Managing for Value: Organizational Strategy in For-Profit, Nonprofit, and Governmental Organizations

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All organizations benefit from developing a strategy. The most well-developed strategy models come from the private sector and focus on markets, customers, and competition. Yet, these models fail to take account of two crucially important features of nonprofit organizations: (a) the value produced by nonprofit organizations lies in the achievement of social purposes rather than in generating revenues; and (b) nonprofit organizations receive revenues from sources other than customer purchases. An alternative strategy model developed for governmental managers focuses the attention on three key issues: public value to be created, sources of legitimacy and support, and operational capacity to deliver the value. This alternative strategy model resonates powerfully with the experience of nonprofit managers precisely because it focuses attention on social purposes and on the ways in which society as a whole might be mobilized to achieve them.

INTRODUCTION: THE IDEA OF ORGANIZATIONAL STRATEGY

An organization can be said to have a strategy when the leaders and the organization as a whole have committed themselves to a particular vision of how the organization will operate to create value and sustain itself in the immediate future (Andrews, 1971, pp. vi-vii; Barnard, 1966, p. 87). Such strategies consist principally of components from a substantive vision of the value the organization intends to produce. In for-profit organizations, this takes the form of financial targets for the organization as a whole, along with a business plan that describes how a company plans to compete in various product and service markets (Andrews, p. 21). In nonprofit and governmental organizations, the substantive vision is usually described in terms of the mission of the organization and the particular activities it undertakes in the pursuit of the mission (Bryce, 1992, p. 7; Bryson, 1995, pp. 75-78; Moore, 1995, pp. 57-102; Oster, 1995, pp. 30-31).

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The analytic task to be undertaken in the development of a corporate strategy is to ensure that the adopted strategy is feasible, value creating, and sustainable (Moore, 1995). To ensure this result, the organization's existing capabilities have to be fitted to the challenges and opportunities of the environment in which it is operating (Andrews, 1971; Porter, 1980). It must be able to generate a supply of resources adequate to the task of sustaining (and if necessary, more or less continuously adapting) the organization. The organization must have (or be able to develop within reasonable time frame and risk tolerances) the technologies necessary to produce the products, services, and results it intends to produce.

The managerial tasks to be undertaken in the development of a strategy are (among others) to ensure the quality of the analysis that supports the strategy, to build commitment both outside and inside the organization to the execution of the strategy, to support the technological and administrative changes necessary to support the strategy, to get feedback on how well the strategy is performing, to be prepared to change the strategy when conditions warrant, and so forth (Bryson, 1995).

All I have said so far applies equally well to organizations in the private for-profit sector, the social nonprofit sector, and the public governmental sector. Organizations in all three sectors need strategies to remain purposeful and effective. Indeed, developing and implementing such strategies are the quintessential leadership tasks of those who direct such organizations—the boards of directors and the chief executive officers (CEO) in the for-profit world, the trustees and executive directors in the nonprofit world, and the legislators, elected chief executives, political appointees, and career officials in the governmental world (Andrews, 1971; Moore, 1995; Young, 1986).[1]

An important question for those who would teach people to lead such enterprises, however, is to what extent the common need for an organizational strategy translates into common analytic and managerial techniques for developing them. In this brief article, I argue (along with many others) that although the need for an organizational strategy is common across organizations in the three sectors, the form that such strategies take and the analytic tasks used in developing them differ in important ways (Bryce, 1992; Bryson, 1995; Oster, 1995).

More specifically, I will argue that the differences arise from two key differences between the organizations that operate across the sectors. The first is an important difference in the *defining source* of revenues to the enterprise. Of course, revenue sources are always strategically important to organizational leaders regardless of sector. Without attending to the desires and preferences of those who supply resources to organizations, the organizations cannot survive. However, attending to the desires and aspirations of those who provide resources to an organization is important for another reason as well. To legitimate themselves, organizations must show that they have a social *raison d'être* beyond their own survival. The willingness of other individuals—customers, donors, citizens, and taxpayers—to support their efforts with time and money offers that assurance (Grønbjerg, 1998, p. 141; Moore, 1995, pp. 52-56).

It is also true that organizations across the three sectors often rely on a mix of revenue sources—particularly now that both the nonprofit and government sectors rely increasingly on fees for service in the same way that private sector organizations do (Boris, 1999, pp. 14-16). Still, one of the important differences between organizations across the three sectors is that they have more or less distinctive and, in my terms, unique defining sources of revenue.

The defining source of revenue to government bureaucracies is appropriated tax dollars. Only the government has the power to tax. Although the government can choose to spend its tax dollars on for-profit and nonprofit contractors (or for that matter, give it to individual clients in the form of vouchers), when government bureaucracies are the preferred method of achieving governmental purposes, their principal and defining source of revenue is appropriated tax dollars (Smith & Lipsky, 1993). Moreover, the dollars are appropriated directly to them by legislatures. Neither for-profit nor nonprofit organizations can raise funds through taxation. Neither for-profit nor nonprofit organizations have unmediated financial relationships with elected representatives.

The defining source of revenue to nonprofit organizations is charitable contributions of money, time, and material. We know that charitable contributions are not necessarily the largest or principal source of revenue to nonprofit organizations (Boris, 1999, pp. 14-16). However, despite this fact, charitable contributions are the defining source of revenue to nonprofit organizations because they are set up precisely to capture and channel voluntary contributions (Bryce, 1992, p. 86; Fremont-Smith, 1965). In contrast, although one can make charitable contributions to government and to for-profit enterprises, few individuals exercise this option, and charitable contributions make almost no impact on the financial position of these organizations. In this sense, then, charitable contributions are relatively unique, but they are not necessarily the only or most important source of revenues to nonprofit organizations.

The defining source of revenue to for-profit organizations is the revenues earned by the sale of products and services to willing customers. Of course, this source of revenue has become less unique to the for-profit sector as the nonprofit sector and government have turned increasingly to user fees as sources of revenue (and revealing the extent to which their activities are, in fact, valued by clients). Still, given that sales of products and services constitute the predominant source of revenue to for-profit firms and that these sales also constitute the primary social justification for the existence of for-profit enterprises, it is reasonable to view the sale of products and services as the defining source of revenue to for-profit organizations.

Given that organizations attend to their sources of revenue and that these sources differ to some degree across the sectors, it follows that the strategies embraced by these organizations will be responsive to the expectations and demands of quite different groups. For-profit firms will attend to what customers want. Nonprofit firms will attend (at least in part) to what their donors expect. Government bureaucracies will attend to what citizens and their representatives have mandated them to achieve.

The second important difference between these organizations lies in what constitutes, and (just as important) how one measures, the value produced by different organizations. The principal value delivered by the for-profit corporation is the financial returns delivered to shareholders and the use value delivered to customers. Both aspects of value are reasonably well measured by the financial performance of a commercial firm. The principal value delivered by the nonprofit sector is the achievement of its social purposes and the satisfaction of the donors' desires to contribute to the cause that the organization embodies (Oster, 1995, pp. 139-143). The principal value delivered by the government sector is the achievement of the politically mandated mission of the organization and the fulfillment of the citizen aspirations that were more or less reliably reflected in that mandate. Importantly, the value of neither nonprofit enterprises nor government bureaucracies is particularly well measured by their financial performance (Oster, 1995, p. 140).

I intend to argue that these differences in sources of revenue and purposes are sufficiently important, that the organizational strategy developed in the business world is not a frame that can be easily carried over into the public world of nonprofits, and that leaders of these organizations would be better served by adopting a different model altogether. Let me begin by rehearsing the familiar ideas of strategy formulation in the private for-profit sector. Next, my attention will turn to strategy formulation in the government sector. Finally, the ways in which the basic strategy model in the governmental sector works to support strategy formulation in the nonprofit sector will be considered.

STRATEGY IN THE FOR-PROFIT SECTOR

In the private for-profit sector, the normative and analytic framework for strategy formulation is, by now, pretty well established (Porter, 1980). The ultimate purpose of a for-profit enterprise should be to maximize, in the long run, the wealth of the shareholders of the firm (Jensen, 1998). That does not mean that the interests of all the other stakeholders of the firm (such as customers, employees, or suppliers) are to be sacrificed to the interest of the shareholders. After all, the only way that shareholder wealth can be maximized over the long run is by developing customer loyalty and by engaging suppliers and employees in the work of the firm. Still, by law and social convention, the purpose of publicly held for-profit companies is understood to be the maximization of shareholder wealth.

CUSTOMER SATISFACTION AS PRACTICAL REQUIREMENT AND SOCIAL JUSTIFICATION

Among the stakeholders in a for-profit firm, customers occupy a special place. They are particularly important for two reasons—one is obvious and routinely acknowledged, the other is less commonly noted but is in some ways more important. The obvious reason is that the decisions of customers to buy products and services provide the wherewithal needed for a for-profit firm to stay in business. The less obvious reason why customers are especially important is that customer satisfaction provides the social justification for the firm's continued existence. The argument is not only that market economies create private wealth for shareholders but also that market economies are efficient in meeting the needs of individual consumers. To the extent that maximizing individual satisfaction is deemed an important social goal, markets are valued as important social arrangements for achieving an important social result.

FINANCIAL PERFORMANCE AS A MEASURE OF VALUE CREATION AND A GUIDE TO STRATEGY DEVELOPMENT

Given that the value of a for-profit firm lies in producing wealth for shareholders and use value to consumers, the overall, value-creating performance of a for-profit firm is well described by financial statements that record the costs of producing things and the revenues earned by selling them. Of course, there are limits to the value of financial statements in developing a corporate strategy. Financial statements are limited to telling us whether a firm has made money in the past. Because most important strategic decisions are about the future, financial statements can give, at best, only limited guidance.[2] To position organizations for sustained financial performance in the future, one must know how one's products and services are positioned in particular markets. Knowing this, many firms have begun to rely on balanced scorecards and market analyses to give themselves a more powerful basis for projecting their financial performance into the future (Kaplan & Norton, 1996).

EXPLOITING THE FIRM'S DISTINCTIVE COMPETENCE

In planning for the future, the particular environmental features that a for-profit firm must take into account are pretty clear. By far, the most important is to determine how a firm's products and services (both now being produced and planned for the future) are positioned in their markets. Will the overall demand for these products and services expand or contract? How is the product positioned vis-à-vis its principal competitors? Does it have a price advantage? A quality advantage? An advantage built on customer allegiance? How long will the advantages that the firm now enjoys be sustained (Porter, 1980)?

In short, for-profit firms focus on products, markets, and competitors as the key pieces of their environment.

On occasion, a private firm might also want to take into account a broader group of stakeholders: its existing relationships with the public at large, with government, with licensers, with regulators, and with local communities. The reason is that these relationships can, on occasion, provide an unexpected competitive advantage to a firm (Leone, 1986). Other times, the reason is that failing to attend to these relationships can lead to serious problems in the execution of a business strategy if these actors rise up to resist the actions being taken by the corporation. In short, for-profit enterprises often have to attend to these wider stakeholders to ensure the continuation of their implicit and explicit license to operate.[3]

STRATEGY IN THE SOCIAL NONPROFIT AND THE PUBLIC GOVERNMENTAL SECTORS

I want to argue (along with many others) that this familiar framework for developing strategy in the for-profit sector does not work as well when the organization to be positioned is either (a) a nonprofit enterprise that receives a nontrivial portion of its financing from charitable contributions and that claims to be producing social value beyond the value that individual clients of the enterprise assign to the firm by paying for its output or (b) a governmental bureaucracy whose principal source of revenue is appropriated tax revenues and whose value lies in its ability to achieve its mandated mission (Bryson, 1995; Oster, 1995).

Of course, nonprofit enterprises differ from governmental bureaucracies in important ways. For example, the public purposes of nonprofit organizations are established simply by the fact that contributors embrace them. They do not have to be debated in collective deliberation or enacted in legislation. As long as the purposes embraced by the supporters and leaders of nonprofit organizations stay within some fairly broad, legislatively established criteria, they are free to claim that their particular purposes are, in fact, public purposes and to pursue them with some of their own voluntarily contributed resources (Fremont-Smith, 1965).[4] In contrast, the purposes of public bureaucracies can only be established through collective political processes (Moore, 1995). No individual declaration that something is publicly valuable will cause tax dollars or public authority to flow to a government organization. It is only when citizens and their representatives have agreed that some purpose is publicly valuable that these key public resources can be committed to productive action.

Similarly, nonprofit organizations gain some portion of their revenues by soliciting voluntary contributions from those who share their cause. Their marketing efforts will focus on both large and small donors. Government bureaucracies, on the other hand, typically rely on the taxing power of the state for their revenues. Their marketing strategies have to focus attention on

Table 1. Basic Strategic Concepts in the Private For-Profit Sector and the Public Sector

	For-Profit Sector	*Public Sector (nonprofit and governmental)*
Normative goal	Enhance shareholder wealth	Achieve social mission
Principal source of revenue	Revenues earned by sale of products and services	Charitable contributions or tax appropriations
Measure of performance	Financial bottom line or increased equity value	Efficiency and effectiveness in achieving mission
Key calculation	Find and exploit distinctive competence of firm by positioning it in product/service markets	Find better ways to achieve mission

those who authorize governmental expenditures—usually, the elected representatives of the people and those who influence them. These differences matter enormously—enough to suggest that nonprofits may need their own concept of strategy formulation that differs from both for-profit enterprises and from government bureaucracies.

Yet, in some crucial respects, the gulf between the strategy in for-profit enterprises and nonprofit organizations seems wider than that between strategy formulation in nonprofit and government organizations. The close kinship between nonprofit organizations on one hand and government bureaucracies on the other lies in two key facts: (a) both nonprofit and government organizations define the value they produce in terms of the mission of the organization rather than in their financial performance, and (b) they secure their revenues from people who are (voluntarily or involuntarily) paying for external benefits to people other than themselves rather than customers who buy things for their own benefit. As a result, for some purposes, it is useful to group nonprofit and governmental organizations together as public sector organizations and to consider their strategy formulation processes as similar to one another and distinct from strategy in the for-profit sector. Table 1 takes this tack and sets out the key differences in strategy formulation between for-profit firms on one hand and public sector firms on the other.

Next, I will present some important ways in which the strategy models developed for governmental organizations have to be adapted to accommodate the particular features of nonprofit organizations. However, at the outset, I want to work with what I think is the conventional way of thinking about strategy formulation in the public sector more generally (Bryson, 1995).

DEFINING VALUE, SETTING THE MISSION

Just as conventional views of strategy development in the corporate world begin with the goal of enhancing shareholder wealth, so strategy development in the public sector begins with the mission of the enterprise (Bryson, 1995; Drucker, 1973, pp. 158-159; Moore, 1995; Oster, 1995; Wilson, 1989, p. 174). The mission of a nonprofit or governmental organization defines the value that the organization intends to produce for its stakeholders and for society at large. As such, it occupies the same holy place for nonprofit and governmental organizations that the maximization of shareholder wealth occupies for commercial enterprises. Because the mission defines the value of the organization to society and creates the organization's purpose, it becomes the metric that is used in judging past performance and assessing future courses of action (Bryce, 1992, p. 4).

Generally speaking, the missions of nonprofit and governmental organizations are set out in substantive, rather than financial, terms. The mission statement points to particular public problems that the firm seeks to alleviate or to desirable social conditions that the enterprise seeks to bring about. We say, for example, that the goal of the nonprofit or governmental organization is to encourage a love of art and music, to educate the young, to comfort the disabled, or to feed the hungry. We do not say that the goal is to earn revenues, or make a profit, or increase the value of shareholder equity. Money may be needed to accomplish these goals, but the ultimate goals are not financial (Bryce, 1992, pp. 7, 71-76).

Missions and goals can be formulated in broad or narrow and abstract or concrete terms (Moore, 1995, pp. 95-99; Oster, 1995, pp. 27-28). For example, a nonprofit organization could say that its mission is to

- improve the quality of life for all,
- promote the health of U.S. citizens,
- prevent childhood diseases in urban areas,
- or immunize children against polio in Boston.

Obviously, the scope of the organization's ambition differs significantly as one goes from the first item on the list (cast both at a high level of abstraction and very broadly) to the last (cast at a lower level of abstraction and focused much more normally).

Note further that even though these mission statements are broad and set at high levels of abstraction, most of them are, in an odd way, more concrete and specific than the goals embraced by a for-profit firm—at least in terms of specifying the business of the organization. After all, if the goal of a private firm is to maximize shareholder's wealth, the leaders of that firm could decide to produce many different products and services to achieve that goal. They would not be limited to particular businesses, products, or services.

For example, when Jack Welch became the CEO for General Electric (GE), he declared that it was impossible for him to "tie a neat bow" around the products and services of an organization that is as diversified and dynamic as GE. He could not and would not describe GE's future core businesses. He was not willing to guarantee that GE would continue to produce what had, in its past, been its traditional core businesses (such as small electric appliances, light bulbs, and diesel engines). What he offered, instead, was the idea that he would focus GE's efforts on those businesses where it was now "number one or number two in an industry" or could come to occupy that enviable position. Because these conditions were likely to change very rapidly, Welch could not say for sure what businesses GE would be involved in over the next half decade. He felt authorized to be in any business where he thought that GE could successfully compete. In this respect, then, the responsibility of private sector executives to maximize shareholder wealth is quite permissive with respect to the particular product / market strategy that they rely on. If Bethlehem Steel can make more money for its shareholders by making plastic than steel, it is free to do so, notwithstanding its name and traditions.

A public sector organization could, in principle, have the same latitude if it was prepared to define its mission in equally broad and abstract terms as "maximizing shareholder wealth." For example, if a nonprofit enterprise or governmental organization were to define its goal in terms of "creating public value," almost no activity that such organizations could conceivably engage in would be beyond the boundaries of their chosen mission. In this sense, the mission of these organizations would be as permissive with respect to managerial commitments to particular concrete activities, products, and services as the goal of maximizing shareholder wealth is for managerial choices in the private sector. If, however, a nonprofit organization defines its goal as "immunizing children against polio in Boston," or a governmental organization defines its mission as "providing high-quality defense against criminal charges for those unable to pay," then many activities within the competence of the organizations to perform would be ruled as being beyond the mission. In this sense, the strategic discretion of the leaders of the Boston Society for the Immunization of Its Children would be much more sharply circumscribed than the leaders of the World Association for Improved Quality of Life for All.

Of course, there are lots of reasons to give up the broad flexibility that comes from having abstract goals (Moore, 1995; Oster, 1995). It may be that donors and citizens are suspicious of very broad goals. To secure their enthusiastic support, then, it may be important to talk in concrete terms that allow them to visualize the results and hold the organizations accountable for achieving them. Similarly, in trying to produce results, it may be important for organizational leaders to set out concrete and specific goals so that an organization can stay focused and hone its skills in a relatively narrow set of activities. Such advantages of focus often outweigh the advantages of remaining responsive to changes in the environment and flexible enough to stretch one's organization to exploit new opportunities or face new challenges. As a result, many nonprofit and governmental organizations are either forced to or choose to define their goals in more concrete terms than for-profit firms do, and to give up some flexibility in changing and adapting their missions in light of changing circumstances.

Moreover, as a practical matter, the leaders of a nonprofit organization can and do change their minds about the mission of the organization. They do so by raising the level of abstraction of the mission and finding in the new level of abstraction a justification for a new activity they wanted to carry on anyway. Alternatively, they say that the mission has not really changed and that only the particular way in which the broader mission is being pursued has changed. However, the point is that they have to struggle with the question of whether the mission has been changed. They feel constrained by the need to stay true to the traditional mission of the organization.

The constraint derives from several sources (Bryce, 1992, p. 67). First, to the extent that the organizations are relying on endowment income or some firmly established traditions in fund-raising, they may feel obligated to stay closely aligned with their donors intentions (i.e., with the old mission of the organization). Second, to the extent that the organizations are relying on the voluntary commitment of those who serve on their boards, lead the enterprise, and staff its operations, and to the extent that these individuals are committed to the old mission, the leaders may feel that they cannot legitimately and easily change the mission of the organization without losing the soul of the organization. Third, both state statutes and common law traditions may prohibit nonprofit organizations from changing their mission without gaining the approval of the attorney general of the state where they are chartered (Fremont-Smith, 1965, pp. 31-34).

To the extent that traditional purposes lay a powerful claim on nonprofit and government organizations, such organizations can develop the problem of “mission stickiness.”[5] They can stay committed to their mission despite the fact that the task environment they confront changes (Oster, 1995, p. 28). Thus, contributions continued to flow to the March of Dimes even after polio was cured. The Selective Service System continued to register young people for the draft even after the cold war has ended and the draft abolished. On the other hand, organizations can remain committed to relatively low value purposes when their use in alternative activities would be much higher.

Part of the reason this happens is that nonprofit and government organizations are trying to avoid being accused of an opposite problem: the problem of “mission creep” or “mission drift.” Indeed, they often feel that their integrity rests on remaining committed and focused on their original mission. They worry that if they were to change their mission in response to changes in social conditions or donor enthusiasm, they would be accused of caring more for their survival than for their cause.

Behind this familiar phrase lies the accusation that those who lead and staff such organizations are not really committed to the mission of the organization. It is not true that they love the mission so much that they are willing to work long hours at low pay for the sake of the cause. They are really no different than those who work for for-profit firms. They, too, are motivated by the crass desire to stay employed. The evidence for such an indictment is that when the choice came down to staying true to their original mission or assuring their financial survival, they opted for financial survival. At that moment, they revealed themselves as no more virtuous than the managers and employees of for-profit enterprises. When viewed from this perspective, the only honorable thing to do when an organization committed to a particular mission confronts a change in the world that makes their mission irrelevant is to go out of business. It is the only thing that will reveal the fidelity of the organization's commitment to their mission rather than to mere survival.

This, of course, is precisely the opposite of the views that we have of private businesses. When they adapt to changing market conditions by finding new ways to use the distinctive competencies they have built over time to create valuable new products and services, they are viewed in highly favorable terms and are considered to be dynamic, adaptive, value-creating organizations (Peters & Waterman, 1982). Mission stickiness is a problem for some private sector organizations that become dinosaurs. However, corporations that remain financially successful by adapting and responding to changing market conditions are hardly ever accused of mission creep or mission drift. They may make a mistake by reaching too far beyond their distinctive competence and by losing their focus, and with that, their market share and profitability. However, no one complains when they find a profitable new use for their organization. They do not say that such enterprises have lost their mission. They do not accuse such enterprises of self-interested empire building.

The reason for this discrepancy in our views of private sector organizations goes back to our social understanding of what society has implicitly and explicitly authorized these organizations to do. Society has authorized for-profit corporations (and those who lead them) to seek to maximize shareholder wealth by developing whatever products and services that they think they can sell at a profit. We believe that by so authorizing such enterprises, society benefits from having efficient means of satisfying consumer desires. The greedy motivations that animate the market become socially valuable through the hidden hand of the market. In contrast, society has authorized nonprofit organizations and government organizations to pursue particular missions that are described in somewhat concrete terms. Public enterprises are expected to stay within those terms (Fremont-Smith, 1965). To that degree, public leaders have less discretion to adapt their organizations than private sector managers do, because they must change their deal with the public.

THE RELATIONSHIP BETWEEN MISSION, VALUE, AND RESOURCES

One crucially important characteristic of nonprofit and public organizations is that such organizations do not necessarily expect to earn revenues simply by achieving their mission or even by making progress toward it. More precisely, these organizations do not necessarily expect to get paid for their work in achieving their mission only by exchanging bits of products and services that they produce for money with willing customers of the organizations. Unlike conditions in the for-profit, market world, there is no automatic relationship between increments of achievement in the organization's mission and increments of revenues earned. Of course, these organizations have to earn revenues. They could not survive or achieve their purposes without them (Bryce, 1992, pp. 71-76). However, the point is that these organizations expect to get paid for the work they do in ways other than by selling specific products and services to individual customers (Oster, 1995, pp. 37-41). In the case of nonprofits, firms gain revenues by attracting charitable contributions from those who share their cause. (They may also hope to receive in-kind contributions of volunteer time and contributed materials, thus reducing their costs of production.) In the case of the government, the firms gain revenues by persuading their authorizing environment (the elected representatives of the people and those who influence them) that their aims and capabilities deserve an appropriation of tax revenues (Moore, 1995).

Of course, such contributions and appropriations may, in some important sense, be responsive to the success that these organizations have in achieving their mission. That is, the flow of contributed resources to nonprofits and of tax appropriations to government agencies may depend on public perceptions of the importance and attractiveness of the cause they are pursuing and their apparent success in advancing the cause. However, it is nonetheless true that those who contribute the money to keep these enterprises alive do so on a much different basis than through purchases of particular bits of the organization's output for their own use. Instead, they are persuaded to put money, time, or material into the enterprise by the promise that the enterprise will achieve some larger, more aggregate purpose that happens to align with the donors' aspirations. What the contributors get in exchange is not necessarily a financial return, it is instead the satisfaction that comes from aligning themselves with, and contributing toward, an effort to achieve a large public purpose for which there is no readily sustainable market (Oster, 1995, p. 37).

This means that an organization's mission and its mission statement are financially important to nonprofit and governmental organizations.[6] It is, after all, the story that organizations tell to sustain a flow of resources to them. However, the story should also make it clear that the mission is about something other than earning revenues; it is about producing aggregate effects in the world that are considered desirable by someone other than those who make individual choices to consume the products of the firm. Mission attainment is calculated in terms that are different than revenue assurance. In this important sense, there are two bottom lines: mission effectiveness and financial sustainability.

Mission attainment is not only about revenue assurance, it is also about value creation. Because the mission defines the value that a nonprofit or government organization is trying to produce or achieve, the mission becomes terribly important in such an organization. Just as financial performance becomes the touchstone for gauging past and planning future performance in the for-profit sector, so mission performance becomes the touchstone for gauging past and planning future performance in the nonprofit sector. When considering specific initiatives that management might undertake, the question becomes What will those actions contribute to the accomplishment of our overall mission? (Oster, 1995, p. 23). Is it large or small? Certain or uncertain?

One can summarize the points above in a simple set of observations and in a simple diagram that has great significance for the difference between developing a strategy for for-profit organizations on one hand and nonprofit and governmental organizations on the other. The observations are these. In the for-profit sector, the three concepts of value maximization, financial performance, and organizational survival are all closely aligned. The way that a for-profit firm produces social value is by producing products and services that are bought by customers and earn a return for shareholders. The performance of the firm in producing value is well summarized in its financial statements (both past and projected). The only way that the firm can stay in business is to maintain its financial performance over time.

In contrast, in nonprofit and governmental organizations, these concepts are not so neatly aligned. The way that a nonprofit or governmental enterprise produces value is to define and achieve valuable missions defined in terms of the achievement of social objectives. The performance of the firm in producing this value is not reliably connected to its ability to attract revenues to pay for its continuing costs, because the firm secures revenues not by selling products and services to customers but by persuading either voluntary contributors or elected representatives of the people that the social mission they are pursuing is a valuable one. The survival of the organization as a producing enterprise certainly depends on its ability to raise revenues (or other kinds of resources) to continue its operations. However, to repeat, there may be no necessary connection between the survival of the organization and the value it is producing. There may be many valuable contributions made by an organization that will turn out to be financially unsustainable. There may be many financially sustainable efforts that are not particularly valuable.

Figure 1 illustrates these points in a simple diagram. The reason for belaboring them is to focus attention on the fact that for-profit firms can focus pretty exclusively on the question of financial performance, and in so doing, be sure that they are both producing value and guaranteeing their survival. In contrast, nonprofit and governmental organizations cannot focus quite so sharply on financial performance. They must make two calculations instead of one. They must focus attention on their financial performance to ensure the future survival and value-creating capacity of the enterprise. However, having made that calculation, they cannot then stop. They also have to attend to the question of whether the enterprise whose survival they have just guaranteed is also producing social value defined in terms of an important mission that they could achieve. It is at this point that strategy and management in the nonprofit and governmental world feel most different from strategy and management in the for-profit world. It is also at this point that the idea of value maximization is distinguished conceptually from both financial performance and the survival of the entity. In public sector enterprises, money is the means

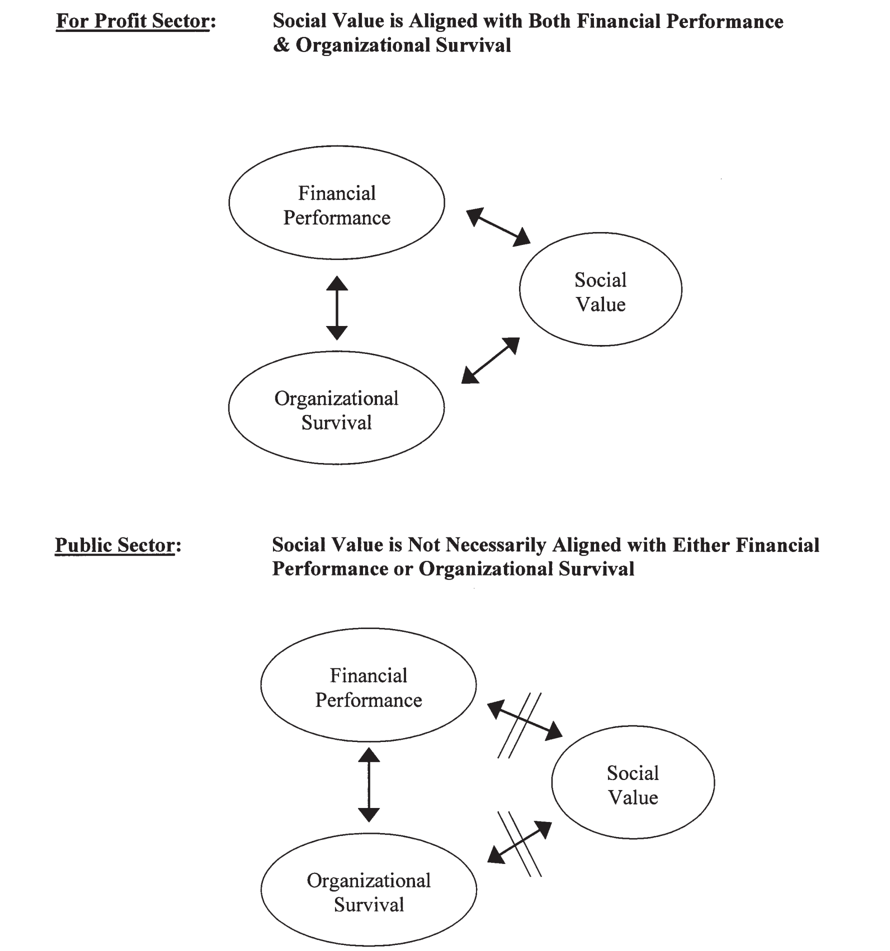

Figure 1. The Relationship Between Social Value, Financial Performance, and Organizational Survival

to a desired social end. In the private sector, the products and services delivered are the means to the end of making money.

THE PUBLIC VALUE PARADIGM FOR STRATEGY DEVELOPMENT

Given the difficulties that nonprofit and governmental organizations face when using the model of corporate strategy and the difficulties that their own traditional strategic conceptions create for them, is there some different way of formulating the strategic problem faced by such organizations? The short answer to that is that I am not sure. However, I have been exploring the extent

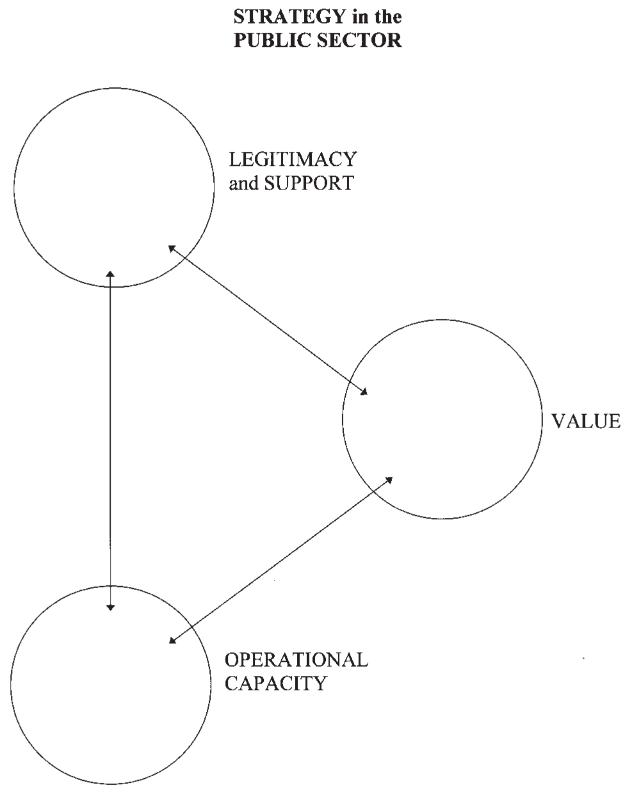

Figure 2. Strategy in the Public Sector

to which a strategic idea that we developed at the Kennedy School to provide guidance to government managers could be used to guide nonprofit managers as well, and therefore become a paradigm for public sector managers rather than just government managers. I explain this idea briefly below, and then I explain how the concept could be usefully adapted for use in the nonprofit sector.

THE STRATEGIC TRIANGLE

The strategic model for government managers developed at the Kennedy School focuses managerial attention on the three key calculations to be made (Heymann, 1987; Moore, 1995). These three different calculations are represented in Figure 2 as points on a triangle.

The first point—labeled *value*—directs managerial attention to the value proposition that guides the organization. For an enterprise to succeed in producing value, the leaders of the enterprise have to have a story, or an account, of what value or purposes that the organization is pursuing. They need a reason for the organization's existence, a claim about the way in which the world would be made better through the operations of the enterprise.

The second point—labeled *legitimacy and support*—directs managerial attention to the question of where the support for pursuing the value will come from. It is not enough that an entrepreneurial leader judges some purposes to be valuable. Others, who provide the necessary financial resources and authorization, have to agree with that judgment. In government, those others include citizens, elected representatives, interest groups, and the media, which has been called the "authorizing environment" of the organization (Heymann, 1987; Moore, 1995).

The third point—labeled *operational capacity*—focuses attention on the question of whether sufficient know-how and capability exist to achieve the desired results. Often, this capability lies entirely in the organization that the manager leads. However, sometimes it lies outside the organization's boundary, and the organization has to find ways to engage capacities beyond its own to achieve the desired result by creating partnerships of various kinds.

At a conceptual level, this simple model is not very challenging. All it says is that in order for a strategy to be a good one, it has to be valuable, authorizeable, sustainable, and doable. What could be more obvious than that?

Operationally, however, the concept proves to be very challenging indeed. It generally proves quite difficult to lay out a strategy in which all of these bases are touched. Yet, to fail to do so is to court disaster. Consider the following possibilities:

- If a manager has a valuable purpose that is widely supported, but nobody knows how to achieve it, then the enterprise will fail from a want of accomplishment.
- If a manager has a valuable purpose and capabilities for achieving it, but no one wants or needs it, then the enterprise will fail from a lack of a sponsor.
- If a manager has support and capabilities, but nothing of value is being created, then the enterprise will succeed only in staying alive but not in creating value.

The arrows connecting these dots are meant as forceful reminders that all three bases must be touched.

USE OF THIS MODEL IN GOVERNMENT

We know from many years of working with government executives that this model helps them orient themselves to the work that they have to do. The model is important to government managers primarily because it focuses their attention upward to those who oversee and authorize their operations, outward to the purposes to be achieved and the value to be created, and downward and inward toward the management of their own organizations. In encouraging this emphasis in the calculations of managers, it increases the importance of two managerial functions in government that were previously neglected.

First, this framework makes political management as important to public managers as organizational management (Heymann, 1987). Political management, understood as the efforts required to mobilize and sustain support and legitimacy for an enterprise, becomes important for three different reasons: It is practically necessary to guarantee the sustainability of the enterprise; it helps to mobilize partners and coproducers, over whom they have little direct control, to contribute directly to public purposes by acting on their own to achieve them; and it helps give them leverage over their own employees. Unless public sector leaders have powerful mandates that are backed by insistent and enthusiastic support, they will be unable to mobilize the resources, the cooperative efforts they need from others, or their own staffs to accomplish their goals.

Second, the strategic triangle emphasizes the importance of considering and testing the value proposition that undergirds their operations. They know their missions. However, the strategic triangle asks them to question and satisfy themselves that their missions are valuable and that they have the most effective means for achieving the desired results. It challenges them to lay out the logic chain that connects their activities to valued social results. It privileges the use of techniques, such as cost-effectiveness analysis and program evaluations, to provide empirical tests of the value propositions (Moore, 1995, pp. 33-36). All this comes from simply focusing attention specifically on the issue of public value.

USE OF THIS MODEL IN NONPROFIT MANAGEMENT

We have less experience using this model with nonprofit managers. Yet, in our experience so far, there are some important features of this model that seem to resonate with these managers.[7]

Value as Mission Achievement Rather Than Financial Performance

Perhaps the most important is that the focus of the model is on the public value to be created; furthermore, it defines the value to be created in terms of missions and goals rather than in terms of financial performance. The idea that the overarching raison d'être of an organization is its social purpose, and that its value lies in the achievement of that purpose, seems to be closer to the world in which nonprofit managers operate than to the world in which the financial success of the enterprise is assured by delivering products and services to willing customers. Nonprofit managers want to talk in terms of the social value of particular missions rather than of the profitability or financial sustainability of the enterprise. They like the idea that there is an important public value being created above and beyond the willingness of clients to pay for the services.[8]

The Authorizing Environment as a Source of Support and Legitimacy

Nonprofit managers also seem to connect with the idea that an important part of their strategic environment is not simply customers and competitors but also the wider public that constitutes their authorizing environment. Many nonprofit organizations are either exclusively or importantly political in the sense that they are advocates for causes and for service delivery organizations providing services to clients. These organizations fully understand the importance of developing powerful political constituencies and alliances in the broad authorizing environment and of delivering high-quality services to clients. Even those nonprofit organizations that are primarily committed to delivering services understand that they are importantly dependent on either contributions from donors or grants and on contracts from government. As a result, they too have to think about and develop a plan for garnering support from a wider authorizing environment that differs importantly from those whom they serve.

In short, because nonprofit organizations need political support to accomplish their advocacy goals and need funds from donors and government to accomplish their service delivery goals, they naturally look to places other than revenues earned by selling products and services to find these resources. For them, the image of an authorizing environment filled with donors, citizens, the media, interest groups, and government funders who the managers meet upstream in reporting relationships feels more appropriate than the image of paying customers whom one meets downstream in service encounters. The market in which they must compete is not the market for clients. There are plenty of them. The market in which they have to compete is the one in which donors, citizens, and elected representatives make commitments to public purposes. To compete in that market, they know that they need to have a public profile to communicate with donors. They know that that public profile has to be about their mission. In all these ways, the focus on something called the "authorizing environment" works better for them as a market in which they are trying to compete and sell than a focus on customers.

Building Legitimacy and Support as an End as Well as a Means

Recently, we have discovered one of the most interesting uses of this model for nonprofit managers. This use has to do with how nonprofit organizations think about the value they are creating in society and what they have to do to survive.

We have been working with a large, national nonprofit organization. The organization as a whole has a government charter, and it relies heavily on charitable contributions of money (30% of total revenues), materials, and volunteer labor (unpriced and unrecognized in the financial statements of the organization). Yet, despite this charitable skin, one of the two principal operating divisions of this organization is set up very much like a commercial enterprise. It earns revenues by selling products in a highly competitive market. It is centrally organized and quite deliberately and determinedly managed toward such strategic goals as aiming at revenue targets, strengthening their domination of existing markets, and penetrating new ones. The other part of the organization is set up as a fairly traditional charity. It has a widely decentralized structure. Its revenues come from charitable contributions. It delivers services for free to deserving clients and helps communities prevent various disasters that could befall it.

When one looks at the organization as a whole through traditional business strategy models that emphasize financial performance, the organization seems to be in tough shape. None of the organization's individual product lines or activities earns revenues that can fully cover costs. The organization as a whole would quickly disappear if it were not kept alive by a flow of voluntary contributions of money, material, and time that seems responsive to the traditions of the organization as a whole rather than its particular performance in any of its product lines. This financial dependence on charitable contributions is an embarrassment to the members of the organization who are organized as a commercial enterprise. They long to show that they can meet a market test, and in so doing, demonstrate that they are creating value for society.

However, if one looks at this organization as a whole and at each of its product lines in the context of the strategic triangle, the value created by the organization looks very different. The important reason is that the legitimacy-and-support circle in the strategic triangle can be viewed not only as something that is instrumentally valuable and necessary to pursue the mission of the organization but also as a valuable social end in itself. The reasoning is the following.

The most obvious value produced for society by a nonprofit organization is the value associated with the achievement of the organization's mission and goals or low-cost, high-quality service to the organization's clients. That perspective is encouraged by both business models and by public sector models because it views organizations as producing entities (Bryce, 1992, p. 72). As such, their value lies in the work that they do in taking resources and increasing their value through the productive processes of the organization. That kind of value is captured in the strategic triangle by the value circle.

However, one can reasonably argue that nonprofit organizations create value for society in ways other than achieving their mission and serving their clients. For example, as noted above, nonprofit organizations might be valuable as channels for the expression of individuals' charitable aspirations. Individual satisfaction (or utility) may be generated in the lives of donors when their gift can be conserved and parleyed into much greater significance and impact by the work of the nonprofit organization (Oster, 1995, p. 37). If this is true, then value is created at the upstream end of the organization's work as well as at the downstream end. The encounter with donors is value creating, as is the encounter with clients.

Moreover, if Robert Putnam's (1993) findings about the importance of social capital in improving the quality of life for individuals and the improvement of many public operations are to be believed, one could also argue that a valuable product of nonprofit enterprises would be to increase the stock of social and civic capital in society—the networks of reciprocity and trust that make life enjoyable and grease the millions of transactions that allow the society to be productive as a whole (Putnam, pp. 181-185). To the extent, then, that nonprofit organizations created a world where neighbors helped neighbors, an important social value would have been produced. This, too, happens upstream where the organization is amassing resources, in the production process when volunteers are involved in helping clients, and downstream where the food and clothing are delivered to needy clients.

What these points imply is that, if this nonprofit organization focuses hard on the way it is trying to build support and legitimacy by interacting with individual donors in transactions that lend significance to their gifts and on building a network of people who share the cause, then that work has several important results. First, the work is instrumentally valuable in ensuring a flow of resources to purposes that can now be achieved and clients who can now be aided. Second, once we put this diagram in the context of nonprofit organizations and understand that their important social purposes include the channeling of individual aspirations and the creation of social capital, then the work of legitimating and supporting the organization's purposes becomes valuable in itself.

This perspective radically changes both the valuation of the organization as a whole and the relative evaluation of its particular parts. The organization as a whole looks much more valuable from this perspective than from the perspective of the financial business models. The parts of the organization that are producing traditional charitable activities look more valuable than they did when they were being reviewed from the business perspective. Both taken together have very important implications for the overall strategy of the organization.

The public value perspective embodied in the strategic triangle also transforms one's view of the ways in which volunteers of money, material, and time contribute to the organization. From a business perspective, the easiest way to understand voluntary contributions of money, time, and materials is to view them either as sources of funds or as low-cost factors of production, that is, as people who contribute to the support and legitimacy of the organization and to its operational capacities. Once we recognize that their satisfaction and the way in which they interact with one another and with the clients of the organization are important ends of the organization as well as the means, then their experience becomes an additional increment of value produced by the organization. As such, it becomes as important to focus on their satisfaction as it is to focus on the satisfaction of clients.

Notes

1. Throughout the article, when I speak of the leadership of nonprofit organizations, I will be tacitly referring to both the board of trustees and the executive directors. I understand that the function of leadership is often distributed across these different offices and across the different people who occupy these offices. In the short space available to me in this article, I will not take on the complex question of who should or does exercise leadership in nonprofit organizations, and therefore, I will not discuss the relationship of the board to the executive director. I will assume that the responsibility for leadership is shared between these actors.

2. I am indebted to John McArthur, the former dean of the Harvard Business School, for emphasizing this point (see also Kaplan & Norton, 1996).

3. I am indebted to Professor James Austin of the Harvard Business School for making this point.

4. Note that the public does have some choice here. It authorizes some purposes as either public spirited or charitable. It makes contributions in the form of tax exemptions. So, one can say that the purpose is publicly ratified as well as privately endorsed (see Bryce, 1992). However, there is something remarkable about the fact that individuals can define something as a public purpose without necessarily having to persuade others to agree in the particular case.

5. I am indebted to Professor Kasturi Rangan of the Harvard Business School for this concept and the phrase (see also Oster, 1995).

6. Here, I am departing from Bryce's (1992) view. He seems to think that the mission exists independently of financing. The task of financing is to find money to support the mission. He states that "the principal focus of the [financial management task] is to acquire, manage, and allocate dollars so that the philosophical mission of the organization, whatever it may be, can be discharged." However, one could equally view the articulation of the mission as a fund-raising method. At the extreme end, one could imagine nonprofit entrepreneurs who have decided that their mission should be whatever public aspirations were currently not being met. At the less extreme end, we could imagine that a mission statement would be constructed with an eye to the question of whether it was capable of sustaining voluntary contributions not only from donors but also from boards, managers, staff, and clients.

7. I am talking principally about the experiences that Christine Letts, Peter Frumkin, and I have had in teaching nonprofit managers in the context of both executive and degree programs at the Kennedy School.

8. To this degree, managerial sorting does seem to be occurring across the sectors; those who like public purposes tend to migrate toward nonprofit and governmental organizations, and those who like wealth creation tend to migrate toward business enterprises (Weissbrod, 1988). This effect is being altered to some degree by two trends, however. The first is that, increasingly, business enterprises are seen as important not only for producing wealth but also for achieving social purposes. Consequently, the nonprofit and governmental sectors have a less distinct advantage in competing for socially conscious managers. Second, many private managers now get rich enough early enough that they are eager to establish a second career working in the public sectors.

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