

3 Towards a social enterprise organisational structure development methodology

- 3.1 The Social Firms UK research programme indicates that all parties to the development of organisational structures, whether they be social enterprise founders, local solicitors or specialist social enterprise advisers, lack a clear organisational structure development methodology, or the right knowledge, examples and other tools to structure either discussion or advice to make it really meaningful.
- 3.2 This is an enormous problem, touching as it does not only the specific situation of social enterprise but also the more general lack of any established methodology for the design of organisational structures in *any* sector.
- 3.3 The best previous work I know of on this is the Plunkett Foundation's guide *Organisational Structures for Rural Social Enterprises*. This does contain a basis for a clear *discussion and development process* which can take an individual or group from their broad vision, and business planning work, through a series of logical steps to the

right organisational structure for them.¹²

- 3.4 This work has been further developed in joint organisational strategy and structure seminars by *Plunkett* and myself, and further extended and applied to social firms in the organisational structures section of the Social Firms UK training manual *The Extra Elements*.
- 3.5 The main points in this organisational structure development methodology are set out from paragraph 3.10 of this paper below.
- 3.6 Further development and publication of a written methodology based on this work, with supporting case studies and background materials, could in the hands of a network of selected regional facilitators be used to provide a properly structured organisational structure development process for social enterprises generally.
- 3.7 Within this there would need to be accurate and accessible information on all of the social enterprise structure options. With particular reference to the Social Firms UK research findings, for example, there would need to be a much clearer re-presentation of the co-operative option, with a range of case studies that offer different interpretations of the model, and, moreover, clearly distinguish features that arise from the way some co-operatives organise themselves from organisational features inherent in the co-operative form itself.
- 3.8 Any such initiative should however be seen as just a first step. To weed out

organisational structure myths and half-truths will ultimately require the engagement of the private sector business support infrastructure - the solicitors and accountants who themselves lack an established organisational structure development methodology, let alone any substantial knowledge of social enterprise.

- 3.9 This could therefore be pursued as one aspect of a broader attempt to engage the professions and the broader private sector support infrastructure, such as the *Values Based Business Advice* or 'VBBA' programme recently piloted by a number of social enterprise support agencies in the North East of England.¹³

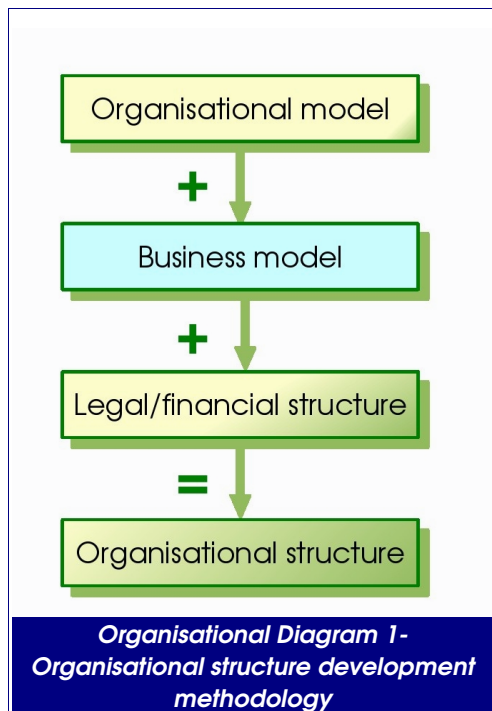
Organisational structure development methodology

- 3.10 The main development steps to a good organisational structure are set out in **Organisational Diagram 1**.
- 3.11 Usually, the social enterprise founders will have a rough initial idea of the '*organisational model*' they want - for example whether it is to be a democratic community-based venture, or whether an individual or small group wants to keep control. However, this rough initial model may not fit neatly into the formal '*legal/financial structures*' that are currently available, such as partnerships, companies or societies of various kinds. A **research/advice/decision** process is required first to find out what type of structure really is the most appropriate,

12 The Plunkett Foundation's work incorporates what was perhaps the previously best-known discussion exercise in this area - Charlie Cattell's 'Select-a-Structure' - but places this in a more comprehensive discussion framework which is better able to deal with business planning factors, such as business model and even tax efficiency.

13 See Appendix 2

then to amend the details of the chosen type of structure to get the best fit with what the founders want. It is the combination of the *organisational model* with a particular *legal/financial structure* that makes up the final *organisational structure*.



3.12 Sometimes this process is straightforward; more often, however, each of the steps in this process conceals stumbling blocks! A group of disabled people might for example get together to form a social enterprise with a strong commitment to working together democratically. They would therefore start with a *co-operative organisational model*. Partnerships, companies and societies can all be adapted to be co-operatives, and each has particular advantages and disadvantages, so the *research/advice/decision* work has to be done to choose the best fit - then adapt the detail of

the structure chosen for an even closer fit with what the group really wants – and possibly also to fit with other considerations as well (which the group may not themselves be aware of - such as tax-efficiency).

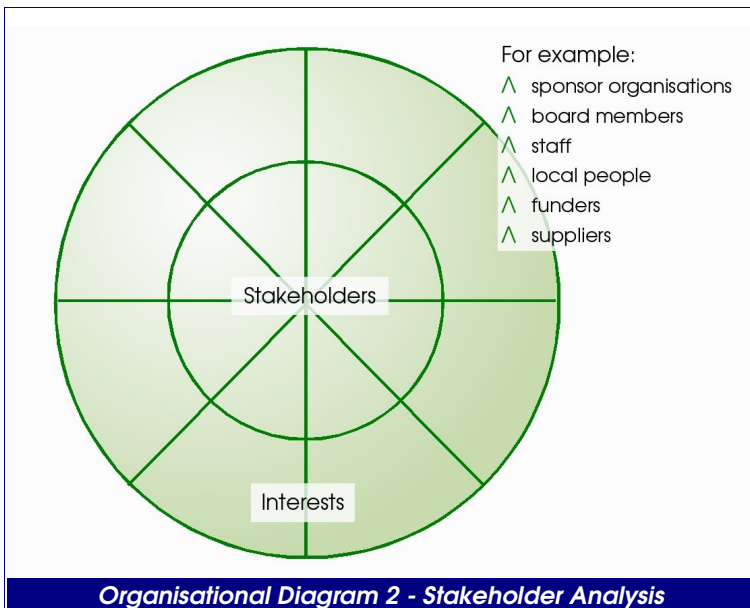
3.13 At this stage however, one stumbling block that often emerges is that the social enterprise will need some substantial grant funding at least in its early stages, and a pure co-operative structure may well be a poor vehicle for raising grants. Compromise is required! We will refer to this imaginary group of disabled co-operators again - so let us suppose they are going to set up a social enterprise making a new kind of garden furniture.

3.14 In this example, what has actually happened is that the original organisational model was based on a flawed 'stakeholder analysis'. In addition to the disabled people themselves there was always a concealed stakeholder at the table - a public or charity sector funder - with their own perhaps quite different ideas on how the social enterprise should be established and run.

3.15 An honest and realistic stakeholder analysis is one vital aspect of the process of selecting an organisational model.

What is a business model?

This term is used to describe the fundamental commercial strategy and relationships of an enterprise. One company for instance might produce and sell razors; an alternative business model is to give away razors (with a unique blade fitting) - and then sell razor blades. Social enterprises often have to think hard about their business model. When the villagers in Heskett-Newmarket in Cumbria set about saving the only pub in the village, for example, they came to the conclusion that they wanted a pub - but didn't want to run it themselves. Adopting a different business model from many community buy-outs, therefore, they bought the pub but licensed the operation of it to a tenant.



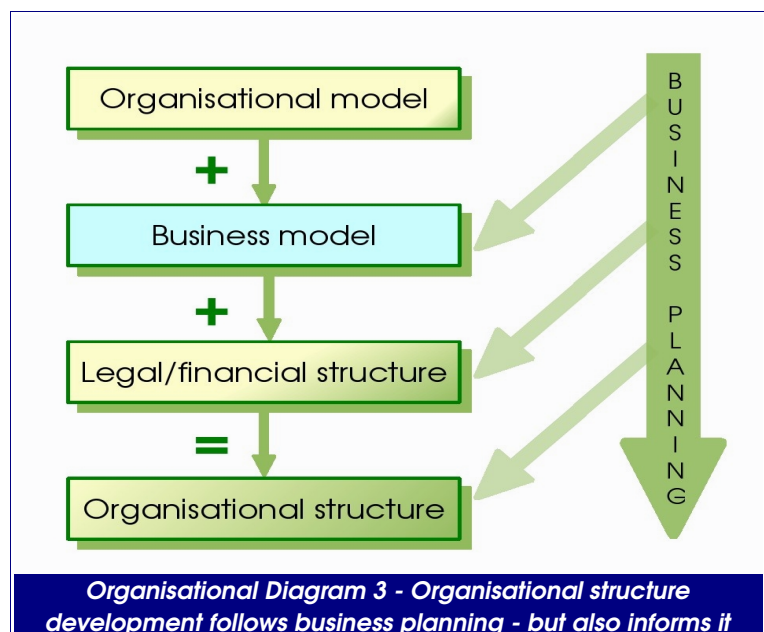
planning issue: the point is that the process of deciding on an organisational structure must take place alongside the wider business planning process, and questions such as how much start-up funding will be required, and in what form, are absolutely central to getting the final organisational structure right.

3.18 **Diagram 3** clarifies this relationship between organisational structure development and business planning. Note that it may also be necessary to modify

3.16 **Diagram 2** shows a stakeholder analysis exercise developed by the Plunkett Foundation. This exercise is done on a flipchart as a group discussion. Each group of stakeholders in an organisation are written in the inner segments (more segments may be required), and their interests in the organisation in the outer segments. This second stage is important: in the example of the garden furniture group that forgot about funders, for example, the interests of the funders would be only in ensuring proper governance - not in taking part in management themselves.

the fundamental **business model** to bring the organisational structure and business plan in line. For example, if the garden furniture group's grant requirement is for manufacturing equipment, perhaps they could find a friendly disability charity to 'host' the equipment ownership, and simply set up a contracting operational company. In effect, they would go to

3.17 A stakeholder analysis is just one aspect of the wider process of gaining a true and deep understanding of what it is you are trying to do. Attentive readers will already have noted that in the example given the question of whether the social enterprise will need some substantial grant funding is a *business*



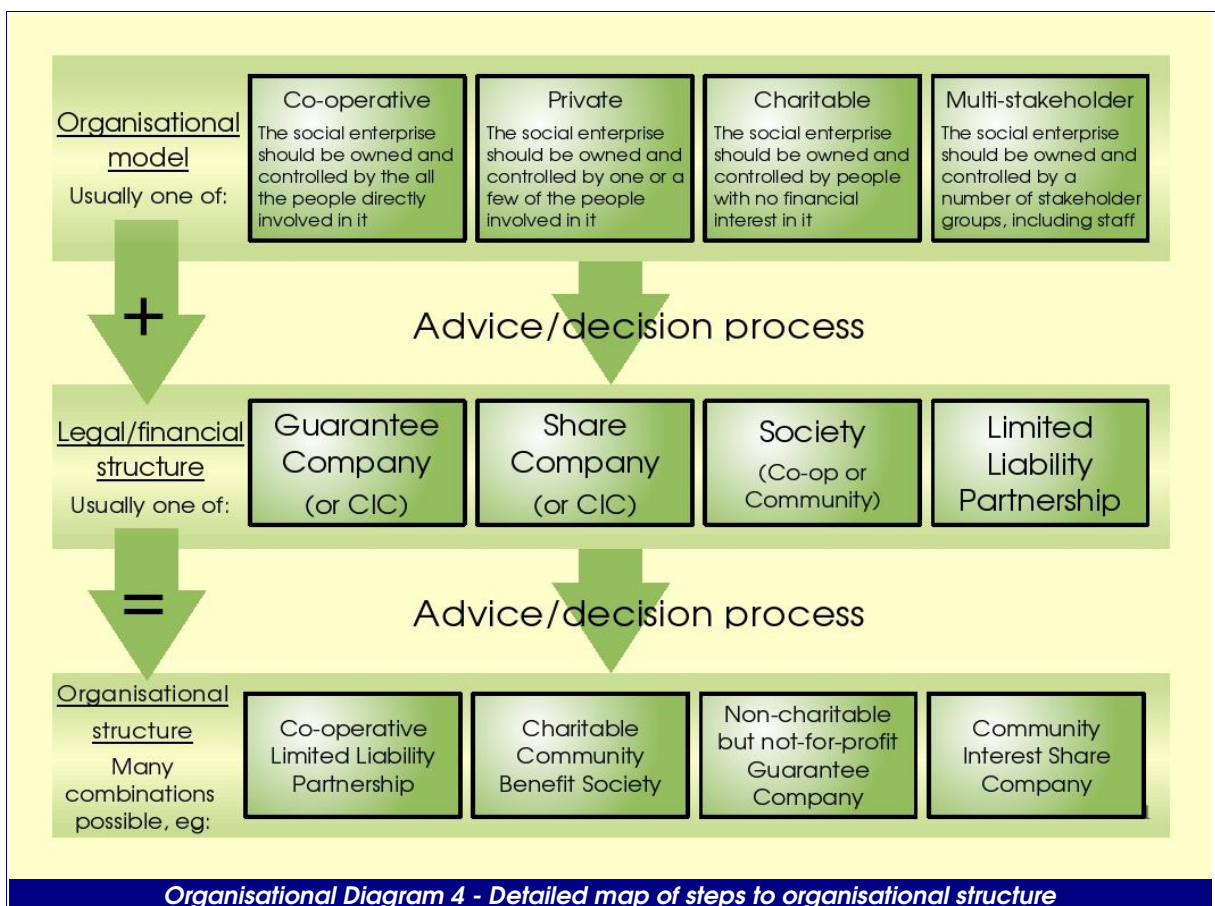
the charity and say 'we can assist your mission by creating jobs for disabled people - we'll even write the funding applications to enable you to buy the necessary equipment - all you have to do is contract with us to operate it'. They would then have almost no start-up costs, and could become a co-operative. The point here is that the process of developing the right organisational structure may send you back to review your business model and require fundamental changes to your business plan. This is a more interactive process than 'form following function' and should be, since the organisational structure is almost bound to affect the fundamentals of what it is you are trying to achieve.

the relevant stakeholders really want, or for everyone to fully accept any compromises that need to be made, unless everyone has had really good opportunities to think and talk things through. Unless all important stakeholders really own the organisational structure finally selected, you will certainly have built in future conflict.

3.19 *Good discussion* is vital to this process: it is not possible either to discover what all

3.20 The initial organisational model, according to the ownership and management arrangements the founders have in mind, will generally fall into one of the following broad categories:

- ∞ co-operative
- ∞ private
- ∞ charitable
- ∞ multi-stakeholder



3.21 These 4 typical starting points are set out in more detail in **Diagram 4**, along with the 4 most common legal/financial structures, and 4 examples of the many ways in which organisational models and legal/financial structures can be combined in the final organisational structure. The legal/financial structures are adapted – by making changes to the detailed organisational rules they set out – to get the best fit with both the founders' original model, the requirements of other stakeholders such as funders, and other possible constraints such as tax-efficiency.

already engaged in the field to some extent – to implement and indeed progressively improve the methodology

- ∞ development of further links with the private sector business support infrastructure, ultimately to embed good organisational structure development practice in all enterprise support.

3.22 This initial outline of an organisational structure development process -

organisational model
+ business model
+ legal/financial structure
= organisational structure

- is of course at this stage nothing more than a framework into which structured discussion exercises, like the 'stakeholder' example included here, will fit. Most of these exercises have already been developed, as indeed have many plain language descriptions of the characteristics of the different legal/financial structures available. The next required big pieces of work would therefore seem to be:

- ∞ collection of a significant bank of organisational structure developmental case studies, to make the discussion exercises and learning *real* to social enterprise founders
- ∞ publication of the resulting methodology-plus-examples in an accessible and easily updatable form – a website is the obvious medium here
- ∞ development and co-ordination of a network of selected regional facilitators – a dozen should do it, most of them