HOW PRIVATE, PUBLIC, AND NONPROFIT LEADERS CAN AMPLIFY THEIR IMPACT BY ADOPTING CROSS-SECTOR TOOLS

Tracy Palandjian

Back in 1999, I joined the consulting firm Parthenon, where I eventually built and led its nonprofit practice. Like a lot of consultants serving charities, nongovernmental organizations, and philanthropies, I came to the work thinking that these organizations could benefit greatly from the rigor of the private sector, and that the continuums of best practice generally flowed in one direction.

But after co-founding an organization in 2010, an impact finance and advisory nonprofit called Social Finance that builds innovative partnerships and investments to measurably improve lives, my perspective shifted. The more we collaborated with investors, service providers, governments, and others, the more I saw that everyone brought something unique and vital to the work—points of view and practices that not only oriented us toward a single goal but also better equipped each of us to achieve it.

Now, as we face some of the most daunting economic and social challenges of our time, normalizing this kind of synergistic collaboration is more important than ever before because no one sector alone can address the problems before us. We need to come together, across sectors, across disciplines, across political lines, to learn from one another and rebuild and strengthen our communities.

It all starts at the top. Leaders in the private, public, and nonprofit sectors have their own north stars, so to speak, but by expanding their vision to incorporate their peers' guiding lights, they can unlock new levels of impact and lay the groundwork for transformative cross-sector collaboration.

Private Sector Leaders: Embrace Community, Empathy, and Service-Mindedness

Many would agree that unbridled capitalism is at the root of many of the economic and social problems that we face today. Income inequality, wealth inequality, racial inequality, climate change—an almost unrelenting pursuit of shareholder value has, at the very least, exacerbated these and other issues. The pandemic has only exposed these fissures more sharply.

However, corporations can no longer afford to operate solely with shareholder value in mind. The numbers tell us as much. Seventy percent of U.S. consumers expect businesses to take real action on environmental and economic issues, and 60% want the private companies they engage with to take stands on issues such as racial discrimination and social justice, according to research from Certus Insights, Markstein, and The Corporate Social Mind. And younger consumers, specifically millennials and Generation Z, are willing to wield their considerable spending power to encourage these behaviors.

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The pressure is coming from investors as well. Callan found that an estimated 42% of investors are using environmental, social, and corporate governance (ESG) frameworks to inform their investments. And the majority of institutional investment leaders, including those at top firms like BlackRock, Vanguard, and State Street, have prioritized ESG-driven approaches, per a survey from *Harvard Business Review*. At the same time, impact investing, once a fringe zone of the investment landscape, has grown to encompass $715 billion in assets under management.

To meet the current moment and meaningfully contribute to society, private sector leaders can adopt a few of the qualities that have helped their peers in government and the nonprofit sector achieve success: community, empathy, and service-mindedness.

Stakeholder capitalism, which has recently experienced mainstream resurgence, provides a paradigm for embracing these qualities in an authentic way. This approach encourages businesses to prioritize all the stakeholders involved in value creation—customers, employees, partners, and the communities where they operate, for example—in addition to shareholders, and was the modus operandi here in the U.S. before the 20th century economist Milton Friedman advised CEOs in 1970 to put profit above all else.

By reorienting around stakeholder capitalism, private sector leaders can help generate value for all. It's been done post-Friedman.

Unilever is probably the most prominent example. The consumer goods company practically pioneered modern corporate social responsibility under former CEO Paul Polman, who launched the Unilever Sustainable Living Plan in 2010 to help move the needle on large-scale social and economic issues such as business inclusivity, environmental sustainability, and community nutrition. Polman also served on the United Nations panel that created the global Sustainable Development Goals and was among the first business leaders to put their weight behind the Paris Agreement on climate change. And all of this work unfolded as Unilever strengthened its standing in the market through new brand acquisitions.

In July 2020, Polman's successor, Alan Jope, shared some of the final results of the Sustainable Living Plan: 100% adoption of renewable grid electricity, a 65% reduction in manufacturing greenhouse gas emissions, and $1.1 billion in corporate savings.

Public Sector Leaders: Adopt Market-Based Approaches that Work

Government is our most powerful lever for achieving social impact at scale. From the New Deal to the American Rescue Plan, policymakers have long crafted legislation designed to address intractable social problems and improve lives by the tens of millions.

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But resource allocation has always been a problem. Despite vast funding pools and massive distribution networks, local, state, and federal administrations have long struggled to efficiently and purposefully put taxpayer dollars into programs that generate positive social outcomes.

Jim Nussle, former director of the Office of Management and Budget (OMB) under President George W. Bush, Peter Orszag, former OMB director under President Barack Obama, and more than a dozen other past government officials articulated this inefficiency in the book, *Moneyball for Government*. Here, the authors calculated that less than $1 of every $100 of government funding goes to evidence-based programs.

Against the backdrop of the pandemic and the extended recovery and rebuilding processes that are already unfolding, public sector leaders can address this resource allocation challenge by looking to their peers in the private sector.

From strategic partnerships to data-driven decision-making frameworks, there are many market-based tools that can help administrations and agencies realign incentives, manage risk, and create evidence-based programming that measurably benefits constituents and delivers on the promise of government. We've seen this work over and over again at Social Finance—public leaders borrowing private sector solutions to achieve outcomes, such as improved lives, rather than outputs, like program enrollment numbers.

Back in 2017, for example, we helped form a partnership between the Commonwealth of Massachusetts, the workforce development provider Jewish Vocational Service, and more than 40 impact investors, to launch a program meant to help immigrants, refugees, and other limited English speakers in Boston access language and job training, and advance up the economic ladder.

This strategic alliance helped Massachusetts gain access to $12.4 million in impact investor capital, which it agreed to repay if the program met predetermined outcome goals as measured by an independent evaluator tracking participant earnings and other outcomes metrics through randomized control trial. The commonwealth also got the opportunity to collaborate with a proven service provider and leverage robust, multiyear active performance management resources from our team.

Approximately 1800 people from six geographies in Greater Boston, representing 90-plus countries of origin and speaking 60-plus native languages, enrolled in the program. And the initial results for one of the program's four instructional tracks, gathered through a randomized control trial where one group received JVS services and another, the control group, did not, were encouraging. The data, released in November 2020, showed that people who received JVS services earned $3505 more annually than those in the control group. (See Figure 1). Overall, 90% of participants finished the program and JVS placed 70% of these folks into new jobs with higher salaries.

Ultimately, this innovative, data-driven, outcomes-based partnership helped Massachusetts more effectively fulfill its economic and social responsibilities

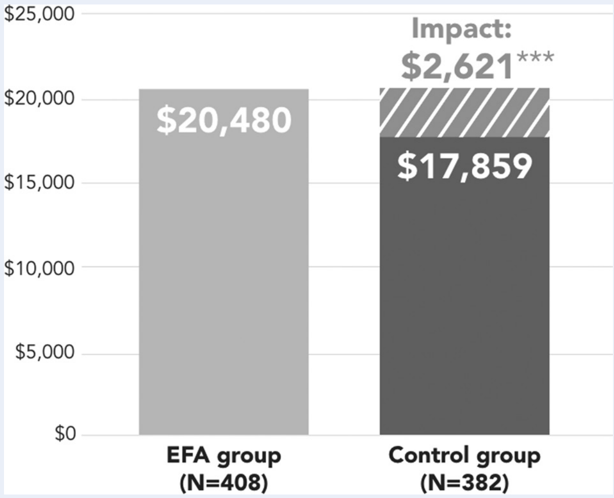

FIGURE 1. AVERAGE ANNUAL EARNINGS DURING THE SECOND YEAR AFTER RANDOM ASSIGNMENT. NOTE: FIGURES ARE FOR ALL STUDY PARTICIPANTS, INCLUDING THOSE WITH ZERO EARNINGS DURING THE PERIOD. STATISTICAL SIGNIFICANCE LEVEL: ***P < 0.001
SOURCE: ECONOMIC MOBILITY CORPORATION

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to its constituents, an outcome that might have never unfolded without mixing the public and private through strategic collaboration.

Nonprofit Leaders: Explore New Revenue Models to Scale

The nonprofit sector appears robust from the bird's-eye view. The Urban Institute counted more than 1.5 million nonprofits nationwide offering a wide range of essential services, often to folks who historically and currently face barriers to accessing seemingly basic resources, from early childhood education to job training. This translates to roughly 4.5 nonprofits for every 1000 U.S. residents, according to the National Council of Nonprofits. But this hopeful macro outlook masks a significant micro problem.

Although there are a lot of diverse players in the nonprofit space, very few have the resources needed to improve and expand their offerings. The Bridgespan Group found that just 10% of American nonprofits have annual revenues of more than $50 million, which experts consider the budgetary threshold for realizing organizational scale. In short, the vast majority of nonprofits are too small to meet the magnitude of our social challenges.

Leaders in the space are no doubt familiar with this criticism—it might seem cliche at this point. I know I delivered this assessment often while consulting nonprofits at Parthenon. But there's truth here.

Despite a lot of hard and meaningful work, most organizations in the sector remain undersized due

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to a dependence on year-to-year fundraising and government contracts and grants. More intentionality and planning are the solution, making it possible for nonprofits to build business models that support revenue diversification by generating earned income and tapping the capital markets.

Even in this unprecedented environment, nonprofit leaders can move forward with this work and put their organizations on a pathway to sustainability and expansion. But the tools for getting here lie not in the nonprofit space but in the private sector.

Nonprofits and others have been exploring the challenge of achieving transformative scale for some time. For instance, Bridgespan launched an initiative called Transformative Scale to help nonprofits grow and maximize their impact through uncommon approaches, including advocating for new public policies, building partnerships in their respective fields, and pursuing market-based strategies such as revenue diversification.

At Social Finance, we've collaborated with many different nonprofit organizations over the last decade, and the Center for Employment Opportunities (CEO) is among the select few organizations that have explored such strategies. The organization, which specializes in transitional workforce programming for people being released from prison, started as a Vera Institute of Justice program in the 1970s and evolved into an independent 501(c)3 launched in 1996. Today, CEO operates in 30 cities thanks to its randomized control trial-proven model, which serves as the basis for a variety of direct service programs, partnerships, and pieces of consulting work. To date, more than 35,000 people who were formerly incarcerated have found new footing in life following release with support from CEO.

This vision is well within reach for nonprofit leaders who are prepared to leverage some of the tools private sector companies have long used to build robust and enduring business models, and cultivate new revenue sources.

Conclusion

Together, organizations from the private, public, and nonprofit sectors uphold and advance American life. But despite having this common purpose, these entities largely operate independently, only briefly emerging from their silos for short collaborations when incentives align.

I've been a part of a lot of these partnerships over the last decade. I know folks in each of these spaces have something unique to offer—best practices and strategies that can be leveraged across sectors to boost our individual and shared impact and build toward a better future.

Tracy Palandjian is CEO and co-founder of Social Finance, an impact investing and advisory nonprofit that builds innovative partnerships and investments to measurably improve lives. For more than a decade, she has led the development of innovative financing tools such as the Social Impact Bond and the Career Impact Bond. Prior to Social Finance, Palandjian was a managing director for 11 years at The Parthenon Group.