



## What's on the mind of Social Enterprise Leaders?

### Four challenges for the decade ahead

The social enterprise sector continues to grow and evolve. A 2013 report by Social Enterprise UK highlights there are now over 70,000 social enterprises contributing around £24billion to the UK economy.

Between April and June 2013 Deloitte carried out interviews with senior executives from a range of social enterprise, corporate and government organisations to understand their views on the key challenges facing the sector in the decade ahead and the capabilities these will demand of current and future leaders. This report summarises our findings, in relation to the key challenges. A second report, *Meeting the Leadership Challenge: Building Sustainable Leadership in the Social Enterprise Sector*, considers what these demand of the sector's current and future leaders.

At a high level, the challenge for leaders in social enterprises is the same challenge as for leaders in all sectors; the pursuit of sustainable organisational success. As one interviewee noted, "The qualities of a good social enterprise are the same as for any good enterprise." However, four areas stood out that present particular challenges for leaders of social enterprises:

- **The Finance challenge** – securing investment and managing finances;
- **The Procurement challenge** – adapting to new trends in procurement policy;
- **The Customer challenge** – delivering the customer experience; and
- **The Advocacy challenge** – influencing with impact.

So what did our research tell us about these challenges?



**The Deloitte Social Innovation Pioneers** programme supports socially innovative businesses across the UK, providing them with a package of support to help them grow to scale and become investment-ready. In total Deloitte is investing over £1m a year in this ground breaking programme which utilises the skills and capabilities of our people to support social business.

Pioneers have access to a broad range of services within Deloitte, allowing a tailored support package to be developed matched with the individual organisation's needs. Knowledge sharing, discreet, strategic projects, networking and procurement opportunities are helping social enterprise leaders overcome their challenges and secure future success.

[www.deloitte.co.uk/pioneers](http://www.deloitte.co.uk/pioneers)

### The Financial challenge

The social enterprise leaders we spoke to confirmed that the single largest barrier to the sustainability of social enterprises remains access to finance. As one interviewee significantly under-stated, *“the funding environment is tricky.”* 44% of NGOs in a recent Build Africa commissioned report stated that they are still hampered by the availability and affordability of finance<sup>1</sup> – a finding echoed by SEUK who reported ‘lack of, or poor access to, finance or funding’ as the number one barrier to sustainability and growth in their 2013 report.

“Investment readiness” was identified as key by many of those interviewed with the need for leaders to demonstrate a commercial mindset trumpeted by many. While it was recognised that *“anti-capitalist sentiment in the sector sometimes hinders this commerciality,”* capabilities highlighted included the ability to clearly articulate their enterprise as a proposition for potential investors, as well as the need to engage authentically and knowledgeably with a variety of stakeholder groups in securing finance.

#### So what do social enterprise leaders require?

Leaders will require effective management information and analysis in order to maintain a real time understanding of their financial position and to inform effective decisions that impact the financial position of their enterprise. Many of the most successful have also invested in specialising their financial management function to maintain a constant awareness of the organisation’s position and thus increasing flexibility and responsiveness.

While it was recognised that not all leaders will require complex financial modelling skills, it was noted that they will require enough knowledge to provide appropriate scrutiny, to understand financial risk and to engage in the development of new models.

### The Procurement challenge

With the numbers of social enterprises engaging with the public sector increasing (over half of social enterprises now provide products or services to the public sector), government policy has a greater, and more immediate, impact on the sector than on many others. Our interviewees cited procurement policy as both a major opportunity for growth and a significant risk to their sustainability. As one interviewee commented, *“future opportunities in service provision [through government contracts] is behaviour changing.”*

Four significant shifts were identified as challenges by those we interviewed.

- **A relentless focus on delivering and evidencing outcomes**

The rapid shift in government policy to a focus on evidencing outcomes on major contracts has presented significant challenges for social enterprises and their leaders. As one interviewee noted, *“There were no structures in place to do the level of auditing required, the level of monitoring that government required. Many social enterprises just weren’t set up to run their core business and monitor outcomes.”*

- **A shift towards large-scale, payment by results models**

Those interviewed identified government programmes such as the Work Programme as *“shaping the language and tone of the sector.”* Scale and balance sheet strength were highlighted as particularly important for those competing with private sector companies for Public Sector contracts. This is a particular challenge given that the sector continues to be characterised by small and medium sized enterprises, with a predominantly ‘local’ focus. 83% have a turnover below £1 million per annum and 93% employ less than 50 people.<sup>2</sup>

Most social enterprises will have to grow to compete but there is high risk involved owing to their size and having the right level of capital to meet the demands of regulatory and procurement mechanisms. As one interviewee noted, *“the issue of risk capital is already leading to outcome-related pay in public sector contracts. This requires 2–3 years of working capital which social enterprises just don’t have.”*

In *Encouraging Effectiveness: The common attributes of NGOs maximising success*, Derham concludes that *“effective organisations pursue partnerships with the private sector in order to expand their reach and use the power of business to work towards their mission. These organisations see their engagement with the private sector as a two-way relationship and often share skills and resources as well as attempting to alter business practices.”*

As one interviewee commented, *“it’s about the ability to know whether to engage with things like the Work Programme and the skills of how to engage, how to bid, how to negotiate. But it is also about knowing when to walk away from a deal.”*

1 Derham, S; *Encouraging Effectiveness: The common attributes of NGOs maximising success*; Build Africa; 2012

2 Villeneuve-Smith, F; *Fightback Britain: A Report on the State of Social Enterprise*; Social Enterprise UK; 2011

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- **The creation of social enterprise mutuals and cooperatives**

The creation of mutuals and co-operatives as spin offs of public bodies opens up new opportunities across the sector. While new enterprises bring greater competition, many recognised a wider opportunity for *“social enterprise to be part of the solution in the provision of core services”*.

- **The development of social clauses**

The introduction of social clauses into public sector contracts was identified as a significant opportunity for the sector. However, it was recognised that organisations would need to position themselves to capitalise on these opportunities with private sector contractors. *“Social enterprise is currently popular, trendy and increasingly driven by public sector delivery. Linked to this is the challenge of the relationship with Big Business, trying to harness and develop mutually beneficial arrangements instead of them simply using social enterprise as a vehicle.”*

### **The customer challenge**

**One interviewee commented that the “main leadership requirement remains the ability to sell stuff.” For this need to be met, a commitment to customer and to service improvement was flagged as critical.**

In our interviews, innovation and entrepreneurship were highlighted as key attributes of many of the effective organisations in the sector. This included the identification of market opportunities through robust insight and analysis and the ability to exploit these opportunities effectively.

These organisations demonstrate strong customer awareness while keeping focussed on social impact. This includes dialogue with both customers and beneficiaries and the use of feedback in the on-going improvement of services. And they look beyond the sector to recognised leaders in customer experience. *“I take inspiration from successful, customer-focused companies like Apple and John Lewis and seek to replicate their consumer-centric attitude, assessing what helps and what hinders the user experience.”*

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### **The advocacy challenge**

**Credibility within the sector and amongst the wider public is extremely important to social enterprise leaders. Our research suggested this credibility is forged through the brand, professionalism and social outcomes delivered but that a current shortage of advocacy skills “reduces the potential impact the sector could have.”**

Interviewees recognised that social media and online word of mouth are their most powerful (and affordable) tools, enhancing “the ability of smaller social enterprises to get their message across.”

For those social enterprises directly or indirectly engaged with the public sector there is also a desire to influence at the policy level, a challenge for smaller, local enterprises. As such, the ability of social enterprise leaders to engage with representative bodies and/or in conjunction with other social enterprises, charities or private sector partners is also key.

### **Conclusion**

**These four challenges are both barriers and enablers of future success. Exciting opportunities exist for social enterprise leaders to leverage current capability, to grow, to secure investment and to develop new and innovative solutions. By meeting the challenge, leaders at all levels of social enterprise can help position their organisations to deliver the best possible service to customers, to beneficiaries and ultimately to society.**

In the second paper in this series, Meeting the Leadership Challenge: Building Sustainable Leadership in the Social Enterprise Sector, we consider the response these challenges demand from the sector’s current and future leaders.

This insight piece has been developed following a project undertaken with social enterprise On Purpose. On Purpose are developing the next generation of social enterprise leaders through a programme that provides paid work placements, training and one-to-one support for top-calibre early career-changers. [www.onpurpose.uk.com](http://www.onpurpose.uk.com)

The logo for On Purpose, featuring the word "On" in a smaller font and "Purpose" in a larger, bold font, with a dotted line trailing off to the right.

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