

Inquiry into the contribution of the not for profit sector

Productivity Commission

**Submission to the inquiry regarding efficiency and effectiveness in the
Australian not for profit sector**

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Matrix on Board
PO Box 418
Broadway NSW 2007
Tel: (02) 9281 1700
Fax: (02) 9281 1744
Email: morri@mob.com.au

Matrix on Board provides capacity building and financial management services to not for profit (NFP) organisations in four states. Matrix was established in 1997 and supports NFPs in the community services, health, arts and financial literacy sectors. More information can be obtained about us at www.mob.com.au or by emailing morri@mob.com.au.

Matrix on Board believes that Australia is in an emerging phase for not-for-profit organisations. The pervasiveness of technology, the expectations of accountability and transparency and the blur between the traditional roles for NFPs and for-profit companies puts us at the beginning of new ways of working. Furthermore, the osmosis into the NFP sector of commercially-savvy managers looking for 'work with meaning' places NFP performance under the spotlight.

This submission proposes that the future measures of efficiency for NFPs will be less likely about size and economies of scale, but about speed, quality and cost, and about the 'closeness' of NFPs to their constituent groups in the demand-supply chain of information. If government fails to harness this potential for meaningful change, and continues to support large, cumbersome NFPs, then they will be contributing to inefficiency and waste and, more importantly, failing to capture the ability of the NFP sector to make a real difference.

Our submission is that:

1. Government has been encouraged through tendering and funding regimes to support large, inefficient non-profit organisations. Despite some political risk there is an overall benefit through administrative and budgeting convenience by supporting a smaller number of large agencies than a larger number of smaller agencies. The larger NFPs are experienced at providing what government wants through the administrative process and contractual compliance means smoother processing for bureaucrats.
2. Government continues to support these larger agencies even when their practices may be counterproductive and contradict government policy. For example in the treatment of HIV-AIDS, drug and alcohol treatment, pregnancy control, etc the government continues to support larger agencies because they are perceived as efficient. Clients have to travel further for services that are confined to 'office' hours, comply with bureaucratic systems and staff turnover problems. There are some efficiencies and economies of scale for the larger agencies but these tend to be in favour of the agency and government/bureaucracy perspective, rather than improving the client experience.
3. Larger agencies are more likely to waste resources on infrastructure which is better outsourced, and are more likely to ignore local and regional need with 'one size fits all' services; services which are cookie-cut from a head office mould. Processes are more likely to be centrally controlled and consultation is more likely to be distant from need. These organisations are not nimble and responsive, because innovation is not consistent with their organisational structure and span of control. While "doing better" within the system is encouraged, large NFPs cannot easily incorporate rapid change and deployment of innovation.
4. Without a profit motive and other measures of efficiency, larger NFPs will tend to boost salaries of senior management, amass staff, offices, regional outposts and accompanying infrastructure because funding and grant decisions, as well as support from traditional philanthropy, are made on the basis of the size of the agency and its perceived soundness, rather than on measurable success in delivery of services and impact on communities.
5. Growing a large NFP has a compounding effect, where 'more grants received' become the measure of success and then more grants are made. The system of funding and grant making encourages bloatedness and inertia, and allows for a strong marketing spend which shapes government and public perception in the absence of more relevant indicators such as measurable results or consumer benefit.
6. The available pool of skilled voluntary Board members are swallowed up by the larger NFPs due to their profile and also the availability of staff to support the Board's functions therefore requiring less involvement from Board members. Good governance requires that Board members are trained in the skills of effective Board participation and supported in their roles. NFPs which are too small cannot easily manage this responsibility, while very large

organizations retain Boards which are remote from the activities of the entity and tend to regard Board membership as a trophy appointment - both for the organisation and for the Board member. Irrespective of the size of the organisation, it is our experience that most Board members have little experience in or understanding of interpreting financial information and tends to rely inordinately on advice from management.

7. Implementation of effective Performance Indicators for NFPs which relate activity to outcome are essential to ensure the equitable distribution and optimal effectiveness of government funding. The Results Based Accountability framework¹ is one appropriate model.
8. The current scattergun approach to funding smaller NFPs is more aligned with electoral benefit than community outcomes. Without any measure of efficiency or consumer benefit, then the funding of smaller NFPs is erratic and may even be contrary to community benefit. This kind of funding encourages inefficiency, petty competitiveness, and discourages economies of scale.
9. Introduction of a Common Chart of Accounts for government funding programs would ensure that proper benchmarking can occur and would allow NFPs to introduce substantial efficiencies in their funding acquittal processes. A Common Chart of Accounts can also assist government to ascertain benefits once outcomes are agreed. Some significant work has been undertaken in Queensland and NSW on this issue.²
10. The future of human services is directly related to changes in how information technology and communication (ITC) will change in the future. The cost of ITC is coming down at the same time as access to ITC is improving, and the cost of data storage is dropping.
11. The "sharpness" of services will increase as they move qualified, trained (high cost) staff to the front line and move the infrastructure support services off site and to automated, lower cost solutions. Asset management, cost control, rosters, accounting, booking systems, can be moved to automated software systems or moved outside the organisations to specialist lower cost providers.
12. The outsourcing of infrastructure supports NFPs to achieve better quality at lower cost, greater flexibility in staffing and the ability to adjust staffing levels to meet demand, and by driving change which cannot be achieved internally. Too often we see NFPs that need bookkeeping (processing) AND accounting (reporting, strategy analysis) but can only afford to employ one person to undertake both roles. They either pay too much for an accountant to do bookkeeping, or get the accounting done by an inadequately qualified bookkeeper. This is a perfect example of where outsourcing can achieve a satisfactory mix of skills, by paying for what is needed.
13. Only 3% of information is currently digitized, but this amount is doubling every 12 months. NFPs with advantage in the future will be organisations with efficient access to information. Successful organisations will have knowledge about services, clients, changing populations and needs, and programs and treatments, rather than the advantage of size, political connection or money.
14. These information-based NFPs will be closer and more responsive to clients and will be contacted by clients directly. The demand-supply chain is reducing every day in commerce, and it will be for NFPs too. Human service clients in the next 10 years will be connected – marginalised poor young people *today* are connected³ to reduce the chain between them and the people they need to talk to. Current human service clients who are marginalised still rely on intermediaries to get service. They use information and referral services, social workers, friends and public telephones. The next generation, irrespective of their levels of literacy, numeracy, education and poverty,

¹ http://www.raguide.org/RA/2_1.htm

² <http://www.bus.gut.edu.au/research/cpns/whatweresear/chartofaccou.jsp>
<http://www.mob.com.au/content.php?id=10>

³ <http://www.missionaustralia.com.au/corporate-partnerships/our-partners/368-vodafone-australia-foundation>

will be connected and will take advantage of diminishing access costs to make direct connections to services. The NFPs which can be responsive with services and information will be the services of choice. Size, traditional profile and marketing budgets will be irrelevant if they are not in the communication chain used by the next generation.

15. NFPs in the future will be nimble, ITC savvy, automated and able to deploy resources efficiently – placing the right resource in the right place at the right time for the right person. Their flexibility will place the current large NFPs at a distinct disadvantage.
16. It is important to “follow the money”. Microsoft, PayPal, Google, and other companies which are attuned to how the connected world is changing, are moving into the NFP sector to assist service providers. Google’s moves to provide data and applications for organisations in “the cloud”, as they call it, means that NFPs in the future will not need to invest in hardware and software held locally and requiring upgrades at significant expense. There are already hundreds of freely accessible applications available from Google which offer direct benefit for NFPs – the data is accessed, stored and backed up at a fraction of current “local” costs. Over the next three years this will improve substantially, meaning NFPs can have staff in the field all the time and connected to information all the time, at minimal cost.
17. For NFPs to take advantage of this, they need to embed IT processes within their systems and processes. Key measures of successful NFPs in the future will be **Speed (Nimbleness) + Quality + Low Cost**. Size will no longer be a relevant measure of an organisation’s success.
18. NFPs of the near future will have simplified processes, which will be understood by all staff, Board and volunteers, and they will outsource wherever possible. They will have qualified staff who are trained in the business of what they do, and not in the businesses they can outsource (accounting, web building, computing).
19. Innovative NFPs will be providing information and services directly to their clients. This is already possible with current technology. ICT is now simpler and more accessible than ever, and even the most disenfranchised young people have access and are connected.
20. There are many examples of how this access occurs now and is improving everyday. Business-to-business sites such as www.alibaba.com and the integrated payment services of PayPal means that the demand-supply payment chains are becoming seamless and accessible irrespective of location, language, and education.
21. The Productivity Commission is encouraged to support activities which improve information about the NFP sector. www.charitynavigator.org is a good example of how NFPs can be benchmarked and rated for funders, and of how board performance can be measured and compared.
22. The Productivity Commission should assess how government funding and grants can be weighted to modest size organisations (from \$500,000 to \$5m) where they remain close to their communities, use efficient outsourced services and high use of ITC to remain responsive, low cost and efficient for their clients.

Recommendations

That:

1. Tendering and funding decision making processes be reviewed on a whole-of-government basis to ensure all quality NFPs are able to participate equitably in the funding process.
2. Meaningful and achievable performance measures be implemented to ensure the efficient and effective delivery of government funded human services.
3. A Standard Chart of Accounts is implemented across all Australian government-funding agencies to reduce compliance costs and timeframes and to enhance accuracy of information reported to funders.

4. Governance training be instituted for Boards of NFPs to ensure organisational probity and sustainability.
5. Steps be taken to ensure NFPs have support and access to information regarding developing technologies.