clear that all nonprofit organizations have a different kind of “customer” than the ones who buy their products and services, and/or benefit from the work of the organizations. Generally speaking, most nonprofits have some third party payers that cover some portion of the costs of producing the goods and services that the organization delivers. Those third party payers typically include both charitable donors of various kinds, and government. If nonprofits did not need or have a third party payer – if they could support their activities entirely through sales to willing customers -- then they would not have to be a nonprofit firm. They could operate successfully as a for-profit entity. The only reason for a nonprofit firm to exist is if there is some social value that is to be produced that cannot be covered by a revenue stream generated by willing and financially able customers.

If there is always a third party payer of some kind in a nonprofit enterprise, then it becomes important for nonprofit organizations to focus on these “upstream customers” who contribute resources as well as those that they meet “downstream” at the production end of the organization. The upstream customers – the donors who contribute to the cause, the government that agrees to pay for services to particular clients or to achieve particular social outcomes through the activities of the nonprofit organization – are certainly practically important to the nonprofit organization. If they don’t put their money into the nonprofit organization, it will cease to exist.

But these entities are also normatively important to nonprofit organizations since satisfying the expectations and demands of these contributors and contractors is an important moral and legal obligation of the nonprofit organization. They are the ones who as both a practical and a normative matter get to arbiter the value of what the nonprofit organization produces. Of course, the donors and the government may say that the important goal of the nonprofit organization is to satisfy a particular group of clients that they deem deserving of their assistance. But it is often true that both donors and governments want something different (or more) than the satisfaction of the clients the nonprofit organizations serve. Often, they want to achieve social outcomes by helping particular clients. They support job training programs not only to help particular unemployed workers get jobs that would make them happy, but also to reduce aggregate unemployment and redeem the broader social objective of ensuring equal economic opportunity for all. They support drug rehabilitation efforts not only to help individual drug users escape the trap of addiction that has ruined their lives, but also to reduce crime and enhance security in the communities in which the drug users live. Insofar as these “upstream customers” pay for social outcomes as well as the satisfaction of individual clients, they become important customers for social results rather than individual products and services. Exactly how to keep such clients happy differs from the task of sustaining the loyalty of those who buy products and services in the private sector.

C. Partnerships Rather than Competitive Advantage

There is one last distorting element of the Balanced Scorecard that is important to note. Implicit in the conception of the Balanced Scorecard is a particular view of what should drive the overall strategy of an organization; namely, that organizations succeed by adopting a "competitive strategy" that makes the best use of the "distinctive competence" of the firm. The challenge facing an organization's management team is to find a way to develop and exploit a competitive advantage with other firms so that it can capture and hold onto a significant share of the markets in which they are operating. Indeed, it is this perspective that provides the focus the two "internal" measures of the organization's performance: the operational perspective, and the learning and growth perspective. It is by paying close attention to operations – including opportunities to enhance quality and productivity – that firms can maintain their competitive edge in existing markets. It is by adopting a learning and growth perspective (combined with a sure sense of what customers want) that can allow firms to spot and exploit emerging opportunities in the market where they can enjoy a competitive advantage.

Again, insofar as these perspectives focus the attention of nonprofit organizations on their internal operations, and the adaptations they can make to changing technologies and to changing market demands for their products and services, these measures are welcome in the nonprofit as well as the for profit world. The difficulty with these concepts in the nonprofit world is less in the importance of developing these measures, than in the motivation that justifies them. More specifically, for most nonprofit organizations a deep question exists as to whether their goal is to develop a competitive advantage in the markets in which they are operating vis-à-vis other nonprofit organizations, and to capture and hold onto a significant share of the market; or whether their goal should be to strengthen the industry as a whole by widely sharing their ideas about what works, and by encouraging as many other firms to enter the industry as possible.

Of course, we all understand that, as a practical matter, nonprofit organizations are importantly competitive with one another. This is particularly true when they are trying to persuade donors and governments that their approach to a given problem, and that their capabilities for dealing with a particular problem are superior to their "competitors." Such arguments increase the likelihood that they will attract the lion's share of donations, or win the competition for the government grant or contract.

Yet, as a normative matter, we also want nonprofit organizations to co-operate with one another when it comes to dealing with the social problems they are trying to solve. The reason is partly that the social problems they confront are typically very large relative not only to the resources of a single nonprofit organization, but also relative to all the nonprofit organizations working on that particular problem. Since the resources are typically so small relative to the size of the problem, it often seems silly for the leaders of these enterprises to spend much time and effort squabbling among one another about who should have the pre-dominant role. It seems much more appropriate for the organizations to sit down and pool their combined resources to see how they can make the greatest combined contribution to the solution of the problem they embraced. Moreover, precisely because the goal of nonprofits is to achieve social results without worrying too much about earning financial or material rewards for doing so, it seems that nonprofit organizations should be willing to set aside their narrow interests in protecting their organization's competitive position for the broader purposes of achieving the desired results. Instead of seeing other firms in their market as competitors, then, they should see them as partners and collaborators in dealing with a problem to which all are committed to solving, but for which none has the only answer, or the only needed capacity. Nonprofit firms that develop good approaches to dealing with a problem should, in principle, be willing to give that new technology away to other firms who want to work with it rather than hold it as an asset that gives them a competitive advantage in their industry.

These observations suggest that when one is using the *Balanced Scorecard* to examine an organization's performance from either the operational or the learning perspective, it might be important to change the unit of analysis from the organization itself, to the industry as a whole in which the organization is operating. It may be important for a nonprofit organization to think of itself as having responsibilities for strengthening the industry's overall ability to deal with problems rather than developing and holding onto a large market share within the industry. While it might be advantageous for the nonprofit firm to develop and exploit a distinctive competence in terms of its own survival and growth, that survival and growth could come at the expense of achieving the social goals to which it was originally committed. The alternative would be to co-operate with other firms in a combined effort to deal with a social problem that was beyond the capacity of any single organization to achieve.

III. An Alternative: The "Public Value Scorecard"

An alternative way of developing a useful method for measuring nonprofit performance would be to take all the important wisdom offered by the idea of the Balanced Scorecard – that non-financial measures are important, that process measures are important as well as outcome measures, that a measurement system ought to support the execution of an agreed upon strategy – but to put this wisdom to work through the use of strategic concept that seems more appropriate to nonprofits than the competitive strategy model that seems to drive so much of Kaplan and Norton's thought. The alternative strategic conception is one that I have elsewhere described as the "Public Value Strategy."

A. The Public Value Strategy

The basic idea behind the public value strategy can be captured in a simple mnemonic device: the "strategic triangle" presented as Figure 1. This triangle directs the attention of nonprofit boards and managers to three calculations that they should make in advance of committing their organization to any overall strategy.

The first point of the triangle – the value circle – focuses attention on the key question of what constitutes the ultimate value that the organization seeks to produce. In the for-profit world, that value would be something like the maximization of shareholder wealth, or sustained profitability – goals that can be captured quite well in financial terms. In the nonprofit world, however, the value that is to be produced usually involves social objectives such bringing relief to distressed humans, or altering social conditions in some important way, or producing some important public work that can be enjoyed by all. These goals cannot typically be usefully summarized in financial terms. They describe particular people to be aided in particular ways, or particular social conditions to be achieved through the work of the nonprofit firm. Whatever these goals might be – however lofty and intangible they might seem – it is important for the purposes of setting a strategy and successfully managing the enterprise, that these goals be explicitly stated and defended as important social goals to pursue.

The second point of the triangle – the legitimacy and support circle – focuses attention on those "customers" we described above as "upstream customers" or "third party payers." Again, if nonprofits were just like for-profit entities, we might not need to have a legitimacy and support circle in our strategic calculation. Virtually all of the financial support and much of the social legitimacy of a for-profit firm comes from delivering products and services that individual customers are willing to buy. The fact that they put down their money to buy the provides both the financial resources the firm needs to stay in business, and assures us that these individuals value the produce and service – thereby conferring some kind of legitimacy on the enterprise as well as guaranteeing its survival. But nonprofits are not just like for-profit entities. They receive donations of various kinds from third party payers who do not benefit directly from the operations of the firm. They are provided with grants or hired by government to produce results that the electorate has asked them to achieve. Presumably, they earn these revenues by promising the donors and government something that they want – some kind of public value rather than financial returns. Depending on what public value they intend to produce, donors and governments can either show up to support them or not, just like regular customers in the for-profit world. The important difference is that the value they get is a social value that aligns with their purposes rather than a private financial return that comes from selling a product or service well above cost.

Because these third party payers are important, and because their support essentially constitutes a vote in favor of the public purpose that the nonprofit organization is producing, it is important in thinking about strategy in the nonprofit sector that we think about where the legitimacy and support from the enterprise will come as well as the value that will be produced. A nonprofit cannot simply assume that if it produces something of public value that either financial support or legitimacy will be forthcoming. It has to earn its standing not just in the community of consumers, but also in the community of donors and governments that are pursuing various public purposes.

The third point of the triangle focuses attention on "operational capacity" – the question of whether the enterprise has the ability to achieve the desired goals. Note that the concept is "*operational* capacity" not "*organizational* capacity." The reason is the point made above: namely, that when nonprofit organizations are trying to achieve social outcomes, they often need assistance from other organizations to help them. They are rarely large enough to accomplish important social goals all by themselves. They need other entities in their “industry” to act as partners, or collaborators, or co-producers of the desired results. This means that nonprofit organizations must often face important choices about how much of their resources to expend on themselves, and how much to use in mobilizing contributions from other organizations with whom they might work to accomplish their shared goals.

The three points of the triangle have been represented here as important calculations that responsible boards and managers should make when conceiving a sustainable, value creating strategy for a nonprofit organization. Inevitably, these calculations also become the focus of measurement systems used to monitor the execution and the success of the strategic vision. Just as Kaplan and Norton suggest the use of measures that explicate the financial perspective, the customer perspective, the operational perspective, and the learning and growth perspective, I am advocating the use of a set of measures that explicate the public value perspective, the legitimacy and support perspective, and the operational capacity perspective. Some ideas about what these measures might be are presented below.

B. Recognizing Public Value in Nonprofit Organizations

The key feature of the measurement system that focused on "value" would be some kind of pyramid of values, goals, and objectives that would allow the organization to recognize (in an accounting sense) the extent or degree to which it was achieving its intended mission. Often, this pyramid of values, mission, goals, and objectives turns out to be difficult to construct. The reason is that it is not clear how one moves from a very abstract, general idea of the organization's mission (e.g. to promote the welfare of mankind) to more concrete and specific objectives that are more easily observable and measurable (e.g. deliver nutritious food to a particular village that has been hit hard by famine.) The relationship between the most general ideas that define the overall mission of an organization on one hand, and the more concrete, particular goals or objectives that serve to provide more specific operational guidance to the organization, and make it possible to hold an organization accountable for performance on the other, can be variously understood.

One possibility, for example, is that the general ideas of mission define the "ends" of the organization (i.e. the valued results), while the more particular goals and objectives describe the "means" the organization relies upon to achieve the desired results. A handy way to think about this conception is that there is some kind of "value chain" or "logic model" that specifies the relationship between desired outcomes on one hand, and the resources, processes, activities, and outputs that are required to achieve the desired results..

For example, one can say that the mission of the organization is to "improve the health of children." Important means to that end include: 1) ensuring the nutrition and general health of pregnant women; 2) effective immunization against childhood disease; and 3) regular physicals infants and toddlers. Each of these is a means to the end of ensuring the health of children. Each of these activities, in turn, has its own technical, operational requirements. To ensure the nutrition and general health of pregnant women, we would have to develop some methods for getting in touch with these women, and some method of working with them to ensure that they kept their health and nutrition up. To provide effective immunization, we would, once again, have to have some means for getting in touch with the children who needed to be immunized, and some means for delivering the immunizations safely and inexpensively. And so on.

The point is that we understand the relationship between our ultimate mission and our sub-goals and objectives in terms of an ends/means logic: the mission is the end, the goals and objectives specify the means for achieving the desired end. Figure 1 presents a graphic illustration of this idea. In this conception, the logic that links mission to goals and objectives is a causal theory that claims that if we engage in a particular set of activities we will, in fact, achieve the desired result. That theory, of course, is open both to skeptical reasoning in advance of real evidence, and to more or less rigorous empirical testing.

A slightly different idea is that the important relationship between broad mission on one hand, and more narrow goals and objectives on the other is that the broad mission describes the most comprehensive and ambitious purposes of the organization, while goals and objectives define results that represent a subset of the organization's most ambitious goals. For example, we may have as our mission the protection of the health of children. We understand that in order to achieve this goal, we might have to provide services to support maternal health, provide immunization and good medical care for kids. Further, that we would like to do this not only for the kids in Delhi, India, but also for the kids throughout India, or Asia, or the world.

If we provide immunization to 1,000 kids Delhi, we can say that that is a contribution to the overall mission. But it is a contribution in two slightly different respects. On one hand, insofar as the immunizations have a positive effect on the heath of the kids in Delhi, we can say that we have found an effective means for accomplishing our objective. On the other hand, insofar as our target population ultimately includes all the kinds in the world, we can say that we have made a contribution toward the goal of ensuring the health of children by accomplishing that goal (more or less completely) for a segment of the population that we were trying to reach. This is *en route* to achieving our goal, but it is on a path that reaches the ultimate goal by increasing the *scale* of the effort, not finding an effective means. The relationship between the larger mission and the smaller goals and objectives is one of addition and aggregation; not means and ends. If we did exactly the same thing in all the cities of the world, we would say that we had achieved our ultimate mission.

A third idea is that the relationship between the broad, general mission on one hand, and narrower goals and objectives can also be understood as a move from "long term" goals to "short term objectives." In this formulation, one could say that the broad goal was to reduce infant mortality rates across the world by 20% over the next ten years. The short-term goals might include things as increase inoculations against measles in South Africa by 200% in the next year, or develop a new milk substitute that could nourish infants whose mothers had died shortly after their birth. Here, the pyramid of goals and objectives includes the idea that lower level ideas are means to the end, but they are also understood to be things that can be accomplished in the short run versus the long run.

Finally, the move from the broadest ideas to more specific, concrete and measurable ideas as a move from an abstract concept, to a specification of what we *mean* by the large idea. Thus, for example, one could move from the idea of promoting children's health to the idea that the goal was to reduce deaths before age 5, or to reduce days lost from school, or to ensure that children had their eyes tested and their vision corrected with glasses. In this case, we are *describing what we mean* by children's health in more specific and detailed terms. The narrower goals and objectives are constitutive of the larger mission.

Obviously, there is much to be said about efforts to construct the pyramids of missions, goals, and objectives that capture at a conceptual level the value that nonprofits are trying to produce, and the specific performance measures that will allow us to measure the extent to which they are achieving their goals. For example, it is now the conventional wisdom among those giving advice to those creating performance measures in the public sector that a good performance measurement system would be one which focused attention on a *small number* of *outcome* measures. I think there are lots of reasons to doubt the wisdom of that advice.

I, for one, would not be inclined to take the advice that there should only be few measures. The reason is that I think that most organizations produce quite a large number of important effects on society -- some good, some bad. It seems important for strategic management purposes that we be alert to a large number of possible effects, including those that are unintended. Otherwise, we risk optimizing performance on a narrow set of objectives and producing losses along dimensions that were not measured.

Similarly, I would be wary of relying only on *outcomes*. The reason is that while it is extremely valuable to have information about outcomes, the systems that capture reliable information about the outcomes of nonprofit efforts are usually not particularly helpful in managing organizations in the short run. The efforts to measure outcomes are too expensive and too slow to provide comprehensive, fast feedback about how an organization is performing. It is important to measure performance with respect to outcomes, of course. How else could an organization know if it was achieving its ultimate goals. But it would be wrong, I think, to limit performance measurement to outcomes, because that robs nonprofit managers and overseers of the information they need to hold the organization accountable on a real time basis. Nonprofit managers are probably going to need a mix of outcome, output, process and input measures to allow them to recognize value in what they are doing, and find ways to improve their performance.

C. Gauging Legitimacy and Support for Nonprofit Missions

The second circle of the "strategic triangle" focuses attention on the sources of legitimacy and support for nonprofit enterprises. The implicit claim is if nonprofit managers are to keep their attention focused on both the overall success *and sustainability* of their strategy, they have to develop and use measures that monitor the strength of their relationship with financial supporters, and public legitimaters and authorizers as well as those that record their impact on the world. This information is as important to nonprofit organizations as customers would be to a for-profit entity.

For many purposes, it is useful to keep the ideas of legitimacy and support together. After all, the more legitimacy an organization has in the eyes of the world, the better its chances of raising money, attracting volunteers, and enjoying the kind of deference and trust that will allow it to operate relatively autonomously in the world. And, it is important to keep in mind that the sources of legitimacy and support often come from all stakeholders, not just clients, and not just donors. Yet, for purposes of constructing a public value scorecard, it is probably useful to break this big idea into smaller bits that can be measured.

For example, it is obviously important for INGO's to focus on *sources of revenue*, and the *state of their relationships with those who provide financial revenues to the organization*. Many INGO's have multiple sources of revenue. They have *charitable donors*. They have *members* or regular contributors. They have *government financial supporters*. And they sometimes have *paying customers* for some of their operations. Some organizations may even have endowment income, or income generated from investments through effective cash management. In addition, there are many nonprofits that rely not only on financial support from individuals, but also other material contributions such as time, tissue, and material. The American Red Cross, for example, could not operate without a sustained flow not only of financial contributions from financial supporters, but also a flow of time from their volunteers, and a flow of blood from unpaid blood donors. Money might well be the most valuable resource contributed by supporters and donors, simply because it is the most fungible, and requires the least work to make it fit the ultimate purposes of the organization. But it would be a great mistake to ignore the importance of both volunteer time and material contributions to many nonprofit organizations.

In principle, one can imagine constructing a set of performance measures that monitor how well the organization is doing in raising financial revenues and other material resources from these different sources, and in maintaining satisfactory relationships with the contributors. One way to think about this would be to imagine that each of the sources of revenues constitutes an "account" that the organization is trying to maintain or further develop further. The "accounts" could be ordered in terms of their size and strategic importance to the organization. The larger ones attended to more closely than the smaller ones. Performance objectives could be set with respect to each account just as they are for private sector firms. The entire set of accounts could be monitored to determine whether it was expanding or contracting; whether it was becoming more or less concentrated; and whether the substantive or political focus of the set of accounts was changing over times in ways that did or did not align with the long run strategy of the organization. The entire set of accounts could also be examined in light of who was not present in the set of accounts who might be recruited to support the organization financially and materially. In some sense, as the set of accounts grew larger, more loyal and more generous, one could say that the potential of the organization to achieve its mission would be increasing.

One further point is worth making about the measurement of the quality of the organization's relationship with those who contribute their money, their time, and their property to nonprofit organizations. The most natural way for nonprofit mangers to think about their relationship to financial and material supporters is to think of them primarily as means of achieving the nonprofit mission; not as an end in itself. In this conception, the ultimate ends of the nonprofit organization lies in the achievement of its mission. All the value of the organization lies "downstream" in its production processes at the delivery end of the organization rather than "upstream" where the organization raises resources to pursue its objectives.

It is worth noting, however, that the efforts to attract financial support from contributors -- particularly charitable donors -- could be understood as an end as well as a means of the organization. In this conception, there are many private individuals throughout the world who are looking for a particular product and service that they value. This particular product and service is an opportunity for them to give their money to causes in which they believe. Their aims can be largely expressive: they simply want to align themselves with an organization that stands for a particular set of values, and enjoy the experience of standing with like-minded persons. Or, they can have instrumental aims that are linked to helping particular individuals, or establishing particular relationships with other human beings in much different social circumstances than themselves, and be glad to find an organization that can deliver their assistance and construct the relationship in an efficient way. Or, they can have instrumental aims focused on trying to alter aggregate social conditions in the world, and be glad to find an organization that can parlay their small contribution into a larger social effect.

The point is that in each of these cases the donor is getting some significant value out of the transaction, and that this value exists somewhat independently of the achievement of the desired goals at the production end of the organization. Of course, I don't want either to demean the motivations of the givers by suggesting that they don't really care about the ultimate impact, and are giving only for the "selfish" reason of feeling good about themselves. Nor do I mean to diminish the fiduciary responsibility that a nonprofit organization has to its donors to find efficient and effective means of using their contributions to achieve the desired results. I am simply pointing out that in any full accounting of the value produced by nonprofits, we would have to include the satisfaction that the donors found in being able to contribute money to a purpose that they cared about. Having organizations to meet this kind of human aspiration seems at least as important as having organizations that can meet the demand for sweet smelling soap. And, if the customer satisfaction with the purchase of sweet smelling soap counts as a part of enhanced social welfare, then the donor satisfaction in finding a way to satisfy his or her desire to help should count as well -- above and beyond the impact that the donation has on either the clients or states of the world that the nonprofit entity is trying to affect.

In addition to financial and material contributions to nonprofit organizations, a public value scorecard would also focus attention on what might be considered the flow of authorizations or political legitimation that nonprofits receive that allow them to operate, or to have important political influence with those they seek to influence. In constructing a performance measurement system for political authorization and legitimation, it might be useful to think of the organization as having a set of accounts with those who provide “licenses to operate” or “vouch for the organization with other players” as well as those that provide material and financial resources. That set of accounts would include all those from whom the organization was receiving financial and material contributions for the simple reason that their material contributions represent enthusiasm for the cause as well as material resources

Beyond the material contributors, however are other "accounts" that are important because they affect the nonprofits’ formal or informal authorizations to act, or their overall public legitimacy and reputation. This includes government chartering organizations. It may also include government taxing authorities. It may even include accounting organizations, or accrediting organizations, or other professional peers who talk about the performance of the organization. The set of “legitimating accounts” would also include the media that covers the nonprofit and its activities, and any rating agencies that came into existence that provided rankings of a nonprofits performance. What is needed from these accounts is not a flow of material resources, but instead a flow of “good will” or enthusiasm for the nonprofit. The more of this the organization has, the easier it will be for it to raise funds, to attract volunteers, to exercise effective leadership in the industry of which it is a part, and to act independently and creatively on behalf of its goals. Just as in the case of the set of accounts representing material supporters, it would be important for a nonprofit organization to evaluate both the quality of its relationship with individual accounts, and to see the shape and character of the overall set of accounts.

D. Measuring Operational Capacity

The third component of the strategic triangle directs a non-profit board or manager’s attention to what is described as "operational capacity." This is the apparatus that converts the political authorization and the fungible material resources provided to the organization into important results in the world; in essence, the technologies that convert inputs into outputs, and outputs into satisfied clients and desired outcomes.

Figure 2 presents a schematic diagram of the “operational capacity” of a nonprofit organization in the form of a “value chain.” The idea of a value chain is that there is some kind of process that converts the fungible *inputs* the organization receives from its “authorizing environment” to a set of *outputs.* (An output is defined as the set of activities and transactions that the organization produces right at its boundary.) The value chain also identifies the particular *processes* and *activities* it now relies upon to produce its outputs. As Figure 2 illustrates, all these steps are either internal to the organization, or right at the boundary of the organization, and therefore relatively easy and inexpensive for the organization to monitor if it chooses to do so.

But Figure 2 also shows that the “value chain” for a nonprofit organization stretches beyond the activities and outputs of the organization itself. Out there in the world beyond the organization’s boundaries (and not subject to its direct control) the outputs of the organization are turned into something that could be described as *client satisfaction* (or benefits) on one hand, and something that could be described as *social outcomes* on the other. Just as the ultimate value of a private sector firm’s operations lie in the satisfaction that is generated among consumers, so the ultimate value of a nonprofit organization can be measured by the satisfactions and benefits it delivers to its clients, or in the social results that it produces for society at large. This value is measured (imperfectly) in private sector organizations right at the boundary of the organization when customers put their money down, and reveal how much they value the output of the private entity. It is measured much less perfectly (and much more expensively!) when nonprofits look down the value chain beyond the boundaries of the organization and ask whether they have not only satisfied their clients, but also helped them to change their lives, and to achieve the social outcomes that they intended to achieve.

Figure 2 also points beyond the boundary of the non-profit organization to focus on “partners” and “co-producers” as well as the organization itself. The reason is that in the public value concept, the idea of "operational capacity" is a larger idea than "organizational capacity." When we are looking at the "operational capacity" of a nonprofit to achieve its desired results, we can begin with the organization itself: the bundle of assets it controls, the quality of the people employed by the organization, the set of operating procedures and technologies it has at its command to accomplish certain purposes, and so on. That is what we examined first in looking at operational capacity.

But most nonprofits depend on people *outside* the organization to help them achieve their goals as well. In the private sector, these outsiders would be called suppliers. In the nonprofit world, these outsiders are called "partners" or "co-producers" of the desired outcomes. In some cases, these are "partner agencies" with which a nonprofit co-operates to deliver aid, or build the social, economic or political capacity of their clients, or to achieve political goals and objectives. It might also include firms that in the for-profit world would be viewed as competitors since they are working in the same industry, and competing for the subject organization with other nonprofit organizations. At other times, the co-producers include the clients themselves, since these organizations cannot succeed without the clients taking actions in furtherance of the nonprofit goals.

As Figure 2 illustrates, a nonprofit organization can spend its own resources directly to produce outputs that are thought to lead to client satisfaction or social outcomes. Or, it can spend its resources indirectly to support the effort of partners and co-producers to help it accomplish its goals. These efforts could take the form of packaging and disseminating ideas, or providing technical assistance of various kinds to partner groups. Or, it could take the form of developing a political environment that mobilizes other organizations to participate with the originating nonprofit in its efforts. Or, it could take the form of joint planning and contracting to execute specific projects that are in line with the nonprofit organization’s mission.

The point is that one important way in which non-profit organizations can create social value is by “leveraging” the efforts of other organizations who share their goals, or who have capabilities that the non-profit can use. To measure this kind of effort, it is important to measure the specific activities the organization relies upon to exploit these partnership opportunities, and to measure the ways in which their leverage efforts pay off in the form of increased activity by their partners and co-producers. Indeed, there are some nonprofit organizations – often called capacity building nonprofit organizations – whose only value lies in the support they give to other direct-producing organizations. (These might be thought of as the functional equivalent of consulting firms in the private sector.)

While Figure 2 gives us a conceptually rich picture of the kind of operational capacity a nonprofit organization might have in trying to achieve its desired social results, it has two important weaknesses. First, Figure 2 it seems to suggest that nonprofit organizations have a relatively homogeneous and standard production process: that there is only one thing that the organization does on behalf of its mission. The reality, however, is much different than this. Most nonprofit organizations are complex organizations containing many different activities or “product lines” which have more or less direct and complex relationships to the achievement of the organization’s mission. As noted above, a nonprofit enterprise that sought to prevent children from having children could have programs that were designed to encourage sexual abstinence, or the use of contraceptives, or information about abortion, or the development of adoption opportunities. One could say, then, that for each of these distinct processes or activities there was a separate “value chain.” Further, one could say that some part of the organization’s value chain would be the process that connected these various activities into an ultimate impact on the number of infants who were being raised by parents under the age of 18.

Second, Figure 2 essentially presents a *static* picture of a nonprofit organization’s “organizational” and “operational” capabilities. It does not suggest that these operational capabilities might be transformed over time by adaptations and innovations made by the organization. Obviously, the idea of operational capacity can be viewed simultaneously as a fixed quantity, and as something that can develop over time. At any given moment, an organization has a certain set of capabilities. It knows how to do certain things. It has resources committed to the doing of those things. As noted above, the set of things the organization does can include a small set of standard activities and products, or it can include a wider variety of customized activities and projects. Viewed over time, the capabilities of an organization can change as a result of more or less self-consciously planned innovations and investments. It can change its scale. It can develop new ways of accomplishing old results. It can bring new products and services on line.

It is worth noting that important innovations and adaptations can occur in many different ways inside organizations. Sometimes, the innovations and adaptations happen in the midst of operations as those doing the work encounter a new problem that they haven't seen before. Their solution to this problem may turn out to have important implications for how the organization as a whole does its work. Other times, innovations and adaptations occur as the result of a conscious, centrally directed effort to initiate experiments with new methods, or with new activities. This second kind of innovation often is supported by investment funds of one kind or another.

It is important for most organizations – but particularly those that are operating in particularly heterogeneous and/or dynamic environments – to be able to learn new ways of doing its current work, and finding new, valuable uses for the organization in society. As a result, they have to develop some means for recognizing the ways in which the organization is learning. This means having some method of recognizing when an unplanned adaptation or innovation occurred in the organization, working out its implications, and (when appropriate) spreading the new insights and technologies around the organization as quickly as possible. It also means that they have to have some way of initiating explicit experiments designed to show them how to work better, and being able to measure the results.

This important distinction between doing well what the organization now knows how to do, and learning and developing overtime is picked up in the *Balanced Scorecard* as the difference between the operational perspective on one hand, and the learning and development perspective on the other. In the *public value scorecard*, we make the distinction between current operations on one hand, and innovations and investments to improve operational performance on the other.

More concretely, we can say that the effective measurement of operational capacity in the public value scorecard typically begins with measures of *organizational output.* Often, *organizational outputs* are closely tied to, or an intrinsic part of what we discussed in the section on recognizing value in organizations. Insofar as we have constructed a pyramid of mission, goals, and objectives that identifies the means of achieving desired results as well as the desired results, we will have necessarily included some measured of desired organizational outputs as well as desired outcomes. This follows simply because the "value chain" portrayed in Figure 2 can be seen as a blown up version of the part of the "strategic triangle" that links operational capacity to public value.

The *organizational output* measures should be joined by a set of *productivity* or *efficiency measures.* These measures check the relationship between the quantity and quality of output on one hand, and the costs of producing those outputs on the other. These can be supplemented by measures that focus on overhead or direct operating costs to offer assurances that the organization is operating in a lean way, and delivering a large fraction of its value to its clients. (This is particularly important for nonprofit organizations that are often evaluated primarily in terms of their "efficiency" in delivering contributions to clients).

For nonprofit organizations, it will also be important to produce measure of *financial integrity*. By financial integrity, I mean numbers that provide estimates of how much (if any) money was lost to fraud, waste, or abuse in the operation. Again, there is lots of pressure to deliver resources through the value chain without having too much of the resources leak out the sides.

A fourth measure of operational capacity that is particularly important for nonprofit organizations is some measure of the current state and trends in staff morale and capabilities. This is important in any organization. It might be particularly important in nonprofit organizations for the simple reason that many of the people working in nonprofit organizations are either volunteers, or quasi-volunteers; that is, there are many people working in the organization at lower than their full market value because they take satisfaction in the achievement of the organization's mission. To the extent that nonprofit organization's are particularly dependent on morale rather than money to sustain the organization's efforts, it might be particularly important to focus attention on morale as something that is helping the organization succeed, and ought to be carefully managed.

A fifth measure of operational capacity would focus not only on the morale and capacity of those who worked directly for the nonprofit organization, but also on the morale and capacity of those organizations that worked with the nonprofit organization as partners and co-producers. It is important for nonprofit organizations trying to achieve important social results with limited resources to see the others in their industry, and to understand that their aim should be to leverage their impact on the problems they are both trying to solve, rather than to find ways to undermine their performance to maintain their market share. They might want to maintain market share, but their goal has to be to build the industry as a whole rather than simply to hold onto the largest share of the market.

Finally, measures of operational capacity should also include accounts of *learning and innovation* in the organization. Over the long run, the performance of the INGO will depend on the rate at which it can learn to improve its operations as well as continue to carry them out. The learning can be focused on how to increase productivity in standard activities. It can also be contained in learning how to adapt standard operations to novel conditions. And, it can be contained in the development of wholly new lines of activity and service that seem in line with mission. It can also be contained in a recognition that the overall strategy and mission of the organization has to be changed.

V. Summary

Figure 3 presents a schematic view of the important measures that would be included within the "public value scorecard." As in the case of the balanced scorecard, the measures are aligned with important strategic ideas. Some of the measures are those we associate with the *public value* produced by the organization – the extent to which it achieves its mission, the benefits it delivers to clients, and the social outcomes it achieves.

Others are associated with the *legitimacy and support* enjoyed by the organization – the extent to which "authorizers" and "contributors" beyond those who benefit from the organization remain willing to license and support the enterprise. These measures can, to some degree, be viewed as important because they indicate the capacity of the organization to stay in operation over time. But these measures can also be viewed to some degree as measures of value creation in themselves. This is particularly true if we recognize that some part of the value created by nonprofit organizations lies in the opportunities it affords to public spirited individuals to contribute to causes they care about, and another part lies in the capacity of the nonprofit organization to link contributing individuals to one another in a common effort to realized shared social goals.

Still others are associated with the *operational capacity* the nonprofit organization is relying on to achieve its results. This includes not only measures of organizational output, but also of organizational efficiency and fiscal integrity. It also includes measures of staff morale and capacity, and the quality of the working relationships with partner organizations. And, it includes the capacity of the organization to learn and adapt and innovate over time.

In the end, there is a significant amount of overlap between this conception and the balanced scorecard. Both believe in the importance of measurement, and particularly in the importance of non-financial as well as financial measures. Both believe in the importance of fitting the measures to the execution of a future oriented strategy of value creation. Both believe in the use of process measures as well as outcome measures. Both believe in focusing attention on learning and change as well as in current operations.

Yet, there are also three crucial differences between the two concepts. First, in the public value scorecard, the ultimate value to be produced by the organization is measured in non-financial terms. Financial performance is understood as the means to an end rather than an end itself. The end in itself is denominated in non-financial social terms. It also notes that the value produced by the organization may not lie simply in the satisfaction of individual clients. It can lie, instead, in the achievement of desired aggregate social outcomes of one kind or another.

Second, the public value scorecard focuses attention not just on those customers who pay for the service, or the clients who benefit from the organization's operations; it focuses as well on the third party payers and other authorizers and legitimators of the nonprofit enterprise. These people are important because it is they who provide some of the wherewithal that the organization needs to achieve its results, and whose satisfaction lies in the achievement of aggregate social states as well as in the benefits delivered to individual clients.

Third, the public value scorecard focuses attention on productive capabilities for achieving large social results outside the boundary of the organization itself. Other organizations existing in a particular industry are viewed not as competitors for market share, but instead as partners and co-producers whose efforts should be combined with the effort of the nonprofit enterprise to produce the largest combined effect on the problem that they are jointly trying to solve. In short, a nonprofit organization should measure its performance not only by its ability to increase its market share, but also by its ability to strengthen the industry as a whole.

In these respects, it seems to me, the public value scorecard works better for nonprofit organizations than the balanced scorecard. It aligns more neatly with the ambitions of nonprofit organizations which is to find some way to make a valuable contribution to the society without worrying too much about their financial performance, or their competitive position. Of course, they have to be able to sustain themselves financially, and to do that they may have to compete to some degree with other nonprofit firms. But their ultimate goal is not to capture and seize value for themselves, but to give away their capabilities to achieve the largest impact on social conditions that they can, and to find ways to leverage their capabilities with those of others.