

The Smith Family

*Response to the
Productivity Commission Draft Research Report*

Contribution of the Not for Profit Sector

November 2009



everyone's family



About this response

The Smith Family congratulates the Productivity Commission on the draft Research Report¹ on the Contribution of the Not for Profit Sector, which successfully collates a significant amount of data reflecting the diverse work of nonprofit organizations across Australia. The breadth and scope of the Report has facilitated a broad range of issues to be brought out into the sunlight, with the key challenge now being to ensure that these are successfully given due attention by a cross-section of stakeholders from the government, business and nonprofit sectors.

The Smith Family's response will provide commentary on the key findings and recommendations of each chapter in the Report (with the exception of Chapter 1 – Introduction), and is designed to be read with reference to The Smith Family's original submission of May 2009 and the recommendations made therein (see Appendix).

This Report is an important and timely resource for the future development of the nonprofit sector in Australia, and we look forward to contributing to the fulfillment of the many excellent recommendations contained therein.

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¹ Hereafter referred to as the 'Report'.

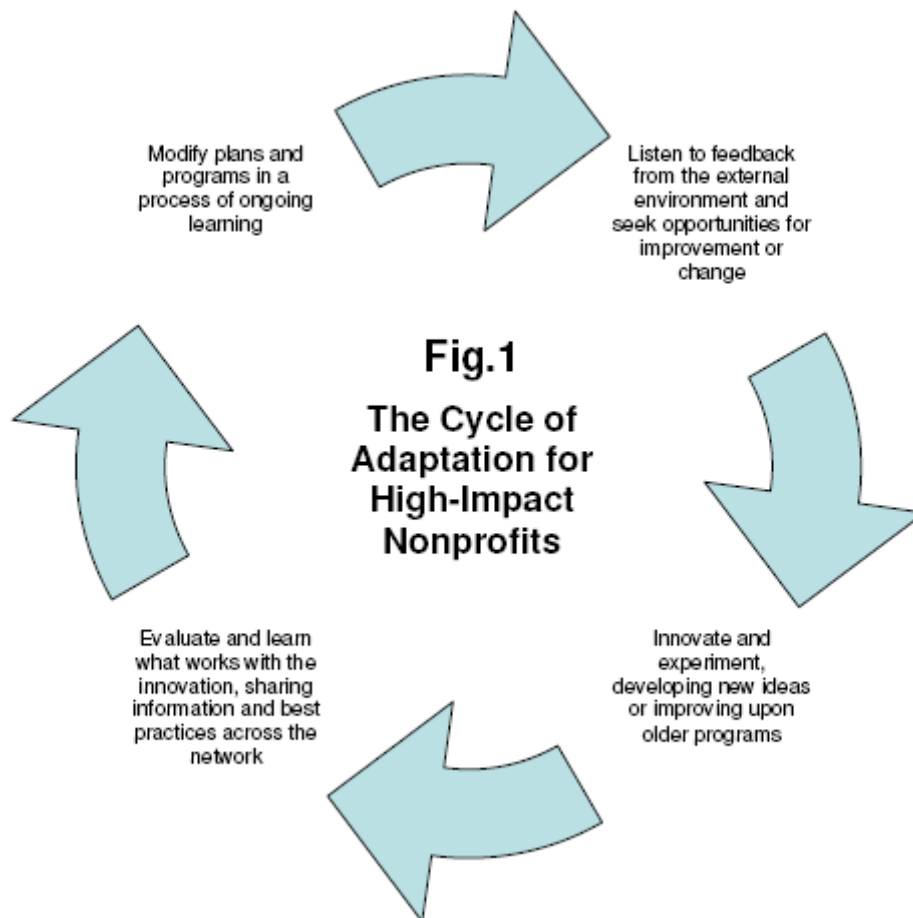
Response to Chapter 2 – Not-for-Profit Organisations

We confirm the Key Points raised at the beginning of this chapter and also suggest the following:

- Given the discussion of differences between the nonprofit and business sectors forms a significant part of this chapter, it may be useful to provide a table comparing the key characteristics of each akin to that included by Jim Collins in his 2005 monograph ‘Good to Great and the Social Sectors’ (see below). The value of this table would be to assist those readers outside the nonprofit sector, particularly in the business world, to grasp the fundamental differences through which much of the challenges in comparative measurement and working effectively together arise.

ISSUE	BUSINESS SECTOR	SOCIAL SECTOR
Accountability	<ul style="list-style-type: none"> Primarily responsible to shareholders 	<ul style="list-style-type: none"> Primarily responsible to constituents (e.g. disadvantaged children and their families) and myriad supporters or stakeholders
Defining and measuring success	<ul style="list-style-type: none"> Widely agreed-upon financial metrics of performance. Money is both an input (a means to success) and an output (a measure of success) 	<ul style="list-style-type: none"> Fewer widely agreed-upon metrics of performance. Money is only an input, not an output. Performance relative to mission, not financial returns, is the primary measure of success
Focus	<ul style="list-style-type: none"> Doing things right (efficiency) Competition to deliver the best products 	<ul style="list-style-type: none"> Doing the right things (effectiveness) Collaboration to deliver the best outcomes
Leadership / Governance	<ul style="list-style-type: none"> Governance structure and hierarchy relatively clear and straightforward. Concentrated and clear executive power often substituted for leadership. 	<ul style="list-style-type: none"> Governance structures often have more components and inherent ambiguity. More diffuse and less clear executive power with leadership more prevalent
Talent	<ul style="list-style-type: none"> Often have substantial resources to attract and retain talent Can more easily get the wrong people ‘off the bus’ for poor performance 	<ul style="list-style-type: none"> Often lack the resources to acquire and retain talent Tenure systems and volunteer dynamics can complicate getting the wrong people ‘off the bus’
Access to capital	<ul style="list-style-type: none"> Efficient capital markets that connect to the profit mechanism. Results attract capital resources, which in turn fuel greater results, and so on. 	<ul style="list-style-type: none"> No efficient capital markets to channel resources systematically to those who deliver the best results.

- The level of detail and diversity of nonprofit experiences captured in the report make it an excellent reference tool hitherto unparalleled in its analysis. However, there might perhaps be a stronger emphasis on clearly defining the commonalities of those within the sector within a framework of social inclusion, given that the vast majority of non-profits, by virtue of their status, have social values at their heart of their work (although this may be articulated through a different lexicon and activity set). Using the paradigm of social inclusion to extract the higher-level commonalities of *purpose* between non-profits might therefore provide a more constructive approach to a unifying framework for the sector that would itself be a tool to facilitate the easier identification of collaboration opportunities within the sector. In this context, the differences in structure, sources of funding, legal status etc. discussed in the Report might then be more fruitfully examined as variables impacting the relative successes and challenges of non-profits in fulfilling their 'piece' of the social inclusion 'pie'.
- The discussion of drivers of efficiency and effectiveness in nonprofits is valuable, and correctly highlights a widespread challenge within the sector of focusing too much on the 'doing' rather than the 'achieving'. However, it may be worthwhile to expand this section to more clearly highlight the 'do no harm' principle that all nonprofits should adhere to, and that should act as a driver of change to disrupt the status quo for organizations where measures of effectiveness are weak or not yet established. Unlike the business world, which is focused primarily on 'doing things right' (efficiency), the nonprofit sector should first ensure that they are focused on 'doing the right things' before considering how well they are doing them. The tendency towards 'mission creep' (taking on roles and responsibilities that are outside an organisation's particular expertise or that are not aligned with community need) is a serious issue within the sector, and needs addressing through a greater level of critical analysis within nonprofits who measure success purely in terms of how 'busy' they are.
- The assertion that 'the scale and scope of activities undertaken by the NFP sector is primarily determined by access to resources' (p2.19) may be factually correct, but is not the paradigm that should be followed. Nonprofits are established to serve the community, and the needs of the community should therefore be the key driver in determining the scale and the scope of the response. This has not occurred because of two reasons: first that the needs of the community are not well understood, measured or defined; and second that the current funding environment requires nonprofits to compete for resources to address one particular aspect of those needs in isolation, rather than collaborating with others as part of a 'whole of community' or place-based approach.
- The discussion of the resistance and lack of capability to change within the sector (2.21) is valuable, and accurately points to one of the barriers as being that 'change is rarely an objective in itself'. It may be useful to highlight in this discussion that in the current environment, change is a pre-requisite of sustainability and that the nonprofits that will remain relevant in the 21st century are those that have embraced the principle of being a learning organization that continues to modify, evolve and adapt within an externally-focused culture. This capacity for adaptation was discussed at length in our original submission as an essential characteristic for dealing with problems in an uncertain environment, and summarized in the 'Cycle of Adaptation' that is a feature of high-impact nonprofits (see Figure 2 below).



Source: McLeod Grant, H. and L. Crutchfield (2007) 'Creating High-Impact Nonprofits', *Stanford Social Innovation Review*, Fall 2007).

Response to Chapter 3 – A measurement framework

We confirm the Key Points raised in this chapter and also suggest the following:

- We welcome the expansion of the categories measuring the roles of the sector to include 'exerting influence' as reflected in our original submission.
- The key components of the draft measurement framework put forward in the Report – inputs, outputs, outcomes and impacts – is of a suitably high level to allow for adoption by most if not all nonprofits. However, its real value will depend on ensuring that (a) nonprofits agree to adopt this framework within their organizations as part of a 'whole of sector' commitment, and recognize that the components are not of equal importance; (b) nonprofits have the capacity and skill sets to define the indicators / data required to measure each of these components; and (c) nonprofits share and disseminate their data in a transparent manner with each other and with those in other sectors to facilitate aggregation into meaningful analysis. While the Report rightly highlights that 'different data collection and measurement challenges arise at each stage of the framework', it may also be useful to clarify the various levels and types of collaboration between organizations (e.g. at a community or sector level) that would be required to activate the framework, particularly in considering the outcomes and impacts.

- As discussed in the 2009 discussion paper '*Measuring the Outcomes of Community Organisations*' recently released by the Australian Research Alliance for Children and Youth (ARACY) and to which The Smith Family contributed, there are a number of common features of effective performance measurement frameworks, in terms of their development, implementation and operation. These include:
 - **Organisational alignment.** Effective performance measurement frameworks are aligned to the context, environment, goals, systems and purpose of the organisation. They also align with the outcomes sought by funders and stakeholders.
 - **Organisational and stakeholder acceptance.** Performance measurement frameworks need to be understood and accepted by key stakeholders, including management, staff and funders. They should be credible, have management 'buy in' and be tested and understood by those who will be using them.
 - **Organisational integration.** Appropriate and effective performance measurement frameworks are integrated with the structure of the organisation, compatible to organisational data collection, recording and reporting processes and are relevant to the way practitioners operate 'on the ground'.
 - **Outcomes focus.** Effective performance measurement frameworks should have an outcomes focus, and enable a practical approach to outcome measurement which considers resource availability and management.
- We support the recommendations made in the ARACY discussion paper referred to above and reiterate that:
 - To support nonprofits in measuring their contribution at the sector level a common approach to measurement which can provide specific measurement related detail is required. This will enable nonprofits to understand how, relative to other nonprofits, they are contributing to community wide impacts.
 - A program logic approach to outcome measurement, incorporating realist and open systems evaluation approaches, should be adopted and implemented at the individual nonprofit level in line with the Commission's overarching framework. Such an approach offers the potential for nonprofits to identify what outcomes they are aiming to achieve and how achieving these contributes towards impacts at the community level and supports an understanding of what works for whom and when.
 - Standard and agreed outcomes (or broad outcome areas) should be identified for the different parts of the sector and in line with this the development and use of standard measurement tools should be supported, to guide and streamline the efforts of nonprofits towards achieving wellbeing in the community.
 - The research-evidence base should be enhanced for the community sector, linking certain activities with outcomes at the individual nonprofit level, and linking the range of organisational level outcomes to system wide outcomes and impacts. Research evidence facilitates understanding of risk and protective factors for children and young people, and their link to wellbeing, which should be used in the development of appropriate programs and interventions.

- Systematic promotion and dissemination of evidence of the effectiveness of activities, interventions and programs is required, and may be a role for a range of non-service delivery focused nonprofits.
- The measurement and evaluation capability of the sector should be enhanced by reshaping the role of current governance and supporting bodies and the sector itself in providing support for measurement and evaluation to nonprofits. In line with this government should build the requirement and associated cost of measurement and evaluation into its allocations of funding.
- A shift towards a 'culture of measurement' in the community sector should occur; the sector may have a role in supporting culture change, primarily through large nonprofits and peak bodies providing specific support services and/or leading by example in focusing on outcome measurement and evaluation.
- Support for nonprofits for whom measuring their outcomes is unnecessary or unfeasible should be provided in the form of national data collections and in particular national collection of outcome related information.
- National data collection efforts should be relevant, and align with national priorities for measurement and measurement efforts at the organisational and sector level. An open question in the matter of linking data collection at these different levels in the system is who should exercise leadership and take responsibility.

Response to Chapter 4 – Trends and Perspectives on the nonprofit sector

We confirm the Key Points raised in this chapter and also suggest the following:

- Given that 'around half the sector's income is self-generated', it would be useful in Section 4.4 of this chapter to unpack some of the distinctive challenges that fundraising nonprofits face as opposed to those who receive the majority of their funding from government. This might include a brief overview of the challenges and benefits
- It would be helpful to include a short section underlying how the structure, focus, funding avenues and functions of the nonprofit sector have changed over recent decades, so that readers can grasp the key paradigms that have progressively influenced the growing social and economic importance of the sector, and those that might shape its development in the future. This might be done with brevity in a table such as in Figure 2 below, or through a broader, high-level historical overview to help the reader situate what is at present more of a static 'snapshot' in time.

	20 th Century	21 st Century	Shift
Status	<i>Outsiders</i>	<i>Insiders</i>	From challenging the system to being part of it
Focus	<i>Problems</i>	<i>Solutions</i>	From spotlighting problems as symptoms of market failure to focusing on solutions delivered through markets
Structure	<i>Institutions</i>	<i>Networks</i>	From operating as isolated institutions to integrated networks
Funding	<i>Guilt</i>	<i>Investment</i>	From appealing to public anger or guilt, to persuading supporters to make good investments
Accountability	<i>Ad hoc</i>	<i>Strategic</i>	From self-defined accountability to shared transparency and governance systems

Figure 2 (Adapted from: SustainAbility (2003) *The 21st Century NGO: In the Market for Change*)

Response to Chapter 5 – Improving the knowledge base for the sector

We confirm the Key Points raised in this chapter and also suggest the following:

- The importance of ensuring greater timeliness, accuracy, reliability and comprehensiveness of data collection on the nonprofit sector is raised in the Report, and we strongly support the recommendation raised in the Report to establish a Centre for Community Service Effectiveness to promote best practice across the sector.
- We would further emphasise the necessity of breaking the tradition of convening large-scale ‘one-off’ examinations of the sector at isolated instances many years apart, and beginning to invest in more continuous analysis deploying consistent methodologies to facilitate ongoing tracking of the more subtle trends and developments within the sector.
- We strongly support the development of an Information Development Plan to assess the desirable frequency of satellite accounts for the sector as raised in the Recommendations of the Report, but on the understanding that nonprofits are part of the decision making process for this activity, and that a range of smaller, continuous data collection instruments are embedded across the sector to provide context for the larger and more episodic studies.
- It is important to reflect in the recommendations of the Report that good quality data requires powerful and often longitudinal data collection instruments and resources that nonprofits themselves rarely have the resources or skills to access. If nonprofits are themselves unable or unmotivated to identify, understand and learn from the data that are collected about their sector, it is unlikely that many of the other objectives in building the capacity of the sector will be realised. Funding for training and the development of innovative monitoring and evaluation instruments should therefore be promoted as a core component of partnership arrangements whether with government, corporate or others.

Response to Chapter 6 – Regulation of the not-for-profit sector

We confirm the Key Points raised in this chapter and also suggest the following:

- The extent of government regulation, particularly in the area of resource generation or 'fundraising' can inhibit productive capacity. The challenges associated with diverse state/territory regulatory arrangements also hinder effective monitoring and collaboration of organisations within the sector. The Smith Family sees a role for a national body of some sort which is focused more broadly on adding value to the sector by:
 - Reducing the current burden of regulation which sees many organisations reporting to the Commonwealth and every State and Territory government at least annually;
 - Reducing the heavy proportional emphasis on *outputs* and *efficiency* in favour of a greater emphasis on *outcomes* and *effectiveness* at both the governance and program performance levels;
 - Ensuring that the regulatory burden on the sector is commensurate with its capacity to comply, recognising that over-regulation is counter-productive.
- The implementation of a national regulator should only be considered where its role replaces those of other regulatory bodies, including current federal and state-based regulators. An interim step might be to develop a standardised structure and reporting regime within the existing regulatory framework. One approach could be described as working at three levels:
 - Companies (limited by guarantee and in other ways such as by legislation or charter) – typically larger, multi-state organisations;
 - Incorporated associations – typically state-based but with standardised accountability rules rather than the variety which exists at present; and
 - Special purpose reporting (such as government grants, corporate sponsorships and the like) with standardised disclosures, funding terms and conditions, etc.
- Separate consideration would be required of the criteria which would determine which organisations fell into each of the first two categories, and this in turn would help to determine the nature of the required regulation.

Response to Chapter 7 – Not-for-profit funding

We confirm the Key Points raised in this chapter and also suggest the following:

- The quality and quantity of data around the factors influencing the practice of giving in Australia are still less than adequate. 'Giving Australia' (FACS 2005) is acknowledged in the Report as the only comprehensive survey of the motivations of giving behaviour in Australia, and we remain far behind our international peers in the accuracy and timeliness of data on philanthropic behaviour. Other data is often held by private companies, and nonprofits are not always willing or able to pay for access to this data, which negatively impacts their capacity to understand the needs and preferences of their myriad supporters. Arrangements to support greater frequency and accessibility of this data would therefore be welcome.
- Philanthropic relationships are engrained in the non-profit sector. They are the driving force behind who non-profits are and what they do. All those in the sector have been

affected by changes in the practice of giving that have emerged from wider social, economic and political shifts. However, with it being such a core element in our success, it is now time for non-profits to take the initiative in shaping and introducing new models of philanthropy from a more proactive stance, recognising that, as a 2008 article in the *Stanford Social Innovation Review* pointed out:

“Becoming a high-impact non-profit is not just about building a great organization and then expanding it to reach more people. Rather, high-impact non-profits work with and through organizations and individuals outside themselves to create more impact than they ever could have achieved alone. They build social movements and fields; they transform business, government, other non-profits, and individuals; and they change the world around them.”²

- The capacity to shape the future is not one generally associated with non-profits, whose role is often construed in terms of responding to events after they occur, rather than working to prevent them in the first place. Similarly, it is commonly believed that larger organisations have greater capacity to influence those around them simply by virtue of their size – but this is also not always true. Becoming a high-impact non-profit is not about the number of people supported in the community, the number of staff employed or even the total number of dollars raised - what matters is how that organisation is able to continually evolve and successfully align external trends in philanthropy to the pursuit of its Vision and Mission.
- We strongly support the financial intermediary model proposed in the Report to improve nonprofit access to capital, given the existing complexity and quantity of time spent negotiating these arrangements directly.
- With regard to Draft Recommendation 7.2, we encourage the broadening and simplification of the basis for granting Deductible Gift Recipient status to encompass organisations whose focus may be broader than simply addressing traditional needs, to include, for example, organisations focussed on prevention and on capacity building and innovation in the sector. The evidence is that tax concessions matter, especially to major donors, and changes in this area might reasonably lead to an increase in the sum of philanthropy rather than simply a re-allocation of existing support.
- We recommend caution in making any changes to the system of tax deductibility for donations in favour, for example, of a rebate system where the rebate was worth less than the top marginal tax rate. Given the importance of tax concessions as a motivation for giving identified in ‘Giving Australia’ (FACS 2005), changes to this incentive may lead to a reduction in the pool of available funds.
- We encourage the government, as well as the sector, to consider promoting philanthropic giving in ways which encourage the building of relationships between supporters and beneficiaries through planned giving. As an example, community education on both the benefits and the process of payroll giving as a convenient and low cost means of giving, supported by changes to the rules surrounding one-off giving through this means, may encourage support from those who would not normally give. In doing this it is important for organisations to be allowed to know from whom contributions are being received, and how to contact these supporters.

² McLeod Grant, H. and L. Crutchfield (2007) ‘Creating High-Impact Non-profits’, *Stanford Social Innovation Review*, Fall 2007.

Response to Chapter 8 – Competitive neutrality issues

We confirm the Key Points raised in this chapter and also suggest the following:

- The overall taxation system for not-for-profit organisations is a confusing one with many tax concessions being differentially applied according to the nature of each type of not-for-profit organisation (for example charities, public benevolent institutions and health promotion charities, deductible gift recipients, not-for-profit and public hospitals), while state-based taxes and duties are inconsistently applied. Clearly greater benefits accrue to those organisations which can be classified as public benevolent institutions and health promotion charities.
- One of the key concessions in the sector, at least among public benevolent institutions and health promotion charities, is the exemption from the payment of Fringe Benefits Tax. In line with its initial intent, this concession has been very useful in allowing not-for-profit organisations to compete with the private sector for the services of high calibre staff by offering market value salary packages at reduced cost, and maximising the resources available for service delivery. Because the exemption has been capped, however, its value has been steadily and significantly eroded by the impact of both inflation and changes to marginal tax rates since the grossed up taxable value of \$30,000 was set in July 2000.
- If non-profit organisations are to be able to continue to compete effectively with the private sector for staff this threshold needs to be increased either by indexation (or perhaps alternatively by considering setting the exemption as a percentage of an employee's overall package). We suggest that this is a matter of concern to all sectors as the cost of compliance with FBT legislation is significant for any business, although the complexities may differ from sector to sector.

Response to Chapter 9 – The role of not-for-profit organizations in social innovation

We confirm the Key Points raised in this chapter and also suggest the following:

- The field of social innovation is not well developed or even understood in Australia, and this continues to hinder the effective introduction of new solutions and methodologies into a sector that urgently needs them. It is important for non-profits to be supported through resources and training and collaborative vehicles to understand how social innovation can be identified and nurtured within their organisation and then effectively communicated to others in the wider community.
- We strongly support the recommendation made in the Report for government agencies funding social services to create Social Innovation Funds to support research collaborations into innovative solutions to social problems. In the UK, considerable progress has been made through the establishment of the Social Enterprise Investment Fund and Social Finance Ltd, both of which build the capacity of the non-profit sector to invest in more innovative forms of service delivery and collaboration. A similar model for the non-profit sector in Australia would embrace the role of government, business and non-profits in stimulating social innovation, each contributing resources and expertise according to their means for the creation of our own 'Social Enterprise Investment Fund'.

- However, if the sector is committed to tackling social problems on a large scale, it needs to be given incentives and support to cultivate a new readiness to take risks and transform in response to changes in the wider environment. This new robustness rests on what Light (2005) has called the ‘four pillars of organisational strength’: *alertness* to changing circumstances; *agility* in hedging against vulnerabilities and exploiting opportunities; *adaptability* in bringing new ideas to bear against emerging problems; and *alignment* between internal and external commitments to mission-centred change.³
- We support the recommendation made in the Report of expanding the Cooperative Research Centres program to include social innovation, but suggest that a more flexible model is required to effectively facilitate the broader cross-sectoral collaboration needed to solve intractable social challenges. The Social Incubator model outlined in The Smith Family’s original submission to the Productivity Commission illustrates this kind of sectoral convergence, and its applicability in the Australian context.

Response to Chapter 10 – The not-for-profit workforce

We confirm the Key Points raised in this chapter and also suggest the following:

- The non-profit sector needs to consider innovative solutions to attract talent in an environment of increasing demand, tighter supply and restrained capacity to pay ‘commercial’ rates. There is ample research documenting that many baby boomers would like to continue working in fields that allow them to give back to their communities. These employees bring a lifetime of career experience, as well as passion for their jobs and dedication to excellence – ideal ingredients for successful ‘second careers’.
- However, entering the non-profit sector from a corporate background is about more than making a personal financial transition. It needs a new set of skills to help them adapt to organisations where mission, rather than money, is the end goal, and where collaboration and an ‘all hands on deck’ approach is common. From a practical perspective, newcomers to the non-profit sector must also adapt to working in resource-constrained environments without the extensive technical assistance and other forms of support they could turn to in a large multinational. Governments have a role to play in enabling the collaborative platforms and resources required to support and encourage greater numbers of individuals to transition between these sectors more smoothly.
- Government incentives for / facilitation of closer and more numerous mentoring/coaching relationships between organisations and individuals in the corporate and non-profit worlds will also be beneficial in this respect. Community organisations have a variety of skills in customer service and in addressing the interests of multiple stakeholders that businesses can benefit from adapting, and their greater involvement will also assist their understanding of the resourcing and support that community organisations really need to carry out their work effectively.

³ Light, P. C. (2005) ‘Donor, Heal Thyself’, *Stanford Social Innovation Review*, Winter 2005.

Response to Chapter 11 – Direct Government funding

We confirm the Key Points raised in this chapter and also suggest the following:

- Non-profits are faced with meeting a broad range of requirements across many government departments both in applying for and acquitting funding. Often there are differential requirements within departments, and there is little or no standardisation across jurisdictions. This results in unnecessary costs which directly impact the ability of organisations in the sector to further their missions. It is acknowledged that some work is being done at the Federal level to address these issues, but the situation remains complex and yet should not be difficult to change through the introduction of common funding conditions and reporting templates. Implicit in such a common approach would be the need for some form of tiered system which takes account of the materiality of the funding (for example, the cost of outcomes-based reporting for short-term low value grants would generally be prohibitive, if indeed outcomes could be measured under such circumstances).

Response to Chapter 12 – Delivery of Government funded services

We confirm the Key Points raised in this chapter and also suggest the following:

- The Smith Family supports the development, as recommended in the Report, of greater flexibility in government funding models reflecting the diverse capacities of the sector and the complex nature of the issues being addressed. However, we remain strongly supportive of the ‘lead agency’ model in particular, the first real example of which arose in 2004 through the ‘whole of community’ model known as *Communities for Children*, part of the Australian Government’s ‘Stronger Families and Communities Strategy’. This place-based, preventive model has been a landmark in Australian social innovation for a number of reasons:
 - It is *place-based* in the sense of working to enhance support for children and their families within particular disadvantaged communities around Australia, and building on the strengths and assets already present in the community;
 - It is *outcomes-focused*, working towards universal goals and based around a *systems-wide* approach that merges educational, developmental and health-related service provision.
 - It is an *empowerment* model in that the whole community works together to first prioritise the issues and then select from the range of evidence-based interventions suited to their particular context;
 - It encourages *culture-change* within the non-profit sector by connecting the strengths and capabilities of a variety of organisations, institutions and individuals. A key part of the model’s success lies in bringing together large community organisations (who have expertise in ‘backroom’ capabilities such as research, policy design and facilitation) with grassroots service delivery agencies (who have the local knowledge and relationships to work with the community). The former act as banker, broker and leverage agent to ensure that the service delivery

provided by the latter is well coordinated, resource-efficient (avoiding duplication of effort and funding so as to maximise impact), and is embedded in the community for sustainability.

- We strongly support the recommendation raised in the Report that Australian governments ‘urgently review and streamline their tendering, contracting, reporting and acquittal requirements in the provision of services’, as these processes continue to be extremely resource-intensive for nonprofits.
- Individuals today require a holistic approach to resolve their issues, and given that nonprofits cannot in isolation be ‘all things to all people’, this requires organisations to learn how to collaborate, keeping the people they are serving at the centre of this model. A similar shift is required across government, acknowledging that previously siloed bureaucratic systems of government must now work together with a host of other actors, especially nonprofits, in order to deliver effective outcomes. To this end, the existence of funding pools across government agencies would significantly reduce the resources expended by nonprofits in drawing up multiple funding applications for social challenges that require a ‘whole of government’ commitment. This would in itself be beneficial to government in ensuring a greater propensity for ‘joined-up’ policymaking and the funding of integrated (rather than simply collocated) services for families.

Response to Chapter 13 – Building relationships for the future

We confirm the Key Points raised in this chapter and also suggest the following:

- The Smith Family strongly supports the initiatives undertaken by federal government in recent years to develop closer relationships with the nonprofit sector. However, our experience suggests that in addition to Compacts and the delineation of shared principles for working together, interactions will also significantly improve through the reciprocal facilitation of experiential learning opportunities and internships involving senior members of staff from different agencies and organizations to enable ‘hands-on’ experiences of the pressures and priorities impacting both sectors.
- We strongly support the recommendation raised in the Report to establish an Office for Nonprofit Sector Engagement within the Prime Minister and Cabinet portfolio. It may be appropriate for a structure of this kind to incorporate a number of evidence-based, complementary ‘streams’ of focus, each contributing to the broader creation of a high-impact nonprofit sector, given that while some nonprofits may want to engage with the full panoply the leadership organisation will offer, others may only want to participate in some streams.
- On the basis of international evidence around high-impact nonprofits and data on the contemporary challenges faced by the sector in the Australian context, these capacity building ‘streams’ may be drawn along the following lines, reflecting many of the key findings of the Report:
 - **Connecting research, policy and practice**, recognising that large-scale social change needs to be supported by new paradigms of governance. This stream might see a nonprofit leadership organisation collating evidence from practice to inform Government policy and legislation that will in turn provide greater credibility for nonprofit work and broaden potential sources of funding through high-level recognition.

- **Making markets work for nonprofit practice**, finding ways to tap into the business market and help corporates ‘do good while doing well’. This stream might see a nonprofit leadership organisation, with the support of Government, working to change business behaviour on a large scale and introducing innovative funding models through mainstream financial players.
- **Diversifying supporter contributions**, learning how to value volunteers, donors, and advisers not only for their time, talent and dollars, but also for their capacity to recruit the expertise and contributions of others. This stream might see a nonprofit leadership organisation promote / facilitate new avenues of funding for the sector, tapping into broader supporter networks to embed the importance of the nonprofit sector at various levels.
- **Embedding collaboration within the sector**, moving beyond competitive traditions to a culture in which nonprofits help each other to succeed. This stream might see a nonprofit leadership organisation developing enhanced models of collaboration and acting as a broker across nonprofit groups to facilitate the sharing of wealth, expertise, talent and power with other nonprofits.
- **Modelling organisational agility and adaptation**, recognising that nonprofits need to be able to continually modify their tactics to increase their impact and success in a changing environment. This stream might see a nonprofit leadership organisation, with the support and involvement of Government, working to embed the ‘cycle of adaptation’ in the sector in terms of building the capacity of nonprofits to (a) listen to feedback from their external environments and seek opportunities for improvement or change; (b) innovate and experiment, developing new ideas or improving upon older programs; (c) evaluate and learn what works with the innovation, sharing information and best practices across their networks; and (d) modify their plans and programs in a process of ongoing learning.
- **Supporting nonprofit leadership**. To be a strong force for good, leadership must be cultivated widely within the nonprofit sector, and openly seek to attract and learn from leaders from other sectors. As a body with influential relationships across the government, business, community and academic sectors, this stream might see a nonprofit leadership organisation leveraging different leadership attributes for the benefit of nonprofit professionals.

Appendix – The Smith Family’s original recommendations

Measuring the contribution of the non-profit sector

That the Commission consider:

- Breaking the tradition of convening ‘one-off’ examinations of the sector at isolated instances some years apart, and begin to invest in more continuous analysis deploying consistent methodologies to facilitate ongoing tracking of the more subtle trends, developments and contributions of the sector;
- Adopting a framework of social inclusion in assessing the contribution of the sector to extract the higher-level commonalities of purpose between non-profits and provide a unifying, rather than fragmenting approach;
- Supporting the development of tools and methodologies for non-profits to use in determining their own relative contribution or ‘market share’;
- Supporting the introduction of a government agency or institute dedicated to understanding and supporting the sector;
- Analysing not only those roles that are currently being carried out by non-profits, but also what roles they could take on in the future as part of a more sophisticated, multifaceted and collaborative sector;
- Promoting and supporting the capacity of non-profits to move beyond simple advocacy to embrace a thought leadership role in anticipating emerging issues and proactively shaping society in the public interest;
- Promoting and supporting the capacity of non-profits to invest in demonstration projects (or ‘practical advocacy’), breaking traditional service delivery moulds and developing new models for tackling intractable social problems in a particular context;
- Promoting and supporting the capacity of non-profits to undertake more sophisticated data collection methodologies such as randomized control trials and longitudinal studies;
- Engaging with the international Campbell Collaboration to assess current research around the development of more robust measures for the sector;
- Promoting and supporting the capacity of non-profits to explore adopting Professor Goran Roos’ framework of intellectual capital and value management in more clearly articulating their contribution to society;
- Taking into account the donor leverage or ‘multiplier effect’ arising from non-profits being able to ‘stretch’ the value of the funds they receive, depending on the nature of the intervention to which they are targeted.

Enhancing the efficiency and effectiveness of the non-profit sector

That the Commission consider:

- Promoting the greater allocation of resources for non-profits to invest in the professional training and development of their staff, particularly in relation to leadership within the sector;
- Supporting the development of tools and methodologies for non-profits to attract, support and effectively utilize the contemporary volunteer population;
- Promoting the Cross Sector Collaboration Continuum framework developed by James Austin at the Harvard Business School as a tool for non-profits to more effectively manage and track their partnerships with business over time;
- Promoting the establishment of closer and more numerous mentoring relationships between organizations and individuals in the corporate and non-profit sectors to facilitate the two-way exchange of learning;
- Promoting the effective sharing and communication of knowledge across the sector by building the capacity of non-profits to move across the continuum of Data > Information > Knowledge > Wisdom;
- Promoting the value of greater transparency within the sector and building the motivation and capacity of non-profits to provide clear alerts to governments, businesses and other donors regarding the growth capital they need to become more effective;
- Supporting non-profits to move from focusing on the supply side of the knowledge equation (asking 'what do we have to say?') to the demand side ('what knowledge do we need to provide?') in communicating their work to various audiences;
- Supporting non-profits to further develop their data analysis skills to allow for cross-sectoral, multi-disciplinary collaboration and sharing of information;
- Supporting non-profits to reposition their goal in reporting their outcomes from simple information access (ensuring it is widely available) to informed action (ensuring this knowledge is used widely to improve practice);
- Supporting the establishment of an Australian 'Social Enterprise Investment Fund' to enable collaborative testing of new and more innovative ways of working for societal impact;
- Promoting the importance of non-profits developing their alertness to changing circumstances; their agility in exploiting opportunities; their adaptability in bringing new ideas to bear against emerging problems; and their alignment between internal and external commitments to mission-centred change;

The sector's provision of government-funded services

That the Commission consider:

- Promoting the value of non-profits taking the time to recognize and build the cultivation of new resources and skillsets to enable collaboration within and outside the sector, including the creation of organisational cultures that are open to the challenges posed by new approaches to budgeting and control, trust and accountability;
- Promoting the simplification of the tax concession system for non-profits on the basis of expanding eligibility for concessions rather than limiting them, as this would allow government to make relatively low cost changes that would make a significant contribution to the financial capacity of the sector;
- Promoting an increase in the Fringe Benefits Tax threshold for non-profit employees either by indexation or possibly setting the exemption as a percentage of an employee's overall package;
- Promoting the establishment of a national body focused broadly on adding value to the sector by (a) reducing the current burden of regulation; (b) reducing the heavy proportional emphasis on outputs and efficiency in favour of outcomes and effectiveness; and (c) ensuring that the regulatory burden on the sector is commensurate with its capacity to comply, recognising that over-regulation is counterproductive.

Trends and development impacting on the sector

That the Commission consider:

- Promoting the importance of non-profits working more collaboratively with business, academia and governments to provide an adequate safety net for those children and students at risk of failing or disengaging from education;
- Promoting the importance of adopting a 'dual generational learning' approach, working to assist both children and their parents through integrated interventions rather than isolated programs;
- Promoting the development of training and resources to support non-profits in building their capacity to generate, understand and utilize data from a range of sources, including establishing an evidence-base to inform their own interventions;
- Promoting the importance of preventive interventions aimed at changing the behaviour of adults and children in addition to more immediate palliative services;
- Promoting the capacity of the sector to take the initiative in shaping and introducing new models of philanthropy from a more proactive stance, building social movements and transforming other institutions around them.