# THE AUSTRALIAN SOCIAL INNOVATION EXCHANGE Limited

# PRODUCTIVITY COMMISSION'S INQUIRY INTO THE CONTRIBUTION OF THE NOT FOR PROFIT SECTOR

## Submission by the Australian Social Innovation Exchange (ASIX)

## June 2009

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## Introduction

The Productivity Commission Inquiry is seeking to gain an improved understanding of the contribution of not-for-profit organizations as a means of informing social policy and identifying better ways of working with the sector.

The Australian Social Innovation Exchange (ASIX) was established in 2008 by a group of industry and not-for-profit partners to:

- Raise the profile of social innovation as a key contributor to sustainable solutions to complex social needs.
- Accelerate the social innovation cycle and increase its impact.
- Build an influential and committed social innovation community in Australia.

A more detailed discussion of the importance of social innovation and ASIX's activities are outlined in the Attachment A (ASIX's submission in 2008 to the Review of the National Innovation System).

In examining ways to improve the contribution of the not-for-profit sector, it is important to understand and acknowledge the important role that innovation can play in developing new solutions for social issues, finding ways of achieving the same outcomes with fewer resources, achieving more sustainable social outcomes, using new technologies to deliver services and link communities and encouraging and empowering the end-users of social services to find solutions themselves to some of these social issues. This is particularly important in view of the fact that while funding in Australia for the social sector has been increasing, many social problems are becoming more acute.

Australia needs to devote as much attention to developing a social innovation system over the next 20 years as it has in the past to the more familiar innovation system for science and industry. At the same time, as we develop the institutions and processes that we need in order to pursue a more urgent social innovation agenda that matches the traditional focus on industrial and scientific R&D, the innovation system itself has to become more collaborative, more open and inclusive and more responsive to the ideas, experience and insights of citizens and consumers.

Social innovation is becoming a more important part of the response to the big dilemmas we face. Global warming, sustainable cities, lifting people out of poverty, improving education and health systems, new models of social care for ageing populations – these are just a few of the large and complex social challenges which we need to deal with. Finding effective solutions will make a big difference to the quality of our lives and to our capacity to achieve sustainable prosperity. Innovation is at the heart of these challenges.

We are learning more about what good practice social innovation looks like and about the mix of institutional, financial, policy and organisational resources and capabilities needed to do it well. But we are still a long way behind in our search for robust and replicable models and methods that will dramatically lift our social innovation capability. In particular, we need to increase the investment from government, the private sector and from civil society in the search for new models of social innovation that will increase its speed, scale and sustainability.

The ideas and practices of social innovation are still forming. We have some experience to draw on but much of this is new territory. That should not be seen as a problem. Rather, it is an opportunity. In the search for sharper and more useful definitions of what social innovation is and is not, we are learning more about the central concepts and behaviours which characterise real social innovation (as opposed to re-badged traditional notions of charity, philanthropy and not-for-profit associationalism).

For example, the Stanford Social Innovation Review notes that social innovation is:

> *A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals.[i]*

The UK's Young Foundation[ii] defines social innovation as "*new ideas that meet unmet needs*" and is not unique to the not-for-profit sector. This is an important point. Although the word 'social' is being used by some in the more traditional nonprofit or community sector to lay exclusive claim to this new conversation, the truth increasingly is that social innovation can spark from anywhere – civil society, government, the universities or the world of business and the market

The Young Foundation reinforces that social innovation can be driven by politics and government (for example new models of public health), markets (for example, open source software or organic food), movements (for example, fair trade), academia (for example, pedagogical models of childcare) and social enterprises (microcredit and magazines for the homeless).

ASIX defines social innovation as follows:

*Social Innovation is the search for new solutions to pressing social needs, problems and opportunities that are often created by individuals or organizations with a social, and not a commercial, imperative and are based on expertise and resources that draw from, and appear at the intersection of, the community, business and government sectors. Social innovation solutions are prepared to try something different, provide an effective solution and leave behind new and sustainable capabilities, assets or opportunities for wider social change*

The concept of social innovation becomes even more relevant to this inquiry as the Productivity Commission is aiming to conduct a forward-looking study by focusing on high level institutional, capacity building and policy issues, with the objective of identifying the policies and practices that will enable not-for-profit organisations to deliver the best possible outcomes for individuals and the community. This provides the opportunity to look at the issue of social policy not just in terms of the performance of the not-for-profit sector but in terms of the best way in which social outcomes could be achieved in the most cost effective way. Accepting this proposition brings significant challenges to both the not-for-profit sector and for government policy. This could include issues such as what is the best way of deliver a range of services that a disadvantaged person needs and the concept of user driven models of service delivery and 'empowerment'. As UK writer and innovation expert Charlie Leadbeater has pointed out, a key design principle for social innovation is to work 'with' consumers to design and implement solutions that reflect the contours of their lives and needs instead of programs which provide services 'for' or 'to' consumers. This is a shift reflected in a growing move towards individual funding and brokerage models of service design.

ASIX believes that for effective solutions to be designed and delivered to Australia's social challenges we need government, business, service users and nonprofit sectors collaborating closely. All citizens must share responsible for building stronger communities and solving social problems not just nonprofit organisations and government sectors.

As part of the Inquiry, it is also important to recognize and tap into the potential offered by new technologies to enhance community engagement[iii] and delivery of social services as well as improve the productivity and cost-effectiveness of the not-for-profit sector.[iv] For example, Web 2.0 social networking technology can serve as a key tool to connect communities and build collaboration through communities of practice.

## The focus of ASIX's submission

The ideas presented in ASIX's submission to this inquiry, including examples of innovative solutions that have been successfully trialed in other developed countries, offer a new ways of looking at solutions to resolve some of society's most pressing issues.

ASIX is not a research organization, nor a delivery agency for social programs. Its aim is to facilitate discussion/ideas on how innovative approaches can be used to solve social problems. In doing this, it draws upon its international linkages with experts in the field of social innovation to identify new ideas that could possibly be applied in Australia.

> o ASIX looks forward to working with the Australian Government as an advisor, facilitator and/or co-creator on new innovative approaches to social policy development and program delivery. We can provide a platform to identify and connect people from diverse backgrounds and expertise with ideas and expertise to address social problems.
>
> > ➤ ASIX can provide the conduit to this expertise and harness this information from a wide range of stakeholders through establishing communities of practice that are constantly engaged in discussion on this subject.

This submission looks at the questions raised in the Productivity Commission's Issues Paper from the perspective of how these issues affect the ability of the not-for-profit sector to innovate as well as the ability of governments to find innovative solutions to solving social problems. The submission does not respond to all the questions raised in the issues paper as other not-for-profit organisations are better equipped to discuss some of these. ASIX's submission aims to contribute to the development of an innovative and more productive framework for identifying solutions to social issues and notes some key barriers that hinder innovation.

The Commission called for submissions to identify impediments to the efficient and effective operation on not-for-profit organizations and measures to improve their contributions. It also seeks feedback on ways in which the delivery and outcomes of government funded services by not-for-profit organisations could be improved.

In conducting its Inquiry, the Productivity Commission may also wish to consider examining the question of the best way in which social problems/social change should be addressed as opposed to just the issue of the contribution of the not-for-profit sector. This takes the focus away from just examining the effectiveness, efficiency, and contribution etc. of the not-for-profit sector and looks at the core national issue (need to address social problems) and the means by which this issue can be best addressed.

The following section examines some of the issues that present barriers to innovation in the not-for-profit sector, and offers some recommendations on how these issues could be addressed. It also offers some specific examples of policy initiatives for consideration by the Government.

## Key issues affecting innovation in the not-for-profit sector: some recommendations for change

ASIX believes that there are a number of barriers that adversely affect the innovative capability of the not-for-profit sector. Some of these need to be addressed by the sector itself, while others require initiatives from Government to help drive change. Some of these issues and recommendations for addressing these impediments are highlighted below.

- *A lack of transparency and accountability in the not-for-profit sector*

Compared to the business and government sectors, there appears to be a lack of transparency and accountability about the performance of the not-for-profit sector. This is illustrated by the fact that financial statements of organisations in this sector and other basic information are not easily available to donors and other funders of this sector.

   o For example, in the United States and the United Kingdom, this information can be downloaded by individuals from the websites of the Internal Revenue Service and the Charities Commission (http://www.charity-commission.gov.uk/enhancingcharities/default.asp) respectively and websites such as Guidestar (http://www2.guidestar.org/) offer additional, user relevant information building on government generated data.

Furthermore, there is very limited public information about the cost per outcome of services delivered by the sector. Open and transparent processes are a key ingredient for fostering innovation. This information is also important to assist decision making regarding the best initiative/program to fund in terms of which delivers the best outcomes for any given level of resourcing.

Better information on successful outcomes and processes will generate some competitive pressure on service providers and as a result be used by organisations in the third sector to improve their own performance and by donors or government to support those programs that produce best results.

Some recommendations to improve transparency and accountability in the not-for-profit sector include:

o Encourage greater transparency and accountability for not-for-profits benefiting from government funding and tax concessions. Comparative information about performance of these organisations is not readily available. There is a need to develop measures to compare the performance of various not-for-profit organizations to ascertain which model delivers the 'best bang for the buck".

o Encourage greater social impact reporting against mission/purpose.

o Publish more detailed financial information particularly in relation to cost per outcome so that donors/funders/volunteers can make more informed choices about where to invest their time and money.

o Enhance the tender process for awarding government service delivery contracts.

- Competitive tendering for government contracts has assisted in providing some estimates of performance.

  ➢ However, the prescriptive nature of the delivery models stipulated by government hinder the ability of the not-for-profits to be more innovative in the way they deliver services to achieve better outcomes or to try new approaches that may work more efficiently and effectively.

  ➢ In recent Employment Services tenders, successful bidders seem to have been selected on the strength of their presentation rather than a history of strong performance. A related issue has been the high costs involved in preparing tenders and onerous administrative reporting requirements. These developments have meant that not-for-profits have fewer resources available for innovative thinking and testing new approaches.

**Policy Recommendations:**

- Government should engage the not-for-profit sector in a discussion to identify ways in which transparency and accountability could be enhanced in the sector. As part of this, some initiatives could be trialed to gauge their effectiveness.

- Government should develop or support 'toolkits' and similar resources that can guide not-for-profits (particularly smaller ones) to measure and report on their activities and outcomes.

- Examine government purchasing processes so that tenders can call for and test more innovative and cost effective approaches to delivering social outcomes.

- Government should partner with the philanthropic sector to educate donors to increase awareness of the importance of cost-effectiveness rather than percentage of funds spent on administration as measures of value.

- Government should develop some form of non-financial incentives (such as awards) to recognize and encourage not-for-profits to adopt greater accountability and reporting.

- • *Role of governments in encouraging innovation and collaboration in seeking solutions to social problems or delivering social programs*

Governments could play a key role in encouraging participants across all sectors to work more collaboratively to address social issues more innovatively and in a more cost effective manner: that is, reducing the cost to the community and society as a whole in responding to social or environmental needs, opportunities or challenges.

This is a particularly important issue given the recent trend toward a growing convergence of the activities of the three sectors – government, business and not-for-profit. For example, given the trend towards smaller government and greater outsourcing, the not-for-profit sector is now delivering programs (such as employment related programs) which previously were delivered by government itself (for example through the Commonwealth Employment Service). The business sector is also becoming more actively engaged, not only because of an obvious interest in a healthy, cohesive and stable society but also because in many cases it has skills, assets and expertise that can play a key role in creating effective responses to social challenges – including innovation, investment and asset creation, product and service design and marketing, Government organisations such as art galleries, schools and hospitals are increasingly seeking to raise philanthropic funds. In these ways and others, the boundaries between the activities of the three sectors in the area of social and cultural services are blurring.

These trends point to an important question – what is the unique or distinctive contribution of the not-for-profit sector? It also points to the need for more innovative and collaborative approaches in policy and programs to deliver successful outcomes. On its part, the not-for-profit sector will have to work more collaboratively with the other sectors.

Social Innovation does not apply only to the third sector. All sectors and citizens need to be engaged in this process. To be effective, social innovation should aim to reduce the overall cost to society as a whole of making the proposed changes. At the same time, a high trust model or environment needs to be created as this is a pre-requisite for fostering innovation.

The aim of this innovation is to accelerate the rate at which good ideas and valuable insights for solving a problem can connect with the money and organisational capacity they need, to be tested and then scaled so that they quickly become the new benchmark or standard of good practice.

As well as the ability to 'get better faster', the challenge is to take the successful innovation to scale so that it makes a difference not just in a few trials but comes widely available to millions of people.

As part of its role in fostering social innovation, ASIX believes that governments should examine breakthrough and successful approaches to social policy or services that have been adopted locally and overseas to ascertain ways in which these can be effectively adapted and adopted in Australia. Part of an emerging social innovation system in Australia should include a growing capacity to discover whether proposals for new programs and services are truly innovative. Have they been tried before, perhaps in other parts of the world? What evidence is already available about whether or not the ideas have worked in other contexts? One way to do this would be by running a number of pilot programs to test and compare their effectiveness before proceeding to mainstream implementation. The best solution from this comparison should be implemented.

Many of Australia's programs for the social sector have largely been implemented without a pilot phase.

> o For example, the substantial Job Network initiative was implemented in 1997 without a comprehensive pilot to assess whether a full-scale roll-out of this program was the most effective way to address the goals of employment for unemployed jobseekers. A similar case could be made for the government's intervention in the Northern Territory's Indigenous communities in 2007.

There is also a lack of longitudinal studies examining whether lasting and sustainable outcomes have been achieved as a result of the government's policies and programs. Measures of success have been based too often only on short term outcomes. However,

some care needs to be exercised in the way innovation is measured. By definition, real innovation is charting territory that is new. It is trying ideas and responses to social issues that have not been tried before. Impacts and results may not be evident for some time and much of the value of an innovation may flow from the ability to change the original concept in the light of experience. Considerable work needs to be done to evolve new models of performance measurement and evaluation consistent with a high-trust, open innovation model whose potential is a function of the ability to "think, act, revise" in cycles that may not sit easily with traditional public policy evaluation models.

Some recommendations to promote innovation and collaboration to enhance social outcomes of policy and programs include:

- o Conducting pilot innovation programs alongside mainstream programs to test alternatives and new approaches.

- o Where innovation pilots are conducted and found more cost-effective than existing approaches they should be taken up for adoption in mainstream programs where appropriate – 'one size does not always fit all'.

- o Encourage public reporting on the success - or otherwise - of program results to enable learning and service improvement by nonprofit agencies and donors. Failure should not be a dirty word if it is well managed and results in learning

- o Create innovation programs for the social sector – just like business innovation programs.

- o Conduct international searches of solutions that could be tested in Australia.

- o Encourage/support 'communities of practice' around key social issues – e.g. youth crime; homelessness.

- o Exercise less administrative control of how programs are run. More focus on outcomes.

- o Encourage small innovative initiatives but discourage unnecessary duplication among nonprofits.

- o There should be less focus on measuring overheads and a greater emphasis on the cost of outcomes. Comparative information should be published.

**Policy Recommendations:**

- Government should run pilot programs and assess them before going into full program implementation. This would be a more innovative approach and a test bed for new ideas. Pilots can run alongside mainstream programs and their evaluation can inform the next set of policies/programs.

- Successful pilots should be adopted for mainstream implementation

- Government should conduct a study to examine the unique and most productive role of the not-for-profit sector, given the growing convergence between this sector and the business and government sectors. The findings of this study would assist government develop better and more informed policies about the role of each sector and how they could collaborate in order to identify and implement innovative ways of achieving more sustainable and cost effective solutions to social problems.

- Government should consider undertaking longitudinal studies to examine whether sustainable and lasting outcomes have been achieved by social policy initiatives and look at outcome costs and savings more holistically.

- Further, the Government should invest time and resources in a concerted program of innovation in new models of evaluation and performance measurement that is 'fit for purpose' for an open, high-trust and networked social innovation model.

- *Government funding and tax benefits support agencies delivering relief from poverty or distress rather than preventing or solving social problems.*

Current Government tax concessions for not-for-profits are largely aimed at delivering relief from poverty and distress rather than encouraging prevention or solutions to social problems. The tax system rewards the band-aid rather than the cure. This creates a distorted set of behaviours among not-for-profits that do not maximize the achievement of national priorities. ASIX believes that a more cost effective and sustainable policy would involve at least as much emphasis on prevention and cure as for the relief of the symptoms. Tax concessions provided by Government, such as those required for agencies to obtain Public Benevolent Institution Status or Deductible Gift Recipient Status, reflect this emphasis on symptom relief rather than prevention or cure.

Greater emphasis should be given to providing support for solving or preventing social problems.

o In its Issues Paper, the Productivity Commission notes the expanded and important role of social enterprises and support agencies such as Social Ventures Australia (SVA). Organisations such as Social Ventures Australia, the School for Social Entrepreneurs and other 'problem solvers' are currently ineligible for DGR status unless they gain special treatment by the Federal Treasurer to secure inclusion in the Tax Act list of approved Deductible Gift Recipient (DGR) bodies.

o In the United Kingdom, Canada and the United States, charitable tax exemption and gift deduction criteria allow a much broader range of organizations to qualify for exemptions.

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**Policy Recommendation:**

- Government should consider broadening the definition for granting Deductible Gift Recipient and Public Benevolent Institution status to organizations seeking to prevent or find solutions to key social problems and to strengthening social cohesion.

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- *User-driven change and empowerment models of social welfare*

The business model for the not-for-profit community welfare sector is increasingly moving from one that focused on welfare to one aimed at empowerment of the disadvantaged. A key element of this new approach is citizen engagement and a key outcome is giving disadvantaged or excluded groups a voice. Just as businesses are looking at customers as a driver of innovation, the recipients of welfare services need to have input into the design of these services in order to achieve better outcomes. This target group needs to be a partner or empowered customer and not just a passive recipient.

Another related issue for consideration is whether we are asking the right question by focusing on the cost effectiveness and efficiency of the not-for-profit sector. A more useful approach may be to focus on the range of services that disadvantaged individuals require and what could be the most effective way of delivering these.

Current government programs do not seem to be aimed at enhancing empowerment. This is not what governments are purchasing as part of their tender processes.

o For example, Commonwealth employment services focus attention on processing job seekers through very tightly defined programs where little attention is given to the empowerment of jobseekers. The prime focus is on moving them off income support payments as rapidly as possible. Little longitudinal research is undertaken to see if jobseekers obtain stable employment and sustained careers following their use of employment services.

We know that marginalized or socially excluded groups experience a broad mix of health problems, longer periods of unemployment and homelessness, have significant interactions with the law and justice system. These involvements with government and nonprofit service systems are very costly for the whole community. ASIX believes these range of costs should be better tracked and measured for individuals and families so we understand the full cost to the community of social exclusion for high need groups. The use of social innovation processes to design a 'whole of family' or 'whole of life' program 'with' communities, families or individuals with complex needs should enable improved lasting outcomes for target groups and reduced costs for the community.

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**Policy Recommendations:**

- Government should consider designing programs that are aimed at empowering disadvantaged groups.

- Government should examine existing programs across portfolio areas to see how they can be better designed and 'joined up' to meet the holistic needs of the disadvantaged and reduce the overall costs and improve the 'return' (in social and economic terms) to government, the client group concerned, and the wider community.

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## Examples of recent successful innovation initiatives – international and Australia

There is a growing interest in the field of social and public innovation in the UK, Europe and globally. A number of government and not-for-profit organisations have been established to look at the issue of social innovation and development initiatives in this field. These include:

- An Office of Social Innovation in the White House in the United States

- A EU joint event putting social innovation at the forefront of Europe's recovery.

- The Young Foundation – a centre for social innovation based in London whose domestic and international social innovation projects include:

- o The UK School of Social Entrepreneurs – now independent
- o Social Innovation Exchange (SIX) – a global network
- o Social Innovation Camps
- o Many other initiatives

- Ashoka – a global organisation that identifies and invests in leading social entrepreneurs at three levels:

    - o Support individual social entrepreneurs – financially and professionally – throughout their life cycle.

    - o Promote group entrepreneurship – bring social entrepreneurs together to leverage their impact, scale their ideas, and capture and disseminate their best practices.

    - o Help build the infrastructure and financial systems needed to support the growth the sector and facilitate the spread of social innovation globally.

- The Hope Institute Korea – an independent research institute in Seoul that runs the Social Invention Centre where innovative thoughts and various ideas are shared – through the Internet – then revised, organised and strengthened to form the basis for realistic and precise public policies. Some examples of this approach include Internet-based Interactive Social Invention services, International exchange and cooperation for social invention, and a Social Innovation Award Program.

- Rodelillo Foundation Chile  that works with business, government institutions, foundations and the local community, Rodelillo's 18-month psycho-social family companionship has assisted thousands of poor Chilean families to make such transformational changes.

Key Social Innovation organizations in Australia include:

- Australian Social Innovation Exchange (ASIX)

- The Centre for Social Impact  (CSI), University of NSW

- The Australian Centre for Social Innovation, South Australia (TACSI)

> **Case Study – Australia's First Social Innovation Camp**
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> Originating in the U.K. now being tested in other countries and based on a model used widely in the technology world, Social Innovation Camp brings together a group of people from very different backgrounds and with a range of technology, business, design, policy and community skills, for a weekend of intense work to turn a few good ideas for tackling difficult social challenges using Web2.0 technologies, into working prototypes, ready to submit to investors for further development.
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> Australia Social Innovation Exchange (ASIX) will run Australia's First Social Innovation Camp in September/October 2009. The camp will focus on ideas in three broad areas:
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> - Skills and employment
> - Healthy and independent ageing
> - Making our cities more liveable and sustainable
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> After the closing date of submission of project ideas, the Committee of Panelists will conduct initial assessment on the project ideas and about 4-6 proposals will be shortlisted for the camp to develop the prototype of new ventures, including business plans. After the Camp, ASIX will draw on its networks to connect the prototypes generated at the camp and develop ventures with people who can take them to the next stage.
>
> The Social Innovation Camps could potentially become an important way of collaboration between people with ideas and technology providers to develop innovative solutions to social problems.

## Acknowledgements

Jennifer Dobbin – Nonprofit Australia

[i] James A. Phills Jr, Kriss Deiglmeier & Dale T. Miller, "Rediscovering Social Innovation", in *Stanford Social Innovation Review, Fall 2008.*

[ii] *Social Innovation: what it is, why it matters and how it can be accelerated,* The Young Foundation, 2006.

[iii] The Department of Communications, Information Technology and the Arts, *The Role of ICT in Building Communities and Social Capital,* Discussion paper, 2005.

[iv] The Department of Communications, Information Technology and the Arts, *Information and Communications Technology Transforming the Nonprofit Sector,* Discussion paper 2005.