

Lecture Text

Professor Herman B. “Dutch” Leonard

Strategy, Leadership, and Performance Management in the Social Enterprise Sector

(edited for clarity)

Introduction

For you all, this may be a little time out of what you ordinarily do, but this is what we actually do for a living. And I just have to say to you that we are so delighted to have you with us. We look forward to this program for a long time because we believe that the issues that we’re going to talk with you about over the next couple of days are among the most important and most interesting issues on the planet.

And it’s our privilege to have now assembled a collection of people from around the world to help us think about these issues and push forward from where we are. So we are really delighted to have you all with us, delighted to engage this conversation. I say these are the most interesting and most important issues because it’s my belief that the sector that you all represent, what we call the social enterprise sector—organizations whose principal mission is to advance the welfare of others in the world, to help people, to help organizations, to help make the world a better place, whose principal purpose is to do that—that these are the organizations in the world that are facing the most important challenges with the least resources and with the weakest systems for guaranteeing high performance.

Now that’s not a recipe for a very pretty picture. And a lot of you live every day through some of the less pretty parts of that picture. So if that’s the case—the most important challenges, the least resources, and the weakest mechanisms for actually trying to produce high value and high-performance outcomes—if those three things are true, why should we expect good results? And my answer to that is in this room. It is people like you all who dedicate your lives to trying to make progress on these issues, to trying to advance the various missions of your organizations. And it is for that reason that we are so delighted to have a chance to work with you.

I’m Dutch Leonard, and I’m a professor of business administration at Harvard Business School. I also have the privilege of having a joint appointment at the Kennedy School. And since this is jointly a Kennedy School and a Business School program, it’s my privilege to be in both sides of this program at the same time, if you will. And so, a privilege to welcome you and to have a chance to work with you over the next couple of days.

The Challenges Facing the Social Enterprise Sector

So how do we work on these most interesting and most exciting issues? Again, I’m going to say these are some of the most important challenges on the planet, most important challenges that we face as societies around the world. Why? Because governments are leaving them aside because they’re too hard. The private sector isn’t designed to deal with them. So it’s left to the social enterprise sector to pick them up. And yet the resources available to do that with are only those that you can procure either by selling services at modest rates or by convincing people to give you funding. So very limited resources.

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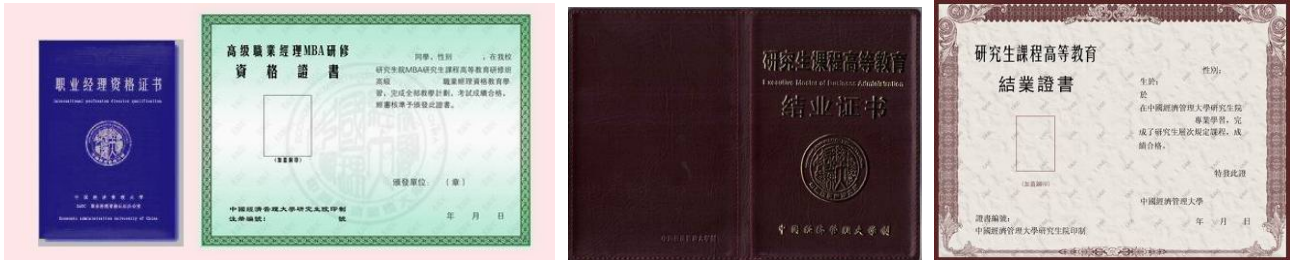
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And the accountability structure, or the structures for producing high performance—and this is a lot of what we're going to talk about in this program over the next couple of days—are relatively weak structurally. Now that doesn't mean they can't be made to work. Our challenge here is how to try to figure out how to make them work as effectively as possible, and that's a lot of what we're going to talk about.

But that is a very important challenge for us and for the world to try to get as high a performance as we can. And, by the way, just to betray my own views about this, I believe this sector performs very well on average, brilliantly on occasion. And our challenge here is not to redress problems but rather to improve performance even more. And we've been working on that over the last few years in this program. Your predecessors have been a very exciting opportunity for us in that regard. And that's why we look forward to having you with us over the next couple of days.

A Day In The Life Of A Senior Manager

I want to start by asking you a little bit about why it's hard. And I want to begin by asking you to think a little bit about a day in the life of a senior manager. So here's where we'll begin. I want to ask you to think about a day on which you, as a senior manager in one of these organizations, have blocked out your calendar. You have this really important project you want to work on. You've been trying to save time for this for a while. And you finally got a day. You just said nothing else is going to happen on this day and you came in early. You said, "Hold all my calls." You can't quite say, "Hold my email." But you made a resolution to yourself that you weren't going to plunge into email right away. And you came in at 7:30 and you began working. And only a few minutes into this day that you had blocked out, the phone rang. And then someone showed up at your door. And suddenly you turned around and it was 4:15 in the afternoon.

You now had a new stack of things to work on for the rest of the day that hadn't been there at the beginning of the day. And you've done nothing on your project. I don't know. Have any of you ever had a day like this? Any of you ever have any other kinds of days? So what happened? Who called you? I'm going to put you here at the center of the universe—the senior management of the nonprofit or social enterprise, right at the center of the universe. Who is calling you? What do they want?

___: A funder.

PROFESSOR LEONARD: A funder called you—someone who's given you support for what you're doing. A funder. And what did he or she want, Barbara?

___: To chat, because he's lonely and he needs someone to talk to.

PROFESSOR LEONARD: He just wanted someone to talk to. Calls to check on how things are going, calls to chat; to just talk a little bit about, "How's the program going?" And "Do you have that report ready about the performance?"

___: "How are things? Are the kids learning?"

PROFESSOR LEONARD: Very good. OK. Who else is calling you?

___: A board member.

PROFESSOR LEONARD: A board member. And what does he or she want to talk to you about?

___: Are last month's financials ready?

PROFESSOR LEONARD: So the board of directors is calling; wants the financials. So, in other words, wants information about how things are going. OK, what else do board members call you and ask about? Anybody else here ever get a call from a board member? Julia?

JULIA: Have you done what you said you were going to do?

PROFESSOR LEONARD: Promises kept. What kind of promises were made before?

___: They vary quite a lot.

PROFESSOR LEONARD: Yes, I'm sure.

___: Let's say, getting a group together under the executive director to come up with a set of priorities.

PROFESSOR LEONARD: "Have you got the committee started?"

___: These are staff people.

PROFESSOR LEONARD: OK, so staff work on priorities. So the board asked you to explain again what your priorities were and why, and so you're busily engaged in that. Who else is calling? Anybody else?

___: How about when the board calls and says, "I haven't done what I've promised to do and now you need to do it."

PROFESSOR LEONARD: "We didn't deliver; now you have to." "We were going to call this person, arrange this meeting, whatever. Now could you do that? I haven't had time to do it." Who else? Who else is calling you? Patricia?

___: I actually yesterday decided to go home early to get ready to do the laundry so I could come. And our board chair, who's delightful, called and said, "You know the agenda for our annual meeting in two weeks? I'd like it changed." So I relate to the board change. But I also had a call from a corporation who said, "We'd like to consider funding, and let's talk about intellectual property rights and how that might work on a consortium grant."

PROFESSOR LEONARD: And that was a call from, I'm sorry, who?

___: A corporation, a pharmaceutical company: "We might consider funding you, and let's talk about intellectual property and how that might look with your different partners."

PROFESSOR LEONARD: Very interesting. A corporation who might be a funder, but it sounds like they want to talk about being a partner. Very nice general word, "partner." Covers a multitude of possibilities, shall we say? Steve, who else?

___: Well, a staff member, a country director who is based somewhere in the world, and he's calling me because there's a crisis.

PROFESSOR LEONARD: So the staff has got a problem that they can't quite handle. And they're calling you. So the staff member calls and they say, "Boss, we've got this problem. It's a really hard problem. We need someone with your wisdom. We can't handle it. We need someone with your experience, your wise capacity." This is called "upward delegation." And you notice that, if you accept delegation, there's an endless supply of these things that the staff can't quite manage.

And of course, it's very difficult if the staff comes to you and says, "We can't handle this. We need someone with a little bit more gravitas, a little bit more experience." It's very difficult for you to say, "No, you don't." Because secretly you think, "They're right. I really am pretty terrific. I really have gotten on top of these problems. I can understand why they need someone like me." So that's a natural ongoing dynamic in the organization. So one set of calls is that work is in effect flowing up toward you. Who else? Anybody else calling you? Ellen?

___: The media.

PROFESSOR LEONARD: The media. Oh! What do they want?

___: They want your opinion about everything from what's happening to, I don't know, a Hollywood star, to what's happening in the legislature.

PROFESSOR LEONARD: OK. So this is a nice call from the media, right? "What's your opinion?" Anybody ever get any other kind of calls from the media that are less fun than that one?

___: "Why did you do that?"

PROFESSOR LEONARD: "We understand that a staff member at your organization . . . Would you care to comment?" So either an opinion, or a crisis, or a problem. Who else? Susan?

___: A city councilor, or the vice mayor's office with a new project, wanting to round up some folks who are interested in participating in a new project that's yet undefined.

PROFESSOR LEONARD: An elected official is calling you and wants to do what?

___: Has a project in mind that she wants to do and is rounding up folks who might be really interested in helping her.

PROFESSOR LEONARD: An elected official: project idea; wants support for that project, and there might be something in it for you, for your organization.

___: No, never.

PROFESSOR LEONARD: If we play our cards right, we might be able to involve your organization in some positive way. Brian?

___: Legislative offices.

PROFESSOR LEONARD: And what do they want?

___: They want to know how a 5 percent across-the-board cut is going to affect my budget.

PROFESSOR LEONARD: OK, so there is a variety of political contenders out there who are calling to try to gain advantage to their side in an ongoing argument. OK, anybody else? What I notice about this map so far is that we've got—I would call this the "upstream group" in the sense that this is the direction from which you're getting a lot of advice about what you should be doing, and you're getting a lot of pressure to see it the way that they see it. And in some cases, you're also getting resources. Not all, but some of those upstream folks are actually giving you resources. Anybody else you're talking to? Elizabeth?

___: Other senior management, where they're asking for funding, or they want to brainstorm some ideas to either take to your board or take to some of those funders.

PROFESSOR LEONARD: Other senior management has a challenging problem and they want to collaborate with you in working out a solution to this, or working out something that they can collectively work on. Tim?

___: Peers in other organizations in the same sector looking for mentoring, looking for help; just general collaboration about how do you deal with whatever.

PROFESSOR LEONARD: So, peers in other organizations, which may be collaborators, could conceivably be competitors, but just other folks in the same business want to chat a little bit about what's going on. OK, anything else that comes at you that's urgent?

___: A call from one of the scientists . . . a couple of scientists: "I've got a new project I would like to move forward, but I want resources because what I'm getting from this project is insufficient. Can you help me?"

PROFESSOR LEONARD: OK, so we had a staff member with work; we had a staff member with a crisis; we have a staff member who needs resources. Do your organizations actually work with any people that you're trying to help? Are they represented here yet? Do you ever hear from them? François?

___: Yes. What about your clients?

PROFESSOR LEONARD: What about them? Do you hear from them very often?

___: From time to time, yes.

PROFESSOR LEONARD: Only from time to time. This is actually in part a serious question. Because part of what I want to explore with you over the course of the next couple of days is that there's an awful lot of heft and an awful lot of articulation, if you will, from the upstream side. Whereas, the downstream side, at least for many of your organizations, if I don't miss my bet, is not terribly well organized. It's a softer voice. You have to listen a little more carefully if you're actually going to hear that voice because it's not as organized. It doesn't have as well articulated a point of view, necessarily. Sometimes it does. So that's an important challenge for us. All right?

So let's divide this into a couple different groups. We've got direct beneficiaries. We've got co-producers; that is, people we are working with who are providing their labor or their effort. We're trying to help them but we're working with them. So it's not like we're giving something to them. We're working with them. So, co-producers. We've got indirect beneficiaries. So we can think of this, if you will, as the "downstream group."

So think of there as being a flow of resources to us and through us turned into services delivered into the world. One interesting challenge, it seems to me, one important leadership challenge is how we balance these different forces; these different voices that are coming after us that have kept us busy all day in this day we were going to work. Notice, my project isn't here. My project has been driven out by all of these other voices.

So how are we going to manage ourselves and our organizations in this kind of environment? I look at this environment, I see a very conflicted . . . people pulling you in different directions; lots of people with different points of view, all contesting over what you should do, how you should go about things, what it is you should focus on, what your priorities should be. And they all have, at some level, some degree of legitimacy, which is why they're all calls that you actually took on this day when you had other things that you were hoping to do instead.

What Do We Need to Make Progress?

So what do we need, from the perspective of leadership and from the perspective of systems in our organizations, to make progress in this kind of environment? That's one way of posing the question that this couple of days is going to focus on. Now I want to suggest at least three things that you need in order to make progress.

The first thing I want to suggest that you need is a really clear idea of what it was that you set out to do, because otherwise you're going to get lost. These voices are going to pull you off in lots of directions. Now that answer can change. What it is you set out to accomplish can change, but it shouldn't drift with the wind or just respond to whoever the latest caller was. You need a clear idea of what you're actually trying to accomplish.

The second thing you need is some kind of framework within which to organize strategically your understanding of the environment and the forces that are pulling on you, and try to figure out how to work with those to produce the outcomes that you were hoping for; deliver on the mission that you set for yourself in the answer to that first question. And then finally, you need a set of systems that help you to learn about and execute; guide the execution, if you will, of your plans for moving forward on that mission. That's the third piece.

At the Kennedy School, there is a quite oft-repeated quotation once used by our former dean Graham Allison. It was from Nietzsche. And the quotation is "The most common form of human stupidity is forgetting what we were trying to do." That's from Nietzsche. "The most common form of human stupidity is forgetting what we were trying to do." Think about that statement for just a second. I think that's actually a really useful observation from the perspective of leaders.

Because flip it around for a second. What does it suggest? It says that the most important thing we can do on a given day in our organization as a leader is to remind people of what it was that we set out to accomplish. Because if we get people focused on and remembering

that, they will make progress on it. And if we don't remind them of that, of what it was we were trying to accomplish, of what the ultimate objectives were, they're going to forget.

They're going to become—just as we were distracted by a whole bunch of phone calls, people pulling us in different directions—they're going to get focused on what they're doing in the sense of their activities, instead of what they're doing in the sense of what they're accomplishing. Because most of them can't really see what they're accomplishing. It's several layers away from them. So part of our challenge as leaders is to remind them of what it was we were trying to accomplish as an organization.

And then secondly, to give them a means of being able to see whether they're actually making any progress on that. And I want to submit to you that a good performance management system will do both of those things. It will give an image of what we're trying to accomplish, and it will keep that image regularly in front of people in the form of systems, in the form of questions that are regularly asked. Is this about making our work easier or is this about helping kids? That's a kind of question that focuses us on what we were trying to accomplish.

So first we need to define what it is we're trying to accomplish and to focus on that. So related to Nietzsche's quotation, we formulate something I like to call "Question Zero." Question Zero is so numbered because it is logically prior to all other questions that the organization has to ask. Question Zero is "What, exactly, are we trying to accomplish?"

I know that not everything that we do in the social sector is readily measurable. But I also know that, when I hear people say, "You can't measure what I do," that my instinct is to react, "Then you can't manage what you do." You've got to—a failure to be able to measure what we're doing is at least in part a failure to be specific enough about what it was we were trying to achieve. So asking people to be more specific about what success would look like, what we're trying to accomplish, is a first-order challenge in organizations. So start with Question Zero.

Now having started with that, if we've got a good idea of what the mission is, how do we manage in this atmosphere, where we've got all of these different legitimate constituencies—stakeholders, clients, funders, the media, the public; all these different legitimate stakeholders; people who care about what we do—pulling us in different directions? Well, what I would want to suggest is that it would be useful to start with a way of analyzing our environment in a reasonably strategic way.

Strategic Analysis Framework

So what I'm going to do is to share with you a strategic analysis tool that we've developed over the course of the last couple of decades, actually, at the Kennedy School and at the Business School, that helps public and nonprofit organizations, not by giving them a strategy but by helping them to walk through their questions, their terrain in a way that allows them to see what some of the strategic issues are. So this is a place not to end your strategic analysis but really to begin it.

And it consists of a simple framework. We ask three different questions and, depending on the answers to those questions, we wind up in different areas of the diagram that I'm about to show you. And living in different parts of that diagram feels very different. And it defines the work that we need to do in very different ways. So I want to take a few minutes and

outline that framework for you and suggest some ways in which that may help you to think about some of the broader challenges that you're framing in your organization.

What is being analyzed?

Now the first thing we need to specify is what it is exactly that we're analyzing. Now you can use this strategic framework or analysis tool to analyze a lot of different things. You can use it for organizational strategy. You can use it for personal strategy. So we need to be specific at any given moment: Which is it that we're looking at? The easiest way to describe it is to think about it in terms of individual projects or programs, an initiative that you have under way, or an initiative that you're contemplating.

Where would it be in my strategic place? That would be the question we would be trying to ask about it. So that the easiest way to think about it in terms of using it as a tool would be, first, the unit of analysis—what we're going to focus on. Let's define that as a project, program, or initiative; something reasonably specific and cohesive. Not your whole program all taken together, although you can also do that. But let's start with thinking of it as an individual program.

The organizational perspective

Second thing we need to specify in advance is the organizational perspective that is: Which organization is asking the questions that we're going then to try to answer? Is it the organization as a whole, or is it my office within the organization? Or is it me as an individual trying to figure out how I can act strategically within my organization, to try to change and improve outcomes—the usual organizational perspective? So it could be the agency as a whole, or organization; or it could be my office; some subset of the agency; or it could be me personally. And the answers to some of these questions might differ depending on which organizational perspective I took.

Now again, we can use this tool to look at things from any of these perspectives. And it may in fact be useful for us to both have a personal strategy and also to be helping the organization to have an organizational strategy. But at any given moment, we want to be sure we're analyzing only one of these at a time. So we need to make a decision. In general, as I discuss this with you, I'm going to assume that we're looking at a particular program and we're looking at it from the agency's perspective.

What I want to do then is to suggest three questions that we might ask about the program from the perspective of the agency. And that the answers that we give to these questions, we'll wind up, as I said before, in different parts of our strategic terrain with different work to do; sort of different things that we need to then move forward and accomplish. So what are these questions?

Capacity

The first question is: Thinking of this particular program and my agency as it currently exists, with its given resources and the people I have available, and so on, do we have the capacity to carry out this program without making any other changes? So the first question I'm going to ask is the capacity question. I'm going to illustrate that or capture that by drawing a circle. Things for which we do have the capacity are inside this circle, and something for which we didn't have capacity would be outside the circle, somewhere outside the circle.

Now as I do that analysis, it's not bad or good necessarily. Life is a little easier if I am working on a program for which I do have the capacity. But it's not necessarily bad to be working on something for which I don't have the capacity. It's different. It means that one of my strategic challenges to make this thing actually happen is going to be building or moving capacity, and those are not necessarily the same thing.

If I find something that I need to work on or want to work on, decide to work on that is outside the capacity circle, then one of my challenges over time is that I'm going to have to move where the capacity circle is, to cover whatever that project actually is. So it's not bad or good. It's not a value judgment. It's only a matter of strategic description.

So first question: Do we have the resources? And by resources I mean all the obvious things: time, space, people, skills, money, various forms of the obvious kinds of resources that we work with all the time. One other one that I want to draw attention to, though. One very important organizational resource is the organizational structure that would allow me to carry something out. That's a capacity.

And one other really important organizational resource is—well, put it this way: If I don't have the knowledge of how to do this thing, that's a capacity which I cannot necessarily buy. These other capacities: If somebody gave me enough money, I might be able to buy them. But the knowledge of how to do it—if we haven't yet figured out how to run a successful adult literacy program for homeless women over fifty, then having more money doesn't necessarily fix that.

I've still got an innovation problem. I've got to come up with an additional capacity, which is the knowledge of how to make a program like that actually work and how to make it sustainable. So by capacities, I mean all of these different things: the time, space, money, and skills, and knowledge, and organizational structure that would allow us to do it. So any given program is either going to be inside the capacity circle or outside. That's the first strategic question.

Support

Second strategic question: Does this program, as it is currently configured—if I were to launch it, or as I am currently carrying it on—does it enjoy the support of the people or organizations whose support is relevant to it? Now not everybody in the world cares. Not everybody in the world is paying attention. So there's some relevant group of people who regard this program one way or the other. And the question is, on balance, do they support the program as we're currently imagining it being undertaken?

If so, then the program exists somewhere inside the support circle. If not, the program is somewhere outside the support circle. Again, that's not a value judgment. It only defines your work. Over time, if you're going to sustain a program, get the resources that you need for it, be able to develop the capacities for it, you will eventually have to bring it within the support circle. So if it isn't now, then you're going to have to move support. You're going to have to build support for wherever that new program is.

Now these two questions—do we have the capacity as an organization and do we have support—define what I would call the Public Administration 101 view of nonprofit and public sector organizations. Public Administration 101 because, effectively, the idea of Public Administration 101 is: Your job as a senior administrator, or as a board member for one of these organizations, is to try to move capacity to where the world is asking you to go, to

where support is. Because support is reflecting what those relevant groups think are the useful things to do. So your job is simply to take whatever the capacities are and build capacities for whatever it is the world's asking you for.

Now that's a very interesting job description. Sometimes it's the right job description, by the way. What I want to suggest to you is actually a relatively easy job description, at least compared to the one we're going to build in this program. Because this job description is, in effect, "followership." You take other people's view of what it is that's worth doing and you, willy-nilly, try to make that happen. So, in other words, the image that this has for you is that you are a technician, that you are an administrator. That's why I call it the Public Administration 101 view.

You're an administrator. All you do is arrange for things to happen that other people have defined as being valuable in the world. Now sometimes this two-circle theory is enough. And for some of what you do, that ought to give you enough guidance about what you should accomplish.

But to this two-circle world we're going to add a third question and a third circle. Because what you notice so far is that there is no judgment, at least not by you, as to whether this is the right thing to do or not, as to whether the program is a program that in your view is worth doing.

Value

So to this we're going to add a third circle. The third circle is: Would this program, if operated, create public value in the world? This is what you ordinarily refer to as "your mission." Is this action—would this program actually advance your mission, understood as being "create the outcomes you're trying to create in the world"? That's the third question.

Now I want to be very clear about how I state that question. We can't tell, as a society, we don't have a mechanism for ruling absolutely on the question of whether something is valuable or not. We have only judgments about that. And, in particular, you have only judgments about that. So I want to be very clear about whose judgment it is I'm invoking when I draw this circle.

A better term for this—we want to elaborate it more completely—is to say, "This circle is your best professional estimate of public value; of whether this action, this program, would advance the mission of your organization as you've defined it." Why do I say "your best professional estimate"? Because you don't have anything else. You could take someone else's view, but that's what we're trying to put into this problem now, is your view. And there isn't any study that someone can do for you. It might be useful advice to have a study, a cost-benefit study of your programs. But in the end, you have to decide whether you think something is sufficiently valuable that you want to try to push the world in that direction.

Then notice what happens when we put this third circle up. First of all, you are in the problem for the first time, representing your best professional estimate of what's the most useful thing to do. You are not any longer a follower-administrator. But there's an opportunity here, actually there's a call here, for you to lead yourself, your organization, and the world toward that vision that you say is valuable. So you've become not only an element of this, but your judgment is an element. You've become not an administrator, but a leader and, in effect, a moral force. Because ultimately there are going to be value

judgments, moral judgments about what's good or not so good in the world; what's actually worth trying to accomplish.

This, I think, changes everything about how we think about what your strategic challenge is, because not necessarily everybody is going to share your view. And that's part of the point. Notice I've drawn these three circles as if they are at least partially overlapping but not completely coincident. Of course, we would like them to be well aligned. You would like that most of the things that you do would fall into all three of these circles.

And I've drawn them as if they were roughly the same size. That's not necessarily true either. How many of you feel like the capacity circle is too big on this diagram? That's one of our great struggles, right, is we have relatively limited capacities and bold aspirations. So we could draw it to scale. It makes it a little harder to look at the different pieces of it. So don't put too much stock in the way in which it's drawn here. You can draw your own version of this, which may be a grape, and a basketball, and a swimming pool—a very big area.

But the fundamental observation is that, when we put this third circle into the game, you are now being called upon to make a judgment. And, as I've drawn that circle as overlapping but not the same as support . . . And what that does, in effect, is to frame an argument. For some reason, the other people whose support is relevant believe that value for the world or value for them—because we don't know why they're supporting it—is over here somewhere; whereas, you think it's over here.

Leadership and strategic questions

So now therein lies the leadership question: How hard are you going to push to try to get them to share your view? How much are you going to say, "Well, let's go ahead with what they think because that's an easier thing to do today"? Those are the strategic questions for you individually and for your organization. So again, what the framework does is simply to lay out, program by program, where do I think my programs are in this space? And what I want to do is to explore this space with you and look at how the different elements of it feel and how they operate. And we'll take a few minutes to do that.

I'm going to frame two questions first because there are two questions that come up immediately as soon as we put you and your judgment into this framework. And I want you to think about those questions. We'll come back to them a little closer to the end and see if you have thoughts about them.

The first question that should come to your mind is, "OK, so I'm now supposed to have a professional estimate of what I think is valuable."

I submit to you that every one of you has such a judgment because every one of you every day is trying to exercise leadership to move your organization in the direction you think is the right direction. So the question is, where did you get that idea? On what basis, on what valid basis do you form your view of what is valuable to society? Because that's what this circle represents: your judgment about where value for society is being created.

Second question is: Given how confident you are that you're right and how strongly you feel, or whatever else are the relevant considerations, how aggressively should you push? How aggressive should you be about trying to advance your view relative to those other views, the other supporters of the program who are pushing in different directions?

OK, so that's a quick idea of what the framework is. What I want to do next is to look with you at these different parts and see how they're going to feel, different parts of it. And then we'll come back to these two questions. Let me stop here and see if you have questions or observations before we go ahead. Yes, Rajesh?

___: You talked about your best professional view about your program, creating the public value. The same is true of the other two circles.

PROFESSOR LEONARD: Yes, that's absolutely right. Thank you, yes, good observation. But what Rajesh is pointing out is these are all estimates. How do I know what the capacity is either?

___: I might think that a particular organizational structure is "I have." But it's quite possible that, given the task at hand, I really don't have it and I need to create one.

PROFESSOR LEONARD: Yes, that sounds like an observation borne of experience. Have you had the experience, any of you, where you sort of thought there was something you were going to be able to do, and you turned out to not quite be right about how big your capacity was? Many of us have had this challenge. So what Rajesh has observed is each one of these has a fuzzy boundary. So let me rephrase my comment in this way.

All of these are estimates. You can't be exactly sure what your capacity is. We're often not entirely sure: Are we going to get support for this? Are we going to be supported if we put this out there? We think so. We've talked to some of the people. They sort of said they liked it but you don't know until you try it. And sometimes there's more opposition than you thought. So on balance, is it going to be supported? That's something we're estimating.

I guess my statement would reduce to this: I think the boundary around public value is the fuzziness of these three. So I emphasize . . . I think this is the most difficult problem of estimation, the most arguable, the most difficult. I think capacity is probably the easiest but that doesn't mean it's easy. And what Rajesh has framed is what I will characterize as "the three great errors." Let me be even a little bit harder than that: The three potentially fatal great errors.

Associated with each of these circles, there is an analysis or a diagnosis problem. I have to figure out whether I have the capacity or not. I have to figure out whether I have the support or not. And I have to figure out whether something has value or not.

Three errors

So associated with each of these, the three great errors, would be with respect to value, with respect to capacity, or with respect to support.

And notice I can make each of the errors in either direction. I can think that I have capacity and discover that I don't. What happens then? What happens if I thought I had the capacity and I turned out not to? That's an error of *commission*, right? So what will happen? I won't deliver results. And what kind of a picture is that? Failure—often quite dramatic, often quite visible.

So the two types of error: I think I have it, but don't. This is an error of commission because what it'll mean is that I'm going to go ahead, and we will only find out after the fact

that I was wrong. So with respect to capacity, if you think you have it and you go ahead and you discover afterwards that you didn't, that can be really dramatic.

So, on the commission side, this tends to be visible. It tends to be potentially fatal, at least with respect to capacity and support. You thought you had support, and you put the program out there and you started it. And then there was this huge ruckus and you had to withdraw. Not a pretty picture. It doesn't necessarily mean it was a bad idea to do. But I'm just saying that that's a potentially dramatic error.

Contrast the other side because I think the other side is just as important. You could think that you didn't have the capacity and you could decide not to do it, and you'll never know you were wrong. It's not visible. It's the silent failure to lead where we could have gone. And value is left on the table, only you don't know.

That's just as much a problem. Our failure to be adequately bold, and to have high aspirations, and to be willing to take risks, that's what we're all about on behalf of the societies, right? We take risks to try to create value. So on this side, on the *omission* side, I think I don't and therefore I don't do the program. And here the results are invisible but there's potentially just as much value lost: invisible and silent. Whereas, the errors of commission tend to be visible, noisy, and potentially fatal.

So, notice, there's an asymmetry here in the incentives for you in terms of how bold to be. This is the social risk-taking sector. And yet the incentives are "Be careful. Be cautious. Don't let's do it until we're really sure we can do it."

This I think is a very important challenge of leadership. That's what I mean when I say, how aggressively do we want to push to go out and explore this terrain? That's a leadership question. That's a fundamental question about our posture, in effect, as social entrepreneurs, as discoverers of new ways to create value for society. That's ultimately, I think, what leadership in this sector is supposed to be about.

One way of thinking about the leadership challenge is to think of it in terms of moving each of these three circles. Because the purpose of this enterprise is not to treat those circles as if they were carved in stone on the board here but, rather, the purpose of leadership is to intervene and change this picture: to make it, over time, look different than it looks today.

The challenge of leadership

And associated with each of these three circles is a challenge of leadership. The challenge for capacity is what we might think of as administration. I have to organize, manage internally to my organization. I have to get the projects to operate. I have to execute. And I have to plan and organize and operate the enterprise. So if we think of what the leadership task or skills are with respect to capacity, the task is administration.

With respect to support, the task is advocacy. And the associated role for capacity is that I operate as an administrator. The role for support is I operate as an advocate. And I'm trying to change people's minds. I'm trying to get them to see my view rather than theirs.

And the third element, for value the associated issue is I have to be in the analysis business. I have to figure out what I think actually creates public value. So my roles, the associated roles, are administrator, advocate, and analyst. And most important leadership

jobs in the public sector and in the nonprofit sector are a blend of those three roles; that in order to be successful, you have to have a judicious blend of those three roles.

Now one of the things I want to suggest to you, actually, as a personal exercise while you're here, is for you to think about where your job is in that diagram—in the diagram that would have the three corresponding circles being the balance of administrator, advocate, and analyst. Where does your job really call for you to be? How much of each of those do you need?

And here's what I want to suggest to you that you do as sort of a personal audit. Most of us have a preferred task from among those three. Most of us are really good at one of these, pretty good at a second one, not quite as good at the third one—the Japanese say "not quite so excellent" at the third. So whichever one is your weak suit, we tend to see the world needing our strongest suit from us.

We call this the "speechmaker's dilemma." In crisis situations, if you turn to a group of people and ask, "What do you think we should do?" the speechmakers always want to write a good speech. Like what we really need here is a good speech. Now why would they think that? Because that's what they know how to do.

So we each tend to look at the world . . . and if we're a really good administrator, we think, "Well, gee, what this thing needs now is much better administration. I'm going to work on that first." So think about how you balance your work—your time, and your attention, and your focus—across these three different roles. Most leadership jobs will require a balance of all three of those.

Let me take one or two more questions. Then I want to move us back to looking at the different parts of this diagram. Kevin?

___: Would you say that the starting point should be value? I mean, you might have capacity, you might have support. But if there's no value, why bother doing it?

PROFESSOR LEONARD: That's a great transition, Kevin, thank you. Let's go and look at these different parts of the diagram.

The parts of the diagram

What I mean by different parts of the diagram is, let's suppose we have different programs, and we've done our analysis and they're scattered around in our existing three circles.

So let's start with this area. What's this?

___: "Just do it."

___: Sweet spot.

___: The ultimate location.

PROFESSOR LEONARD: "Just do it." I like that idea. So we'll just draw a little swoosh in here because this is the Business School and we're very careful about intellectual property. I'm going to put a little trademark symbol right there. So we're making a reference to this trademark symbol. So "just do it" because these are the programs for which . . . Do we

have the capacity? Yes. Does the world ask for it? Are they supporting it? Yes. And do we think it's valuable?

So what should we do? How much of your time do you want to spend on projects like that?

___: All the time.

PROFESSOR LEONARD: Wouldn't it be nice if you could spend all of your time? I hate to tell you guys this, but the world does not need people of your experience, IQ, and general acumen working on those problems. Those are the easy ones. These are the ones that your junior deputies can handle. The world needs you in these other areas.

Now in fairness, the way I've drawn this, this is a relatively small fraction of what your organization does. I believe that most reasonably well functioning organizations in this sector, a very high fraction of what they do is in this area. You don't get enough thanks for it. The world takes it for granted too often. But a real drawing of these would have the circles much more aligned and this area would be a very large area. Still, I think the important parts, the leadership parts, are going to be the other parts of this diagram. So those are the parts I want to come and look at with you.

What's this area?

___: Potential.

PROFESSOR LEONARD: OK, do we have the resources to do it?

___: Yes.

PROFESSOR LEONARD: And does the world want it?

___: Yes.

PROFESSOR LEONARD: They're supporting it. OK? Only what? According to whom is there no value?

___: Ourselves.

PROFESSOR LEONARD: According to your best professional judgment. So who the heck are you to tell us that we should . . . ? So what would you like to see happen with the stuff that's in that area?

There are a couple different things you can do with programs that are in this area. Our preference might be to have them go away because in our view they're not valuable. But one of the really important elements of leadership is humility. What we've drawn here is a picture of conflict in point of view. The world is saying they think this is worth doing. You're saying you don't think so.

So one really important question you ought to ask yourself is, "What makes me so sure about that? Am I really sure that the world has it wrong and I have it right, and that I therefore want to push the resources toward where I think value is?"

So what we notice is at least one of these two parties is wrong because they disagree. And humility calls upon us to recognize that the one who's wrong might be us; might be both of us but in particular it might be us. So I want to be careful to look at why it is that the world keeps saying that this stuff is valuable when I don't think it is. But if I do my analysis and I look at it hard and I decide. There are lots of reasons why.

Have any of you ever seen a program that had this character that you thought had capacity and support but you didn't think was valuable anymore? How did we come to have a program like that?

___: It had value at one time.

PROFESSOR LEONARD: At some earlier time, it was somebody's innovation. It made sense. Only what happened? The world moved, right? What it is that's valuable to do in the world changes over time. And so part of our organizational challenge is to track that. So, in other words, what I'm looking at is a legacy program, or I might be looking at a legacy program which was in the sweet spot. It was in the Nike zone before but it isn't anymore. OK, before it was in the zone in which we had capacity, value, and support. But now over time, what the world needed from us changed; only we didn't.

And so now we might prefer that we manage down the resources in this area and move them somewhere else. But we might also decide, you know that game is not worth the candle today. I don't want to take on that battle today. Maybe I want to have the discussion with the funder eventually but I don't want to open all these fronts at once. I've got to pick which battles I want to fight today. And so I'll make a decision. That's where strategy comes in.

This is only analysis so far. We're just trying to get a picture of what the different possibilities are and what the different elements of our work are. Then we can put together a strategy which is a coherent sequence of decisions about what we're going to do to try to improve this picture. OK? So I face a number of political and constituency management challenges, funder discussions, and other things if I'm going to get rid of this. I have to make a decision about whether that's the battle I want to fight or are there other battles instead. All we're doing at this point is trying to figure out where our programs are within this space, and from that we can then begin to devise a strategy.

I want to focus you on a couple of other elements of this. What would these projects be? Here I've got a project that is in the value circle so I believe it has value and it's in the support circle, only we don't have the capacity yet. And alternatively, I've got projects over here that have value and for which I have capacity, only they don't have support. So let me ask the question in this form. Suppose I start with an idea that's right here. All we have at this point is value. It's a dream in my eye, in your eye. You think this would be a valuable thing to do, only you don't have the capacity to do it at this point, and you're the only one who thinks so. What are you going to do first? Are you going to try to move support first, or are you going to try to move capacity first? Support? I'm hearing both answers.

So one way of characterizing this is then to say this area we could call "I have a dream." You, as the Lone Ranger, so far, have this dream. And Howard's instinct is, first share the dream, build the support. Because this area . . . If we move support, then we'll wind up in this area where we have a dream, where we can dream together and we can figure out how to proceed. Now why is that an attractive second place to be?

Think about this area for a second. Who is it that goes here? Think about where this is. I've gone out, I've got a vision and I've shared the vision, and I've told people this is what we want to do. Only I don't have the capacity to do it yet. Now why is that an attractive place to be again? This is promises up front, right? What happens if I can't do it?

What's attractive about this location is that, if I can get support . . . if all I lack is capacity and I have support, I ought to be able to get the capacity, right? I could get people to come up with the resources. So if I've convinced them it's a good idea, I can get funding, and people, and space. And I don't know about you. I've had the experience where everybody said they supported it but I still didn't find it so easy to get all the capacity. But hold that thought for a second.

One idea is, if all we lack is capacity and we already have support, we ought to be able to move capacity relatively easily. So that, in effect what you're saying is, the job of moving the capacity circle in this direction ought to be relatively straightforward. Now that assumes something which is often true but not always. If the only resources you needed were money, skills that other people already had, then you could buy it. Or from the support, you could get that.

What if you didn't actually know how to do it? And what if not only you didn't know but nobody else knew either? Now how does that feel in terms of how risky it is to stand here and say, "I have a dream"? "Let's dream together about this thing that we're going to do, only we're not really entirely sure yet that we can do it."

Who does this for a living? Who takes that kind of position? Venture capitalists do that all the time. Who does it in the public sector? This is what politicians do for a living. This is political entrepreneurship. What do politicians do? They go out and they raise political capital by promising, ahead of the election, what they're going to do. Then they get into office and they turn around and they say immediately, "How in the world are we going to do this? Is somebody here to help us?" And so they turn to the permanent government, the civil service, and they say, "Please help us make this happen."

So in terms of risk, I know a lot of politicians who feel that's a pretty risky thing to do. That's what they do for a living. They seem to love that form of risk taking. Venture capitalists—same thing. They're entrepreneurs in the sense that first you dream and then you see if you can build it. So this is one strategy for innovation: You start with the idea, share the idea, and see if you can build it. And if it's a straightforward idea, that should be relatively easy. But if it's something we're not entirely sure how to do, that's actually a fairly risky thing to do.

So it's not whether it's risky. It's which risk you're running. Here you are running the reputational risk. They said they were going to do this and they couldn't. Want to hire them again? Want to back their next venture? And that's the sense in which Mary said you do have something in the game. You have your reputation in the game. And if you're unable to deliver on this one, you're not going to get funded for your next one. Talk to venture capitalists about how often they want to fund somebody who just failed.

A second possible way of innovating. What's this area? You could call this area the "field of dreams." Build it and they will come. So the idea here is, I have a dream and what I'm going to do is build the capacity first. What would that mean you would actually do? What

would you call that? A pilot, a little experimental program. Not a lot of fanfare, not a lot of publicity about the fact that we're trying this. But when we get it done, if it works, we're going to use that as a way to convince people.

So this is the slow and steady: Try it first, see if it works. It's a different kind of risk. There are still risks involved. It's a different kind of risk. This tends to be—not always, but often—civil servants have a preference for this kind of risk taking. I want to try it out first. I want to make sure it works.

If it doesn't work, by the way, no one is ever going to know we even thought it. OK, it's going to disappear without a trace. No fingerprints, no audit report, nothing. Just totally gone from the face of the earth. And the reason for that is they want to try it out ahead of time. And the reason is, if it doesn't work—if we promise it and we can't deliver it and it doesn't work, they're going to be the ones who are still there, still trying to make it happen, under pressure from people who are feeling like it was promised and it's not being delivered.

So different people, different kinds of leaders, different kinds of employees within the organization have very different ideas of what form of innovation they'd most like to see, what kind of leadership they're most willing to follow; whether they want to do the "promise it and try to see if we can make it; let's go boldly forth and see if we can do this," or whether they want to experiment a little, see if we can get it working and then show people.

We have a major project, a research project here, originally funded by the Ford Foundation, on innovations, in which we ask people to self-nominate various kinds of innovations. And we then, through a process of looking at them, select ten national and now international winners every year. An intriguing feature of this is that we see both kinds of projects winning. Sometimes it's something that started as a pilot, a very quiet little program. And then when it worked, it was used as a way to demonstrate that the concept worked. Other times you see programs in which a very bold statement was made and a lot of pressure then was on the organization to make it happen.

Another characterization of this "we have a dream space" is first you dig the hole, and then you hope that somebody's going to bring girders, and this is how you build a building. First you dig the hole. Then you hope that somebody's going to have some plans and a way to put it together to actually build it. Alternatively, you build it and experiment with it first and you use that as a way of persuading people that it actually works. And that strategy relies on the notion of . . . In the United States, there's a state called Missouri that has a motto that's associated with this. The motto is, "I'm from Missouri. You have to show me." It's called the "Show Me State."

I always thought this was an odd thing to say about yourself. Why would you have to be shown? Why couldn't you learn in other ways? It's actually on their license plate. And so people in Missouri are actually pretty proud of this. And what it means is, "We're practical. We believe in things that we see in the world." And that's actually not always a bad test of whether something is actually going to work.

So we can think of these as two very different strategies for innovation. And if part of what performance is about is redefining what the performances are and creating innovations in organizations, we need to think about which of these strategies we actually want to operate.

So a way of thinking then about this framework is, we can look across different kinds of programs that we have, and see, in effect, where they are within this space, or new programs that we're thinking about.

And we can decide, "Well, how many of these do we want to try to take on at a given time? And how many of these programs, where we have capacity and support but we don't think they're creating value, how many of those are we going to try to manage down this year and transfer those resources to some more valuable place? That's one way of thinking about what strategy formulation would actually be about.

That's a very useful way to think about the leadership challenge here is then to say, "As an analytic matter, I want to look at how my different programs are scattered across this space. How many of them do I think are in the 'just-do-it' area, the area where I've got all three of these things lined up? How many of them do I think are pushing the boundaries a little bit of value, of capacity, or of support? I want to work on a portfolio of actions. What would the intent be?" Well again, I want you to think of this set of circles not as three circles carved in stone, but this is one frame of a movie.

The Dynamic Challenge

And so the question is, "What do I want the next frame to look like?" This is one frame. What should the next frame of this movie look like? I'm going to act this year. I'm going to undertake my leadership. I'm going to try this program. I'm going to try to cut that program. I'm going to have a discussion with funders. I'm going to try to get funding for some new program. I'm going to try to get rid of some programs that I've got that I think are no longer creating value.

I'm going to talk to people about changing. I've got a strategy, a series of actions that we're going to take. What am I trying to achieve with that strategy? Well, in this picture what I'm trying to achieve is that I want three things to happen between this year and next year to change this picture. I want greater alignment. So what are those three things?

I want to move my capacities toward where value is. I want to reframe my organization so that there's greater alignment between the things that we're able to do and what I think is worth doing in the world. So I want to move capacity toward value.

The second thing I want to do is I want to move support toward value. I want the people who are paying attention to what we're doing and who care about what my organization is about, I want them to understand that value has moved and here's where it is now. And I want them to come and join me in providing resources to do things where the real value is today.

The third piece is a little more complicated because this says, "I want to move capacity toward value. I want to move support toward value." What do I want to do with value? Well, let me turn that question around for a second. What's the easiest way to expand the center part of this diagram? What's the easiest way to expand this zone, here in the center of the diagram? In your experience, how hard is it to move capacity? Is that easy or hard? It tends to be pretty hard, right? You have to move people, you have to retrain them—new skills. Moving capacity is hard.

How about support? How hard is that? It depends. You guys look like pretty good advocates to me. So support may be a little easier to move than capacity. But still often tough

sledding because there are other people out there who are pulling hard to keep support where it is, or move it in a different direction. So moving capacity and moving support are kind of difficult.

How hard is it to move your best professional estimate of what's good in the world? How hard is it to move your best professional estimate? That would be easy, right? So, look, all you have to do to make this area get bigger is just shift your view of public value right on down. We have a technical term for this as a strategy. We call this "selling out," OK? Because what did you just do? What you just did was you substituted their view of what was valuable for yours. In other words, you gave up. You started following rather than leading.

Well, that illustrates the challenge. So your problem with respect to leadership between now and next year is to move capacity toward where you think value is, move support toward where you think value is. And the third element is to get a better, more reliable judgment of what value actually is. Which things in the world actually create value? So, in other words—this is back to your observation at the beginning—all of these are estimates. But the value one is the one that's the fuzziest, the one that's the hardest to estimate.

So what you want to do is to try to get a more reliable fix on, "Am I actually sure these programs are creating value?" And then I want to move aggressively to push capacity in that direction and to push support in that direction. So that would be a way of thinking about where your strategic challenge is and how you're trying to manage your portfolio of projects.

And the way I would think of it is, what is a strategy, anyway? Ultimately, a strategy is a series of—we hope—coherent actions that are designed to create a better alignment in your strategic space so that the capacities that you have available to you are better matched to what's really valuable to do.

And the support that you have is cheering you on to produce those important values in the world. And, in other words, a larger fraction of your work is right in the middle of this diagram, which is the part that's the easiest and probably the most fun to operate in. So that's a way to think about the combination of the individual analysis, the portfolio analysis, and, in effect, the strategy analysis: how to build a strategy as a series of coherent actions that are designed to transform this picture.

How the Framework is Useful

So how do you use that? Well, I've had two different kinds of answers to that from people who have sat before where you're sitting now—people who have looked at this and tried to apply this strategic framework. They say two different things about how it's useful to them. The first thing they say is it's really useful for thinking about what your portfolio is, whether your strategy is coherent, whether it makes sense, and for figuring out what it is that you think you want to do.

They say a second thing about this structure, which is that it's really useful as a communication device. If you sit down and say to people, "Look, here's the problem with this project. The problem is we have too many projects in this zone and that's stretching us out, so we can't take on another project in this part of the diagram. We need some more projects that look more like this." It's a way of discussing what your different projects are. Sometimes that will expose different points of view within your organization about whether people think something has value, think it has support, or whatever. But often what it does

is to help people to understand the mix of different efforts that we need to make that's going to make this more coherent next year.

Now again, my observation. One way to think about my task of leadership is to pick a set of actions that are going to create more value, better outcomes in the world. That's the way I think about what I'm trying to do. Then I would like to create a greater alignment between these three features of my work. And I began today by saying to you that I thought this sector was the most important, had the most important challenges, the least resources, and the least strong structures for guaranteeing high performance. And this is what I meant.

Where are the forces for alignment in this sector? Where are the forces that will help you to get capacity centered on value, to get support centered on value, and to define better what value is? That's not what you get. What you get is an environment, the environment that you described to me on the top board. You get an environment in which a bunch of very important people in your life are telling you different things on the same day about what it's important to do.

In other words, you get a highly conflicted, confused environment within which to try to figure out: What is value? How do I move capacity there? How do I build support for it? So that's the sense in which I think this sector has the structurally weakest opportunities or guarantees for producing high performance. And the only answer I know to that is sitting in this room. It's the people who are prepared to work that problem; to exercise that leadership; to define what they think is value; to have that argument with other people in their organization and in the whole array of organizations and individuals around them; to move support; to generate support for what they care about; to administer and produce that capacity and to define value.

So if I took those as the challenges, then our question over the next couple of days is: What could we do to build systems within the organization that would help people in the organization and outside it to understand what we were saying about what was valuable, to check on whether what we were doing was valuable, and to help us persuade people that it was valuable and to get it done? Now notice, that just touched on all three of these: Check on whether it's valuable, convince other people that it was valuable—that is, move support—and guide our execution of our programs to help us get it done.

If we could build performance systems that could do those three things, we would have reinvented fire. Thank you for being here. We're delighted to have you with us.