Focus on... Strategy

Leadership Myths and Realities

It takes a special kind of leader to grow a third sector organisation. Jon Huggett discusses what it takes to be a leader of organisations that need to be scaled up.

In the UK and abroad I often hear three enduring myths about what it takes to lead a Third Sector Organisation (TSO) through healthy growth: "it's just like business ... but easier", "it's just like being a social entrepreneur ... but with more money", and "it's just like managing in the public sector ... but with more freedom".

These three myths are causing the well-intentioned to fail. Board members can hold these myths and hold back their enterprise. Growing a TSO takes business acumen, and social activism, and a public perspective.

Over 30 years I've had the privilege to work with chief executives and boards in the private, public and third sectors here and around the world. In each sector, I've worked with leaders of large, medium, and small organisations. I've even run a few myself, and served on a number of boards.

What strikes me as the hardest leadership challenge of all - growing a social enterprise - is the one least appreciated.

Myth 1: "It's just like business ... but easier"

In reality it's harder to scale a nonprofit than a business. Capital is scarcer: there is not the wealth of private equity and angel investors. It can be harder to motivate staff with meaning than money. A larger range of stakeholders must be heard and heeded. It's simpler to make one bottom line than three.

Yet I often hear business people on boards who want to "give back" say that all the social sector needs is commercial acumen and business efficiency. They are discounting what it takes to raise philanthropic capital and lead staff who took a pay cut to join the sector, or even volunteer their time: it's like the Dire Straits song where the salesmen say "money for nothing and their chicks for free". A Bridgespan study has shown that nonprofits usually run on less overhead than comparable businesses. Many I know are surviving on a starvation diet.

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On three continents leaders of social enterprises have confided to me "the business people on my board seem to leave their brains at the door".

Jim Collins, the guru and author of classic books about business such as "Built to Last" and "Good to Great" went on to write about the social sector. To his surprise, he concluded "business thinking is not the answer", and that it takes much more to be a leader of a social enterprise than just smart business.

Myth 2: "It's just like being a social entrepreneur ... but with more money"

In reality a leader of a growing social enterprise needs a much firmer grip on the economics than a social entrepreneur of a start-up. There are more "customers" such as contractors, fee payers, and donors. To grow, capital has to come from a bigger range of more demanding 'investors'. The payroll cannot be paid late. Understanding the finances can be like going into a "looking-glass world", to quote Clara Miller of the Nonprofit Finance Fund.

It's wonderful that social entrepreneurs are now celebrated at the Skoll World Forum, for example. But showing the world that a social innovation can work is not the same as proving it can scale. It requires the persistence of the social entrepreneur with the consistence of leader of a large organisation. Staff and volunteers on the front line need clear goals to focus, and to avoid having to spend too much time in meetings.

The private sector appreciates that rebellious entrepreneurs that start businesses are different to restless managers that build them, and different again from cautious runners of huge businesses. Venture capitalists, private equity investors, and private-sector boards manage transitions. Sadly, I've seen more charities held back by 'founder syndrome' than businesses. Boards can fail to see that the challenge of scaling is not the same as the challenge of starting. As the box shows, different organisations need different kinds of leaders. See Figure 1.

Myth 3: "It's just like managing in the public sector ... but with more freedom".

In reality the 'freedom' of 'civil society' comes with demands that few public-sector managers experience. Each source of funds has to be cuddled and juggled. There is no 'annual budget'. It's can be hard to retain key employees without tenure or great pensions.

Yet growing a social enterprise does require some public-sector skills. Government contracting can be more even more complex than public-sector budgeting. Public accountability means asking 'what would this look like in the Daily Mail'?

Reality 1: It takes a unique range of skills to grow a third sector organisation

To scale a social enterprise a leader needs the acumen of the private sector, and the passion of a social activist, and the perspective of the public sector. And the leader has to collaborate with other leaders across all three sectors. It is a tall order.

Reality 2: It is a very special leader that can scale a social enterprise

Boards are often missing that a special leader needs special support. I worked with the board of a social enterprise with over £70M turnover where the chief executive received weak support from the chair - a man with a stellar business career, much of it on company boards. I watched a chief executive of a social enterprise in America struggle with a board trifecta of a businessman questioning core costs, a government person lecturing on innovation, and the founder challenging new managers.

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Reality 3: Boards need to provide tailored support to leaders of scaling social enterprises

Social enterprise boards that dispel the myths and are working with the realities can help chief executives with the unique challenges of building TSOs, such as finding capital, transitioning leadership, and building alliances.

Action 1: Boards can help find capital

Capital for growing social enterprises is scarce. Finding it is more complex that in public or private sectors, despite the emergence of new funds. The board is part of the team to find new capital. It cannot limit its role as 'prudent governance', as I wrote in my last article for *network* in 2009.

Action 2: Boards can tackle 'founder syndrome'

A founder without the skills to scale can hold back the organisation, even if they are no longer chief executive. Their relationships and attitude will prevail. A strong board will back up the new chief executive and risk the ire of the founder. I'll tackle this in the next issue of *network*.

Action 3: Boards can help build alliances

Growing social enterprises sit between public and private sectors, and between social entrepreneurs and global NGOs. Resources are uniquely scarce, so collaboration is uniquely powerful. Growing social enterprises boldly build alliances where no enterprise has gone before. Great boards help this trek, as I'll describe in the final episode of this series in network next year.

Follow Jon Huggett in the next issue of *network*, where he will discuss board relations and founder syndrome. You can also discuss this issue with Jon and other members in ACEVO LinkedIn discussion group. Visit www.linkedin.com and join the ACEVO group.

Figure 1

Scaling third sector organisations need a special kind of leader

	Private Sector	Third Sector	Public Sector
Large	Relationship leaders who manage risk	Leaders who hold the network together	Risk-averse leaders of large teams
Medium	Change managers who drive growth	?	Middle managers or leaders in small units
Small	Entrepreneurs who found businesses	Social entrepreneurs and activists	Heads of new departments