Leading the Social Purpose Enterprise: An Examination of Organizational Culture

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Introduction

T he challenges of leading a social purpose enterprise are numerous and varied. Throughout all levels of the organization, leaders are faced with unique management issues such as uncommon accounting situations, staffing challenges and new kinds of funder relationships. While all these challenges are important and must be addressed, one of the biggest challenges for the leader of a social purpose enterprise is to create and manage one organizational culture that brings together both the nonprofit and for-profit cultures.

To successfully bring these two distinct cultures together under one organization requires the leader to understand the differences between a typical business culture and a

typical nonprofit culture. Once these differences are understood the leader needs to identify the reoccurring dilemmas and tensions that arise from putting these two sectors together within one organizational culture. The leader then must be able to create a high performance culture that embraces the recurring dilemmas and tensions.

Effective leaders understand the role of culture and its consequences in their organizations. While there are many factors that add to an organization's culture, leaders play a key role in the creation, management and at times dismantling of a culture. This chapter addresses issues of leadership and the relationship of leadership to organizational culture. The ideas presented here can be useful with different leadership approaches.

In this chapter, we review the basic concept of organizational culture and identify key characteristics of business and nonprofit cultures. From the analysis of these cultural differences, two primary recurring dilemmas are put forth. Recommendations are then made for six leadership components of a high performance culture for the social purpose enterprise.

Social Purpose Enterprises

Social purpose enterprises are revenue-generating businesses that are owned and operated by nonprofit organizations with the express purpose of employing at-risk clients in the business ventures. Clients generally face barriers to obtaining employment elsewhere because of their various life circumstances such as: being homeless in the past; coming from low-income communities with scarce opportunities; and having been involved in the criminal justice system. By virtue of employing these individuals with often multiple barriers, social purpose enterprises operate simultaneously in both the business and nonprofit social service sectors.

Organizational Culture

Organizational culture is one of the key determinants that leads to the success or failure of an organization. In the early 1980s the concept of culture, borrowed from social anthropology, became widespread in organizational studies literature.[1] While it was gaining widespread popularity with academics, most practitioners were also experimenting with this concept. Over the past two decades the understanding of culture's role in organizations has advanced through numerous research studies and professional practice. A recent study by Kotter & Heskett (1992) directly links the management of corporate culture to a company's long-term economic performance. Schein (1992), a leading organizational development expert, defines culture as:

A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel, and in relation to those problems (p.12).

An organization's beliefs and assumptions over time become fixed behaviors for the group of individuals. As behavioral norms develop they help hold together groups of diverse individuals and give them a common direction, a way of working together while providing boundaries for appropriate behavior.

Culture helps us distinguish one organization from another because it is not unusual to have several organizations producing the exact same product or delivering the same service. It is often the identity or culture of the company that attracts its employees, customers and stakeholders.

Hampden-Turner (1990) in his work on culture takes the view that the main function of culture involves the managing of dilemmas and opposing forces. The very nature of organizations produces ongoing conflicts by bringing together diverse groups of people to achieve the mission of an organization. How the organization solves these dilemmas, based on its basic assumptions and beliefs becomes the "way we do things around here" or its culture. Culture also creates a safe, comfortable and predictable work environment to make sense of events and add continuity for its members. Culture helps individuals derive meaning from their work and connect to a larger purpose, while integrating and teaching new group members how to fit into the organization and behave appropriately.

Leaders create, manage and change cultures in an organization. Schein (1992) refers to culture and leadership as being two sides of the same coin. Leaders develop culture through their values and assumption of how the world works. If organizational culture is viewed as the vehicle that moves the values, philosophies and beliefs through the organization, then the leader can be seen as the driver of this vehicle, the individual who acts as the catalyst to help the group reach its destination.

While leaders have a major role in the formation and development of culture so does the external environment in which the organization operates. Hampden-Turner (1990) is of the opinion that "all corporate cultures are partly the result of negotiations with the larger cultures in which these are located. It is not possible to start from scratch..." (p.34). As one examines an organization's culture the larger macro environment must be kept in sight to fully understand the situation. The geographical location of the organization, the dominant ethnic background of the individual stakeholders and the industry the organization operates in all contribute to the development of the culture. Cultures do not develop in isolation rather they develop in relationship to their environment. This hypothesis of culture is of particular importance to the social purpose enterprise that aims to bring two different sectors together, each with their own unique attributes.

Characteristics of Typical Nonprofit Cultures and Business Cultures

It is necessary to understand the differences between nonprofit and business cultures before one can make sense of a social purpose enterprise culture. This section will examine the cultures of typical nonprofits and typical businesses through two analytical frameworks: the external and internal. The external analysis examines the context in which the organization operates while the internal examines the levels of culture that exist in an organization.

CONTEXT

The overall situation in which an organization operates influences the culture development of that organization. Nonprofit organizations generally operate in a different context than a typical business. However, there are contextual variances even within the nonprofit and business sectors. For the purpose of this discussion, we will focus on a particular type of nonprofit organization committed to providing social services.

Hasenfeld and English (1974) propose five distinctive attributes of social service organizations that are beneficial to this discussion of context. By comparing these we can see some of the differences and similarities between nonprofits and businesses.

(1) From a service perspective, most nonprofit social service organizations exist to change people. Social service organizations have human beings as the "raw materials" with which to work. The ability of the organization to reach its goal of change is largely in the hands of the client. No matter how well the organization does its work, the client must be willing to

change. People experience great ambivalence toward changing themselves and their circumstances. There is a level of complexity involved in taking a person and changing them that generally does not exist in most businesses. Businesses operate in a context whereby they create a product or service. The "raw materials" are less volatile. The success of a business usually does not rest on changing a person that might not want to change.

(2) Goal setting in social service organizations is often ambiguous. The problems they seek to solve are complex with objectives that are difficult to measure. Alleviating poverty, putting an end to racism, helping a client achieve self-sufficiency, or assisting a young person to reach their highest potential are intangible attributes that operate on an abstract level. In a business context, setting goals is a more straightforward direct process. When it comes to goal setting businesses typically operate on a concrete level. Expanding product lines, increasing market share or decreasing expense are all easily quantifiable and measurable goals.

(3) Social service organizations do not operate with precise technologies. Exact technologies of counseling, training or job placement do not exist. Social service organizations operate in a context that lacks precision and clarity. Businesses thrive on clarity and accuracy. Business technologies such as the manufacturing of products, or creation of services, accounting and sales generally require a high level of accuracy.

(4) Operating in the context of social service organizations, the characteristics of the staff-client relationship bring about instability and uncertainty in these organizations. The core activity of a social service organization is the relationship between the staff and its clients. This phenomenon creates an operating environment that has multiple layers. For example, in counseling relationships the client and the counselor are both influenced by their interactions. Businesses operate with different relationships than social service organizations. Business relationships center on customers, vendors and shareholders. The boundaries between people are much clearer in a business context.

(5) Social service organizations lack reliable and valid measures of effectiveness. The intricacies make it difficult to produce a universal measurement. Organizations that operate in a social service context are in positions where they need to take action without precise measurements of their effectiveness. Businesses take action based on analyses of their effectiveness. Clear measurements exist to guide the course of action in a business. Good business practice relies on this analysis.

LEVELS OF CULTURE

Schein's (1992) Levels of Culture provides a very useful framework to identify the distinctive internal attributes associated with a typical business culture and a typical nonprofit culture. One of the complexities of examining culture in an organization involves the multiple levels at which this concept operates and Schein's methodology addresses this through the following three areas of analysis:

(1) Artifacts, which describe visible organizational structures and processes; (2) Espoused Values, which include strategies, goals, philosophies and justifications; and (3) Basic Underlying Assumptions, which take into account unconscious, taken-for granted beliefs, perceptions, thoughts and feelings (p.17).

Artifacts
Artifacts can include an organization's physical environment, technology, language, dress codes, stories and displays of emotion (Schein, 1992). Artifacts produced by a corporate organization with a business culture can look very different than one in a nonprofit culture. Generally speaking, many businesses have the latest technology and new office furniture. Whereas in the nonprofit sector the organizations frequently do not have the resources to acquire the latest technology and are expected to take donations of older used equipment. Physical artifacts such as office furniture, art work and interior design are generally donated, used and in marginal con-

dition. Many businesses can afford office space in prime real estate locations, dress codes that reflect their customer base and extravagant corporate rituals. Most nonprofit organizations are located close to their client base, near public transportation and in areas with affordable rents, which are often undesirable locations. Nonprofits are very careful to make sure their physical environments do not appear to be more of a priority than matters such as direct client services. Nonprofits need to manage their image with a different perspective than a business. Businesses that are not in prime locations and without latest equipment and high quality offices can be viewed negatively by customers, vendors and shareholders, and this perception can affect their position in the marketplace.

In most cases the visible artifacts in a business or in a nonprofit differ. These surface differences stem from deeper organizational beliefs that are illustrated in the next two levels of cultural analysis.

Espoused Values

According to Schein (1992), the second level of culture analysis is the organization's espoused values. Espoused values in an organization originate with the founder or leader who puts forth his or her ideas in order to determine what is right or wrong, or a particular approach to a given situation. Values are the belief that one mode of behavior or conduct is preferable to another. Some business values and nonprofit values are easily interchangeable. At this level of analysis it is difficult to make generalizations about differences between the two sectors. For example, either a nonprofit or a business can value:

◆ participatory management over authoritarian;

◆ quality over quantity; personal relationships over more distant relationships;

◆ entrepreneurial methods over bureaucratic methods; or

◆ creativity and innovation over stability and consistency.

The core differences between these sectors reside at the level of underlying assumptions. If espoused values are different between the business and nonprofit, the root cause can be traced to an underlying assumption.

Basic Underlying Assumptions

The third level of culture, basic underlying assumptions, is defined by Schein (1992) as: "a set of basic assumptions [that] defines for us what to pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of situations (p. 22)." Underlying assumptions are the beliefs, moral codes, and philosophies that function at such a fundamental level that they are unconscious and rarely questioned by participants. At the level of Basic Underlying Assumptions there are six distinguishable differences between the nonprofit and business cultures.

Risk Taking

The first basic assumption involves risk taking. Business culture encourages and rewards risk taking. Business literature is full of "heroes" who had a vision, rallied people behind their goals and with tremendous effort took a leap of faith as they launched a new product, marketed an idea or even launched a new venture. The whole venture capitalist structure supports individuals who are prepared to risk everything for their new business idea. A common underlying assumption in the business community is that some level of risk is necessary in order to be successful. On the contrary, the nonprofit arena is set up to minimize risk. The structure of government and foundation financial support does not encourage leaders to take risks, but rather encourages them to use already entrenched methods. If an organization's idea is too innovative or risky, it will be difficult to secure financial support for it. More traditional foundations, which possess the most resources, generally back projects that already have a successful proven track record. Government funding, with all of its requirements, removes most opportunities for risk.

A condition of risk taking is the acceptance of both success and failure. Since they are risk tolerant, businesses are consequently more accepting of failure. Successful business people most always have a few failures under their belt before they have any major success. If an individual starts a business that fails they can still raise money for their next venture,

assuming they have a solid new business plan. In the nonprofit sector, failures are not common occurrences. When a nonprofit does fail, it can be very difficult to recover. The very nature of nonprofit organizations does not make them as resilient to failure as their business counterparts.

Time

Several basic assumptions about the notion of time differ between the two sectors. Businesses value and operate on a different dimension of time than nonprofit organizations. In the business world, things move quickly, in logical steps that often require management to make quick assessments, fast changes, and depending on the industry, to receive prompt feedback. If a business is losing money, time is of the essence. In a small business managers must be able to move quickly to tighten labor expenditures and costs of goods to make projected net profits. They can not sit around and process options but instead must act quickly to get the desired results.

On the other hand, nonprofits often make their biggest mistakes by acting too quickly. As outlined above, nonprofits are dealing with complex issues that are paradoxical, have multiple layers of meaning and involve multiple stakeholders. Careful and thoughtful analysis, which takes time, produces the desired outcomes. Quick changes can lead to gross oversights that in turn lead to even more problems for the organization. Additionally, feedback from the environment on how the organization is doing in the nonprofit sector takes much longer than in most business environments. Interventions that change a human being might not show outcomes for years.

Another condition of time that differs between the two sectors is management frequency. A business – particularly a small business – can fail if the manager does not watch it closely on a daily or weekly basis,. If employees of an ice cream shop consistently over-scoop ice cream on a daily basis, and the manager waits to examine the problem until the end of the quarter, it most likely will be too late for him to fix the financial damage for the year. A nonprofit service organization does not measure on a daily or weekly basis to see if their clients changed. The change would be monitored and examined over larger segments of time. Nonprofits do not (and often cannot) monitor program effectiveness on a regular basis, so a bad program can operate longer than a bad business.

Human Relationships

The third basic underlying assumption that differs between businesses and nonprofit service organizations are the fundamental assumptions about human relationships. Generally speaking, members of a nonprofit social service organization often see people at their worst. The staff of these organizations has prolonged exposure to individuals that have been severely victimized or live in difficult circumstances. Over time, these interactions result in assumptions by the organization about human nature. This is particularly true in the case of the social purpose enterprise where the organization is hiring clients that bring an array of social problems into the workplace.

In a business culture the leaders and staff have exposure to people when they are consuming products or purchasing a service. The sales person or insurance broker does not know all the extenuating circumstances of the person's life. A limited amount of personal information is needed for them to make a business transaction. The boundaries of interactions between people in businesses are more distantly defined. Frequently businesses operate on abstract and theoretical information about people. In contrast, their nonprofit counterparts deal with raw and unprocessed information and interactions. All of these factors can lead to very different assumptions about human nature.

Existence

The fourth difference between the two sectors lies in the very essence of why the organizations exist in the first place. For businesses that are operating in a free-market capitalistic environment the fundamental reason for being is to maximize profits for the company's shareholders. Profit is a necessity, the life-blood and rationale for its existence. Business leaders do not sit around the table and talk about whether they want to be profitable or not – they talk about how and when. It is a given, unspoken assumption that profitability drives a business. Nonprofits are driven by a cause, rather than

by a desire to make a profit. In fact, the very legal structure of a nonprofit corporation does not permit a profit motive.

Nonprofits exist to respond to a need or a cause: a problem exists, an organization is created to examine the problem and develop solutions. The purpose of a nonprofit organization is not to go out and create problems to solve, or to build a market of problems that do not exist. On the other hand, businesses take a more proactive approach by anticipating and responding to trends and needs. Successful businesses are able to continue to build market share around the particular needs they are filling. These different reasons for existence manifest themselves in the culture of the organizations.

Individual or Collective Orientation

Businesses and nonprofits are built on different underlying assumptions about individualism or collectivism. This does not mean that all businesses are individualistic and all nonprofits value collectivism, but rather that different views and experiences exist. In the United States, the value of individualism, which supports free enterprise, drives the business sector and can be directly attributed to the success of entrepreneurial ventures.

Freedom and individualism are two of the most highly regarded values of Americans (Bellah, R. N., et al., 1985; Cavanagh, 1990). By contrast, in the nonprofit sector, there is often a higher value placed on cooperation and collective problem solving. Grassroots community organizers pull people together for the greater good of the community. At times there is an underlying assumption in nonprofits that social problems can only be solved collectively, not by individuals. Often the strengths of individualism are what drive the entrepreneurial spirit, while the strengths of collectivism drive effective social efforts.

Sector Value

Society attributes different value to individuals who work in the business sector and the nonprofit sector. People in the business sector are given greater economic value than individuals working in nonprofits. People who work in the nonprofit sector, while given less compensation, are often given greater social and spiritual value.

This notion of sector value becomes an issue in the social purpose enterprise where the leader must reconcile the differences of the two cultures.

Recurring Dilemmas

Bringing together nonprofit and business cultures under one organizational culture results in at least two dilemmas that are repeatedly played out in various forms in the social purpose enterprise:

(1) the cultural differences between the two sectors will often oppose each other; and

(2) there will always be a tension, originating in why these two sectors exist, between the profitability goals of the business and the social goals of the program.

It is necessary to have a good understanding of the recurring dilemmas because they will appear again and again in different forms. Mediating dilemmas is not a negative situation but rather an opportunity for the leader to guide the creation of a strong culture. Culture develops based on *how* the dilemmas are solved. If these recurring dilemmas are managed in a perceptive manner the social purpose enterprise culture will begin to emerge.

Six Leadership Components of a High Performance Social Purpose Enterprise Culture

Much has been written about how to create, manage and change organizational cultures (Deal & Kennedy, 1982; Hampden-Turner, 1990; Kilmann, et. al, 1985; Kotter & Heskett,1992; Miles,1997;Schein,1992;). This information provides leaders with practical guidance for developing culture in their organization. What is missing from all of the literature is direction on identifying characteristics of a preferred culture for the social purpose enterprise. A strong organizational culture will not guarantee success, rather the culture must fit the context in which the organization operates to be effective (Kotter & Heskett,1992).

There is no one-size-fits-all culture for organizations. Each develops its own unique culture. But there are components of high performance cultures that are industry specific. Based on the authors' experience operating social purpose enterprises, the following six components are provided to support the leader in the creation, operation and growth of the social purpose enterprise.

(1) You, the leader, must create an environment where both business and nonprofit values, experience, ways of thinking and definitions of success can equally coexist. This happens in an environment where both views are valued. Whether you are the leader or senior manager you must be comfortable in both sectors and not set up competitive situations between the business staff and the program staff. Manage with patience. Encourage diversity. Balance the tension between the sectors and watch closely so that it does not reach a breaking point. Carefully monitoring the tension can be a time consuming daily management task. Make conscientious decisions between conflicting demands that over time balance both the social and business objectives.

(2) Create a vision for the social purpose enterprise that embraces both cultures. A strong vision will support hard decisions you will inevitably have to make. The vision will reinforce the dual objectives of the organization for all the stakeholders. A social purpose enterprise culture can be foreign to many people and needs constant communication over and over again to strengthen its position.

(3) Find the synergy that exists between the two sectors. Leverage transferable skills and best practices. If both the business and program staff in the organization are communicating and sharing knowledge it only serves to strengthen each component. Operating a business takes skills that can be beneficial to the nonprofit sector and operating a nonprofit takes expertise that can enhance businesses.

(4) Build a learning culture that promotes innovative solutions to the recurring dilemmas in the organization. Develop a culture that encourages and rewards employees to learn to think and act in new ways. Support the process of change one must go through to give up old and comfortable ways of operating. Encourage learning at all levels in the organization. The range of possibilities open to organizations operating social purpose enterprises can only be realized by organizations that have environments for ongoing learning.

(5) Build an adaptive culture. An adaptive culture entails risk-taking, trusting, and a proactive approach to organizational as well as individual life. "Members actively support one another's efforts to identify all problems and implement workable solutions. There is a shared feeling of confidence; the members believe, without a doubt, that they can effectively manage whatever new problems and opportunities will come their way. There is widespread enthusiasm and a spirit of doing whatever it takes to achieve organizational success. The members are receptive to change and innovation." (Kilmann, 1986, p. 356). A culture that can embrace change and actually make the process enjoyable will sustain a social purpose enterprise. As a leader, developing an adaptive culture comes about through the resolution of the day-to-day

dilemmas created by the two cultures. If you resolve them in an "adaptive" manner, over time the culture will begin to take on this characteristic. Similarly, if the dilemmas are solved in a competitive, stressful and blaming way the culture will also take on these characteristics.

(6) The efficacy of managing a social purpose enterprise is balance and equilibrium. This involves not combining, merging, blending, or integrating, but rather reaching a state of equilibrium where both the business and the nonprofit social service cultures harmoniously exist within the social purpose enterprise culture. The responsibility lies with leadership and management to create a culture that promotes balance. Balance can mean that sometimes business profitability takes center stage over the social goals, and all members of the organization support the decision. Staff supports the decision because when a culture exists that embraces balance, members trust that in the end both competing needs will get equivalent attention.

Conclusion

While this chapter raises the struggles involved in leading a social purpose enterprise, it is also important to note the potential of this model. Successfully bringing together two distinct and opposing cultures, reasons for existence and ultimate goals under one organization results in a powerful vehicle to solve social problems and to operate profitable businesses. It is in the opposing forces and recurring dilemmas that a culture arises that supports an environment where people coming from disadvantaged backgrounds can thrive and reach their highest potential. We are living in a historical moment in time where it is possible to bridge the gap between these two distinct worlds and create a new way of operating nonprofit organizations and businesses.

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1 Deal and Kennedy, 1982; Hofstede, 1980; Ouchi,1981; Peters and Waterman, 1982