



Zakumi Consulting: **Orange** Paper Series
Not-For-Profit Leaders Conversation
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Here, Now and Later

A Conversation with Not-for-Profit Leaders

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Welcome to Zakumi's Orange Paper Series. As part of our commitment to enhancing Australia's Third Sector, Zakumi Consulting undertakes Action Research Projects, reviews contemporary literature and practice and documents ideas for sharing. We welcome your input and feedback and hope you become part of Zakumi Consulting's, Community of Practice.

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Introduction

Over the past fifteen years, the social economy has become more important as the social divide between rich and poor, advantaged and disadvantaged has increased. At the same time, the need for services has intensified and the leadership challenges have amplified. The many organisations that make up Australia’s social economy are now required to have sophisticated management and governance structures in place, adhere to numerous levels of control and regulation and at the same time, deliver with increasing efficiency, real outcomes for their contributing and served stakeholders.

Leadership in the sector has changed over the past twenty years. In the late 1980’s and early 1990’s, there was limited regulation in the industry and whilst governments required organisations to account for their funding, little else existed to support or indeed protect the rights of the sector’s consumers. Much of this changed in the early 1990’s as new legislation was enacted by governments that provided much of the required funding, and they began to impose higher standards on the industry. These standards related to the introduction of organisational monitoring, quality audits, data collection requirements and a movement towards outcome based measures.

Towards the latter part of the 1990’s, in line with their strategy in other areas, governments started to separate themselves from direct service provision and accordingly placed more emphasis on funding others to undertake the required work. Funding was accordingly more tightly controlled and there was an emphasis on accountability through the achievement of more consumer-focused deliverables.

Increasingly the not for profit sector was becoming focused on growth through their contractual relationships with government and grappling with the vexed issue of being both a “charity and a business”. In essence it was a struggle between how they were funded (charity) and how they operated (business). This challenge has only intensified in recent times as both government and private sector income has become harder to procure.

Today, not for profit organisations and the whole sector leaders face a broadening array of complex challenges. One of the key leadership issues is they are now being required to lead growing and complex corporations in a highly regulated and competitive market. Gone are the days of a small association doing some good – they are now corporate entities; open to scrutiny, competition and consumer expectations.

Competition permeates the social economy. The sector has evolved from competition for revenue, to competition for services, clients and in some cases, survival.

Mapping Trends through Conversations

Given the challenges that lie ahead, The Not-for-Profit Leader Conversations attempted to evaluate how well prepared the contemporary leaders were to address these challenges. We initially assessed the factors that have influenced public policy over the past decade and then attempted to identify the future issues. Finally, we asked leaders from a broad cross-section of the social economy, what they thought the challenges were, and mapped the trends.

Influences on Public Policy

Like many facets of our community, the social economy has faced challenges and undergone significant changes over the past fifteen years. In light of the aforementioned, three were explored:

- Role of the consumer;
- Role of government;
- Role of corporates (corporate entities);

Service recipients assume many different names in this industry, seldom ever referred to as customers, rather,

consumers, clients or service users. These terms may appear to be innocuous at first glance however, implicit in these descriptions is the way in which they are perceived. Far from being a customer whose needs must be met, they are often viewed from a consumption perspective - using services, not necessarily those customised to meet a need but much more about those that are able to be provided. This is a reverse demand/consume paradox where services are often established to meet a specific need, based on what their skills and resources enable them to supply. The paradox is in part driven by government and for those organisations that rely heavily on government funding, this paradox is very strong.

Organisations that receive government funding are required to account for it, partly in terms of outcomes but more in terms of inputs – where the money was spent. Little resource is spent on measuring the impacts or social value of the services being received. This has led to the development of a strong culture of compliance where organisations, concerned about their on-going funding, focus heavily on meeting compliance based measures. This results in a compliant organisation and one that accord with the more archetypical views of how to measure customer satisfaction, such as quality systems. Government has instituted quality benchmarks some time ago and whilst there is always a reference back to the “customer”, very little is done to measure the quality of the customer experience.

This has changed over time and will continue to do so in the next few years. In the early to mid-90’s, most services in receipt of funding, whilst having some type of review, received their funding on an annual/bi- or tri-annual basis and there was little or no real competition. In the late 90’s and driven by economic rationalism, many if not all services were and still are, offered on a competitive tendering basis. This has not only allowed new entrants to enter the market, but has placed a significant burden on many of the smaller organisations to be sufficiently resourced (skills, time and finances) to compete effectively in this arena. Many are not and this has led to

larger organisations growing and diversifying and smaller organisations getting smaller, more specific in focus and in some instances, less viable.

Over this past period, governments have tended to individually fund a service, which in essence transfers the money from the service (provider) to the person (consumer). The intent was to give the consumer more choice. From an organisational perspective, this model limits capacity to be fully resource themselves (given that the vast majority of these services require a substantial human element in terms of care/support, organisations will be made far more vulnerable with the advent of this approach).

The proposed moves to individualised or person centred funding is set to further challenge a sector that largely delivers “group” model programs historically supported and encouraged by government funding approaches.

Changes to what is funded have forced many not-for-profits to adopt a more business-like approach and “gear up or down” depending on demand. This vulnerability is accentuated by competitive tendering and many are inadequately resourced to be effective in this regard. Thus, they remain relatively static and due to the rising costs of accountability (and compliance), have become relatively more expensive. This not only threatens their sustainability but makes being successful in the competitive tendering environment, almost impossible.

There have been changes in the corporate sector that have also influenced public policy in the social economy. These have stemmed from sources related to governance, philanthropy and involvement.

(i) Governance: Governance issues that have dominated the landscape in recent times in the corporate arena have impacted on the not-for-profit sector. Whilst the specific aspects of governance may be different, the not-for-profit industry has also been swept up and is now more than ever required to have sound, contemporary governance structures in place. Related in part to the financial support they may receive from corporate entities and also due to the requirements of governmental funders for enhanced accountability, many have been required to move more swiftly from a “charitable model” to a “business model”.

With the advent of a more corporate model, voluntary Boards of Directors are now required to have better skills, more advanced understanding of the regulations and requirements of corporations and in general, act in accordance with the fiduciary responsibilities normally associated with commercial Boards. Given that they are often made up of people whose association with the enterprise is more likely to have come from direct involvement with the social cause (or an historical connection to the organization), many of the smaller organisations grapple with the additional requirements and they tend to resort to a strong regime of compliance which usually results in the adoption of an even more conservative and change resistant practices.

Philanthropy: There has been a strong tendency over the past fifteen years for corporates to support larger not-for-profits. This has again tended to result in larger organisations growing, having more resources to be innovative, receiving more funding and so the cycle evolves.

Related to the above, the philanthropy tends to be towards organisations that demonstrate sound governance, a business-like approach (thus giving the corporation a stronger sense of comfort that the financial support will be well spent or better managed) and an ability to build brand equity for the corporate entity

(iii) Involvement: There has been an influx of larger corporations into the social economy. Previously only the domain of government or

not-for-profit organisations, the social economy is now called home to some of the largest and most successful corporate entities in Australia. This has also influenced public policy as they have entered the sector for different reasons, have different expectations and for many, are required to deliver a return to shareholders, distinctly different to not-for-profits who strive to deliver positive returns to their stakeholders.

Future Challenges

Challenges will arise from a number of causes – legacy-based, changes in the industry as a whole (emerging issues) and changes in the economy (future issues). Legacy-based issues relate to the fundamental structure of the social economy, which includes the historical rationale behind the inception of the organisation, the emotional connection that has developed due to this, the concomitantly more inward focus that they have, and their resource framework (how they are funded and governed).

Emerging issues are current issues that are more newly formed, having come into prominence in the past five to ten years, and relate to amongst other things, aspects such as partnerships, balancing charity and business and the need to innovate. Future issues likely to be faced by many of these organisations include managing new funding models, increased competition from within and outside the sector, workforce capability and changing consumer expectations.

The main challenges over the past ten years that have forced leaders to address the legacy based nature of the industry have included;

Growth of many of the organisations has depended upon them being able to balance commitments to donors, members, government, and clients while trying to keep costs down and employee

morale high. Many have however failed, been unable or unwilling (through lack of adequate financial and/or human resources) to adopt wholesale application of business and commercial practices. The use of these business-like tactics has resulted in some organisational growth (possibly associated with increased levels of commercial and government income), but has not been widespread due to a lack of support by Boards to embrace the change, and also in many cases, a lack of commercial acumen to successfully implement the necessary strategies and a lack of resources to be able to shift from their historical model.

The *concentration of wealth* in the hands of a small number of not-for-profits has increased dramatically. There has been a reluctance from legacy-based organisations to embrace more commercial practices, seeking rather to (erroneously) focus on their past as a predictor of their future success.

Having said that, many small community based organisations have not been prepared to sell off their community connections, local presence and demonstrated capacity to positively impact locally to adhere to regulations or cave into the growth mantra. Often they have been unwilling to look at alternatives. Notwithstanding their financial sustainability pressures, few have entered into *joint ventures or partnerships*. The reasons for this are related to the manner in which many of these formed – in the main, through volunteer contributions that aligned to develop, lobby or in some cases, deliver services to a particular group. Many of these organisations remain fiercely protective of their name and hard fought gains and remain reticent and skeptical of moves by others to develop sustainable and formal alliances.

Governments at all levels (as well as many corporate funders) want not-for-profits to be more efficient and accountable in their activities, yet many *do not know how to show the true value of their work*.

Organisations that commenced through volunteer effort owing to the fact that there were no services

provided by government have over time secured government revenue as the government's emphasis has shifted away from providing direct services. This has led them to being more secure but ironically more reliant on government. Those that receive a considerable proportion of *their income from government* find it very hard to work any other way.

Emerging issues include:

Industry versus organisational growth

As previously mentioned, for many organisations in the sector, survival has been a key strategic priority. Whilst this has been a reality it has led to a culture of insularity and skepticism. This is a skepticism of others in the sector and of government, and this has culminated in organisations becoming overwhelmingly inwardly focused. This has resulted in many "creating their own benchmarks", thereby opening up the very real possibility of them becoming their own judges. Decisions most often reflect only the best interests of the organisation and not necessarily the industry. Thus, some organisations are growing but there is little overall enhancement of the industry. The competitive tendering processes have only added to this culture.

Partnerships

Over the past decade, organisations have started to build alliances and partnerships with governments and corporate entities and in the case of the latter, have often successfully built on the prevailing Corporate Social Responsibility (CSR) agenda. However, what has been lacking is the development of consortia, merged entities or strategic alliances that would allow small and large organisations, or combinations thereof, to leverage off their skills, expertise and competence.

This notion does not necessarily imply that larger organisations are a better

option. Smaller organisations that are more responsive and cater for specific niches and community segments are equally attractive to potential funders.

However, whilst changing, the notion of two or more not-for-profit entities entering into a mutually beneficial partnership and leveraging off each other's collective strengths is not widely practiced. This extends to situations when sustainability is an issue - even in these circumstances, many do not look to merge or partner with similar organisations for salvation.

Balancing Social Mission with Contemporary Business Processes

This is an emerging issue and one that will likely continue into the future. All organisations in the sector are being forced to adopt more "business like processes" and adapt more readily to a competitive environment. This does not for a moment suggest that organisations are not business-like, however, the public perception of the industry is that whilst many operate as not-for-profits, they confuse this with them being unprofitable. Many organisations have well advanced business practices and the limited resources often require them to be more innovative, yet most of this goes unnoticed.

Innovation

Innovation was a key theme to emerge from the above and continues to challenge organisations in certain sectors of the social economy. Innovative organisations focus upon the concept of agility: they can manage fast change, new risk, business market turmoil, staffing challenges, and market commoditisation. They can do this because they are relentlessly focused on the future and the trends that will impact them. For successful innovative companies, innovation isn't just about new product; it's an inclusive mindset.

Skills shortage

The not for profit sector is not alone when it comes to skills shortages, but not for profit leaders need to address these and create stimulating working environments that both attract and retain workers.

Venture Philanthropy and Social Entrepreneurship

The social economy in Australia is only today starting to consider what these terms mean and how they may be applied. Many organisations are still very focused on Corporate Social Responsibility as a mechanism to attract interest from the corporate market. Many are yet to embrace the evolution in the corporate giving - Venture Philanthropy and Social Entrepreneurship.

Venture philanthropy suggests that philanthropists should act more like venture capitalists and fund and support activities that stimulate organisational growth and development, not one-off activities. Social Entrepreneurship is closer to the Corporate Social Responsibility concept as it links the business model with social values and objectives. It is akin to a triple bottom line approach where social returns are sought and measured. The key is that organisations cannot be passive and wait for opportunities. In order to seize these opportunities, they need to combine business, values, investments and philanthropy and deliver a return to both/all parties.

Technology and Social Media

There will be a great need to innovate through technology in the years ahead. The sector has been able to repel or at least slow down their reliance on technology as a tool, largely on the basis that the client/consumer has not driven this necessity. As they start to assert more influence, technology, or the intelligent use thereof, will be a major factor.

The technological changes that these organisations will need to embrace relate to **social innovation** (strategies, concepts and organisations that meet social needs and strengthen civil society). Social innovation touches upon social entrepreneurship which has been covered

previously - the use of business entrepreneurial principles to organise, create, and manage a venture that can impact social change in economically measurable ways. It also includes the social media.

What Our Leaders Say?

The Not-for-Profit Sector Leader's Conversations focused on what leaders thought the contemporary challenges are and what the solutions may look like. Whilst there is no clear consensus, the challenges appear to be related to "size". Too small and you may not be viable. Too big and you may not be effective.

Sue Cripps – CEO, and Digby Hughes, Policy and Research Officer, Homelessness NSW

- (a) Organisational sustainability – really small organisations can have a big impact but they have issues of sustainability;*
- (b) There is a resistance to find new ways to work together;*
- (c) Good community business models need to be developed and expanded;*
- (d) New relationships with government need to be negotiated;*
- (e) It would appear that the sector has lost its way to being an innovator. We need to reignite this.*

Jenna Bateman – CEO Mental Health Coordinating Council of NSW

- (a) The sector is not leading. Mental health is still very much in the hands of the medical system focused on treatment;*
- (b) Dominance of big organisations over small organisations is putting pressure on service delivery;*
- (c) The future of the small responsive community organisation is worth fighting for because they deliver significant outcomes.*

Adrian Ford - CEO ASPECT

- (a) An effective partnership with parents and families has been a crucial part to*

do other donors, funders and supporters

Aspect's success in supporting people with an ASD. As well when Aspect was a small organisation it was naturally more of a member-driven organisation at a corporate level where families took the lead. Now that it is a relatively large not for profit organisation the Board has had to take the lead in setting the strategic direction and has done this by building an effective partnership with all the key stakeholders including people with an ASD and their families, governments, donors and the staff;

(b) Aspect remains focused on people with an ASD and their families – this level of specialisation is important at this stage of the development of knowledge about ASD. At the same time it has been very important to continue to grow the organisation in the last decade whilst retaining this focus;

(c) Aspect has a growing interest in the role social media can play in connecting people with an ASD and their families – but it is early days - there is much to learn about the medium.

Jane Woodruff – CEO Burnside

- (a) Growth is critical – small organisations have sustainability issues and some are not outcome focused*
- (b) There is a need for a 4-way system investigator, regulator, provider, funder*
- (c) Partnerships – sector strengthening. It must be the way into the future*
- (d) Outcomes – measuring and keeping organisations accountable must improve. Government expects this and so*

Dr. Andrew Penman – CEO Cancer Council of NSW

- (a) 80 % of the cancer sector is dominated by a few large organisations;*
- (b) Cancer is not a chronic illness and there is a strong view that we need to focus efforts on wellness and not on dying;*
- (c) Strengthening organisations and sector through mergers and acquisitions must occur. Acquiring and supporting services on the ground should be a focus.*

Rebecca Ladd - CEO Community Care Northern Beaches

- (a) Relevance in your local community is important – who is involved, is the organisation valued by locals. That has to be the key;*
- (b) Membership question is pivotal. Is it important to have members;*
- (c) Recruiting retaining and developing skilled workforce in particular geographic areas is a big challenge in community care.*

Claire Vernon – CEO Jewish Care

- (a) Corporate philanthropic partnering is critical. Good sound and mutually beneficial relationships will deliver real value;*
- (b) We need to challenge the language about the relationship between provider and client and allows for more reciprocal partnerships with our clients, where appropriate;*
- (c) Growth mantra is of significant concern – we want to grow quality and specialization. Smaller NGO's are more nimble, agile, flexible and responsive; they are “delivery ready”;*
- (d) We have flexibility and independence from government because we only receive about 40% of our funding from government. The rest belongs to our community and we are accountable to them for this money;*

(e) There is a real role for corporate expertise on Boards.

Graham Bargwanna – CEO Scouts NSW

- (a) Managing a volunteer-based organisation in the current climate is challenging. There are significant challenges for volunteer-based organisations competing for volunteer labour;*
- (b) Leading historical organisations with mixed structures (lay people and paid staff) is complex. Finding the correct combination of skills on the Board is important and having a mechanism to make good decisions and be strategic is essential;*
- (c) There is a need for enhanced governance and Board Director and Management skills. As an organization that is steeped in history and has been successful for many years, there is a need for models of support and business operations that are contemporary and relevant to the changing times.*

Chris Campbell, CEO, The Junction Works

- a) Need model of support and business operations that are contemporary and relevant to the changing times;*
- b) We need to ensure we innovate and not passively accept government funding.*

Margaret Lagoni, EO, Riverlink Interchange Inc.

- (a) Not convinced that growth is critical. Organisations need to find a clear and relevant role.*

This can be effectively done by small organisations;

- (b) Building customer loyalty is a critical first step in becoming relevant.*

Sue Richards, CEO Families NSW

- (a) Pressure to deliver on client outcomes and be accountability is putting new pressures on organisations;*
- (b) The level of learned helplessness of some sections of the sector reflects the challenges of the many people and families they serve;*
- (c) Organisational viability and long term sustainability issues are particular a challenge for small rural based services. We cannot afford to lose them and we cannot afford to allow them to continue as they are;*
- (d) We need new enthusiasm and positivity from government and community leaders that we can support families and protect children.*

Jacqui Burraston – CEO Diverse Community Care

- (a) The sector needs leadership and should not always look to government for direction;*
- (b) We successfully merged and whilst there are challenges, the decision was well thought through and implemented;*
- (c) Good sound and effective governance is critical for the future of organisations in the sector.*

Trends

Trend 1

Necessity to measure what we do

Measurement of impact is essential. The industry has moved beyond talking about programs and

activities and needs to look at ways that best describe the impacts of the work that is done.

Trend 2

Effective leadership at all levels

There is a critical lack of leadership skills and expertise and this needs to be developed. The strength of the industry needs to be enhanced and future leaders identified, nurtured and developed.

Trend 3

Look at ways to work collaboratively, partners and/or merge.

Growth for growth's sake is not advocated but ways to work together and leverage off the core strengths of others is essential. Organisations that are making an impact must be sustained and enhanced but some consolidation may be inevitable and can be positive.

Trend 4

Good governance is imperative.

If the future challenges are to be met, governance needs to be explored, modified and enhanced. The industry requires committed, experienced and skilled boards – all at once.

Summary

The leaders that were engaged in a conversation by and large supported the underlying research. This indicates that the sector is in capable hands and that in the main, leadership is aware of and has a good understanding of the trends and impending changes. However, there are structural issues that continue to plague the sector (such as governance and innovation) and it appears that some form

of consolidation is warranted and perhaps, being encouraged. There is a move away from seeing government as the leader and a trend towards wanting to see them as a partner. The questions that remain are largely centered on how the industry and the organisations that comprise it will respond.

Understanding and foreshadowing the change does not imply that anything will happen.

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