

# 2009 Productivity Commission study: Contribution of the Not for Profit Sector

**Submission by: L. Leong**

My response to the Productivity Commission's (PC) terms of reference for this study focuses on two areas (these comments come from a community volunteer perspective and my professional involvement on 'both sides of the fence' in a range of activities with Not for Profit (NFPs)- industry/business-government-education sectors over the past 15-20 years):

Focus areas:

1. Structural issues: macro and micro levels
2. Measurement framework: developing consistency and mapping best practice

## 1. Structural issues: macro and micro levels

Referring to the PC's terms of reference, it is recommended that this study considers both the macro level (industry development) and micro level (organisational/business development) issues faced by the Third sector.

Note: The Commission refers to "high level institutional capacity building and policy issues" (PC 2009, p13), in my comments I refer to "institutional" as being the "micro level: organisational/business" (or "firm level" as generally referenced in economics).

The following comments generally relate to the PC's questions regarding:

- *p26: Not for profit organisations are invited to comment on their experiences with attracting both paid and volunteer workers with the appropriate level of skills...*
- *p31: Comments are invited on whether the governance and accountability regulations faced by not for profit organisations are appropriate and whether they provide sufficient flexibility to account for the diversity of scale and form of not for profit organisations...*

### 1a) Macro level: improve access to industry development

The NFPs I have worked with in the Third sector have consistently needed assistance in developing a holistic strategic and operational "industry development" approach to improve the attraction and retention of resources, improve governance and sustainability, foster collaboration that encourages innovation in the public interest services they provide.

Most community-based organisations share common issues in setting up and maintaining their operations but I have not come across standardised training and governance programs (eg. standardised accounting processes for grant acquittals or chart of accounts, succession planning, skills development, volunteer attraction and retention programs, etc).

What has been frustrating is that comparable governance training or skilling that would help one NFP in community aged care support may be offered for community sporting organisations but the aged care support NFP is not eligible because they do not fit the government agencies classifications (although all the programs and material are government or crown copyright).

Targeted government support in developing governance or mentoring programs and maintaining collaboration networks or (cross-sectoral) strategic alliances aimed at "growing the pie" can be

focused on developing consistent approaches to help NFPs to share knowledge and experience, this would provide access to best practice to help NFPs from all walks of life.

For example, one of the programs I have been involved in was supporting an NFP organisation to review and develop their scholarship program and succession planning so they could attract more partners, sponsors and volunteers. This program has developed into successful national program and serves as an excellent role model supported by industry, education and other NFPs in different sectors.

If these programs are not well thought out or managed, they often become unsustainable subsidies. This is a common symptom in developing any sector and a known risk that can be managed, so this factor should not detract from supporting NFPs as many they often are performing public interest services that are subsidising government and private sector activities.

### **1b) Micro level: improve access to organisational/business development**

All tiers of Australian government provide a number of institutional or business development activities to the Private sector, ranging from “how to start up your business” programs right through to encouraging emerging industries, sectoral development and innovation strategies.

Promoting and supporting effective management of NFPs is a valuable role that the government can contribute funding support to help the Third sector. Annually the government provides millions of dollars to the NFP sector to deliver services, yet some of these organisational or business development programs that could assist NFPs with developing or using effective management are not promoted to the Third sector because they are ‘only for Private sector’ organisations, or simply delivered via another government tier (eg. federal-state-local) or different departments (ie. more ‘red tape’).

I have found that a range of these existing organisational and business development programs are quite relevant to Third sector organisations, some of these programs may need to be adapted where relevant but this is a low hurdle to make them more easily available to the Third sector (ie. many participants in NFPs are time poor, often having to choose between addressing immediate operational priorities versus taking time off for 2-3 days of training which is often unpaid for those who are volunteers – participants are regularly faced with juggling short term demands and often have to sacrifice training that would support mid-long term improvements).

### **1c) Growing trend: government accountability regulations “shrinking the pie”**

- *p41: What are the most significant trends and developments that have impacted on the efficiency and effectiveness of the not for profit sector? How has the sector responded to these? Are there emerging trends and developments which are likely to impact on the future capacity of the sector?*

I have found that government agencies focus on a “risk management” approach in their governance and accountability requirements with the Third sector. These are generally formatted along being “risk adverse” which manifests itself quite regularly as “eliminate risk = eliminate everything”.

My experience has shown that this underlying fear of risk creates a vicious cycle of increasing “red tape” and bureaucracy which is ‘mirrored’ into the Third sector where many NFPs find themselves drowning in paperwork (ie. ‘death by a thousand paper cuts’) or being ‘strangled’ by bureaucracy in order to meet “compliance” to legislation.

NFPs are generally only funded to deliver services and have limited or no funding to carry out the required government reporting that government departments have in their budgets. For NFPs to

survive, many need to be responsive and agile to address the diverse demands that they provide services for – several successful NFPs have adopted “risk aware” approach which is often contradictory to the environment that government operates from.

Another growing trend is the movement by government agencies to the “Lead provider relationships” format which has a number of fallacies. Essentially this is ‘false economy’ and really is a bureaucratic ‘convenience’, it really only serves the agencies that create them and not the target public audience it is supposed to serve.

Where a number of “Lead provider relationships” have been arranged, I have found that this has generated an “artificial competitiveness” where Third sector organisations are ‘cannibalising’ each other’s resources (ie. underpricing costs in budget bids), the bigger organisations start ‘gobbling up’ the little ones – sometimes creating a reverse monopoly that decreases diversity (ie. “dominant bully” gets established and things that do not fit ‘sausage production line’ are eliminated).

Whether intentional or not, it appears that the government agencies involved create the situation where it is putting “all its eggs in one basket” which fosters a compromised Third sector service delivery environment where diversity and/or quality is eroded or diluted and Third sector organisations can only focus on short term survival to meet increasing volumes of government reporting requirements that continually change on a regular basis.

The more obvious impact for many Third sector organisations is they have to divert diminishing resources to administer their ‘government reporting’, which can for some organisations inadvertently foster a vicious downward cycle of poorer quality, stifled innovation and responsiveness to their stakeholders because they rely on a smaller or transitory resource pool plagued by “compassion fatigue” (ie. same people or volunteers are called upon time and time again – this leads to “burn out” and eventually drives people away rather than attracting people).

Over time, I have seen that this erodes the sustainability of any organisation and the ability of industry sectors to meet increasing demand for services and they lose the ability to encourage innovation and succession planning. This also fosters a environment of negative co-dependency where Third sector organisations may be reluctant to voice concerns due to conflict of interest and/or “biting the hand that feeds” them – the perfect “Catch-22” scenario or “Prisoners dilemma”.

## **2. Measurement framework: developing consistency and mapping best practice**

The following comments generally relate to the PC’s questions regarding:

- *p23: Do you agree that a conceptual framework is important? Do you have any suggestions on the key elements of the framework?*
- *p23: Participants are invited to comment on appropriate methodologies for evaluating the contribution of the not for profit sector. The Commission is particularly interested in receiving feedback on the appropriateness of using a range of indicators for this purpose.*
- *p25: Comments are invited on the extent to which existing measures of the sector’s contribution have been utilised to inform policy development and monitor policy effectiveness, in Australia and in other countries. What modifications could be made to improve existing measures?*
- *p40: Against this background, the comments are invited on the efficiency and effectiveness of arrangements associated with the provision of government funded services...*

## 2a) Conceptual framework

It is agreed that a conceptual framework is important as it provides a common reference (or 'artefact') that stakeholders can use to explain/explore and continually review/revise in terms of identifying issues-gaps-opportunities that exist or may emerge for the NFP sector.

Developing an adequate measurement framework is a difficult task – “you're damned if you do and damned if you don't”. But it is a task that needs to be attempted as government is increasingly outsourcing a range of public interest and community support functions to the Third sector, re-delegating responsibilities and expecting Third sector organisations to be accountable.

Although, within this context there is the irony that many of government agencies or departments who originally managed these services found it difficult to measure and demonstrate accountability/transparency, yet require Third sector organisations with even less resources to perform the same functions and deliver more outcomes via complex bureaucratic or “red tape” reporting.

Since the activities of the Third sector generate broader outcomes and impacts into both the Public and Private sectors, these elements should be considered in developing the framework's measurement tools.

To investigate the elements that would be applied to the NFP sector, it is recommended that the spectrum of NFP industry types be mapped to identify the scope and magnitude of stakeholders involved. Once the 'landscape' and scale of the Third sector's “big picture” is developed, then elements and indicators of the sub-layers can be mapped.

**Figure 1: Public-Private-Third sector continuum**



Figure 1 shows a sample of how the spectrum of relationships and contributions from the Third sector can be mapped using a continuum or linear cross-section view. This version shows the Third sector positioned in the middle between the Public and Private sectors. Some possible scenarios that would need to be further clarified if this approach was applied:

- If the Third sector is located in the middle, what are the dimensions or interactions/ transactions of the Third sector that are being measured or evaluated (eg. are we measuring them in the context of Public to Public transactions, or Public to NFP, or Private to Private, or Private to NFP?)
- Or another segmentation could be: government to government (G2G) interactions, business to business (B2B), community to community (C2C)?
- Who are the primary-secondary-tertiary agents or beneficiaries along the spectrum?
- Are we trying to measure these interactions from a supply or demand perspective, or both?
- Can one-size fit all? Are some segments of the spectrum thinner or shrinking? Getting thicker or expanding in dimension (ie. new services emerging)?
- What are the (co-)dependencies between the Public-Private-Third sectors?
- Can some of the outcomes/impacts be realised in the short or long term?

**2b) Possible methodologies, indicators and tools**

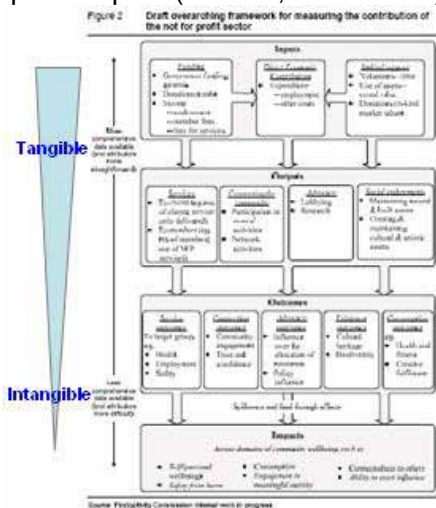
From my experience, NFPs are continually exposed to mindless statistical data or “information overload” that does not tell them anything substantial to help them improve their service delivery. If the proposed NFP conceptual framework is only going to focus only on data analysis and statistics for performing quantitative analysis, this will only add the cost impost of “data collection” to NFPs.

The Third sector needs useful metrics and a consistent analytics measurement framework to provide business intelligence and census information that value-adds to building a baseline. A possible example to add-value to the use of data: the energy (power generating) industry use sensitivity and regression analysis tools to determine service and market demand to measure and improve their investments for the short and long term.

Referring to *Figure 2* (PC 2008, p22), the intention of the draft conceptual framework has to be more clarified – is it to be a global view? What areas will/not be represented? Once they are identified, components and elements can be applied.

**Figure 2: Measuring tangible and intangible outcomes/impacts**

2i) Focus on measuring tangible inputs/outputs (ie. data, information)



2ii) Focus on measuring intangible (ie. outcomes/impacts, skills/knowledge)

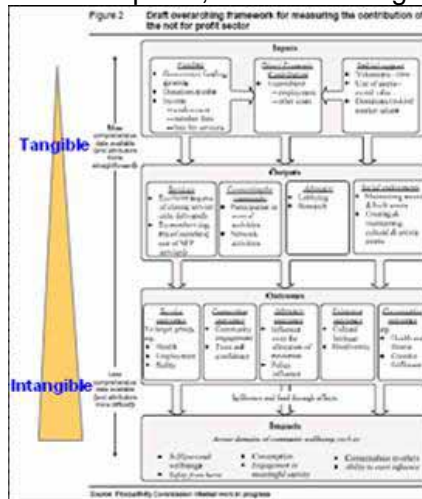


Figure 2 shows the PC’s draft conceptual framework diagram (PC 2009, p22) for measuring the contribution of the NFP sector:

- Figure 2i): shows an inverted ‘blue-coloured triangle’ (triangle is wide at top in data area, narrow on bottom of triangle in outcomes/impact area), where the focus on data and quantitative measurements of inputs/outputs.
- Figure 2ii): shows a ‘yellow-coloured triangle’ (triangle is narrow at top in data area, wide on bottom of triangle in outcomes/impact area), where the focus on qualitative and skills-knowledge-experience of outcomes/impacts.

Here are some initial scoping ideas regarding elements that could be incorporated in the proposed models or tools for designing the NFP measurement framework and its indicators:

- It is a tool for mapping and auditing both tangible and intangible elements?
- Will it contain scalable elements to illustrate how macro sectoral and micro views link together?

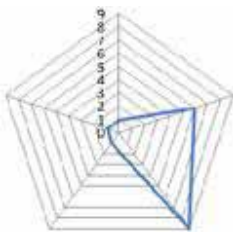
- c) Will it be broader than just measuring “data”, if so – model may need to show how “Inputs” are transformed into “Intangible Outcomes/Impacts” (ie. the Third sector is more than just measuring the “data dimension” – a key element that is missing is that the “Outcomes/Impacts” that are developed include capacity/capability and knowledge/skills – people are the most critical resource for the Third sector and generate innovation and improvements).
- d) Will it aim to demonstrate and feature various aspects that show how the “Impacts” can be mapped across different indicators within a continuum of diversity and multiplier effects?

Here are some sample charts and graphs that focus on measuring qualitative outcomes that may be adapted and used to measure or demonstrate the multi-dimensional aspects or convey a holistic view of the public service interests that NFPs address in their service delivery.

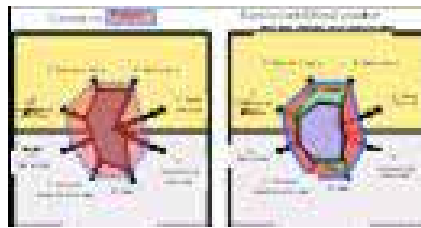
(NB: if appropriate, I can provide more information on the sample multi-dimensional graphs/charts provided in Figure 3, this includes incorporating some basic integrated supply/demand models to map a range of scenarios such primary-secondary-tertiary inputs-outcomes/impacts and dependencies).

**Figure 3: Value net and cluster chart tools to measure service delivery**

3i) Measuring a range of NFP indicator variables using a value net



3ii) Comparing overlapped value net indicators to evaluate performance



3iii) Mapping NFP clusters and outcomes/impacts

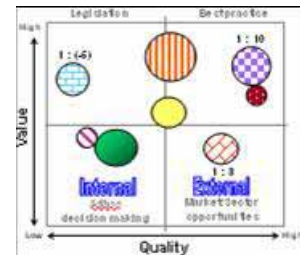


Figure 3 shows three charts where you can apply business rules and multi-variables identified in a framework to measure either the micro (business/organisational level) and/or macro (industry level) outcomes/impacts indicators to forecast or measure performance within a supply/demand context:

- Figure 3i): shows a value net that is multi-dimensional (has multiple axis from centre hub) indicating range of measurement ratings (eg. numerical: 0 to 10, poor-average-excellent scale etc) and different axis points to measure a range service elements (eg. a range of outcome variables such as community wellbeing, advocacy/activism, collaboration, innovation etc).
- Figure 3ii): shows a sample of how the value net/s that can be overlapped to map the layered results of different options or outcomes, timeframes (past-present-future) that can be used to comparing and evaluate performance either on individual basis, peer-to-peer, different services or geographic locations, etc).
- Figure 3iii): a sample of four-quadrant square with each quarter mapping service clusters with top-left quadrant showing NFP services that focus on legislative compliance, top-right quadrant showing services that promote best practice, bottom-left quadrant showing emerging/new service demand activities and bottom-right quadrant show opportunities for cross-sectoral collaboration.

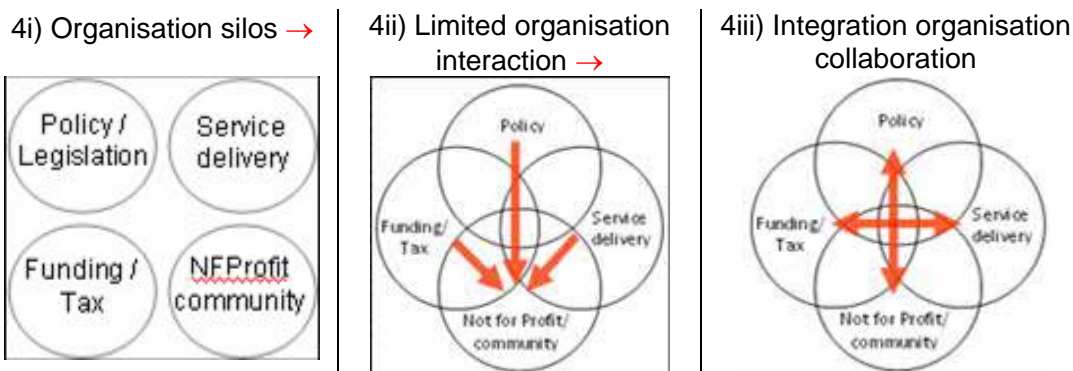
## 2c) Extent to which existing measures of the sector's contribution have been utilised to inform policy development and monitor policy effectiveness

Understanding some of the constraints or conditions that NFPs experience in their interactions with government provides opportunities for improving arrangements to promote or enhance better transparency outcomes and improve accountability on both sides.

Government agencies I have dealt with generally operate in silos and due to the political climate they operate in (ie. they are tied to the election terms of each government), they rarely are able to focus on or actually deliver on long-term outcomes because each incoming government 'wipes the blackboard' of the previous.

Within this climate, government agencies usually are not given the political will to perform evaluations of the impact of their policies and monitor effectiveness or efficiencies of their service delivery because indirectly this would reflect on political performance. If evaluations are done, it is usually conducted with limited interaction – generally by some third party who's agenda is mainly to "cut costs" versus look at "effectiveness".

**Figure 4: Modes of interaction and collaboration**



- Figure 4i): shows agencies or organisations operating in silos (eg. little or no interaction between stakeholders involved in Policy/Legislation, Service delivery, Funding/Tax, NFP community's capacity and capability).
- Figure 4ii): shows agencies or organisations with linked service delivery with limited interaction (eg. one-directional or top-down interaction with stakeholders).
- Figure 4iii): shows agencies or organisations with integrated collaboration that considers effective consultation and stakeholder engagement (eg. 360-consultation and collaborative involvement by all stakeholders).

## 2d) Example of Federal government initiatives to improve reporting and reduce red tape

An example of Federal government agencies that are piloting and trialling projects aimed at improving reporting, record keeping and reducing "red tape" by streamlining paperwork through integrated workflow (ie. using 'smart' portable display format (PDFs) to reduce manual reworking of documents and electronically harvest information for reports etc):

- SmartForm: Centrelink ([www.centrelink.gov.au/internet/internet.nsf/forms/sy040.htm](http://www.centrelink.gov.au/internet/internet.nsf/forms/sy040.htm))
- business.gov.au (<http://connect.avoka.com.au/smartform>) regarding SmartForms

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