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## 9 Promoting productivity and social innovation

### Key points

- Not-for-profit organisations (NFPs) face greater constraints on improving productivity than many for-profit businesses. These include difficulty in accessing funding for making investments in technology and training, lack of support for evaluation and planning, prescriptive service contracting by government, and in some cases resistance to change by volunteers, members and clients.
  - Most state and territory governments have programs to assist NFPs build capacity, and government agencies often provide similar training support for NFPs delivering services. Governments could better tailor their support to promote development of relevant intermediary services and greater adoption of ICT to build sustainable capacity.
  - Beyond full cost funding and removing unnecessary prescription in contracting, governments could assist NFPs engaged in client service delivery to deliver better services, reduce record keeping costs and facilitate easy reporting through development and provision of shared client information systems.
- NFPs are less subject to commercial pressures to improve productivity, and management are less likely to be rewarded for driving change against the tendencies of some workers. In addition, government contracts requiring return of any surplus, or lowering the funding in subsequent funding rounds, provide little incentive for cost saving.
- NFPs natural inclination to take innovative approaches to social problems is being restricted by: the increasingly risk averse attitudes of funders and boards; limited resources; constraints on investments in knowledge; and reluctance to collaborate with other NFPs.
  - The Cooperative Research Centre Program has supported collaborative research on social issues since 2008. Despite difficulties in forming collaborations in these areas, the potential social returns warrant additional input by the Program to facilitate the engagement of NFPs with business and government agencies to make successful bids for funding.
  - Large government programs in community service delivery utilising NFPs can benefit from better approaches to service delivery. This would be stimulated by setting aside a small proportion of program budgets to fund and evaluate experimental approaches.

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### Key points (continued)

- Social enterprises adopt a business model in achieving their social purpose. Many NFPs engage in social enterprise activities with purposes as diverse as employment of disadvantaged workers, delivering services in areas that are not serviced by the for-profit sector, and undertaking commercial activity solely to generate revenue. Like small and medium enterprises (SMEs), many NFPs lack the business skills to attract capital and to improve performance.
  - The Enterprise Connect program provides business skill services to SMEs in a form that is ideally suited to providing support to NFPs engaged in social enterprise activities.

The majority of not-for-profit organisations (NFPs) are small, unincorporated organisations that serve their members or provide services to others in a way that satisfies the volunteers who make up the organisation. Productivity — how well they utilise their resources to produce their activities — is an internal concern and may not be viewed as important. This is not the situation for NFPs that rely on support from donors or provide government funded services where their productivity, like achievement of their mission, is likely to be a central concern. Further, it might not be possible to meet future demand for services unless more cost effective ways are found. A key concern of this study is whether these NFPs are as productive as they could be.

A second area of concern — as much to the sector as to its supporters — is that, while well placed to be innovative, a majority of community-serving NFPs have drawn back from pushing the boundaries and are less innovative than they would like to be. The recent wave of interest in social enterprise is seen by some as bucking this trend by taking a business model to addressing difficult social problems. While social enterprise activity is not new, it usually makes up only part of the activities of an NFP, although there is emerging interest in stand alone social enterprises. The social inclusion agenda of the Australian Government emphasises a role for social enterprise to promote social innovation — taking novel approaches to addressing social problems and needs.

This chapter explores the opportunities for, and constraints on, NFPs to improve productivity and undertake social innovation. While it is impossible to objectively assess the levels of productivity and innovation in the NFP sector, it is possible to examine the incentives and capabilities of NFPs to create and exploit opportunities to improve productivity and be innovative. The chapter also considers ways in which government action can enhance opportunities for, and remove barriers to, productivity improvement and innovation for NFPs.

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## 9.1 Are NFPs fully productive?

Productivity improvement is generally measured by a reduction in the unit cost of producing an output. This conception of productivity is alien to many NFPs, which are concerned about delivering on their community-purpose. Benchmarking, which would allow comparison of cost per unit of output/outcome of different NFPs and their activities, is problematic. For example, NFPs that target more disadvantaged clients may require a more costly set of outputs to deliver the same activity. Such concerns in comparing productivity are well known, and some programs that attempt to rate providers have developed sophisticated systems to control for such variations in client profiles (DEEWR 2009b). The validity of any benchmarking depends on the extent to which such considerations can be adequately incorporated into the measures of costs and outputs or outcomes. These difficulties mean little has been done in this space, yet absence of benchmarking, or even more crude comparisons of performance, means there is little information for NFPs or their supporters to learn whether they could ‘do things better’.

Quality is an important dimension of activities that delivers value to stakeholders, including intrinsic returns to management. The critical issue is whether the additional cost of improving quality is warranted in terms of better outcomes, which can be very difficult to assess.

The difficulty in benchmarking and assessing the marginal value of quality improvements means that the NFPs are less likely to recognise if their productivity is below potential. Unlike for-profit businesses in a competitive environment, their financial performance is generally a poor indicator of how they are performing relative to similar organisations. Stakeholders will provide some feedback on whether outcomes are being achieved, but generally they are not well placed to provide information on whether these outcomes could be achieved at a lower cost. Competition, which is seen as a major driver of productivity growth in the for-profit sector, plays at best a weak role as an incentive for productivity improvement in NFPs. It plays an even weaker role in sector level productivity growth, much of which is driven by growth in more productive firms at the expense of less productive ones.

Few NFPs would inherently want to be less productive than their potential as this would mean achieving less of their community-purpose than would otherwise be the case. But the imperative to improve productivity is weaker than for for-profit organisations. NFPs also face some similar, and some more sector specific, constraints on productivity growth.

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## **Constraints on productivity improvements**

Chapter 2 identified a number of possible constraints on productivity growth in the NFP sector. In brief these are:

- inclusive and time consuming processes are valued by some or all of an NFP's stakeholders, but may be excessive relative to their contribution to outcomes
- limited access to finance and other resources to invest in on-going improvements
- lack of information and evidence on outcomes achieved for clients
- weak mechanisms at a sectoral level to reallocate resources to more productive NFPs.

This last constraint presents the greatest challenge to sector development over time as entrenchment of the status quo restricts the sector's ability to respond to changing demands and opportunities. A dynamic sector is able to adapt to changes in government funding, attract new donors and volunteers, and have NFP organisations come and go as demands and opportunities dictate. As existing NFPs may face problems reallocating resources if this is seen to be moving away from their original community purpose (Hansmann 2003). This suggests that sustainability for the sector means allowing NFPs to dissolve.

## **Incentives for productivity improvements**

Pressure on managers to improve productivity mainly comes from NFP boards, which are increasingly under pressure from governments, activist donors, and in some cases members, to demonstrate value for money. But boards may get little reward for improving productivity — notably under contractual arrangements that return any surplus to government.

An additional constraint on productivity improvement arises from the costs associated with change. These costs include the normal investment and implementation costs of introducing change that face all businesses. In addition, NFPs may face extra costs because voluntary contributions (time and donations) can be more sensitive to change and the way it is undertaken. Clients and members too can view change with suspicion, and so change has to be managed more carefully. Managers often bear the brunt of these costs — staff discontent, client concerns and worries about maintaining volunteers — raising their resistance to pressure for continuous improvement as well as more substantial change.

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## **Resistance to mergers and collaboration**

In addressing this issue, the Commission acknowledges the strengths and importance of smaller NFPs, especially where they serve a local community or seek to address a specific need. Indeed smaller agencies may well be better placed to meet certain social needs than larger organisations. That said, bigger organisations have some identifiable advantages.

A larger presence can increase recognition amongst funders and in the community, which in turn may facilitate funding and increase the organisation's reach. More importantly in the context of productivity, scale is generally associated with reduced average costs as many overhead costs, such as training programs, information technology, and office space, are lumpy in nature. Scale can be achieved in a number of ways, including through mergers, joint ventures, consolidation and shared services.

Despite these advantages, NFPs appear reluctant to merge or collaborate in these ways. This may be for a number of reasons. HSC & Company (sub. DR287) identified 'vested interests, lack of strategy and deficient infrastructure to support aggregation' as key challenges. NFPs report concern that growth, especially through mergers, will reduce their connection to their community thereby reducing their insights and contacts and consequently their effectiveness. In addition, any loss of mission identity as a result of amalgamation can affect the willingness of volunteers to participate, and may also limit financial contributions from the community. Mergers will also inevitably reduce the power of one set of managers and board, and so might be resisted on this basis.

Collaboration through joint ventures or sharing service platforms poses less of a threat to NFPs in each of these areas, yet it can still be difficult to achieve. Peak bodies can provide a mechanism for coordination, but they are often focused on managing relationships with governments rather than promoting collaboration between NFPs. Sharing of premises and services such as back office systems also appears to be relatively uncommon given that sharing offers considerable potential to reduce costs and provide a more attractive entry portal for clients.

In seeking to enhance sector productivity, the Commission is not making a judgement call about whether large or small is better, for that depends on the circumstances. But the sector should be more open to the possibilities of restructuring and forging new ways of collaboration to achieve greater community outcomes

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## 9.2 What can be done to stimulate productivity growth?

Action to stimulate productivity growth must address both the incentives and the constraints. Productivity growth comes from continual improvements at the organisation level, achieved from investment in intangibles such as management, and information, as well as in technology and skills. As discussed, at a sectoral level it also comes as resources shift from less to more productive organisations.

Constraints on access to capital for investment have been discussed in detail in chapter 7. This section focuses on the areas of investment and change that have greatest scope to improve productivity for NFPs in the human services areas, although many of the issues are relevant for all NFPs. These areas are adopting and adapting technology; engaging intermediary services; and generating and using knowledge on cost-effectiveness.

### Improving the utilisation of technology

A number of submissions to the draft report pointed to the potential for technology to reduce costs and improve effectiveness in the delivery of services, but also in advocacy, fundraising and other NFP activities:

Australian non-profit associations, charities and social enterprises continue to lag in the adoption of information and communications technologies. This has led to a substantial sector of the Australian society and economy failing to benefit from the productivity growth afforded by ICT. (Connecting up Australia sub. DR270, p.1)

Deployment of ICT is becoming a matter of strategic importance .... governments can work to ensure that Australia's not-for-profit sector builds a broad ICT capability as an essential component of improving the sector's efficiency and contributions to Australian society. (Australian Society of Association Executives, sub. DR226)

Digital proficiency will reduce the regulatory burden; streamline interaction with government, clients and professional networks; increase the capacity of community organisations; encourage innovation and growth; enhance the NFP role in the community; and facilitate coordination across government and the community sector. (Infoxchange, sub. DR194, p. 3)

The internet and its associated technologies are a way of life for young people ... with its unique ability to connect people to information and each other, the internet can be re-thought of as a setting in which 'devices, activities and social arrangements' are activated — and can have extensive reach and powerful impact. (Inspire Foundation, sub. DR293, p.2)

Yet the sector lags behind on the adoption of ICT, as a survey conducted by Infoxchange of 412 NFPs found: 'two NFPs had an ICT plan; 84% admitted to not

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having an ICT plan. Most respondents admitted ICT competence that had not moved beyond email use' (sub. DR194, p. 5). NCOSS (2008) reported the findings of a survey of 878 small NGOs: 55 per cent were not happy with their software environment due to lack of appropriate software to meet the task, the cost and licensing restrictions and lack of training, support and advice, with most respondents reporting inadequate local ICT support when they needed it.

To take advantage of ICT opportunities NFPs need the resources — funding and skills — to develop, purchase and implement ICT solutions. They have to see that such investments will bring about not just productivity improvements but better outcomes for workers, members, participant or clients. While resource constraints explain slow adoption of ICT for many NFPs, some are reluctant to adopt new technologies where these alter control over information or valued traditional approaches. Training and support for implementation of ICT solutions should be part of capacity building programs, whether in governance, financial management or evaluation. Governments engaging in sector development activities should ensure that ICT issues are mainstreamed and that NFPs develop ICT strategies along with other business development planning. The choice of which systems to use should, however, be left to the NFP management to decide. The exception to this general rule is where adoption of a common system can greatly facilitate efficiency and effectiveness.

Participants suggested that there are two areas where common technology can play an important role — in client record management systems and in accounting and reporting. In the latter case, standard reporting requirements for governance information, financial accounts, fundraising, and performance measures provide the basis for tailoring of ICT products. NCOSS (2008) reports the AIHW finding that there are 2500 data standards currently used in the Australian health, community services and housing assistance sectors, so there is clearly scope for standardisation. While the sector could take a lead in developing standards, as in the development of a standard chart of accounts for the sector, COAG or other inter-governmental bodies will need to encourage adoption of standards across jurisdictions as they have recently committed to do with the standard chart of accounts. Common approaches for external reporting and internal management will also improve the scope for intermediaries to offer cost-effective services to NFPs.

Systems that facilitate sharing of client information and reporting on outcomes (on the 'record/report once use often' principle) can bring considerable cost savings for organisations and for clients. This can also enable service integration to the benefit of clients, and reduce the burden on them of having to repeatedly provide personal information. However, such systems have potential for misuse and protection of

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client privacy — such as with an ‘opt-out’ on what information can be shared — is required.

Some government agencies have been developing shared systems, such as for the Home and Community Care (HACC) services in New South Wales. There are also efforts to implement record sharing in health services that can provide lessons, and some cautions, as to the challenges involved.

While there are a number of companies offering relevant technology products, implementing a system successfully goes well beyond software and training. Generally a central driver is needed for the system to be widely adopted. One example is the Canadian Outcome Research Initiative (CORI). CORI, established in 2001, is an NFP which aims to improve the effectiveness of NFPs delivering human services ‘... by providing education, research training, and services regarding outcomes and evidence-based practice’ (CORI 2009). CORI hosts a web-based program evaluation software package. Users enter information about clients (there around 210 000 client records in the database). Data can then be summarised and outcomes measured against performance indicators. According to CORI, a key feature of the evaluation software is:

... its ability to monitor evidence or indicators of success toward achieving planned outcome objectives. Such information from multiple agencies is to be stored within one common database to allow multi-agency data analyses and best practice reporting. (CORI 2009)

Government could be a catalyst for NFPs involved in delivery of government funded services to adopt a shared client record management system. This would have substantial implementation costs and privacy issues that have to be managed. The value would be in reducing the on-going costs of managing client information, and the potential to greatly reduce reporting costs, where funding agencies can remotely access agreed reports. Better information flows would also facilitate evaluation of the effectiveness of the mix of service delivery and provide a rich source of data to improve understanding of service effectiveness. To ensure acceptability and usefulness any program would, however, need to:

- allow single entry of ‘life history’ by organisations that are first point of contact with clients
- incorporate protocols to protect client privacy on the information that is shared
- provide common measures for reporting on client services provided and on outcomes achieved for the client
- allow electronic lodging of ‘performance’ reports to funding agencies and easy interface with financial reporting systems

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- be able to be depersonalised to be made available for research that will feed into improving services.

## **Development of intermediary services**

There are a wide range of types of intermediaries, both NFP and for-profit organisations, that engage with the NFP sector (box 9.1). For example, philanthropic intermediaries play a role in linking NFPs with wealthy individuals and the business community, specialist financial intermediaries connect NFPs with sources of capital (chapter 7), and volunteer clearing houses link volunteers to NFPs, including for corporate ‘pro bono’ services (chapter 10 and 13). There are also specialist organisations that offer services on a fee for service basis including in training, financial services, accounting and record management, business planning and evaluation.

### **Box 9.1 Examples of intermediary services in Australia**

- Our Community (2009) is a for-profit social enterprise that provides advice and tools for community groups and schools and practical linkages between the community sector and the general public, business and government.
- Indigenous Community Volunteers (sub. 74) aims to work in partnership with Indigenous communities by giving support in a ‘bottom up’ approach to community development. Its core business is matching volunteers to the needs of Indigenous communities.
- NCOSS [New South Wales Council of Social Service] reports developments in shared service models such as a Hub in Bankstown which brings together more than 14 community organisations to share corporate resources and provide a one stop shop for the local community and Regional Service Hubs to deliver affordable corporate services for regional and rural agencies. NCOSS has also developed an extensive ICT strategy for the NSW community sector. (sub. 118, p. 40)
- The Illawarra Forum (sub. 52, p. 48) described how the ‘community kitchen in the Warrawang community centre that operated four days per week ... had become the hub of that community. Disadvantaged community members were involved in cooking and serving meals, local agencies made links with the community through the kitchen and significant social capital was generated.’
- Social Ventures Australia is an independent not for profit organisation established in 2002. It works with innovative NFPs to ‘increase their growth and impact to drive transformational social change’. It has established a venture fund to support investment in social innovation, and also provides tailored support such as assistance with strategic planning, financial sustainability, government and performance measurement and evaluation. It also provides advice to funders about how to make informed decisions about their social investments (sub. DR304).

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Activity hubs, including ‘community development’ organisations, may offer both premises and the choice of a set of support services to the NFPs. These hubs have an additional advantage as they can facilitate service access for clients with multi-dimensional needs. For example, Willoughby City Council (sub. 80) noted how community hubs could bring together a range of services, including drug and alcohol related measures, domestic violence initiatives and mental health services, and PricewaterhouseCoopers (sub. 174) spoke of partnerships between Mission Australia and smaller NFPs to co-locate to achieve efficiencies.

In contrast to the experience in several other countries, most types of intermediaries are relatively undeveloped in the Australian NFP sector. The relatively low use of intermediary services may relate in part to the more general reluctance to spend on overheads, driven by the perceptions of the media, some donors and parts of government of this expenditure as a ‘bad’ (chapter 2). Further, the Fringe Benefit Tax (FBT), and payroll tax concessions available to NFPs favour use of internal resources over external ones, and are likely to discourage the use of intermediary services.

While government has in recent years assisted the use of intermediaries connecting business and research agencies (PC 2007), government support for intermediary services for NFPs in Australia is relatively limited. One exception is the Victorian Government:

In recent times, the Victorian Government has taken a proactive approach in supporting social enterprise by investing \$10 million over six years directly through community enterprise grants and by funding support agencies and intermediaries. (Social Traders, sub. 102, p. 4)

The experience in the United Kingdom (UK) points to the important role that government can play in building the supply of intermediary or service organisations, and in stimulating demand. The UK government, directly and through the National Lottery Fund, has invested heavily in the development of a range of organisations that service the NFP sector. A good example is the funding of the Association of Chief Executives of Voluntary Organisations (ACEVO) to develop and provide training on a full cost calculator tool for specialist trainers, who then work with NFPs to implement the tool. While the ready availability of funding for these service providers has resulted in a proliferation of small local providers, some of which are unlikely to be sustainable in the long run, the view from ACEVO is that it is better to have too many than too few (ACEVO pers. comm., 7 December 2009).

Australian governments provide considerable funding support to NFPs to develop their own capabilities either to meet service delivery requirements, or more generally to strengthen the organisations (appendix D). Currently this support is

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provided on a piecemeal basis with no strategy for building up the supply of services to the sector. Other strategies, such as funding vouchers for NFPs to purchase services, or providing seed funding to support intermediary organisations while they build their customer base have risks. Such strategies require time limits on direct funding support to signal to the nascent intermediary service industry, and the NFPs, the need for developing sustainable business plans. An alternative strategy with little risk and potential for high returns is for governments involved in sector development to coordinate the various capacity building investments made by their agencies to take a more strategic approach to developing the support services for NFPs. The NCOSS (2008) report on ICT, for example, recommends the establishment of a shared services model for ICT support for small NFPs.

The growth of intermediaries is contingent on a growing appreciation by NFPs of the value of, and so willingness to pay for, such services. Confidence in the quality of services offered by intermediaries is important. Peak bodies could play a pro-active role in vetting intermediaries to ensure financial probity and service quality. Changing attitudes of the media, governments and donors to overheads may be a necessary first step in a strategic approach to developing this service sector.

### **Improving knowledge on cost-effectiveness**

It is more important for NFPs to assess their cost-effectiveness — which for the NFPs is about achievement of their purpose — than to worry about unit output cost. The actions of direct stakeholders provide the clearest feedback mechanism, but as discussed above, recipients of subsidised services may not feel empowered to ‘vote with their feet’. Similarly, they can be reluctant to provide critical feedback when questioned about their experience. In addition, survey responses tend to be limited to the individual’s experience and their views may be poorly related to actual effectiveness. This limits the scope to impose ‘market’ incentives for effectiveness through empowering clients by giving them choice of providers, or by linking payments to client satisfaction. The circumstances where this is likely to work well are discussed in chapter 12.

In the absence of a direct feedback mechanism, NFPs must undertake evaluations to assess their effectiveness. Most evaluations draw on an array of information sources to identify, and in some cases quantify, inputs, outputs and outcomes (chapter 3). While evaluation is often conceptualised as a major independent exercise, and this has its place, it should be part of everyday activity, and built into project design, delivery and monitoring through feedback loops that support continuous learning. This does require dedicating resources to evaluation, but more importantly it requires a management mindset that allows continued questioning of ‘why this way?’ and ‘is it working?’.

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Diagnostic evaluation — which looks at why outcomes are achieved — can be time consuming and relatively expensive to undertake. It also may need to be undertaken over a long period of time. Yet it is an important part of continuous improvement and often the trigger for innovation. As ACOSS notes: ‘reform of contracting approaches and program evaluation which uses outcomes and impacts rather than inputs and throughputs will also significantly increase innovation’ (sub. DR256 p.4). And governments need to be willing to invest in evaluation over time if they want to promote innovation in service delivery:

Too many ministers and senior bureaucrats think that they can push the cost of innovation and evaluation onto the not-for-profit sector and pick up new program designs only when they prove successful. However, experience from the United States suggests that rigorous, large scale evaluation rarely takes place without government support. (Catholic Social Services, sub. 117, p. 16)

Evaluations undertaken often focus on quality assessment, where quality is defined by the contract arrangements and in some cases by external standards. This can be a sound and cost-effective approach where there is strong evidence that links quality standards with outcomes. However, the approach falls short where such evidence is weak, and fails to collect evidence that would either reinforce the standards or reveal a need for their review.

While a few NFPs already undertake quality impact assessments, many more NFPs could build a program of continuous research into their activities. This would require monitoring and evaluation of their activities to assess their effectiveness, as well as designing and testing modifications to improve outcomes or efficiency. The value of these efforts is enhanced when they are shared to support meta-analysis of evaluations to better inform allocation decisions — where to put resources to get the greatest social benefit (chapter 5). Meta-analysis would also offer an opportunity to identify and showcase good evaluations, as well as promote activities that have been highly effective:

Another strategy to support innovation would be to develop more direct incentives for innovation such as recognition programs or awards and publications that highlight new or evolving practices. (Family Relationship Services Australia, sub. 132, p. 15)

The Centre for Community Service Effectiveness proposed in chapter 5 would offer a portal for dissemination of evaluations of the impact of community service programs.

*Information and communication technology has the potential to enable more cost-effective and higher quality human services. With due considerations to protocols for protecting privacy, in specific service areas, Australian governments should explore the potential for selective sharing of client information between agencies and not-for-profit organisations and other providers, through the utilisation of enhanced information and communication technology.*

*State and territory governments should review their full range of support for sector development to reduce duplication, improve the effectiveness of such measures, and strengthen strategic focus, including on:*

- *developing the sustainable use of intermediaries providing support services to the sector, including in information technology*
- *improving knowledge of, and the capacity to meet, the governance requirements for not-for-profit organisations' boards and management*
- *building skills in evaluation and risk management, with a priority for those not-for-profit organisations engaged in delivery of government funded services.*

*Australian government agencies providing extensive grants to, or using external agencies for, service delivery should establish evaluation programs to assess the effectiveness and actual cost of their programs. Where related to community services, these evaluations should be posted with the Centre for Community Service Effectiveness.*

## **9.3 Is social innovation constrained?**

### **Drivers of social innovation**

*Social innovation is motivated by a commitment to purpose*

The purpose-driven nature of NFP activities can give freedom to explore new approaches to achieving that purpose, allowing them to take risks where failure is accepted as part of learning. In addition, scope to try new things can be a highly

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valued part of what the NFP offers to its stakeholders. Indeed, some see NFPs as leaders in social innovation:

Radical innovation rarely starts in the mainstream...Radical innovation in emerging, untested markets, with consumers who are poor, is often too risky, low margin and hard work for the private sector. (Leadbeater 2008)

Even if NFPs are not inherently more innovative than for-profit business (or possibly government), they can be a major source of social innovation. Social innovation has been defined as finding solutions to social problems, or meeting unmet needs (Phills, Deiglmeier and Miller 2008; Mulgan et al. 2007). While it adds to community well being it may not create, nor improve, commercial opportunities, consequently may be of limited interest to for-profit business. Hence the motivation to invest in social innovation is inherently community-purpose based, although not the exclusive domain of NFPs:

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. (ASIX, sub. 125, p. 3)

### *Social innovation often requires multi-part and collaborative approaches*

Social issues or problems have been described as multipart problems (Nambisan 2009). First, multipart solutions involve identifying the causes of the problem. With social problems this is not always straightforward as there can be underlying factors that are not apparent when looked at from a single perspective. Not only multidisciplinary views are required, but views from different stakeholders. The client, their family, the local community, the school, the youth centre, and the welfare agency for example, all have valid and valuable input require to understand the problem. Second, a solution must be designed that will adequately address all aspects of the problem, recognising that they interact in complex ways. Success in an experiment or trial may be the only way to be confident that a proposed solution will be effective. Third, implementation must allow for adjustments to suit the different situations that arise with location, clients and other variations from the model. This will often require action on a number of fronts, requiring collaboration between a range of organisations.

Nambisan (2009) describes three platforms for collaboration:

- Exploration platforms bring together a diverse range of stakeholders to frame the problem fully and accurately. A shared understanding of the problem is essential to the development of solutions, with ideas from all aspects respected and assessed on their merit for their contribution to solving the problem.

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- Experimental platforms are neutral environments to trial prototype solutions. They need to be neutral to prevent vested interests from biasing or being perceived to bias the results. Such biases could arise from commercial, political or other concerns.
  - Execution platforms can take a number of forms, but one of the most effective is building and supporting program templates. The diffusion of the innovation requires the developers to allow their intellectual property to be used by others at no or low cost. It also requires those adopting the program to give up their intellectual property aspirations.

Successful collaboration through all three platforms requires the organisations involved to be network centric, playing supporting rather than leading roles, embracing non-traditional partners, ensuring two-way communication and adapting to what may be conflicting goals of the organisations involved. NFPs are more likely to display these characteristics than for-profit businesses or government agencies, although this appears to have diminished somewhat for agencies involved in competition for government contracts. Nevertheless, NFPs should play a greater role in achieving successful social innovation, although where government is the major funder, it is essential that agencies are also involved. For example, with ‘wicked’ or complex problems (APSC 2007) which require action on a range of fronts, NFPs can provide a mechanism for collaboration across agencies on more holistic solutions.

The importance of cross-organisation activities in providing more effective solutions is increasingly being demonstrated. For example, sports and education are being combined to achieve lifestyle changes for Indigenous youth. Arts are being used increasingly as a means of aiding socially excluded groups and individuals. Health and community service responses are being more closely aligned. And small businesses are being developed to assist economically marginalised people. Social enterprise activity, where business models are used to deliver social outcomes is seen by some as offering considerable potential for social innovation.

### *Social enterprise as a vehicle for social innovation*

Social enterprises blend the traditional concept of an NFP and a business. There is a growing view of social enterprise as being well placed to drive social innovation:

...as well as being multi-goal and multi-ownership organisations, social enterprises are ‘multi-resource’ organisations that mobilise a range of market and non-market resources to meet their objectives. The development of multi-stakeholder arrangements may be viewed as a pragmatic response to accessing diverse resources in support of social enterprise development, or as a purposeful approach to stimulating social

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innovation ... both these interpretations are consistent with the assumed virtue of governing through networks. (Barraket 2008, p. 131)

Cornforth and Aiken (2009) identify four main types of social enterprises:

- Mutuals — formed to meet the needs of a particular group of members through trading activities, for example consumer cooperatives and credit unions
- Trading charities — commercial activities established to meet a charity's primary mission, such as educational or other charities that charge for services, or as a secondary activity to raise funds, such as charity shops
- Public sector spin-offs — social enterprises that have taken over the running of services previously provided by public authorities; in Australia these tend to be organisations that have moved to an 'industry-owned' basis providing marketing, R&D, quality assurance or other services
- New start social enterprises set up as new business by social entrepreneurs, for example 'fair trade' and 'green' enterprises.

All social enterprises operate in the market selling goods or services, including services to the government, and to clients who receive dedicated funding from government (client directed services). Many Australian NFPs engage in social enterprise activities, indicated by the high share of fees and charges in total revenue for the sector (38 per cent not including government funded services). A survey of 500 community serving NFPs (FACS 2005) estimated that 29 per cent of NFPs operated a commercial venture and in 87 per cent of these the venture was an extension of the services provided as part of their primary community purpose.

All types of social enterprise offer the potential for building community connections, and are often viewed as making an important contribution to civic engagement. More relevant to human services, social enterprise activities are seen by some (for example, Burkett and Drew 2008) as offering major opportunities to address the gap in social inclusion resulting from the current for-profit approach to business. There is evidence that welfare delivered via employment and engagement with social enterprises delivers outcomes that promotes a sense of inclusion for those involved, although there is no real evidence that it generates a broader engagement with civil society (Barraket and Archer 2008). It is this form of social enterprise — where the activity delivers a community benefit directly through its employment practices or where it delivers low cost services to those facing disadvantage — that is forefront in a number of discussions of ways to stimulate social innovation (for example, Shergold 2009a; Blond 2009; Social Traders sub. 102).

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## Constraints on social innovation

The Smith Family argue that ‘social innovation is not well developed or even understood in Australia’ (sub. DR204). NFPs report that they are less able to pursue innovation than they would like. Constraints include prescriptive government contracting, growing risk aversion, and lack of consideration of scaling-up in the solution design or in funding commitment.

There appears to be at least three factors inhibiting innovation: a lack of capacity building funding from government and philanthropic sources which inhibits the ability to systemically innovate as part of normal business; little specific government or philanthropic funding allocated to innovation; and government contracts specifically precluding innovation through an overly prescriptive focus on the way the service is delivered rather than the outcomes. (ACOSS, sub. 118, p. 41)

There are also time pressures on staff and volunteers that limit their opportunities to even think about making improvements:

Employment Services [have] 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. (ASIX, sub. 125, p. 7)

### *Government contracting can constrain innovation*

A number of submissions and consultations raised prescriptive contracts as a factor limiting opportunities for innovation. The service details can be locked in by the tender and contracting process at a cost to innovation, especially where the benefits are reaped by clients outside of the contract period:

Inflexibility is another consequence of the standard purchaser-provider model. Once a workplan has been developed there is little scope for change, except by confronting considerable red tape. As a result, means can become confused with ends, and particular circumstances ignored in favour of adherence to general rules or templates. (Anglicare Australia, sub. 140, p. 16)

At a sectoral level there is the broader concern that increasing utilisation of NFPs for delivery of government funded services reduces the scope for NFPs to drive change.

For some the concern is that subsuming the voluntary sector within the public service agenda (and its associated characteristics and constraints) ... risks damaging an important mechanism for change, renewal and innovation in society. (Leat 2007, p. 1)

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### *Growing risk aversion restricts willingness to innovate*

Anecdotally, there is a growing concern in some NFPs about exposure to risk, which can limit willingness to try new approaches in everything from fundraising to service delivery. Concerns that can limit innovation include compliance with regulations, including those relating to occupational health and safety and child protection, and access to insurance and exposure to liability. Government is also sensitive to reputation risk, as are some donors, and it can be politically difficult for governments to admit that programs they supported failed, or to support solutions that were outside of public ‘norms’. This response is typified well in the comment by Catholic Social Services Australia:

Governments will sometimes trade off efficiency and effectiveness in order to avoid political embarrassment. For example, Job Network providers are prohibited from offering some kinds of potentially effective assistance to job seekers because opposition parties or the media could present it in a way that is embarrassing to government. (sub. 117, p. 17)

These factors may underlie a concern raised in consultations that NFP boards are growing more risk averse, and so hesitate to pursue innovative ideas. Anglicare raises the question of whether this is a more general trend:

A more general societal trend that has had a significant negative impact on the community sector is the spread of risk aversion. This is manifested in several ways, both formally — as in increases in public liability insurance or police checks on individuals who come into contact with children — and informally, in the reluctance of organisations to undertake activities which might expose them to litigation. Given the sector's considerable reliance on the contribution of volunteers, the trend is undermining one of its traditional strengths. (Anglicare Australia, sub. 140, p. 19)

### *Challenges in scaling up innovative activities*

While some activities are inherently not scalable, in other cases insufficient attention may be paid to whether the model can be replicated or scaled up.

Carers Australia's experience with projects of this kind is that they are often ad hoc, relying on short term funding and they are not integrated into a longer term development strategy for the broader program being delivered. We believe that in the interests of continuous improvement, risks must be taken to test out new ways of working and applying the learnings in the longer term. There should also be provision for maintaining the innovation over time. (Carers Australia, sub. 129, p. 7)

In addition, insufficient consideration may be given to how a model that proves successful will be funded beyond the pilot stage.

It is also important that when NFPs establish an evidence-base for their innovation through rigorous evaluation that government supports the diffusion of the program so

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that it can be adopted or adapted in other communities where it can make a difference. (UnitingCare Children, Young People and Families, sub. 148, p. 29)

The model where NFPs tried new innovative approaches that governments then adopted, appears to have given way to government trialling approaches that they then look to NFPs to promulgate (Leat 2007; appendix D). NFPs also can find it hard to adopt the solutions developed by others. And, as mentioned, collaboration on such solutions can also be problematic as many value their independence and have different views on how to go about approaching the problems.

## **9.4 What can be done to stimulate social innovation?**

Government has an incentive to promote social innovation as the pay-off is largely in greater community well being, and the for-profit sector lacks incentives to make such investments unless they also have substantial private benefits. Social innovation is critical to achieving better outcomes from public funds spent on human services, and over the longer term for reducing reliance on government for the provision of these services. Regardless of potential, government still requires investments in social innovation to be considered in a holistic manner, and has to prioritise investments by their risk-adjusted return on investment over time. This return is rarely easy to assess, and making investment decisions, like resource allocation decisions, is difficult. Donor and volunteer willingness to support investments, client and participant willingness to try new approaches, and the NFP's own assessment of merit, provide an important guide to government on both risk and return. Government needs to harness this information, as well as its own experiences and plans to guide its investment priorities.

### **Promoting research collaborations**

While governments, NFPs and donors are interested in finding and applying solutions to wicked problems such as domestic violence, and addressing other issues such as protecting Australia's biodiversity, the very nature of these issues requires a collaborative effort. There needs to be a coordinating mechanism to bring interested parties together, with the ability to harness sufficient resources to collaborate on exploration, experimental and execution platforms. While progress depends on success in the previous phase, there needs to be a commitment to progress through to experiment and then execution if the efforts at the exploration stage are to be worthwhile. For many problems this requires a significant and long-term effort. The Smith Family's proposed Social Innovation Incubator model

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(sub. 59) offers a promising mechanism to progress to the exploration stage, but would need investment commitment from partners to progress beyond this.

Universities and other research institutions can make a valuable contribution to the knowledge of the effectiveness of agency activities. An example is the 10 year research collaboration between Mission Australia and Griffith University, partially supported by the Australian Research Council (ARC) on Pathways to Prevention, an early intervention family program in Inala, Queensland (Mission Australia, sub. 56). The results of this research were considered instrumental in the Australian Government initiating the Communities for Children program (ACOSS, sub. 118).

The community engagement model developed by Pennsylvania State University promotes the ‘mutually beneficial exchange of knowledge and resources in the context of partnership and reciprocity’ (PennState Live 2009). This model has been adopted by a number of Australian universities including the Australian Catholic University (ACU 2009), and the University of Western Sydney which set out a formal Regional and Community Engagement Plan 2004–2008 (UWS 2009).

Government has a number of programs to stimulate research collaborations, including the ARC Centres of Excellence, ARC research networks and ARC Linkage Grants, the Cooperative Research Centre (CRC) program, and the National Health and Medical Research Council (NHMRC) program grants. While targeted more at linking business with researchers, and linking researchers, NFPs do engage with these programs. For example, a number of NFPs have been involved in the ARC’s Linkage Program (ARC 2009) including the National Foundation for Australian Women (sub. 6), and Scouts Australia NSW (sub. 53). The CRC program has a number of NFPs as partner organisations, as does the NHMRC, with engagement particularly strong for health promotion and research charities. Partnering with business and philanthropic foundations can be important to ensuring pathways to implementation of the research findings (see below).

## **Funding social innovation**

Many NFPs also report that attracting funding for innovation can prove difficult:

The difficulty of attracting external funding (government, philanthropic or corporate) to support program innovation for the period required to determine its efficacy and/or cost effectiveness should not be underestimated. (UnitingCare Children, Young People and Families, sub. 148, p. 29)

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### *Government initiatives to promote innovation could be expanded*

There are advantages in using existing programs where possible. The Australian government has a number of programs that provide funding support for innovation including the CRC program, the Innovation Investment Fund program and the Pre-Seed Fund program, while the states and territories also have a range of programs that support R&D. Many of these, and other programs that focus on commercialisation such as Commercialising Emerging Technologies (superseded from January 2010 by Commercialisation Australia), are targeted at developing commercially successful technologies. While many are not by design exclusionary to NFPs, few NFPs appear to avail themselves of the opportunity. For example, since 2008 the CRC program has been open to research collaborations in any field of research, opening up the way for greater engagement by NFPs in research collaborations that have largely community benefits. Yet, despite the CRC focus on end-user engagement in the collaboration, to date there have been few proposals received with a social focus.

This lack of involvement reflects the challenges for NFPs to form collaborations of the nature and sophistication required for most of these programs. This is compounded by lack of resources as well as knowledge on how to go about it, and a perception that large cash contributions are required to participate. While in-kind contributions are often recognised, thus removing this latter constraint, NFPs may need assistance to be able to put together strong bids for research collaborations that involve research agencies, service providers and service funders, as is required to address ‘wicked problems’ (see above). Providing such support is preferable to allocating a fixed program share for social innovation or for NFPs, given that programs need to ensure best value for public funding.

More generally, innovation by NFPs engaged in delivering human services funded by government is often constrained by funds and contract requirements. Governments have provided only limited support for social innovation associated with their service delivery programs. There are some targeted programs to support innovation: for example, DEEWR has recently established a \$40 million Innovation Fund (0.8 per cent of the program budget for employment services of \$4.8 billion over three years) which can be accessed by Job Services Australia contracted services. But the scope of government engagement in service delivery, and governments’ increasing concern with effectiveness, suggest that making funds for innovative approaches available in areas where the current programs are not fully effective can be money well spent. The advantage of linking to areas of expenditure, or at the agency level for combinations of smaller programs, is that there is a natural avenue to roll out approaches found to be more cost-effective.

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A number of submissions called for the establishment of a more general social innovation fund for NFPs. For example, The Smith Family supports the United Kingdom ‘Social Enterprise Investment Fund’ approach (sub. 59), and ACOSS supports a social innovation fund or pool, potentially accessing the Future Fund as a source of capital (sub. 118). In view of the fiscal situation, and the importance of ensuring funding for roll out of successful trials, the Commission prefers linking any new funding for social innovation to the proposed program or agency based social innovation funds.

*But the sector needs to be more self-reliant*

There are limits to what government is willing and able to fund, and public funding for innovation will generally be focused on innovation that is applicable at a jurisdiction level or addresses issues of broad public interest. Further, local solutions and knowledge of the client base may be more relevant to guide innovation:

A further potential threat to innovation is the growing focus of the Commonwealth Government on the development of national service systems (for example, in the area of disability), which may run counter to the development of more innovative responses to local needs. NFP organisations have the potential to drive innovation in service delivery models in response to their interaction with end users. (Western Australian Government, sub. 157, p. 9)

For these reasons, and to help ensure their sustainability, NFPs have to look beyond government for innovation funding. Social enterprise can provide a source of funding that NFPs have greater control over, and moves to outcome-based contracts for services would provide considerably greater scope for social enterprises to be innovative in their service delivery (chapter 12). Retention of surplus generated through productivity improvements would also provide a source of funds for innovation. However, as discussed in chapter 7, social enterprise can face considerable barriers in accessing the finance required to initiate a stream of revenue. Lack of business plans and financial acumen are constraints on accessing finance and hence on innovation.

Philanthropy is a major source of funds for innovative approaches. As businesses and private donors mature in their philanthropy, they go from making grants (giving money and some time), to social investment (giving money, time, information, skills, goods, services, voice and influence) (Philanthropy Australia sub. 62). It is at this latter end of the spectrum that donors can play a major role in stimulating social innovation and in assisting NFPs to address the resource constraints on innovation. Foundations can play an important role, although there may be limits imposed on which NFPs they can support in this way (such as those with DGR status). Some

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options for mobilising capital for social innovation and other investments from foundations are discussed in chapter 7.

The Business Roundtable conducted by the Commission for this study stressed the interest of large business donors in working with collaborations of NFPs to get sufficient scale to conduct both experiments and roll out of successful approaches (chapter 13). However, for these donors, a business like approach to assessment and proposed management of the costs and risks is important to warrant their philanthropic investment.

Access to venture capital is problematic for many start-up and smaller for-profit firms. It poses an even greater problem for NFPs as, by their nature, the financial returns on even highly successful innovation are limited. This effectively negates the ability of one winner to warrant the risk of investing in a portfolio of initiatives. However, for more incremental innovations where an income stream is more likely to result, capital markets can be a source of finance. As with any investment, NFPs need to demonstrate sound governance and financial and business planning. These are issues that also face many small and medium sized enterprises (SMEs).

The Australian Government provides highly relevant business support services to SMEs under the Enterprise Connect Program. Few NFPs currently access these services as the not-for-profit legal status, tax arrangements, sources of funding, community-purpose accounting, and importance of participatory process to volunteers and staff mean specialist adviser skills are required (see SEC 2007 for an account of the differences in needs in the UK). NFPs often lack the funds to purchase such services, and, as discussed above, few exist. In addition, like SMEs, NFPs are generally wary of consultants offering solutions, and would prefer to learn from a source they feel they can trust. The Enterprise Connect Program has been successful in engendering this trust with SMEs, and is well placed to develop a advisory tailored service for NFP social enterprises.

#### RECOMMENDATION 9.4

***The Cooperative Research Centre program should facilitate applications by collaborations of not-for-profit organisations (including universities), government agencies and businesses in the areas of social innovation by:***

- actively promoting the opportunities that are now available***
- providing specialised advice and facilitation support to organisations expressing interest but lacking the knowledge and resources to develop the partnerships required.***

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RECOMMENDATION 9.5

*Australian governments should require all programs (of over \$10 million) delivering community services through not-for-profit organisations to set aside a small proportion of the program budget (for example, one per cent) to a program related social innovation fund. The fund should support trials of new approaches to service delivery, including evaluation of their cost-effectiveness.*

RECOMMENDATION 9.6

*The Australian Government should fund the Enterprise Connect program to expand its specialist services to a new Centre that provides business advisory services to organisations involved in social enterprise activity.*