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What social-sector leaders need to succeed

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Chronic underinvestment is placing increasing demands on social-sector leaders. New research suggests ways they can meet the leadership challenge.

It's no secret that high-performing leadership is synonymous with private-sector success. Nor is there any shortage of research into the leadership qualities that matter most, their potential impact on financial performance, and the importance of investments in leadership development. But what about leadership quality and development in the fast-growing social sector?

To better understand the state of leadership in this sector in the United States, McKinsey surveyed nearly 200 social-sector CEOs and other top managers leading nonprofit organizations, foundations, social enterprises, and impact-investing funds. We asked these leaders to identify the critical attributes for leadership success in their sector and then to rate the performance of leaders in the field against each attribute.[1] Across every category—including balancing innovation with implementation, building top executive teams, and collaborating to achieve outcomes—survey respondents found themselves, and their peers, to be deficient.

The findings suggest that chronic underinvestment in leadership development within the US social sector, accompanied by 25 percent growth in the number of nonprofit organizations in the past decade, has opened a gap between demands on leaders and their ability to meet those needs.[2] At the same time, a number of sector leaders tell us they're concerned that the sector's priorities are at risk if the organizations lack leadership teams with the capabilities to fulfill emerging missions effectively and to adapt to fast-changing demands.

Given the positive return on leadership investment we've seen in the private sector, one might hypothesize that more systematic focus on, and investment in, leadership development in the social sector could pay off in more effective delivery of social interventions. (To our knowledge, there has been no large-scale, empirical research on the effect of leadership development in this sector.)

The US social sector—with more than one million nonprofit organizations addressing issues from education to the environment, from homelessness to digital literacy and access, arts and culture, and workforce development—accounts for nearly $837 billion in products and services, or 5.6 percent of GDP, according to the Urban Institute. Social enterprises, B Corporations, and other

[1] The survey was completed by 196 social-sector C-suite professionals in the United States, with 52 percent CEOs and 22 percent founders. In addition, 57 percent were 40 to 60 years old, 42 percent had 20 or more years of experience within the sector, 57 percent led organizations providing services or products to constituents, and 55 percent of their organizations served over 10,000 constituents annually (22 percent served over 1 million). The survey was conducted in 2013.

[2] Sector-growth numbers are according to Amy S. Blackwood, Sarah L. Pettijohn, and Katie L. Roeger, *The Nonprofit Almanac 2012*, Washington, DC: Urban Institute Press, 2012. It is important to note that nonprofit growth is being used here as a proxy for broader social-sector growth. Broader data on the entire social sector, based on purpose regardless of legal structure or operating model, do not yet exist.

commercial organizations looking to do well and do good add to these numbers and represent an expanding segment of the overall social sector. Given the sector's size and fast-paced growth, we suspect that improving performance even a little could mean a lot with respect to social outcomes.

The time to act is now. The next generation of mission-driven professionals is considering social-sector careers. They expect mentoring, professional-development opportunities, and increasing responsibility. Funders (including foundations, individuals, and impact investors), government, and business have important roles in addressing the leadership opportunity in this critical sector.

Leaders assess leadership

During the past decade, many within the social sector warned of a looming leadership deficit as older leaders retired while the number of organizations within the sector mushroomed. Those predictions proved to be overstated. Yet all along the more pressing issue has been ensuring that this sector's existing and emerging leaders have the ability to be effective in their roles.

So what are the leadership attributes identified as most critical by our survey respondents? There was strong consensus around four skills: 58 percent said leaders must to be able to both innovate and implement; 53 percent said effective leaders must surround themselves with talented teams; 49 percent said leaders must be skilled collaborators, experienced at bringing multiple stakeholders together; and 40 percent said leaders must manage to outcomes and be committed to quality improvements. All other leadership skills tested for in the survey—including placing solving the overall social problem ahead of individual and organizational success, sharing leadership, possessing a good understanding of the ecosystem and operating environment, and using data and evidence adroitly—were rated as less critical for success by more than three-quarters of the respondents.

These responses indicate that leaders in the sector agree on what they think they need to be successful. The next step is to determine what actions can be taken to better support leadership development in the social sector. Based on our experience working with social-sector organizations and funders in this sector, we have identified three primary areas where there is the most striking need for attention to leadership development: the bench strength (or even the existence) of top executive teams within many social-sector organizations, the performance of sector leaders in critical leadership attributes, and adequate funding and other structural support for leadership development.

The top team

The majority of respondents (59 percent) believe the lack of an effective top team—a C-suite such as a CEO, chief operating officer, chief financial officer, and chief information officer—undermines the effectiveness of individual social-sector organizations and the sector as a whole. In our view, what lies behind this response is a growing belief that there is a gap in leadership talent and capability between the CEO and other managers. One reason may be the inability of some organizations to offer compensation and advancement opportunities to recruit and retain talent. (At some organizations, limited compensation budgets mean that they can afford only one highly experienced leader.) But sector leaders suggest that insufficient attention to, and chronic underinvestment in, leadership development may be the root cause of the gap—an observation we will explore in more detail below. There is no deficit of committed, talented people in the social sector. What they lack is training, support, and opportunities to grow in their roles.

Survey respondents said one of the top leadership attributes for the sector is the ability to create talented teams. We think this reflects their concern over the talent gap among top leaders, which results in there being no true C-suite in most social-sector organizations. In the private sector, a strong executive team exhibits complementary skills to tackle a broad range of challenges. Effective CEOs surround themselves with people possessing the diverse skills that a successful organization needs. Social-sector leaders seem to recognize this and prioritize it, but their responses suggest they don't feel they have been successful.

A gap in talent at the top, where too much of the leadership burden rests with one or two professionals, may limit what a social-sector organization can accomplish. Collaborating to assemble multiple stakeholders and managing to outcomes committed to quality improvement—the other two top leadership capabilities respondents identified—is often a team effort, even in smaller organizations. Falling short in either skill can undermine execution of the most important initiatives. CEOs with underdeveloped teams lack strong internal sounding boards for ideas and concerns.

The gap complicates succession planning, too. A recent survey suggests that nearly 70 percent of US charities lack succession plans.[3] Without them, and a "talent bench" at the senior-most level, organizations losing a leader must find a replacement from another social-sector group, elevate a manager unprepared for the role, or recruit a leader from business or government who will face a significant learning curve. In these circumstances, a leader's exit can reduce the organization's effectiveness.

Leadership performance

Responses to questions about how well they and their peers performed in the four leadership attributes they identified as critical should give us pause (exhibit). Only 32 percent of leaders are confident in their ability to both innovate and implement. Only 22 percent of them think their peer leaders in the sector in general can do this. Only one in five leaders believe they surround themselves with a talented team, but nearly 40 percent of them think their peers are good at this. Twenty-four percent of them think they are skilled collaborators, and 33 percent of them think their peers are. Only 18 percent of leaders say they manage to outcomes and commit to quality improvement; they also believe that fewer than one in four of their peers do. Finally, in a sector

[3] *2013 Nonprofit Employment Trends Survey*, the Improve Group and Nonprofit HR Solutions, 2013, nonprofithr.com.

Exhibit Leaders prioritized capabilities and rated themselves and their peers in each area.

Leadership capability	Respondents who rated this a top priority, %	Respondents who rated themselves as strong, %	Respondents who rated their peers as strong, %
Able to innovate and implement	58	32	22
Ability to surround selves with talented team	53	20	39
Collaboration	49	24	33
Ability to manage to outcomes	40	18	24

that is mission driven, 90 percent of them think that, when it comes to making trade-offs, they and their peers will prioritize their own organizations and themselves over advancing their causes. (Note that they did not rate advancing the good of the mission over the good of the organization as a top leadership priority.)

This crisis of confidence in leadership was underscored by the sense of intent versus reality in leadership behaviors. In some important areas, social-sector leaders are meeting standards and doing well. Respondents believe leaders try to work effectively, with 53 percent of them saying leaders anchor innovation in data and evidence, 63 percent of them saying that leaders try to meet the highest standards, and 80 percent of them saying leaders on the whole leverage partners and resources effectively.

But they say there is a gap between rhetoric and reality in other important areas connected to mission and sector-wide collaboration. Fifty-nine percent of them say leaders do not adequately prioritize serving constituents or focusing on the mission. Sixty-one percent of them say leaders put the interests of their own organization ahead of collaborating with others to solve problems. And an equal number report that they see little cooperation occurring across the ecosystem—organizations scramble to claim credit rather than contribute to solutions.

Underfunded and unfocused development

The findings of three separate research studies shed more light on the poor grades leaders give when assessing their own leadership attributes and those of their peers. The first of these studies, conducted by McKinsey, analyzed 20 years of foundation spending and discovered that such institutions allocate 1 percent of annual funding to leadership development. In 2011, this was the equivalent of $400 million. In a second study, conducted in 2014 by the Center for Nonprofit and Public Leadership at the Haas School of Business at the University of California, Berkeley, researchers found that the social sector dramatically underinvests in leadership development compared with the private sector. The private sector spent about $12 billion in 2011 to ensure its leaders, present or emerging, got the skills they need to perform well. When compared with the $400 million in leadership spending identified by McKinsey, this corresponds to about $120 per employee annually in the private sector versus $29 per employee in the social sector.

Finally, in the third related study, conducted initially by McKinsey and later expanded upon by Haas, researchers found that capability-building programs in the United States aren't, as a whole, adequate to sector needs. Access to them varies widely, not all opportunities are available to many sector leaders, and not all are appropriate for every leader. What's more, the majority of these programs are delivered through classroom training, despite the fact that research shows adults learn best in applied, real-world settings.[4]

If the leaders who responded to the McKinsey survey are indicative, most get their training on the job. Seventy percent of the leaders surveyed said this was how they acquired their leadership capabilities. Sixty-seven percent of them credited exposure to challenges and career transitions as development opportunities, and 52 percent of them report that they gained skills outside the sector.

In every sector, opportunities to take on a challenge are the foundation of leadership development. Among the commercial companies that do this best, such as GE, providing leaders with a challenge is a deliberate, thoughtful, systematic practice. Companies complement these "learn by doing" opportunities with coaching and feedback from seasoned leaders. In the social sector, however, frequently there is less support, structure, and supervision available for emerging leaders to take on a significant challenge and fewer opportunities for mentorship, in part because so many organizations are small. As a result, we were told by leadership experts that younger professionals do not experience "stretch goals" as development opportunities but see them as a sort of exploitation: in other words, increased work for which they do not receive additional compensation or promotion.

When sector leaders responding to the McKinsey survey were asked what would help support their development, 40 percent of respondents cited coaching from board members and funders, underscoring this point. A near majority of them also said that participating in cross-sector networks (42 percent), time to experiment (49 percent), or taking a sabbatical (49 percent) would help.

[4] The Haas School of Business research team identified 150 distinct fellowship programs, executive-education trainings, tools, and prizes, but it did not believe this list was complete and exhaustive.

The lack of opportunities to grow as a leader from within, coupled with a paucity of mentoring and capability training, may be the single biggest factor driving leaders' assessment that leadership capabilities are low.

Narrowing the development gap

While solutions to defining and implementing leadership-development programs have a long history in the private sector, social-sector organizations should avoid adopting them directly as an easy answer. (See sidebar, "How the United States catalyzed change for business leaders.") Leadership attributes vary, and any solution for the social sector must address the unique requirements that executives there face. For instance, leaders in social-sector organizations have a passion for mission, and successful managers know how to harness the mission-driven energy of their staff, board, and volunteers. Even more important, while competition is the norm in the private sector, no social-sector organization is able to achieve its mission working alone. To be truly effective, they need to be active, dedicated collaborators, unafraid to reach out to others for advice or for partnership opportunities. Collaboration requires unique skills, which social-sector leaders must cultivate to be successful.

How the United States catalyzed change for business leaders

In 1959, the Carnegie Corporation and the Ford Foundation issued reports that prompted a sea change in the development of business leaders. The reports reviewed the role of business schools, and they were deeply critical. They argued that standards within schools for hiring faculty, accepting students, and developing curricula were too low. They recommended schools adopt everything from an increased focus on quantitative research to directing faculty to consult less and teach more. Business schools had flourished after World War II as the demand by American industry for trained managers grew. The reports suggested that schools were not meeting the needs of employers and urged significant reform.

The nation's business schools responded with alacrity. Accrediting standards rose, and schools transformed to meet higher expectations. In 1949, only 50,000 US managers had an MBA degree. That year, business schools graduated just over 3,000 MBA students into the workforce. Today, about 500,000 students earn an MBA each year worldwide, about 150,000 of them from US schools.[1]

A similar effort is needed to spur leadership development in the social sector. What institution could play the role in the development of social-sector leaders that business schools played in the development of contemporary business managers? Is there a possibility for online educational training to help meet the unique leadership needs of this sector? Are there collaborative solutions across sectors?

[1]Sources include the following: AACSB International membership statistics; *Bloomberg Businessweek*; John A. Byrne, "Revisiting Harvard's most successful MBA class," *Fortune*, March 26, 2012, fortune.com; Rakesh Khurana, *From Higher Education to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession*, Princeton, NJ: Princeton University Press, 2007; and Roger Thompson, "Harvard Business School discusses future of the MBA," Harvard Business School Working Knowledge, November 2008, hbswk.hbs.edu.

Commit more funds to leadership development

A few funders are investing in social-sector leadership development overall or specifically in program areas they care about, such as education or the environment, and can serve as examples of what many other funders can do. For instance, the Bill & Melinda Gates Foundation, the Ford Foundation, the Wallace Foundation, and the W. K. Kellogg Foundation have between them provided nearly $1 billion in leadership funding between 1992 and 2011.[5] However, the 1 percent total annual investment that US foundations are making in leadership is small and unlikely to sustain the sector.

Of course, foundation support is not the only source to fund investments—donations from individuals (which are often unrestricted), earned income, and corporate grants for general operating purposes are alternatives. The fact that social-sector organizations do not invest more of these funds in leadership may reflect the fact that they are under pressure to meet short-term demands, and developing leaders takes longer to pay off. Funders could help by having a more flexible balance of expectations between short-term and long-term results.

The recent move toward pay for success is likely to put a squeeze on many social-sector organizations seeking to invest in their own leadership development by reducing their sources of general operating support. The concept suggests government, foundations, insurance companies, and others should pay for results when a preventive intervention, such as permanent supportive housing, successfully reduces a costly and pressing social problem, such as chronic homelessness. This means that rather than invest in the growth and stability of social-sector organizations—which would allow them to develop new interventions and build internal implementation capacity—many contractors and funders are deciding it's prudent to pay only for demonstrated results. While this may work in the short term, innovating, scaling, and sustaining interventions requires high-performing organizations and leaders—all the more reason to focus dedicated resources on leadership development.[6]

In 2010, the American Express Foundation committed to spending $25 million over five years to support leadership development. It is funding an annual academy for emerging leaders, managed in partnership with Ashoka, the Center for Creative Leadership, Common Purpose, Entrepreneurial Training for Innovative Community, Japan Philanthropic Association, and Thunderbird School of Global Management. American Express is also supporting the National Urban League Emerging Leaders Program, whereby high-potential regional leaders in the organization are offered training; the goal is to build an executive pipeline. American Express also backs the Acumen Fund's online leadership academy, which makes the curriculum of the organization's global fellows program available to anyone with access to the Internet.

Reward leadership—and the attributes of good leaders—in all grants and contracts

Not every funder will create a program exclusively dedicated to leadership development. But they could direct more resources for leadership development within their existing activities.

[5] McKinsey analyzed data of the Foundation Center including independent, community (discretionary grants only), corporate, and operating foundations. The data excluded corporate-giving or direct-assistance programs managed by foundations and grants to individuals. The data reviewed were based on a national sample of up to 1,500 larger US foundations (including 800 of the 1,000 largest ranked by total giving) out of about 76,000 US-based grant makers. Data consisted of grants of $10,000 or more. This analysis may not capture all grants made to support leadership within a targeted program area.

[6] To learn more about pay for success, see *From Potential to Action: Bringing Social Impact Bonds to the US*, McKinsey & Company, 2012, mckinseyonsociety.com.

Following this model, all funders could add on a percentage for leadership development to every project-specific grant, along with some mechanism to ensure the relevance and quality of the activities that are subsequently made available.

Best-practice funders and government grant makers look for indicative outcomes and ongoing assessment capabilities needed to measure results before they decide to support a project in the social sector. Similarly, funders might give preference to organizations with a deep leadership bench over those with a single charismatic CEO or those with a track record of collaboration over those that go it alone.

Funders can also promote scale in leadership development—and set an example for effectiveness in the sector—by investing in ecosystem-level approaches to address gaps in leaders' skills. For example, funders could invest in codifying collaboration skills and developing a curriculum to teach leaders at all stages of their career how to be successful partners. (Since collaboration was rated one of the most important skills for social-sector leaders, this could yield powerful results.) But more important, and even easier to do, funders can reward organizations that show a track record of behaving collaboratively and cooperatively.

Focus funding on the leadership resources leaders say they really need

Leaders who responded to the McKinsey survey were asked to name leadership-development resources on their wish list. They chiefly cited time to experiment and innovate (49 percent of respondents) and sabbatical time to rejuvenate themselves, gain exposure, and broaden their horizons (49 percent of respondents).

Allocating time for an organization's leader to step back is a valuable investment in organizational capacity and effectiveness, according to a 2009 study by CompassPoint Nonprofit Services and Third Sector New England.[7] It not only helps the sabbatical taker, allowing her to recharge her batteries and gain a fresh perspective on the organization's mission and work, but also tends to strengthen an organization's internal capacity, as others need to step up, as well as its ability to collaborate, and general governance. Funders often benefit from the stronger relationship with the grantee that invariably follows and the fresh insights the organization's leader is able to apply to its work. And, as the report notes, most leaders who take a sabbatical recommit to their leadership role after it is over, with only 13 percent looking to move on to another job within three years.

Forty-two percent of respondents also cited developing and accessing cross-sector networks to build connections with peers in the social and private sectors and in government. We believe this reflects their understanding that social-sector leaders, to be effective, must be skilled collaborators who can work with multiple stakeholders. These networks can also be sounding boards for leaders.

[7] Deborah S. Linnell and Tim Wolfred, *Creative Disruption: Sabbaticals for Capacity Building and Leadership Development In the Nonprofit Sector*, CompassPoint Nonprofit Services and Third Sector New England, 2010, compasspoint.org.

Partnership and coaching from board members, investors, or funders is another priority on their development wish list, according to 40 percent of respondents. Forty percent also cited building communications skills, particularly media training and public speaking. This request seems consistent with the desire to reflect and innovate, share new thinking with peers, and engage meaningfully with supporters.

Funding organizations that are dedicated to delivering fellowships and training for leaders is the most direct way to expand leadership development. Participating in these programs gives leaders time away from the office to reflect, while helping them build their peer networks—two things they asked for in the survey. For instance, the Rockwood Leadership Institute, based in Oakland, California, provides leadership training to nearly 400 social-sector leaders each year. Founded in 2000, and with more than 4,500 alumni to date, the institute focuses on helping leaders to develop attributes such as the ability to collaborate and to inspire organizations to achieve quality outcomes.

Another example is the Institute of International Education's Global Leadership Development initiative. It provides long-term and short-term training programs for emerging leaders, in part by connecting them to opportunities and mentors globally. A third example is the Henry Crown Fellowship Program, managed by the Aspen Institute. It provides structured training and a leadership opportunity to a mixed group of public- and private-sector executives interested in more broadly serving communities. Crown Fellows not only engage in a personal leadership journey but also have the opportunity to build their cross-sector peer networks.

Develop leadership opportunities more collaboratively with the private sector

Social-sector leaders in the McKinsey survey cited coaching and mentorship as a priority on their development wish list, but funders, board members, and peers don't have enough capacity to do all that is needed. The private sector could step in to help meet this gap, contributing some specialized expertise in the bargain.

Increasingly, for-profit companies are working to address issues that have cross-sector implications, such as education for employment, sustainable supply chains, and job growth. Companies frequently engage in these issues through partnerships that bring them in touch with social-sector organizations. For instance, the 50-plus participating leaders in the Itasca Project in Minnesota include the CEOs of many of the region's largest companies, as well as leaders in the public and social sector, such as the governor of Minnesota, the mayors of Minneapolis and St. Paul, the leaders of the major local foundations, and the leaders of the University of Minnesota and the Minnesota State Colleges and Universities system. The involved business leaders become part of a peer network with key social-sector and political leaders and work closely together to improve economic competitiveness and quality of life in the region. Socioeconomic disparities, job growth, education, and transportation are some of the issues they address.

Through examples like this one, many private-sector leaders are becoming familiar with the issues social-sector leaders are working on. This puts the private-sector leaders in a better position than ever to be sounding boards for their social-sector counterparts, many of whom they now know personally through shared partnership endeavors. Additionally, private-sector coaches could bring expertise in unfamiliar areas such as supply-chain management, social media, knowledge management, and customer care.

Social-sector leaders are increasingly working in these areas and often lack expert guidance, since it's unfamiliar territory to mainstream social-sector coaches, board members, and funders. Peer coaching relationships with business leaders also help social-sector leaders to build their networks—another priority on their development checklist.

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These three actions—committing more funds for leadership development, targeting the resources leaders say they need, and securing increased mentoring and coaching from the private sector—are near-term remedies to address the leadership-development gap in the social sector. Chronic, long-standing underinvestment in social-sector leadership isn't a problem that will be solved overnight, however. More research on the most effective ways to meet the leadership challenge will prompt other innovative responses. Greater understanding of the leadership gap and how to solve it is critical: business and government need the social sector to succeed at innovating and scaling social-service delivery solutions. Leadership matters.

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