



Steve Rothschild, retired executive and civic entrepreneur

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

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Present : Verne Johnson (Chair); Janice Clay, Paul Gilje, Jim Hetland (phone), Jan Hively, Dan Loritz (phone), Bob MacGregor, Joe Mansky, Tim McDonald, Jim Olson (phone), Bob White

A. Context of the meeting - Steve Rothschild has built a very successful organization in Twin Cities RISE! (TCR!), helping to bring people out of poverty. The program operates on two principles, training essential life and professional skills to people in poverty, and empowering clients through courses and a culture that changes their perspective on life.

Today's visit by Steve to the Civic Caucus will not be about the program, particularly. Instead Rothschild will use it as an example to argue for the need of objective, reasoned approaches to solving public problems and improving of public services. Because of this approach Rothschild contends, correctly, that he has been able to succeed where many fail.

His talk today includes principles for the operation of programs, and policy recommendations that are pertinent to the Caucus' focus on redesigning state services.

B. Welcome and introductions - Steve Rothschild is a former executive of General Mills and board member of its charitable foundation. He was born in London and immigrated to the United States at an early age. Steve has been a leader in business and civic affairs for Minnesota, and was elected an Ashoka Fellow in 2002-a national fellowship for social innovation.

Rothschild had a civic interest that developed as part of the philanthropic arm of the corporation, and through his chairmanship of the board of Altcare, an effort to provide care to the elderly and aging who need services, but do not require acute care. Retiring early at age 46, Rothschild decided he wanted to head a company. He started to search; deciding instead to go into social entrepreneurship, founding TCR! in 1994.

C. Comments and discussion -During Rothschild's visit with the Caucus, the following points were raised:

The effectiveness of services is affected by how they are designed.

"I'm not a researcher, and not a scholar," Rothschild began, saying that his remarks "are based on experience in business, with the government, and in the philanthropic sector," including the United Way.

"Lyndon Johnson began his War on Poverty when the poverty rate was at 20 percent. It was very effective in the first decade, driving poverty down to 11 percent. But since the mid-70's the rate has stayed stubborn at 11-14 percent. It is worse for minorities.

"Why hasn't it gotten better? The problem has to do with how the government, foundations, and non-profits serve" those in poverty. Not all programs and services are effective.

Designers and administrators of services need to properly understand the problem they seek to solve.

Many efforts, Rothschild said, are premised on misconceptions. A big one is the belief that if you get people off welfare you are moving them out of poverty. "Anti-welfare is not the same as anti-poverty. Getting off welfare is not the same as getting out of poverty.

"Most of the programs designed to get people off welfare get them onto the first rung of the employment ladder. But they have no underlying skills, so a hiccup comes along and they fall off.

"People in generational poverty have a different belief system-they think the best days are behind them." Family, money, and hope are all seen as an exercise in futility. "These people need an entirely separate type of service" than those in situational poverty, that need a safety net for a limited time.

He started TCR!, Rothschild said, because he did not see programs that targeted poverty-particularly for men of color-but instead supported a broken lifestyle. "I knew that we had to first pull up the men, and others will follow. Most private and public welfare focuses on custodial parents only."

Measure programs by their outcomes, not the inputs and outputs.

"We tend to measure success by inputs and outputs," Rothschild pointed out, "not outcomes." An example of inputs would be how many served, or how much money spent. Outputs might be how many graduated a program, or how many got jobs.

"Instead outcomes involve how many people got and held living wage jobs." How many people stayed stable despite the challenges that come?

Policy makers, and foundation and non-profit executives need to ask themselves, "Do we measure outcomes, or outputs? It would be like us at General Mills reporting to the board how much wheat we bought, how many boxes of Wheaties we made-but not how many boxes we sold."

Five principles of a successful service operation.

1. Follow a purpose, and do not just chase money. "You've got hundreds of thousands of non-profits that fail to meet scale," he said. "If you have a fuzzy purpose you measure the wrong stuff;

don't have the transparency or accountability. Don't have standardized measurements." A service must always have a way to measure return on investment, for their own good, and for the integrity of the resources.

2. Be market-driven-know who your customer is and respond accordingly. The customer is the employer. Most people don't get that. They see their funder as the employer. And rightly so, as the most operate funding now.

3. Develop relationships of mutual responsibility-between individuals, programs, and the state /foundations that fund them-paying for outcomes, not processing.

Rothschild told a story, about their funding. "Art Rolnick at the Federal Reserve Bank in Minneapolis ran a study in 1995 and found that every time we take someone off poverty, taking them from an income of \$10,000 to \$20,000/yr we save the state thousands in would-be costs.

"So we went to the state, and said we don't want grants-we don't believe in getting paid for trying. But if we can demonstrate that we took someone from point A to point B, and if you, the state, can expect to save \$X, then award us a grant for some portion of that amount."

Policy makers agreed, and since then the state has paid Twin Cities RISE! \$4 million, reaping \$16 million in savings. "That's a 400 percent return."

4.Responsibility leads to independence . "When new guys come into the program, we sign a contract that says they will stay in, or pay back the costs of our services." They almost never make someone pay, he said, but the effect is tangible. "Folks figure, be entitled, be a victim, and be powerless because that pays out." They push back directly against that.

"We teach people how to get dressed, look people in the eye, shake hands-but that lasts about two weeks. Then something happens. Something throws them off the wagon. So we also need to change behavior permanently, dealing with beliefs, which affect thoughts, which affect behavior. The men in our program need to be empowered to control their emotions.

"Successful programs for poverty need to dig deeper and change beliefs. This holds for any work of government or non-profits that provide services. Get to the roots of it."

5. Be learning-driven, as an organization, to always improve. "You may have an idea, and make a plan, but must know that the plan will change even before the ink is dry. Organizations need to be able to respond. Need continual feedback and intelligence. If you don't have continual innovation you will not have high performance."

Recommendations for state policy

- **Pay for outcomes, not outputs.**

Right now there is no incentive in policy, Rothschild said, to work with more difficult populations. Service agencies and organizations are worried about their outputs. Incentives need to make people want to serve the lowest groups. They have got the greatest potential, making a value-added funding strategy appealing. Align payments by product, not process-by outcomes, not outputs.

A member asked why there has been so little innovation in government, in this area. "The ones in control are ologopolists, and don't want to lose control," he said.

- **Marry pay for performance with the process of raising capital.**

For example, building roads with tolls. Or, paying organizations based on the savings reaped for government. Set this scheme firm, with assessments for return on investment. "Then the government could float bonds on anticipated returns. We do this with physical capital, but not human capital."

- **Do not increase funding for services until they can demonstrate value in outcomes, not outputs.**

"The answer may be more money, but not yet. We need to do things differently. Many of the people in places of power don't actually want to do things differently. Tying funding to performance can change this dynamic.

- **Support programs for the long-term.** "People often provide startup funding to a pilot, but once an organization proves successful they move on to find the next big thing, leaving the operation floundering."

D. Closing

As the meeting came to a close, a member asked Rothschild about his plans for growth of TCR!.

"Over the short-term, we are weathering the economy," he said. They have built up cash reserves and are underwriting paid internships for their clients who are having a difficult time finding jobs right now.

"Over the long term, our strategy is national-but not to replicate ourselves-instead bringing people in and teaching them our technology..." about how they have aligned their funding based on expected savings to the state. "We want to do it this way because not only are all politics local, but all philanthropy is local, too. We don't want to move in somewhere where others are already well established, and can deliver a program just as well."

Through the United Way Rothschild is working with the state on establishing a return on investment model for jobs programs.

The chair thanked Rothschild for his service for Minnesota, and noted that he serves as an example of strong leaders that find ways to continue contributing through their retirement.

Thanks all around.