



Meeting the Leadership Challenge

Building sustainable leadership in the social enterprise sector

In the first paper in this series: *What's on the mind of Social Enterprise Leaders? Four challenges for the decade ahead*, we looked at the key challenges facing organisations in the social enterprise sector.

Here we consider what these challenges demand of the sector's current and future leaders.

It was clear from our research that the 'tasks' of leadership are no different in the social enterprise sector from those facing leaders elsewhere. Consistent with other Deloitte research, our interviewees identified three 'tasks' of effective leadership in social enterprise organisations today: strategic clarity, effective execution, and creating a culture of innovation. These are explored in greater detail in other Deloitte papers such as 2012's *The Leadership Premium*, but in summary:

- **Strategic clarity:** Leaders understand the sector conditions, articulate a clear vision for both the social and enterprise goals of the organisation, and demonstrate a consistent commitment to these. They provide a framework that leaves enough room for people to create the future.
- **Effective execution:** Leaders create the organisational conditions that support consistent delivery of outcomes. They focus on their basic, immutable, role- achieving things through the willingness and ability of others and building an organisational environment that supports this.



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.

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- **A culture of innovation:** For leaders in all organisations, the desire to leave the organisation (or part of the organisation) better off than when they were appointed is a core goal. Doing so requires innovation and the ongoing improvement of services, processes and business models.

Given the nature of these tasks, 'leadership' shouldn't just encompass the senior team. It should be about those leaders responsible for deciding the strategy and those responsible for its implementation. It is teams, not individuals that make the difference to social enterprises.

Throughout our research for this paper we identified a shift in emphasis within the sector from 'social entrepreneurs' towards 'social enterprise leadership'. Many of those interviewed highlighted that as the social enterprise market has matured there has been a shift in the leadership debate. A number stressed that *"there is still too much emphasis on the maverick entrepreneur"* and that *"'founder syndrome' abounds in the sector"* while one social enterprise leader remarked, *"there is a bigger distinction now between leading social enterprise and social entrepreneurs. It is about the list of who to hire first to build organisations: The Head of Sales, Head of Operations, and then other business functions."*

And meeting the financial, procurement, customer and advocacy challenges depends on a system of sustainable leadership, not just on the capabilities of individual leaders or of teams. As one interviewee summarised, *"it is the tension between great entrepreneurs and great management. Across the sector it is great management that is missing."*

And the imperative for this systems perspective is clear. As one 'prime' private sector contractor for a major government programme (that includes a range of social enterprises in its supply chain) told us, *"management structures and how well organised you are at an infrastructure level often decides whether you can cope with a contract. It is really key."*

Our research suggests key elements of the management and leadership system include:

- structures and systems;
- capabilities;
- relationships; and
- commitment.

As in all systems, these elements are interdependent: the continued existence of one relies on the continued existence of the others. More than this, they're mutually reinforcing. Commitment, for example, enhances capabilities – and capabilities deepen commitment.

Structures and systems

Over the past 20 or so years, much attention in the private sector has been focused on corporate governance, on the way boards are run and regulated and risks are managed. Those interviewed identified this as an area where the social enterprise sector in general has significant room for improvement.

The 'right' way, of course, will vary according to the size and type of organisation. Nonetheless, leaders should be familiar with certain best-practice principles that apply in most cases. The overarching principle must be that members must be clear on their individual roles and responsibilities and must behave as a team. As one interviewee commented, *"the governance structure needs to be collaborative and seen as an ally to the business, rather than a bureaucratic enemy – reinforcing communication and trust."*

Strategic clarity, effective execution and innovation depend on effective collaboration at the top. Members of the senior management team or board must have a strong desire to share knowledge and information – to share power. They must act and take decisions in the collective interest.

And good decisions, as a recent Deloitte report states *"are not based on gut instincts: they're based on insights – analysis and expert knowledge."*¹ The following quotes were typical and highlight the imperative our interviewees placed on the use of data and technology in moving social enterprises forward.

"Digital transformation has taken things to another level completely. The opportunity is to use talent and technology to effect more significant change."

"Data and its use also presents a challenge for the sector – it will require an attitude shift in how organisations evidence the outcomes of their work and interpret data."

"If you are not going to jump on this boat, you're going to miss it. Those who are good with data will attain the investors and broaden the network."

It is the tension between great entrepreneurs and great management. Across the sector it is great management that is missing.

¹ Miller, F and K Knowles, *Organization Acceleration: the new science of moving organizations forward*; Deloitte Touche Tohmatsu Limited; 2013

Capabilities

Social enterprise leaders must ensure their organisations have the capabilities to achieve their objectives – and will have in the future. This not only means reviewing performance – at an individual, team and organisational level – but also a far-sighted approach to succession.

Many of those we interviewed highlighted a general failure across the sector to systemically develop and progress the careers of future leaders. While performance management was highlighted as an effective means of developing individuals, its use was viewed as ad hoc at best by those we spoke to and there was recognition that succession management was largely non-existent. One interviewee recognised the scale of the challenge, *“recruitment is the key challenge for the sector – finding the right people and learning how to manage them.”*

A key question for senior leaders is whether the opportunities they are creating for their current and future leaders are developing the knowledge, skills and capabilities they require now and will require in future. Careful deployment of leaders and potential leaders can help to equip them for the challenges they will face.

In many social enterprises, our interviewees told us that people development practices need radical reform. It's clear that leadership development programmes are extremely limited across the sector and are often inconsistent with how adults learn best.² In many cases we heard about individuals being developed in isolation from their own and the organisation's needs – or given few opportunities to put what they've learned into practice. Structured 'on the job' training, vital, in Deloitte's experience, for the effective development of teams, is often neglected.

Relationships

Interviewees recognised that leadership in the sector is a 'high-contact sport' and that leaders must build positive relationships – with all those to whom the future of their social enterprise is linked.

It will often be at the board and senior management level that relationships have the biggest, most serious impact. Members of executive and non-executive leadership need to complement each other in terms of knowledge and experience – and they need to function effectively as a unit. For the leaders of social enterprises it is about building the right balance of skills and insights.

But it's also about building relationships with those 'on the ground'. Leaders will be 'known' to employees through the culture they've created – the values that 'cascade' down. Effective leaders are seen to get out of their office and to make visits, to meet and talk to people. Only by talking to and responding to team members can leaders build high levels of commitment and passion among the workforce – and deliver what their strategies demand.

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Externally, relationships will include partners, investors, suppliers, policy makers, regulators and end users/beneficiaries. As one interviewee urged, *“Network the hell out of life! The sector needs to grow its network and share experience and knowledge more widely.”*

Others also focused on the need to develop a broad range of strategic relationships:

“We need people who can handle conversations with capital, science, business and social sectors. It is about the ability to communicate and persuade in different contexts.”

And this will also include the leaders' role in forging their organisation's relationship with the public. Interviewees recognised the degree to which new technologies have altered this in recent years. Social media plays an increasingly influential role in the way leaders and their social enterprises are perceived – and it was highlighted that bad news travels increasingly quickly.

Commitment

Engaged leaders are essential in any organisation. Engagement must be ongoing and individualised, minimising the risk of a disengaged leader or worse, a key leader or future leader leaving the organisation. Understanding each leader's drivers and motivators is crucial to engaging them effectively. This means understanding their personal aspirations. In too many cases, interviewees told us such questions are asked too late and that many leaders of tomorrow are being lost to the sector through a lack of opportunity for progression or challenges around the financial rewards available.

So what's the role of pay and benefits in securing commitment? They matter, of course – and good and fair pay, certainly, is an integral part but affinity with an organisation and job satisfaction are often what persuade good people to stay. As one leader told us, *“The social enterprise market has an advantage at the moment because there has been a significant shift away from the corporate ladder, and a frustration in the mid to late 30s group who want a larger purpose.”*

Despite this, our interviewees told us that the sector's approach to reward needs to evolve. The following comment was typical:

“Pay has changed. There used to be no jobs in the sector and incoming individuals usually made their living elsewhere – the so called “post economic” applicants. The commitment to the sector is growing and people are demanding more.”

² For further information see Holland, S; A Canwell and E Isles; Head Start: A New Approach to Leadership Development; Deloitte; 2011

With the right kind of commitment from leaders comes the right kind of commitment from followers. If they feel valued and are treated fairly, if they have the chance to progress, if they believe in what they're doing, people are more likely to make the discretionary effort on which the success of any social enterprise depends. Demonstrating this commitment is an essential role of leaders at all levels. One leader we interviewed shared how they demonstrate their commitment to people through an *"underlying people strategy to make our's a good place to work. That includes a nice environment (lots of space and green); innovative workshops that staff have access to; and a commitment to open communication and collaboration."*

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

The logo for On Purpose, featuring the word "On" in a large, bold, serif font, followed by "Purpose" in a smaller, bold, serif font. A dotted line underlines the word "Purpose".

Conclusion

Effective leadership in social enterprises is consistent with the principles of effective leadership in any organisation – the 'tasks' of leadership remain the same: strategic clarity, effective execution and creating a culture of innovation.

However, the financial, procurement, customer and advocacy challenges outlined in the first paper of this series place specific demands on leaders across the sector. They demand leaders at all levels with the right capabilities but they also demand the development of sustainable systems that can support these leaders to succeed. It is not just about developing leaders that can inspire and motivate their people but about developing the 'organisation builders' of tomorrow, leaders who can shape and lead sustainable organisations across the sector.

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