



# The Commonwealth Fund Performance Scorecard

*Executive Vice President—COO's Report*  
**2006 ANNUAL REPORT**



## MISSION STATEMENT

The Commonwealth Fund, among the first private foundations started by a woman philanthropist—Anna M. Harkness—was established in 1918 with the broad charge to enhance the common good.

The mission of The Commonwealth Fund is to promote a high performing health care system that achieves better access, improved quality, and greater efficiency, particularly for society's most vulnerable, including low-income people, the uninsured, minority Americans, young children, and elderly adults.

The Fund carries out this mandate by supporting independent research on health care issues and making grants to improve health care practice and policy. An international program in health policy is designed to stimulate innovative policies and practices in the United States and other industrialized countries.

About the cover: The Commonwealth Fund's Board of Directors holds an annual retreat to consider external reviews of major programs, hear from expert panels on current health care issues, assess the foundation's overall performance, and deliberate long-term program strategy. Directors, including Jane Henney, M.D., senior vice president and provost for health affairs at the University of Cincinnati Medical Center, and Ben Chu, M.D., (foreground), regional president for Southern California of Kaiser Foundation Health Plan and Hospitals, carefully examine the Fund's grantmaking experience, operating practices, and performance scorecard for lessons useful in shaping the foundation's future work.



John E. Craig, Jr.

Executive Vice President—COO's Report

## The Commonwealth Fund Performance Scorecard

JOHN E. CRAIG, JR.

*The Commonwealth Fund*

Beginning with Tom Peters and Robert Waterman's *In Search of Excellence* in 1982, a large literature exists on businesses that have achieved iconic stature through high performance.<sup>1</sup> Numerous management experts have devoted careers to explaining why some businesses achieve long records of excellence on measures ranging from profits and return to shareholders, to innovation, to employee empowerment and satisfaction. The task of identifying high performing businesses is simplified by the fact that there is a bottom line: the market sorts out with sometimes startling speed those that are excelling and those that are resting on their laurels.

In the nonprofit sector, assessing organizational performance is more challenging. Financial success is but one measure of institutional success, and achievement toward nonfinancial, mission-related goals is both more important and more difficult to quantify. In some segments of the nonprofit sector—higher education, for example—methodologies for assessing performance have been developed and are accorded considerable attention, even if the metrics and the uses to which they are put are not universally applauded.<sup>2</sup>

Performance measurement of nonprofits may still be in its formative stages, but prominent management consultants like Jim Collins are nonetheless mapping out principles and approaches that show promise.<sup>3</sup> As observed by the late John Sawhill, in addition to financial metrics, every nonprofit organization needs performance metrics to measure its success in mobilizing resources, its staff's effectiveness, and progress in fulfilling its mission. "[G]iven the diversity of the organizations in the nonprofit sector," Sawhill cautioned, "no single measure of success and no generic set of indicators will work for all of them." He maintained, however, that "with creativity and perseverance, nonprofit organizations can measure their success in achieving their mission—by defining the mission to make it quantifiable, by investing in research to show that specific methods work, or by developing concrete micro-level goals that imply success on a larger scale."<sup>4</sup>

The health care sector has been a laggard in developing performance measures and using them to improve the quality, safety, accessibility, efficiency, and equity of care. Recent progress on a variety of fronts suggests, though, that in a matter of years providers, payers, regulators, and consumers will have

access to reliable performance measures for individual hospitals, health plans, nursing homes, and, ultimately, for physician groups and even individual physicians.<sup>5</sup> The Commonwealth Fund and other private foundations are contributing significantly to the development of individual measures and to testing their use along with incentivized payments to improve performance. The recently released National Scorecard on U.S. Health System Performance is itself an indicator of the progress made in this field; as a tool that enables the assessment and monitoring of a system encompassing 16 percent of the U.S. economy, the Scorecard is a product of years of research and testing by dozens of organizations.<sup>6</sup>

## **SCORING THE PERFORMANCE OF PRIVATE FOUNDATIONS**

Assessing and comparing performance in private foundations is far more challenging than in other nonprofits. As noted by the Center for Effective Philanthropy's executive director, Phil Buchanan: "There is no universal measure of return for foundations. Some foundations fund efforts to promote literacy, and others fund efforts to promote peace and security. The impact of these efforts cannot possibly be measured in equivalent units."<sup>7</sup> For individual foundations, the challenge of performance measurement is hardly less difficult. First, the social objectives of most private foundations are broad and almost never easily quantifiable. Second, even when foundations are working toward quantifiable social improvements—for example, a reduction in the number of people lacking health insurance and access to health care—

the size of the problem, the number of other players and forces at work, and the time required to achieve effect nearly always make performance attribution for any single institution impossible.

Yet the need for an overall performance assessment tool for private foundations is particularly acute. There are a number of reasons:

- The absence of market and electoral tests, the lack of continuing and widespread media scrutiny, the severe limitations of public regulation even with regard to preventing abuses, and the private and privileged nature of these institutions leave them peculiarly vulnerable to underperformance.
- The boards of private foundations require some form of institutional assessment if they are to fulfill their fiduciary responsibilities and justify the contribution of their time.
- As a result of abuses by some private foundations in recent years, the sector as a whole has come under heightened scrutiny by the Senate Finance Committee and state regulators—making it even more important that private foundations demonstrate they are worthy of the tax incentives available to them.
- In the absence of other measures, minimization of intramural expenses—loosely labeled as “administrative”—may become the “default universal measure of performance.”<sup>8</sup> Yet, certainly for value-added foundations, intramural expenses on program development, research, and communication of results may be a defining difference between being “great” or just “good.”



- Lack of appropriately constructed performance assessment tools can discourage the risk-taking that should be characteristic of foundations, given their unique privileges.
- Unexposed to market and other external forces, foundations especially need to be “learning organizations” if they are to be high performers, and much of that learning can be achieved by devising and implementing measures for assessing institutional performance.<sup>9</sup>

Foundations are therefore well advised—whatever their mission—to assemble a set of indicators that, taken together, are suggestive of an answer to the larger question of “how effective are we?”<sup>10</sup> Fortunately, the “balanced scorecard” framework developed by Harvard management professor Robert S. Kaplan and consultant David P. Norton in the mid-1990s enables organizations to clarify their goals and strategy, measure performance, and use feedback mechanisms to improve performance.<sup>11</sup> Now used by a wide range of corporations, public agencies, nonprofits, and a small group of foundations, the balanced scorecard was adopted by The Commonwealth Fund during the year as a means of ensuring continued high performance.

#### **DEVELOPMENT AND IMPLEMENTATION OF THE FUND’S PERFORMANCE SCORECARD**

In their April 2005 review of the Fund’s institutional growth and development over the preceding five years, management and board members agreed that while the Fund already had in place a variety of performance measures, a scorecard comprising a

comprehensive set of measures would help frame the foundation’s mission and strategy. Members agreed such an instrument could serve the institution well in the following respects: by further clarifying strategies and improving their articulation within the foundation; by providing performance feedback more regularly and more efficiently; by identifying any significant measurement gaps; by highlighting any weaknesses in operations and institutional capacities; and through the use of “stretch targets,” by ensuring the foundation’s continued creativity and vitality. Recognizing that the scorecard could be helpful in tracking the impact of shifts in the foundation’s focus (such as the recent launch of the Commission on a High Performance Health System), the Fund’s directors argued the measures should be dynamic, changing as the Fund’s priorities changed.

In keeping with the Kaplan-Norton framework, the Fund’s scorecard (Figure 1) measures the foundation’s performance from four perspectives: finances, customers (the Fund’s audience), internal business processes, and organizational learning and growth capacities. Central to the development of the performance scorecard are the following statements of the Fund’s overall goal and its strategic objectives in each of these areas.

- **Fund Overall Goal:** To be a leading U.S. foundation helping to move the U.S. toward a high performance health care system that achieves better access, improved quality, and greater efficiency, particularly for society’s most vulnerable, including low-income people, minority Americans, young children, and elderly adults.

- Financial Strategic Objective: To maintain a stable (inflation-adjusted) endowment for advancing the Fund's mission and carrying out its value-added approach to grantmaking.
- Audience Strategic Objective: To be regarded by health care policymakers, influential health care leaders, researchers, and the major media as a reliable, unbiased, and useful source of information on health policy debates and an effective change agent for improving health system performance.
- Internal Processes Strategic Objective: To generate and communicate efficiently and innovatively new, timely, useful, and unique information for informing health policy debates and promoting a high performance health system.
- Organizational Capacities for Learning and Growth Strategic Objective: Under the oversight of a highly accountable board of directors, to recruit, retain, motivate, and empower professional staff uniquely qualified for adding value to the work of grantees and communicating results of the Fund's work to influential audiences.

The Fund's scorecard has a mix of outcome and "performance-driver" measures for each of the four perspectives. Outcome measures tend to be lagging indicators focused on the strategy's ultimate objectives and whether efforts are leading cumulatively to desirable results. Performance-driver measures are leading indicators that signal the extent to which the foundation has in place strategies and systems to achieve objectives over the long-term.

In selecting the initial 22 measures shown in Figure 1, due heed was paid to the advice of users of existing scorecards as well as consultants. In their view, the metrics should be:

- objective and unbiased;
- statistically reliable, with small margin of error;
- unobtrusive, and not disruptive of work or trust;
- inexpensive to collect;
- qualitative as well as quantitative in nature;
- robust, measuring the things that count most heavily in the foundation's performance;
- quantifiable, lending themselves to aggregation, calculation, and comparison;
- efficient, as a group enabling the drawing of many conclusions out of a small data set;
- comprehensive, addressing all the significant features of the foundation;
- discriminating, with the result that small changes in them are meaningful; and
- impervious to gaming by management or staff.<sup>12</sup>

For each measure we specified long-range goals and, whenever feasible, identified benchmark comparisons. When possible and appropriate, goals are based in considerable part on peer benchmarks. The proposed goals are geared to ensure that the Fund will at least sustain its current level of performance, and have a strong probability of exceeding it.

While Fund operations already routinely generated data for 10 of the performance scorecard

Figure 1. Commonwealth Fund Performance Scorecard

Fund Overall Objective: *To be a leading U.S. foundation helping to move the U.S. toward a health care system that achieves better access, improved quality, and greater efficiency, with particular focus on the most vulnerable due to income, race/ethnicity, health, or age.*

STRATEGIC OBJECTIVES	STRATEGIC PERFORMANCE MEASURES	
	Core Outcomes (Lagging)	Performance-Drivers (Leading)
<b>Financial</b>		
<i>To maintain a stable (inflation-adjusted), endowment for advancing the Fund's mission, and carrying out its value-added approach to grantmaking.</i>	<p>Constant real value of the endowment in 1980 dollars</p> <p>Extramural/intramural/administration spending allocation vs. 60%/32%/8% guideline</p>	<p>Endowment return compared with market benchmark over 1-, 3-, 5-year, and longer periods</p> <p>Spending rate vs. 5.5% target</p> <p>Percent of appropriations matched with cofunding vs. goal of 25%</p>
<b>Audience</b>		
<i>To be regarded by health care policymakers, influential health care leaders, researchers, and the major media as a reliable, unbiased, and useful source of information on health policy debates and an effective change agent for improving health system performance.</i>	<p>Percent of audience rating Fund effective/extremely effective in reaching change agents vs. goal of 90% and ratings for peer organizations</p> <p>Percent of audience rating Fund effective/extremely effective in improving health care access, quality, and efficiency vs. goal of 75% and ratings for peer organizations</p>	<p>Percent of audience rating Fund good/excellent as a source of credible, reliable, timely, and unique information on health care policy and health care service delivery issues vs. goal of 90%</p> <p>Percent of audience rating information on Fund's Web site very/extremely useful to their work vs. goal of 85% and ratings for competing Web sites</p> <p>Percent of audience rating Fund's major media visibility high/very high vs. goal of 50% and ratings for peer organizations</p> <p>Continually growing Fund audience as measured by Web site sessions and page views</p>
<b>Internal Processes</b>		
<i>To generate and communicate efficiently and innovatively new, timely, useful, and unique information for informing health policy debates and promoting a high performance health system.</i>	<p>Percent of completed Board-level grants meeting or exceeding expectations vs. goal of 80%</p> <p>Percent of grantees saying Fund staff contributes strongly to projects' design, execution, and communications of results vs. target of 75%</p> <p>Continuously growing communications output: annual Fund publications and Web content, journal articles, news releases, congressional testimony</p>	<p>Percent of Board-level projects completed within 12 months of original schedule vs. goal of 70%</p> <p>Average number of working days from manuscript acceptance to publication vs. goal of 60</p> <p>At least four institution-stretching new product developments annually</p>
<b>Organizational Capacities for Learning and Growth</b>		
<i>Under oversight of a highly accountable board, to recruit, retain, motivate, and empower professional staff uniquely qualified for adding value to work of grantees and communicating results of Fund's work to influential audiences.</i>	<p>Staff job satisfaction rating, vs. goal of 75% and compared to staffs of peer foundations</p> <p>% key employee turnover, with 3-year rolling target of &lt;12%</p>	<p>Board member accountability and service satisfaction level—vs. goal of 90%</p> <p>Staff satisfaction with resources to do their job, vs. goal of 85%</p> <p>Staff satisfaction with opportunities for learning and growth, vs. goal of 75%</p>

metrics, and new internal tracking systems exist for another three measures, confidential audience, grantee, and staff surveys are necessary for the production of the remaining nine metrics on a regular basis. The 2002 Harris Interactive Commonwealth Fund Grantee Survey and the 2003 Harris Interactive Commonwealth Fund Audience Survey, along with the 2005 Center for Effective Philanthropy Foundation Staff Survey, provided baseline data for most of these measures. To generate 2006 data for all of the measures not generated internally, we commissioned Mathew Greenwald Associates, Inc., to survey Fund audiences and grantees confidentially in January 2006 and the Center for Effective Philanthropy to survey Fund staff confidentially again in February 2006.<sup>13</sup>

#### **THE FUND'S PERFORMANCE SCORECARD**

A “dashboard” view of how the Fund is measuring up on each of the four perspectives (finances, customers, internal business processes, and organizational learning and growth capacities) is presented in Figures 2 through 5.

#### **FINANCIAL METRICS (FIGURE 2)**

The Fund has been successful in maintaining the purchasing power of its endowment: in constant 1980 dollars, the fiscal year average value of the endowment rose from \$135 million in 1980 to \$275 million in 2006, thus restoring a significant portion of the purchasing power lost in the 1970s period of stagflation. This was achieved by realizing strong returns on the Fund's endowment and by spending at a rate to ensure sustained endowment purchasing power. The investment return objective is to

outperform the weighted market benchmark over extended periods and to avoid substantial underperformance in one- to three-year periods. For the one-, three-, five-, seven-, and 10-year periods ending June 30, 2006, the endowment outperformed its market benchmark, and almost did so for the 25-year period.

To ensure the foundation's perpetuity, spending as a percentage of the average value of the endowment should not exceed 5.5 percent over any five-year period.<sup>14</sup> With a substantial budget reduction in the 2003–04 fiscal year (in response to the 2000–03 bear stock market) and essentially flat budgets since, and with unexpectedly strong returns in the 2004 and 2005 calendar years, the Fund's five-year average spending rate is now below the target. To avoid any problems in meeting the long-term IRS spending requirement, the Fund accordingly increased its budget by 5.6 percent in 2006–07, and, given a favorable market environment, plans further increases for coming years.

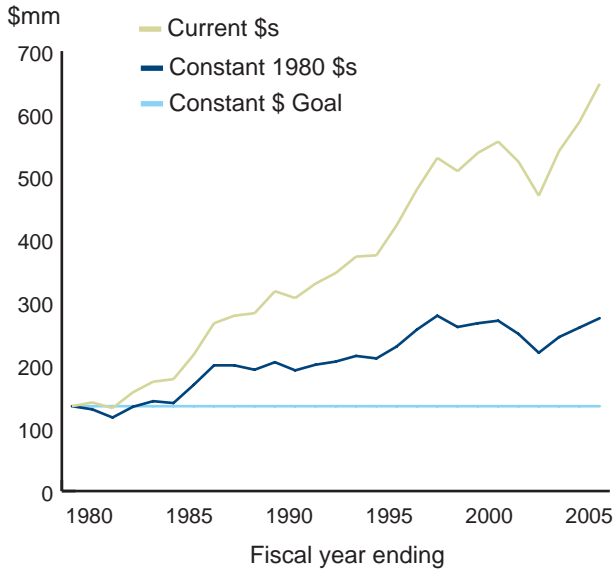
The Fund helps secure the necessary resources for pursuing ambitious program goals by leveraging its resources. The foundation is exceeding its goal of having at least 25 percent of grant appropriations matched with cofunding by other organizations. In addition to seeking funding partners, the foundation aims to develop working partnerships with a wide variety of organizations (currently more than 175) able to augment its capacities and help disseminate the results of its work.

As a value-added foundation, the Fund must devote considerable resources intramurally to research, program development, and communications—representing, as with any other information-

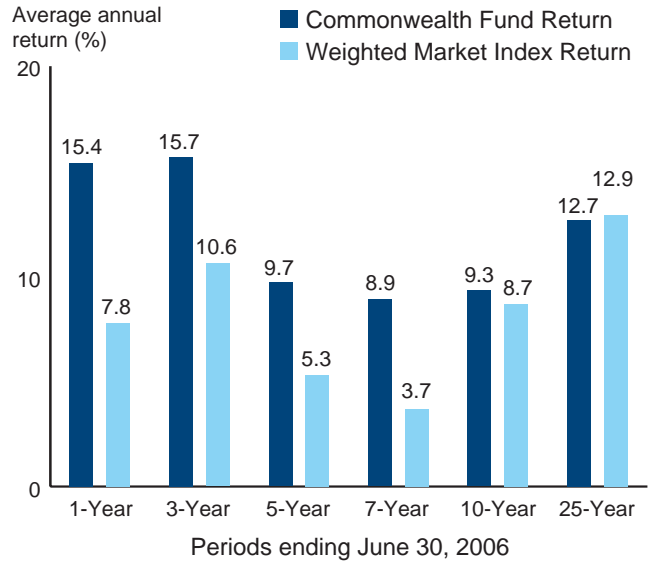


Figure 2. Selected Commonwealth Fund Scorecard Metrics: Financial

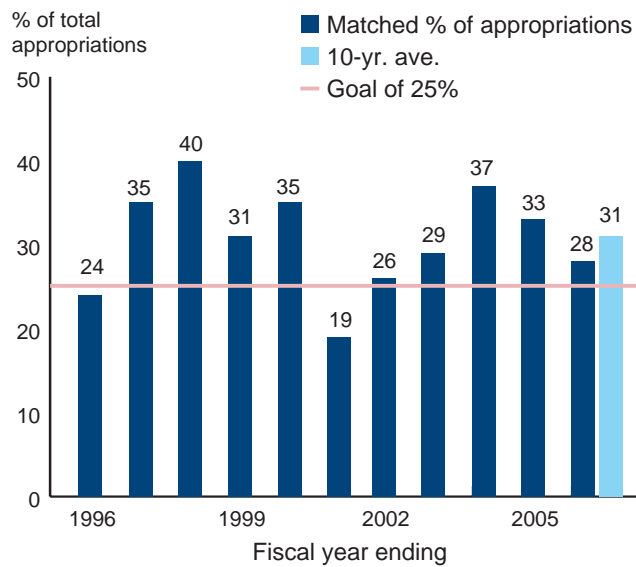
Maintaining the purchasing power of The Commonwealth Fund's endowment, 1980-2006



Achieving strong returns on the Fund's endowment



Leveraging the Fund's resources



generating business, production costs that are central to achieving a strong product line and being able to market it effectively. At the same time, ensuring effective balance between extramural grants and intramural research, program development, and communications is a key ingredient to long-term financial stability and to pursuing strategic objectives effectively. In 2003, the Board of Directors established a guideline that at least 60 percent of the Fund's spending should be in extramural grants—a useful marker for resource allocation decisions. Even in a tight overall budgetary environment, it has been possible to adhere to the ceilings on the intramural spending share of 32 percent and administrative spending share of 8 percent.

#### AUDIENCE METRICS (FIGURE 3)

Effectively reaching change agents (health policymakers, professional and health industry leaders, leading researchers, and key journalists), and thereby improving health care access, quality, and efficiency, is the aim of the Fund's work. The 2006 audience survey revealed that, with a 93 percent effectiveness rating, the foundation compares well with peer institutions in reaching policymakers and health care leaders, particularly given its comparatively small size.<sup>15</sup> Significantly, the Fund's audience rates the foundation higher on this metric than it did in 2003. At 75 percent, the audience effectiveness rating for the Fund's success in promoting improvements in health care access, quality, and efficiency is also very strong—again, especially given the foundation's small size and the numerous, powerful stakeholders populating this large sector—and is on a par with ratings for peer institutions with similar missions.

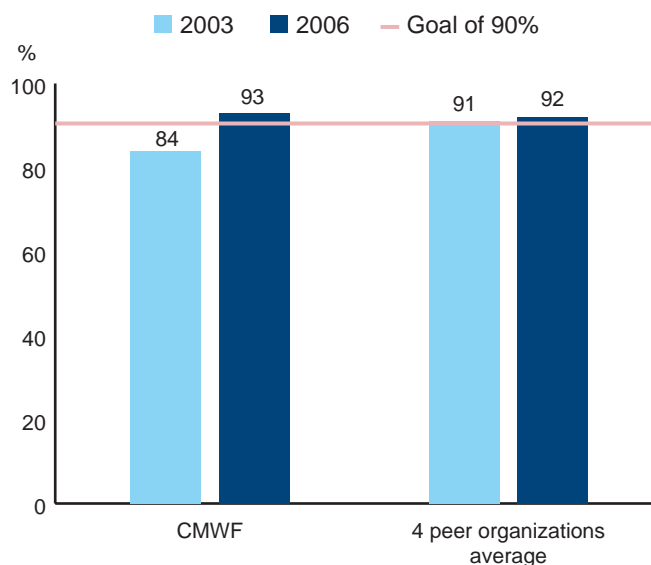
The core of the Fund's strategy for reaching influential audiences and bringing about improvements lies in providing credible, reliable, timely, and unique information meeting customers' needs. Audience surveys show that the foundation's work is highly regarded on all these dimensions, being accorded a 97 percent approval rating most recently. Following the 2003 Board review of the Fund's communications activities, the foundation set making the most of the Fund's Web site to communicate results of produced work as a major strategic objective. The Fund has regularly upgraded its site to address audience needs better, and it ranks highly in a very competitive market: the audience approval rating rose from 80 percent in 2003 to 92 percent in 2006, and within an audience that extensively overlaps those of peer institutions, the Fund's Web site is now rated comparatively more useful by customers.

Traffic on the Fund's Web site is a reliable measure of the foundation's progress in expanding its audience, and the Fund's statistics on annual site visits and page views reveal pronounced and continuing growth (e.g., from 1.3 million sessions in 2003 to approximately 3 million in 2006).

Achieving substantial major media visibility is part of the Fund's strategy for reaching influential audiences.<sup>16</sup> By its own audience's assessment, the foundation still lags peer institutions with more media-oriented strategies, but the Fund is achieving greater attention. Major media mentions rose from 31 in 2003, to 43 in 2004, and to 54 in 2005. As the work of the Fund's Commission on a High Performance Health System unfolds through such innovations as the National Scorecard on U.S. Health System Performance, the Fund will seek a higher profile in major media outlets.

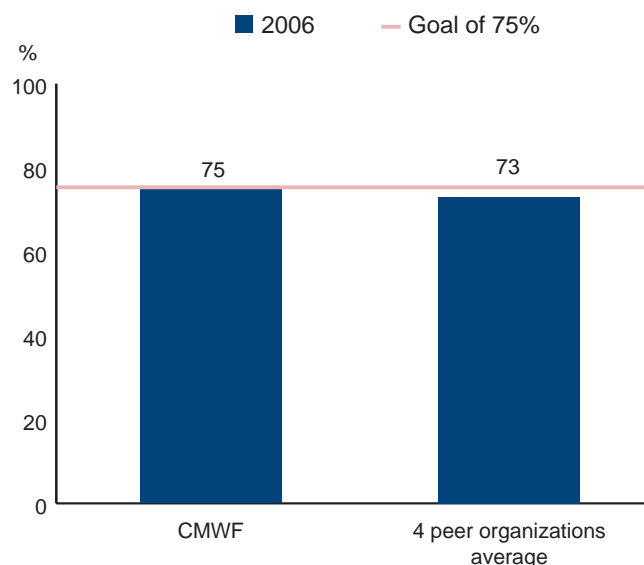
**Figure 3. Selected Commonwealth Fund Scorecard Metrics: Audiences**

**Reaching change agents effectively: audience views**



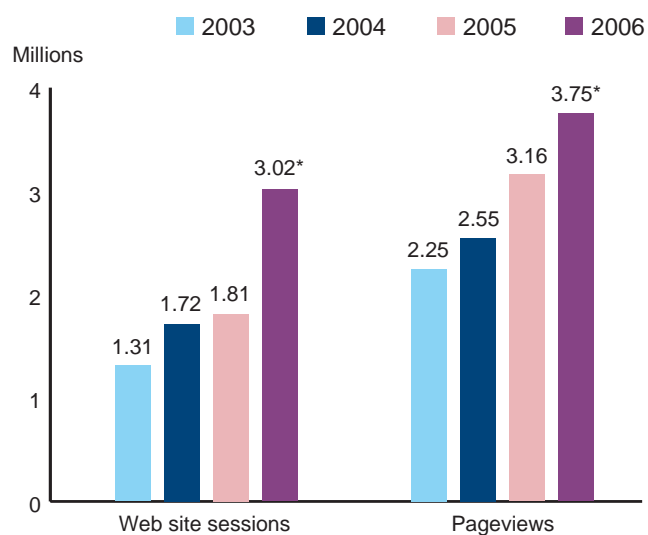
% Fund audience saying institution “effective”-“extremely effective” in reaching change agents: 2003 Harris Interactive & 2006 Mathew Greenwald CF Audience Surveys

**Improving health care access, quality, and efficiency: audience views**



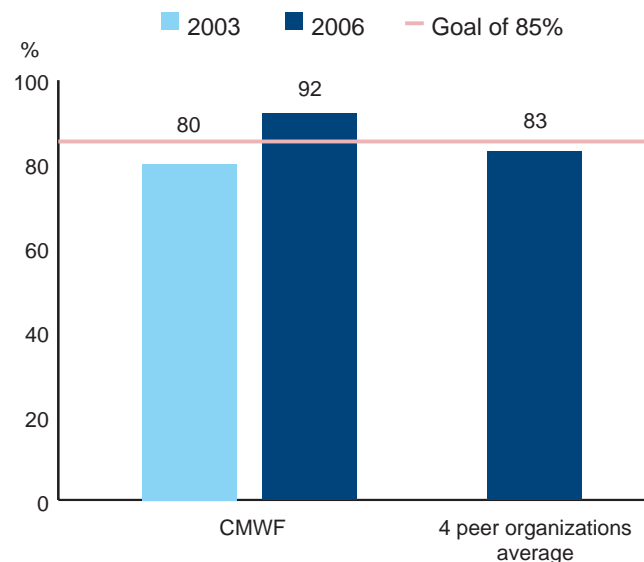
% Fund audience saying institution “effective”-“extremely effective” in improving health care access, quality and efficiency: 2003 Harris Interactive & 2006 Mathew Greenwald CF Audience Surveys

**Expanding the Fund’s Audience**



\*Estimated

**Making the most of websites to communicate results of produced work: audience assessments**



% Fund audience saying institution’s Web site “useful”-“extremely useful” to their work: 2003 Harris Interactive & 2006 Mathew Greenwald CF Audience Surveys

#### INTERNAL PROCESS METRICS (FIGURE 4)

Effective grantmaking is key to producing the product line of unique and timely information that enables the foundation to stimulate efforts toward a high performance health system. Maintaining a high quality grants portfolio—selecting able grantees capable of carrying out complicated and often risky projects—is therefore the sine qua non for the foundation's strategy. Annual reviews of completed Board-level grants demonstrate the Fund's strong and consistent record of generating successful grants portfolios: cumulatively, 85 percent of Board-level projects have met or exceeded expectations, compared with the goal of 80 percent.<sup>17</sup>

Staff's function of adding value to the work of grantees is expected to have large payoffs, especially in ensuring effective project design and communication of results. Confidential surveys of grantees in 2002 and 2006 show that the Fund's staff is achieving its value-added function; with a significant boost in professional staff resources in the early 2000s and with these individuals' growing adeptness at the art of grantmaking, this should continue to be the case. Of recently surveyed grantees, 86 percent described Fund staff contributions to their work as "useful" to "extremely useful."

Almost as important as selecting able grantees and assisting them in producing high quality work accessible to policy audiences is ensuring timely completion of commissioned work. Fund program officers and grants management staff work with grantees to achieve ambitious schedules for project deliverables, but given the number of contingencies that can impinge on the execution of projects

(e.g., data availability, Institutional Review Board approvals, the pace of study and control group enrollments, government cooperation, and unanticipated methodological hurdles), delays often occur. The project on-time completion metric indicates a need for continuing staff vigilance regarding the progress of many projects.

Effecting timely publication of the results of Fund-supported work involves working partnerships between grantees and Fund program and communications staff. As the volume of publications has increased, the Fund has implemented improved systems for setting priorities and organizing resources to achieve timely publication of commissioned papers and other research. As a result, there has been progress in reducing the time between acceptance of articles by the Fund's publications review committee and their posting on the Web site.

The Fund's strategy of harvesting the results of grants and intramural research to ensure a strong flow of accessible information for change agents sets it apart from most other foundations, which more often leave dissemination of results to their grantees. The Fund's communications product line has greatly expanded with the introduction of the Quality Improvement and Efficiency program and with the continuous upgrading of the foundation's Web site—rising from 215 products in 2003 to 515 in 2006.

As already noted, the absence of the market, political, constituency, and media reality tests to which most other organizations are subject make private foundations particularly susceptible to losing momentum and strategic direction. Therefore, using strategic new initiatives to "stretch" the institution

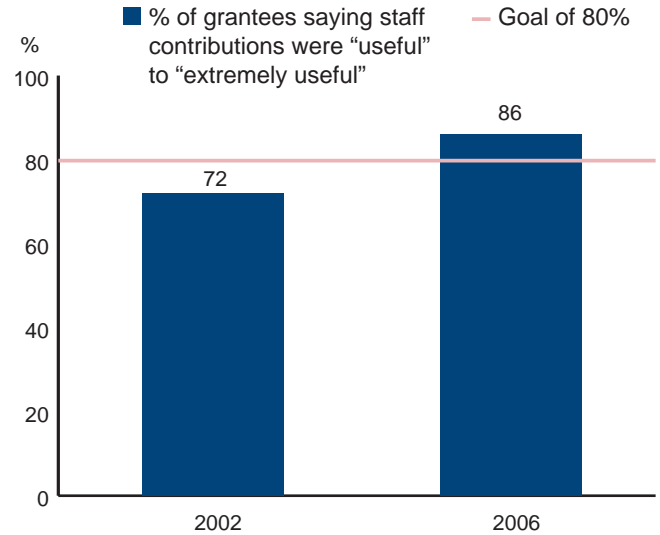
Figure 4. Selected Commonwealth Fund Scorecard Metrics: Internal Processes

**Maintaining a high quality grants portfolio: selecting capable grantees and assuring successful projects**



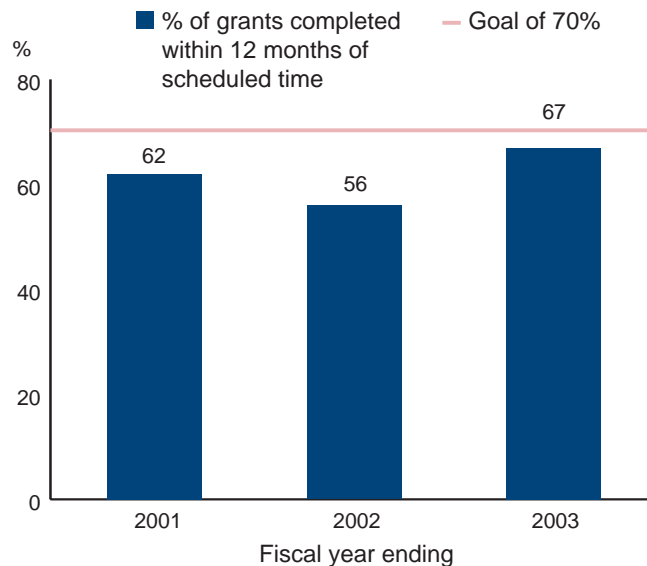
Annual Completed Grants Reports to the Board of Directors

**Adding value to the work of Fund grantees**

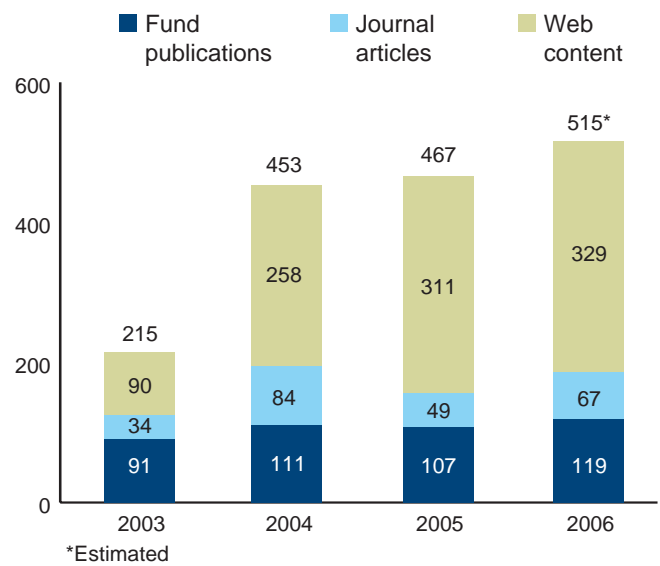


2002 Harris Interactive Survey of Fund Grantees and 2006 Mathew Greenwald Audience and Grantee Survey

**Assuring timely completion of high quality commissioned work**



**Harvesting the results of Fund grants and research to assure a strong flow of accessible information for change agents**





and maintain continued vitality is even more important than in business, government, and other nonprofits.

The Fund's goal of effecting at least four institution-stretching product developments annually spurs the foundation to take on even more ambitious goals and strategies and make investments for accomplishing them. Stretch initiatives for 2005–06 were as follows: development of the "Medicare Extra" option for a comprehensive Medicare benefit;<sup>18</sup> expansion of the Harkness Fellows in Health Care Policy program to Germany; partnership with the Netherlands to extend the International Health Policy Survey to that country; redesign of the Fund Web site and initiation of E-Forums on it; and establishment of a strong voice on the implications of the policy trend toward relying on health savings accounts to control health care costs.

Initiatives completed or under way for 2006–07 include the following: publication of the National Scorecard on U.S. Health System Performance; enrichment of the Frail Elders program to further promote culture change and resident-centered care in nursing homes; partnership with *Modern Healthcare* magazine on the Fund's Health Care Opinion Leaders Survey; introduction of a congressional health care legislative policy watch (analysis and modeling of the leading health care bills in Congress); partnership with the Bosch Foundation in the funding of German Harkness Fellows in Health Policy; and development of the Chart Cart feature on the Fund's Web site, which will eventually make available, at no charge, virtually all data produced by the Fund and its grantees, and in a format designed to speed the translation of research into policy action.

#### ORGANIZATIONAL CAPACITIES FOR LEARNING AND GROWTH (FIGURE 5)

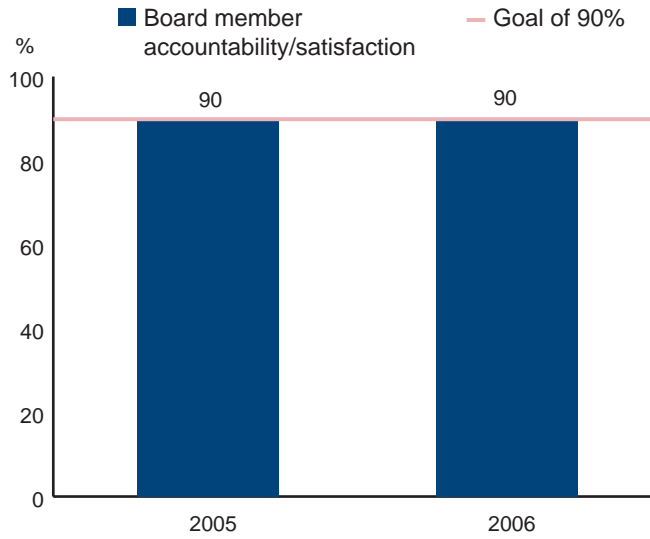
Along with their endowments, the most important assets of value-added private foundations are their human resources, and making the most of these resources is central to high performance.

In an era of intensified focus on the performance of corporate boards, increased attention is also being given to the boards of nonprofit organizations. The startling conclusion of one group of experts is that "only the most uncommon of nonprofit boards functions as it should by harnessing the collective efforts of accomplished individuals to advance the institution's mission and long-term welfare."<sup>19</sup> With the 2002 enactment of the Sarbanes-Oxley regulations respecting corporate governance, numerous foundations, including the Fund, have taken steps to ensure that their governance practices are up-to-date, and that Board members are positioned individually and as a group for using their talents and experience to add value to the foundation's work. A confidential annual development survey provides feedback on the Board's own judgment of its effectiveness, and the discussion of its findings creates a productive forum for addressing issues and discussing ways to continually improve the institution's governance.

Foundations are enviably positioned for providing staff with the resources needed to do their jobs well, and the Fund's aim is to provide sufficient grant funds to meet program objectives, as well as the information technology and other resources needed for high productivity. The 2005 and 2006 confidential staff surveys conducted by the Center for Effective Philanthropy demonstrated high overall

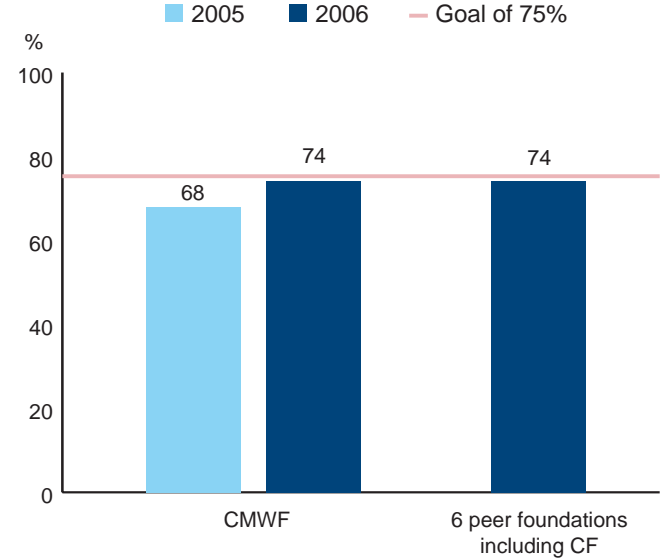
**Figure 5. Selected Commonwealth Fund Scorecard Metrics: Organizational Capacities for Learning and Growth**

**Assuring effective board governance**



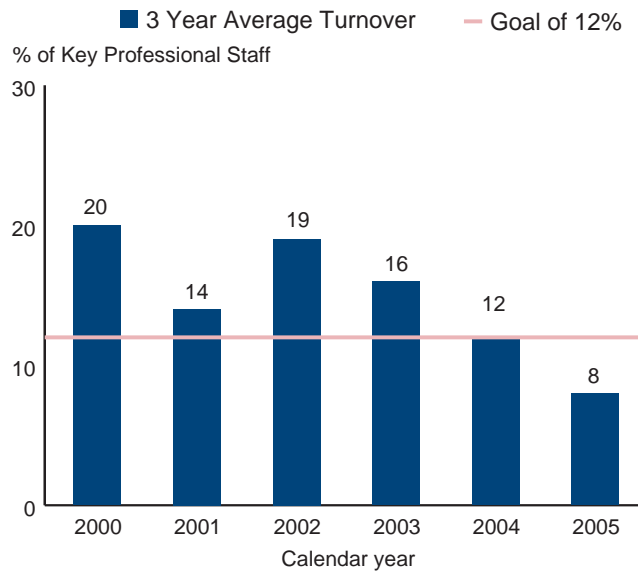
Average Board member accountability and service satisfaction - scale of 0-100%

**Achieving staff job satisfaction: staff views**



Average job satisfaction rating by foundation staff, scale of 0%-100%: Center for Effective Philanthropy 2005 and 2006 Foundation Staff Surveys

**Retaining key professional staff who enable the Fund to carry out its value-added style of grantmaking**



staff satisfaction with resources. However, it also revealed the need for continuing attention to the foundation's information technology services—particularly given the pace of technological improvements and the establishment of a Washington office.<sup>20</sup>

The Fund regards providing staff with opportunities for learning and growth as a means of enhancing recruitment, job satisfaction, retention, and the knowledge and skills base of its staff. The Fund's staff tuition assistance program, internal training courses, and on-the-job growth experiences help account for the strong marks staff accord this metric.

Achieving staff job satisfaction is key to retaining highly qualified and productive staff. The 2006 Center for Effective Philanthropy confidential staff survey revealed overall job satisfaction to be reasonably high and equivalent to that at peer foundations. Gratifyingly, efforts to improve job satisfaction over the past year seem to be paying off and will continue.

As stated by management consultant Jim Collins, perhaps the defining characteristic of great nonprofits is hiring the right people, holding on to them, and enabling them to achieve the superior performance of which they are capable. Thus, a central concern of The Commonwealth Fund is retaining key professional staff, so that the institution can continue to excel at its value-added style of grantmaking. Operating in a highly competitive national labor market, from a high cost New York City base, the Fund seeks to contain average three-year annual turnover among professional staff to 12 percent or less. In recent years, the foundation has met that objective.

## **TOWARD GREATER USE OF PERFORMANCE SCORECARDS BY PRIVATE FOUNDATIONS**

The Commonwealth Fund's Performance Scorecard is designed to help the Board achieve a reliable assessment of the foundation's overall effectiveness and spot weaknesses and opportunities to be addressed. It will be updated annually and revised as necessary, with particular attention to the need for new metrics in response to the foundation's evolving priorities and the emergence of new issues.

Surveys by the Center for Effective Philanthropy of a substantial group of private foundations reveal that the two top areas where foundation trustees seek more involvement in their foundation's activities are 1) assessing the foundation's social impact, and 2) assessing the foundation's overall performance.<sup>21</sup> Development of performance scorecards by a small group of foundations, including The Commonwealth Fund, along with the work of the Center for Effective Philanthropy, Grantmakers for Effective Organizations, and a few other organizations, indicates the potential of this and complementary approaches for meeting not only the needs of trustees, but also those of regulators, legislators, and the media.<sup>22</sup> Certainly, looking at a multifaceted set of performance indicators is preferable to the all-too-prevalent focus on poorly defined and often inappropriate measures of performance.

The challenge of developing a performance scorecard will vary greatly from one foundation to another, as will the appropriate features of any single scorecard. But it is difficult to imagine a situation, especially for mid-size to large foundations, where one is not feasible and where the institution and its stakeholders would not benefit from the process and findings.

## NOTES

- <sup>1</sup> J. Kirby, "Toward a Theory of High Performance," *Harvard Business Review*, July-August 2005.
- <sup>2</sup> *U.S. News and World Report*, <http://www.usnews.com>.
- <sup>3</sup> J. Collins, *Good to Great and the Social Sectors: Why Business Thinking Is Not the Answer*, Nov. 2005.
- <sup>4</sup> J. Sawhill and D. Williamson, "Measuring What Matters in Nonprofits," *The McKinsey Quarterly*, (2) May 2001.
- <sup>5</sup> R. Sorian, *Measuring, Reporting, and Rewarding Performance in Health Care* (New York: The Commonwealth Fund Commission on a High Performance Health System, Mar. 2006).
- <sup>6</sup> C. Schoen, K. Davis, S. K. H. How and S. C. Schoenbaum, "U.S. Health System Performance: A National Scorecard," *Health Affairs* Web Exclusive (Sept. 20, 2006):w457-w475.
- <sup>7</sup> P. Buchanan, *Higher Impact: Improving Foundation Performance*, Center for Effective Philanthropy conference proceedings report, 2005.
- <sup>8</sup> *Ibid.*
- <sup>9</sup> D. A. Garvin, "Building a Learning Organization," *Harvard Business Review*, July 1, 1993.
- <sup>10</sup> Buchanan, *Higher Impact*, 2005.
- <sup>11</sup> R. S. Kaplan and D. P. Norton, *The Balanced Scorecard* (Boston: Harvard Business School Press, 1996).
- <sup>12</sup> The Balanced Scorecard Institute, *Designing Metrics*, <http://www.balancedscorecard.org>.
- <sup>13</sup> The confidential Mathew Greenwald 2006 Commonwealth Fund Audience and Grantee Survey had 2,654 respondents, 123 of whom were Fund grantees. The overall Fund audience response rate was 15 percent, and that for grantees, 29 percent. Survey experts regard such rates as high, and acceptable, for this type of survey, and the experience with the survey validates that it can be done regularly and inexpensively. The staff survey response rate was 88 percent. The cost of these surveys was quite low, as a result of using online survey technologies.
- <sup>14</sup> The Internal Revenue Service requires distributing, on average, five percent of the endowment annually for charitable purposes. Since the IRS calculation does not permit including investment costs and federal taxes, the effective required annual payout rate is 5 percent plus the investment costs/taxes expense ratio on the endowment.
- <sup>15</sup> Peer organizations surveyed were as follows: *Health Affairs*, the Institute of Medicine, the Robert Wood Johnson Foundation, and the Henry J. Kaiser Family Foundation.
- <sup>16</sup> "Major media mentions" are those in the *New York Times*, *Washington Post*, *Wall Street Journal*, *Boston Globe*, and *Los Angeles Times*.
- <sup>17</sup> John E. Craig, Jr., "Foundation Performance Measurement: A Tool for Institutional Learning and Improvement," *The Commonwealth Fund 2005 Annual Report* (New York: The Commonwealth Fund, Jan. 2006).
- <sup>18</sup> K. Davis, M. Moon, B. S. Cooper, and C. Schoen, "Medicare Extra: A Comprehensive Benefit Option for Medicare Beneficiaries," *Health Affairs* Web Exclusive (Oct. 4, 2005):w5-442-w5-454.
- <sup>19</sup> B. E. Taylor et al., "The New Work of the Nonprofit Board," *Harvard Business Review*, Sept.-Oct. 1996.
- <sup>20</sup> The Center for Effective Philanthropy's 2005 staff survey included six foundations; that for 2006 covered only Commonwealth Fund staff.
- <sup>21</sup> P. Buchanan et al., *Beyond Compliance: The Trustee Viewpoint on Effective Foundation Governance*, The Center for Effective Philanthropy, 2005.
- <sup>22</sup> <http://www.geofunders.org>.



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