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CHAPTER 1

Too Important to Fail

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An excerpt from the book *Working Hard & Working Well*, which is available in full at leapofreason.org/workingwellbook

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Too Important to Fail

For many nonprofit leaders, "performance management" conjures up the most dehumanizing practices of the corporate sector and reeks of rampant data gathering run amok. This unfortunate association is understandable, given how the concept has emerged and been applied over the last couple of decades. While performance management is often a subject for discussion by leading organizational researchers and consultants, the literature on it has not been particularly accessible or compelling to social service practitioners—or to their funders. The big exceptions, of course, are Jim Collins and his *Good to Great* (2001), followed by his classic text about nonprofit management, *Good to Great and the Social Sectors* (2005). And recently Mario Morino caught the attention of the nonprofit and philanthropic sectors with his *Leap of Reason: Managing to Outcomes in an Era of Scarcity* (2011).

One of the reasons why performance management has failed to excite the social sector is that since its introduction early in the twentieth century it has been used mostly in a top-down, command-and-control approach in order to ensure that whatever work the authorities decreed should get done actually *would* get done. Thus, performance management was a way to drive activities, not results. This phase in the history of performance management can be thought of as "compliance management"—and the phase is not merely a thing of the past, as it continues to thrive in the often

excessive metrics used by funders to hold the organizations they support accountable.

Eventually, however, people began to ask themselves to what purpose an organization's activities were being delivered, and thus began to focus on results. This was a major step forward in theory. In practice, though, the idea that social service providers should be able to demonstrate outcomes for program participants has often been used by funders to bludgeon agencies rather than help them improve. Very few funders appreciate what outcomes monitoring and management entails, much less how to help the organizations they support develop the competencies and capacities to adopt such practices.

Performance Management: What It Is and What It Takes

Given the confusion and angst around—and misuse of—the term "performance management," it behooves us to begin with some clear definitions.

An **organization** is a complex, adaptive system—a recognizable combination of elements (such as people and their interrelationships, the resources they use, and the conditions they create for working together) that are interconnected and hence continuously affect one another. And, however explicitly or implicitly, these elements are organized to achieve a set of goals or purposes.

Like all human systems, an organization is not cut off from its environment. Rather, it both affects and is affected by the context within which it works. Consequently, to survive, the organization must monitor what it is doing and what results (intended and unintended) it is producing—and make adaptive changes as its leaders and staff learn from experience.

Organizational performance is the extent to which an entity is able to achieve the goals it has set itself through intentional actions within the contexts in which it works. Performance can be good or bad, effective or ineffective, successful or unsuccessful, well managed or not. Periodic stock-taking enables the organization to learn from

what it has and hasn't accomplished, develop an understanding of the reasons for these results, and make adjustments in its operating assumptions, structure, internal systems and processes, personnel, resource utilization, and so on—and thereby to improve its ability to meet the targets it has set itself. Such stock-taking and adjusting is the core of performance management.

Based on how frequently one collects and monitors data and how swiftly one introduces adjustments to improve results, performance management can be either tactical or strategic in nature. Any high-performing organization needs to be good at both and to keep them fully aligned.

Tactical performance management consists of monitoring activities and their results on a day-to-day basis, with small feedback loops to help those on the front lines make adjustments to their work in "real time" in order to achieve the results for which they are held accountable. Inherently, then, tactical performance management requires frequent measurements to monitor day-to-day activities and the incremental ways they affect organizational performance. It focuses on each event of consequence. And it focuses on the people who participate in each event, specifically (a) those who provide services, supports, and opportunities, and (b) the intended beneficiaries (clients). Tactical performance management, therefore, requires a "unit of analysis" that is specific and particular and geared to monitoring how each client is being served and how he or she is (or isn't) benefiting on a day-to-day basis.

While informed by large organizational priorities (strategic performance goals), tactical performance management is a disaster if managed in a top-down, command-and-control manner. The best tactical performance management is *guided self-management at the front lines.* What does this mean? It means that managers give front-line workers accountability for results and the freedom to use their creativity to achieve them.

IN FOCUS

Tactical Performance Management: Prolonging Life in the Management of Cystic Fibrosis

A good example of tactical performance management comes from Dr. Atul Gawande, the brilliant surgeon and respected author who published a discussion of cystic fibrosis (CF) in the *New Yorker* in 2004. Cystic fibrosis is genetically inherited and, left untreated, results in death by around age seven. Children's lungs become so filled with mucus that they can no longer absorb enough oxygen to sustain life.

Fortunately, we know how to treat CF to extend life dramatically using a few simple means:

1. Monitor one basic metric: the individual's functional lung capacity (the volume of air that can be inhaled into lung space where oxygen can be absorbed into the blood)
2. Make four interventions:
   - Prescribe pancreatic enzyme pills to reduce mucus production in the lungs.
   - Prescribe inhalant medicines that stimulate coughing to expel mucus from the lungs.
   - Maximize caloric intake to help the body fight infection.
   - Provide for daily percussive therapy: using either a motorized vest to shake the chest or cupped hands to strike the torso at each of fourteen locations, stimulate deep coughing that will expel mucus from the lungs.

At 117 CF centers across the United States, this metric is used to monitor each patient's lung capacity and decide how intensively (at what dosage levels) the four elements of the intervention should be utilized as lung capacity either holds constant or drops—and if it drops too far or too fast, at what point hospitalization is indicated. This strategy results in patients' achieving an average life expectancy of about thirty-three years. In other words, this strategy for managing CF adds about twenty-six years to a person's life. It would take a "glass is half empty" type of thinker to dismiss such a dramatic outcome.

Yet, at seven CF centers that use the same strategy for managing the disease, the results are dramatically different: participating patients achieve an average life expectancy of about *fifty* years! All of a sudden thirty-three doesn't look so good. Consider where *you* would want someone you love to receive treatment.

How can we explain the difference?

While at most centers CF is conceived of as a **genetically inherited disease** (which indeed it is), at the seven centers with the longer life expectancy it is viewed as a **degenerative disease** (which it also is), and in these centers the urgent task, day in and day out, is preventing degeneration—that is, preventing loss of lung capacity. Thus, while the focus in the majority of centers is on **patient compliance with treatment**, the focus at the high-performing centers is on the **accountability of staff within the patient-staff dyad to help prevent loss of lung capacity and to drive patient compliance**; and while the former centers **respond reactively** to evidence of lost lung capacity, the latter aim for **proactive prevention**.

That's it. All the techniques and treatment methods are the same. The only difference is tactical performance management with results-driven objectives.

Strategic performance management consists of monitoring activities and their results in aggregated ways over extended periods of time (usually quarterly or yearly). It uses large feedback loops to drive learning and identify needed adjustments that, while infrequent, are more substantial in nature than those required by tactical performance management. Typical examples of strategic performance management for a direct-service provider include such things as maintaining program quality and effectiveness while replicating it at new sites. For a funder it includes selecting investment domains and deciding on and implementing the criteria for choosing grantees.

IN FOCUS

Strategic Performance Management: Our Piece of the Pie® Makes a Key Strategic Decision

As late as 2004, Our Piece of the Pie (OPP), headquartered in Hartford, CT, was still known as Southend Community Services. The organization described itself at that time as a multi-service agency whose mission was to "promote independence and economic success through innovative programs and services in the Greater Hartford, CT, area." Although it saw its youth services

as the core of its approach—including case management and social enterprises where young people worked at such things as boat and furniture building and graphic arts, received wages, and were trained in work-readiness skills—the agency also offered programs that did not serve this population. One was its Elderly Services, which operated a Senior Center and provided services to homebound elderly Hartford residents. Another was its Childcare Services, which consisted of three licensed and accredited childcare programs that admitted children without any consideration of the organization's strategic priorities.

Then, at a watershed moment in the theory-of-change workshop that I was facilitating with key staff members, board representatives, agency leaders, and consultants, the agency adopted a revised mission: **"Helping urban youth become successful adults."**

But did the organization's new mission fit with its diffuse programming? After I posed this question, Bob Rath, the president/CEO, stood up and said, "OK, folks. We have been serving these very important and underserved populations because there is a great need and because we know how to do it well. But that doesn't mean we should continue to serve them."

There was a stunned silence in the room, not least because the managers and staff of these two programs were present.

"I've been waiting ten years to push for a more intense focus on youth," Bob continued, "and now is the moment. We are a youth service agency. We are running our Elderly Services because it is a legacy program—in fact, it was our first program—and we're good at it. And we are running Childcare Services because we get paid to do so. But they have nothing to do with our mission now. They are peripheral at best."

The question now became: What should be done about this?

After a frank (and painful) discussion in which workshop participants went so far as to consider cutting these programs, the group decided in the end to bring them into alignment with the agency's newly formulated youth development mission. Thus it decided to limit access to Childcare Services to the children of teenage mothers already in its case-management program. Having reliable access to childcare would provide critical support to these mothers, who would then have fewer constraints on going to school and participating in the agency's programming.

Similarly, while keeping its "youth chore elderly services component," the group decided to redesign it as one more social enterprise work-readiness training venue, alongside the others that the agency already operated. The youth workers would be recruited from among the participants in the agency's case-management program. They would be closely supervised, not only to assess the quality of their services but also to ensure that they were building skills toward work readiness.

But these decisions were provisional. As Bob noted, they would have to be tested: the agency would have to monitor the redesigned programs in action and see how well they were in fact contributing to the agency's youth-development focus. Thus these were not simply decisions of expedience.

In my experience, it is rare for an organization to reach such strategic clarity. It is even rarer for it to have the courage to challenge the continued relevance of its legacy programs and services. This case is a testament to Bob Rath's leadership and to the core of dedicated managers and staff who stuck with the agency as it became more and more focused on driving positive youth outcomes.

After several years, rigorous monitoring of operations made it clear that neither the childcare program nor the youth-chore component of Elderly Services was being utilized well, and neither was needed to drive OPP's youth-development outcomes. **Ultimately, OPP transferred six hundred clients, thirty employees, and nearly $1 million to three local nonprofits that had a better fit between these services and their missions.**

OPP has done an admirable job with its focus on youth development. **Since 2005, 85 percent of OPP's revenues are new and entirely dedicated to its mission.** The agency has continued to refine its Pathways to Success model, has sharpened its educational and employment services, and has partnered with the Hartford public school system in designing and implementing Opportunity High School (a school for over-age, under-credited youths). OPP tracks short-term, intermediate, and long-term outcomes for all the young people it serves, and has won foundation support for a rigorous formative evaluation that, if all goes well, will become the foundation for a summative evaluation of its impacts.

Tactical performance management must be conducted within the guidelines set by strategic performance expectations—and strategic performance expectations must be appropriately framed so that they can be executed on the ground with available resources and within the existing scope of control. But no matter how well conceived an organization's approach to strategic performance management, the proverbial rubber meets the road at the level of tactical performance management. Here is where services work or not, where service recipients actually benefit or not. In a nutshell: Strategic performance management creates the performance context and expectations. Tactical performance management delivers the goods.[1]

Performance Management in the Social Sector: A Brief History

As I noted earlier, neither kind of performance management—tactical or strategic—is a new concept. Although still not widely understood or practiced within the social sector, both kinds have been part of the interplay between government and this sector for more than two decades. A brief tour through history will help clarify the antecedents to performance management and how it has emerged in its present shape.

In America, especially after the Revolution of 1776, functions that had once been mostly under the auspices of the church gradually moved to civic organizations and local government. Almshouses were built to house the poor and disabled; formerly private or church-based institutions of higher learning were put under the authority of government; and better-off families were paid stipends to help the less fortunate. At the same time, government began to rely on organized charities to perform essential tasks that were beyond its own

1. As we will see shortly, strategic performance management is a leadership function; tactical performance management, a management function. Both are essential. When dealing with services to human beings, how one drives organizational and staff performance both strategically and tactically can make the difference between life and death.

capacities—as in the case of the U.S. Sanitary Commission, which, among other things, provided health services on battlefields.

In a watershed moment after World War II, America turned with ideological finality away from becoming a European-style welfare state. While the government experienced steady growth on a rich diet of universal taxation, public policies encouraged the emergence of nonprofit organizations to provide direct services (paid for by public funds) to targeted populations that were deemed in need of, and worthy of, such services. Until well beyond the middle of the twentieth century, public performance management focused entirely on the measurement of public needs as a context for allocating resources, and on the monitoring of activities paid for by the government to address these needs.

Eventually, however, policymakers began to ask "So what?"—the idea being that hard work was not in itself a public good. Rather, they realized, hard work was the means through which public good could be produced. In other words, the issue became not what was *done* with public funds but what was *accomplished*. Or, to use the language of today, the focus shifted to results, to outcomes.

In 1993 Congress passed, and the President signed into law, the U.S. Government Program Results Act (GPRA). This exquisitely brief (twelve-page) and trenchant piece of legislation was designed "to provide for the establishment of strategic planning and performance measurement in the Federal Government" in the context of limited resources and the conviction that expenditures must therefore be tied to results. Specifically, GPRA was intended to:

- Solve the problem of lack of adequate information about government performance
- Address waste and inefficiency
- Provide a framework for understanding the effectiveness of government programs
- Build public trust in the government
- Introduce accountability for results into the public sector

Under GPRA, federal agencies had five years to implement the requirements of the law and thus to develop the means to demonstrate the results of their programs and services. They were encouraged to use pilot projects to test performance-measurement strategies, but few did so, and most were caught unprepared when the legal requirements became active in 1998. This led to hasty implementation efforts that were mostly top-down, poorly thought through, and not created with the involvement of key (including local) constituencies.

Since its introduction, GPRA has had some good consequences and also some unfortunate ones. Here are a few of each.

GPRA: Good consequences

- Very significant amounts of public resources are committed to evaluating government programs and services (through the U.S. Office of Policy and Management, the U.S. Government Accountability Office, and research commissioned and supported through the various federal departments and agencies such as the U.S. Department of Labor and the U.S. Department of Education's Institute of Education Sciences).
- Results of government evaluations are made accessible to the public and inform public policy debates.
- A great deal of knowledge has been developed regarding what works and what doesn't work in social services.

GPRA: Unintended consequences

- GPRA's use of the term "performance measurement" obscures the fact that far more than measurement is needed for performance *management* (as will become clear in what follows).
- A naïve focus on evaluation has led to many inappropriate and/or premature studies, with the alarming discovery that most programs don't work. This has fueled cynicism regarding what the government can accomplish.

- Demand for instant evaluative information leads to bad policies based on preliminary findings. For example, in the case of the U.S. government's $4 billion 21st Century Learning Centers program, one year's worth of evaluation data was used as the basis for arguing that the program should be cut by $1 billion. Although the George W. Bush administration was forced to reverse this decision because of massive lobbying efforts by social service advocates, the reasoning of the advocates was troubling and amounted to a Luddite assault on the relevance of evaluation in the social sector per se—as opposed to an argument for a more reasonable approach to evaluation and its use.
- Unfunded mandates for local performance—lack of investing in local capacity to manage performance robustly—results in the creation of disempowered local agencies and cynicism about government bureaucracy.
- Centralized implementation leads to clumsy, top-down decisions that engender data corruption, blame, and the politicization of what should be local efforts to "fix" what isn't performing well. Consider a notorious example, the decade-old No Child Left Behind (NCLB) legislation. NCLB was bipartisan and driven by a very legitimate desire to improve schools and student performance across the country, and especially in its revised iteration as the Obama administration's "Race to the Top" legislation, it has shown notable successes. Yet these laws also have resulted in awful unintended consequences—such as corruption by teachers and school administrators who have altered student answers and scores on mandated standardized tests, and at times ruthless "reconstitutions" of schools that amounted to rearranging the deck chairs on the *Titanic* rather than doing something constructive to get the ship safely to port—that is, to improve local schools' capacity to educate children.

In January 2011 the U.S. Congress updated GPRA by passing the Government Performance and Results Modernization Act 2010

(GPRMA). While the GPRMA legislation renews GPRA's reliance on measurement and evaluation, *it extends its scope to include the requirement that agencies must articulate operational frameworks and plans for monitoring performance*. This is a very notable step beyond GPRA, which referenced performance management in only the most general of terms.

In addition to Congressional action, the U.S. Office of Management and Budget (OMB) has played a key role in advancing the use of evidence as a basis for policy development and funding decisions. In 2004 OMB specified the use of randomized control trial (RCT) evaluation methods as the preferred way to produce evidence concerning government programs—that is, as the preferred approach for federal departments and the programs and organizations they support to show that they are in fact getting results as intended under GPRA/GPRMA. This well-intentioned wish for scientific rigor as the basis for establishing "what works" (and, as a corollary, "what doesn't work") has had its own unintended and indeed destructive consequences, as I will explain in Appendix I, a discussion of the relationship between evaluation and performance management.

My hope is that in addition to its practical value, the book may also help to undo some of the negativity that has been a by-product of poorly implemented performance-management demands by government, foundations, and other funders. Those who rely on social services in order to overcome personal, economic, and societal challenges need the social sector to embrace performance management, to "manage to outcomes" with dedication, commitment, and passion. Yet failure by organizations in this sector to deliver promised results is well documented (see, e.g., Gueron 2005, Morino 2011). This is simply unacceptable because poor performance by social-sector organizations undercuts the initiative and hopes of their intended beneficiaries; it demoralizes those who are trying as hard as they can to better themselves and improve their lives; and ultimately it helps sustain social inequality here, in the richest country in the world.