Mario Morino

Leap of Reason

Managing to Outcomes in an Era of Scarcity

For the entire sixteen years I've been working full-time in the social sector, a problem has been gnawing at me, sometimes literally keeping me up at night.

Here's the problem in a nutshell: We don't manage to outcomes, thus greatly diminishing our collective impact.

Despite all the right intentions, the vast majority of nonprofits do not have the benefit of good information and tools to determine where they're headed, chart a logical course, and course-correct when they're off. They're navigating with little more than intuition and anecdotes. Only a fortunate few have a reliable way to know whether they're doing meaningful, measurable good for those they serve.

I know "manage to outcomes" may sound to some like fuzzy jargon—and frankly, I wish I had a better term. But I assure you, this problem is more than just a sleep-stealing concern of pointy-headed funders like me. It's a huge problem—and a huge potential opportunity—for the nonprofits themselves, for the families they aspire to benefit, and for society as a whole.

The problem is not new. But it is growing in urgency.

The cold reality is that in our present era of unsustainable debts and deficits, our nation simply will not be able to justify huge subsidies for social-sector activities and entities without more assurance that they're on track to realize results. Public funders—and eventually private funders as well—will migrate away from organizations with stirring stories alone, toward well-managed organizations that can also demonstrate meaningful, lasting impact.

Not every insight in this call to arms will apply to every organization. No one would expect, for example, that small organizations with budgets under $2 million a year would invest hundreds of thousands or millions of dollars in building fancy performance-management systems to monitor results in real time.

But even the smallest organizations can find ideas here and in the book from which this essay is drawn to help them manage in a way that allows them to know

Mario Morino, a former software entrepreneur, is the Chairman of Venture Philanthropy Partners (VPP) and the author of Leap of Reason: Managing to Outcomes in an Era of Scarcity*, from which this essay is excerpted. For more information about* Leap of Reason*, a collaboration between VPP (www.vppartners.org) and McKinsey & Company, visit leapofreason.org.*

whether they're making a difference or not. I believe that's a reasonable minimum requirement for anyone who aspires to do good, applies for charitable status from the IRS, and asks others to commit their money or time.

WHY REASON IS RARE

I recognize that managing to outcomes sounds so simple, so basic, so obvious—the organizational equivalent of motherhood and apple pie. So why do so few nonprofit professionals manage to outcomes despite a genuine passion for achieving a mission?

One big reason is that nonprofit leaders, even those who run the largest organizations, are not encouraged or supported to manage well. Many were "knighted" into their leadership positions because of their commitment to mission and achievements in serving others; they had no formal management training. Many heads of schools, for example, will share some version of the following lament: "I'm an educator, and I had no idea what managing was." Even in a sector blessed with truly remarkable leaders and visionaries, we do not recognize and reward good management, and we have an acute shortage of management talent.

A second, related reason is that funders generally don't provide the kind of financial support and strategic assistance that nonprofits need in order to make the leap to managing to outcomes. The truth, ugly as it may seem, is that nonprofit behavior is very much a function of what funders require. By and large, funders want to help nonprofits do the right thing. But far too many donors—big and small, public and private—have been conditioned to insist that every dollar go to "support the cause" through funding for programs. They don't want "overhead" to dilute their donations.

Unfortunately, this understandable desire to be careful about costs can deeply undermine the pursuit of impact. Yes, we have all seen some nonprofits that have unjustifiably high overhead costs, such as those that put on lavish galas that barely break even. But if funders see all overhead as wasteful, they will miss a huge opportunity to help their grantees make the leap to managing to outcomes—which, in my view, is the clearest pathway to impact.

To make the leap to managing to outcomes, nonprofits need creative funders willing to think big with them—not just pester them for more information on results. They need funders who understand that making the leap requires more than program funding, and more than the typical "capacity-building" grant. They need funders who are willing to make multi-year investments and provide strategic assistance to help nonprofit leaders strengthen their management muscle and rigor.

A third reason nonprofits fail to manage to outcomes is that they fear that funders will use any information nonprofits collect against them, instead of using it to help nonprofits grow and improve. For example, educators often worry that school districts use student test scores and other educational data to restrict funding and

fire teachers rather than to guide efforts to improve teacher and program quality for better student outcomes.

Granted, some nonprofit leaders have overcome these and other hurdles, and they have made truly meaningful progress toward improving outcomes by collecting, analyzing, and using information.

Select hospitals like the Cleveland Clinic and the Mayo Clinic, for example, have made great strides in creating a culture of information-based introspection that allows them to use and apply the information they need on an ongoing basis. The same can be said for innovative human-service and education nonprofits such as Nurse-Family Partnership, Youth Villages, Harlem Children's Zone, Friendship Public Charter School, and the Latin American Youth Center, all of which are seeing positive early indicators of greater impact.

And, fortunately, there are pioneers in the foundation world, such as the Edna McConnell Clark Foundation, that have lent their financial and strategic support to help their grantees manage to outcomes.

It's also true that a good number of nonprofits have come to appreciate the value of experimental and quasi-experimental evaluations, often conducted by third parties, to assess the effectiveness of specific programs. But even among these nonprofits, few have come to understand the importance of continuous, rigorous collection and use of information for guiding the management of their organization. This ongoing, management-oriented data collection and analysis is what managing to outcomes requires. It is a way for leaders and nonprofits to learn and grow. It is essential for achieving lasting impact.

Because of the impediments, far too few nonprofits even bother trying to manage to outcomes.

Among those who *do* try, far too many are missing the forest for the trees. They focus more heavily on the mechanics of measurement than on understanding what the data reveal. As a result, they are squandering precious time and financial resources.

Even worse, I've witnessed some misguided efforts—often foisted on nonprofits by funders—that have produced unintended negative consequences that go beyond the waste of money. In these cases, funders have turned assessment into an exercise focused on cold numbers—the equivalent of Robert McNamara's simplistic and terribly misleading Vietnam body counts—rather than using it to help nonprofit leaders achieve lasting impact for those they serve. These efforts are worse than no effort at all!

The Hudson Institute's eloquent and insightful William Schambra shares my concern about ill-considered, often harmful demands from funders. If nonprofits could speak truth to powerful foundations, he imagines they would say, "Let's decide jointly on a simple, coherent, user-friendly system to which we can both pay attention, which will prevail over bureaucratic [requirements] . . . and which will feed into a serious body of knowledge. But until then, stop pretending that the problem is our lack of acceptable performance, rather than your lack of serious purpose."

"TO WHAT END?"

The simple question that has served me best throughout my business and nonprofit careers is "To what end?" I try to return to these three little words constantly during the life of any project or initiative, especially when I fear I'm drifting away from my original purpose or I'm starting to confuse ends and means.

I fear that when it comes to outcomes assessment, we have failed to keep our eyes fixed on the ends we are trying to advance.

In the wise words of David Hunter, managing partner of Hunter Consulting and a former director of assessment for the Edna McConnell Clark Foundation, "The mess you describe indeed is enormous and very destructive. . . . Few people involved in this work have thought deeply about managing toward outcomes. Most put the cart before the horse—focusing on *how* to measure rather than on *why* measure and *what* to measure."

Every ounce of our effort on assessing social outcomes should be with one end in mind: helping nonprofits deliver greater benefits to those they serve.

Unfortunately, greater benefits are not the focus today. Measurement has become an end in itself.

If greater benefits were the end, we would be working to help nonprofits clarify the results (outcomes) they are trying to achieve.

If greater benefits were the end, we would do much more to help nonprofits collect and use the information that could best help them navigate toward those outcomes.

If greater benefits were the end, we would properly differentiate between operational performance and organizational effectiveness. What good is it to focus on an organization's overhead costs or fund development levels if we don't have a clue as to how effective the organization is at creating benefits for those it serves?

If greater benefits were the end, we would own up to how much encouragement and support nonprofits need in order to define and assess what they do and how well they do it.

We've approached this challenge as if it's about numbers when it's really about having the right culture. Shifting the culture requires large and persistent investments of time, talent, and money.

TOO HARD ON "SOFT" OUTCOMES

"To what end?" are three powerful words. But as I learned in my Catholic upbringing, two words that carry just as much power are "mea culpa."

Here's an example of how I looked too narrowly at outcomes—and, as a result, risked knocking nonprofits off mission.

In the early years of Venture Philanthropy Partners (VPP),[1] we got a lot of resistance to my push for clearly defined outcomes from leaders whose organizations placed a premium on being holistic with their services and functioning as "community builders." Although I agreed with them in concept, I felt that a focus on "community building" was too soft to be a legitimate outcome. Outcomes relat-

ed to "community building" are, after all, radically ambiguous compared with outcomes like reduction in teenage pregnancy and substance abuse.

I now see that serving the entire family (holistic services) and building community are some of the very things that create the kind of environment that allows youth to avoid risks, get an education, and prepare for jobs and college. I'm kicking myself for not having seen this earlier—because I *lived* this as a kid in the 1950s. I grew up in a technically poor neighborhood in Cleveland that was actually a truly connected and supportive community, a place where it was hard to fall through the cracks.

My friends and I benefited from a wide range of holistic services delivered by caring adults—from family to teachers to coaches and neighbors—who simply wouldn't let us fail. Of course we didn't know it at the time, but we were the focus of a reasonably well-coordinated network of providers that collectively produced an impact greater than the sum of good individual parts.

And yet when VPP investment partners talked about "community building," that sounded too intangible, not readily measurable— and, candidly, difficult to sell to our own stakeholders.

I regret not having been more open in my thinking back then. Instead of pushing back on what we were hearing, my colleagues and I should have done more to understand "soft" achievements that may in fact be every bit as real and important as "hard" outcomes. I aspire to do a better job of making them part and parcel of future efforts to assess outcomes and performance, even if that means using qualitative and/or subjective indicators.

The point is this: When public or private funders establish performance metrics and tie rewards or consequences to organizations' capacity to meet them, organizations and people will migrate to the behaviors that will allow them to meet their defined targets. If the metrics are appropriate and closely tied to mission, the organization can benefit. But if the metrics are simplistic and unmoored from mission, organizations will go racing in the wrong direction. To paraphrase Yogi Berra, they'll get lost, but they'll be making good time.

WHAT THE LEAP OF REASON LOOKS LIKE

In my experience, some nonprofit leaders inherently think in terms of outcomes or are at least open to doing so. They bring more than intuition and personal agendas; they think deeply about the what, how, and why of their services; they are evidence-based; and they talk naturally and frequently about the change happening in the lives of their clients and beneficiaries. These leaders are genuinely hungry for reliable information to assess their value to those they serve. They want to make the leap of reason.

Leaders who have an innate desire for good information that's aligned with their mission are the ones most likely to develop a true performance culture and make a real difference in the lives of those they serve. And before those of you who rebel against the term "performance culture" get too incensed, let me urge you to

step back from the jargon and debates of the times and ask yourself, How could individuals who serve others not want to know how they are doing and be able to share these findings with those they serve? This is what I seek to convey when I use the term "performance culture."

Before he was featured in the provocative movie *Waiting for "Superman,"* Geoff Canada, founder and CEO of Harlem Children's Zone (HCZ) and one of my heroes, raised a stir with comments in the New York publication *City Limits*. When Canada was asked to define success for HCZ, he said, "The only benchmark of success is college graduation. That's the only one: How many kids you got in college, how many kids you got out."

Canada could not have been clearer on the ultimate outcome HCZ is focused on achieving. It's not improving reading levels. It's not getting kids to graduate from high school. It's not helping kids get into college. To Canada, these are important interim indicators that HCZ is moving in the right direction, but, ultimately, what matters is ensuring that those young people make it through college—because ample evidence shows that making it through college is what leads to lifelong results for the young people HCZ serves.

With that great clarity as a starting point, Canada and his team, aided by the Edna McConnell Clark Foundation, Bridgespan, and others, have gotten good at identifying the information they need to collect in order to manage to this outcome. Are all the kids in HCZ graduating from college? Of course not. But HCZ is on a very promising path.

PERFORMANCE MANAGEMENT

This past year I had an opportunity to participate in demonstrations of three systems for managing to outcomes that were implemented by organizations I know well. All three of the systems, which the experts call "performance-management systems," encourage and reward curiosity and continuous exploration of how to do things better.

One of those systems was developed by Friendship Public Charter School, a VPP investment partner. In 1998, Friendship founder Donald Hense and I stood in jeans outside a run-down DC elementary school. He pointed across the street and said, "That's where we're going to put our first school." Today, to Donald's great credit, Friendship is a thriving network of ten schools and academies, serving eight thousand children.

Friendship's performance-management system produces dashboards for each student, teacher, classroom, and school, providing timely qualitative and quantitative insights on how students are doing on the skills they need to learn. This information, easily available to all teachers as well as students and their families, allows for much earlier and more effective intervention when kids are having trouble. As word gets out about what Friendship has built, it will set a higher bar for schools around the country—including affluent private schools—and give a new sense of what's possible.

Angela Piccoli is a second-year teacher at one of the Friendship schools. This year her classroom included a majority of students who were low performers relative to their grade-level peers. "I was petrified to show students their data at the beginning of the school year, as many were barely readers," says Piccoli. "I thought it would unsettle the entire class and lead to overwhelming tension and anxiety." Sharing the data with students, however, is a non-negotiable requirement in Friendship's model and is expected of all teachers, so Piccoli did. And what happened? "My students responded to the data. They helped each other. They knew what they had to do and they kept improving. They have become cheerleaders who encourage each other."

At the beginning of this year, Friendship added non-academic indicators—indicators related to students' well-being—to its performance-management system. According to Friendship COO Patricia Brantley, "We saw immediately the interrelationship between struggling teachers and struggling classrooms. Attendance and discipline issues weren't spread out evenly among classrooms; there was a clear correlation between student non-academic outcomes and teacher performance."

At Friendship's first meeting to share data on attendance and truancy disparities between classrooms, one principal remarked, "Kids can't just fall through the cracks anymore, because we can see them right when they need us to do so. This is the data that I needed to ensure that every adult is focused on the most important work." As Brantley puts it, "We use the data as the common driver of urgency for leadership and urgency for management."

As impressive as these performance-management systems are, it's vital to avoid getting caught up in a mere appreciation for the technologies they use or the aesthetics of their user interfaces. Take it from a former high-tech executive: Technology is *not* the decisive factor in whether organizations make the transition to managing to outcomes and raise their impact. Far more important is the mindset of the leaders who put these systems in place—a mindset that can prevail even in organizations that can't afford to build sophisticated data systems.

Leaders like those at Friendship take on the challenge of managing to outcomes not because it's "important," not because it's a trend or a good marketing tool, and not because a funder or investor said they had to. They do it because they believe it to be integral to ensuring material, measurable, and sustainable good for those they serve.

INCREMENTAL CHANGE IS NOT ENOUGH

A number of years ago I had the privilege of participating in a three-day "Social Entrepreneurs Initiative" hosted by the philanthropist Robert Buford and led by the legendary management expert Peter Drucker. In the group of a dozen amazing participants, I was clearly the weak link—the one who would have been kicked off the island first if we'd been on reality TV.

Mr. Drucker, always prescient, saw the outlines of an emerging movement toward greater innovation, effectiveness, and impact in the social sector. Though impressed by the emerging movement this group epitomized, he wasn't convinced that it would amount to wholesale change in the mindset and culture of the social sector. The key was to figure out how to grow this emerging movement into a true force for change.

My fervent hope is that the "leap of reason" concept could serve as the banner under which many of us with diverse skills, talents, and offerings could come together to meet Drucker's challenge and convert a promising movement into a potent force. And let me reiterate that the leap of reason concept is *not* about pushing nonprofits to drink the metrics Kool-Aid, implement fancy reporting technologies, or adopt complex measurement methodologies. It is about encouraging nonprofits and funders to cultivate for themselves an outcomes-focused mindset and the passion to be as effective as they possibly can for those they serve!

Neither VPP nor I have earned the place or have the chutzpah to lead a charge of this magnitude for the sector. But to help kick things off, I would welcome helping to convene a select group of early adopters, those leading practitioners who have "been there and done that"—especially those who overcame and learned from failures. It is my hope that out of this cadre of leaders and doers will emerge a collective leadership that could put our sector on a different and much more rapid trajectory.

THE BIG GAME CHANGER

I don't like to sound Machiavellian, but the first order of business for this leadership group must be to heed the fifteenth-century philosopher's admonition to "never waste the opportunities offered by a good crisis."

The crisis I'm referring to is the dire fiscal reality for federal, state, and local governments, which will have an impact on almost every nonprofit in America whether or not it receives government funds.

Our economy has taken a broadside hit, and most economists and budget watchers agree that we are now in the midst of a profound structural shift. Congress will eventually enact major cuts in the growth rates of Medicaid, Medicare, and Social Security. Even more threatening to our sector are likely cuts in the real amount of discretionary spending—not just growth rates.

In a cruel irony, these cuts will not only reduce the supply of funding for many of the services that nonprofits provide; they will also dramatically increase the demand for these services.

The magnitude of the combined hit—greatly reduced funding and increased need—will require organizations to literally reinvent themselves. Incremental responses will be insufficient. I agree wholeheartedly with Dr. Carol Twigg, president and CEO of the National Center for Academic Transformation, who concludes, "We will have to produce significantly better outcomes at a declining per-

unit cost of producing these outcomes, while demand for our services will be increasing."

The frightening budget forecasts at the federal, state, and local levels are just one manifestation of a larger philosophical shift. In the twentieth century, under Democrats and Republicans, government services expanded dramatically. Many of us took for granted that when we identified a new program to handle some unmet need, we could say to the government, "Now add that to your portfolio."

The reality today is that outside of healthcare, the expansion of public funding and government services as a share of our economy is going to come to an end, if it hasn't already. In this new era, public policy debates increasingly will focus on how best to use or repurpose existing resources.

To respond to such a daunting game changer, we will all need to raise our games to a much higher level and seize the opportunity in the crisis. As Education Secretary Arne Duncan spelled out in a speech he called "The New Normal," the challenge of doing more with less "can, and should be, embraced as an opportunity . . . if we are smart, innovative, and courageous in rethinking the status quo." *New York Times* columnist David Brooks agrees: "This period of austerity will be a blessing if it spurs an effectiveness revolution."

And let's not forget that effective programs can reduce the nation's budget problems. For example, if serious and expensive problems like dropping out of school are prevented, then productivity and tax receipts will increase. Similarly, if criminal behavior is reduced, then taxpayers will benefit from lower costs for incarceration and rehabilitation.

We need to rethink, redesign, and reinvent the why, what, and how of our work in every arena from education to healthcare to public safety—as will the government. We need to reassess where we have the greatest needs so we can apply our limited resources to have the most meaningful impact. We need to be much clearer about our aspirations, more intentional in defining our approaches, more rigorous in gauging our progress, more willing to admit mistakes, more capable of quickly adapting and improving—all with an unrelenting focus and passion for improving lives.

It's no longer good enough to make the case that we're addressing *real needs*. We need to prove that we're making a *real difference.*

REAL-LIFE OPPORTUNITY COSTS

To illustrate the urgency, I will offer some examples of organizations that are not making a real difference—and that will inevitably come under greater scrutiny as funding choices become harder and harder.

Drug Abuse Resistance Education (D.A.R.E.), a drug-prevention program whose advertising bumper stickers are about as ubiquitous as McDonald's restaurants, is present in more than half of U.S. school districts, all fifty states, and thirteen foreign countries. Created in 1983 by then–Los Angeles police chief Daryl Gates, D.A.R.E. is typically delivered in schools by visiting police officers present-

ing the dangers of drug use. The program has gained enthusiastic support among educators, law enforcement agencies, and the media.

But there's a hitch: *Numerous studies have shown D.A.R.E. to be without impact. It simply does not measurably affect drug use*. There is an enormous social cost to this lack of results—the lost resources that could have been put into prevention programs that actually work, and the lost potential of children and young adults who might have been diverted from drug use by such programs.

Consider another well-known program, Scared Straight, which arranges for juveniles who are getting in trouble with the law to meet, up close and personal, lifers who let them know that prison is hell. The idea is that this will terrify the kids and propel them back onto the straight and narrow path.

But you might want to know that rigorous experimental research shows that *Scared Straight is more harmful to teens than doing nothing*. What does this mean? It means that Scared Straight has been proven to *increase violence* among teenagers who participate in its visits to prison. Nevertheless, Scared Straight not only thrives in the U.S. but has spread to at least six other countries.

Unfortunately, we see examples like D.A.R.E. and Scared Straight in every community.

We see mentoring programs where frequent turnover among mentors and failed matches reinforce youngsters' sense of their low worth and poor prospects.

We see hospitals and clinics that provide grossly substandard care and do not follow the medical mantra of "Do no harm."

We see foster-care programs that stop supporting kids when they "age out" of the system at age eighteen or twenty-one—exactly when they need intensive support (50 percent will be homeless within a year).

We see programs aimed at getting people off welfare and into jobs that don't provide any job-based coaching and support—even though it's well known that job retention is a huge challenge for people leaving welfare.

I certainly don't mean to suggest that these programs typify the nonprofit sector. There are many demonstrably effective nonprofits that are playing vital roles in our communities and helping people improve their lives every day—not to mention countless others that may be making a difference but simply do not have the data to demonstrate their success. But the stark truth is that there are too many nonprofits that are just not doing enough to ensure that they're making a positive difference. I am truly frustrated by the number of cases I come across in which nonprofits settle for mediocrity or cause potential harm to those who have given their trust.

Keep in mind: You're hearing this frustration from a stalwart social-sector advocate. If I'm this frustrated, think about the mass of voters who do not have a strong understanding of the social sector and how they would react to radio, TV, and Internet pundits pointing an angry finger at a host of social programs that not only waste taxpayer money but might actually cause harm to purported beneficiaries. Imagine the Congressional hearings that would ensue. Imagine how hard it

would be to defend, much less advance, all the good that our sector does. Imagine all the babies that would get thrown out with the bathwater.

IF NOT NOW, WHEN?

Addressing the fiscal challenge will not be easy. But that is no excuse for us to bury our heads in the sand.

A few years ago, Melinda Gates spoke before the Council on Foundations and shared a lovely, telling anecdote. She once overheard her youngest daughter, Phoebe, struggling to tie her shoes and saying to herself, "This is difficult. But I *like* difficult."

Melinda and her husband like difficult as well. Difficult is how they have chosen to give meaning to their lives.

Chuck Feeney is another remarkable philanthropist who likes difficult. After transferring virtually all of his personal and family assets to the Atlantic Foundation, he invested strategically and provided sterling moral leadership to overthrow a century of accepted dogma in favor of a new philosophy called "giving while living."

Today, "giving while living" is no longer just a clever slogan or an outlier concept. It has influenced and inspired a whole generation of donors, including Melinda and Bill Gates.

I believe "leap of reason"—an overarching ethic of striving for mission effectiveness, instilling a performance culture, and rigorously pursuing meaningful, measurable good for those we serve—can and must become a viral concept in the social sector. After years of incremental gains, our sector is more than ready for a quantum leap. It's time to dramatically increase our collective impact precisely when we're needed the most.

I qualified for AARP membership a long time ago, so I don't have forever to wait. And, much more important, neither do the hundreds of millions of people around the globe who need us to take on the difficult, even the impossible, and do it with a commitment to be as effective as we possibly can be.

---

1. Venture Philanthropy Partners (VPP) is a philanthropic investment organization that helps great leaders build strong, high-performing nonprofit institutions. It concentrates money, expertise, and personal contacts to improve the lives of and boost the opportunities for children and youth from low-income families in the National Capital Region and cultivates a growing donor community of high net-worth families to generate funding and influence in support of these institutions and of social change. For more information, visit http://www.vppartners.org.