

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 7: Competition in the Sector

The issue of competition was not prompted or raised by the research team but by survey participants themselves. Interestingly, the issue "Competition" was most frequently raised in responses related to "*Collaboration and Cooperation*".

In discussing competition in this chapter, we begin with a comment of one of the participants in the study who claimed that competition was about "kill or be killed". This may be an extravagant assertion but the passion and often virulence with which comments were made about this issue indicates how competition is viewed and experienced in the sector.

In this chapter we first make some general observations. We then focus on three important sub-issues that arose in the research:

- Levels of competition
- Proprietary intellectual knowledge
- Heterogeneity

The concept of competition in the sector is then questioned and a number of factors are offered as the basis for the problem. The factors include:

- The way in which collaboration is viewed in the sector;
- The sector's capacity (or lack of) to innovate;
- The reactive culture in the sector;
- Symptom or cause (revisited);
- The conception of competition current in the sector.

We suggest that the best "explanation" for our observations is found in the conception of "contract competition" embedded in the policy-ideology of Government. The need for further enquiry about the nature of competition is proposed in the final section of the chapter.

7.1. Competition in the sector

Competition has always been the pillar of economic capitalism. Competition can (but not always) stimulate innovation and encourage increased efficiency. Competition is regarded by many people as the foundation of capitalism. Competition occurs when two or more parties act independently to secure someone else's business on the best terms possible. So how does this apply to the Social Economy in our study?

- The source of competition among Social Economy organisations was seen to be rooted in vying for (too little) funding and funding opportunities among too many social sector organisations and programs.
- There was very little mention of collaboration and cooperation among too few members of the Social Economy as a strategy to resolve this perceived issue of overpopulation of programs and organisations. Indeed the data from the study, indicated that there was little cooperation and collaboration occurring in the sector.
- When a question about "Collaboration and Cooperation" was raised, the term competition was repeatedly used to "explain away" the absence of collaboration and cooperation.



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- In the views of respondents, the issues of Funding and Resources, Competition, and Collaboration and Cooperation" were all associated within a specific "free market" orientation framework of thinking about competition.
- Too much competition was inferred as a justification for reducing the number of programs and organisations in the sector (this usually meant reduction in the number of smaller organisations).

Little wonder that (difficult to comprehend) comments such as the following were made:

The whole purpose of the Social Economy is to attract funds for support of social issues. Thus, strategies to increase funds and to identify resources of funds determine the success of the Social Economy⁶¹.

Many [NFPs] need to be educated on where/how they can get funding e.g. memberships, sponsorships, government grants. Having said this, many lack the skills, \$'s and resources to accomplish this. Many NFPs fold due to the pressure of no funds or resources and shear frustration⁶².

The overriding concern for financial sustainability appears to set the conditions for fierce competition within the sector with the consequences of:

- lack of unity;
- low advocacy;
- few lasting alliances (among similar industries especially)

In terms of the outcomes of economic competition, participants often claimed that competition:

- "stifled innovation";
- "wasted precious resources" (for example, through expending these resources in following "the grant trail", and an excessive number of applications to funders);
- "contributed to a lack rather than gain in efficiency, effectiveness and impact"; and hence also
- "led to lack of transparency in the sector".

We interpret these claims of participants to reflect precisely what we have observed previously; namely, that the majority of participants in the study made claims (similar to the above) that were contested and contradicted by the views of a smaller more competent group of participants. Hence in Chapter 3, we observed that the views of the more knowledgeable and sophisticated participants contradicted the general population. Again in Chapter 5, we recorded a long list of claims about funding issues. Where the majority posited these as cause, the more competent executives viewed them as symptoms.

We made the tentative interpretation that the larger population was composed of those who may not have had the benefit of advanced management development.

⁶¹ F&R 137 (0) S#1

⁶² F&R 580 (2) S#1

However, when we explore the issue of competition we need to ensure that we are talking about the same issue. Competition in some areas or forms might actually create social value whereas competition in other areas might reduce it.

To assist this discussion we deconstruct competition into sub-topics for convenience. The subtopics are:

- "levels" or "form" of competition
- corollary, being proprietary intellectual property
- heterogeneity & sub-sector conditions that might argue for more or less competition
- reconciliation of the scarcity of resources and competition

7.1.1 The levels of competition

Within the Social Economy, competition can occur on at least three distinct levels;

1. For funds, funders and resources.
2. Program and project design/strategy.
3. Project / service delivery.

That is, an individual and/or organisation can compete on one level while cooperating on the others. For example, a group of organisations operating in a community might work together on strategy and delivery but compete for funds. Equally, an organisation might team up with others to raise funds but operate independently on the other levels.

Given the perceived scarcity of resources, it is quite natural to see organisations guarding closely their funding sources for fear of losing revenue. However there are circumstances where this competition might reduce overall social impact. For example, organisation "A" might learn to be very effective at winning funding but might not necessarily be very good at implementing programs and creating social value. On the other hand, organisation "B" might have excellent skills in program delivery and create significant social value, but may not be so good at securing funding. In this scenario, organisation A is able to obtain significant funding, possibly at the expense of organisation B. A's less effective programs may grow whereas B's do not.

The second level, program design, is one source of enthusiasm for social entrepreneurship and "innovative business models". Competition at this level is interesting and can pose dilemmas. For example, if an organisation creates a truly breakthrough approach to creating positive societal outcomes, there is an onus on the inventor to share the strategy and know-how as widely as is possible. Thus the organisation might or should encourage competing organisations to adopt the innovation and maximise the benefit to society.

Put another way, at the project/service delivery level, it can be argued that there is a moral obligation to share innovations that might create positive societal outcomes; and to share them widely and rapidly. There is also an appeal here to moral accountability, the principle that says: "it is right to do good" and one of four drivers which "motivate" the sector (See Chapter 10).

However, to date there has been no distinction offered for the precise form of competition and at what level it might be desired and when.



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7.1.2 Proprietary intellectual property

To the extent that an entity in the Social Economy is operating for altruistic reasons⁶³, it is hard to find a justification for keeping intellectual property secret. If the intellectual property could advance society in some other party's hands then it should be shared.

Yet the observation in this study is that most players are cautious in sharing and collaborating. And these players tend to be the large organisations. Further, we found that some organisations adopt an extremely secretive mode of operation (particularly where it is a matter of competitive grant-writing for limited funds); yet they claim to be acting in society's interest.

There is one circumstance that might explain this behaviour; and that is in the situation where society will be better off in the long run if the intellectual property is held closely for some period of time. An example of this situation may occur in the early phase of an organisation. In this phase, the organisation might choose to keep "the magic juice" under wraps until it is established and can withstand competition. But even in this scenario, there is an argument to say that the information should be released; and if another organisation can make better use of it sooner, then they should do so.

It can be argued that in most cases, intellectual property in the sector should be shared using the open source model. Under this strategy, intellectual property is freely shared within a legal framework and licence requiring the work to be attributed and for any derivative works to also be provided free under the same licence.

7.1.3 Heterogeneity

When we consider many of the concepts raised, and competition in particular, we must respect the enormous diversity within the sector. Not only does the content, or purpose, of organisations vary widely but so does industry structure and dynamics. To illustrate by way of example:

- The employment services sector operates in an intensely competitive environment where organisations bid on Federal Government contracts in a regular tender cycle
- Arts organisations that compete on a daily basis for patronage of their performances

⁶³ The argument originally proposed by the founder of economic capitalism, Adam Smith, is that "free markets are moderated by 'moral sentiment'". See *The Wealth of Nations*. Allen and Unwin, Sydney



- Small human services organisations might coordinate their work within a particular geography to maximize impact

There are other areas where there is enormous overlap of services /objective (e.g. some parts of the health and medical sectors) and where at least at first glance, there might be some benefits from merging organisations.

That said, where there is overlap in the sectors we should also be seeing intense competition (due to the overlap) and hence would expect the organisations to be quite efficient and effective.

7.2. How should we understand competition in the Social Economy?

We are confronted with a multitude of views about the nature, dysfunctions, and largely unwanted effects and consequences of competition in the sector. But how are these views to be "explained"? What is missing in the sector? Is there a pattern of reasons that provides the best explanation for the virulence and intensity of competition in a sector that espouses high moral values? Should this kind of competition be occurring in a context where organisations and programs are mission/values -driven. There are several ways of "explaining" competition and its consequences.

7.2.1 Cooperate, cooperate, and cooperate

Competition was not a Key Issue we used in the original "design" of the study. We did ask a question about collaboration and cooperation across sectors and were consistently met with laments about the dysfunctions and challenges of competition in the sector.

So competition may be a result of the inability of sector members to cooperate or collaborate with each other. If they cannot cooperate, have they forgotten a basic principle of mutuality in the sector? We heard from few respondents that there was some cooperation but the examples cited often seemed to be about superficial relationships. More often examples of cooperation were also about everything that had nothing to do with funding and resources. Once funding was mooted members seemed to go into vested self-interest mode.

Given the interweaving nature of relationships among all issues identified in the sector (and all relating to leadership and management), it would seem facile to explain the unwanted consequences of competition as a lack of collaboration or a jaundiced view of cooperation in the sector.

Put another way, the lack of cooperation also raises the question of just how *transparent* members of the Social Economy are in their dealings with each other. Given that the individuals and organisations are working for the benefit of society, one might expect transparency (and its associated values of trust, mutuality and participatory democracy) in the sector. Building transparency rather than engaging in competitive behaviours would seem to lead Social Economy members to improved impact of organisations or programs. If the Social Economy were productively and cooperatively engaged with itself would this lead to less wastage of resources and consequent increased impact? And does working at a superficial and largely unproductive level reduce interaction of members within the sector?

Finally, as one participant in a Thought Leadership Forum commented, the etymology of the word collaboration indicates that the original meaning of the idea was "collaboration with the enemy" - and this seems to be borne out in members comments when issues of funding and resources are raised!

7.2.2 Reactive culture

We have already observed a culture of reaction and/or acceptance (which we also described as a form of reactivity leading to "powerlessness") in the Social Economy (See Chapter 3). As a consequence, members of the sector tend to take a conservative role and stance on the major issues, challenges, and conditions which influence and/or are imposed on their work. Hence, a number of respondents described the imposition of Government's anti-democratic embargo on contact with the media as a condition of funding for specific delivery service projects.

The issue of Business Skills Development witnessed one participant claiming that:

Organisations in the Social Economy need to move from being reactive to business issues, to being more pro-active. This will require a substantial up-skilling of employees or the recruitment of proper business managers⁶⁴.

Further examples can be found in responses to the issue *Collaboration and Cooperation* and why it was not practised for greater efficiency in the sector. The following kinds of responses reflect reactivity.

Staff in no- profits work in conditions and on a salary that would not be tolerated in the corporate world⁶⁵.

Collaboration (with corporates) was a high risk activity and [with] possible negative outcomes⁶⁶ - an organisation's loss of DGR [tax exempt] status was cited as an example.

A combination of reasons involving lack of sufficient resources for good levels of cooperation and limited success at collaboration; being too busy trying to survive to plan cooperatively; and individual rather than organisation dependent for its development⁶⁷

Hard work, dedication and commitment, and solid values⁶⁸.

The fact that too often organisations are very defensive or ideologically driven in a way that inhibits collaboration⁶⁹.

The view that in private industry, cooperation is actively discouraged e.g. price fixing. Expectations of cooperation possibilities are unrealistic (a view that reflects more of a misunderstanding of Forprofits perhaps)⁷⁰.

Competitive culture and frameworks that are make for less collaboration and a more conducive culture and environment⁷¹

⁶⁴ BSD 196, (1), S#1

⁶⁵ CC 272 (1) S#1

⁶⁶ CC 215 (1) S#1

⁶⁷ CC 136 (1) S#1

⁶⁸ CC 337 (1) S#1

⁶⁹ CC(1) S#1

⁷⁰ CC.....(1) S#1

Too frequently, collaboration is seen as an optional extra rather than an intrinsic aspect of meeting the needs of vulnerable and disadvantaged populations⁷².

This more reactive role and stance contrasts with the views of a relatively few leaders in the sector who regard competitive funding and other issues as *symptoms not causes*.

7.2.3 Symptom or cause

Another possible "explanation" may be in attributing the observed consequences of competition not as cause but as symptom. This is the explanation offered in one Thought Leadership Forum in relation to funding issues. Underlying this plausible idea is the assertion that competent leaders in the Social Economy can solve most difficulties through innovative strategies (such as long-term strategic alliances with for-profit corporates). But this somehow fails to satisfy if only because symptoms themselves can be "causes" in a causal chain of events.

We might also suggest that the basis of competition is yet another aspect of misalignment of self-interest or vested interests; or it may be the consequences of the language problem both described in previous chapters. But both of these could be interpreted as "noise" in which the sector operates and competes.

7.3. The philosophical nature of competition

The prominence of competition as an issue for the sector is not entirely an outcome of too little money distributed among too many organisations or programs; but it may be that the very nature of competition as it is defined for the sector is inappropriate and at odds with the values of the sector. We suggest that competition in the sector is essentially *contract competition which is a neoliberal conservative meaning of the term which*:

- Displaces benevolent spirit and motivating drivers of organisations (identified in Chapter 9 as morality (acting in principle to achieve a social "good") and democratisation (the creation of a more civil society)).
- Regulates mission (the purpose and idea that justifies the organization's reason for being) with (funder) performance-based criteria (in a homeless youth support network expenditure of resources is justified in "saving" one youth; yet in a highly competitive environment this is hardly impact of performance);
- Potentially devalues the work of volunteers (which we observed in the study);
- Threatens networks and capacity building (or the potential for their development);
- Tends to concentrate power in larger service providers (an observation made by respondents);
- Emphasizes administration and management at the expense of service delivery;

We have listed only some of these consequences or symptoms of contract competition. The argument here is that it is the particular conception of competition that is problematic

⁷¹ CC 83 (1) S#1

⁷² CC 235 (3) S#1

for the sector. The basis for this conception is a notion of market (often read as a variant of “free-market”) that does not integrate with a notion of social mission and sociality⁷³.

The argument is also that Social Economy members' views of *competition* are based on an acceptance of current policy-ideology of the notion of market as interpreted by Governments of the day. 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 Social Economy members' responses to Government regulations reach an almost impassioned reactive negativity when issues of funding are raised.

Our observation is that values drive goals; Governments seek the best means for achieving these goals. Current Governments however appear to choose means based on notions of “free market” and contract competition. What the sector needs is a concept of “freer market” to guide its funding processes; a notion of market where the nature of intervention in the idea of market is appropriate to the needs and operating environment of the sector; where *market versus social responsibility* can be integrated within a competitive environment that does not spawn the kinds of dysfunctional effects and symptoms we observe. Our view is supportive of one participant in the study who states that:

All sectors including Government need to be on the same page and in total agreement.

While “complete agreement” may be too ambitious, we need to ask the questions: How might the various sectors begin to get “on the same page”? How might Social Economy leaders and managers work more actively to influence policy guidelines of funders? And what are the long-term consequences if a lack of contestation and opposition to externally formulated policy-ideology conditions continue to result in the same kinds of consequences we observe?

The founder of capitalism, Adam Smith, was aware of the unwanted consequences of a “free market” orientation adopted within most contemporary western economies and social economies including Australia. The counterbalanced his conception (which in contemporary economies has suffered slippage in meaning) with the idea of *moral sentiment*. How much have Smith's ideas been distorted with a consequent impact on the Australian Social Economy? And what kind of “freer market” as opposed to “free market” can be implemented within policy-ideology frameworks of government support?

We think that there is a need to understand better the nature of markets and competition for the Social Economy. In this study (as we intended according to the purposes of the research,) we have spotlighted the problems not solutions of competition in the sector. We believe that there is a need to focus more on solutions through the idea of *disruptive markets* driven by social mission and innovative ideas linked with the social mission of organisations and programs.

Our conception of “disruptive markets” is not dissimilar to the idea of disruptive technologies. Disruptive markets are a form of disruptive innovation, product or service

⁷³ See, for example, Nicholls, A. (2006) *Social Entrepreneurship: New Models of Sustainable Social Change*. Oxford University Press, Oxford.

that eventually overturns the dominant idea of markets; or the dominant policy-ideology and status quo product or service in the market⁷⁴. The idea is also related to the idea of "intelligent markets" (in contrast with market intelligence). The evidence from our study suggests a need for the sector to engage and shape markets more directly. The key question is: *how can we civilize capitalism through markets*⁷⁵?

We also believe that better understanding of the idea of market for social economies is a necessary condition to shift our thinking about the complex forms of investment as a means to attract the many funding sources and agencies in both the private and public sectors.

There is a need for further research and policy-analysis which can develop a conception of market for the Australian Social Economy (whether this conception is named as "freer" or "disruptive"); a conception that:

- civilizes capitalism;
- can be embraced by the policy-ideology of Governments;
- can be translated into practice; and that
- can define a conception of competition that supports collaboration and denies the dysfunctions we observe in this study.

In writing about competition, we referred in our introduction to the fact that leaders and managers, and governments may interpret the meaning of competition differently. That is, how they understand the underlying philosophical principles that give rise to one meaning of the nature of competition and not another. Hence, Marxists have a different understanding and conception of the meaning of competition from neoliberals; and they act accordingly.

The point we would make here is that the current conception of competition in the Social Economy does not appear to differ from that applied to the for-profit market economy. The question is: should the interpretation of competition applied to the social sector be the same or different from that applied to the for-profit sector? This is a question that demands more analysis.

One final thought comes from the founder of capitalism, Adam Smith who wrote that one way of increasing wealth is to expand the market. So why is there a concern in the sector (and outside of it) about the issue of too many small organisations when this represents an expansion of market?

Smith went one step further. He argued that in expanding the market two things must happen. Expansion of markets needs to be slow and gradual to avoid unwanted dysfunctions. (This slow expansion appears to be happening in the Social Economy). The second qualification to expansion of markets is "the rule of law". This rule means that everybody should have an equal chance to create wealth. By and large, Australian Governments apply the same rules and regulations to the social sector as they do to the

⁷⁴ See for example, Christensen's 1995 article on Disruptive Technologies: Catching the Wave. The work of Stuart Hart, (2006) Capitalism at the Crossroads uses this term extensively to support his arguments. See also 21st NGOs.

⁷⁵ See 21st NGOs. Report by Sustainability, *Global Impact and the UN Environment Agency*.



economy at large⁷⁶. So does the application of the “rule of law” to a “free market” economy and competition apply to a Social Economy? Should it? And where are the leaders and managers in the Australian Social Economy with the competence and will to contest this matter?

7.4 Quotes

“Generally the nfp sector managers are narrower than other sectors. This is changing slowly with corporate executives joining the nfp”

“Commercial world draws all the skills - Social Economy comes second with the exception of small group of motivated individuals”

“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.”

“there is a lack of leadership in the sector to speak out on important issues - there seems an inability for the peak bodies to even keep up with change let alone lead with the changes or hold government and others accountable.”

[There are] “limited business skills and resources of the “not for profit” organizations. There is limited funding to provide training and skill development to staff. A collaborative body would help the smaller organizations”

“Competitive tendering has created divisions amongst service providers in the SE and has meant even less cooperation”

“Collaboration is vital for sustainability. Most within the sector are afraid of their lack of skills and hence the potential to lose their jobs. So working with other organisations frankly scares them.”

“Often many services exist within one sector or across sectors and are hesitant to cooperate with one another, when in fact they are all working towards a common goal”

“Individual sectors run their own races too often. This is fine if everyone is heading in the correct direction (with the same desired outcomes). All sectors including Government need to be on the same page and in total agreement. There needs to be champions that can float between the sectors - call them intermediaries. Essentially they should have good understanding of all sectors”

7.5 Questions

1. How might the reactive role played by Social Economy members be changed? Or should it?
2. Is a “free market” notion of competition appropriate for the Social Economy? If not, how should the Social Economy interpret the idea of competition?
3. Are there different “levels” and or forms of competition that might be adopted and used for the Social Economy?
4. How can an alternative idea of competition help Social Economy members to understand themselves and the sector?

⁷⁶ We have already noted concessions the Social Economy is accorded by federal Government with the work of McGregor Lowdnes, (QUT).



How could the role of equity of access or equality of opportunity to funding and resources change the notion of competition in the sector?