



THE NOT-FOR-PROFIT SECTOR COMES OF AGE

PUBLIC SECTOR LEADERSHIP CONFERENCE

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[SLIDE ONE - TITLE]

Good morning, it was a pleasure to accept the invitation to join you today to discuss what for me is another element in the prevailing predominant paradigm of social inclusion – that of building community capacity through partnerships.

I would like to start by acknowledging the Nyungar people, the traditional owners of the land on which we meet here today.

Even before the advent of the global financial crisis, we were at a very interesting time in our nation's history, characterised by an unparalleled pace of change in how we connect, communicate and collaborate at the global, national and local levels. In the **20th century industrial age**, everything was about building big things that did things for others – national rail systems and schools for example. But in the **21st century knowledge era**, all the economic success stories are about helping people to help each other. From Google and eBay to communities of practice this is a century built on people and communication, the century of contribution rather than consumption.

Different sectors have embraced these changes with varying degrees of success. The **business world** has been quick to recognise the power of technology in achieving greater efficiencies and penetrating new markets, but has also been confronted by the need for a deeper and more sophisticated commitment to corporate community investment, as the same technology allowed consumers to make more informed decisions about the kind of companies they wished to support.

For many in the nonprofit sector, the shift into the knowledge era required a total reassessment of their mission and vision in an environment where the shortcomings of welfare-based approaches were being exposed through research into the root causes of disadvantage. At The Smith Family, it was clear in 1998 that to remain relevant and effective in the 21st century, our organisation would need to undergo a **comprehensive transformation**, overhauling all of our **systems, processes** and most importantly

culture to bring to life our mission of unlocking opportunities for those who had been previously marginalised through a preventive model based on human capital development. We were perhaps one of the first in the sector to consciously undertake what became a seven year journey of comprehensive transformation, and yet many others soon began a process of change, providing momentum for broader shifts in the status, focus and role of the nonprofit sector as a whole as this slide summarises:

[SLIDE TWO – The 21st Century nonprofit]

	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

The current Productivity Commission Enquiry presided over by Robert Fitzgerald with Associate Commissioner Denis Trewin – formerly the Australian Statistician – is clarifying the contemporary contribution of the nonprofit sector and how we might measure the impact of its work. As such, it will be important in establishing the value to society of Australia’s nonprofits and the sector’s capacity to take its place at the decision-making table.

And what about government? Not so long ago, it was easier for a small group of policymakers to define the public good and seek to deliver collective solutions from on high. The values that were accepted and promoted within the public sector were of **hierarchy, specialisation, efficiency and standardisation**, and tight performance targets discouraged managers from taking the risks

associated with experimentation or innovation. Now, as we approach the end of the first decade in a century where the population has greater power than ever before to shape their own lives, the pressures on government have changed dramatically.

[SLIDE THREE – The changing role of government]

As **Charles Leadbeater**, a passionate advocate of public sector reform in the UK put it,

‘The chief challenge facing government in a liberal and open society is to create public goods – like a well educated population, with an appetite to learn, an elderly population that feels well cared for – in a society with a democratic ethos, which prizes individual freedom and wants to be self-organising and ‘bottom-up’.’¹

Or as President Barack Obama said last week in Cairo in that memorable address, “All of us must recognise that education and innovation will be the currencies of the 21st century” and that “these things must be done in partnership”.

So, respected models of working within this ‘new order’ are those that embrace collaboration, community participation and consultation, and collective responsibility. You might say that government is simply being asked to **‘walk the talk’ of the social inclusion** goal that it has posited at the highest level.

To some extent, while we have seen tangible and conscious **shifts in the practice, theory and culture of business and nonprofits**, government is yet to prove itself in this respect. Private markets are offering consumers unprecedented levels of product choice and service responsiveness, and this has created a parallel expectation that public services should be better attuned to citizens’ wants and needs. If governments cannot keep up, they risk diminishing levels of public trust in their capacity to deliver, and without public trust, the operating legitimacy of public agencies is undermined.

Moreover, Australia continues to struggle with a range of intractable social issues that continue to bedevil us as a nation to overcome. We have a significant tail of disadvantage in Australia that despite numerous interventions and rhetoric over the years continues to impact our status on the international stage across basic human capital indicators of literacy, numeracy etc. New ideas that work to improve people's lives are urgently needed if we are to reduce the growing gap between the scale of the problems we face and the scale of the solutions on offer. And yet, as **Geoff Mulgan**, Director of the Young Foundation in the UK and a world leader on innovation concludes:

[SLIDE FOUR – Stimulating innovation]

“The competitive pressures that drive innovation in commercial markets are blunted or absent in the social field, and the absence of institutions and funds devoted to social innovation means that too often it is a matter of luck whether ideas come to fruition, or displace less effective alternatives. As a result, many social problems remain more acute than they need to be.”ⁱⁱ

Australia does not lack creativity – in fact, we have plenty of great ideas and innovative thinkers, but fall short in successfully translating these into scalable practice, or as **Geoffrey Moore**, the US management consultant put it, ‘**crossing the chasm**’, with the vast majority of innovations falling into the gulf between early adopters and the mass market. This is largely because those who come up with these ideas do not have the skills, resources and incentives to spread them – this is the role of larger institutions such as government through a process that **Geoff Mulgan** has called ‘**connecting the bees with the trees**’.

Put simply, Australia should be much further down the track than we are today. Over the last decade, we have seen multiple efforts at cultural change in each sector to enable the development of the innovative collaborative relationships needed to drive progress, innovation and the goals we have set

as a nation. However, the **momentum and penetration of these initiatives have consistently faltered** without the support of an equally progressive public sector.

Many significant developments have originated from within the nonprofit sector, where much of the innovation naturally occurs through balancing the demands of community needs with the limited resources available. Encouraging culture change not only among children and families historically dependent on welfare but among other sectors in society has been acknowledged as an important role of nonprofits seeking to achieve impact at a societal level, as a 2007 study profiled in the **Stanford Social Innovation Review** concluded:

[SLIDE FIVE – High-impact nonprofits]

“Becoming a high-impact nonprofit is not just about building a great organisation and then expanding it to reach more people. Rather, high-impact nonprofits work with and through organisations 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 nonprofits, and individuals; and they change the world around them.”ⁱⁱⁱ

[SLIDE SIX – Breaking down the silos]

To this end, in 2002, The Smith Family helped to establish the **Australian Research Alliance for Children and Youth** (ARACY) to break down the traditional barriers between practitioners, policy experts and researchers and replace these with multidisciplinary, collaborative structures that are more effective and sustainable in developing best practice. In this way, ARACY pioneered a new paradigm through which knowledge from multidisciplinary sources could be integrated and transformed into comprehensive, coordinated policies and projects responding to complex social issues. It is also working to facilitate culture change within the non-profit sector, deepening its commitment to evidence-based interventions and increasing its capacity for foresight and innovation.

In the same year, The Smith Family was also a founding partner in the establishment of **Social Ventures Australia** (SVA), an independent non-profit organisation representing a new and unique model of social investment that aligns the interests of philanthropists with the needs of social entrepreneurs to combat some of Australia's most pressing community problems. An important first step in attempting to connect Geoff Mulgan's 'bees with trees', SVA provides funding, mentoring and organisational tools to a carefully selected portfolio of non-profit ventures led by outstanding social entrepreneurs. In this way, it works to strengthen the capacity of the non-profit sector in both quantifying their impact and taking it to scale.

Two years later, in 2004, The Smith Family was again a founding member of **Nonprofit Australia** (NPA), an organisation with a mandate to increase the capacity of the nonprofit sector to meet the challenges of the 21st century. The strategic objectives of the organisation included developing the leadership capabilities of nonprofit management teams and board members; stimulating and driving partnership, collaboration and innovation across the sector; developing the economic capacity and performance of the sector; developing improved systems to achieve relevant governance, administrative, financial and regulatory reforms across the sector; and involving and engaging Australian leaders across all sectors in understanding and investing in the planning of Australia's social, cultural and environmental landscape ensuring a strong and vibrant civil society.

These initiatives, driven from within the nonprofit sector, have had varying degrees of success within a climate that is still predominantly risk-averse and with a public sector that has been slow to formally commit and reorganise itself to support these new models. Part of the reason is perhaps that government is not yet structured to be sufficiently receptive or flexibly responsive to the transfer of knowledge from outside its own boundaries, positioning others such as nonprofits not just as consultants but as true **partners or trusted intermediaries** with an equal role in the process of policy formulation and construction.

We know that societal change will not come about if nonprofits collaborate with a view to simply ‘filling in the gaps’ left by governments, or if we try, as some in the sector do, to work around governments in the belief that politics will compromise our integrity. In fact, as **David Gergen**, former Presidential Advisor in the US remarked in an interview last year, “One of the main lessons of my entire career has been that if you want to change things, it’s really important to **get the policies of government aligned with the change.**”

What that change looks like from a government perspective has been clear since 2001, when in his book ‘*Enterprising States*’ **Mark Considine** explored the fundamental shifts that were taking place in the paradigms of governance in Western bureaucracies in using privatisation, private firms and market methods to run core public services. These elements were combining to form the beginnings of a more collaborative model that Mark referred to as ‘**network governance**’, with the following characteristics:

[SLIDE SEVEN – Network governance]

Source of rationality	=	relationships
Form of control	=	co-production
Primary virtue	=	flexibility
Service delivery focus	=	brokerage

At the time, Mark singled out Australia as being more prepared than most other Western countries to implement this model, but made a point of warning that the nonprofit sector was more likely to embrace it than corporates or government, despite the need for all to play their role in making it work.

Considine's paradigm was then confirmed in the same year by **Don Edgar** in his book *Patchwork Nation: Rethinking Government; Rebuilding Community*, which concluded that

“Government has to become governance – increasingly, self-governance – because the days of top down, one-size-fits-all solutions are gone.... intelligent government will become polycentric, adept at resourcing networks.”

Significant progress was made in 2004 as part of the Australian Government's 'Stronger Families and Communities Strategy' through the **Communities for Children** model, which in my view constitutes Australia's greatest social innovation of the 21st century. This model has been groundbreaking for a number of reasons:

[SLIDE EIGHT – The Communities for Children model]

- 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, including local businesses;
- 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.

This last point is particularly significant, heralding the introduction of '**facilitating partners**' to connect the strengths and capabilities of various organisations, institutions and individuals. Rather than exclude smaller non-profits or jeopardise the diversity of the sector, this approach has actually worked to organise and leverage the various skill sets of non-profits in a far more strategic and effective manner, through a model that is both innovative and itself socially inclusive.

Communities for Children has therefore proven to be one of the most successful **convergence models** among those that have emerged over the last decade, designed to bring the government, business and community sectors closer together. As this slide shows, these have included Cooperative Research Centres, the Prime Minister's Community-Business Partnership and the Australian Business and Community Network.

[SLIDE NINE – Progress in collaboration]

CONVERGENCE MODEL	DATE	COLLABORATORS
Cooperative Research Centres (CRC)	1991-present	Business + Academia (with government as enabler)
Stronger Families & Communities Strategy (SFCS) Phase One	2000-2004	Government + Nonprofit
The Prime Minister's Community Business Partnership (PMCBP)	1999-2007	Business + Nonprofit (with government as enabler)
Stronger Families & Communities Strategy (SFCS) Phase Two - <i>Communities for Children</i>	2004 onwards	Nonprofit + Community (with government as enabler)

The Australian Business and Community Network (ABCN)	2004 onwards	Business + Education
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But these initiatives have only taken us so far in terms of truly giving credence to Considine’s model of ‘network governance’, which reflects the importance of bringing together the strengths and resources of all sectors within a single framework. The intractable social issues that exist now are multifaceted and have multiple causes, and as such demand a ‘whole of community’ approach that includes government, business, nonprofits, academia and community working together. As **Einstein** observed,

‘Today’s significant problems cannot be solved by the same level of thinking we were at when we created them’.^{iv}

To this end, The Smith Family in 2006 commissioned The Boston Consulting Group to conduct, on a *pro bono* basis, a feasibility study to investigate the need and subsequently applicable model for a more integrative collaboration – a new model of sectoral convergence through which innovative solutions to a number of social issues could be developed. **A Social Incubator** emerged as a possible vehicle for these collaborative outcomes, and a detailed process to attract commitment to the concept was then developed by the Foresight Group at Swinburne University of Technology through a synergy grant with The Smith Family.

A Social Incubator seeks to foster collaboration between individuals with different skill sets and backgrounds, from a range of sectors, to drive towards innovative solutions to existing problems. It works in two broad stages:

[SLIDE TEN – The next level of collaboration]

1. The Incubator Thought Process

The initial ‘*thought process*’ phase involves the collocation of selected team members within an intensive “hot house” environment where research combines with practice to create practical

initiatives and solutions. This process leverages the individual skills and expertise of government, business, nonprofit, academia and community through teams working together to create one or more innovative initiatives addressing the issue identified within the community. The process takes place over a confined period of time (which could be days, weeks or months depending on the issue being addressed) with experts seconded into the Incubator to focus exclusively on the outcomes being sought.

2. Skills Transfer in the Field

The second '*skills transfer*' phase is where members of the Incubator move into the field and work alongside practitioners in order to transfer the necessary skills and knowledge to the community members/groups tasked with piloting the initiatives. In this way, the Incubator goes beyond the traditional 'think tank' research/advocacy model, and is premised upon strong community involvement in the entire process, from identification of the problem to be addressed to the development and implementation of a response.

The flexibility of the Incubator model **allows it to target a range of issues** affecting particular communities, in different ways and at different times. It may be the case that an 'isolated' Incubator is created around one particular issue in a community, and then dissolved following the implementation of successful initiatives; or the Incubator may be 'ongoing' in the sense of addressing a number of priority issues in the community one by one, changing the range of stakeholders involved as appropriate. Part of the value of the Incubator therefore lies in its broader potential to provide a **formative and systematic structure to community interventions** that have through circumstance to date been *ad hoc* and piecemeal in their success.

An inherent benefit of this model is also the **social capital** that is built up through the creation of collaborative relationships between multiple sectors – relationships that are strengthened through a process of negotiation, skills development and a shared commitment to achieving more. Importantly, this collaboration is sustainable beyond the Incubator itself, and remains one of the most important elements for making collective change happen.

This **social capital also has a cumulative effect**, whereby effective interactions with others results in increased confidence and trust encouraging further collaboration. If communities have been able to develop these collaborative networks through initiatives such as the Incubator, they will be able to continue to work together to both envision a better future and meet their objectives for a range of opportunities. In this way, the incubation of social capital underpins our society's capacity to maximise economic, technical and social performance more generally.

While all sectors will play a part in these social incubators, **government will play the most critical role in helping such a model 'cross the innovation chasm'** from being an isolated initiative to a core strategy embedded in the culture of how this nation seeks to address intractable social issues. It will require Ministers and bureaucrats to look beyond the specificities of their portfolios and internal politics and embrace the paradigm of **horizontal connectivity and co-production** that is the driving force for the future. If we are to reach our potential as a nation, we should no longer be content to be shaped by circumstance and instead proactively invest in opportunities such as the Incubator that will take us to the next level of a more caring and cohesive community.

We might conclude by embracing the intent behind the words of President Obama's Chief of Staff who said we should never waste a crisis. In the most recent edition of the Stanford Social Innovation Review, Paul C Light put it this way:

....there is good evidence that socially entrepreneurial opportunities arise during specific punctuations or focused periods in history. During these periods, the prevailing wisdom weakens, revealing the failure of the status quo to solve problems such as inequality. Having

tried for a half century to improve the public schools with little sustainable success, for example, we acquire an appetite for new ideas. These punctuations in history fuel the hope for widespread change and the experimentation that drives it.

Today, the world appears to be experiencing a punctuation of opportunities.....”

Let's not waste it.

Thank you.

Endnotes

ⁱ Leadbeater, C. (2008) *Making it Personal*. Demos, UK, p79.

ⁱⁱ Mulgan, G., with S. Tucker, R. Ali & B. Sanders (2007) *Social Innovation: What it is, why it matters and how it can be accelerated*. Said Business School, University of Oxford: Basingstoke Press, p5.

ⁱⁱⁱ McLeod Grant, H. et al (2007) 'Creating High Impact Non-Profits', *Stanford Social Innovation Review*, Fall 07.

^{iv} Einstein, A. (n.d) attributed by Quoteland.com, 'Quotations by author: Einstein', available http://www.quoteland.com/author.asp?AUTHOR_ID=89

^v Light, P.C. (2009) 'Social Entrepreneurship Revisited', *Social Innovation Review*, Summer 09.