Shared Value Initiative

Pact: Innovating organizational structure to facilitate shared value partnerships

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ORGANIZATIONAL DESCRIPTION

At work since 1971, Pact works today in more than 30 countries, building local promise with an integrated, adaptive approach to international development. Pact's work centers on three core values: local solutions, partnerships, and results. Pact seeks to enable systemic solutions for individuals to have a healthy life, earn a dignified living, and benefit from the sustainable use of the natural resources around them. In 1998, Pact made a strategic decision to establish a new organizational structure, creating its first wholly controlled 501(c)(3) subsidiary, Pact Institute, which focuses on organizational innovative capacity and funding diversification.

pact building local promise.

OPPORTUNITY FOR A NEW STRATEGY

Like many U.S.-based international development nonprofits, Pact has historically had a large percentage of its donor funding come from the U.S. government (USG), primarily the U.S. Agency for International Development (USAID). In 2009, Pact's CEO, Mark Viso, challenged Pact Institute and its president, John Whalen, to augment its traditional USAID funding by bringing a new complementary focus on foundation and corporate donor categories, and lead an organization-wide emphasis on innovation and social entrepreneurship. The team at Pact Institute, untethered from an organizational infrastructure geared toward Pact's primary donor, USAID, was able to focus on the unique business characteristics of the foundation and corporate donor categories. Concurrently, new skillsets were brought in to galvanize innovation models within a large dispersed organization that was at the time operating in 27 countries across three continents.

Pact's overall thesis was that a legally separate but culturally integrated, wholly controlled subsidiary with dedicated leadership and a clear mandate from its Board and CEO, would facilitate faster, more agile, and authentic connections with foundation and corporate donors. Thus, structured as a subsidiary, Pact Institute was designed to complement the Pact parent organization as a mechanism to receive and deploy more diverse funding while assuring overall alignment with Pact's social mission and values.

Pact Institute enabled the Pact community to engage with greater flexibility in new projects that aligned with the core competencies and impact areas of the organization. Pact Institute not only facilitated greater financial sustainability through diversification for

Pact, but also created an opportunity for more expansive networks to innovate on new solutions to address societal challenges, and ultimately create greater impact.

DRIVING ORGANIZATIONAL CHANGE

With its 2010 mandate, Pact Institute still needed buy-in from all key internal stakeholders. At the beginning, some of the senior leadership argued that a separate subsidiary was unnecessary and were hesitant to adopt the new organizational structure and strategy. However, early success and increased, diverse revenue results within a single fiscal year provided proof of concept and were instrumental in paving the way for more ambitious and sustained partnerships (see Figure A). The shift was both operational and cultural for the organization, moving from majority USG funding to aligning other funding sources, primarily foundations and corporations, to Pact's overall strategy.

Figure A: Early Pact Institute projects have developed into sustained partnerships

1) The Bill & Melinda Gates Foundation funded a 6-month healthcare project in Nigeria for $271K in 2011. Incubation and project success led to a 3-year, $5M project in 2012; a 5-year $12M project in 2013; and a 6-year, $15M project in 2014.

2) Chevron Corporation joint-funded with the Danish Embassy a 2-year healthcare project in Myanmar in 2011, contributing $1M to the project. The project expanded to its second phase funded solely by Chevron with $3M over the course of 2 years. In 2015, Chevron funded a 1.5-year, $1.5M, renewable energy project, also in Myanmar. In addition, Chevron expanded its Pact partnership to Nigeria, funding a $5.3M healthcare project in 2012.

3) The Coca-Cola Foundation funded a 3-year, $3M women's livelihoods project in Myanmar in 2012. The second phase of this project included funding for a 3-year, $2M expansion in Myanmar, as well as extension of a 3-year, $1.4M project in Vietnam in 2013 that included a public-private alliance with USAID.

In addition to its complementary strategic mandate, Pact Institute also rolled out a new economic model, quite different from its parent organization, focused on more fixed-price contractual instruments that allowed its annual revenue base to provide a small margin (about a 5% margin) that translates in a nonprofit context to the creation of unrestricted funds. These important unrestricted funds bolstered Pact's financial reserves and concurrently allowed for strategic investment in historically under-funded organizational priorities such as information technology, knowledge management, innovation, and social entrepreneurship explorations.

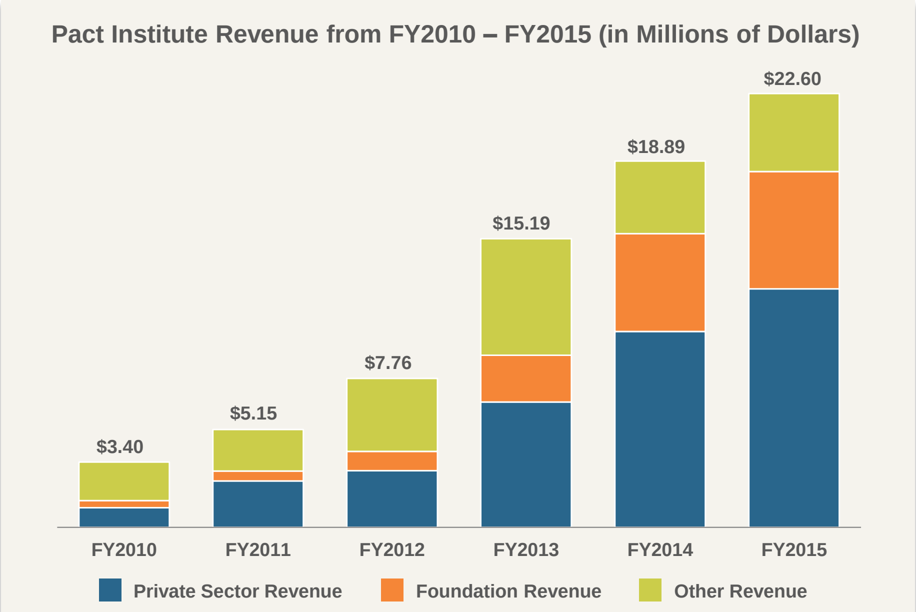
Pact Institute had the flexibility and nimbleness to take on smaller engagements that strategically opened new donor relationships, focusing on foundation and corporate donors that were like-minded in approach and development philosophy. With intentionality, Pact Institute sought to take smaller strategic projects particularly if they would lead to greater depth over time.

Beyond revenue diversification, Pact Institute became part of a more sophisticated strategy to lead innovations for Pact and the field, offering new pathways for growth and impact. Pact Institute secured an unrestricted grant from the Rockefeller Foundation in 2012 to advance innovation and knowledge management internal capacity. Pact launched new initiatives to advance the cultivating, harvesting, and monetizing of innovation on an organizational scale. This involved hiring new dedicated professionals and setting in motion a long-term process to realize a cultural emphasis on openness and innovation.

Generating unrestricted capital created greater flexibility to respond to the market and move beyond an over-dependence on USG funds. Key factors in Pact Institute's success included:

- Successful diversification of revenue streams from corporations, foundations, and other nongovernment entities.
- Generation of unrestricted revenue that enabled investment in Pact's people and an emphasis on innovation.
- Incubation of a social enterprise model with built-in margins to support growth and reinvestment.
- Employment of flexible instruments that accommodate forward-looking, long-term investments.

According to Whalen, "The 2010 strategic shift enabled Pact to generate some important reliable annual flows of unrestricted funds. Pact and Pact Institute then reinvested those funds into critical business areas like innovation, productization, social enterprise development, and knowledge management — areas that are often difficult to fund with donor project funds. This infusion of internal investment has built out critical new skillsets and capacity while positioning Pact for growth and increased impact in its work. In short, Pact Institute was a crucial investment in enabling Pact to become a more effective 21st century INGO that increased its social impact (with new donors) and improved Pact's overall business sustainability."



Over the course of five years, Pact Institute experienced positive dramatic increases in revenue, growing from $3.4M in FY2010 to $22.6M in FY2015. Foundation and corporate partnerships played a pivotal role in that growth. The number of corporate partnerships nearly tripled, going from 5 to 14 during the same time period.

By succeeding in creating a new parent-subsidiary organizational structure that was able to maintain and improve Pact's culture, impact, and bottom line, Pact's senior leadership was able to take its CEO's vision forward even further in 2012. From a growing and thriving project within Pact Institute, Pact spun off its second wholly controlled 501(c)(3) subsidiary, the Pact Global Microfinance Fund. This new second subsidiary grew rapidly, largely tied to the confluence of factors since it was based solely in Myanmar, and as that country opened politically, donor funding flowed into Pact's microfinance institution, enabling it to grow to scale (to date having reached close to 1M clients with a revolving fund of $150M). Thus, Pact's organizational structure was even more expansive from 2012 forward with a parent and two thriving subsidiaries, which represented almost 40% of Pact's total consolidated revenues in FY2015.

ENGAGING THE PRIVATE SECTOR & GETTING TO SHARED VALUE

In the earliest days of Pact Institute, conversations regarding private-sector engagement met resistance from some internal stakeholders. As the model developed and the market evolved, however, private-sector partnerships became broadly recognized for their value to facilitate social impact. Pact Institute expanded its engagement with the private sector over time—first as recipients of corporate foundation dollars, then as a participant in corporate social responsibility activities, and most recently as a partner in embedding social impact objectives into core business strategy. The organization maintains activities across this portfolio of engagement, but seeking out shared value partnerships facilitated by Pact Institute has been an important shift for Pact's overall strategy.

The unique organizational structure has enabled the organization to take on small projects, incubate and test new models, and expand projects generating impact. Pact Institute's expanding partnership with the private sector is evident in Pact's Mines to Markets Signature Initiative, which enables responsible practices in the mining sector. This has included working with ITRI, the international tin industry association, and the ITRI Tin Supply Chain Initiative (iTSCi), a traceability and due diligence program for conflict-free minerals in Central Africa. Pact Institute's partnership with iTSCi over the last five years has included partnerships with ITRI, the Development Bank of South Africa, the Dutch Ministry of Foreign Affairs, the World Bank, and a growing number of private sector players like General Electric, Microsoft, Boeing, and Qualcomm. Pact's work in the field enables the production of conflict-free minerals that serve as valuable inputs to their corporate partners' core products, thus fulfilling a critical business function while serving the nonprofit's development agenda. Pact Institute's structure has enabled it to engage and partner with the private sector to receive revenue from a growing number of corporations and to increasingly become a key player in companies' value chains, creating both social and business impact.

LESSONS LEARNED & FUTURE OUTLOOK

Pact Institute is in the midst of a strategic shift toward deeper private-sector collaboration and engagement. Many of its partnerships remain within the more traditional corporate philanthropy and corporate social responsibility spaces, but the potential for increasing shared value partnerships over the next five years is a tremendous strategic opportunity. What is clear for the organization going forward is the need for continuous evaluation and flexibility to respond to the changing conditions of realizing sustainable and scalable social change.

Key lessons learned:

- Pact Institute enabled a safe testing space for private-sector engagement within Pact.
- Early wins to prove a successful and financially viable model were key for long-term organizational buy-in and growth.
- Pact Institute provided a nimble operating structure that could realize smaller engagements and take them from incubation and experimentation to expansion.
- To drive growth, Pact Institute had to refocus the value proposition from simply generating unrestricted funds for the parent organization to driving a diversity of funding streams as a source of innovation to create greater social impact.
- Structuring Pact Institute as a subsidiary of Pact opened new opportunities to increase revenue and provide greater potential for impact and social change.

"The development sector is evolving, and we have to evolve with it. The nonprofit of the future must be able to analyze corporate business models, while at the same time speak to areas of potential impact for the most vulnerable. Pact Institute gives us a flexible mechanism to be creative in pairing assets and knowledge that a global NGO like Pact brings with the power of the private sector."

Mark Viso
President & CEO, Pact

Pact Institute has become mainstreamed in the organization as a whole, serving as an important vehicle for realizing impact. The innovative and flexible structure of Pact Institute as a subsidiary of Pact has become a stepping stone for growth and has opened opportunities in organizational structures that continue to enable Pact to create greater and more sustainable impact around the world.