



bjl *connecting communities*

Submission of BJL Connecting Communities (BJL)

To the Productivity Commission

On The Contribution of the Not for Profit Sector Commission Study

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The fundamental means by which the Not for Profit Sector is Excluded From Full Economic Participation (with special reference to the Smaller/Medium, Local Community Based; Not-for-Profit Provider:

There is an underlying assumption that local community based, Not For Profits and benevolent societies (Third Sector Providers) are not as professional or polished as the for profit sector. To exemplify this point: It is the case that many non profits seminars on good management/governance (many sponsored by Governments) is all about the for profit sector teaching the non profit sector how to fit into their business models. This is essentially the same exercise when Governments release Commercial Tenders, they are commercial/for profit, the framework is commercial, the language is commercial and the measurement is commercial. They are written and executed in a manner that has the non profit sector trying to fit into a business model. It should be said that there are many synergies between profit and non profit organisations. It should also be said that there is much to learn and benefit in adapting business and governance models – but still the underlying assumption is that the private sector management techniques which have sustained capitalism, are superior and more effective than those traditionally belonging to the non profit sector. It should be remembered “The business of non profits is not business”. The third sector is committed to a strategic direction that is ethically sound; holistically placed within their value system and that is grounded within their philosophy and purpose. Lumping non profits with for profits and laying one over the other is not possible; even when we do speak the same language our words have different meanings. To exemplify; the conceptual differences between the cost, what is value for money, and the idea and application of value adding. Value for money has a very different meaning in the private sector - “value for money” translates into the lowest unit cost. “Value for money” in the third sector means value adding. Cost versus value is a well documented fundamental paradigm of difference seeing economists already struggling to try to quantify “value” especially as it relates to the moment. The methods in which Not for Profits “value add” takes those struggles and measurement quandaries into the economic abyss. Much of not for profits value adding exercises do not translate well or do not, in fact, translate at all into economic terms.

Non profits are surprisingly complex by comparison to for-profits. The “law of non profit complexity” argues that they “tend to be more complex than business firms of comparable size” Anheier (2000) proposes that the non profit environment requires managing diverse constituencies and stakeholders, including a professional core of managers, a governing board of experts and community representatives, a client or user base and their representatives, a volunteer and membership component, and actual service providers. He adds that the non profits also must manage a set of contractual relations with both government and business, as well as multiple revenue sources, including donations, fees, charges, subsidies, grants, and contracts. As a result of this diverse list of constituents, stakeholders, obligations, and revenue sources, non profits have, in effect, multiple bottom lines. A recognition of non profits as uniquely complex suggests one problem with incorporating ready-made management models from the business world, where prices, wages, profits, and taxes drop down into a single bottom line (Anheier, 2000). In sum, the for-profit model may be too unsophisticated to meet the needs of the non-profit organisation.

Last year BJL Connecting Communities ran 11 government funded programs. So given that the overall organisation requires its own audit, the timetabling of budgets/financial

acquittals and maintaining Australian Accounting Standards BJL Connecting were compelled through Government Departments contractual arrangements to have 22 independent audits/financial acquittals/other Department financial requirements completed by its organisation last year. One has to ask the financial regularity bodies of Australia how long corporate Australia would put up with such heavy administration/financial reporting requirements on an annual basis? No judgment of motivation or values is intended here. The motivations of for-profit organisations and those of non profit organisations are both perfectly appropriate. Likewise, the values of each sector may be exemplary. The problem is that they differ. It is also important to note that the problem is not that business people are stingy. Quite the contrary, it is impressive how much time and energy business leaders invest in non profit work. What it is, is that the goal of a commercial business enterprise is profitability, not the specific product or service it provides. This differs fundamentally from a non profit organisation that exists solely to accomplish its mission. For the non profit, financial health is a means to the end; for the for-profit, financial health is the end.

Not for profits are welcomed in to the arena of the commercial but then are made to compete without consideration to our difference. For those of us who work in the humanitarian sector trying to overlay valuable humanitarian principles and behaviours that guide our service delivery (no matter how successful) into a commercial criteria. How does a not for profit economically/commercially measure its long-term contribution to its community's capacity? How does a not for profit measure its contribution to the community's social capital? Do we talk in terms such as "transactions of conflict?" Do we cost out a to price to potentiate a person – or in other words, the cost of enabling a citizen to reach their potential? And if we did, would that be economically accepted or would it still be seen as too on the fringe of current economic thinking to be accepted by Australia's collective of governments and their treasuries or to be included in the Australian Accounting Standards. Because if it was to be, that would go along way to enabling not for profits to actually being economically included and perhaps significantly increase our chances of winning a commercial tender.

It is now commonplace for Government Departments to put their traditional social service funding out to commercial tender. The use of the commercial tender process to allocate social service funding is a prime example of how Governments, whilst recognising that not for profits make a huge contribution to this sector, make the third sector compete for those funds by attempting to fit *not for profits* into a *for profit* commercial genre. In that process the real value of purchasing services from a not for profit agency is lost. It is so apparent that for-profit management models need serious modification for the non profit environment because their fundamental differences that the frustration for the third sector often has them decide not to waste their precious resources on submitting.

Commercial tenders use the commercial definition and understandings of value for money, outcomes, products, unit costs – this process equates people (in most cases at their most vulnerable) who require the services as "products" that attract a "unit cost" the price that person attracts rises the further that person is able to quantify and evidentially prove their vulnerability in evidential quantitative terms. If the outfit isn't already made uncomfortable by the redesign undertaken by those concepts of earnings per outcome then it really becomes obvious that the outfit no longer fits when the service delivery starts to be judged by a criteria of indicators which are based on the actual Government

Department's own financial performance and its reporting requirements rather than on what really makes for a good social service fit. That is a good, viable economic and socially responsible service to that local community reflecting its needs by improving its capacity to be socially and economically sustainable. If Australian Governments are serious about the sustainability of the social sector it will have to stop rewarding reduction in costs because that is no longer a viable option. Reductions in the "cost" of social servicing do not mean more effective and efficient serving – cost reduction means a direct reduction in the service delivery taxpayers are entitled to. Therefore, there is no value in that for the taxpayer and there is no cost saving for the taxpayers; that is a false economy. It is our belief that if the economic barriers for Not for Profits are not given due consideration and the Government does not and can not find a way to recognise and reward their value, their contribution to the economy and the savings they produce, a significant part of the Australian economy will always be false.