Fall Forum Keynote Speech

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I recently became the Director of the Hauser Center for Non-Profit Organizations at Harvard University. I am charged with learning how to manage non-profit organizations – including arts organizations. I am also charged with figuring out the particular contributions that nonprofit organizations make to society as a whole, and how they might best be managed to make those important contributions to society.

Tonight, I want to pontificate about two closely related themes:

I will put forward some ideas about strategic management that might prove useful to those who govern, lead, and manage nonprofit organizations, including theatre groups.

I will share some ideas about the particular kind of contributions that we are counting on from nonprofit organizations – as distinct from other kinds of organizations – to make to our society.

The link between the two comes from the fact that it is only by keeping in mind what we are trying to accomplish with the sector as a whole that we can get a bead on how best to manage the organizations for those purposes.

I. ORGANIZATIONAL STRATEGY IN THE PUBLIC SECTOR

There is an important question about how best to manage public sector enterprises – both government and nonprofit organizations.

Much of the current advice emphasizes the importance of making the governance, leadership and management of these enterprises more “business-like”

As a person who has learned a great deal about leadership and management from the Business School, I find much to agree with in this advice.

We want those in positions of authority and responsibility to take management seriously.

It is important to protect the asset.

It is important to do so in a serious, self-conscious, deliberate way.

It is wrong to assume that the future of the enterprise – its continued capacity to create value – is assured just because our goals are so attractive, and we are such nice people.

It might be particularly important, perhaps, to play close attention to financial sustainability.
There are lots of things that are more important than money, but they all cost money to produce.

Therefore, we have to have a sense of revenue streams that can be tapped.

It is important to know where costs are accumulating.

We have to do the accounting so that both you and those outside can check on the economic viability of the enterprise.

It is also important to be focused on financial integrity – no stealing, no embezzlement, etc.

Now, if one isn’t careful, it is precisely at this point that one starts to talk not only about taking management seriously, and not only ensuring financial sustainability, and not only assuring financial integrity; that one starts talking about the EF words – being efficient and effective as well. There is a rhythm that carries one from management to finances to efficiency and effectiveness with a gush of increasing enthusiasm.

I want it clear that I do not want to long delay, let alone entirely frustrate the desire of energetic governors, leaders and managers to achieve efficiency. As the son of a manufacturing executive who sent me through college by figuring out how to squeeze little bits of efficiency out of already well engineered systems, I couldn’t possibly remain resistant to the allure of efficiency and effectiveness.

I do want to slow down the roll towards efficiency, however. I want to do so by calling attention to the fact that the concept of efficiency and effectiveness cannot be defined without describing what it is that is valuable to produce.

One cannot talk about efficiency or effectiveness without reference to the important question of what is valuable about what one is trying to produce, and to whom that is valuable.

And, it is the question of what constitutes the real social and public value of nonprofit arts organizations that ought to attract our careful attention, particularly as we reach out to try to become financially more resilient and more efficient and effective in our operations.

A useful (or at least inevitable!) place to start in thinking about this issue is to begin with the image of a for-profit organization.

A. Value Creation in For Profit Organizations

We’re pretty clear that the value produced by a for-profit organization lies in the satisfaction that individual consumers derive from purchasing the goods and services supplied by the firm.

Consumer satisfaction is nothing to sneeze at as a kind of value that can be produced.

This is important for theatre groups as well as private commercial firms.
We want our customers to be satisfied. We want them to return.

B. Satisfying Customers in the Nonprofit Theatre World

But it is worth noting that we have a somewhat different view of our customers than is true of for-profit firms.

Lots of times, our goal is not simply to pander to their tastes but to challenge them.

Lots of times, our goal is to work hard to draw in people who say they are not interested. This is so important that we are happy to remove price as a barrier to their participation, and find a way to subsidize their consumption of our product. And we don’t do this only as a loss leader!

In short, often a nonprofit arts organization is prepared to take financial risks and give up some financial performance to achieve social goals associated with engaging, enlightening, educating potential audiences as well as catering to them, and getting the most amount of money out of them that one can.

C. Pricing in the Nonprofit World

It is interesting to pause for a moment here and think a bit about pricing.

There are important differences among pricing to maximize revenue, recover costs, or pricing to maximize engagement (might even have a negative price for some!)

There is an important difference between “one price fits all” and pricing in ways that supports cross subsidization.

In some cases, it might be hard to tell the difference between a revenue paid for a service, and a voluntary contribution (subscription backers who don’t show; people who pay premium prices knowing that they are subsidizing others.)

D. Creating Value for Investors and Donors

For Profit firms are also supposed to create value for investors.

Value could be defined in terms of artistic merit, or in terms of wider (paid) engagement.

But the point is that they want to get money back.

(They could end up unintentionally as a nonprofit, but that is not the point! And if they had known in advance that they weren’t going to make money, they might have done things a lot differently)

An analogy to investors in the nonprofit sector might be donors and contributors.

But what makes them different is that they don’t necessarily want money as the return.

They want something else: a redeeming social good of some kind
E. Employees in the Nonprofit World

In for profit firms, employees are seen primarily as a means to an end.

In fact, in the standard ways we think about firm, the goal is to give as little as possible to employees.

The most important responsibility is to shareholders.

We meet that responsibility by building relations with customers. But the point is not to give customers too much. That is what price is about – dividing up the benefits of the firm’s activity between the firm and the customer.

The goal of owners and managers is to suppress claims on the firm made by employees. The surplus is what they are after. The determination to get it is what causes the relentless search for efficiency. This need not imply exploitation. But it does involve the employee giving up some control over his time.

In nonprofit firms, it is not clear that employees are the same as employees in for profit.

They are often volunteers and quasi-volunteers.

They are getting paid through the achievement of the mission as well as the money.

They are getting paid through the fun they are having as well as the money.

F. Summary: The “Script” Value Creation in a For-Profit Entity

In short, when we look at the script of a for-profit organization, the story is basically that value is being created through the efficient production of low cost goods and services to customers, through the generation of economic returns to investors (not too big), and through compensation to employees (again, not too big).

Value is Material and Financial

Value is Individually Consumed and Enjoyed

The operations of enterprise are organized under two very strong pressures to be efficient.

The desire of owners to maximize residual claim.

The pressure from Competitors to drive prices down and deliver more of value to customers.

These pressures combine to deliver most of the productive value of the firm to customers. That is the basic *raison d’etre*, even though others are getting some benefit from trying to satisfying customers.

III. The Public Value Strategy Model
Consider a Different Strategy Model – a Different Play with a Different Narrative Theme, and Much Different Roles to be Played.

CALL THIS THE PUBLIC VALUE STRATEGY MODEL

Originally developed for Government, but have been applying with some success to nonprofits for reasons that I hope will become obvious.

The model depends on the graphic image of a triangle with big circles at the three points of the triangle. Will try to recreate in the room.

Circle 1: The Value Circle

Circle 2: The Legitimacy and Support Circle

Circle 3: The Operational Capacity Circle

Now, let’s apply this concept to NP Theater Organizations

What’s the Value?

Who Supports?

Who Does the Work?

What’s interesting about the picture that appeared here in our midst are the following points.

A. Building The Enterprise

NOTICE HOW THE ENTERPRISE IS ASSEMBLED;

Held together not only with money – money invested, money paid to employees, money paid by customers.

Held together more fundamentally by desires that were not necessarily attached to financial flows;

Donors wanted to see an experience, produce something that they thought would be valuable to others

Actors wanted to perform.

Customers didn’t pay; Were possibly changed by the experience

B. Where Value is Generated

VALUE IS PRODUCED THROUGHOUT THE ORGANIZATOIN’S OPERATIONS, NOT JUST IN AUDIENCE’S SATISFACTION
Indeed, much of the satisfaction may lie among the donors and actors, not the audience! The audience is giving the gift of attention so they can satisfy their desires to inspire the audience.

C. The Nature of the Value Produced

SATISFACTION PRODUCED IS NONMATERIAL

Produced in experiences that change oneself – not leave untouched

Produce changes in relationships – not just in oneself.

Implies that the analogue may be closer to a church or a membership association than a commercial producing enterprise

D. The Continuing Importance of Management

NONE OF THESE OBSERVATIONS MEAN THAT THE ORGANIZATION SHOULD NOT BE MANAGED

But does mean should be managed for a different purpose

Also managed in a different way

D. Some Simple Management Principles

IF IT ISN’T FUN, SHOULDN’T DO IT

IF IT DOESN’T BUILD RELATIONSHIPS, SHOULDN’T DO IT

III. Role of NPS in Society

This brings us to important role of what NPO’s are supposed to do in society.

Tempting to see them simply as another producing entity

Wider variety of products and services,

Provided more efficiently

Support stuff that is not in mainstream

All that seems appropriate

But worth stepping back a minute and asking both how and why society gives special support to NPO’s

Most of the talk about public support focuses on tax exemption, grants, and contracts BUT I WOULD START WITH THE FIRST AMENDMENT
STAUNCH SUPPORT OF PERSONAL EXPRESSION

STAUNCH SUPPORT OF RIGHT TO ASSEMBLE

NPS MAY BE IMPORTANT AT LEAST AS MUCH AS A SET OF INSTITUTIONS SUPPORTING EXPRESSION AND ASSOCIATION AS FOR EFFICIENTLY AND EFFECTIVELY PRODUCING A RESULT

Human beings want to talk and communicate

Human beings want to share

They want to disagree and argue

They want to find commonalities

They want to find differences

We are very expressive and social animals.

WE NEED SOCIAL STRUCTURES AND INSTITUTIONS TO CHANNEL, SUSTAIN, TEACH US HOW TO USE THESE SOCIAL PARTS OF OURSELVES

IMPORTANT TO EACH OF US FOR QUALITY OF OWN LIFE

IMPORTANT TO ALL OF US TOGETHER FOR QUALITY OF OUR COLLECTIVE LIFE

To tolerate, understand, even enjoy one another's company

To use that as a basis for civic action

To use as a basis for political action

Help us define and achieve social purposes, and in doing so, develop an authentic collective identity – however pluralistic.

My colleague, Bob Putnam has shown us all the importance of social capital – both bonding and bridging but particularly bridging

I believe that arts help to build both bonding and bridging social capital.

Therefore, society has a great deal at stake not only in the survival of the arts sector, but also the way that the arts sector thinks about and does its work.

IV. Conclusion:

VIEWED FROM THIS VANTAGE POINT THEN, WHAT IS IMPORTANT ABOUT MANAGING IN THE ARTS SECTOR MAY NOT BE WHAT WE THINK IT IS
MAY NOT BE SIMPLY TO ENSURE CONTINUED FUNDING OF ESTABLISHED GROUPS, AND MANAGING THEM IN MORE BUSINESSLIKE WAYS

MAY HAVE MUCHY MORE TO DO WITH CREATING MORE AND DIFFERENT, AND MORE COMMUNIAL OPPORTUNITIES FOR INDIVIDUALS AND COMMUNITIES TO EXPRESS THEMSELVES THROUGH THE ARTS

MAY REQUIRE THOSE WHO GOVERN, LEAD AND MANAGE THE LEADING INSTITUTIONS TO ACT IN WAYS THAT ARE EFFICIENT AND EFFECTIVE IN ACHIEVING WHAT IS MOST VALUABLE – NOT SURPLUS FUND BALANCES, BUT A COMMUNITY ENGAGED IN LEARNING ABOUT ITSELF THROUGH ART.

THE GOAL IS TO PRODUCE – NOT JUST ON OPENING NIGHT – BUT IN ALL THE STUFF THAT LEADS UP TO OPENING NIGHT AND ALL THE STUFF THAT HAPPENS AFTER THE FINAL CURTAIN GOES DOWN—A COMMUNITY EXPERIENCE THAT ALLOWS ALL THOSE WHO PARTICIPATE – AS SPONSORS, AS PERFORMERS, AS AUDIENCE – TO EXPERIENCE THEIR HUMANITY MORE DEEPLY AND IN ASSOCIATION WITH OTHERS.

William Wordsworth once penned a great line that stays in ones mind: “getting and spending we lay waste our powers.” In managing and leading, we need to keep in mind an alternative idea “making drama together, we build our understanding and our strength”

Thank you for your attention.