

**Governor's Nonprofit Leadership Conference
December 9, 2009
Keynote Address: A New Kind of Leadership
to Advance Social Innovation**

Thank you, Liz for that wonderful introduction. I cannot say enough to praise to the One Star team and Liz's leadership. I met her predecessor, Susan Weddington, at a conference over two years ago and began a journey with OneStar to bring social innovation to Texas. When Liz came to lead OneStar, we were unsure where the work would go. But I can tell you, One Star's team has not skipped a beat – rather, the drum is beating loud and fast. It has been a pleasure to work with Liz and her team – today is great example of that. Thank you for inviting me to speak here today.

This morning I will say a few things that might make you uncomfortable. I may say a few things that you disagree with. But I ask you to open your mind and go on a journey with me, a journey that could put you and your work at the heart of growth and prosperity for Texas and its citizens. It also could be the reason your organization no longer exists a few years from now.

In order to take this journey, you all will need to practice a new type of leadership.

The journey begins with revisiting capitalism and the utilization of markets. Since the founding of this country, and particularly over the past 75 years, we have embraced capitalism like no other nation in the world has, and we have watched the creation of amazing industries, companies and wealth. While we may have just experienced the worst recession of our lifetime, it comes on the heels of the greatest periods of growth, and we are still standing. There is no sign that capitalism is going anywhere. Sure, there is talk of small changes, but we are a country founded on the fundamental belief that capitalism and the utilization of markets is the best way for a society to thrive. It's actually a pretty beautiful thing. To keep it simple: anyone can come up with an idea, an innovation, price it above what it costs to deliver a service or produce product, and if people buy it, you generate a profit. That profit can be re-invested – and growth occurs, more services are delivered, more products are used. It creates jobs, it generates wealth, it provides taxes to pay for government services we all use. We have also seen the innovative ideas keep coming, and we find ourselves in a cycle of continuous growth and prosperity.

Whether the innovation is a cup of coffee, a massage, television, the automobile, the computer, or the iPod, capitalism and markets work – to a point.

The problem is, this way of operating leaves gaps that markets alone cannot address – what economists call market failures, what we call social problems. Some segments of the population do not or cannot participate in the growth and prosperity of the market, so scores of people lack healthcare, a good education, skills to find a job.

While these market failures have always been around, the world, the United States, Texas is at an inflection point. As we emerge from this recession it is clear that the social problems that have persisted over time are now growing to a point where they will have to be dealt with head-on in order for us to reach new heights of prosperity. To develop great new industries, we will also need to better educate our children, keep our citizens healthier, and develop a better-trained workforce. The difference is, in the past, meeting these needs was the job of government. Today, it is clear that government cannot do it alone, nor should it. Instead, what is required is greater coordination between the three sectors – public, private, nonprofit – with a new kind of leadership, one that is focused on advancing social innovation, just like we have focused on advancing innovation in the capital markets.

Social Innovation is **the process of developing, testing, honing, and spreading transformative approaches to pressing social issues**. It is finding ways to do things better and utilize resources more wisely.

Why is this important? Let's focus now on the state of Texas. Texas' government spends over \$150 billion on direct payments, grants, procurement contracts, and government salaries and wagesⁱ to provide direct benefits to constituents. In 2005, individual charitable contributions in Texas totaled \$11.9 billionⁱⁱ and foundation giving (independent, corporate, community, operating) totaled \$1.75 billion.ⁱⁱⁱ

Yet, we are not always using those resources in a way that will provide the best “social return” on the investments we make in addressing social problems. For example:

- Between 2000 and 2008, the percentage of students in the public school system who received free or reduced-price lunches increased from 52.5% to 59%.^{iv}
- Between 2001 and 2007, the percentage of children ages 0-17 in foster care has increased from 3.8% to 5.2%.^v
- Between 1997 and 2007, the percentage of child abuse victims ages 0-17 increased from 6.2% to 11.2%.^{vi}
- Average SAT scores for high school seniors in critical reading have decreased over the past decade, and math scores have remained relatively constant. In both categories, scores are consistently lower than national averages.^{vii}

At the same time, between 1998 and 2008, the number of 501(c)(3) public charities in Texas grew from 37,715 to 66,104, an increase of 75.3%. **Yet, although nonprofits throughout Texas, like the ones just honored as social innovators and many others here today, have begun to deliver innovative solutions with proven results, funding to nonprofits is not currently tied to proven results. We are not supporting and spreading the existing solutions that nonprofits across the state and nation are demonstrating in their local communities. As a nation, we have not developed an approach to fostering social innovation as we have with business innovation.**

Thinking about things this way is not new for our country. The promise of encouraging social innovation and supporting organizations with the best results can be seen in the tradition of innovation in the private sector for which the United States is known. The federal government has long provided incentives to encourage such entrepreneurship and innovation, thus enabling the birth of great companies that spawned entire industries and promoted the growth of our economy. The federal government's establishment of the Federal Reserve (1913), Securities and Exchange Commission (1934), and the Small Business Administration (1953), in addition to a multitude of R&D and other tax incentives for business, all provide examples of government leadership that has encouraged innovation and entrepreneurship.

A commitment like this to advancing social innovation would lead to a shifted role for government, and the private sector, one that forms a new contract with YOU – the people on the ground who are creating the solutions – and that would streamline the flow of capital to what's working.

Signs of progress are already out there. White House Office of Social Innovation, the Department of Education's I3 (Investing in Innovation) fund, the Social Innovation Fund, increased discussion around measurement, and today's announcement of social innovators here in Dallas all point to the fact that there is motion in this direction.

But real movement on this journey is going to take a new kind of leadership to advance social innovation – leadership that ensures that **the process of developing, testing, honing, and spreading transformative approaches to pressing social issues works**. It could be the difference between your organization just surviving and thriving.

What does that new leadership look like?

I call this new leadership the “what works” mindset, and it has four core principles:

1. Measuring outputs and outcomes for continuous improvement
2. Relinquishing control
3. Building bridges with government and the private sector
4. Choosing impact over ego

This will not be easy: recall the story of markets and profit. The challenge of the nonprofit sector is that we work in a context of offering services for which there is more need than we have the resources to deliver on. The people who receive these services typically pay little to nothing for them, and, because it is not possible to produce a profit, we focus as much if not more on organizational survival, as we do on how to grow and have impact. Despite the everyday challenges of maintaining services in a nonprofit context, selfless leadership that demonstrates these characteristics is critical to advancing social innovation – and could make all the difference for your organization in creating real social change.

It is with this in mind that I submit to you that what you are doing is no longer good enough. Rather than just focusing on how to find someone a place to sleep for the night, we need to learn how to ensure that they have a job and a home so that dangerous and costly emergency situations do not happen in the first place. The question is – are you willing to take this journey? If you are, I believe your organizations, the state of Texas, and its citizens will be better off.

Thank you.

ⁱ **US Census Bureau:** Federal, State, and Local Governments Consolidated Federal Funds Report

(<http://harvester.census.gov/cffr/asp/Reports.asp>)

ⁱⁱ **US Census Bureau:** 2009 Statistical Abstract Table 565, Individual Charitable Contributions by State 2005

(www.census.gov/compendia/statab/tables/09s0565.xls)

ⁱⁱⁱ **The Foundation Center, 2007.** Aggregate Foundation Data for the State of Texas, 2005

(http://foundationcenter.org/findfunders/statistics/pdf/01_found_fin_data/2005/states/tx_05.pdf)

^{iv} **Kidscount:** Children Receiving Free/Reduced Price Lunch (Percent) – 2000 to 2008 (*Data by State →Texas →TX Kids Count Indicators*)

^v **Kidscount:** Children in Foster Care (Rate) – 2001 to 2007 (*Data by State →Texas →TX Kids Count Indicators*)

^{vi} **Kidscount:** Confirmed Victims of Child Abuse (Rate) – 1990 to 2007 (*Data by State →Texas →TX Kids Count Indicators*)

^{vii} **CollegeBoard:** 2009 College-Bound Seniors State Profile Report, Texas

(http://professionals.collegeboard.com/profdownload/TX_09_03_03_01.pdf)

(<http://professionals.collegeboard.com/data-reports-research/sat/cb-seniors-2009>)