Contribution of the Not for Profit Sector

A Submission from

The Smith Family

to

The Australian Government Productivity Commission

May 2009

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Executive Summary

An opportunity for change

In 2006/07, Australia's 41,000 economically significant non-profit organisations employed 995,000 people (8.6% of Australians in employment at that time); generated an income of $74.5 billion and made an economic contribution equivalent to that of the government administration and defence industry and one and a half times the size of the economic contribution of the agriculture industry.[1] For a sector this important, it remains significantly under-researched, poorly regulated and in many ways unaccountable to the public. As one commentator remarked, Australian not for profits collectively represent '*the last bastion of the economy that is left largely to its own devices'.*[2]

Prompted by this situation and the high-profile cases of mismanagement of key not for profits in the international and Australian contexts, the sector has been the target of sporadic barrages of heavy criticism, including being described as '*a ticking bomb… riddled with inconsistencies* [and] *dangerously unaccountable*'.[3] To some extent, those in the sector have perpetuated this problem, emphasising the charitable nature of their work and adhering to a philosophy akin to "don't bother me with numbers, my Mission is just'.

However, a range of factors in the external environment have now made the lack of accountability no longer an option for most non-profits. Spurred on by the rapid democratisation of information through technology in the knowledge era, citizens are today more engaged than ever in scrutinising the companies and institutions they interact with, particularly with regard to their impact on community wellbeing. As Meehan et al. noted in 2004, we have seen the emergence of '*a new breed of givers… who seek information about the non-profits they fund, and expect measurable social returns on their investment'*. As a sector built on the generosity of community members, we cannot afford to let this relationship falter, no matter how difficult the road to greater transparency and accountability may be.

The Contribution of the Not for Profit Sector inquiry

As an independent, national social enterprise with a proud history of 87 years supporting disadvantaged Australians, The Smith Family welcomes the inquiry of the Productivity Commission into 'The Contribution of the Not for Profit Sector'. In this submission we look to provide a balanced perspective into both the strengths and the weaknesses of the sector with regard to measuring the outcomes of our varied and complex work; the challenges and opportunities for enhancing the efficiency and effectiveness of non-profits; the power of collaborative partnerships with governments and businesses; and the key environmental trends that will impact how the sector evolves into the future.

The submission is structured in response to the various invitations to comment interspersed throughout the Productivity Commission's Issues Paper released in April 2009, and includes clear recommendations based on our accumulated evidence and experience in the Australian context. It provides commentary on the following areas:

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[1] Lyons, M. (2009) *The Non-profit sector in Australia: A Fact Sheet* (3rd edition), Centre for Social Impact.

[2] Ferguson, A. (2005) 'The $70-billion sacred cow'. *Business Review Weekly,* March 24-30, 2005, p10.

[3] Ferguson, A. (2005) 'Charity Cases'. *Business Review Weekly,* March 24-30, 2005, p44-55.

1. Measuring the contribution of the non-profit sector

- How well have previous Australian studies captured the contribution of the sector?

- What are your thoughts on the Commission's proposed approach of adopting a broad view of the sector for the purposes of assessing its contribution?

- Where are the gaps in coverage or methodological measurement?

- What international studies on the contribution of the non-profit sector been useful?

- What are the different ways to categorise the roles of the non-profit sector?

- What are appropriate methodologies for measuring the contribution of the non-profit sector?

2. Enhancing the efficiency and effectiveness of the sector

- What are your experiences of attracting both paid and volunteer workers with the appropriate level of skills?

- What are the best ways for non-profits to form partnerships with businesses to improve access to human resources and organisational capability? What are the impediments experienced in this process?

- What factors are impeding the spread of knowledge among Australian non-profit organisations regarding how well they deliver their outcomes and key drivers of their efficiency and effectiveness in doing so?

- What are the incentives for non-profits to operate efficiently and effectively and take innovative approaches? Are there constraints on innovation, and if so how can these be removed?

3. The sector's provision of government-funded services

- To what extent are government agencies moving to 'lead provider' relationships – to the potential exclusion of smaller non-profits – and is this compromising diversity of non-profits and the effectiveness of operations?

- What are your thoughts on the efficiency and effectiveness of arrangements associated with the provision of government funded services?

4. Trends and developments impacting on the sector

- What are the most significant trends and developments that have impacted on the efficiency and effectiveness of the non-profit sector? Are there emerging trends and developments which are likely to impact on the future capacity of the sector?

Summary of Recommendations

The Smith Family makes the following recommendations to the Productivity Commission arising from this submission to the inquiry into the Contribution of the Not for Profit Sector:

Measuring the contribution of the non-profit sector

That the Commission consider:

➢ Breaking the tradition of convening 'one-off' examinations of the sector at isolated instances some years apart, and begin to invest in more continuous analysis deploying consistent methodologies to facilitate ongoing tracking of the more subtle trends, developments and contributions of the sector;

➢ Adopting a framework of social inclusion in assessing the contribution of the sector to extract the higher-level commonalities of purpose between non-profits and provide a unifying, rather than fragmenting approach;

➢ Supporting the development of tools and methodologies for non-profits to use in determining their own relative contribution or 'market share';

➢ Supporting the introduction of a government agency or institute dedicated to understanding and supporting the sector;

➢ Analysing not only those roles that are currently being carried out by non-profits, but also what roles they could take on in the future as part of a more sophisticated, multifaceted and collaborative sector;

➢ Promoting and supporting the capacity of non-profits to move beyond simple advocacy to embrace a thought leadership role in anticipating emerging issues and proactively shaping society in the public interest;

➢ Promoting and supporting the capacity of non-profits to invest in demonstration projects (or 'practical advocacy'), breaking traditional service delivery moulds and developing new models for tackling intractable social problems in a particular context;

➢ Promoting and supporting the capacity of non-profits to undertake more sophisticated data collection methodologies such as randomized control trials and longitudinal studies;

➢ Engaging with the international Campbell Collaboration to assess current research around the development of more robust measures for the sector;

➢ Promoting and supporting the capacity of non-profits to explore adopting Professor Goran Roos' framework of intellectual capital and value management in more clearly articulating their contribution to society;

➢ Taking into account the donor leverage or 'multiplier effect' arising from non-profits being able to 'stretch' the value of the funds they receive, depending on the nature of the intervention to which they are targeted.

Enhancing the efficiency and effectiveness of the non-profit sector

That the Commission consider:

➢ Promoting the greater allocation of resources for non-profits to invest in the professional training and development of their staff, particularly as regards leadership within the sector;

➢ Supporting the development of tools and methodologies for non-profits to attract, support and effectively utilize the contemporary volunteer population;

➢ Promoting the Cross Sector Collaboration Continuum framework developed by James Austin at the Harvard Business School as a tool for non-profits to more effectively manage and track their partnerships with business over time;

➢ Promoting the establishment of closer and more numerous mentoring relationships between organizations and individuals in the corporate and non-profit sectors to facilitate the two-way exchange of learning;

➢ Promoting the effective sharing and communication of knowledge across the sector by building the capacity of non-profits to move across the continuum of Data > Information > Knowledge > Wisdom;

➢ Promoting the value of greater transparency within the sector and building the motivation and capacity of non-profits to provide clear alerts to governments, businesses and other donors regarding the growth capital they need to become more effective;

➢ Supporting non-profits to move from focusing on the supply side of the knowledge equation (asking 'what do we have to say?') to the demand side ('what knowledge do we need to provide?') in communicating their work to various audiences;

➢ Supporting non-profits to further develop their data analysis skills to allow for cross-sectoral, multi-disciplinary collaboration and sharing of information;

➢ Supporting non-profits to reposition their goal in reporting their outcomes from simple information access (ensuring it is widely available) to informed action (ensuring this knowledge is used widely to improve practice);

➢ Supporting the establishment of an Australian 'Social Enterprise Investment Fund' to enable collaborative testing of new and more innovative ways of working for societal impact;

➢ Promoting the importance of non-profits developing their alertness to changing circumstances; their agility in exploiting opportunities; their adaptability in bringing new ideas to bear against emerging problems; and their alignment between internal and external commitments to mission-centred change;

The sector's provision of government-funded services

That the Commission consider:

> ➢ Promoting the value of non-profits taking the time to recognize and build the cultivation of new resources and skillsets to enable collaboration within and outside the sector, including the creation of organisational cultures that are open to the challenges posed by new approaches to budgeting and control, trust and accountability;

> ➢ Promoting the simplification of the tax concession system for non-profits on the basis of expanding eligibility for concessions rather than limiting them, as this would allow government to make relatively low cost changes that would make a significant contribution to the financial capacity of the sector;

> ➢ Promoting an increase in the Fringe Benefits Tax threshold for non-profit employees either by indexation or possibly setting the exemption as a percentage of an employee's overall package;

> ➢ Promoting the establishment of a national body focused broadly on adding value to the sector by (a) reducing the current burden of regulation; (b) reducing the heavy proportional emphasis on outputs and efficiency in favour of outcomes and effectiveness; and (c) ensuring that the regulatory burden on the sector is commensurate with its capacity to comply, reocgnising that over-regulation is counterproductive.

Trends and development impacting on the sector

That the Commission consider:

> ➢ Promoting the importance of non-profits working more collaboratively with business, academia and governments to provide an adequate safety net for those children and students at risk of failing or disengaging from education;

> ➢ Promoting the importance of adopting a 'dual generational learning' approach, working to assist both children and their parents through integrated interventions rather than isolated programs;

> ➢ Promoting the development of training and resources to support non-profits in building their capacity to generate, understand and utilize data from a range of sources, including establishing an evidence-base to inform their own interventions;

> ➢ Promoting the importance of preventive interventions aimed at changing the behaviour of adults and children in addition to more immediate palliative services;

> ➢ Promoting the capacity of the sector to take the initiative in shaping and introducing new models of philanthropy from a more proactive stance, building social movements and transforming other institutions around them.

1. Measuring the contribution of the not for profit sector

- ***How well have previous Australian studies captured the contribution of the sector?***

- ***What are your thoughts on the Commission's proposed approach of adopting a broad view of the sector for the purposes of assessing its contribution?***

Notwithstanding the value of the studies summarised in the Issues Paper, Australia continues to lag significantly behind our international counterparts in terms of the evidence base we have accumulated around the non-profit sector. Various reasons have been put forward for this, suggesting that 'governments over the years have consistently failed to tackle the sector' and that non-profits anyway 'have no idea about themselves', culminating in an assertion that 'previous inquiries have come to nought'.[4] It is likely that the still dominant perception of the sector as the 'poor cousins' of the commercial world continues to undermine the status that the social and economic contribution of non-profits would otherwise demand, and without greater recognition and acknowledgement the investment of time and dollars into researching the sector is unlikely to be a priority.

To this end, there is a strong opportunity through the 2009 Productivity Commission Inquiry and the proposed 'National Compact with the Not for Profit sector' to generate a stronger profile and respect for the sector through a more sophisticated understanding of its role and value in Australia. For this to be achieved, it may be necessary to break the tradition of convening large-scale 'one-off' examinations of the sector at isolated instances many years apart, and begin to invest in more continuous analysis deploying consistent methodologies to facilitate ongoing tracking of the more subtle trends and developments within the sector. While it may not itself initiate or even embrace change, the sector has nevertheless undertaken significant shifts in the models and relationships it draws upon in its operations, all of which have had similarly important impacts on the outcomes it has been able to produce / set in motion.

The difficulty has been in bringing these broader changes to the surface, given the extraordinary diversity of non-profit organizations and the associated complications this has for aggregative measurement and analysis. However, it may also be the case that this diversity is deceptive, in looking beyond the specificity of localised mission statements and teasing out the commonalities of contribution within a framework of *social inclusion*.

The vast majority of non-profits, by virtue of their status, have social values at their heart of their work, although this may be articulated through a different lexicon and activity set. At The Smith Family, our understanding of social inclusion is captured in our Vision of creating a more caring and cohesive Australian community, and is built on the premise of enabling closer relationships between the 'haves' and the 'have-nots' in society. In contrast, a non-profit focusing on welfare might have an entirely different Vision or Mission statement, and yet be looking to contribute to a similar goal of creating a more caring community from the perspective of promoting greater respect for the wellbeing of animals.

Using the paradigm of social inclusion to extract the higher-level commonalities of *purpose* between non-profits might therefore provide a more constructive approach to a unifying framework for the sector. Differences in structure, sources of funding, legal status etc. might then be more fruitfully examined as variables impacting the relative successes and challenges of non-profits in fulfilling their 'piece' of the social inclusion 'pie'. This kind of analysis would also facilitate the easier identification of collaboration opportunities within the sector, between non-profits that were previously separated into different 'boxes' through tools such as the International Classification of Non-Profit Organisations presented in the Issues Paper. Put simply, a framework for the sector should be more than an academic exercise, as this tends to perpetuate the justification of sector fragmentation and competition rather than collaboration.

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[4] Ferguson, A. (2005) 'Charity Cases'. *Business Review Weekly,* March 24-30, 2005, p44-55.

- ***Where are the gaps in coverage or methodological issues in measuring the contribution of the non-profit sector?***

The task of measuring the contribution of the entire sector would be made significantly easier in one respect if the larger national non-profits themselves have a strong understanding of their own contribution relative to their counterparts. In the for-profit world, these questions are answered comparatively easily through an analysis of an organisation's market share, which is then typically used as an important measure of success. However, non-profits are not accustomed to thinking of their organisations' relative position in the market beyond simplistic comparisons around gross annual revenue (inputs) raised through direct competition (e.g. appeals). Due to the complexity of their stakeholder groups, even defining who constitutes their 'market' may prove challenging – particularly in the absence of a unifying framework of purpose as discussed above.

Despite this complexity, a recent article in *The Stanford Social Innovation Review* stated that identifying an organisation's market share is one of the four essential components to it achieving 'breakthrough performance'. [5] In the non-profit sector, market share might be defined as the percentage of potential clients an organisation is serving, which would help inform the long-term strategy for building the capacity of an organisation to impact at a national level. Some of the benefits of a high market share include increased visibility among donors, sizeable economies of scale in overhead costs and facilities, greater negotiating power and greater ability to launch related services.

The Smith Family's Mission states that 'Together with caring Australians, we will unlock opportunities for disadvantaged families to participate more fully in society.' We have been able to successfully measure this at the level of the individual, family and community, but defining our national contribution has proven more challenging. How significant is the scope of our support within the context of all those who might be referred to as 'disadvantaged' in Australia? Is it possible to quantify the proportion of families we are currently assisting within this larger population, or set a target for the number we should / could be helping in the future if resources were forthcoming? How does the relative contribution of The Smith Family measure up against the other non-profits working with disadvantaged children and families?

To try to answer some of these questions, The Smith Family is working with the pro bono support of The Melbourne Business School to undertake an analysis of market share within the non-profit sector – perhaps the first attempt of this kind in Australia. The study will look at the contribution and relative strength of The Smith Family through a variety of lenses, including the size and nature of the families we work with, the donors who support our work and the programs that we offer through our *Learning for Life* suite. The findings will then be used to help us understand how well our distinctive offering compares with others with a similar agenda, and inform future strategy regarding possible growth and enhancement of our contribution.

The conclusions of the Commission in determining the contribution of the non-profit sector at a national level will undoubtedly be valuable in elevating the status and understanding of this essential part of the social economy. However, to further build the capacity of individual organisations at a more practical level, it may be useful for the Commission to promote the development of tools and methodologies for them to use in assessing their own relative contribution or 'market share' as undertaken by The Smith Family.

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[5] Gottfredson, M. et al. (2008) 'Achieving breakthrough performance', *Stanford Social Innovation Review,* Summer 2008.

- ***What are the different ways to categorise the roles of the non-profit sector?***

The emergence of the knowledge era was a challenge to all institutions in society to evaluate their sustainability in the face of some significant paradigm shifts. As the table below shows, the implications of the 21st century for non-profits in particular were wide-ranging and profound, signalling changes in their status, focus, structure, funding and accountability – all of which impacted their role and contribution.

	20th Century	21st Century	Shift
Status	Outsiders	Insiders	From challenging the system to being part of it
Focus	Problems	Solutions	From spotlighting problems as symptoms of market failure to focusing on solutions delivered through markets
Structure	Institutions	Networks	From operating as isolated institutions to integrated networks
Funding	Guilt	Investment	From appealing to public anger or guilt, to persuading supporters to make good investments
Accountability	Ad hoc	Strategic	From self-defined accountability to shared transparency and governance systems

Adapted from: SustainAbility (2003) The 21st Century NGO: In the Market for Change

As the lines of responsibility between government, business and community have become more porous, non-profits have moved beyond the traditional 'charity' model based on the simple transfer of money or goods between one group and another, and taken on a more sophisticated and diverse portfolio of roles and responsibilities as their capacity has grown. As one commentator remarked in 2003,

> *'Things used to be fairly clear, at least so I am told by those older than me. Private corporations sold things in the marketplace. Governments protected the national security and made sure people followed all the rules. Charities took care of society's poor and its orphans and widows. Individuals and families took care of pretty much everything else.*
>
> *Today, very little is clear, at least by yesterday's metric. Non-profits compete with corporations in the marketplace for everything from used cars to health care. Government agencies are setting up charitable foundations. Private entrepreneurs are taking the principles of the marketplace into social service provision via venture philanthropy.*

Is this an identity crisis or further proof of evolutionary theory where we see converging playing fields of commercial markets and non profit endeavours?"[6]

While it is widely acknowledged that the non-profit sector has grown enormously in importance, there would still appear to be a gap between the role(s) that the sector plays at a local level and the recognition it receives from policymakers at the national level. It is clear that in countries where the sector is well-established, the status of non-profits has been boosted by the introduction of government agencies or institutes dedicated to understanding and supporting the sector (e.g. the Office of the Third Sector in the UK) and organizations in these regions are becoming more entrepreneurial in experimenting with innovative, cross-sectoral ways of working. While Australia is also continuing along this pathway, progress has been slower than in other countries because of the lack of an overarching and unifying vision for the sector to follow.

The role of a non-profit is also intricately tied to their mission and/or vision, a lack of clarity around which has led some non-profits to steer off course and take on roles outside their mandate or expertise. Equally, many non-profits are reluctant to step outside the functional 'boxes' they have become accustomed to and embrace new roles and responsibilities where they might achieve a greater impact. To this end, it will be important for the Commission to explore not only those roles that are being carried out by non-profits at present, but what roles they could contribute to in the future as part of a more sophisticated, multifaceted and collaborative sector.

The Commission's Issues Paper touches on four broad roles played by the non-profit sector, namely:

- Service delivery (provided to people outside the organisation)

- Advocacy (on a range of economic, social and civic issues for individuals)

- Connecting the community (expanding the social networks of individuals)

- Enhancing the community endowment (investing in human and physical capital)

While The Smith Family acknowledges the existence (and relative dominance) of these roles within the sector, we would like to highlight two important aspects that are not adequately reflected in the above categories, and that The Smith Family has explicitly adopted as part of our contribution as a non-profit both now and in the future. These roles relate to thought leadership and demonstration.

Thought leadership

The role of non-profits is not only about responding to current challenges as and when they emerge, but also about providing thought leadership in anticipating emerging issues and proactively shaping society in the public interest. This is more than an advocacy role, which would see non-profits promoting their perspective on a current issue or policy. Rather, thought leadership seeks to change behaviour in the long-term by encouraging new forms of thinking and acting for future benefit.

The Smith Family has over the years taken up many important opportunities to be an active participant in driving change within the sector – a commitment inherent in our long-term vision of creating a more caring and cohesive Australian community. We recognise that the social challenges we seek to tackle have multiple, overlapping causes that can play out in very different

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[6] Raymond, S. (2003) 'Intergenerational transfer of wealth', posted on OnPhilanthropy.com. Dr Susan Raymond is Sr. Managing Director, Research, Evaluation, and Strategic Planning for Changing Our World Inc., a consulting firm helping non-profits and private and corporate philanthropists achieve their goals. Dr. Raymond is also Chief Analyst for onPhilanthropy (www.onphilanthropy.com), a global resource for non-profit professionals.

ways in people's lives over time. Without an easy solution therefore, experimentation and exploration of different approaches through innovation become vital.

The seeds of our thought leadership were planted back in Christmas 1922, when what were to be our five founders debated whether and to what extent disadvantage existed in the relatively prosperous society of the day. The men decided that each of them would make their own investigation into poverty in and around Sydney, and take any necessary action if they found their suspicions to be true. The stories and experiences they gathered paved the way for The Smith Family's formal commitment to becoming an evidence-based organisation more than 75 years later, through which we continually research and publicise the experiences of disadvantage that still persist across Australia, despite the unparalleled economic growth and prosperity of the last several decades.

Today, our commitment to being evidence-based is one of our *Guiding Principles*, and is expressed through the research that underpins the design and development of our *Learning for Life* strategy and suite of programs. With the support of this evidence, and the close relationships we have built with disadvantaged families across the nation, The Smith Family has emerged at many points in our history as a thought leader, introducing new issues and methodologies to the ongoing debate around disadvantage in Australia.

For example, our early experience in connecting university students to a sponsor and a mentor alerted us to the 'win/win' scenario of these relationships, eventually leading The Smith Family to formally commit to education and mentoring in 1999 as the most effective ways to break the cycle of disadvantage – long before either of these approaches had generated traction within the sector.

Similarly, we were quick to move beyond the traditional welfare model of assistance and embrace an asset-based social capability model enabling individuals, families and communities to draw on their own strengths. This was much more than a branding and repositioning exercise. It was about fundamentally creating a new type of organisation that could innovate effectively in addressing problems of disadvantage and bringing about societal change. Although this involved taking some hard and sometimes unpopular decisions in moving away from providing emergency relief, the evidence around the impact of our educational agenda has proven the transformation to be both timely and successful.

Demonstration

As an evidence-based organisation, The Smith Family understands the importance of continually questioning the way we do things and testing out new ideas. Every initiative that might form part of our *Learning for Life* suite of programs is first locally piloted and evaluated to assess its potential contribution to our societal change agenda. Those that suggest a positive impact are then rolled out as part of our broader national suite of programs, and regularly evaluated from this point onwards.

This means that we are able to discontinue those that lose relevance in meeting the rapidly changing needs of our families. At a higher level still we invest in *demonstration projects* (or 'practical advocacy'), breaking traditional service delivery moulds and developing new models for tackling intractable aspects of disadvantage in a particular context. These innovative interventions are specifically designed and evaluated with the intention of being easily replicable so that the key drivers of success can be made explicit to others – particularly government – can take up the challenge in communities where The Smith Family does not have a presence.

Appendix B provides details of two of The Smith Family's demonstration projects; the first around Indigenous education in Western Australia that has operated since 2003, and the second (forthcoming) around the integrated provision of early childhood education and care, parenting and adult education in a purpose-built centre.

- ***What are appropriate methodologies for measuring the contribution of the non-profit sector?***

Measuring results has always been a thorny issue in the non-profit world.[7] A variety of factors have contributed to this, particularly a lack of understanding at the national level in Australia regarding the science of prevention and the fact that impact can often only be comprehensively assessed over a long period of time. With the short time frames and funding streams that typically limit non-profit interventions, more sophisticated evaluation tools such as randomized control trials and longitudinal studies are beyond the reach of most non-profits. The result is that outcomes are frequently assessed too early and without deference to the scale of behavioural change that might be taking place more gradually. As Rosabeth Moss Kanter, Professor at Harvard Business School and a world authority on leadership, reminds us, '*everything can look like a failure in the middle',* and misinterpreting the outcomes too early in the piece can significantly jeopardise future support for initiatives that may actually prove successful in the long-term. [8]

A second and related challenge is around efficiently capturing the value of non-profit outcomes, which in many instances are intangible and elude traditional measurement methodologies. While many frameworks for measuring the outcomes of non-profits have been put forward through international research and evaluation, most have struggled with this consistent challenge of quantifying the high-level, long-term 'social' (or non-financial) value generated by non-profits as opposed to the more tangible, short-term, low-level program outputs (e.g. the number of participants trained, the percentage of clients with greater than 80% satisfaction).

In the for-profit world, financial statements enable analysts to focus on measures such as profitability or shareholder returns to determine the economic performance or contribution of the firm. In the case of non-profits however, there are no such equivalent reports nor agreed-upon measures to estimate the value created for beneficiaries and stakeholders.

Nevertheless, progress has been made in other sectors, notably healthcare. Through the Cochrane Collaboration (a global network of dedicated volunteer research centres), evidence on best practice and improved outcomes has been collected through systematic reviews of the effects of healthcare interventions.[9] More recently, we have seen the establishment of the Campbell Collaboration using the same model of volunteer research networks to carry out systematic reviews of the effects of social interventions in education, crime and justice, and social welfare.[10] While Australia is not yet represented among the partner organisations within this network, our participation or at least engagement through the Commission could contribute significantly to the development of more robust measures for the sector.

A framework of intellectual capital

One of the most comprehensive and flexible approaches to measuring the value of the non-profit sector has been developed by Professor Goran Roos, Honorary Professor at Warwick Business School in the UK, through a framework of *intellectual capital*. The key elements and assumptions underpinning this model are:

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[7] Jansen, P. and A. Kilpatrick (2004) 'The dynamic non-profit board', *The McKinsey Quarterly* 2004, Number 2.

[8] Moss Kanter, R. (2008) *America the Principled: 6 Opportunities for becoming a can-do nation once again.* Crown publishing, p257.

[9] For more information on the Cochrane Collaboration, see www.cochrane.org

[10] For more information on the Campbell Collaboration, see www.campbellcollaboration.org

- That understanding the value or performance of an organisation with a social mandate requires a methodology that enables accurate assessment of its major value-creating asset – its *intellectual capital*.

- Intellectual capital can be defined as all nonmonetary and nonphysical resources that are fully or partly controlled by the organisation and that contribute to the organisation's value creation.

- The intellectual capital framework is based on a 'holistic value added' (HVA) methodology that combines measurement theory with value theory to generate a view of organisation value (or 'contribution') as seen from the viewpoint of any stakeholder.

- The HVA process asks both internal stakeholders (managers, employees and volunteers) and external stakeholders (government agencies, corporate supporters etc) to together agree on a set of cardinal attributes of value, recognising that their perceptions of relative importance may vary. From there the hierarchy of value can be developed until it becomes a minimum set of attributes that can be measured to quantify an organisation's contribution.

According to Roos, studies on applying intellectual capital to not-for-profit organizations, educational institutions and government departments and programs have shown that the concepts of intellectual capital are just as important, if not more relevant and important, to the management and performance of non-profit sector organisations as they are to for-profit companies. This is because non-profits typically have:

- A high reliance on relationships, especially in voluntary organizations

- A high intangibility component of the value created

- A high dependence of trust and reputation, especially in donor financed organisations

The Smith Family is an organisation that fits all of these criteria, more so than many other non-profits because less than 15% of our funding comes from government. We are a fundraising organisation, with a diverse supporter base all of whom derive value from our relationships in different ways. To this end, The Smith Family conducted a number of workshops with Goran Roos in 2008 around the intellectual capital framework that ultimately lead to our undertaking a comprehensive Stakeholder Value Management Analysis with the pro bono support of a team from the Australian Business School. This has provided us with the data to form distinct value propositions for each of our stakeholder groups, in addition to developing the tools through which to measure the value we provide to them in return for their support.

In this way, the SVMA has not only enhanced our capacity to measure and enhance the value we are providing to our myriad stakeholders, but has also provided a contemporary evidence base around the stakeholders that provide greatest value to the organisation and that as a consequence demand a greater share of our limited resources (particularly in the current economic climate).

While the capacity of other non-profits to adopt Roos' framework of intellectual capital and value management will of course differ, it is clear that the sector as a whole will benefit from exploring how they might use elements of this approach to articulate more clearly the multifaceted value of their contribution to society.

For more information on the intellectual capital approach to measuring the contribution of non-profits, see Roos, G. (2005) *Managing Intellectual Capital in Practice.* Elsever Ltd, Oxford.

Recognising the non-profit 'multiplier effect'

In looking to comprehensively measure the value and outcomes of non-profits, it is also important to take into account the donor leverage (or 'multiplier') effect arising from non-profits being able to 'stretch' the value of the funds they receive, depending on the nature of the intervention to which they are targeted. The graph below explains these effects in simple terms as they relate to The Smith Family's Workplace Giving program when it is supported by matching employer donations and channeled to our programs supporting better early childhood experiences for disadvantaged children.

$1,000 invested by an employee delivers an estimated $37,000 community benefit through TSF's early intervention programs.

Donor Leverage 5.2:1

Social Impact* 7:1

TOTAL Leverage 36.9
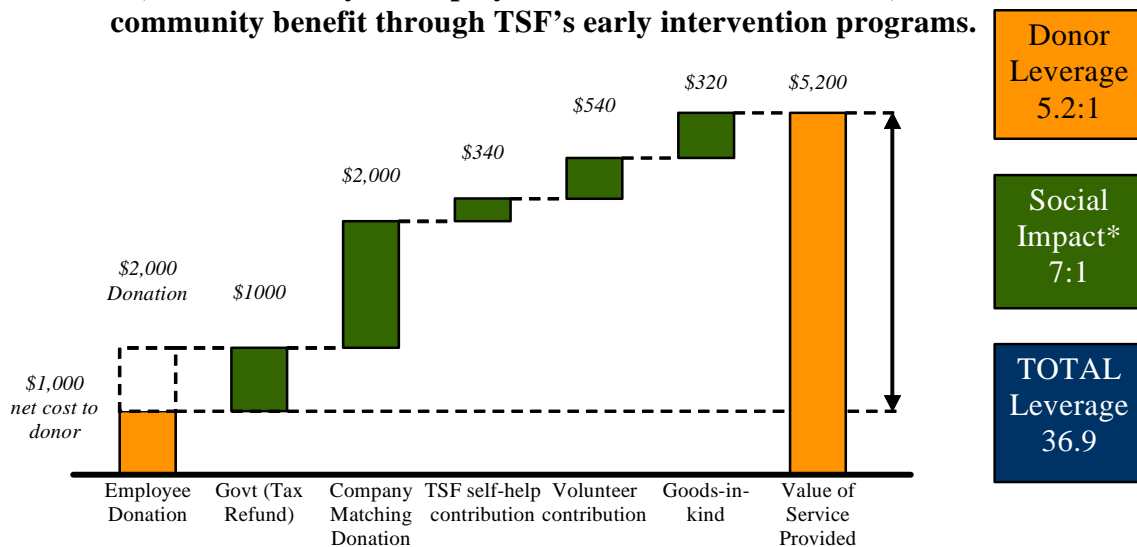
In broad terms, the value of a net contribution by a donor of $1,000 can be increased by $4,200 by taxation concessions, employer contributions and value added by The Smith Family through our access to volunteer support and goods-in-kind. Measures of the social impact multiplier of that $4,200 being appropriately targeted at early years interventions have been approximated at 7.1, meaning that $1,000 spent on early intervention saves $7,100 in future services and treatment costs.[11] The lifetime value to society as a whole of that additional $4,200 investment is therefore approximately $37,000.

The financial value of Workplace Giving is also accompanied by the benefits of this initiative in contributing to what The Smith Family refers to as the 'virtuous circle'. Participation in pre-tax Workplace Giving opportunities encourages supportive employers to match employee contributions, and to commit to corporate community investment (CCI) in other ways. Similarly, employee volunteering programs give staff the chance to learn more about their community needs and bring this new consciousness and awareness back into the corporation with them. The culture of CCI and community partnerships then becomes more widely propagated internally, impacting the employer's view of how their company situates itself within the community. This then contributes to the creation of a supportive environment for the broader and fuller adoption of CCI within the company's operations, leading to greater community involvement and thus completing the virtuous circle between businesses, their staff and their communities.

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[11] Schweinhart, Lawrence J., Helen V. Barnes, and David P. Weikart (1993) "Significant Benefits: The High/Scope Perry Preschool Study Through Age 27", Ypsilanti, Michigan: The High/Scope Press.

Recommendations

That the Commission consider:

➢ Breaking the tradition of convening 'one-off' examinations of the sector at isolated instances some years apart, and begin to invest in more continuous analysis deploying consistent methodologies to facilitate ongoing tracking of the more subtle trends, developments and contributions of the sector;

➢ Adopting a framework of social inclusion in assessing the contribution of the sector to extract the higher-level commonalities of purpose between non-profits and provide a unifying, rather than fragmenting approach;

➢ Supporting the development of tools and methodologies for non-profits to use in determining their own relative contribution or 'market share';

➢ Supporting the introduction of a government agency or institute dedicated to understanding and supporting the sector;

➢ Analysing not only those roles that are currently being carried out by non-profits, but also what roles they could take on in the future as part of a more sophisticated, multifaceted and collaborative sector;

➢ Promoting and supporting the capacity of non-profits to move beyond simple advocacy to embrace a thought leadership role in anticipating emerging issues and proactively shaping society in the public interest;

➢ Promoting and supporting the capacity of non-profits to invest in demonstration projects (or 'practical advocacy'), breaking traditional service delivery moulds and developing new models for tackling intractable social problems in a particular context;

➢ Promoting and supporting the capacity of non-profits to undertake more sophisticated data collection methodologies such as randomized control trials and longitudinal studies;

➢ Engaging with the international Campbell Collaboration to assess current research around the development of more robust measures for the sector;

➢ Promoting and supporting the capacity of non-profits to explore adopting Professor Goran Roos' framework of intellectual capital and value management in more clearly articulating their contribution to society;

➢ Taking into account the donor leverage or 'multiplier effect' arising from non-profits being able to 'stretch' the value of the funds they receive, depending on the nature of the intervention to which they are targeted.

2. Enhancing the efficiency and effectiveness of the not for profit sector

- ***What are your experiences of attracting both paid and volunteer workers with the appropriate level of skills?***

Attracting and retaining paid staff

Wage levels, complexity of work, professional development and geography all influence the ability of non-profits to recruit and retain the right workers, intensified by a broader notion that non-profits are somehow 'less professional' than for-profit organisations, and therefore demand different (or fewer) skill sets. To some extent the sector is itself responsible for perpetuating this problem, with many non-profits actively choosing to foster a simpler charity mindset and image for the sector that does little to attract the most talented minds. As discussed above, the lack of a compelling overarching vision for the sector, coupled with its relative slowness in adapting to the evolving wants and needs of the population, have made it more difficult to attract and retain the best people for the job.

Of course, non-profits may be more successful in attracting individuals who are committed and passionate around a socially-driven vision or mission, but this does not always mean these candidates have the required skills for the job. This is confirmed in a recent survey of non-profits in Australia, which found that 64 per cent indicated that they had experienced difficulty attracting appropriately qualified staff.[12]

Problems of recruitment operate at a number of levels within the sector, most conspicuously with regard to non-profit CEOs and leaders. According to a 2006 survey of nearly 2,000 non-profit leaders in eight US cities, the vast majority are so fed up with their fundraising responsibilities and other challenges that they plan to quit. Three-quarters of those surveyed said they did not expect to be in their current jobs 5 years on, and 9% were already in the process of making a transition. Top reasons for discontent included frustrations with their board of directors and donors, a lack of administrative and management support, and compensation levels that fail to match the demands of stressful leadership jobs.[13]

The 2007 'Stronger Community Organisations Project' carried out by the Victorian Government confirmed this dearth of quality leadership within the sector, concluding that:

> *'Many stakeholders indicated that staff working in management or leadership roles within community organisations did not always have relevant training and skills to undertake their roles effectively. Often these staff have a practitioner background, and have moved into more senior roles without necessarily having the skill set to manage and lead an organisation – such as the wider skills needed to develop and champion organisational goals at a strategic level. Support and development of volunteer leaders was also recognised as important.'* [14]

Some of the main difficulties in recruiting and retaining leadership within community organisations include: the growing complexity of organisational management in the face of changing demands for service delivery, accountability and legal liability; and the changing demographic patterns highlighted earlier.[15] In addition, senior staff tend to spend large proportions of their valuable

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[12] Australian Council of Social Service (2008) *Australia Community Sector Survey 2008,* ACOSS.

[13] Berkshire, J. (2006) 'Charity CEO's Tales of Woe', in *The Chronicle of Philanthropy*, March 9, 2006.

[14] Victorian Government (2007) *Stronger Community Organisations Project – Report of the Steering Committee*, November 2007, p107.

[15] Barraket, J. (2006) *Community Sector Sustainability: Research Evidence and Public Policy Implications.* Paper prepared for the Sector Sustainability Task Group, August 2006.

leadership and management time securing operating income rather than managing their organisations, and this impacts staff morale at all levels. This has most likely contributed to turnover rates in the non-profit sector, which have been shown to be consistently higher than in many other sectors, regardless of the unemployment rate or GDP.[16]

Key contributing factors include overwork and burnout, low wages and insufficient training, and the lack of professional development and supervision referred to above, particularly among the small to medium sized organisations. [17] Put simply, non-profits are able to allocate far fewer resources (time and money) to invest in the professional training and development of their staff, and the broader lack of leadership in the sector is an acute reflection of this. As research in Victoria has shown, second to a stated need for more financial support from government, Victorian non-profit organisations identified issues of leadership training and in house skills as main areas in which they needed further support.[18]

The cumulative result of these factors is that the overall capacity of the Australian non-profit sector today remains low, ironically at a time when the government is relying more than ever on non-profits to deliver core community services. The limited capacity of community organisations to ensure income security and career progression, among other barriers, has undermined the sector's ability to develop a strong and responsive workforce, to the point that incentives for staff recruitment are often limited to meeting people's personal desires to 'give something back to their community'. If the sector is to meet the challenges posed by the changing wider environment in which they work, developing better strategies and support for the attraction and retention of leaders and staff will be crucial.

Leveraging the potential of volunteers

Over the past few years, a new global momentum has emerged around volunteering, created in part by the large number of 'baby boomers' retiring from the professional workforce and looking to use their skills in a different way to help solve social problems. Younger generations are also reshaping the nature of volunteering through their technological skills, their focus on outcomes rather than inputs and the greater levels of autonomy and responsibility they are seeking in their roles. These trends have resulted in an unparalleled wealth of volunteer talent in the community at large, with more than 20% of the Australian population aged 18 years and over volunteering at least once a fortnight.[19]

This represents an important opportunity for non-profit organisations, which can benefit in multiple ways through volunteers providing technology services, supporting program development, training staff and helping fundraise.[20] However, it also places new demands on how non-profits attract, support and effectively utilise the contemporary skills of this diverse volunteer population.

As a non-profit, The Smith Family has always been reliant upon volunteers, and in 2001, as part of the United Nations 'International Year of Volunteers', we conducted research among our own volunteers to help identify the 'new face' of volunteering in social enterprises. Incorporating the results of a survey conducted in May 2000, this research was significant in outlining a 'social enterprise' model of volunteering in contrast to the more traditional 'charity' model – a shift that paralleled The Smith Family's own transformation away from a welfare orientation that began in 1999.

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[16] Research from the US quoted on http://www.non-profitrecruitment.com/cultivate_your_staff.php.

[17] Wagner, R. and Spence, N (2003) 'Paucity management practices in Australian non-profit human services organisations', *Third Sector Review*, 9 (1)119:135.

[18] Rich, J. (2006) 'Victorian Government and Community Enterprise' presented at *Strategic Issues for the Not for Profit Sector: the Road Ahead.* Centre for Public Policy, University of Melbourne. June 6, 2006.

[19] ABS (2008) *Australian Social Trends.* Cat. 4102.0

[20] Eisner, D. et al (2008) 'The New Volunteer Workforce', *Stanford Social Innovation Review,* Winter 2009, pp32-37.

The implications of moving to a 'social enterprise' model of volunteering were suggested to focus around the need to adopt a different management approach that went beyond traditional HRM techniques. As the research concluded:

> "*It will involve creating new volunteering opportunities that utilise volunteers' skills in more diverse and productive ways. In particular, finding alternatives to the more traditional release activities. Issues with respect to staff/volunteer and volunteer/volunteer relations will also require creative solutions.*" [21]

To enhance our understanding of what these new relationships might look like, The Smith Family conducted further research to discover (a) why some volunteers are more committed than others (in terms of providing more of their time),[22] and (b) the factors that influence the behaviour of volunteers in contributing financial support in addition to their time.[23] These studies both confirmed the need for The Smith Family to consider a 'multidimensional model of volunteering' underpinned by comprehensive infrastructure to recruit, develop, place, recognise and retain volunteer talent.

Over the years, a number of full time staff have been employed by The Smith Family with the prime responsibilities of recruiting and managing different categories of volunteers in accordance with the findings from this research. However, we are now in the process of amalgamating all of these volunteer groups, systems and processes within a comprehensive 'whole of organisation' volunteering model for the 21st century.

The need for such a model is acute, given the large number of corporate partners with whom The Smith Family has nurtured relationships, and who are increasingly looking for more meaningful opportunities for their skilled staff to volunteer their time and talent. Recognising this, The Smith Family has for the past year been engaged in a number of projects to improve our understanding of our myriad stakeholders, not just in terms of the value they can give to the organisation but the potential value they receive in return from their experience. One of these projects, a Stakeholder Value Management Analysis conducted in late 2008 by MBA students from the Australian Graduate School of Management, confirmed that there is significant potential for The Smith Family to extract greater value from its volunteer workforce in terms of increasing the level and timeframe of their involvement.[1] To achieve this greater engagement, The Smith Family needs to focus on enhancing each element of the volunteer recruitment and retention process with a particular emphasis on 'customer care' to ensure that reciprocal value is attained and nurtured over the relationship.

This project will play a pivotal role in the broader evolution of The Smith Family's business models over the course of 2009, in which enhancing the engagement side of our business takes precedence, particularly in the context of the current global financial crisis. Strengthening our capacity through a more sophisticated and efficient model of volunteering without impacting on our balance sheet is therefore a critical priority moving forward, not just for The Smith Family but for all non-profits in the sector.

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[21] The Smith Family (2001) *The 'new face' of volunteering in social enterprises: The Smith Family experience.* Background Paper No.2.

[22] The Smith Family (2001) *Why are some volunteers more committed than others? A socio-psychological approach to volunteer commitment in community services.* Working Paper No.5.

[23] The Smith Family (2002) *The giving of time and money: An analysis of donor behaviour among volunteers.* Working Paper No.7.

- ***What are the best ways for non-profits to form partnerships with businesses to improve access to human resources and organisational capability?***

The Smith Family was established in 1922 by five businessmen who were concerned about the levels of poverty that existed in Sydney society, and who decided to do something about it. From modest beginnings in which they joined together to donate toys to an orphanage on Christmas Eve, they formally constituted The Smith Family with a commitment to anonymity, independence from government and religious institutions and to run it as a business by businessmen.

This emphasis on commerciality eventually led to the establishment of what has become The Smith Family's Commercial Enterprise which continues to contribute to the organisation's administrative costs so that more money can be invested in the future of Australia's children, families and communities. Over eight and a half decades The Smith Family has provided support for disadvantaged Australians and, since 1999, has been at the vanguard of broader changes at the intersection of the boundaries between business and the non-profit sector in Australia.

What is the nature of this change? On the one hand, business has been re-evaluating its relationship with the broader society within which it operates, often encapsulated in terms such as Corporate Social Responsibility or more recently Corporate Community Investment. On the other, the non-profit sector has been re-evaluating the way it traditionally operates so that it marries its social purpose with 'business-like' processes to achieve better longer-term societal change and outcomes, often encapsulated in the term "social enterprise". So although The Smith Family has long relied on the financial and nonfinancial support of business in its work, there has been a change over the past decade in the extent and nature of its relationship with business. We have sought greater assistance and involvement from business in finding new ways to address intractable issues at the community level, recognising that to a large extent, today's biggest social problems are tomorrow's biggest business opportunities.

Initially many in both the business and non-profit sectors were wary of forming closer alliances with each other. This was often due to a lack of understanding of how each of the sectors operated, frequently exacerbated by inaccurate stereotypes. As in all areas of significant change however there is often a small number of leaders prepared to sail in largely unchartered waters. It was a natural fit for The Smith Family to lead change in this area from the non-profit perspective given its origins and history with business.

Modelling community-business partnerships

What do community-business partnerships comprise? Two key dimensions of partnerships are the time frame involved and the terms or elements that comprise the relationship. A typology that captures these dimensions and is used as a framework for documenting the examples of The Smith Family's corporate partnerships in this report is the Cross Sector Collaboration Continuum (CSCC) developed by James Austin at Harvard Business School.[24] The Continuum is summarised below and offers a simple but useful approach to examining the key dimensions of community-business partnerships as well as how they might develop over time.

The CSCC sees partnerships as falling into one of three 'stages' – philanthropic, transactional or integrative. Movement along the continuum from left to right sees partnerships that are more complex and layered in terms of engagement, mission match between the parties, resources employed, activities undertaken, and interaction. As the managerial complexity of the partnership increases so too does the partnership's strategic value.

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[24] Austin, J. (2000) *The Collaboration Challenge*, San Francisco: Jossey-Bass.

Nature of Relationship	Stage 1 Philanthropic	Stage 2 Transactional	Stage 3 Integrative
Level of engagement	Low >	>	> High
Importance to mission	Peripheral >	>	> Central
Size of resources	Small >	>	> Big
Scope of activities	Narrow >	>	> Broad
Interaction level	Infrequent >	>	> Intensive
Managerial complexity	Simple >	>	> Complex
Strategic value	Minor >	>	> Major

Source: James Austin, *The Collaboration Challenge*, San Francisco: Jossey-Bass, 2000.

Stage 1, or the Philanthropic Stage, is the most common and traditional type of relationship or partnership between business and non-profit organisations and is usually characterised by:

- Donations of money or goods (sometimes reactive) from a company to a non-profit;

- The level of engagement and resources devoted to the non-profits is relatively low;

- The cause or area being supported is often of peripheral importance to the nature of the business;

- The range of activities is narrow (e.g. there is little to no staff involvement);

- The level of interaction between the company and the non-profit is infrequent; and

- The partnership has little strategic value for the parties.

Partnerships in this stage are usually little more than 'cheque book philanthropy', although there may still be some benefit to a company in terms of enabling it to fulfil its community responsibilities although both the commercial and social benefits are generally limited.

In Stage 2, or the Transactional Stage, partnership activities are more specific and significant value is accrued by both parties. The partnership is more than just a donation and there is greater linkage between the non-profit being supported and a company's mission and business. Partnerships in this stage often involve the development of a specific project to be implemented, employee volunteering opportunities and a greater deployment of resources in terms of money, skills and time.

In Stage 3, or the Integrative Stage, partnerships evolve into strategic alliances that are characterised by:

- Significant alignment of the non-profit with the mission and strategy of the company;

- Greater frequency of interaction between the staff of both organisations;

- Several activities and projects carried out; and

- Deployment of greater and different types of resources (e.g. money, skills, people, expertise).

As with all typologies real life situations do not always neatly fit such artificial categories. Most of The Smith Family's community-business partnerships for example have aspects that fall into more than one stage (e.g. a partnership may involve the firm contributing a relatively small amount of resources in terms of money and the activities of the partnership may be narrow in scope but it has a high level of engagement and is central to the firm's mission and business), creating hybrids of different stages. Furthermore, the same partnership may be classified differently by the parties to the partnership, that is, where a partnership may be placed on the spectrum depends on the perspective of the partner and how any one partnership compares to others in their portfolio.

Finally, businesses and non-profits often have a 'mixed' partnership portfolio that comprises several philanthropic relationships, some transactional and a smaller selective number of strategic integrative alliances. The aim in using this framework is not to imply that any one type of partnership is better or more valued than another but to show how partnerships vary with time and as the needs and circumstances of the parties change.

The Smith Family's model is flexible enough to support any level of engagement with their business partners, depending on what each partner wants to gain from the relationship and their ability and willingness to commit any combination of the elements of time, talent, and dollars.

Building mentoring relationships between non-profits and businesses

Perhaps the most immediate and practicable path forward for non-profits in building their capability is to recognise and start applying sound business principles and practices within their work. In other words, community organisations must look outside themselves at the qualities and skill-sets that drive organisations in the business world in terms of strategic leadership, information management, communication and innovation. The idea that these two sectors are or should be inherently different is no longer valid in a contemporary environment where many of their stakeholders are in fact the same people, and sharing of the skills and expertise between the two worlds can only benefit our communities – the communities we *all* serve.[25]

Setting up closer and more numerous mentoring/coaching relationships between organisations and individuals in the corporate and non-profit worlds does not mean that the flow of learning is uni-directional. Community organisations have a variety of skills in customer service and in addressing the interests of multiple stakeholders that businesses can benefit from adapting, and their greater involvement will also assist their understanding of the resourcing and support that community organisations really need to carry out their work effectively. The importance of this two-way exchange has been slow to catch on in the NP sector, but is already emerging in the business world, as William Novelli, CEO of AARP, describes:

> *"The true measure of making all this work is to get the talent flowing in both directions. Make not-for-profit managers better so that they can be accepted on the other side of the bridge. And make for-profit people more understanding so they can see the value of people from the not-for-profit sector. Not just value them because they know they can run a piece of business, but value them because they understand missions, they understand social change, and they understand social values."[26]*

The kind of learning exchange envisaged here is possible by taking corporate community investment to the next level. Instances of this have already arisen, including 'corporate social marketing' (CSM), "a powerful strategy that uses marketing principles and techniques to foster

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[25] Rothschild, H. and N. Armstrong (2004) 'The Third Way', Hay Group Australia, 10 November 2004.

[26] William Novelli, CEO of AARP, quoted in Silverman, L. and L. Taliento (2006) 'What business execs don't know – but should – about non-profits', *Stanford Social Innovation Review,* Summer 2006.

behaviour change in a target population, improving society while at the same time building markets for products and services".[27]

CSM goes beyond the traditional investments made by businesses of providing a non-profit with capital or volunteers because it is focused around changing people's behaviour in a positive way (e.g. helping them quit smoking) so that the community becomes more fertile for their particular product or service (e.g. healthcare). In this way, both the non-profit and business sectors benefit through harnessing the power of the commercial sector for positive social change. In addition, Kotler and Lee (2004) point out that '*of all its benefits… perhaps the most important is that over time, CSM is one of the surest ways to have a measurable impact on a social issue, because it actually increases the number of people who act in a way that benefits society*'.[28]

Of course, CSM is just one of the many ways in which community organisations and business can work together more effectively. The greatest challenge will perhaps be cultivating the culture change within non-profits to use business models based on the goals of the sector as a whole, but with the mindset of a for-profit. Ultimately, this is about trying to demonstrate the power of using market-based approaches to solving the problems of poverty, and is essential to the successful development of non-profits for the foreseeable future.

'Second Career' – an innovative model to attract business talent to the non-profit sector

The non-profit sector needs to consider innovative solutions to attract talent in an environment of increasing demand, tighter supply and restrained capacity to pay 'commercial' rates. The 'Second Career' model, based on the highly successful 'Transition2' program created by IBM in the US, encourages and supports corporate employees and retirees seeking second careers in education, the non-profit and public sectors.

There is ample research documenting that many baby boomers would like to continue working in fields that allow them to give back to their communities. These employees bring a lifetime of career experience, as well as passion for their jobs and dedication to excellence – ideal ingredients for successful 'second careers'.

However, entering the non-profit sector from a corporate background is about more than making a personal financial transition. It needs a new set of skills to help them adapt to organisations where mission, rather than money, is the end goal, and where collaboration and an 'all hands on deck' approach is common. From a practical perspective, newcomers to the non-profit sector must also adapt to working in resource-constrained environments without the extensive technical assistance and other forms of support they could turn to in a large multinational.

In 2008, IBM Australia approached The Smith Family seeking our interest in facilitating this kind of 'second career' model in Australia, in light of our respected reputation and strong relationships with corporate partners. Such a model would support talent attraction, transition and placement in the non-profit sector, and The Smith Family would charge a fee for this brokering arrangement and for the enculturation into the sector.

The Smith Family is currently developing a Feasibility Study into the 'Second Career' model to determine how it might work in the Australian context. For more information, please contact The Smith Family directly.

[27] Kotler, P. and N. Lee (2004) 'Best of Breed', *Stanford Social Innovation Review,* Spring 2004.

[28] Ibid.

- **What factors are impeding the spread of knowledge among Australian non-profit organisations regarding how well they deliver their outcomes and key drivers of their effectiveness and efficiency in doing so?**

The significant (and largely unregulated) growth in the number of non-profits in Australia, particularly of smaller, cause-related organisations, has had a number of negative consequences for the sector from the perspective of sharing knowledge and best practice. Whereas diversity is a cause for celebration in other sectors, for some reason it has served predominantly to increase competition among non-profits, particularly for funding in the current economic crisis. This has in turn generated an increasing tendency for non-profits to publicly share only the 'good news' stories from their experiences that are design to minimise donor disillusionment rather than promote the sharing of best practice.

Perhaps the most fundamental impediment to the effective sharing and communication of knowledge across the sector is the capacity of non-profits themselves to efficiently move across the continuum of 'Data > Information > Knowledge > Wisdom' (see below).

Data comes about through research, creation, gathering, and discovery. Data is turned into Information by organizing it so that we can easily draw conclusions. Information is then organised into Knowledge by adding the complexity of experience, e.g. being able to see this information from different perspectives as with interpretation. Knowledge is generally personal, subjective and therefore extremely vulnerable to being lost in staff turnover. Finally, Wisdom constitutes the ability to differentiate the value of different types of knowledge to reach an ultimate level of understanding. It is a particularly important skill in being able to plan and predict future developments, as opposed to data, information and knowledge, which all relate to understanding the past.

Source: Clark D. (2004) http://www.nwlink.com/~donclark/performance/understanding.html
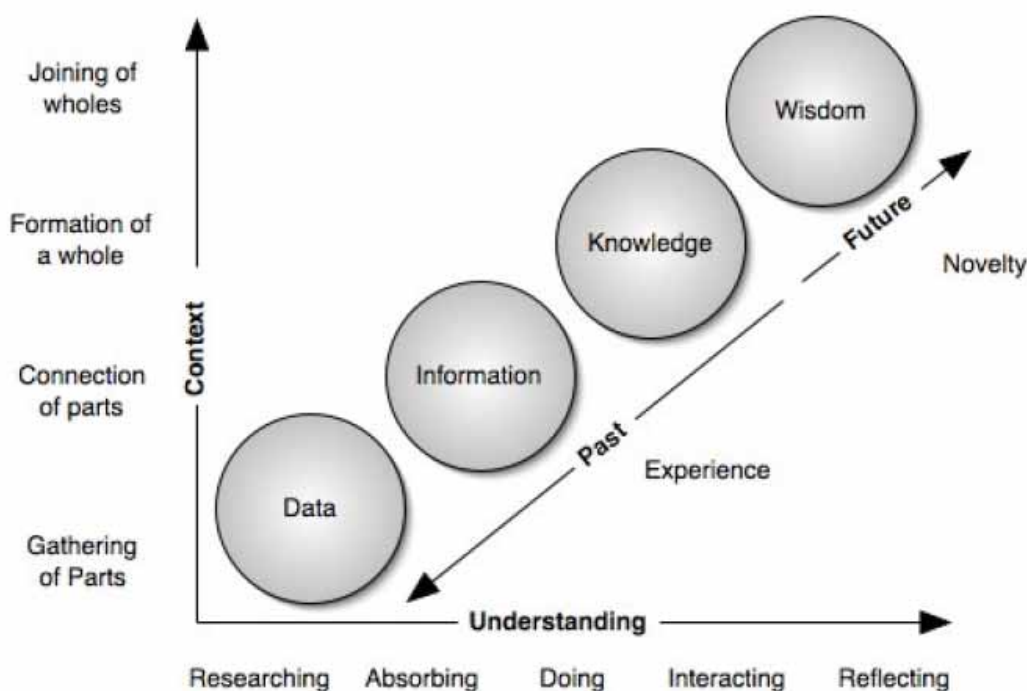
While non-profits are generally very capable of gathering data through processes such as evaluation and organising this into information, their ability to move quickly in transforming these to strategic knowledge and particularly wisdom is far less apparent. The existence of a dedicated Research & Evaluation capacity within non-profits is less widespread than it should be, and the sector as a whole relies too heavily on external consultants and partnerships with academia to make sense of the work they do. While these partnerships are valuable in many ways, they rarely allow for or promote the cultivation of knowledge and wisdom with the non-profit itself. The persistence of short-term funding directed away from operating costs exacerbates this problem and reduces the capacity of those in the sector to engage in longer-term organisational planning and investment. As one observer phrased it,

> *"Instead of asking how low charities can go in overhead, donors should ask how high they can go in performance, and then make the investments to get them there."*[29]

A related issue is the tendency of organisations operating within the sector, particularly those with a community-focused agenda, to communicate only 'good news' to the general public in the fear of donor disillusionment. The consequence of this is that the weaknesses of the sector – the areas where greater investment and support is so urgently needed – are played down or even 'hidden' through the need to appear 'successful'. This ultimately leads to a situation of poor organisational transparency, which in the current climate of increased scrutiny of the sector, is both risky and self-defeating. Greater transparency is the key to alerting government, business and other potential donors to the investments that non-profits really need to make them effective. These include not only 'hard' resources such as information technology and financial packages, but also 'soft' resources such as board development, strategic planning and staff training.

It has been suggested that the more information non-profits are able to provide about the work they do (both good *and* bad), the more people are likely to see why they should give the dollar they give. As Meehan et al. conclude, this would also work to reduce duplication within the sector and introduce a much needed market-based efficiency:

> *"If charities did a good job of explaining their work and performing and meeting objectives, then they would continue to operate and they would grow. If it emerged that too many were doing the same thing, they would merge or some would go out of business. If there were not enough resources in a particular area, then new non-profits would develop, because the actors would be responding to needs, information and proactive donor intent. These are the dynamics that would create true market outcomes.*[30]

To improve the efficiency and effectiveness of knowledge sharing within the sector, non-profits need to undertake four consecutive tasks, all of which relate to how they generate and use data through their work.

The first task will be to change how non-profits decide what data to collect in measuring their effectiveness, and move from focusing on the *supply* side of the knowledge equation (asking 'what do we have to say?') to the *demand* side (what knowledge do we need to provide?).[31] This involves aligning indicators, data collection and analysis procedures to higher-level frameworks that have been agreed at state and national level, such as the Council of Australian Governments National Reform Agenda.

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[29] Light, P. C. (2005) 'Donor, Heal Thyself', *Stanford Social Innovation Review,* Winter 2005.

[30] Meehan III, W., D. Kilmer and M. O'Flanagan (2004) 'Investing in Society – Why we need a more efficient social capital market, and how we can get there', *Stanford Social Innovation Review*, Spring 2004.

[31] Williams Group (2009) *Marketing your Knowledge: A Report to Philanthropy's R&D Organisations.* The David and Lucile Packard Foundation Knowledge Project.

The second task will be to expand the *depth and variety* of data non-profits draw upon in demonstrating their outcomes. The sector has for many years relied too heavily on participant satisfaction surveys as a proxy for program outcomes, partly because of the acknowledged complexity of our work and the difficulty in drawing clear cause and effect conclusions. If they are to meet the increasing expectations of those searching for a more solid social return on their investment, non-profits need to invest in more sophisticated data instruments such as randomised control trials and longitudinal studies, which are particularly important in measuring the outcomes of preventive interventions as discussed above.

The third task will be to enhance non-profit data *analysis* skills to allow for cross-sectoral, multi-disciplinary collaboration and sharing of relevant information. Meaningful outcomes require a mixture of large scale data sets and local studies – what Geoff Mulgan, Director of the Young Foundation in the UK, calls 'ground to sky' research that constantly triangulates between the big picture and specific realities. Getting this 'granularity' and 'zooming' right matters, because the recent insights of social science confirm that although structural and systemic factors matter a great deal, so too does personal disposition and circumstance. Big structural factors might be decisive in pushing people into vulnerable positions, but personal and very local factors may be critical in determining who gets back on their feet quickly.[32]

The fourth and final challenge relates to how non-profits *use and disseminate* this data. This involves repositioning the goal of reporting their outcomes from simple *information access* (ensuring it is widely available) to *informed action* (ensuring that this knowledge is widely used to improve practice). Outcomes may be the end goal for the individuals, families and communities with whom we work, but from an organisational perspective they must be connected back into the research > policy > practice iteration to inform a continuous improvement loop. In this way, non-profits are able to use outcomes not merely to measure how well we have 'fixed the past' but to also help us understand how we might preventively 'fix the future'. This requires all those in the sector to overcome the tendency to report only 'good news' outcomes in the fear of donor disillusionment. If non-profits are to be transparent in their relationships with others, they need to be open and honest in reflecting the outcomes of their work and learn from them to improve their practice.

Bringing these issues out into the sunlight is the first step towards more effective and meaningful measurement of non-profit outcomes. Recognising the limited resources the sector has at its disposal, the next step would be for governments, academia and businesses to leverage their time, talent and dollars in helping non-profits make these difficult yet necessary changes. Australia may then be confident that it has a non-profit sector that is demonstrably ready and able to meet the challenges and problems of society both now and in the future.

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[32] Vale, D., B. Watts & J. Franklin (2009) *The Receding Tide: Understanding unmet needs in a harsher economic climate.* The Young Foundation (UK), Preface by Geoff Mulgan, p5.

- ***What are the incentives for non-profits to operate efficiently and effectively and take innovative approaches? Are there constraints on innovation, and if so, how can these be improved?***

In progressing deeper into becoming a knowledge society reliant on our people for success, the nature of the Australian community, its expectations and capacities and the problems it is facing are continuing to evolve. In the words of Albert Einstein, '*Today's significant problems cannot be solved by the same level of thinking we were at when we created them*'.[33] This has placed clear demand on government, the business and community sectors to take the next step in developing innovative cross-sector collaborative solutions to intractable social problems that currently hinder many Australians from reaching their potential. Put simply, embracing innovation as a way of working has never been more important, with new ideas that work to improve people's lives urgently needed if we are to reduce the "*growing gap between the scale of the problems we face and the scale of the solutions on offer*". [34] However, the field of social innovation is not well developed or even understood in Australia, and this continues to hinder the effective introduction of new solutions and methodologies into a sector that urgently needs them.

Understanding social innovation

Innovation can be most simply understood in terms of 'new ideas that work'. This differentiates it from improvement or incremental change, and from creativity and invention, which are vital to innovation but miss out the hard work of implementation and diffusion that make promising ideas useful. Economists estimate that 50-80% of economic growth comes from innovation and new knowledge, and a vast amount of research has been conducted into innovation in the areas of business and science.[35] However, the field of social innovation, defined as *"innovative activities and services that are motivated by the goal of meeting a social need",* has struggled to attract comparable attention, despite the fact that examples of social innovation (such as the internet) are everywhere around us today.[36] As Geoff Mulgan, Director of the Young Foundation observes:

> *"The competitive pressures that drive innovation in commercial markets are blunted or absent in the social field, and the absence of institutions and funds devoted to social innovation means that too often it is a matter of luck whether ideas come to fruition, or displace less effective alternatives. As a result, many social problems remain more acute than they need to be."* [37]

There are three important dimensions to social innovation which combine to solve pressing unmet needs within society:

- They are usually new combinations or hybrids of existing elements, rather than being wholly new in themselves;

- Putting them into practice involves cutting across organisational, sectoral or disciplinary boundaries;

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[33] Einstein, A. (n.d) attributed by Quoteland.com, 'Quotations by author: Einstein', available http://www.quoteland.com/author.asp?AUTHOR_ID=89

[34] Mulgan, G., with S. Tucker, R. Ali & B. Sanders (2007) *Social Innovation: What it is, why it matters and how it can be accelerated.* Said Business School, University of Oxford: Basingstoke Press, p7.

[35] Helpman, E. (2004) *They Mystery of Economic Growth.* Cambridge, MA.

[36] Mulgan, G., with S. Tucker, R. Ali & B. Sanders (2007) *Social Innovation: What it is, why it matters and how it can be accelerated.* Said Business School, University of Oxford: Basingstoke Press, p8.

[37] Mulgan, G., with S. Tucker, R. Ali & B. Sanders (2007) *Social Innovation: What it is, why it matters and how it can be accelerated.* Said Business School, University of Oxford: Basingstoke Press, p5.

- They leave behind compelling new social relationships between previously separate individuals and groups which matter greatly to the people involved, contribute to the diffusion and embedding of the innovation, and encourage further innovations.

It is important for non-profits to understand how these elements translate within their own organisations. From the perspective of The Smith Family, a social enterprise focusing on disadvantaged children and education, the 'new combinations' refer primarily to *people* – our children, families, and the wide variety of stakeholders with whom we work to support them. Research has shown that complex social issues require collaborative and multi-sectoral responses, which is why our social innovation works towards overcoming the traditional 'silo' mentalities that still hinder the effective collaboration of business, government, academia and the community sector.

To break down these barriers, The Smith Family works to devise new ways of bringing these people together, particularly leveraging the power of the communications technology that characterise our knowledge society so that those in rural, regional and remote Australia have the opportunity to more fully participate. By building these compelling new social relationships, we ensure that our social innovation is not isolating in its impact but creates real value at scale, through models that others can learn from and adapt for communities elsewhere (the 'diffusion' and 'embedding' of the innovation). A final aspect of The Smith Family's commitment to social innovation has been our continuous monitoring of socioeconomic trends in the external environment and using foresight to prepare for, and respond to the consequences of those trends as or before they occur.

Taking into account all of these elements, The Smith Family's social innovation may therefore be defined relatively simply as

> '*Connecting different people, in different ways to overcome an entrenched or emerging social issue'.*

Creating an environment for social innovation

For most of the 20th century innovation policy and practice was primarily concerned with hardware and with the market economy. Social innovation took place – in daily life, social movements and around the state. But according to The Young Foundation, it has only recently come to be a conscious concern of policy discussion for three main reasons:

- First, there are a range of problems that existing structures and policies have found it impossible to crack – such as climate change, the world wide epidemic of chronic disease, and widening inequality. These are all issues that cut across boundaries, between the state, the market and the household, between different parts of the state, and between national states themselves. As a result the classic tools of government policy on the one hand, and market solutions on the other, have proved inadequate.

- Second, the prospective cost of dealing with these (quite apart from the rising costs of other social issues) threatens to swamp public budgets – and in the case of climate change, or health care in the US, private budgets as well.

- Third, as in earlier technological and social transformations, there is a disjunction between the structures and institutions formed in a previous period and the requirements of the new.[38]

Theses three factors have today combined to create 'one of the rare moments when a new set of paradigms challenges the previous ones'. But is Australia ready to embrace this new paradigm?

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[38] Murray, R., G. Mulgan & J. Caulier-Grice (2009) *How to innovate: The tools for Social innovation.* Working document.

As part of our transformation in 1999, The Smith Family has progressively played a leading role in the introduction of new networks and collaborations to help build capacity and stimulate innovation in the sector.

In 2002, we were a founding member of Social Ventures Australia, connecting social entrepreneurs with venture capitalists to provide new sources of investment for social inclusion initiatives. In the same year we became early participants in the Australian Alliance for Children and Youth (ARACY), connecting researchers, policy makers and practitioners to support the quicker and more efficient translation of research into socially inclusive practice. In 2004, The Smith Family became one of the founding members of Non-profit Australia, with a mission to improve the viability of non-profit organisations in the following ways:

- Increasing the capabilities of non-profit leadership teams and Board members

- Increasing the financial capacity of the sector

- Reducing operating costs of non-profit organisations

- Improving the quality and transparency of non-profit organisations

- Stimulating collaboration across the sector

To help take our own programs to scale, we also developed a 'third party provider' model for our *Learning for Life* financial scholarships to be delivered on our behalf by Community Partners working in locations where The Smith Family does not have a presence, further increasing our impact. And most recently, we have agreed to participate in a pilot collaboration with the Australian Social Innovation Exchange to test the use of 'trusted intermediaries' working across industry and research organisations to facilitate collaboration and innovation around barriers to Workforce Participation.

The last few years have also shown some encouraging signs of support for social innovation in the broader Australian environment. The 2008 Australian Government's Review of Australia's National Innovation System, prepared by Terry Cutler, recommended among other things that 'service industries should be provided with more support for their innovation.' We have also recently seen the establishment of Australia's first Centre for Social Innovation in Adelaide, following the recommendations arising from Geoff Mulgan's term as Thinker-in-Residence. However, as a nation we still lag considerably behind our international counterparts.

In the UK, considerable progress has been made through the establishment of the Social Enterprise Investment Fund and Social Finance Ltd, both of which build the capacity of the non-profit sector to invest in more innovative forms of service delivery and collaboration. A similar model for the non-profit sector in Australia would embrace the role of government, business and non-profits in stimulating social innovation, each contributing resources and expertise according to their means for the creation of our own 'Social Enterprise Investment Fund'. The establishment of such a fund (which has already emerged as a key recommendation from the 2006 and 2008 Australian Social Innovation Summits hosted by the Macquarie Group Foundation), may see, for example, the non-profit sector contributing $5 million, business $50 million and government $500 million, to enable collaborative testing of new and more innovative ways of working for societal impact. There are many in the non-profit sector, including The Smith Family, who would have the capacity to work closely with government and business to champion the creation of this fund, and coordinate the disbursement of its resources in a strategic manner.

Embedding agility and adaptation in the sector

Social innovations, by virtue of their goal in meeting social needs, are predominantly developed and diffused through organisations whose primary purposes are social. As social needs evolve and develop, non-profits must also adapt their programs, services and ways of working not simply to remain relevant but to also proactively develop innovative models and collaborations to prevent future problems from occurring. However, the Australian non-profit sector still exhibits significant difficulty in moving beyond the *status quo.* Even when presented with tried and tested innovations from overseas, there remains an enormous amount of passive resistance coupled with suspicion at models that 'were not invented here' or 'at this time'.

If the sector is committed to tackling social problems on a large scale, it needs to cultivate a new readiness to take risks and transform in response to changes in the wider environment. This new robustness rests on what Light (2005) has called the 'four pillars of organisational strength': *alertness* to changing circumstances; *agility* in hedging against vulnerabilities and exploiting opportunities; *adaptability* in bringing new ideas to bear against emerging problems; and *alignment* between internal and external commitments to mission-centred change.[39]

As an organisation dedicated to unlocking opportunities for disadvantaged families to participate more fully in society, The Smith Family has increasingly embraced the importance of both social innovation and adaptation, building on the enterprising culture of our forebears, whose philosophy was predicated on determining a key priority for disadvantaged children at any point in time, working to find a solution and then moving onto the next priority.

This is the essence of the externally-focused culture that is embedded within The Smith Family, and which leads us to continuously scan the environment, capitalise on new opportunities and intervene early to address emerging challenges. This capacity for adaptation was exemplified in our transformation in 1999 from a welfare-oriented organisation to a social enterprise focused on children and education – a transformation that led *The Australian* newspaper to acknowledge The Smith Family as one of the most innovative charities in Australia.[40] This transformation gave us the capacity to prioritise and implement social innovations in the achievement of our mission, and allowed us to reshape ourselves in accordance with what the research was telling us about the changing nature of disadvantage and the necessary responses which would ensure we remained relevant.
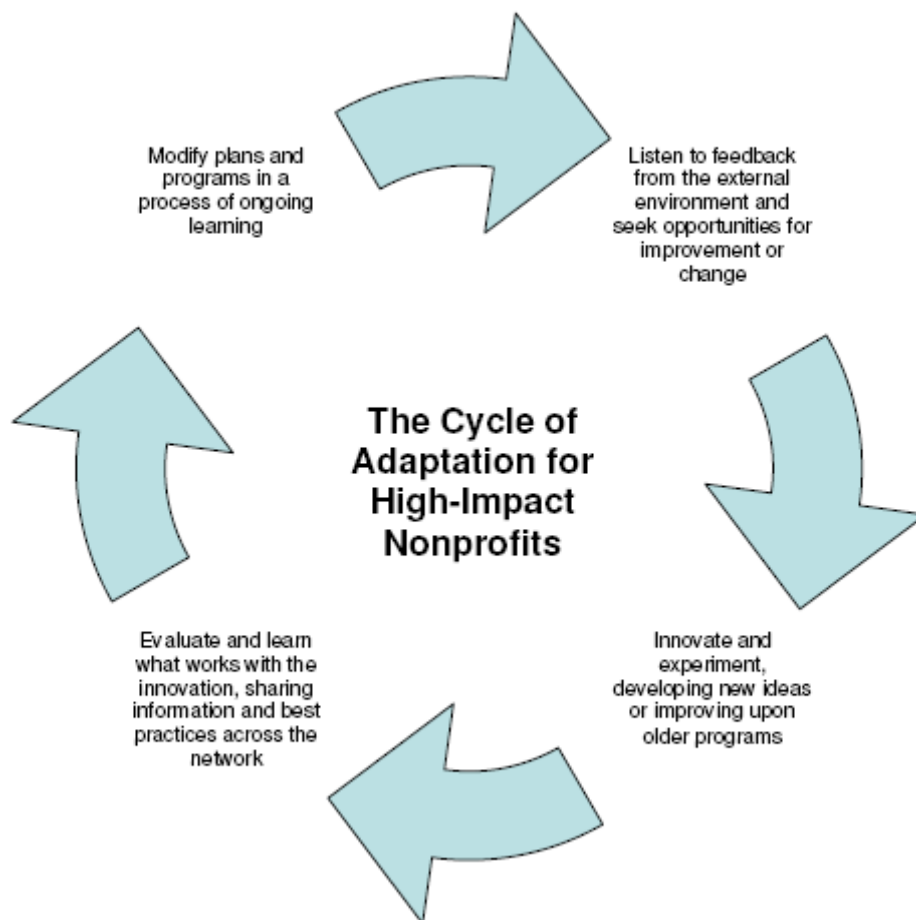
As Australia moved into the knowledge era, we focused our agenda on education to provide opportunities to increase the *participation* of those who had previously been marginalised (which in turn would lift our nation's pool of 'human capital'), and to provide opportunities for the *engagement* of those who had the ability to give of time, talent and dollars to enhance our 'social capital', the glue that binds us together, which was in danger of disintegrating.

The importance of The Smith Family's being able to move swiftly in anticipating emerging challenges, while remaining responsive to the everyday needs of our families, is paramount in responding innovatively to today's fast-changing society. In fact, research has suggested that this organisational 'agility' is 'especially important… [in] *dealing with complex problems in an uncertain environment'.*[41] To this end, we have adopted the principles underpinning the 'cycle of adaptation' that is a proven characteristic of high-impact non profit organisations (see below).

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[39] Light, P. C. (2005) 'Donor, Heal Thyself', *Stanford Social Innovation Review,* Winter 2005.

[40] 'A Turning Point in World's History', *The Australian* 24 December 2007, Editorial p11.

[41] Demos (2007) *Agile Government – A Provocation Paper.* Demos & State Government of Victoria.

The Cycle of Adaptation for High-Impact Nonprofits

Modify plans and programs in a process of ongoing learning

Listen to feedback from the external environment and seek opportunities for improvement or change

Innovate and experiment, developing new ideas or improving upon older programs

Evaluate and learn what works with the innovation, sharing information and best practices across the network

Source: McLeod Grant, H. and L. Crutchfield (2007) 'Creating High-Impact Non-profits', *Stanford Social Innovation Review,* Fall 2007*.*

Building capacity for innovation through growth capital

One of the most significant barriers to building stronger non-profits is the lack of access to *growth capital* – the funding that enables organisations to invest in themselves so they can grow, build, improve and strengthen their organisations and services for greater innovation, scale and impact. Without this growth capital, non-profits have had to limit their responses to opportunities within their grasp, rather than scale their organisations to realise their mission. As a 2004 report by Venture Philanthropy Partners concluded:

> [T]*he lack of sufficient funding – growth capital – to build strong and healthy organisations is what keeps the* [non-profit] *sector from leveraging its assets and knowledge to improve, grow and scale its most successful and effective organisations.* [42]

In 1999, The Smith Family knew from research that to create the population-based impact we were working towards, we needed to move away from treating the symptoms of disadvantage through a welfare-oriented model to that of tackling the root causes by focusing on children and education. This would involve the considered development and expansion of our flagship

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Learning for Life suite of programs to reflect this preventive focus. Such significant deliberations required a substantial inflow of funds (growth capital), and in 1999 we received an unprecedented contribution of $1 million from The Westpac Foundation to facilitate this expansion – a collaboration recognised by the Prime Minister as an excellent example of corporate/community partnerships.

This growth capital then became the cornerstone for the rural access component of the *Learning for Life* program. It enabled The Smith Family to dramatically expand *Learning or Life* with thousands of new sponsorships, and extended the availability of the program in rural areas in NSW, Victoria, South Australia and Queensland. In 2001, a further $650k from the Westpac Foundation also provided for the introduction of *Learning for Life* into Western Australia, which brought The Smith Family significantly closer to becoming a national organisation in presence as well as spirit.

To support our the expansion of *Learning for Life* into these new states and communities, the Westpac Foundation made a final contribution of $3m worth of media profiling – a vital component in helping us embed The Smith Family as a social enterprise focused on children and education rather than welfare. In fact, the resulting advertising campaign actually proved so successful that it led to a situation in 2002/03 where we had an excess of sponsors and it took some time to recruit and allocate additional students to match against the demand.

Between 2005 and 2008, our corporate community partnership with The AMP Foundation had developed to a stage where they were also keen to invest growth capital and expand our impact, with a further annual injection of $1 million. In its first year alone, this investment led to an increase of 27% in the number of students accessing the opportunities provided by the *Learning for Life* program, and has enabled The Smith Family, among other things, to expand our scholarships to support TAFE level students.

These innovative partnerships are exemplary illustrations of the considerable enhancements growth capital can make to an organisation's scale and impact, and of the challenges non-profits will continue to face without this support:

> *"Until the lack of access to capital and a means to distribute it effectively are resolved, community-based non-profit organisations will continue to devote limited resources to the most urgent symptoms of deep-rooted social problems, rather than addressing the problems themselves. Thus, gains will continue to be incremental, falling far short of achieving systematic solutions on a scale equal to that of the problem being addressed."*

A Social Incubator model for cross-sectoral social innovation

Over the last decade, Australia has seen the introduction of a number of social innovation initiatives in the form of 'convergence models', designed to bring the government, business and community sectors closer together (see below). The former Australian Government has been the driving force behind many of these new collaborations, bringing business and academia together through the Cooperative Research Centres (CRC), government and community through Phase One of the 'Stronger Families and Communities Strategy' (SFCS); business and community through the previous initiative known as The Prime Minister's Community Business Partnership (PMCBP); and community and community through Phase Two of SFCS and *Communities for Children.* The Australian Business and Community Network (ABCN) has also proven extremely successful in promoting partnerships between business and the education sector.

CONVERGENCE MODEL	DATE	COLLABORATORS
Cooperative Research Centres (CRC)	1991-present	Business + Academia (with government as enabler)
Stronger Families & Communities Strategy (SFCS) Phase One	2000-2004	Government + Community
The Prime Minister's Community Business Partnership (PMCBP)	1999-2007	Business + Community (with government as enabler)
Stronger Families & Communities Strategy (SFCS) Phase Two -*Communities for Children*	2004-2009	Community + Community (with government as enabler)
The Australian Business and Community Network (ABCN)	2004 onwards	Business + Education

Examples of Social Innovation Convergence Models in Australia

Building on these models, The Smith Family in 2006 commissioned The Boston Consulting Group to conduct, on a *pro bono* basis, a feasibility study to investigate the need and subsequently applicable model for a more integrative collaboration – a new model of sectoral convergence through which innovative solutions to a number of social issues could be developed. A *Social Incubator* emerged as a possible vehicle for these collaborative outcomes, and a detailed process to attract commitment to the concept was then developed by Swinburne University of Technology through a synergy grant with The Smith Family.

A Social Incubator seeks to foster collaboration between individuals with different skill sets and backgrounds, from a range of sectors, to drive towards innovative solutions to existing problems. It works in two stages:

1. The Incubator Thought Process

The initial '*thought process' phase* involves the collocation of selected team members within an intensive "hot house" environment where research combines with practice to create practical initiatives and solutions. This process leverages the individual skills and expertise of government, business, community and academia through teams working together to create one or more innovative initiatives addressing the issue identified within the community. The process takes place over a confined period of time (e.g. 3-6 months) with experts seconded into the Incubator to focus exclusively on the outcomes being sought.

2. Skills Transfer in the Field

The second '*skills transfer' phase* is where members of the Incubator move into the field and work alongside practitioners in order to transfer the necessary skills and knowledge to the community members/groups tasked with piloting the initiatives. In this way, the Incubator goes beyond the traditional 'think tank' research/advocacy model, and is premised upon strong community involvement in the entire process, from identification of the problem to be addressed to the development and implementation of a response.

The flexibility of the Incubator model allows it to target a range of issues affecting particular communities, in different ways and at different times. It may be the case that an 'isolated' Incubator is created around one particular issue in a community, and then dissolved following the implementation of successful initiatives; or the Incubator may be 'ongoing' in the sense of addressing a number of priority issues in the community one by one, changing the range of stakeholders involved as appropriate. Part of the value of the Incubator therefore lies in its broader potential to provide a formative and systematic structure to community interventions that have through circumstance to date been *ad hoc* and piecemeal in their success.

An inherent benefit of this demonstration model is the social capital that is built up through the creation of collaborative relationships between multiple sectors – relationships that are strengthened through a process of negotiation, skills development and a shared commitment to achieving more. Importantly, this collaboration is sustainable beyond the Incubator itself, and remains one of the most important elements for making collective change happen.

Social capital also has a cumulative effect, whereby effective interactions with others results in increased confidence and trust encouraging further collaboration. If communities have been able to develop these collaborative networks through initiatives such as the Incubator, they will be able to continue to work together to both envision a better future and meet their objectives for a range of opportunities. In this way, the incubation of social capital underpins our society's capacity to maximise economic, technical and social performance more generally.

For more information on the Social Incubator model, please contact The Smith Family.

Recommendations

That the Commission consider:

> ➤ Promoting the greater allocation of resources for non-profits to invest in the professional training and development of their staff, particularly as regards leadership within the sector;

> ➤ Supporting the development of tools and methodologies for non-profits to attract, support and effectively utilise the contemporary volunteer population;

> ➤ Promoting the Cross Sector Collaboration Continuum framework developed by James Austin at the Harvard Business School as a tool for non-profits to more effectively manage and track their partnerships with business over time;

> ➤ Promoting the establishment of closer and more numerous mentoring relationships between organizations and individuals in the corporate and non-profit sectors to facilitate the two-way exchange of learning;

> ➤ Promoting the effective sharing and communication of knowledge across the sector by building the capacity of non-profits to move across the continuum of Data > Information > Knowledge > Wisdom;

> ➤ Promoting the value of greater transparency within the sector and building the motivation and capacity of non-profits to provide clear alerts to governments, businesses and other donors regarding the growth capital they need to become more effective;

> ➤ Supporting non-profits to move from focusing on the supply side of the knowledge equation (asking 'what do we have to say?') to the demand side ('what knowledge do we need to provide?') in communicating their work to various audiences;

> ➤ Supporting non-profits to further develop their data analysis skills to allow for cross-sectoral, multi-disciplinary collaboration and sharing of information;

> ➤ Supporting non-profits to reposition their goal in reporting their outcomes from simple information access (ensuring it is widely available) to informed action (ensuring this knowledge is used widely to improve practice);

> ➤ Supporting the establishment of an Australian 'Social Enterprise Investment Fund' to enable collaborative testing of new and more innovative ways of working for societal impact;

> ➤ Promoting the importance of non-profits developing their alertness to changing circumstances; their agility in exploiting opportunities; their adaptability in bringing new ideas to bear against emerging problems; and their alignment between internal and external commitments to mission-centred change;

3. The sector's provision of government-funded services

- ***To what extent are government agencies moving to 'lead provider' relationships – to the potential exclusion of smaller non-profits – and is this compromising diversity of non-profits and the effectiveness of operations?***

Over the past few decades, collaboration has become increasingly critical to public policy and service delivery, with important lessons accumulated at each step along the way. From the outset of Australia as a nation, when there was very little attempt to build collaboration into the design of Australian federalism, we have moved progressively through the eras of managerialism and rationalisation of the 1980s and 1990s, when governments selectively used competition and forms of collaboration with market players to deliver their core business activities. At this point in time, collaboration was less across government than between government and third party providers, with the former maintaining close control through contract management and funding arrangements.[43]

By the turn of the century, governments were becoming interested in higher levels of collaboration, and closer partnerships with the community and business sectors began to emerge, motivated strongly by the establishment in 1999 of The Prime Minister's Community Business Partnership (PMCBP). The concept of 'social coalition' was also introduced as a response to the perceived failure of thirty years of different approaches to social policy (Centre for Corporate Public Affairs, 2000), leading Martin Stewart Weeks to observe:

> *"We are on an irreversible path away from traditional notions of government to a more complex notion of governance, one of whose defining characteristics is a reliance on networks and alliances…"[44]*

These sentiments were confirmed in 2001 through two seminal works. The first of these, Don Edgar's *The Patchwork Nation: Rethinking Government, Rebuilding Community,* concluded that:

> *"Government has to become governance – increasingly, self-governance – because the days of top down, one-size-fits-all solutions are gone…. intelligent government will become polycentric, adept at resourcing networks."*

The second study, Mark Considine's *Enterprising States,* explored the fundamental shifts that were taking place in the paradigms of governance in Western bureaucracies as they used privatisation, private firms and market methods to run core public services. His research found that in Australia we are prepared more than other Western nations for the network governance model which has the following characteristics:

Source of rationality	=	relationships
Form of control	=	co-production
Primary virtue	=	flexibility
Service delivery focus	=	brokerage

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[43] Wanna, J. (2007) 'Collaborative Government: Meanings, Dimensions, Drivers and Outcomes.' Background Paper to the ANZSOG 2007 Annual Conference, 'Governing through Collaboration: Managing Better through Others', 28-29 June 2007, Hyatt Hotel Canberra.

[44] Stewart-Weeks, M. (2000) 'Trick or Treat? Social Capital Leadership and the new public policy', in Ian Winter (ed.) *Social Capital and Public Policy in Australia*, Australian Institute of Family Studies, Melbourne, 2000.

These characteristics underpinned the creation of strategic partnerships, and provided a call to both non-profit and government sectors to be more effective in:

- Mobilising commitment

- Sharing information

- Investing in new technologies

- Creating common service standards, and

- Focusing attention on the real needs of suppliers and clients.

At the time, Considine singled out Australia as being more prepared than most other Western countries to implement this model, and only a few years later in 2004, the first real example of this arose through the 'whole of community' model known as *Communities for Children,* part of the Australian Government's 'Stronger Families and Communities Strategy'. This place-based, preventive model has been a landmark in Australian social innovation for a number of reasons:
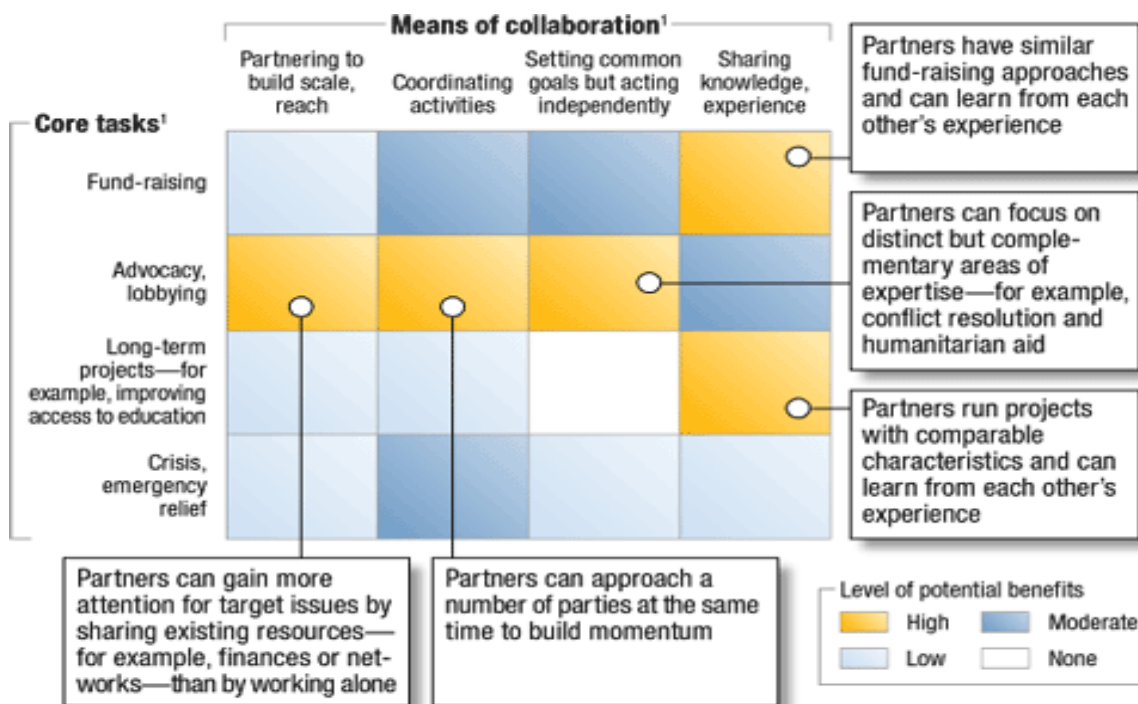
➤ It is *place-based* in the sense of working to enhance support for children and their families within particular disadvantaged communities around Australia, and building on the strengths and assets already present in the community;

➤ It is *outcomes-focused*, working towards universal goals and based around a *systems-wide* approach that merges educational, developmental and health-related service provision.

➤ It is an *empowerment* model in that the whole community works together to first prioritise the issues and then select from the range of evidence-based interventions suited to their particular context;

➤ It encourages *culture-change* within the non-profit sector by connecting the strengths and capabilities of a variety of organisations, institutions and individuals. A key part of the model's success lies in bringing together large community organisations (who have expertise in 'backroom' capabilities such as research, policy design and facilitation) with grassroots service delivery agencies (who have the local knowledge and relationships to work with the community). The former act as banker, broker and leverage agent to ensure that the service delivery provided by the latter is well coordinated, resource-efficient (avoiding duplication of effort and funding so as to maximise impact), and is embedded in the community for sustainability.

The last of these points is particularly significant, heralding the introduction of 'facilitating partners' (or 'lead providers') to connect the strengths and capabilities of various organisations, institutions and individuals. Rather than exclude smaller non-profits or jeopardise the diversity of the sector, this approach actually began to organise and leverage the various skill sets of non-profits in a far more strategic and effective manner, as the success of *Communities for Children* has shown.

Through these models, collaboration in the non-profit sector is growing, but so too is the recognition that collaboration is not something that organisations can or should enter into lightly – it demands the cultivation of new resources and skill-sets, including the creation of an organisational culture that is open to the challenges posed by new approaches to budgeting and control, trust and accountability. Even before entering into collaborative arrangements, non-profits must take stock of their own 'in-house' relationships to ensure that they are able to identify and discriminate effectively between stakeholders from other sectors who are in alignment with their vision and mission.

Problems of collaboration tend to arise when non-profits try to collaborate across a range of tasks and geographies that their governance structures lack the sophistication to handle. To this end, it is better to focus on collaboration around tasks that can have the biggest impacts on shared goals (as illustrated by *Communities for Children*).

Non-profits can pinpoint these critical tasks by completing a matrix such as the one below. The potential partners' core tasks appear on its left side; the possible means of collaborating on the top. Both sets differ by the type of non-profit – the example in the matrix below pertains to international development agencies. Using both qualitative and quantitative techniques, non-profits can analyse the potential benefits of collaborating on each task by each means. Only the high-potential areas are serious candidates for cooperation; the rest should be left alone.

Source: Brittin, M & P. Haden (2003) 'Aid Agencies Team Up', *McKinsey Quarterly 2003 Special Edition: The Value in Organisation.*

- ***What are your thoughts on the efficiency and effectiveness of arrangements associated with the provision of government funded services?***

General Comments on the Taxation System

The taxation system provides a number of concessions and benefits to the non-profit sector which are aimed at enhancing its capacity to provide support to the community in a multitude of forms. Principal concessions allowed by the Commonwealth include exemptions from Income and Capital Gains taxes, and limited Fringe Benefits and Goods and Services Tax concessions, while state-based concessions relate principally to payroll tax and certain stamp duties. In addition, the Commonwealth effectively provides an additional concession through the tax deductibility of gifts to certain non-profit organisations by individuals.

Clearly each of these concessions has the ability to affect the productivity of non-profit organisations because of the income transfer effect, which in turn increases their financial capacity. The Smith Family strongly endorses the findings of earlier enquiries in this area and recommends that no changes be made to the present approach other than perhaps to clarify the basis of exemption in such a manner as to prevent the need for repeated review.

The overall taxation system for non-profit organisations is a confusing one with many tax concessions being differentially applied according to the nature of each type of not-for-profit organisation (for example charities, public benevolent institutions and health promotion charities, deductible gift recipients, not-for-profit and public hospitals), while state-based taxes and duties are inconsistently applied. Clearly greater benefits accrue to those organisations which can be classified as public benevolent institutions and health promotion charities, as demonstrated in Box 10 on Page 39 of the Issues Paper.

The cost of the concessions provided to the sector is relatively small when compared to the multiplier effect of the increased community investment which they promote. While estimates are available for the cost of tax deductibility of donations and of FBT concessions, the lack of estimates in relation to income tax revenue foregone is probably not important – the sector is, after all, defined as not-for-profit, so this amount will not be large. Similarly, the quantum of foregone GST revenue is likely to be small – only smaller organisations are able to take advantage of the concession and while they do not remit GST on otherwise taxable revenue, they are not in a position to claim input tax credits on their purchases.

From this it follows that any reduction in those concessions will have an adverse financial impact on the sector, and this would translate in turn into an adverse effect on community well being which would flow from the withdrawal of resources.

The extent of confusion in the sector about the availability and applicability of tax concessions which was articulated in the 2001 *Report of the Inquiry into the Definition of Charities and Related Organisations* (referenced in *Australia's future tax system – Consultation Paper*) is essentially unchanged. There is scope to simplify the arrangements by removing some of the distinctions between different not-for-profit categories, but this should be done on the basis of expanding eligibility for concessions rather than limiting them, as this approach would allow government to make relatively low cost changes which would make a significant contribution to the financial capacity of the sector.

Attracting an Appropriately Skilled Workforce

The non-profit sector, like all others, needs to be able to attract a skilled workforce. The level and range of skills required and the fact they are in many cases the same as those sought in the general marketplace means that it is no longer necessarily the case that people wishing to work in the sector are able or willing to do so at what traditionally have been significantly lower salaries than they might command elsewhere.

In the boom years preceding the current downturn it was becoming increasingly difficult for the many organisations in the sector to attract staff with the required skills, and the limited exemption from the payment of Fringe Benefits Tax enjoyed by many not for profit organisations has played a key role in addressing this problem.

In line with its initial intent, this concession has been very useful in allowing non-profit organisations to compete with the private sector for the services of high calibre staff by offering market value salary packages at reduced cost, and maximising the resources available for service delivery. Because the exemption has been capped, however, its value has been steadily and significantly eroded by the impact of both inflation and changes to marginal tax rates since the grossed up taxable value of $30,000 was set in July 2000. If non-profit organisations are to be able to continue to compete effectively with the private sector for staff this threshold needs to be increased either by indexation (or perhaps alternatively by considering setting the exemption as a percentage of an employee's overall package). This approach would prevent further erosion of the value of the concession to the sector.

A second approach recognised by many organisations in the sector is to take advantage of a growing recognition in the corporate sector of the value of strategic volunteering to source short term skilled volunteers to work on specific projects focussed on increasing organisational capacity. Volunteers can contribute in almost all areas of organisational life from program support, for example through mentoring) to revenue generation to infrastructure development.

Streamlined Reporting and the Impact of Regulations

The extent of government regulation, particularly in the area of resource generation or 'fundraising' can inhibit productive capacity. Inconsistencies in disclosure requirements have been addressed in some detail by the recent enquiry by the Senate Standing Committee on Economics: *Disclosure regimes for charities and not-for-profit organisations*. The Smith Family is broadly in agreement with the key recommendations of the enquiry, and made a number of points which are relevant to the Productivity Commission's deliberations in its submission:

- the fragmentation of legal structures in the non-profit sector and the attendant differences in reporting and disclosure requirements make comparability extremely difficult;

- The reporting position for non-profit organisations operating in more than one state or territory is made more complex by differing reporting requirements in each jurisdiction. For example, requirements exist differentially for separate audited or unaudited accounts, additional audit certifications and, in the case of financial statements, additional disclosures such as potentially ambiguous ratio analyses, and so on.

All of these variables incur additional costs for the sector, particularly for organisations operating in multiple jurisdictions which report on a consolidated basis. While all organisations involved in public fundraising need to be accountable, there is a need to balance cost with the public interest, while ensuring at the same time that appropriate recording and controls are in place for dealing with donated resources.

Achieving such a balance will ensure that organisations retain the flexibility to innovate and to respond to assessed needs while at the same time ensuring that their various and often competing stakeholders are in a position to assess their performance.

One of the more complex areas of regulation is that surrounding government funding. Non-profits are faced with meeting a broad range of requirements across many government departments both in applying for and acquitting funding. Often there are differential requirements within departments, and there is little or no standardisation across jurisdictions. This results in unnecessary costs which directly impact the ability of organisations in the sector to further their missions. It is acknowledged that some work is being done at the Federal level to address these issues, but the situation remains complex and yet should not be difficult to change through the introduction of common funding conditions and reporting templates. Implicit in such a common approach would be the need for some form of tiered system which takes account of the materiality of the funding (for example, the cost of outcomes-based reporting for short-term low value grants would generally be prohibitive, if indeed outcomes could be measured under such circumstances).

The wide variability in the ways that not-for-profit organisations disclose information to the public and the attendant lack of comparability are indicators that the current multiplicity of structures in the sector generates sub-optimal reporting outcomes which may in turn raise concerns among stakeholders about a lack of transparency and accountability. In a perfect environment this might be addressed by a having a single national regulator for the sector.

Realistically, however, Australia's federal structure makes this difficult, and there would be a significant risk that a national regulator would become simply one more body to which a sometimes heavily regulated sector would be required to report, adding another layer of cost and technical complexity to organisations which typically find their resources badly stretched as it is.

The Smith Family sees a role for a national body of some sort which is focused more broadly on adding value to the sector by:

- Reducing the current burden of regulation which sees many organisations reporting to the Commonwealth and every State and Territory government at least annually;

- Reducing the heavy proportional emphasis on *outputs* and *efficiency* in favour of a greater emphasis on *outcomes* and *effectiveness* at both the governance and program performance levels;

- Ensuring that the regulatory burden on the sector is commensurate with its capacity to comply, recognising that over-regulation is counter-productive.

The implementation of a national regulator should only be considered where its role replaces those of other regulatory bodies, including current federal and state-based regulators. An interim step might be to develop a standardised structure and reporting regime within the existing regulatory framework. One approach could be described as working at three levels:

- Companies (limited by guarantee and in other ways such as by legislation or charter) – typically larger, multi-state organisations;

- Incorporated associations – typically state-based but with standardised accountability rules rather than the variety which exists at present; and

- Special purpose reporting (such as government grants, corporate sponsorships and the like) with standardised disclosures, funding terms and conditions, etc.

Separate consideration would be required of the criteria which would determine which organisations fell into each of the first two categories, and this in turn would help to determine the nature of the required regulation.

Recommendations

That the Commission consider:

➢ Promoting the value of non-profits taking the time to recognize and build the cultivation of new resources and skillsets to enable collaboration within and outside the sector, including the creation of organisational cultures that are open to the challenges posed by new approaches to budgeting and control, trust and accountability;

➢ Promoting the simplification of the tax concession system for non-profits on the basis of expanding eligibility for concessions rather than limiting them, as this would allow government to make relatively low cost changes that would make a significant contribution to the financial capacity of the sector;

➢ Promoting an increase in the Fringe Benefits Tax threshold for non-profit employees either by indexation or possibly setting the exemption as a percentage of an employee's overall package;

➢ Promoting the establishment of a national body focused broadly on adding value to the sector by (a) reducing the current burden of regulation; (b) reducing the heavy proportional emphasis on outputs and efficiency in favour of outcomes and effectiveness; and (c) ensuring that the regulatory burden on the sector is commensurate with its capacity to comply, reocgnising that over-regulation is counterproductive.

4. Trends and developments impacting on the sector

- ***What are the most significant trends and developments that have impacted on the efficiency and effectiveness of the non-profit sector? Are there emerging trends and development that are likely to impact on the future capacity of the sector?***

While the focus of this submission is predominantly on the internal challenges (both current and emerging) for non-profits, these need to be understood in the context of the wider changes in the social, economic and political environment, many of which will require the sector to respond in a different manner. These include, in summary:

    I.   Ageing population, skills and labour shortages

   II.   Changes in family and community composition

  III.   Increasing concentration and complexity of disadvantage

  IV.   A shift towards preventive, behavioural change

   V.   A greater embrace of values-based (or principled) leadership

  VI.   Developing new forms of philanthropy

Ageing population, skills and labour shortages

A 2007 survey of the top 100 'big issues' facing Australia in the next five to ten years concluded that the ageing population, skills and labour shortages all ranked in the top ten.[45] As the Australian population ages, the nation will need to respond to the shrinking labour force and the skills shortage by encouraging more and more of the 'baby boomer' generation to postpone their retirement and remain in the labour force. Mature age workers who have already left or become detached from the workforce will require skills preparation to facilitate re-entry, while Industrial Relations reform will require similar support for those at the other end of the spectrum entering the workforce for the first time or after a lengthy absence (e.g. lone parents).

At the same time, changes in the work/life balance and the increasing participation of mothers in the workforce will require more flexible support systems for family care, not only for children in their early years but also for those with a disability or mental illness.

Having recognised the importance of education in increasing Australia's human capital, non-profits will need to work more collaboratively with business, academia and government to provide an adequate safety net for those children and students falling through the gaps at school. Mentoring and support for students making the school to work transition will become particularly important in this respect.

Finally, the large numbers of baby boomers moving into retirement constitute an important new resource for both volunteering and donor support, and non-profits will also need to develop new strategies and models to tap into this as discussed above.

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[45] The survey was conducted among three hundred trustees of The Committee for Economic Development of Australia in May and June 2007. Results were published in *BRW,* July 12-18 2007.

Changes in family and community composition

Australia has already seen a significant increase in the proportion of lone parent families over the last decade, with predictions of the trend continuing. Non-profits will need to keep abreast of these shifts in order to understand and respond effectively to the changing needs of different community members. Those organisations working with children will also come to understand the importance of adopting a 'dual generational' approach, working to assist both the children and their parent(s) in order to ensure more supportive family and community environments for child development.

Non-profits will also need to familiarise themselves with the new demographic and cultural landscape arising from the increasing levels of immigration into Australia. Working with families and communities with a language background other than English demands different skill sets and sensitivities, and the cultivation of social capital across these groups will become increasingly important.

Increasing concentration and complexity of disadvantage

The consolidation of the current phenomenon of 'postcode poverty' in Australia will demand innovative, place-based and community-focused interventions over coming years that draw upon the skill sets of a variety of disciplines. In order to tackle increasingly complex experiences of disadvantage within these areas, non-profits will need to have the motivation, capacity to experiment and collaborate with a wider range of stakeholders.

At the same time, increased complexity will require non-profits to enhance their capacity to generate, understand and utilise data from a range of sources, and ensure their efforts are evidence-based and appropriate. Strengthening their capacity for research and evaluation, particularly longitudinal in nature, will be vital.

The persistence of various intractable social problems will also place pressure on the government and non-profit sector to develop innovative solutions through new forms of collaboration. The gradual emergence of 'networked governance', combined with the need for 'one-stop-shop' service provision voiced among community members, will require non-profits to handle more complex systems of accountability.

Finally, the perceived widening of gaps between the 'haves' and 'have nots' will make the role of non-profits more important than ever in providing opportunities for the greater participation of disadvantaged communities. This is particularly the case with regard to closing the multiple gaps that exist between Indigenous and non-Indigenous populations. As the availability and reliability of data around Indigenous populations in Australia increases, non-profits will need to ensure they have the capacity to understand and respond to the needs of these groups, taking into account their often remote location and different level of disadvantage.

A shift towards preventive, behavioural change

In line with contemporary and emerging research, preventive rather than remedial strategies will continue to prove more efficient. The critical importance of investing in early childhood education and care is now apparent, but must be complemented by sustained support at various key transition points across the life cycle if the gains resulting from these early programs are to be maintained. Non-profits will need to embrace this shift and its ramifications in terms of providing differentiated yet holistic support from birth throughout adolescence and beyond.

Health crises such as obesity and diabetes will continue to deepen in Australia, and require government and non-profits to place more stress on preventive interventions aimed at changing the behaviour of families and individuals, rather than providing them with palliative services. Parenting education in the promotion of healthy child development will become critical, and the sector will need to engage closely with families, schools and businesses to tackle this problem.

A greater embrace of values-based (or principled) leadership

History has shown that as democratic societies move through good times and bad, people adopt varying approaches to questioning authority and leadership. In times of significant prosperity, such as the last decade of economic strength that Australia has enjoyed, there is naturally a greater acceptance of leadership, and a tendency to subsequently gloss over the flaws in systems or individuals. However, when we slide into more difficult times, as will always happen, the gloss comes off, people lose confidence in their leaders and the questioning begins.

The current economic climate is typical of such a downturn, and while we know from history that a better tomorrow will eventually arrive, the decisions leaders make across all sectors over the next few years will be not only challenging, but important for future generations.

In adopting a perspective that sees problems as opportunities for creative change, the contemporary global financial crisis might therefore be seen as a fitting occasion for leaders to critically evaluate how they make – and are *seen* to make – decisions for the public good. Research has suggested there are two models to which leaders turn to help them make these decisions. The first is to resort to their beliefs to formulate a response, drawing on their past history in dealing with similar situations through an approach that is therefore experience-based and contextualised. However, personal beliefs are not equipped to handle new situations that individuals have not been confronted with before, and reaching consensus on decisions in this way is more difficult precisely because of the varying levels of experience that support different individual's beliefs.

The second is to use values to formulate our response, which means the decisions will align with the future individuals want to create. Values transcend both contexts and experiences, and in this way they can be more flexibly applied to new situations and challenges that we have not faced before. As research has shown, when organisations unite around a shared set of values, they become less hierarchical, less bureaucratic, and they develop an enhanced capacity for collective action, driving up their performance.[2] In this sense, values-based leadership engenders a more democratic devolution of authority, and a culture of horizontal rather than vertical cohesion. As Sir Michael Barber, a leading authority on public service reform in the UK reminds us,

> "*In the end, achieving great performance in the public sector, no less than in the private sector, requires unlocking the initiative, creativity and motivation of leaders throughout the system, rather than just those at the top.*" [46]

These are important issues for leaders in the non-profit sector to consider and approach proactively alongside their counterparts in the business and government sectors.

Developing new forms of philanthropy

Philanthropic relationships are engrained in the non-profit sector. They are the driving force behind who non-profits are and what they do. All those in the sector have been affected by changes in the practice of giving that have emerged from wider social, economic and political shifts. However, with it being such a core element in our success, it is now time for non-profits to take the initiative in shaping and introducing new models of philanthropy from a more proactive stance, recognising that, as a 2008 article in the *Stanford Social Innovation Review* pointed out:

> "*Becoming a high-impact non-profit is not just about building a great organization and then expanding it to reach more people. Rather, high-impact non-profits work with and through organizations and individuals outside themselves to create more impact than they ever could have achieved alone. They build social movements and fields; they transform*

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[46] Barber, M. (2006) 'Three paradigms of public sector reform', McKinsey & Company.

business, government, other non-profits, and individuals; and they change the world around them." [47]

The capacity to shape the future is not one generally associated with non-profits, whose role is often construed in terms of responding to events after they occur, rather than working to prevent them in the first place. Similarly, it is commonly believed that larger organisations have greater capacity to influence those around them simply by virtue of their size – but this is also not always true. Becoming a high-impact non-profit is not about the number of people supported in the community, the number of staff employed or even the total number of dollars raised - what matters is how that organisation is able to continually evolve and successfully align external trends in philanthropy to the pursuit of its Vision and Mission.

Recommendations

That the Commission consider:

➤ Promoting the importance of non-profits working more collaboratively with business, academia and governments to provide an adequate safety net for those children and students at risk of failing or disengaging from education;

➤ Promoting the importance of adopting a 'dual generational learning' approach, working to assist both children and their parents through integrated interventions rather than isolated programs;

➤ Promoting the development of training and resources to support non-profits in building their capacity to generate, understand and utilize data from a range of sources, including establishing an evidence-base to inform their own interventions;

➤ Promoting the importance of preventive interventions aimed at changing the behaviour of adults and children in addition to more immediate palliative services;

➤ Promoting the capacity of the sector to take the initiative in shaping and introducing new models of philanthropy from a more proactive stance, building social movements and transforming other institutions around them.

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[47] McLeod Grant, H. and L. Crutchfield (2007) 'Creating High-Impact Non-profits', *Stanford Social Innovation Review,* Fall 2007.

Appendix A – About The Smith Family

The Smith Family is a national, independent social enterprise that provides opportunities for disadvantaged Australian families and communities to create a better future through education. The purpose of The Smith Family's *Learning for Life* suite of inter-connecting programs is twofold: on the one hand, it works to increase the **participation** in society of disadvantaged children and their families through the provision of educational opportunities across the life course (increasing *human* capital); while on the other, it works to increase the **engagement** of those with the time, talent or dollars to support them (increasing *social* capital).

All of the programs within our evidence-based *Learning for Life* suite are built around facilitating children and their families to develop the skills and capacities they need to make successful transitions across the life course; and around enabling the relationships and attributes that support this skills development in the key settings of Family (home), Community, Educational Institutions (which include preschools, primary, secondary and tertiary education) and the Workplace.

Through this agenda, our disadvantaged kids and their families develop the skills or 'literacies' that participation in the 21st century knowledge economy demands, including emergent literacy and numeracy in the early years, comprehension literacy (reading and writing), financial literacy, digital literacy, health literacy, emotional literacy and community literacy.

For more information, see **www.thesmithfamily.com.au**

Appendix B - The Smith Family's Demonstration projects

1. The Swan Nyungar Sports Education Program (SNSEP)

In 2001, The Smith Family commenced operations in Western Australia after spending a year on 'reconnaissance' visits to gain an understanding of the WA landscape and the opportunities it offered as well as the gaps that might be filled.

Many relationships were established early in this process that influenced the work of The Smith Family, including with John and Oral McGuire, who developed the original concept that lead to the Swan Nyungar Sports Education Project (SNSEP). The project had two key aims:

- Greater levels of *participation* in education (e.g. through improved retention rates); and
- Greater levels of *attainment* in education through sport.

These objectives were clearly aligned with The Smith Family's educational agenda, and following a series of meetings, a partnership was formed including the McGuires, Balga Senior High School, The Smith Family, the WA Department of Education and Training, and Normandy Mining.

With an ambitious focus on indigenous students expanding their secondary schooling to year 12 and achieving a Western Australian Certificate of Education (WACE) score sufficient for tertiary or vocational entrance, SNSEP was designed as a *supplementary program* to enhance *the capacity of schools* to meet the special learning needs of indigenous students. The active participation of students, parents/caregivers, teachers and community was essential.

SNSEP commenced in 2003, and by 2006 had a total of 85 students enrolled, with some travelling from suburbs 25km away on specially provided buses. At the end of the 2006 school year, four Indigenous students became the first SNSEP participants to graduate from Year 12, achieving the Western Australian Certificate of Education. All these students are now in work or further study.

What was it about the SNSEP model that succeeded where so many other initiatives struggled? Successive evaluations by Edith Cowan University for The Smith Family have identified a number of key success factors, with relationships a common factor. These include:

1. Strong and consistent leadership across the program and school;
2. Clear articulation of program aims among teachers, administration, students and their families;
3. Involving parents and others from the Indigenous communities in the program in a meaningful way to enhance sustainability and create a wider support network for the students;
4. Curriculum strategies that are culturally appropriate, rigorous, clearly articulated within the broader curriculum framework, and cater to the full range of student abilities; and
5. Individual Education Programs (IEPs) and mentoring for all students in the program.

All of these success factors point to the importance of building strong connections with the individuals, families, communities and organisations involved in the program, and reaffirm our focus on relationships.

For more information on the SNSEP demonstration project, please contact The Smith Family.
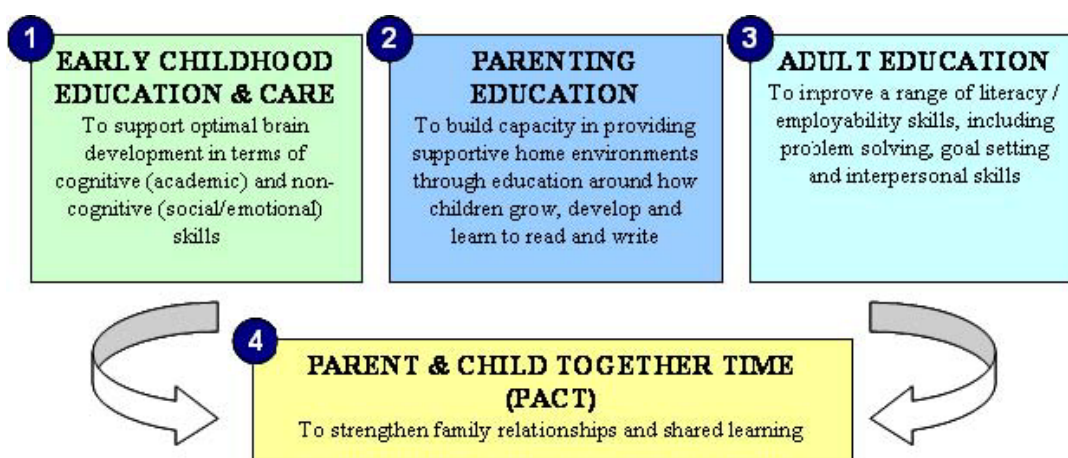
2. Families Learning Together

The foundation of the trusting relationships that The Smith Family has built with parents across Australia has been our shared commitment to the wellbeing of their children. As our *Learning for Life* strategy and suite of programs developed, it also became clear that parents' desire to secure support for their children was expanding to encompass an interest in furthering their own learning opportunities. For example, when we first began to run computer clubs for children to build their technological literacy, many of the parents who dropped off their children at the start of the classes would stay on to participate, motivated by the opportunity to learn computer skills they themselves lacked.

Similarly, The Smith Family's experience in facilitating early childhood programs such as *Communities for Children* has found that in building a supportive home environment for their own children, disadvantaged parents are increasingly motivated to expand their own educational skills.

The chance to leverage this commitment parents have to the wellbeing of their children and turn this into learning opportunities for their own advancement is innovative in the Australian context and particularly timely in light of contemporary changes in family structure. To this end, The Smith Family is now seeking to make the capacity building of families our next priority through facilitating children and parents to learn together. This involves the provision of more holistic and innovative opportunities for parents and their children to learn skills that not only meet their individual developmental needs but also work to strengthen the way they support and relate to each other as a family.

The *Families Learning Together* model involves integrating the education and care of children, the education and parenting skills enhancement of adults, and healthcare.

Research has revealed a wide range of positive factors arising from initiatives that support families learning together that make them in many ways more effective than traditional forms of education.[2] The critical element of these programs is that they provide a comprehensive system of services to meet the educational, personal and family needs of parents and their children that are often too great to be tackled through supporting adults and children separately. The Smith Family's model for *Families Learning Together* will therefore integrate four streams of learning within a single cohesive learning system for parents and their children.[3]

1 EARLY CHILDHOOD EDUCATION & CARE
To support optimal brain development in terms of cognitive (academic) and non-cognitive (social/emotional) skills

2 PARENTING EDUCATION
To build capacity in providing supportive home environments through education around how children grow, develop and learn to read and write

3 ADULT EDUCATION
To improve a range of literacy / employability skills, including problem solving, goal setting and interpersonal skills

4 PARENT & CHILD TOGETHER TIME (PACT)
To strengthen family relationships and shared learning

This 'dual generational' program is structured to allow for the learning from the first three components to flow into and be reinforced through parent and child together time (PACT). In practical terms, this means that parents and children could attend concurrent adult education, ECEC and parenting education sessions in the morning, followed by an afternoon PACT session where they can put the morning's learning into practice (e.g. through shared reading or playtime).

Encouraging parents to see daily activities as opportunities for PACT in their own home environment is a key part of this strategy. For example, preparing a meal can provide family members with some important time together in an otherwise hectic day, while also helping children with their reading (through following recipe directions) and supporting parents with knowledge around selecting and preparing nutritional food.

Through activities such as these, parents are able to more actively participate in and support their child's early development and increase their level of involvement in their child's educational career as a whole, which the evidence suggests is associated with higher levels of educational achievement across the family.

While our focus in developing *Families Learning Together* is its application to disadvantaged communities, once the key drivers of success are identified and demonstrated in the disadvantaged context, it might conceivably be adapted and embraced by other parties in the wider, non-disadvantaged context.

For more information on the *Families Learning Together* demonstration project, please contact The Smith Family.

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[1] The Smith Family (2008) *Stakeholder Value Management Assessment.* Final Report prepared for The Smith Family by Australian Graduate School of Management, Management Project Team 2008/09, December 2008.

[2] Collins, J. & J. Porras (2004) *Built to last: The successful habits of visionary companies.* Collins Business.