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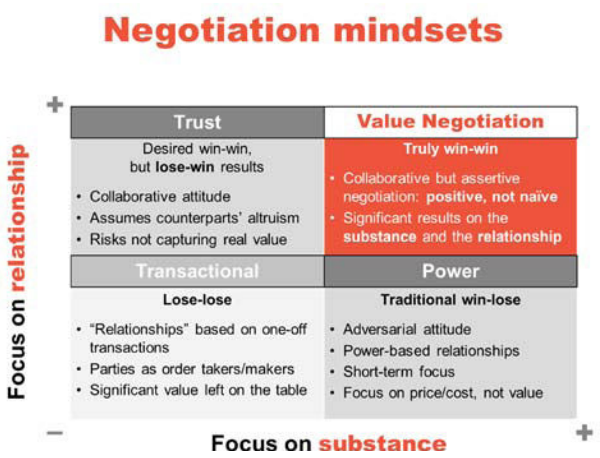
"Negotiating Social Impact"

As the field of social entrepreneurship and innovation matures, it is becoming increasingly complex. New types of investors and investment structures emerge all the time, leading to growing stakeholder diversity, as well as more intricate alliances and partnerships for the social good[1]. Negotiation and influencing competence is more critical than ever – not only to reach initial agreement on partnerships and investment relationships, but also, and in particular, to ensure that initiatives are successfully implemented for effective impact and satisfaction of all parties, especially beneficiaries.

Negotiation mindsets

Negotiation strategies and results are tremendously affected by the mindsets, attitudes, and intentions of the parties involved. A classic dilemma is whether to prioritize relationship value (normally intangible, associated with the feelings and emotions between the parties) or substance value (what is being negotiated, usually something tangible that could be priced in a market).



A rudimentary **transactional** negotiation process focuses on one-off transactions. Parties see each other as the provider or beneficiary of an undifferentiated commodity. Negotiators barely deserve such name, as their role is simply to make (if buying) or take (if selling) orders for the products or services being exchanged. As a consequence, there is no deep understanding of anyone's needs and significant value is left on the table. The result is usually "lose-lose": both parties are left not only with limited substance value, but also with a very poor relationship, which is nothing more than a potential series of independent transactions over time. In the social sector, examples of transactional negotiations may be donations collected on the streets or on the phone (often by hired companies that take a significant cut on collections – e.g., World Wildlife Fund in Singapore).

Slightly more sophisticated negotiators use **power-based** strategies to get additional value. Their hard, adversarial attitude focuses on short-term improvements of price or cost (or another simplistic metric for value). This is the traditional win-lose mindset, which generates unproductive relationships where power meets resistance, leading to wasted energies, if not wasted value as well Examples of this approach are in the news every day: strikes demanding salary increases, demonstrations against corporate or government top-down decisions, etc.

As the field of social entrepreneurship and innovation matures, it is becoming increasingly complex. New types of investors and investment structures Some negotiators realize that relationship value matters. Their collaborative, **trust-based** strategy focuses on building a long-term relationship. The intention is win-win, but, because they assume counterparty's altruism, there is a significant risk of not capturing real value. The result is often lose-win: there may be a perceived improvement of the relationship, but no significant substance value captured. This happens frequently in the social sector: relying on donors', investors' or other supporters' generosity, leaders of non-profit organizations often feel it is "dirty" or improper to talk about money (or substance value in general) and fail to negotiate assertively for what their projects really need.

A true win-win relies on collaborative but assertive negotiations, where parties maintain a positive but not naïve attitude. Yes, relationship is critical and it is important to build trust with the other party. And yes, tangible value is typically the reason to negotiate and thus also critical. The **Value Negotiation** approach[2] aims at higher results on the substance and on the relationship simultaneously. It is used by successful social sector organizations to bring together multiple stakeholders with a variety of capabilities and resources that enable high impact in alignment with their missions, in the short and the long term.

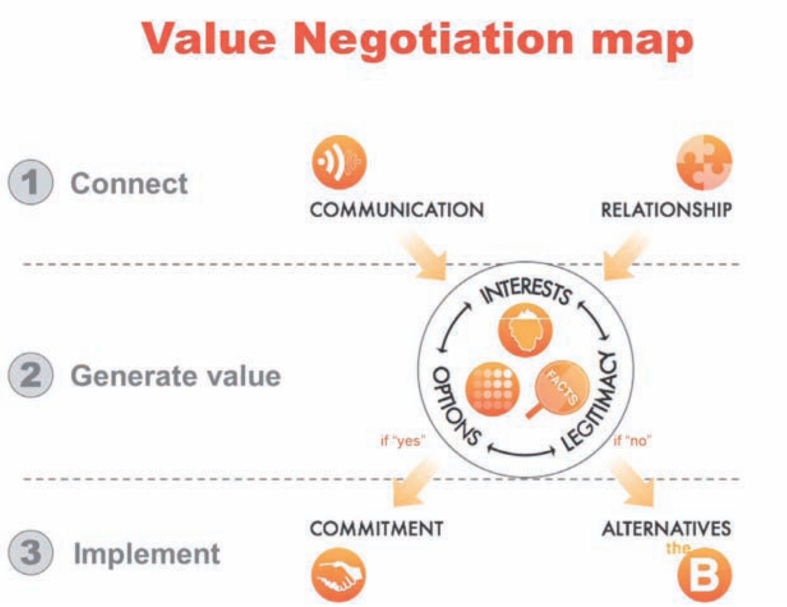
Value Negotiation process

In contexts of high complexity of stakeholders and objectives, a systematic approach to think, prepare and manage negotiations becomes critical for success. A good Value Negotiation process maximizes relationship value and substance value by properly addressing three key negotiation challenges: ●●●

1 A great example is Diconsa, a Mexican financial services partnership that brings together the government, a public sector bank, community-owned stores, a private technology provider, and the Bill & Melinda Gates Foundation (see a case study on http://mckinseyonsociety.com/creating-change-at-scale-through-public-private-partnerships/)

2 Described in "Value Negotiation – How to Finally Get the Win-Win Right", by Horacio Falcão, and inspired on the Harvard Negotiation Project model, initially outlined in "Getting to Yes", by Roger Fisher et al

1. **Connect**: develop and maintain productive working relationships with key stakeholders
2. **Generate value**: tailor initiatives to stakeholders' needs and concerns, and distribute value fairly
3. **Implement**: make long-lasting, high-impact agreements, and get things done



1. Connect

Investments, partnerships or alliances benefit from working **relationships** with high levels of trust, which enable parties to positively sort out differences and take risks. But trust does not exist by decree, i.e., just because someone decides there has to be trust. Trust grows from an initial sense of interdependence (the recognition that parties are better off working together than alone), through honest and reliable behaviors, avoiding hiccups, to build empathy and emotional proximity over time.

Connecting can be accelerated by leveraging existing relationships and reputations, as we naturally trust more people referred by someone we trust. For instance, by organizing its first Impact Forum in Singapore last June, Impact Investment Exchange Asia created a catalyst for social good connections, bringing together public and private impact investors, social entrepreneurs, non-profit leaders, consultants, and others.

Any relationship eventually faces threats – due to conflicting interests, misunderstandings, or other factors. In a productive long-term relationship parties balance emotions with reason, and understand and accept different points of view (stepping into "their shoes"), but do not necessarily agree with each other.

Developing an excellent connection requires also high-quality **communication**. Misunderstandings can be minimized by clear and consistent sharing not only of information but also of intentions. It is also important to exchange messages efficiently, avoiding spending unnecessary time or energies.

2. Generate value

A great connection with stakeholders does not automatically translate into impact. Real impact requires understanding what value means, how it can be pursued, and what are appropriate ways to capture it.

A solid connection is an excellent base for better understanding the **interests** of all stakeholders – i.e., what they really care about, what value means to them: their needs, objectives, fears and concerns. Good two-way communication based on open questions (Why? Why not? What? What else?) and mindful listening helps to move beyond parties' demands in order to reach a deeper understanding of their interests. For instance, while social sector organizations may ask supporters for money and other resources, what they really care about is improving people's lives.

Successful social projects typically include mechanisms to give a voice to different stakeholders (in particular beneficiaries), sometimes using neutral facilitators. In one of our projects, helping develop sport in Timor-Leste, we had to build consensus between over 20 stakeholders including public and private organizations. To understand individual and group interests, we had to engage stakeholders in one-on-one discussions before bringing them together in the same room to discuss a common way forward.

Given that interests represent value for the parties negotiating a partnership or alliance, they constitute excellent raw material to brainstorm **options** (i.e., solutions, proposals, possibilities for what the parties can do together). Options can be as simple as one party providing a certain service or product to the other in exchange for a fee, or as complex as a multi-party multi-issue multi-year partnership, where each stakeholder contributes with a set of resources and activities. More options expanding issues, resources, parties and possibilities lead to more value being generated. In particular, social investments can take the form of grants, debt, equity or mixed options, by social business angels, social investment funds, venture philanthropy funds, value banks, social stock exchanges, etc.[3]

Value creation surely facilitates collaboration. Nevertheless, in most discussions there comes a moment when parties have to distribute value. One way to split the pie is through the classic bargaining dance, with parties starting from extreme positions and making successive concessions until eventually agreeing somewhere in between. A more persuasive and efficient approach is to agree on the arguments, references or criteria that bring **legitimacy** to the proposals, so that all parties may judge the agreement as appropriate, right or fair.

In the for-profit corporate sector, money, finance and markets provide generally accepted methodologies to measure value. In the social sector, legitimizing a proposal normally implies a more debatable impact assessment, given the diversity of sources of value and methodologies to measure it, such as the Acumen Scorecard and SROI.[4]

3 See the "Social Investment Manual", published by the Schwab Foundation for Social Entrepreneurship, on www.schwabfound.org/pdf/schwabfound/SocialInvestmentManual.pdf

4 See Tools and Resources for Assessing Social Impact (TRASI) at http://trasi.foundationcenter.org/ for a searchable database of hundreds of impact assessment approaches.

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Successful partnerships align participants' incentives towards the group's goals. For instance, an emerging alignment instrument is Social Impact Bonds, where governments reimburse impact investors according to effective impact achieved by social interventions, as measured by neutral assessors (the source of legitimacy).[5]

3. Implement

A great connection followed by a deep value discussion does not yet guarantee impact. Effective impact emerges from the successful implementation of a solid agreement with the right partners.

Before shaking hands, parties should verify that they are better off by doing so. There may be better **alternatives**: more valuable ways to pursue interests, potentially on their own or with other partners. For example, a social venture may find a government grant very tempting, but immediate funding may not compensate the long-term burden imposed by its conditions (e.g., bureaucratic reporting, reduced decision--making flexibility, etc.) – self-funding or an alternative investor could be a better choice.

A good **commitment** clearly covers all relevant matters to avoid oversights or misunderstandings. Sustainable commitments include a realistic action plan, so that all parties know who does what, when and how, mechanisms to monitor implementation, as well as decision-making and conflict resolution guidelines to address unforeseen situations and sort out eventual disputes.

Ideally, commitment is reached through a participatory process that builds buy-in and ownership by relevant stakeholders. In negotiations we supported in Southeast Asia, between an airline management and the employees' union, the connection and value-generation stages seemed to go very smoothly. Contrary to previous value-destroying practices, the management team negotiated a productive process to dive deeply into both side's interests, expanding issues from the traditional salary obsession to include all clauses in the Collective Bargaining Agreement (CBA). At one point, both sides felt the new CBA was much better than anything they might have demanded before starting conversations. However, to everyone's surprise, employees refused the proposed CBA in the General Assembly. They had not been fully involved in the negotiation process, partly due to communication restrictions imposed by labor laws in the country, and an informal leader persuaded a majority to vote against. Because the connection and implementation stages had not been perfectly managed, it took six months more to reach an ok agreement – not awesome anymore.

A systematic negotiation process allows social sector actors to increase effectiveness connecting an intricate web of stakeholders and managing differences between them. Improved relationships enable more creative and ambitious value generation, and lead to sustainable commitments that do get implemented, resulting in real impact – i.e., increased social good.

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5 Watch a 3' introduction to Social Impact Bonds n http://mckinseyonsociety.com/social-impact-bonds/