

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

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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 6: Funding, Symptoms and Causes

6.1. Causes as symptoms underlying the funding problem

The “lack of funding” was raised repeatedly as a major challenge facing the sector, and one that is never far from the sector’s leaders” and managers” minds. The Key Issue of “Funding and Resources” was by far the most important and priority issue for participants in the Social Economy, but also for participants from the other segments.

There were two quite different positions espoused. Lack of funding was either:

1. A “symptom” of poor leadership and management; or
2. The “cause” of most other issues, including the inability to recruit and develop effective quality leaders and managers who could attract funds for financial sustainability of the organisation.

The view of participants and their statements in which funding is seen as the “cause” of funding problems includes:

- Inadequate provision of available funding.
- Funding in the Social Economy is like lining up for rations⁴⁵
- Mismatch of time-frames; many respondents argue that time-frames for funding are inappropriate.
- The allocation of funds does not synchronize (temporally) with operating budgets.
- Funding is short-term, often based on annual allocation which does not guarantee continuity and financial sustainability of a project, program or organisation.
- There are certain organisational realities (employment, capability building, etc) that have to be met and which the nature of funding regulations cannot meet.
- Core and direct costs are invariably funded but general expenses (administration costs, capacity-building costs including staff professional development costs) are rarely funded by Governments and Foundations. Quite often a misalignment with social mission develops because of the almost total preoccupation with finding funding and resources for survival.
- Costs of application and reporting to sponsors/funders are very high, extracting a heavy toll and wastage of resources.
- Many organisations resort to “the program game”. This tends to involve:
- Repackaging/re-badging the same project for multiple funders/grants (often an illegal activity with many grant processes)
- The necessity of resorting to “Yes Minister” kind of activities. (See Snapshot 1 below)
- Engaging grantpersonship that appealed to novelty, fashion, and application for projects that appeared “sexy” and suggested outcomes based on new/innovative/sustainable/long term/strategic ideas but are in fact neither tested nor tried. Many projects that are tested and tried are rejected by funders because they do not have this novelty and attraction of a “new idea”. Respondents were particularly scathing of Governments tendency to fund fashion and change guidelines annually almost for their own political purposes (vote catching).

⁴⁵ Report FG4a

There were many comments that reflected these views:

Everyone wants to find the new idea”⁴⁶.

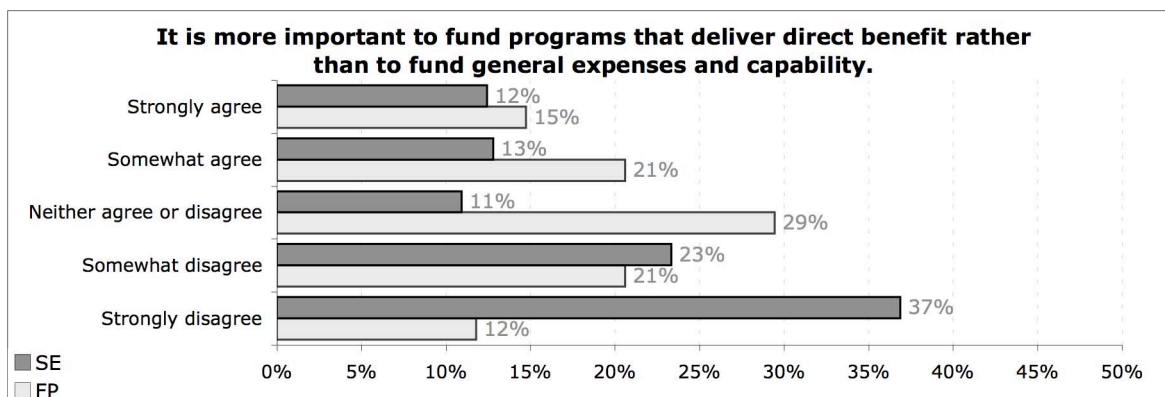
*What **we** want is to find recurring expenditure. That’s the heart of the matter. do a slight of hand. Everyone does it – the new sustainable idea!*

The idea of "spin" and "massaging applications"⁴⁷ appeared to follow something like the following:

- a project is funded ...*
- the project is evaluated for impact or effectiveness*
- the funder (governments, corporate, foundations or private funders) acknowledge but request a new idea*
- the original idea is no longer a new idea*
- a new rhetoric is developed by applicants*
- a new project is funded.*

“Matching funding” was raised⁴⁸ as another “cause” in the matrix of funding problems. This referred to the practice of governments” promising to match funds raised from the corporate sector. However, when dollar sponsorship additional to notional funds were raised from the private corporate sector, the Government reduced its funding amount to the original total.

Also highlighting the differences is the disagreement over the relative priority of funding programs versus general expenses and capability as illustrated in the chart from the first survey below.



Around 25% of respondents from the Social Economy, and 36% of respondents from the for-profit sector believe that it is more important to fund programs than capability. This view perpetuates many of the problems that the respondents themselves complained of.

The problem of failure within the sector was identified as an important issue. This referred to the prevailing tendency among Social Economy organisations never to admit failure of their program(s).

⁴⁶ Recording FG6a 28:06

⁴⁷ Report on FG5

⁴⁸ Recording FG6a 34:06



An example of "spin" and "massaging grant applications" is shown in the next vignette "Yes Minister"

Snapshot: Yes Minister – Securing Government Funding

A small kindergarten has existed for over 100 years serving the poor in an inner metropolitan Australian city. It's Not-for-profit, community operated and managed; and the community of children, staff, parents and supporters is largely multicultural. Its peak body is a committee of management so that it follows democratic values consistent with other organisations in the Social Economy sector. Many members of the committee lack language skills or have not been in the country long enough to develop any kinds of networks.

The staff work hard delivering high quality programs. The current building that houses the kindergarten is over 40 years old. The roof leaks. The kitchen is dysfunctional and not suitable for current needs. The building has never been properly maintained due to a lack of resources. The Local Council won't give money for repairs because it is not a council owned kindergarten. The Government bodies which provide funds for this enterprise won't give money for maintenance, infrastructure, or overhead costs because the program is not multicultural enough; the building is an asset and the kindergarten is not poor enough to qualify for a grant for infrastructure repairs.

However, there's a State election looming and some funding for capital works might be available. So the CEO looks at the possibilities. She finds that the money cannot be allocated for new works or maintenance, just for the extension of existing programs.

In order to fix the roof, the CEO searched for, and found the solution that was literally, just above her head. A proposal was prepared to increase the capacity of the existing program by adding a second floor to the building, and moving the kitchen upstairs. In this way, the old leaky roof would be replaced by a new floor containing a new kitchen.

The money was allocated and both problems solved! No one would give a small amount of \$20,000 to fix the kindergarten's leaky roof. But through ingenuity and a small dose of survival thinking, a new roof cost \$250,000.

All of this occurred within a narrow, and some would say punitive, regulatory and political environment. The resulting wastage both in terms of taxpayer dollars, and the work demands on the kindergarten's CEO seems evident. If it had not been for the management capability of the CEO supported by her Committee however, the roof would still be leaking, and disadvantaged children even more deprived. The "Yes Minister" like solution to the kindergarten's leaking roof problem in the long-term reduced further wastage and in the short-term may well have increased and at least maintained the impact of the organization's program.

It seems self-evident that the capacity of some SE organisations and programs in specific industries such as early childhood education, disability, etc have limited access to funding for infrastructure and maintenance if only because of their nature as service industries with limited capacity to trade and earn income.

But it has to be asked at what cost and, why was it necessary to massage guidelines and regulations simply to survive?

There are many organisations that engage or have to engage in the craft of interpreting and distorting funding processes and guidelines demanded by funders especially the largest, the Federal Government and its many Departments. This process is a cause of great resistance, frustration and manipulation for more active leaders and managers in the Australian Social Economy.

"it's always blue skies in the sector⁴⁹". The logic that follows is that the sector is seen to have such great impact that the need (for further funding) would be decreasing. It's never happened.

While it was acknowledged within the discussion that failure of a project or program may not be a "bad thing", it was recognised that funders (but especially the Federal Government) would look to other organisations "the next time around".

Another suggested "cause" of funding problems is seen as the image of the sector, its reputation and its image in society. Two aspects of this issue are:

- Self image; participants are of the view that sector members have a low status in the public sphere while vigorously defending the social wealth they do in fact create. Members who hold these kinds of view often slip into self-sympathy and regard to the extent that their passion and mission may become misaligned with the mission and goals of the organisation or even sector itself ("beggars", "cap in hand", "poor cousin", "always on the defence")
- Mistakes; there is a tendency not to admit mistakes. Indeed to admit error in the social sector runs the risk of being labelled as a failure.

The above "causes" of the funding problem were expressed in the views of the majority of participants in this study.

There was another small group of participants of relatively knowledgeable and sophisticated executives who had quite a different view. Their position was that the outcomes above were in fact symptoms of poor general management and limited vision.

6.2. Cause rather than symptom as the problem

The symptoms are not the problem. The problem is more fundamental. The problem is quality of people, boards.... The problem is quality of CEOs. There are management issues associated with these. There is a need to address these before any suggestion from a group of elites (such as those present at this Forum) can hope to have any relevance or effect⁵⁰.

The first Thought Leadership Forum provided evidence for the presence of "exceptional leaders⁵¹" (but even here the participants at times contradicted themselves and how they are addressing these issues!).

Most agreed that all the above observations about funding issues were more a symptom than cause. As one participant stated:

The symptoms are not the problem. The problem is more fundamental.

Their views are that many leaders and managers accept the status quo and don't aggressively question the issue of funding. They advocate that more innovative and

⁴⁹ Recording FG6a 57:41

⁵⁰ Recording TLF1 44:45

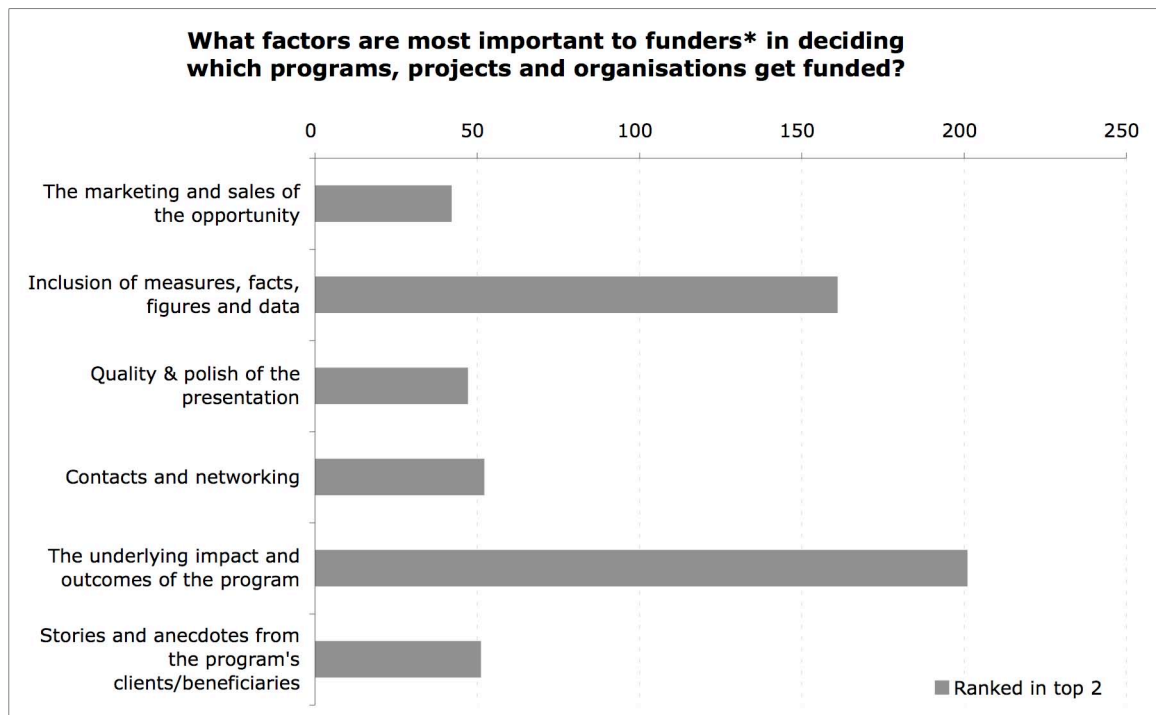
⁵¹ SL 290 (1) S#1

proactive perspectives are required. And in this light, what might be seen to be causes are in reality symptoms; this did not detract from the magnitude of the problem for individual managers and leaders or the sector as a whole.

This view is illustrated to some degree by the responses to a question in the second survey in which respondents were asked about the most important factors in determining the success of grant applications. From the Thought Leadership Forums it is clear that some of the more successful players in the Social Economy believe that unlimited funds are available, and that to tap them one must establish a clear strategy to "touch" the key decision makers, that the packaging of the opportunity is critical. They also acknowledge that while the inclusion of "hard data and facts" is necessary they can be meaningless due to the difficulties of measurement and time frames.

Yet as shown in the chart below, the majority of respondents placed most of the emphasis on the inclusion of measures, and on the underlying impact. Both of which have been "drummed" into the sector by business and funding bodies.

That is it could be argued that most respondents provide the "correct" answer – the one they've been taught to give, and that perpetuate the powerlessness and focus on symptoms.



In the words of a number of thought leaders:

Funding really ... it's a bit like an octopus with tentacles...It's an outcome. So I think it's really a question of having the right strategic direction, the right boards etc52.

52 Recording TLF1 28:20

I think it also reflects the paradigm that we have been a part of for a long time which is: "here are the funders and there are the providers". There are different ways of breaking down those polarities⁵³.

It's important to remember that there is no limit to funding; it's like an elastic opportunity. And it really does come down to the capability of the organisation.... for getting their share of it⁵⁴.

The relationships between funders and organisation are also very elastic. They will want to fund projects rather than capacity. There are different ideas emerging where there will be not only a desire for sustainable relationships and partnerships but involved relationships⁵⁵.

We recognised early on that the old model [of funding] was not going to work; so we set up longer term sustainable and involved deeper relationships with fewer organisations . Involvement is a huge part of it.....they have a stake in it. ... we recognised that we also have to create our own internal revenue (earned income) so that part of our model is that originally we were 100% dependent on funding, now nearly 30% of our funding we create ourselves charging for our programs. Our hope is to increase our balance so that over a period of time, we move out of dependence.

Some of the more innovative means for attacking the "funding problem" were clustered around:

- The development of innovative "models" of funding that are invented by the Social Economy not the funders;
- Targeted applications thus reducing wastage of resources;
- Long-term alliance and partnerships (especially with for-profit organisations) with an investment in ownership from all parties;
- A more entrepreneurial view that funding is "elastic";
- A stronger focus on the business concept of "strategy".

These were a few approaches. A strong argument was mounted for the "new wave" of social entrepreneurs in the Social Economy. Social entrepreneurship⁵⁶ emphasises earned income, uses alternative models of business, creates ownership and social participation (as self-determination), adopts an entrepreneurial orientation to funding and resourcing issues, and moves away from grant dependency.

More importantly, social entrepreneurs are driven by ideas rather than funding. The mission-driven idea precedes funding issues, in the belief that funding will look after itself.

Hence, leaders who are less reliant on external grants are also more entrepreneurial and innovative. They look for new ways of doing business and are more self-reliant and resilient in the leadership and management of their social enterprises.

In the context where the Social Economy espouses the values necessary to work together but largely fails in most collaborative efforts primarily because of an overly competitive environment, these leaders and managers seek a more innovative way of securing sustainable funds. Their focus might be on long-term strategic alliances and network

⁵³ Recording TLF1 28:45

⁵⁴ Recording TLF1 31:40

⁵⁵ Recording TLF1 35:40

⁵⁶ Social entrepreneurship is referred to as a state of operating using knowledge based on entrepreneurship-innovation, mission-sociality, and market-business.

governance involving staff (not as servants but partners), stakeholders (not as donors but as long-term allies), suppliers and distributors (not as servants or customers but as contributors necessary for the effective outcomes of the social enterprise), communities (not as clients but partners) and so on.

6.3. Investment as Innovation in the Funding of the Social Economy

Finally, our concern in this chapter has been to highlight how the majority of Social Economy members appear to misread what is symptom and cause in relation to issues of funding. There is another set of issues that are directly related and to which respondents made specific comments.

We don't wish to address these comments in any detail they can be read in the Key Issue Reports on Investment (Volume II).

We do want to query however the nature of responses of participants who responded to the key issues, "Funding and Resources", "Competition", "Investment", all within a context of response to "Collaboration and Cooperation".

Participants tended to treat the key issue of investment in much the same way as they treated "Funding and Resources"; namely, that investment was not embraced in any funding processes of Governments or Foundations, the primary sources of funding. Indeed as we have seen in Chapter 4, there seemed to be copious confusion about the meanings of the two terms. Investment like funding seemed to have symptoms not causes as the main concern in the sector.

Nowhere did any respondent indicate more innovative ways of addressing investment issues as an aspect of "solving" funding difficulties. Words such as: capital markets, debt financing, micro-credit, ethical investment, mezzanine funding, microfinance, social investment, venture capital and others were hardly ever observed in the conduct of the research.

Our point is that there remains a lack of knowledge if not sophistication in language use in the Australian Social Economy; language use which is being increasingly observed in other western social economies. And of all the innovative approaches provided in Thought Leadership Forums contesting the thesis that what was claimed as "cause" of funding issues was indeed "symptom", not one appealed to more sophisticated uses of capital, or to a language that indicated they were knowledgeable or aware of developments in the area of investment capital.

The lack of use of concepts reflected in the limited use of a limited vocabulary and inclusion of these words in the vernacular of the sector is probably another reflection of the issues raised in Chapter 2 that discusses the power of word-meanings. The lack of concepts and underlying knowledge may be a reason for slippage of meanings associated with a limited lack of understanding of concepts.

The observation confirms perhaps the need in the sector for increased professional development through better education and training.

6.4. Funding

The overriding issue⁵⁷ for participants in our study was “Funding and Resources”. It has received much attention in this report. But because of, or despite of this, funding will remain a continuing major concern for the majority of members in the Social Economy form many years to come. Why?

- It is a view which is not so different from views of members of social sectors in most western economies.
- Irrespective of new or innovative approaches suggested by thought leaders and managers in this study, funding is so pervasive a concern that it will continue to be an issue of importance to members in the social sector.
- The conditions of access to funding in the Australian Social Economy are quite different in other economies. Australia has never had the kind of access to funds and resources that other western economies have enjoyed. Hence, the UK is rapidly moving to the establishment of a Social Investment Bank and other initiatives. None of these ideas have been seriously floated in his country. Investment and funding is characterised by a poverty of language that demonstrates limited knowledge of capital.
- Even if funding is provided by new strategies as a result of concerted advocacy (where there is little unity of voice in the sector) such as the establishment of a Futures Fund⁵⁸ or Social Investment Bank⁵⁹, or social market⁶⁰, there will always be concerns about financial sustainability in the sector.

6.5. Questions

1. What new forms of funding might we adopt from the lessons of the UK and US?
2. In what way can markets be used/created to encourage the efficient allocation of resources (human, financial and intellectual)?
3. Is it possible for all organisations and members of the Social Economy to act in a more innovative and entrepreneurial way to attack the “cause(s)” (rather than its appearance as symptom) of the funding and investment issues?

⁵⁷ We define an “issue” as something about which there is agreement/disagreement under given conditions. The agreement or disagreement is often underpinned by complex understandings/misunderstandings in the minds of sector members. The aim of the study was to explore this difference and misunderstandings as a preliminary step to further research to generate “really useful” knowledge (sadly missing in the Australian sector) for greater understanding within and across sectors

⁵⁸ Similar to the Futures Funds established by the current Federal Government for Higher Education.

⁵⁹ This proposal in the UK is receiving wide support from social enterprises and Labor Government. It is based on use of “excess” superannuation funds being used for social purposes rather than lying dormant in low income earning investment portfolios. It included unclaimed funds.

⁶⁰ The idea of creation of a social market is not new with one of its strongest advocates being Muhammed Yunus of Grameen Bank. A form social market exists in Australia in the Indigenous Stock Exchange (ISX) www.isx.org.au