The Challenges of Staffing and Leading a Social Purpose Enterprise

John Brauer
Executive Director

Michele Tatos
Director of Business and Finance

CVE, Inc.

"The responsiveness, adaptability, and imagination essential for handling the dynamism of today's business environment can be fulfilled only by its most responsive adaptive and imaginative element: its people." [1]

One of the most critical factors in running a successful social purpose enterprise is employing the right staff, both for the social purpose enterprise and for the agency as a whole. In integrating the concept of a "double bottom line" into your agency, a set of issues and challenges often arises that may not be evidenced in the traditional nonprofit world. These new challenges include:

◆ Preparing your organization for cultural change

◆ Assisting your staff with those cultural changes

◆ Building the new organizational team

◆ Hiring the entrepreneur to run your social enterprise

◆ Compensation issues

◆ Conflicts between business and support teams

In this chapter we will explore how these challenges can be addressed both prior to and during the evolution of the social purpose enterprise.

Preparing Your Organization for Cultural Change

"If an organization is to meet the challenges of a changing world it must be prepared to change everything about itself except [its basic] beliefs as it moves through corporate life... The only sacred cow in an organization should be its basic philosophy of doing business."[2]

When a nonprofit agency has decided to undertake the incorporation of a social purpose enterprise into the organization, the Board and management need to be clear this journey **will** change both the culture and the staffing of the organization. Commonly nonprofits, which have made the transition, report high staff and Board turnover, community and funder concern, and massive changes to the organization's internal systems.

High staff turnover may be inevitable. Employees who have joined your organization because of the social mission may not approve or understand the organization's new direction. Incorporating the focus required to run and operate a successful and profitable business often hits a deep nerve in socially driven personnel. Even staff members who initially support the change may discover they do not like how the organization has evolved when perceived or real conflicts arise between profit and people. Still others will find that although they like and value the new direction, they simply do not have the skill set needed by the new organization.

In addition to high staff turnover, Board members will also find that similarly they, too, no longer fit in with the organization's new culture. Confusion, a change in traditional roles, and a lack of expertise may cause long term Board members to resign.

What steps can you take to prepare for

these changes? The first step for leaders and top managers is to prepare staff and Board members for these changes by acknowledging they will occur. This is important so that when these changes hit, staff do not feel unprepared, uninformed, or even betrayed. It is also important to understand that an agency's culture cannot be changed overnight and that, ultimately, the culture will redefine itself over time.

Edgar Schein states that "the critical thing to understand about cultural dynamics is that leaders cannot arbitrarily change culture in the sense of eliminating dysfunctional elements, but they can evolve culture by building on its strengths while letting its weaknesses atrophy over time. Culture cannot be manipulated by announcing changes or instituting 'programs'."[3]

The second step you can take to prepare for this cultural change is to make sure the Board and the Executive Director are on the same page in making this shift. Without some common understanding and support, when the going gets tough you or your Board may find it easier to call the enterprise a failure-financial or otherwise- and move back to the old way of doing business.

Prior to undertaking this journey, it is highly recommended that an organization and its Board interview a minimum of three social venture agencies that have implemented this change. Questions that should be included in your interview are:

◆ "What kind of staff and Board turnover did you experience?"

◆ "What were the lessons learned?"

◆ "Did the implementation of the social

enterprise compromise your mission or your core values?"

◆ "Is your business venture profitable?"

◆ "Given all that you now know, would you do it again?"

Assisting Your Staff with the Cultural Changes

"True magic begins when individual people begin to become aware of the threads of interconnectedness in any one thing or activity."4

The first step in bringing your existing staff on board is to clearly define what a social purpose enterprise is, and to explain how it relates positively to your organization's mission. It is important to take the time needed with your staff so that everyone from the CEO to the receptionist has been included in hearing about the new organization and, equally important, that there is an acknowledgment of what the old organization culture has been. Remember that by validating your past culture you are also validating your employees' efforts to get you to this point. Further, it is vitally important that each staff member knows how these changes affect his or her role, their fellow employees, their clients, and the agency as a whole. Issue new job descriptions — even for those employees whose role will not change — to reiterate what functions remain stable and delineate what is new.

In defining and clarifying the organization's new path, it will become apparent that some staff will not be taking this journey with you. Try to create an environment where staff can voice their concerns and, ultimately, can choose to leave the agency with the knowledge that they have made the choice that was best for them and for the organization.

One of the most difficult aspects of moving toward this next level is firing staff who do not choose to leave voluntarily, and who clearly do not fit in the new organization. An effective tool we've found in determining which staff to keep and which to let go comes from James Collins. Collins has created a quadrant matrix to assist managers in this determination:

	Does the employee make their numbers?	
	Yes	No
Does the employee have the right organizational values? Yes	1	2
No	3	4

1. If employees make their numbers and have the right organizational values — keep them. These are the employees that will help you take your organization to the next level.

2. If employees don't make their numbers but have the right organizational values — keep them and work with them for a set period. If they still do not make their numbers, you may have to fire them. Making numbers can be taught; organizational values can not.

3. If employees make their numbers but do not have the right organizational values — they will never fit into the organization, and can do more harm than good. These employees need to be let go.

4. If employees do not make their numbers and do not have the right organizational

values – they clearly do not fit into the organization, and need to be let go.

Even when it is clear to all concerned that moving one or more staff members out of the organization is the only answer, the actual displacement is difficult at best. Many times these same individuals have been with the agency for such a long time their identity is closely linked to that of the organization. The issue of firing staff may seem contrary to a nonprofit's warm and fuzzy image, but focus needs to remain on why these seemingly dramatic changes are vital to the long term survival and success of your agency.

Carrie Portis, Director of Enterprise Development, Rubicon Programs, states *"sometimes it is hard for a nonprofit to admit that a committed and loyal employee might not be right for the job."*

Supervisors and managers should meet regularly with problem employees to discuss how their performance and/or attitude in the new organization do not fit. For those who need to move out of the organization, enough time should be allowed for the employee to transition their existing workload or client caseload. However, in some cases problem employees will need to be moved out as soon as possible — either because of morale or performance issues.

In addition, during this tumultuous phase, it is preferable to meet with all of the staff on an on-going basis to continue to send the message that the agency is moving in a well-thought-out, positive direction. With this message comes the repeated emphasis that not all staff will make this transition, some by choice, others by necessity. This clear, consistent message will help when a staff member is transitioning out of the organization.

It is important to consider morale during this time. Staff may feel overwhelmed by these changes. To address these issues staff should be encouraged to ask questions, managers should be supported as they strive to build a qualified, invested staff, and the focus should be kept on how these changes help both the clients and the agency. This is the beginning of building acceptance for change into your organizational culture.

When Community Vocational Enterprises (CVE), an organization with several social purpose enterprises, initially made the shift from treating the business ventures as training vehicles to viewing them as market-driven businesses, several staff were fired or left voluntarily. Management made the mistake of not adequately preparing the staff. As a result, this change was traumatic to the remaining staff, and management was unclear on how to proceed. CVE has since been continually changing and evolving, and now, three years later, comfort with change has been firmly incorporated into the organizational culture. Because the level of expectation for each position is clearly defined, and because staff rely on each other to achieve their individual and organizational goals, when one member of the team is not pulling their weight, the rest of the staff openly discuss the need for a change.

"Each of us has a choice every day...we can choose between going about our task in a way that contributes to high organizational performance or we can muddle along as usual. The cumulative result of all of our choices will determine if we prosper in the long run."[5]

Building the New Organizational Team

As you begin to build your new organizational team, whether you are working with existing staff or hiring new ones, it is imperative you know what characteristics you are looking for before proceeding. Not only do you need to have clearly delineated job descriptions, you need to have staff on your team understand, at least at some fundamental level, how both the social and business sides of any given position fit into the organization as a whole. When interviewing prospective new staff, at any level, it is important to screen candidates for their ability to tolerate conflict (gracefully), be open to differing view points, and embrace change.

Hiring Leaders

What is leadership? Are leaders born or made? How do we know when we are in the presence of a leader? John W. Work states that leaders are "those individuals who, in their inimitable ways, inspire confidence, undermine despair, fight fear, initiate positive and productive actions, light the candles, define the goals, and paint brighter tomorrows."[6]

Building the foundation for a successful social purpose enterprise begins with the right leadership. Certain roles must be filled: a visionary to lead the organization forward; a financial expert to ensure solid systems and practices are implemented; an entrepreneur to lend expertise and energy; and the support services[7] champion to ensure that the organization does not lose sight of its mission, core values and client outcomes.

These roles do not need to exist in the form of four separate people. In fact, ideally all management and board members will hold these values to varying degrees. The following is a brief overview of the referenced roles:

The Visionary:
This is the leader of the organization and is usually the director or the executive director. In some cases the visionary role is taken on by the Board of Directors who then hire an executive director to carry out their vision for the organization. In either case, there must be some basic agreement between the executive director and the Board as to the vision of the organization for effective growth of the business venture. The visionary is charged with bringing passion and direction to the organization, and to inspire the management under him or her to lead the organization to accomplish stated goals.

The Financial Expert:
For the entrepreneurial venture to be successful, the organization needs someone who has a strong business and financial background. Generally, this position is the Chief Financial Officer. This position has the responsibility of setting and monitoring fiscal goals, maintaining checks and balances within the entire organization, keeping an eye on external markets and trends, and ensuring that the "vision" is fiscally viable.

The Entrepreneur:
This is the person with the passion and autonomy to build the business venture into a viable, market driven company. Entrepreneurs are generally driven by an inner motivation to make the business a success at any cost, thriving on the challenge. It is not unusual for entrepreneurs to devote time to building the business, and to eventually hand off the daily responsibilities of running the venture.

The Support Services Champion:
This role is generally a manager within the agency who has a strong investment in the social mission and core values of the organization. The support services champion is charged with ensuring that the visionary's dream, the entrepreneur's implementation, and the financial expert's goals all stay focused on the primary reason that the nonprofit was originally started, to best serve the clients.

As most organizations already have their leader, financial expert, and social service component in place, the following highlights how to hire what you may be lacking – the entrepreneur to start your business.

Hiring the Entrepreneur to Start Your Social Enterprise

"The perfect candidate has the right balance of confidence and humility, to both lead the employees and to learn from them. S/he is willing to take risks, but not foolhardy ones, has experience in management within the industry, and has both the head and the heart."

Laura McLatchy
EXECUTIVE DIRECTOR, YOUTH INDUSTRY

When hiring an enterprise manager to start or expand your venture, a dream candidate would be someone who has expertise in the business you are running; extensive management experience; a history of working with your target population; and is willing to do all of this without owning a share of the business.

Unfortunately, due to the non-traditional nature of the social entrepreneurial field, "dream candidates" are often hard to find. Your organization may need to hire someone without every characteristic for which you are looking. When hiring, keep in mind the skills that are essential, and which ones could be developed in your potential candidates via trainings and consultants.

The following are the pros and cons of hiring candidates with strictly entrepreneurial, management, or client focused expertise:

Hiring an expert in the business that you're running:

pros:
- Hands-on, practical experience in your business

- Knowledge of market, customer base and industry standards

- Often someone from the for-profit realm who is highly motivated and excited to "give something back to their community"

cons:
- May not have experience working with your population and may be skeptical as to how "work ready" your employees actually are

- May have little experience supervising a diverse workforce

- May not have worked in an environment where there is limited capital and where implementation decisions may be slower and less autonomous

Hire an individual with extensive management experience:

pros:
- Adept at motivating and managing personnel, and experienced in program development and implementation

- Most likely will have experience supervising a diverse workforce

- Likely to adapt to your organization's culture

cons:
- May have little or no expertise in the specific business

- May have little or no experience working with a social mission

- May need assistance with creation of business plan and financial projections

Hire an individual with social service experience:

pros:
- Typically a promotion from within — which means they are aligned with your organization's core values and mission

- They have experience working with your target population or similar populations

- They may be well connected with the community which can alleviate "community concerns" and assist in gaining positive PR

cons:
- May have little or no direct business experience

◆ May require extensive business training

◆ May have difficulty managing the "double bottom line"

Hiring the right entrepreneur is key to the success of a social purpose enterprise - don't let time constraints pressure you into hiring the wrong candidate. Any candidate whom you are seriously considering should have the essential skills as previously defined by your organization.

Compensation Issues — Who Says Money Isn't Everything?

As is true in many areas of a nation where one's perceived value is often tied to how much money one makes, salary is a huge issue in the nonprofit arena. Historically, nonprofits have paid significantly lower wages to their employees than is true in the for-profit world. According to Minnesota and other state government surveys, two of the greatest challenges facing the nonprofit employer and workforce are: one, the salaries of nonprofit employees are 14 percent less than their counterparts in industry and government; and two, the inability or lack of willingness of nonprofits to contribute to their employees' retirement funds.[8]

Complicating this matter even further is that when you take on a social purpose enterprise you need to step out of the traditional nonprofit comparisons, and start looking at what for-profit companies are paying to recruit and retain qualified people in a specific business industry.

There are no textbook answers to two fundamental questions:

◆ Can you afford to compete with the for-profit companies to get and keep good people?

◆ Should social program and business staff be compensated equally?

The following are common perspectives from social entrepreneurial organizations.

Can you afford this?
It is important that your Board buy into pay-ing market driven wages and that compensation issues have been thoroughly discussed and agreed upon prior to embarking upon or expanding a social purpose enterprise. The community, and other stakeholders, may have questions about salaries which you and your Board will need to be ready to address.

Most leaders in the social entrepreneurial field agree that to get and keep qualified people in your social venture you have to be able to afford this. You must look at what your competitors are paying their staff, and your salary base should be at least in the low end of the pay range.

Rick Aubry, Executive Director of Rubicon Programs, states "*to think that people will be willing to sacrifice significant compensation because it is about 'the mission' is simply aggrandizing and not terribly realistic.*"

Most nonprofit employees aren't attracted to the nonprofit sector for the money, but for an interest in what the organization does and the desire to make an impact in their community. However, money is usually cited as the number one reason nonprofit employees leave the sector.[8] Although candidates may want to work in their community, you must be realistic about what people can and are willing to give up monetarily.

Realistically, smaller social purpose enterprises cannot directly compete with for-profits, which can offer incentives such as stock options and dividends. Grants and public funds traditionally do not allow for paying employees above the "standard" nonprofit wage — they prefer that their dollars go into direct services. Therefore, each agency must review their overall budget to determine what their unrestricted funds can support and come up with creative packaging to entice talented individuals to join their team. Some examples are:

Performance based bonuses:
These should be tied to both business and social goals. The money for these bonuses should be built into the income projections for the business. Remember to check the IRS guidelines prior to setting up such a structure.

Vacation packages:
Giving a good vacation/sick package is often a way to have a "perk" that may exceed the for profit community's.

Appealing to the pioneer and entrepreneurial spirit:

Managers of social purpose enterprises are given the opportunity to explore the new and dynamic field of social entrepreneurism. For an entrepreneur, the opportunity exists to have all the challenges and experiences of running their own business without having to put up their own money.

The mission:

And, finally, don't underestimate the power of people's need to work for a cause in which they believe. People who have extensive work experience in the for-profit world sometimes "feel like something is missing", and want to be given the opportunity to fill that void.

Are social staff and business staff compensated equally?

Organizations vary greatly on this topic. At CVE, the pay structure is based on the positions' requirements, including skill level, experience, and education. Support service salaries are set slightly above what other non-profit agencies are paying for comparable positions, and business salaries are set to be competitive with the for-profit industry. Three executive directors from the REDF portfolio made the following points:

> *"The business side of AND is at the lower end of the pay scale for the private sector. We are at the higher end for social service. This maintains some semblance of balance, and we get good people. We have had some challenges accepting comparable requirements for some key positions because they are so much above the organizational pay structure."*

> Maurice Lim Miller
> EXECUTIVE DIRECTOR, ASIAN NEIGHBORHOOD
> DESIGN (AND)

> *"We do have social and business compensation issues. For now, we try to be competitive within each field so that we can attract the best from each, but that means inequities exist — which we don't really feel comfortable about. We don't offer performance bonuses to social staff yet, but may in the future. This is a complicated issue."*

> Laura McLatchy
> EXECUTIVE DIRECTOR, YOUTH INDUSTRY

> *"We compensate everyone relatively well. There are no substantive differences between the social and the business side. I wouldn't bring in someone at the cost of having them at a much higher compensation rate. Most of the people we hire could go run their own business and get salaries twice as high, but money is not everything to them."*

> Diane Flannery
> EXECUTIVE DIRECTOR, JUMA VENTURES

Each program will need to decide what its own level of comfort is in terms of compensation. Thoroughly research any existing documents that will give you a gauge of both nonprofit and for-profit wages. One document often used in determining support team salaries in the Bay Area is the "Wage and Benefit Survey of Northern California Nonprofit Organizations." For business team salaries, newspapers, internet job listings, and contacts in various local industries can be resources to determine prevailing wages.

Conflicts Between Business and Support Teams

Although the overall agency mission is the same, the business team and program support team perspectives are very different. The business staff may complain that the support service staff don't understand the importance of running the business ventures competitively, while support staff may perceive the business staff as only caring about the bottom line and that they have lost sight of the core mission. Both sides accuse each other of taking the higher ground (moral or business) when there is a disagreement. This often causes conflict between the business and support service staff.

The following example illustrates how this conflict manifested itself within CVE:

Ben, a client working in CVE's janitorial venture, had worked within the venture for a period of eight weeks. At times, Ben showed up at the work site either several hours early or several hours late. After each occurrence, Ben's supervisor discussed with him the importance of showing up to work as scheduled and the consequences if this pattern continued. After numerous complaints about his

erratic work attendance, the janitorial customer stated that they would discontinue using CVE's service if Ben were not replaced. The employee was pulled from the site and replaced with another CVE employee. Ben was sent back to the support service division of the organization to work on time management issues before he could reapply to the business venture.

The CVE social service team felt Ben had been improving on his time management issues and therefore should not have been pulled. They stated that the business team was more supportive of the work site's needs than of the client's. The business team was angry at what they felt was the support team's lack of business savvy. Furthermore, they felt there was a lack of knowledge of what community employers expected of employees.

In the above example when support and business teams met to openly discuss this situation, both sides agreed the decision made was ultimately best for both the client and the business. It is not in either the clients' or the business' best interest to allow behaviors that would not be acceptable in the general community. And losing a work site means losing future training opportunities for future clients.

This tension between the social staff and business staff will always exist. The key is to turn it into a healthy tension by acknowledging the inherent conflict between the two philosophies from day one. At CVE this concept is introduced as early as the hiring interview. In addition,it is addressed on a regular basis in staff meetings, retreats and supervision. As a result, this conflict has become a check and balance system, and thus a positive influence. While it may be hard to believe, CVE can honestly say that it is now virtually a non-issue in our agency.

Other Related Issues

Although staffing is a key factor for success, there are other issues that need to be considered, such as your organization's need for an expanded infrastructure and the community reaction to the new changes.

Operating systems you currently have in place may prove to be ineffective in managing a social purpose enterprise. Accounting systems, as well as accounting staff, may not be able to handle the new financial requirements of a business venture. Marketing materials and methods may prove obsolete. Managerial, charting and protocol systems will also need to be implemented to deal with business and client issues that will come up (e.g., how long can we afford to train an employee? When do we move good employees to a community employer? How do we best work with employees with substantial issues outside their job?) It may prove worthwhile to utilize consultants at various stages as these questions arise.

Other concerns that may need to be addressed include community stakeholder questions regarding your agency's new direction,especially if you have large staff or Board turnover. Does this change mean that your agency now values profits and business over people? Be prepared to explain how your business venture fits into your social mission, and ultimately, how the inclusion of the business venture may very well ensure the long-term survival of the agency. Be sure to state how this growth of business venture dollars means fewer taxpayer dollars are needed to support your program, and that the clients you serve are receiving more for each taxpayer dollar spent. In addition, clients are relying less on government benefits and are now taxpaying members of society.

Conclusion

As we have just discussed, metamorphosing into a social purpose enterprise includes a unique set of challenges. It is important to remember that before you embark upon this journey you must prepare your staff, your Board, and yourself for significant cultural change. In addition, issues such as compensation, hiring key personnel, conflict between business and support staff, internal systems and community concerns are inevitable.

Researching and addressing these factors in advance will put you ahead of the game.

Most organizations do not recognize these as issues until they become an immediate problem.

Earlier in this chapter it was recommended that interested agencies interview nonprofits that have gone through this process and ask, amongst other things, "Given all you now know, would you do it again?" As the authors of this article, we would answer with a resounding "YES!" The process, although painful, has provided our agency (CVE) with richness in both staff and culture that would not have otherwise been achieved.

Footnotes:

1   Friedman, Lisa. Gyr, Herman, The Dynamic Enterprise, p. 20

2   Watson Jr., Thomas J., A Business and its Beliefs, pp. 5-6 , pp 72-73

2   Schein, Edgar H., "Leadership and Organizational Culture", The Leader of the Future, p. 64

3   Butterfield, Barbara. Emir, Rudite., The Dynamic Enterprise, p. 33

4   Hardy, Robert. Schwartz, Randy., The Self Defeating Organization, pp 279-280

5   Work, John W., The Leader of the Future, p. 73

6   Foundation News and Commentary, January/February 1999, pp 22-24 "Underpaid and Easy Picking"

7   The definition of support services can vary from agency to agency and range from providing "traditional" social services to providing personal and professional development.

8   Foundation News and Commentary, January/February 1999, pp 22-24 "Underpaid and Easy Picking"