

Contrary and Congruent Views of Leadership and Management in the Australian Social Economy

A research project by



"The 21st Century will be the century of the social sector organisation. The more economy, money and information become global, the more community will matter. And only the social sector nonprofit organisation performs in the community, exploits its opportunities, mobilizes its local resources, [and] solves its problems. *The leadership, competence, and management of the social sector nonprofit organization will thus largely determine the values, vision, the cohesion and performance of 21st Century Society.*"

Peter F Drucker, Drucker Foundation 1999

November 2007



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Via this report we introduce the concept of "open source research". This idea parallels the very successful open source movement in the software industry exemplified by Linux, Firefox and thousands of other valuable projects. A core element of the open source movement¹ is a license that forces derivative works to be as free as the material on which it is based. In this way, intellectual property can enjoy total freedom, maximising its opportunity to be used and improved. Academia has a long tradition in this vein. The difference here is the legal framework that requires derivative work to be shared publicly and for free.

Note

The data and evidence were collected in this study during the period July – October 2007. Since then conditions may have changed. Hence, interpretations provided in this report may also have changed in the interim and in the period of dissemination and discussion about the outcomes of the study. The reader is referred to the archives for further verification of both data and interpretations. These preliminary findings are shared in the spirit of action learning and collaboration, an organising theme in the conduct of the research. Your constructive criticism either with the team via email or via the SEEEN discussion forums (www.seeen.org.au) is welcome.

¹ For an overview and introduction see the wikipedia entry at http://en.wikipedia.org/wiki/Open_source.
More information and resources are available at <http://www.gnu.org/>

Chapter 4: Leadership and Management in the Australian Social Economy

There are two aspects in any discussion of leadership and management²⁶. The first is at the level of the organisation and individual practitioner; that is, the practices and procedures that an executive engages in to achieve outcomes for an organisation. These capabilities include the integration of functional activities (human resources, finance, operations, information technology), development of the organisational culture, motivation of employees. One framework, illustrating the breadth of general management issues is provided below²⁷:

Description of Organizational Components in the Stream Organization Model

1. Organizing Arrangements	2. Social Factors	3. Technology	4. Physical Settings
A. Goals	A. Culture	A. Tools, Equipment, and Machinery	A. Space Configuration
B. Strategies	1. Basic Assumptions	B. Technical Expertise	1. Size
C. Formal Structure	2. Values	C. Job Design	2. Shape
D. Administrative Policies and Procedures	3. Norms	D. Work Flow Design	3. Relative Locations
E. Administrative Systems	4. Language and Jargon	E. Technical Policies and Procedures	B. Physical Ambiance
F. Formal Reward Systems	5. Rituals	F. Technical Systems	1. Light
1. Evaluation System	6. History		2. Heat
2. Pay Systems	7. Stories		3. Noise
3. Benefits Packages	8. Myths		4. Air Quality
	9. Symbols		5. Cleanliness
	B. Interaction Processes		C. Interior Design
	1. Interpersonal		1. Decorations
	2. Group		2. Furniture
	3. Intergroup		3. Window Coverings
	C. Social Patterns and Networks		4. Floor Coverings
	1. Communication		5. Colors
	2. Problem Solving/Decision Making		a. Floors
	3. Influence		b. Walls
	4. Status		c. Ceilings
	D. Individual Attributes		D. Architectural Design
	1. Attitudes and Beliefs		
	2. Behavioral Skills		
	3. Feelings		

Source: G. E. Germane, *The Executive Course*, © 1986, Addison-Wesley Publishing Company, Inc., Reading, Massachusetts, Page 266, Table 8.1.

The second is at whole-of-sector level; that is, the leadership and management of the sector as a whole. Issues of policy, governance, representation, et cetera fall into this category. The discussion will be split into these two aspects as the issues raised in each and the audiences addressed are quite distinct.

4.1. Definition of Leadership and Management

This report works from the definition of "Leadership" and "Management" provided by John P Kotter²⁸ the Konosuke Matsushita Professor of Leadership, Emeritus at Harvard Business School:

Management is about coping with **complexity**.

Leadership is about coping with **change**

²⁶ A rich description of a number of Leadership and Management issues in the sector can be found in Volume II and Key Issue reports that directly address the issue of leadership. Other material may be found in the FG and TLF Reports.

²⁷ Jerry I. Porras, *Stream Analysis*, Addison Wesley 1987

²⁸ John P Kotter, What Leaders Really Do, *Harvard Business Review* Dec 2001

Management practices and procedures are largely a response to one of the most significant developments of the twentieth century: the emergence of large organisations. Without good management, complex enterprises tend to become chaotic in ways that threaten their very existence. Good management brings a degree of order and consistency to key dimensions like quality and profitability of products.

Leadership and Management are two different functions and both involve deciding what needs to be done, creating networks of people and relationships that accomplish an agenda and then trying to ensure that those people actually do the job. But each accomplishes these three tasks in different ways.

Companies manage complexity first by planning and budgeting - setting targets or goals for the future (typically for the next month or year), establishing detailed steps for achieving those targets, and then allocating resources to accomplish those plans. By contrast, leading an organisation to constructive change begins by setting a direction - developing a vision of the future (often the distant future) along with the strategies for producing the changes needed to achieve that vision.

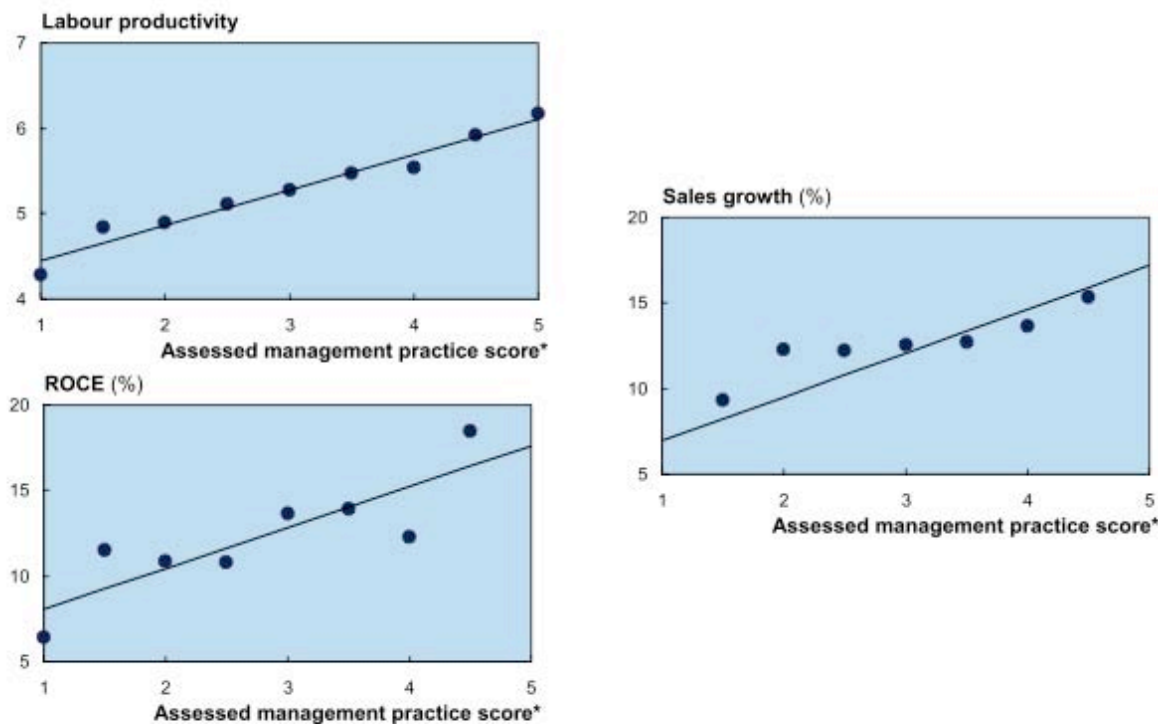
Management develops the capacity to achieve its plan by organising and staffing - creating an organisation structure and set of jobs for accomplishing plan requirements, staffing the jobs with qualified individuals, communicating the plan to those people, delegating responsibility for carrying out the plan, and devising systems to monitor implementation. The equivalent leadership activity, however, is aligning people. This means communicating the new direction to those who can create conditions that understand the vision and are committed to its achievement.

Finally, management ensures plan accomplishment by controlling and problem solving - monitoring results versus the plan in some detail, both formally and informally, by means of reports, meetings, and other tools; identifying deviations; and then planning and organising to solve the problems. But for leadership, achieving a vision requires motivating and inspiring - keeping people moving in the right direction, despite major obstacles to change, by appealing to basic but often untapped human needs, values and emotions.

This definition clearly delineates the activities of leadership and management. While the exact boundary might be argued, and other paradigms offered, Kotter's framework is simple and provides us with a definition that can be easily applied to the Social Economy.

4.2. The benefits of better general management capability

The past 60 years have seen an explosion in the sophistication, quantity and quality of management research and education in western economies. This growth has been driven by for-profit organisations seeking to maximise their return on investment.



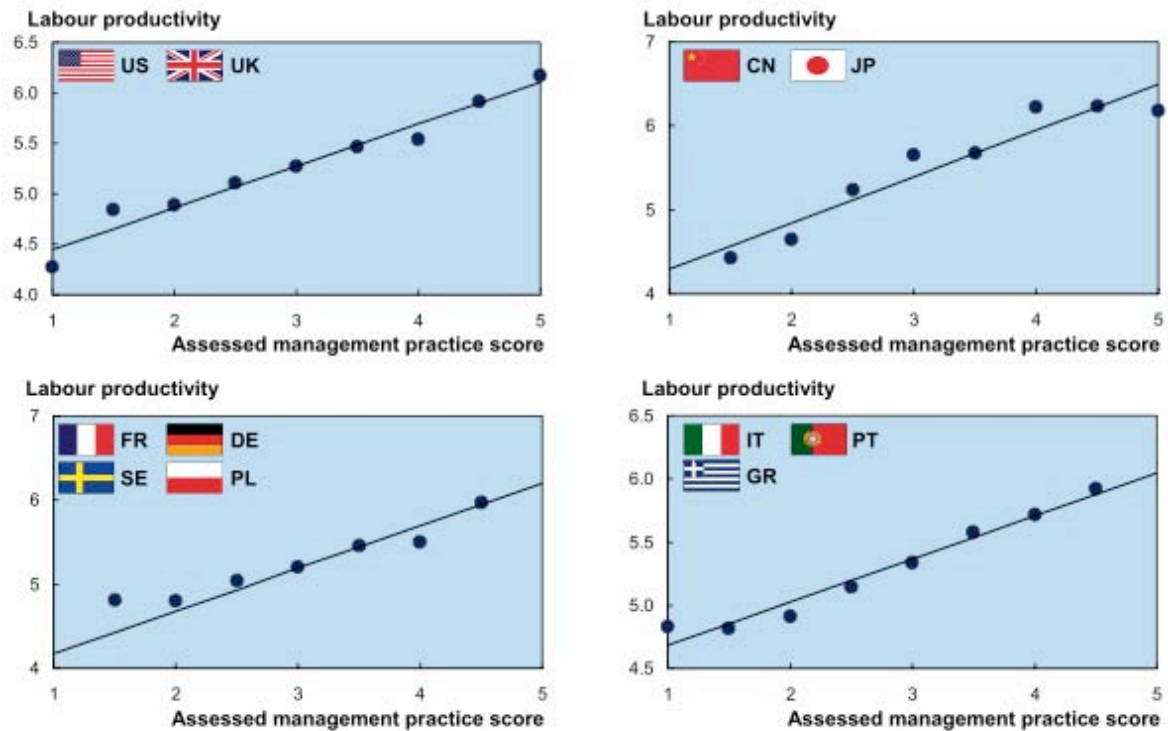
* Firms are grouped in 0.5 increments of assessed management score

There is much anecdotal praise for the benefits of management capability but until recently there was little hard evidence. A recent paper published by the London School of Economics in conjunction with McKinsey & Co²⁹ shows the results of five years of investigation into the performance of over 4000 manufacturing firms around the world.

The critical result, illustrated above is that increased management (practice) is closely correlated with organisational performance on a number of measures.

This result is consistent across a number of geographies and operating conditions indicating the universality of the finding.

²⁹ Management Practice & Productivity: Why they matter, July 2007, Nick Bloom, Stanford University, Stephen Dorgan McKinsey & Company, John Dowdy McKinsey & Company, John Van Reenen, Centre for Economic Performance, London School of Economics



* Firms are grouped in 0.5 increments of assessed management score

The Social Economy is yet to experience this growth in education of its executives and to benefit from impact of applying increased capability to the limited resources available to solve social issues.

4.3. The additional complexity of leadership and management in the Social Economy

Before discussing the issues of leadership and management it is important to acknowledge the increased complexity of leading and managing in the sector. Managing an organisation or program in the Social Economy is more difficult than in the for-profit sector because:

- 1. There are more issues / variables to be managed;
- 2. Each of the issues has the same or greater uncertainty; and
- 3. The uncertainty extends over longer timeframes.

Take revenue as an example. For-profit organisations generate cash from the sale of products and services, and the utilisation of debt and equity. Organisations in the Social Economy have these options available to them, but in addition may also utilise grants from philanthropic organisations, donations from the public, government funding as well as fundraising events and activities.

Managing an organisation's human resources is also more difficult. Not only do non-profit organisations need to manage all the same technical and psychological issues that for-profit organisations must, but they have to do so while paying up to 30% less in salary. The task of managing volunteers creates added pressure and complexity.

Another source of complexity is the number of stakeholders and their competing interests. Social Economy organisations have to balance the interests of staff, volunteers, boards of directors, funders, clients/cause, policy makers and the general public. Unlike for-profit organisations where the principle source of revenue is the customer being served, Social Economy organisations are meeting the needs of one group of stakeholders (clients/society at large) with the resources provided by funders (and to some extent employees through sacrificed salaries). While meeting their organisational objectives, executives must manage all the other competing interests of its additional stakeholders.

The ultimate challenge for Social Economy organisations is the establishment of clear cause-effect relationships between their interventions and social objectives. Hence, the measurement of performance in the sector is another immense challenge.

Perhaps a part of this challenge (or because of it) is the fact that accountability for leaders and managers in the social economy is not only contentious but highly complex. This is because their actions and behaviours as well as the sector generally are 'driven' by at least by four forms of motivation and values (See section 11.4 this report).

First, they need to perform as leaders and managers and demonstrate capabilities that support the development of their organisations and the sector generally. This performance is about both social and economic impact but it also highlights the need for them to integrate the business and cultural/social dimensions of their work. Social economy leaders and managers' actions and behaviours need also to be driven by the values of the sector; they must be 'right' per se (in themselves) and in principle. Furthermore these actions and behaviours need to be aligned with the search for a common and social good. And finally, leaders and managers in the sector at all times need to act and behave in the public interest, that is, they need to act to increase the credibility and reputation of the sector.

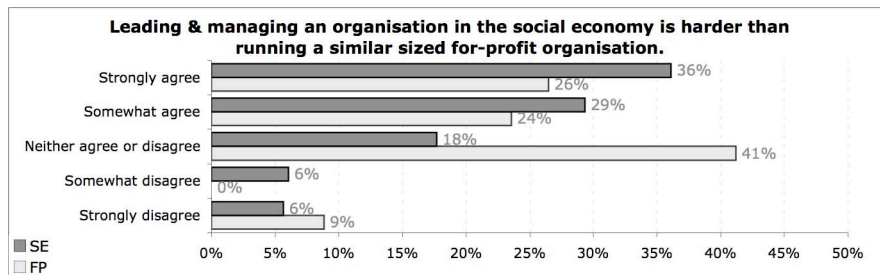
One has to reflect as to whether similar motivations drive other sectors; or that the complex nature of these drivers which are the basis for accountability are understood by other sectors and groups who impact so strongly on the work of the Social Economy.

A frequent catch-cry from some funders is the need for "innovative programs". The assumption is that it is possible to:

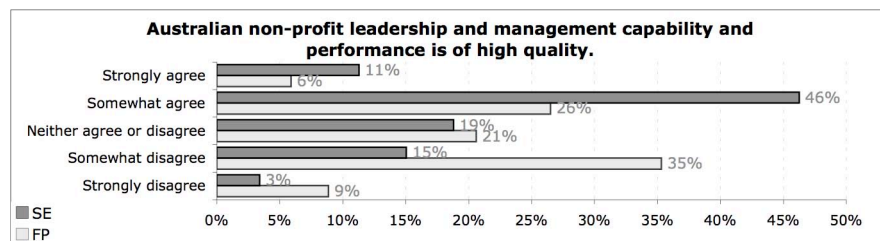
1. "prove" a particular program is in fact different from the alternatives (as opposed to a copy of an existing intervention, whether repackaged intentionally or not); and
2. that the difference enhances impact (effectiveness and/or efficiency) - that is, that it creates more good than the next best alternative. One of the real challenges in this regard is checking for unintended (negative) consequences.

The clear implication is that managers of organisations in the Social Economy need more, not less, skills than their peers managing similar sized for-profit organisations.

This argument is understood and felt, although not necessarily articulated by the sector. As shown below, the majority of respondents agreed that running an organisation in the Social Economy is harder than a similar-sized for-profit organisation.



There was less support for the statement that the sector's leadership and management capability and performance is of high quality. While 57% of Social Economy respondents agreed that the sector's leadership and management capability was of high quality, 18% disagreed. Somewhat to be expected, the for-profit respondents were more critical, with only 30% agreeing, and nearly 44% disagreeing.



4.4. Executive leadership and management

Throughout the course of the study many apparent contradictions rose to the fore, and at many times it was very difficult to reconcile issues which were reflected through the views and practices of leaders and managers.

However, one pattern became obvious toward the conclusion of the research process. Many of the issues cited by the majority of participants were contradicted by those individuals who were the more knowledgeable and sophisticated. That is, the more qualified / educated / skilled research participants in the research who were also a minority of leaders and managers often contradicted the larger general population composed of those who may not have had the benefit of advanced management development.

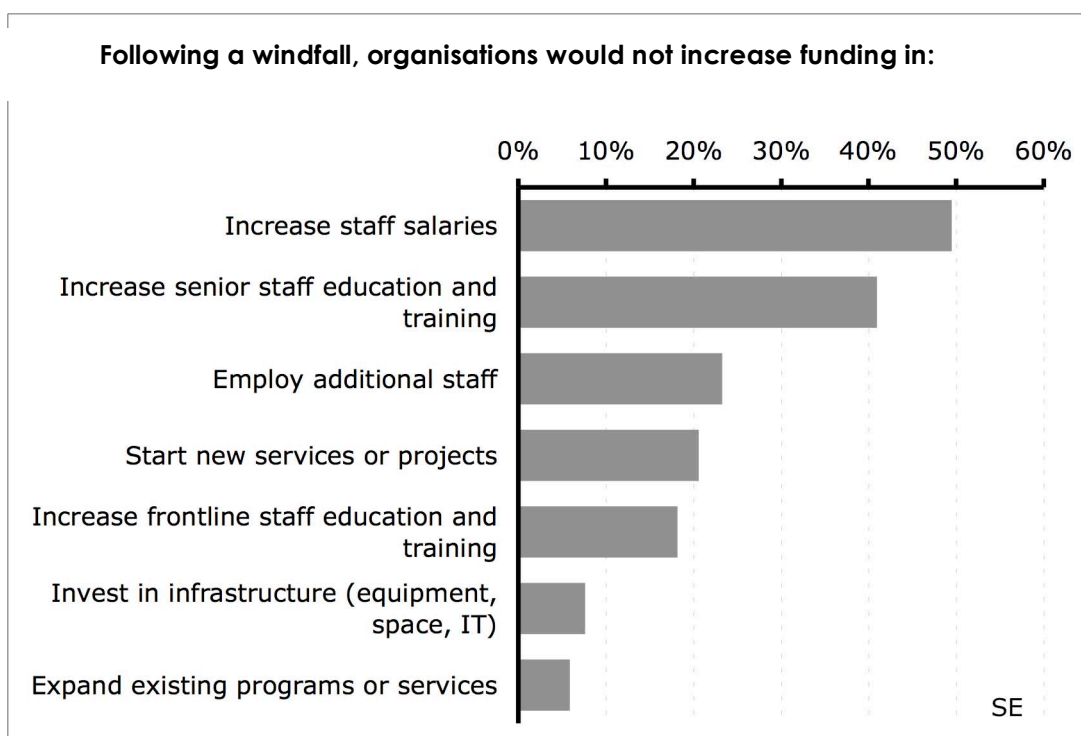
The most explicit example of such contradictions was observed on the topic of funding (See also Chapter 5). Funding was the number one issue raised by the majority of survey respondents. And it was invariably claimed that it was the lack of funds available for their organisation/programs that was the basis for the challenges they faced. However, the more highly competent experts described funding as "elastic"; and they asserted that more than enough funding is available for good programs, projects and organisations. That is, the real issue is one of management capability and adoption of more professional approaches, not a shortage of funding.

Compounding the lack of management capability is the confusion that arises when general management vocabulary is used. This confusion arises from unclear / different word-meaning relationships in the field of general management in the sector (See

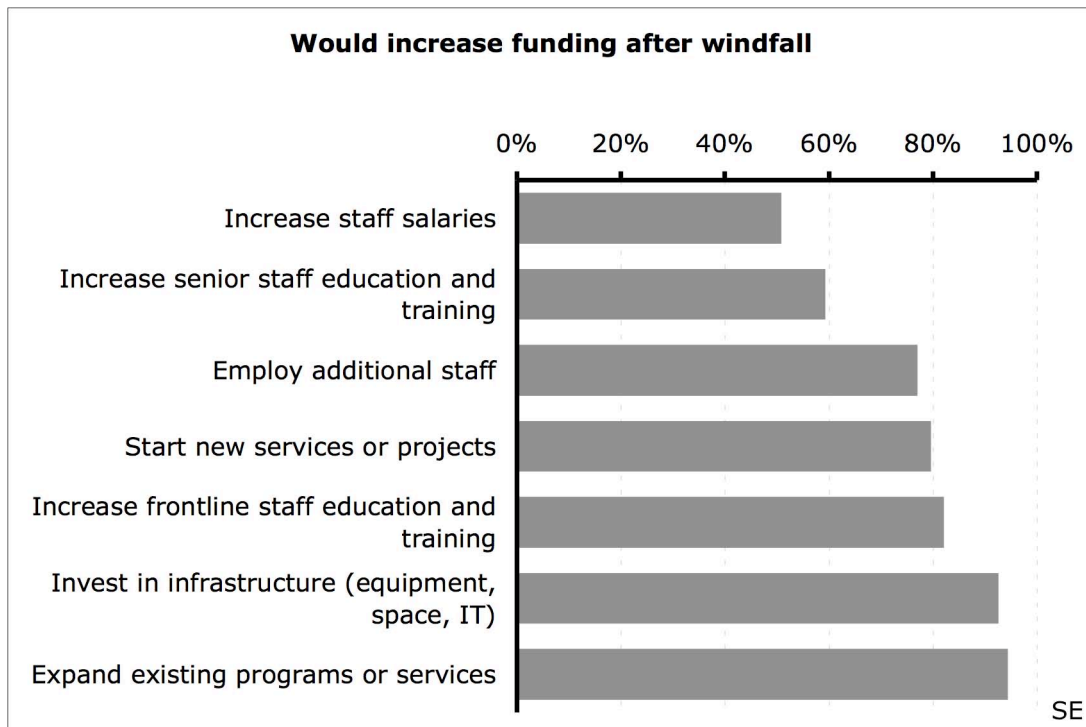
Chapter 9). Without a common vocabulary stakeholders have great difficulty communicating, and thus cooperating to any meaningful degree. The lack of common word-meaning relationships is also due, in part, to the lack of professional development and socialisation that occurs through formal and informal management development.

Apart from these issues of capabilities and skills, issues of motivation and intent can also complicate matters. Many examples described by participants can be explained by a misalignment of interests (See Chapter 10). The absence of objective frameworks / ways of thinking through issues elevates the role of power and rhetoric in decision making, sometimes leading to unjust outcomes.

In the second survey, respondents were asked how they expected a windfall increase in funding would be allocated. It was disappointing to find that the two items that were least likely to get an increase were staff salaries and senior staff education and training.



Instead, the majority of respondents would pursue investments and activity that pre-supposes a level of management capability that does not exist!



The problem is even greater with for-profit respondents, of whom 100% said they'd expect to see an expansion of existing programs and over 90% said they'd start new services or projects. Also, government employees were less inclined to increase salaries.

4.5. Sector level leadership and management

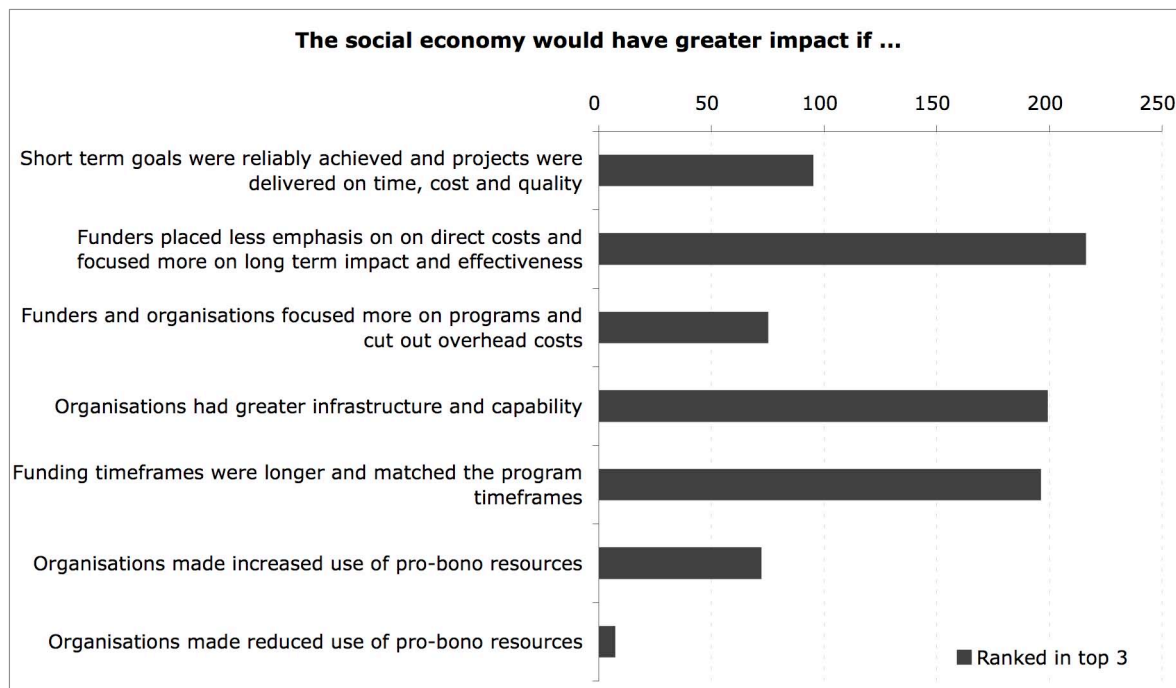
Leaders and managers generally operate within an environment that shapes their work and tends to compound their difficulties and concerns.

Many respondents complained of

- funding bodies focused on the wrong things (low overhead expenses, short time-frames, innovative programs, etc)
- a regulatory environment that eliminated advocacy
- ineffective boards
- lack of understanding and appreciation from the business and general community
- too many small Social Economy organisations and duplication everywhere; and the contradictory position of the excessive difficulty of starting new organisations and obtaining tax concessions
- lack of data and information
- poor co-operation within and across sectors
- lack of professional development opportunities
- expectations of poor salaries (on the part of organisations and funders)
- lack of common understanding

Thus the immediate task of leading and managing a complex organisation is further compounded by the broader environment.

When asked how the sector could have greater impact, three strategies rise to the fore as illustrated in the chart below – greater emphasis from funders on long term impact, greater organisational infrastructure and capability, longer funding timeframes.



Yet as shown in the previous section, these same respondents do not believe that organisations would allocate a windfall increase in funding on building capability and working with funders to gain greater agreement on the timing, priorities strategies and outcomes.

4.6. Reactivity in the sector

There is a culture of reaction and/or acceptance in the Social Economy leading to members taking an apparently powerless role and stance to the issues, challenges, and conditions which influence and/or impose on their work. There were several forms of evidence that demonstrated this stance.

There was little evidence in the study of Social Economy members contesting the conditions of their work. There was much evidence of resistance but little positive comment reflecting lateral thought or action. There was rare comment about the sector as the guardian and innovator in the construction for a more civil society (interestingly enough this was mentioned by a number of government and for-profit participants!).

It may also be argued that Social Economy members' powerlessness relates to issues of funding, for example, on an acceptance of current policy-ideology of the notion of market as interpreted by Governments who provide funding. There is a certain reaction, dependency, and acceptance of a "free-market" situation rather than a recognition and contestation of the politics of funding. The same situation occurs when members' responses to Governments' regulations reached an almost impassioned reactive negativity when issues of funding were raised. No mention was made that members

influenced the formulation of government social policy (although it could be recognised that covert influence existed), and no comment indicated that members should be involved in policy formation that significantly affected their work operations and impact.

The responses to "innovative business models" supported this interpretation in that they were more a narrative about explanations of why innovation was so difficult in the sector; and not a more challenging stance to the adoption of innovative models in organisations.

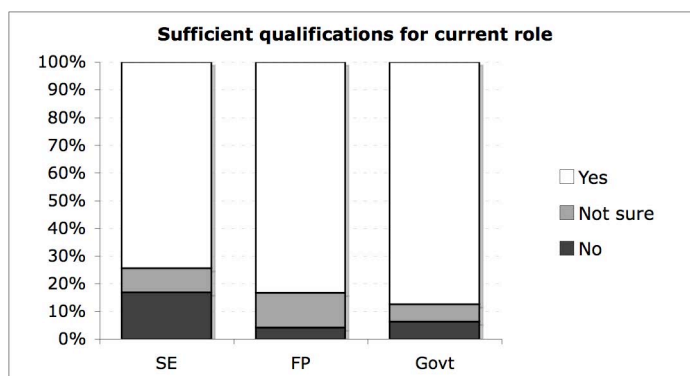
Further evidence for this reactive stance may be found in the lack of measurement the need for which was recognised but practised rarely because of lack of knowledge and available measurement "tools".

4.7. Professional development

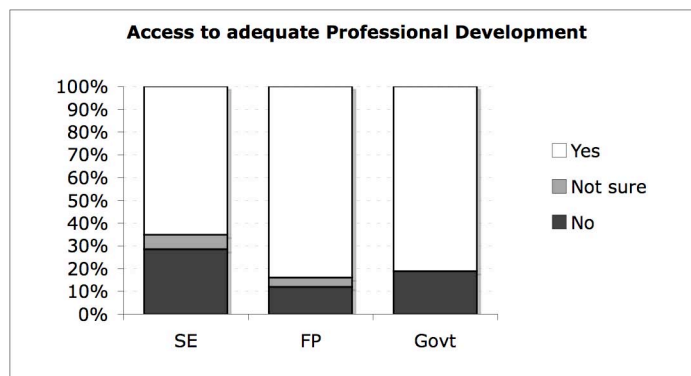
Many respondents complained about the lack of professional development opportunities. The causes attributed included a lack of time, lack of funds and general unwillingness on the part of boards and funders to support capacity building – the focus was on funding programs and keeping costs down in the short term.

This "logic" was not unexpected and fits with other research into the sector. It also highlights the vicious cycle where short term thinking creates more pressure to deliver results in the short term ... never allowing capacity to be built which might eliminate these knee-jerk pressures.

Thus and as expected, when Social Economy employees were asked if they were sufficiently qualified for their current role, nearly 17% said they were not – a significantly response rate than their for-profit and government peers.

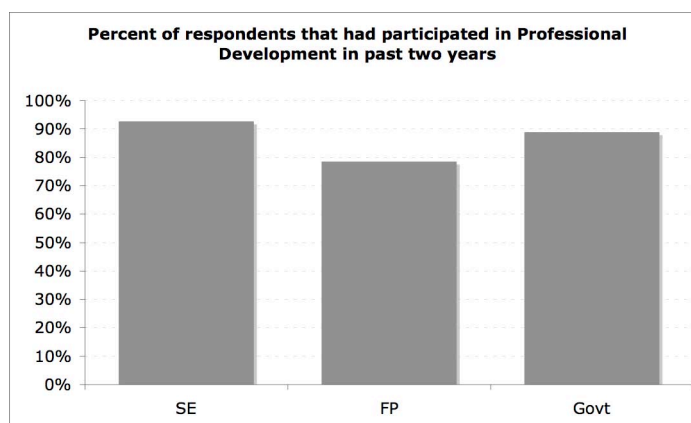


Further, nearly 30% said that they did not have adequate access to professional development opportunities.



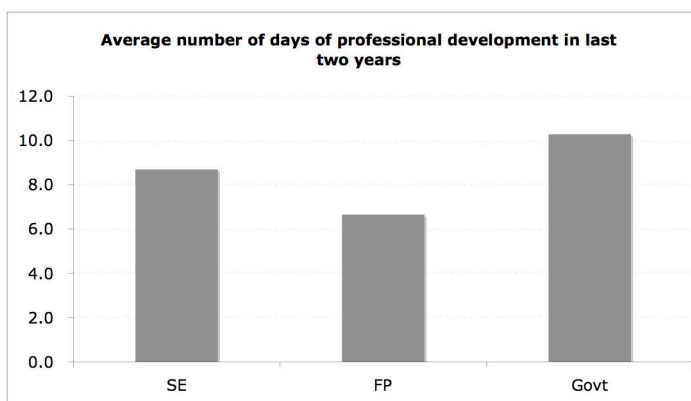
The surprising thing is that Social Economy executives had undertaken more professional development over the last two years than the respondents in the for-profit sector.

The following chart shows the percentage of respondents that had undertaken some form of professional development in the last two years. Surprisingly, over 90% of those employed in the Social Economy had benefited from some form of professional development.

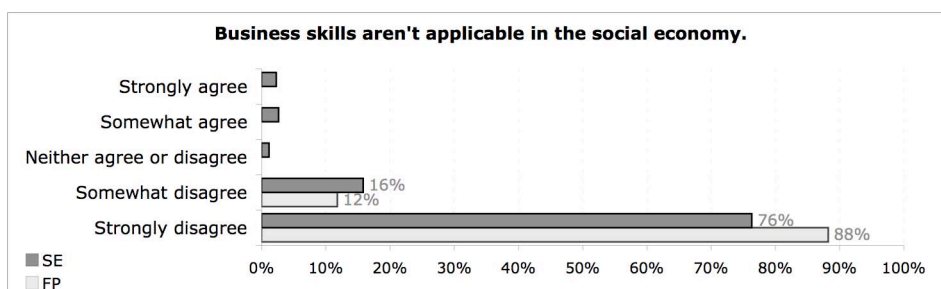


When we look at the estimated³⁰ number of days of professional development we see that, again the Social Economy participants participated quite well – better than the for-profit respondents but not as well as the government employees.

³⁰ The respondents were asked to identify, in range bands, how many days of professional development that they had undertaken. The average number of days was estimated from these responses.



When asked about the relevance of business skills in the sector, there was almost unanimous agreement that they are applicable. This finding is illustrated in the following chart that maps the direct responses to the proposition that “Business skills aren’t applicable in the Social Economy”.



Thus we have a situation where:

- Almost all Social Economy respondents believe that business skills are applicable;
- Yet around 1 in 5 don't feel qualified for their role;
- And 1 in 3 don't feel they have sufficient access to professional development;
- Yet are undertaking more professional development than their for-profit counterparts.

Thus the Social Economy participants in the study:

1. Undertake professional development in fields other than “business” skills; and/or
2. Commence their professional development with limited business experience or prior learning, and although they appear to be undertaking similar activity as their colleagues need substantively different or more kinds of professional development.

Examples of participants in 2 above might be the many executives in the Social Economy who have risen through their organisations (generally without a clearly defined career path) to executive leadership, and are seen as having limited business skills especially in the area of financial management. Further, they lacked the ability to apply the more practical aspects of business. Most alarmingly, it was claimed that they hid their deficiencies behind the rhetoric of language.

It should be noted that management and its relationship with professional development were considered in relation to organisational development. Many respondents were not seeking upgrading leadership and management skills; and believed that it may be preferable to import skilled business staff than to upgrade existing staff business skills; and that restructuring, as had occurred in many larger Social Economy organisations, could result in exclusion of personnel with "passion" and their replacement with a different kind of culture in the organisation. It was noted that almost all the larger corporate Social Economy organisations in Australia had appointed their CEOs from the for-profit / corporate sector.

4.8. Leadership and management development and education

Much has been said explicitly and between the lines about leadership and management throughout this report. We don't intend to trawl over the finding about leaders and managers yet again. But there are six statements that can be made and they are:

1. Executives in the Australian Social Economy would benefit from greater general management and leadership capability through education and training.
1. At present there is an apparent short-sightedness on the part of funders, boards, and sector members themselves in relation to professional development, investment in long-term capacity building.
2. The sector is very diverse and geographically distributed. A range of pedagogical approaches and educational programs appear to be needed to match this diversity – a one-size-fit-all a capital-city centric approach and/or a class-room-based solution will not be appropriate or effective for the entire market.
3. As a consequence of point 2 above, the demand for general management and executive development from within the sector itself appears weak. When combined with point 3 we see that it is difficult to achieve economically viable educational provision at present.
4. Substantial effort seems desirable to boost demand (from current executives and the sector's future leaders) and to enable providers to develop viable solutions to satisfy the demand.
5. Every individual leader and manager might aspire to the role of changemaker and proactively shape the conditions and operating environments of the Social Economy in Australia³¹. This aspiration is unlikely without ongoing professional development as lifelong learning.

We conclude this section with the reflection that in the broader context of change in the sector, the challenge is not just about improvement of individuals or groups but it is also about changing the material conditions under which they all work in the creation of social wealth and a more civil society.

If demand for general management professional development can be stimulated, we shall see the creation of education solutions through natural market forces. These

³¹ The idea is not new. It has been the call of Ashoka through its founder Bill Drayton for many years now.

solutions may be accredited or non-accredited and possibly constructed on the platform offered by Australian Higher Education institutions. For many however, enterprise qualifications within a resources and experiential based learning framework, and recognised and administered by an appropriate authority maybe more relevant for the majority of members in Social Economy organisations³².

4.9. Quotes

There are plenty of PD opportunities the challenge is working out how relevant they will be to your work and whether they are worth the time and money you invest in them. An interesting case is the AGSM which was recently offering free (normal cost was over \$15k) places to not-for-profits for a two week residential senior managers course and having trouble filling the places. PD, 104, (1), S#2

Social Economy is about catching enough glow flies in a net to light up a room. Other sectors seem to be more about teaching people how to find the light switch. The direction of professional development in commercial sectors is rarely a balanced approach, it adopts a more focused approach within the bounds of the attendees role and capabilities. The professional development I have attended for social purposes has had a more constructive effect than instructive. PD 365 (2) S#2

There need to be more leadership shown by the sector towards government, corporates and the community generally. Not for profits must stop apologizing and earn their rightful place in the corporate world and be treated as equals. SL 23, (1), S#1

Courage for not for profits to stand up and say what they need out of partnerships from corporates and not being afraid to challenge the way the corporates want to do things. Corporates to spend the time to really get to know what the social and environmental issues are and what it takes to make an impact versus running a positive public relations exercise that gets covered in the media. SL 215, (1), S#1

Almost a no-brainer. Every organisation and society benefits from and becomes more effective under strong leadership. Who are the leaders and are they working together to change the game? I'd say there are plenty of princes but few kings and they often appear together as opposed to actually working together. The opportunity is there to be taken as in any vacuum. SL 81, (2), S#1

A side effect of everyone wanting to see their own organization as a leader is that no one takes a SECTOR leadership role. Who is the voice for the funded sector that stands up and says they are a leader? Peak bodies often fail to do this. People lead organisations, not sectors. SL 559, (3), S#1

Social Economy is often looking for more cost effective PD as many can't afford the rates paid by corporates. The organisations are sometimes so understaffed that PD can be seen as a luxury rather than an essential part of "business". PD can also be a way of reducing tax in a for profit; not applicable to non-profits of course. PD, 106, (1), S#2

Charitable or not for-profit organisations often have a significant volunteer workforce. There is often a complex relationship in the organisation between the role of paid staff, volunteers and the role of the Board. Those who work for the organisation are motivated by factors other than a need to be paid to live. These organisations are often very complex in their functioning and management CM 115 (1) S#1

Having worked in both sectors, I would say that the corporate sector is radically better at developing the skills and capabilities of its staff through formal, structured training

³² The model of the Australian Institute of Company Directors is an example. There is the assumption however that the Social Economy is capable of setting and monitoring its own professional standards.

and development. The social sector however excels at developing resilience, creativity, self-reliance and self awareness. PD, 133, (1), S#2

4.10 Questions

1. What is the current status of leadership and management in the Social Economy?
2. What specific actions or strategies must be taken to improve the "quality" and capability of leaders in the sector?
3. What are the most important capabilities that need to be developed, and how might they be propagated?
4. What can be done at a systemic level to stimulate capability development?
5. How is the reactive stance of Social Economy members witnessed in the daily operations of organisations in the sector?
6. How might the reactive role played by a Social Economy member be changed? Or should it?
7. What are the consequences of a lack of contestation and opposition to externally formulated policy and conditions of support for the sector?
8. How might Social Economy members work more actively to influence policy guidelines of funders?