

Building from purpose: Unlocking the power of Australia's not-for-profit sector

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*Aboriginal and Torres Strait Islander [viewers, listeners, readers] are advised that the following report **may** contain images of people who have died.*

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Executive summary

Australia's not-for-profit sector is hugely diverse: it includes service organisations with tens of thousands of staff, as well as highly focused advocacy organisations and global thought leaders on topics such as sustainability. Taken together, this mission-driven sector is critical to meeting fundamental societal needs and fostering social cohesion. It is also an important part of the economy, employing 1.38 million people—11 percent of jobs in Australia—and contributing an estimated AU\$129 billion, or 4.8 percent, of the country's gross value added in direct and indirect contributions.

In a time of crisis, this sector has risen to the moment, collectively mobilising to address surges in need for its services. Yet the sector is also under immense strain, with resourcing struggling to keep pace with demand and staff experiencing burnout.

In this context, a collective national effort is needed to sustain and improve the health of the not-for-profit sector. It has some remarkable strengths to build on, but also significant opportunities to expand its aspirations: to grow talent, enhance its execution discipline, and boost innovation and collaboration.

If the sector can unlock these opportunities—in collaboration with its partners in philanthropy, government, and business—it can play a central role in ensuring that the country's recovery and future are equitable, inclusive, and sustainable.

Rising demand, growing complexity: a sector under pressure

The COVID-19 pandemic has made the sector's value clearer than ever. Extended lockdowns and border closures have created many challenges for the vulnerable, and the not-for-profit sector has mobilised rapidly to support those in need, lessening the financial and social impacts of the pandemic.

Over the last 18 months, the sector has seen an increase in steady-state demand, including welfare support, mental health requests and domestic violence (Exhibit E1). However, while demand has grown, supply has not increased to match. One third of not-for-profit organisations believe that COVID-19 created a significant threat to their viability, and 78 percent experienced a downturn in revenue due to COVID-19, with 40 percent reporting a revenue decrease of more than 15 percent.

This gap has stretched the sector to the limit. Leaders in the sector have had to focus on the short term, reducing the time and resources they're able to invest in broadening organisational capabilities, from people to technology. In short, performance has been strong, but the underlying health of the sector has suffered.

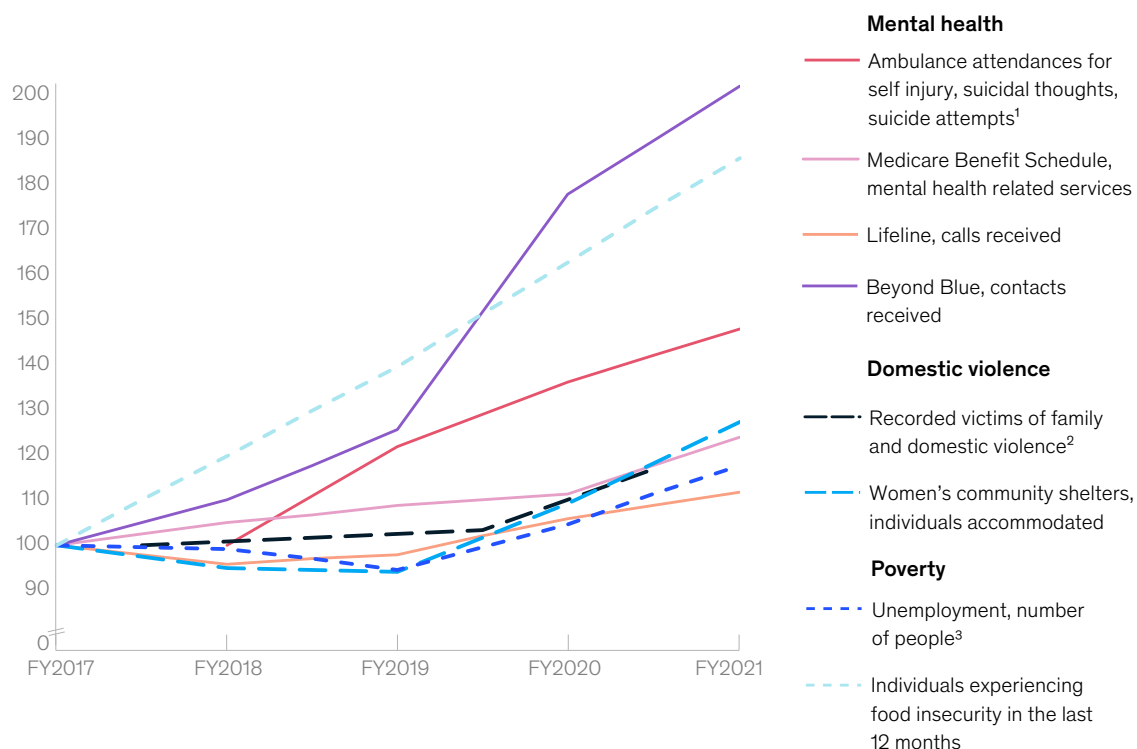
Recovery from COVID-19 is also likely to be uneven. As restrictions on economic activity subside, socio-economic gaps may widen further, replicating a pattern we have seen in many previous crises and adjustments. Cohorts are left behind, resulting in a persistent struggle to catch up and accommodate long-term costs.

However, the crisis has created a unique moment of choice for Australia, given the willingness to collaborate and innovate outside of normal activity lanes. There has been an unparalleled surge in social ambition and entrepreneurship. With more disruptions expected in the coming years, Australia has an opportunity to harness the power of the not-for-profit sector, in collaboration with leading institutions in every sector.

Exhibit E1

Demand has trended up for many of the sector's services.

Indicators of demand for services delivered by not-for-profit organisations, indexed to 100



¹Includes attendances for self injury, suicidal thoughts and suicide attempts in NSW, VIC, ACT and TAS.

²Plotted in calendar years.

³Average of unemployment monthly data across financial years.

Source: ABS, AIHW, Lifeline Annual Reports, Beyond Blue Annual Reports, Women's Community Shelters Annual Reports, Foodbank Annual Reports

Building organisational health across the not-for-profit sector

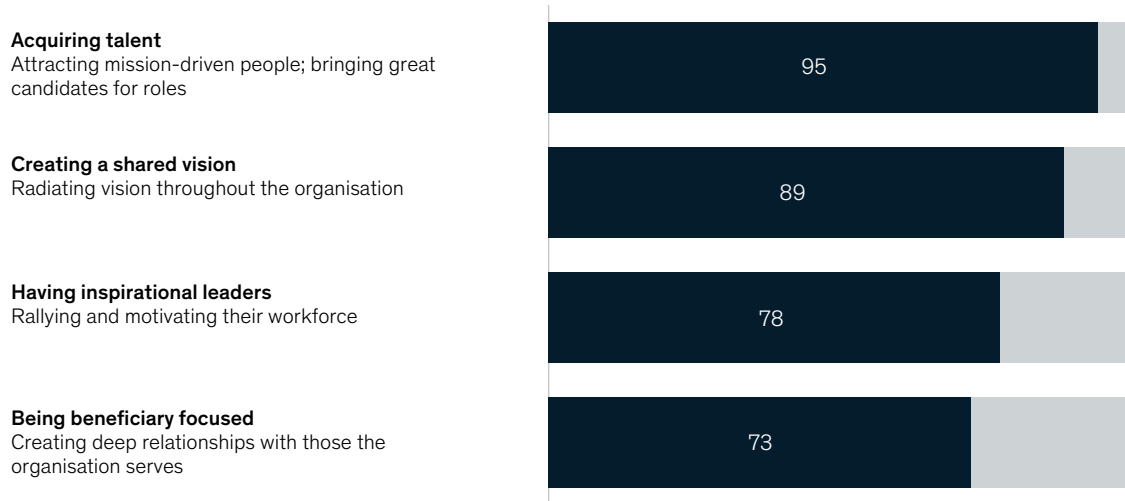
This research explores how Australia can better harness the power of the not-for-profit sector (See Box: About this research).

Leading Australian not-for-profit organisations are on par with the world's best. They display many strengths that put them ahead of global benchmarks for all sectors—including communicating a shared vision, attracting talent, focusing on beneficiaries, and forming deep partnerships with the community (Exhibit E2). These are underpinned by the sector's unique endowment of being purpose-, values- and mission-driven. Indeed, our social sector leaders have much to teach the rest of the world about alignment with purpose and mission.

Looking at the healthiest organisations in our survey, we found a pattern of three essential capabilities: talent growth, execution excellence and system shaping (Exhibit E3). To ensure robust health, an organisation needs to achieve effectiveness in all these capabilities; however, our research shows that most organisations face challenges in at least two of these areas.

Australia's not-for-profit sector is world class on several dimensions.

Proportion of organisations which are above the benchmark, %



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

Capability 1: Growing talent

The ability of not-for-profit organisations to recruit talent is not matched with practices for challenging that talent to grow. While 90 percent are above the global median on the former measure, only 35 percent exceed the median on the latter. Indeed, when we asked employees to pinpoint the values they most want to see in their organisations, but which are lacking today, their three top answers were: coaching and mentoring, professional growth and employee focus.

Organisations can achieve more than they thought possible by recognising, challenging, and extending the natural talent the sector attracts. Three practices on which they can focus include setting clear and measurable performance goals for individuals; using regular, formal performance-feedback conversations; and providing merit-based opportunities and recognition.

Capability 2: Execution excellence

Only 40 percent of organisations are above the median on execution excellence and operational discipline, with many employees seeking greater emphasis on efficiency. Only two-thirds of not-for-profits surveyed believe that they measure outcomes effectively and take corrective, follow-up action when those outcomes are lacking—although this is partly driven by traditional funding models being output-focused.

Organisations need to see operational effectiveness as critical to the delivery of social impact at scale. To build this capability, they can aim to enhance three practices: using role clarity to empower employees to make decisions; defining outcomes and operational and financial metrics; and identifying and mitigating risks.

Capability 3: Shaping the system

On shaping the system in which they operate, 60 percent of organisations are above the median. Most have strong practices in beneficiary focus and partnerships, but efforts to drive and scale deeper innovation are not consistent across the sector.

The sector has the potential to capitalise on its deep connections with partners and community to drive greater innovation. To seize this opportunity, organisations need to build their strengths in three practices: understanding the value they offer and their place in the system; building mutually beneficial partnerships with stakeholders; and encouraging top-down and bottom-up innovation.

While harnessing the full potential of the not-for-profit sector will require collective effort (see next section), there are things that organisations can do on their own—and many in the sector are leading the way—to build these essential capabilities. In consultation with the sector, there is a strong desire to build more proactive sharing to enable learning from their best in their context. At the end of Chapter 2, we outline the key step of understanding the mindset shifts required, and the actions needed to move them.

Exhibit E3

The healthiest not-for-profit organisations excel in three capabilities.

	Talent growth  <p>Creating the performance culture for people to grow more than they thought possible</p>	Execution excellence  <p>Establishing the operational discipline to enable mission execution</p>	System shaping  <p>Shaping society through community connection, collaboration and innovation</p>
Strengths to build on:	Talent acquisition	Role clarity and personal ownership	Partnerships and stakeholder management
Developing this capability includes:	<ul style="list-style-type: none"> • Performance contracts, reviews and consequence management • Opportunities, incentives, recognition 	<ul style="list-style-type: none"> • Operationally disciplined culture • Financial, risk and operational management 	<ul style="list-style-type: none"> • Top-down, bottom-up innovation • Capturing, sharing knowledge and ideas
Organisations above the median benchmark, %	 35%	 40%	 60%

Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

A collective commitment to an inclusive and sustainable future

The not-for-profit sector can play a critical role in ensuring an inclusive and sustainable future, and opportunities exist to build on its significant strengths, and unlock potential across the sector even further. But even the healthiest organisations find that internal efforts to build capabilities can only take them so far.

So, how can Australia collectively move at the speed and scale required? And how can leaders from all sectors play a concrete role in helping not-for-profit organisations capture opportunities and overcome barriers?

We propose ten bold, cross-sector ideas for further investment in the capabilities of not-for-profit organisations, to enhance the impact of the sector, and give it the greatest chance of delivering for all Australians (Exhibit E4).

Talent growth

Growing talent must be a priority for the sector, both as a critical enabler of impact, and as the support most requested by employees. In particular, support must go to middle- and upper-tenure managers who form the critical executive layer, whom we found had the lowest satisfaction with their career pathways and recognition, and are at highest risk of departure. We propose three ideas to broaden opportunities for cross-sector professional development: expanding sponsored leadership development for the sector; scaling investment in immersive cross-sector leadership programs tenfold; and expanding access to coaching and mentoring on critical practices, such as performance dialogues.

Execution excellence

Well-functioning enabling systems are crucial to achieve impact at scale, particularly in compliance-heavy domains. There has been unprecedented progress on some fronts of digital enablement, including digital service delivery, but progress has been inconsistent across the sector.

Additional focus here could improve beneficiary outcomes, reduce risk, and simplify processes. We propose four ideas to enhance these crucial support functions: upskilling digitally to unlock the power of data for mission delivery; taking action on risk; building foundational skills on streamlined enabling systems; and scaling cross-sector secondments to build execution capability.

Exhibit E4

Ten ideas to drive further collaboration at the speed and scale required.

Talent growth		Execution excellence		System shaping	
Broadening opportunities for professional development		Enhancing ability to execute on mission		Supporting innovation, collaboration and entrepreneurship	
<ol style="list-style-type: none"> Expand sponsored leadership development for the not-for-profit sector. Invest to increase places in immersive cross-sector leadership programs by tenfold. Expand access to coaching and mentoring on critical practices. 		<ol style="list-style-type: none"> Upskill in digital and analytics to unlock the power of data for mission delivery. Take action on key risks, especially cybersecurity. Build foundational skills on streamlined enabling systems. Scale cross-sector secondments to build execution capability. 		<ol style="list-style-type: none"> Invest in evidence collection and dissemination to improve innovation. Scale outcomes-based contract procurement and management. Quarantine funding for 'issue-centric' collaboration across organisations and sectors. 	

System shaping

Given its deep relationships with beneficiaries, partners and government, the not-for-profit sector is uniquely positioned to support system change. Unlocking system change requires that we reshape the numerous institutional norms and incentives tied up in the maintenance of current funding and delivery models—particularly with government partnerships. We propose three ideas to support innovation, collaboration and entrepreneurship—across organisations and sectors—including investing in evidence collection and dissemination to improve innovation; scaling outcomes-based contract procurement and management; and quarantine funding for “issue-centric” collaboration across organisations and sectors.



Conclusion

Overcoming the challenges of collaboration won't be easy: historically, tough barriers have held the sector and its partners back from effective cross-sector collaboration and innovation. This makes it all the more important to galvanise investment and support with the specific goals of driving collaboration, growing capacity and shifting incentives.

Leaders can consider what their organisations are best placed to do by reflecting on the following questions:¹

Not-for-profit leaders	<ul style="list-style-type: none">• Are you extending and rewarding your talent, and having challenging conversations?• Are you equipping your organisation with the data, decision-making authority, systems and processes to execute with excellence?• Are you fostering the culture and practices to collaborate, learn and to innovate within and beyond your organisation?
Business leaders	<ul style="list-style-type: none">• Are you creating time for leaders and employees to participate in cross-sector secondments, sponsorship, mentoring and coaching?• Are you sharing your expertise with the not-for-profit sector, through tailored or existing training programs and leadership forums?• Are you improving access to, and support for, tools and resources your organisation has available, such as digital tools?
Government leaders	<ul style="list-style-type: none">• Are you providing resourcing for dedicated bodies that address knowledge gaps and work with partners to translate evidence into action?• Are you linking government funding to outcomes rather than activities, and establishing the management systems to support it?• Are you encouraging and convening cross-organisation and cross-sector 'tiger teams' to address systemic issues and solutions?
Philanthropy leaders	<ul style="list-style-type: none">• Are you paying what it takes to ensure organisations have access to required development opportunities and enabling systems?• Are you practicing outcomes- rather than activity-focussed grant making, and establishing the management systems to support it?• Are you channelling funding and using your convening power to drive issue-focused collaboration across organisations?

The Australian not-for-profit sector is a valuable asset that should be treasured and nurtured, but also challenged to innovate and grow as it faces an uncertain future. With meaningful investment in its people, the sector could play a leading role in driving an inclusive, sustainable future for all Australians.

¹ There are further opportunities for contributions from boards that are beyond the scope of the research of this report, which we will address in the future.

About this research

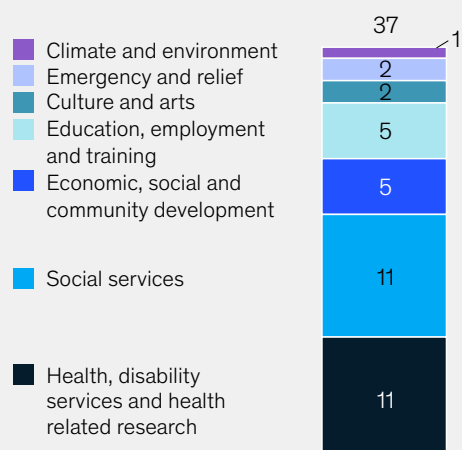
This research effort surveys the organisational health of the Australian not-for-profit sector. Expansive in breadth and depth, it uses a range of quantitative and qualitative sources to construct a robust repository of data and insights:

- Interviews with more than 100 senior leaders from across the sector and beyond—both key personnel from organisations participating in the survey, major funders, and respected experts from Australian and global institutions. These conversations were held one-on-one, and at multiple collaborative roundtables and workshoping sessions with 60 leaders of not-for-profit organisations.
- Ten in-depth case studies of innovative organisations working on topics ranging from child welfare to climate transition and residential aged care. These included smaller organisations with fewer than 100 staff, as well as integrated national providers with workforces in the thousands.
- Surveys of 4,500 people across 37 prominent not-for-profit organisations, and more than 70 hours of readout discussions. These organisations collectively support more than 700,000 beneficiaries each year, with a combined annual budget in excess of 2 billion and support a range of causes (Exhibit E5).²
- Comparisons to global organisational-health benchmarks, with over three million responses drawn from over 800 organisations.
- Quantitative review of demands placed on, and funding channelled to, the Australian not-for-profit sector, as well as broader patterns impacting the Australian economy.

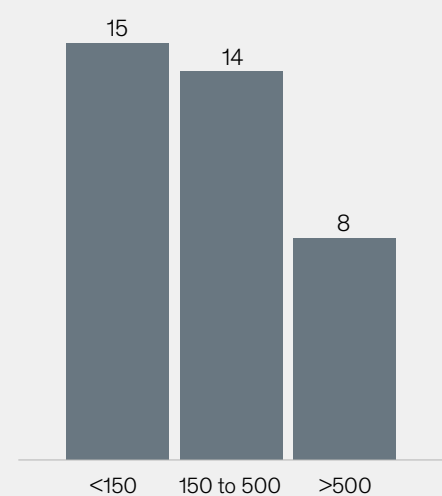
Exhibit E5

Organisations represented by this research

Organisations by sub-sector,¹ no. of organisations



Organisations by number of FTE,² no. of organisations



¹Consolidated from ACNC classifications.

²Includes full time, part time and casual FTE.

Source: ACNC Database (2019)

² Total direct beneficiaries calculated from publicly available information from the organisations. All \$ figures included in this report are AU\$.



Rising demands, growing complexity: a sector under pressure

Australia's not-for-profit sector plays a critical role in our society and economy. The sector has long been instrumental in promoting inclusive and sustainable economic growth and improved welfare, conducting activities and working with people that might not otherwise be reached by government or business.³

While the COVID-19 pandemic brought the sector's value to the fore, the gap between demand for services and the resources to supply them has stretched organisations to their limits. The situation is likely to become more challenging, as broader social recovery lags behind that of mainstream economic activity, and uncertainties associated with the realignment of Australia's economy take their toll on the sector's clients.

At its best, Australia's response to the pandemic has been characterised by collaboration, innovation, and entrepreneurship across all sectors. As Australia emerges from the grasp of COVID-19, there is a unique opportunity to build on that collaboration, harnessing the power of the not-for-profit sector to ensure an inclusive and sustainable future for all Australians.

At the heart of an inclusive society

The not-for-profit sector plays a critical role in creating a more inclusive Australia, supporting those in need, safeguarding those at risk, and working as agents of change. It is an important part of the economy, employing 1.38 million people and providing 11 percent of jobs in Australia.⁴ A further 3.6 million volunteers help to deliver programs, which is approximately one in seven Australians.⁵ The sector's economic contribution is estimated to be \$129 billion—comprising \$71.8 billion direct contribution, and a \$57 billion indirect contribution that constitutes 4.8 percent of Australia's gross value added.⁶

While this is significant, the not-for-profit sector is so much more than its economic contributions. As Tony Stuart, Chair of the ACNC Advisory Board and CEO of UNICEF Australia, succinctly puts it: "The not-for-profit sector is one of our competitive advantages as a nation."

The sector is also unrivalled in the creation of social capital—the bonds of trust that exist in civil society and among different communities. One example is Surf Life Saving Australia: for every \$1 invested into SLSA, a return of \$20.20 is achieved for the Australian community.⁷ The sector enables diverse communities to build connections with political and social institutions, and creates better linkages between people and services. Moreover, the sector builds confidence in Australian institutions more

³ *Contribution of the not-for-profit sector*, Research Report, Productivity Commission, January 2010.

⁴ *Australian charities report*, 7th ed., Australian Charities and Not-for-profits Commission, May 2021.

⁵ *Ibid.*

⁶ *Economic contribution of the Australian charity sector*, Deloitte Access Economics, deloitte.com, November 2017.

⁷ *Between the red and yellow flags*, Deloitte Access Economics, deloitte.com, August 2020.

The not-for-profit sector is one of our competitive advantages as a nation.

broadly through its critical role as advocate, watchdog, and guardian of the citizens it supports, whether marginalised by economic circumstance or vulnerable due to their stage of life, being children or the elderly.⁸

What these organisations have in common is that they are non-profit, have a charitable purpose and act in the public interest; but they are integral to our society in different ways. Some deliver social services, and are funded by federal and state government to respond to today's priorities. Others are fully supported by philanthropy and various donors, and see their role as influencing government to take action on tomorrow's priorities. In aggregate, government funding is the most significant source of revenue for not-for-profit organisations, at 48 percent.⁹ This is driven in part by the services the sector provides in government's stead: for example, not-for-profit organisations provide accommodation for 60 percent of aged and disabled care residents (compared to 6 percent provided by government and 34 percent by for-profit organisations).¹⁰

Australia's not-for-profit sector also reaches those in need more effectively than other sectors. Twelve percent of respondents identified community, charity, or religious organisations as a source of support in times of crisis, while only 5 percent nominated council or government services.¹¹ Australians also find it easier to communicate with and access services from the not-for-profit sector, with only 1 percent finding this process difficult, compared to 14 percent who struggle to deal with business and government.¹² Given this focus on community and the critical role it plays in our society, it is unsurprising that the not-for-profit sector is so trusted.¹³

Rising to the challenge: stepping up to support communities

Australia's response to COVID-19 has been notable for several reasons. Australia has an enviable record of controlling cases and deaths.¹⁴ Australia also provided far more extensive financial support than many countries.¹⁵ As a consequence, Australia achieved one of the strongest economic outcomes globally, retaining a positive GDP growth rate in the top three of its OECD peers compared to pre-pandemic levels.¹⁶

This enviable result has been achieved with long, stringent lockdowns, particularly in Australia's most populous states (Exhibit 1). However, extended lockdowns and closures created many challenges for the vulnerable.

⁸ *Study into the contribution of the not for profit sector*, Australian Council of Social Service, June 2009.

⁹ *Australian Charities Report*, 2021.

¹⁰ Community Services 8696.0, Australian Bureau of Statistics, abs.gov.au, 2009.

¹¹ General Social Survey 4159.0, Australian Bureau of Statistics, abs.gov.au, 2006.

¹² *Ibid.*

¹³ 'Trust Barometer 2021 Australia Report', Edelman, edelman.com.au, February 2021.

¹⁴ Our world in data, Coronavirus cases and Coronavirus deaths, ourworldindata.org, 2021.

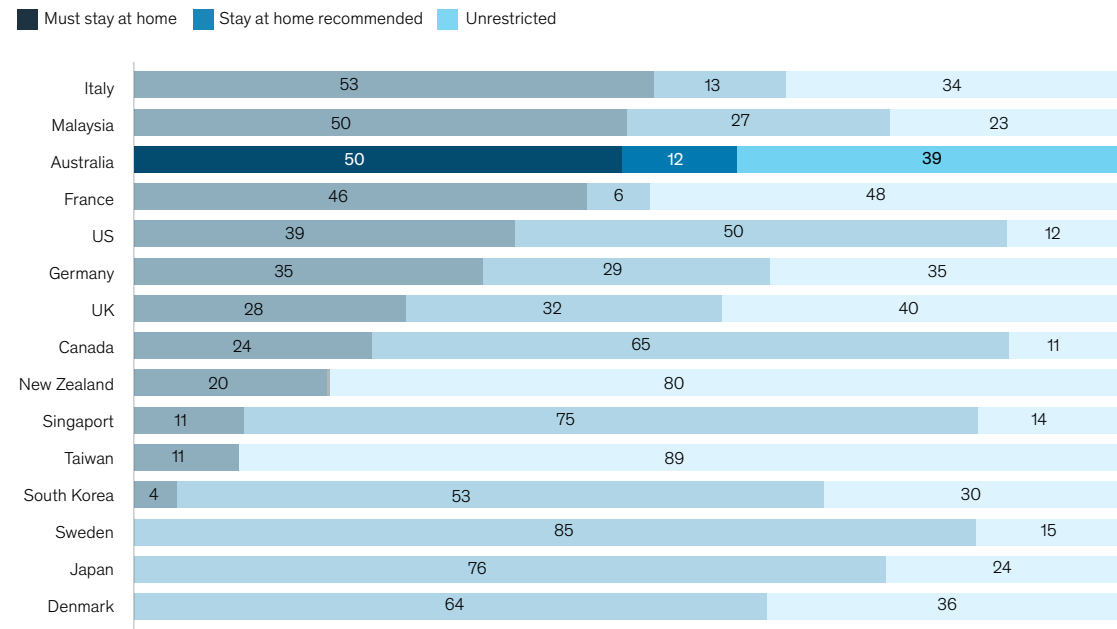
¹⁵ Policy responses to COVID-19, International Monetary Fund, imf.org, 2021

¹⁶ 'News Release: G20 GDP growth Quarterly National Accounts', OECD, September 15, 2021.

Exhibit 1

Australia has had more days under stay-at-home orders than most.

Days spent under government stay-at-home orders from the beginning of the pandemic to 7 October 2021, % of total



Note: Restriction level reflects the strictest settings in place anywhere in the country
Source: Oxford Covid-19 Government Response Tracker (OxCGRT), University of Oxford, 18 October 2021

Over the course of Australia's COVID-19 response, demand for the sector's services increased (Exhibit 2). In response to unemployment, the number of people without access to adequate food, and relying weekly on Foodbank for relief, doubled.¹⁷ Mental-health services saw significant increases in call volumes, with Beyond Blue seeing a 68 percent increase in calls in mid-April 2020 compared to 2019, and Lifeline a 22 percent rise over the same period.¹⁸ Thirty-six percent of domestic-violence service providers reported a moderate to significant increase in new clients during the first three months of the pandemic.¹⁹ Searches on social-services support platforms were over 120 percent higher in April 2020 than over the same period the previous year.²⁰

Demand growth was experienced not only in volume, but in complexity. As Settlement Services International CEO Violet Roumeliotis reflects, "The anxiety and fear felt through COVID-19 meant that the intensity of need our clients were experiencing increased markedly; our case managers became a lifeline for our clients in many ways, while facing difficulties themselves." These increases in demand for services are similar to those seen following the global financial crisis in 2009, when 65 percent of organisations reported an increase in demand for services.²¹

Digging beneath the headline numbers, we see several likely drivers of this. First, the pandemic has exacerbated access challenges for people who are already reliant on social-welfare support (provided by

¹⁷ Foodbank hunger report, Foodbank, foodbank.org.au, October 2020.

¹⁸ Mental health services in Australia, Australian Institute of Health and Welfare, aihw.gov.au, accessed 27 October 2021.

¹⁹ Kerry Carrington et al, *The Impact of COVID-19 pandemic on domestic and family violence services and clients*, QUT Centre for Justice, November 2020.

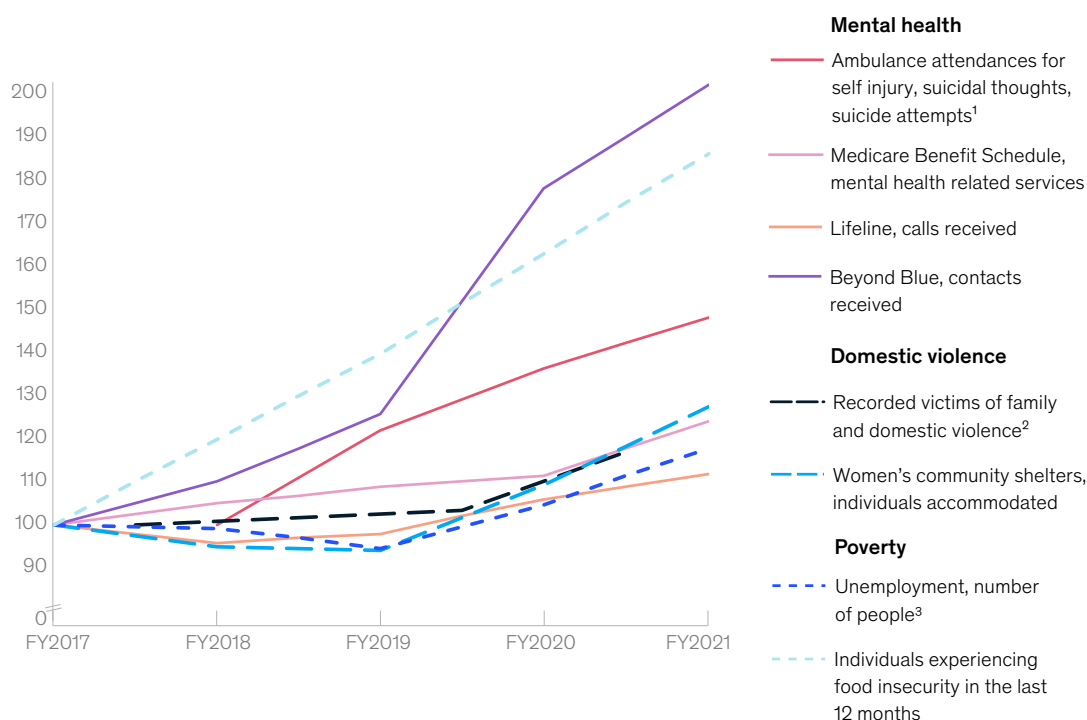
²⁰ 'How COVID-19 is affecting Ask Izzy usage', Infoxchange, infoxchange.org, May 5, 2020.

²¹ 'Impact of the economic downturn on not-for-profit organisation management', Centre for Corporate Public Affairs, dss.gov.au, June 2009.

Exhibit 2

Demand has trended up for many of the sector's services.

Indicators of demand for services delivered by not-for-profit organisations, indexed to 100



¹Includes attendances for self injury, suicidal thoughts and suicide attempts in NSW, VIC, ACT and TAS.

²Plotted in calendar years.

³Average of unemployment monthly data across financial years.

Source: ABS, AIHW, Lifeline Annual Reports, Beyond Blue Annual Reports, Women's Community Shelters Annual Reports, Foodbank Annual Reports

government or the not-for-profit sector) due to travel restrictions, staff shortages and the like. Second, a large number of people entered the system for the first time due to issues that emerged during the pandemic, such as mental health crises, or requests for transitional housing to escape domestic violence. Third, there are many people whose underlying conditions were made more complex or severe due to lockdowns and reopening, for example those with drug and alcohol dependencies who lost access to services ordinarily provided in person. Taken together, these new demand drivers meant there was no “one size fits all” solution for not-for-profit organisations looking to respond to growing demand.

Stretched to the limit: a gap between demand and resourcing

One third of not-for-profit organisations believe that COVID-19 created a significant threat to their viability, and research in mid-2020 found that 78 percent experienced a downturn in revenue due to COVID-19.²² One in five reported a revenue decrease of between 15 and 30 percent. For a further one in five organisations, the revenue decrease was more than 30 percent.²³

²² ACOSS (2020) Unpublished survey data. Survey of ACOSS members conducted in mid-April 2020, with 170 respondents, *Will Australian charities be COVID-19 casualties or partners in recovery?* Social Ventures Australia and the Centre for Social Impact, June 2020.

²³ *Ibid.*

It is worth noting that Australia's federal and state governments provided extensive income and welfare support, including payments to workers in the charitable sector. Support included over \$20 billion in payments via JobKeeper, disaster support, and an estimated ~\$100 million in various state programs.²⁴

These supports are being progressively withdrawn over the course of Australia's transition to a vaccination-based COVID-19 management strategy (Exhibit 3).

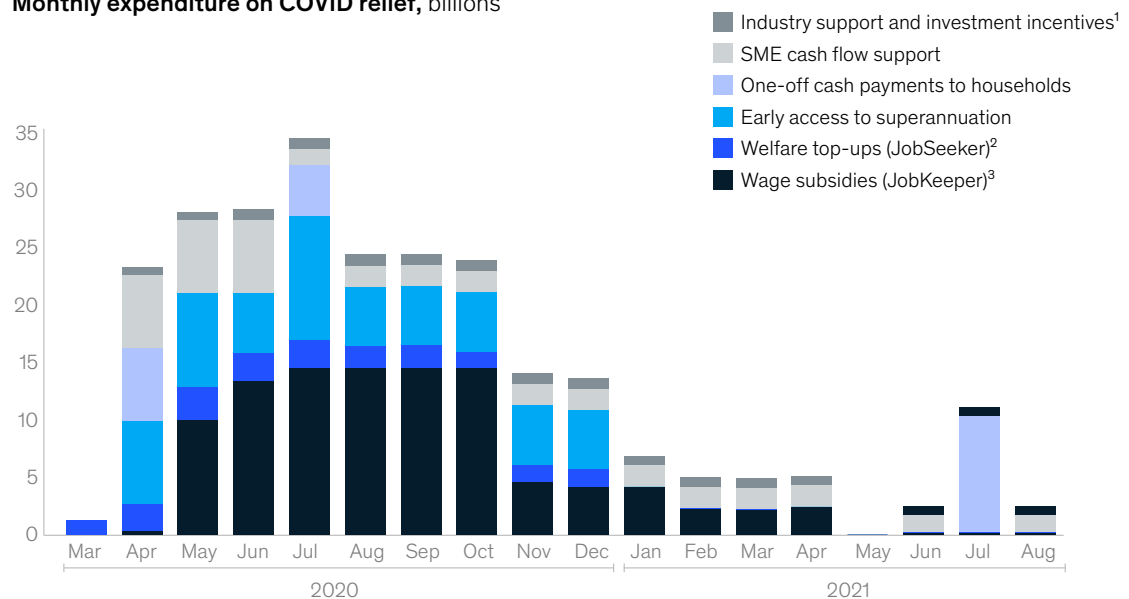
There are countless stories of not-for-profit organisations that pivoted rapidly to help those who found themselves in precarious situations or without support. Lifeline, Beyond Blue and Kids Helpline filled the role of first responders to mental-health challenges throughout the pandemic, supplementing private and public mental-health infrastructure, with increases in contacts answered of 28 percent, 32 percent and 18 percent respectively in June 2021 compared to June 2019.²⁵ At the same time, one in five psychologists closed their books to new patients, under strain of demand from the pandemic.²⁶

Given these conditions, it is unsurprising there is widespread fatigue and burnout. This trend is evident across the entire economy at present, with every sector facing "the great resignation", and it is hard to forecast how quickly conditions will revert to normal.²⁷ One thing is certain, however: individuals and the

Exhibit 3

Government COVID-19 expenditure is declining with Australia's reopening.

Monthly expenditure on COVID relief, billions



¹Includes business investment incentive of ~\$4B and direct industry support of ~\$7B, and increase in instant asset write-off.

²Includes JobKeeper initial package and extension and apprentice/trainee wage subsidies.

³Includes JobSeeker initial package and extension and reduced deeming rates.

Source: Government announcements; APRA COVID-19 Early Release Scheme, Press search, Treasury, Budget

²⁴ *The JobKeeper Payment: Three-month review*, The Treasury, treasury.gov.au, July 2020.

²⁵ 'Mental health impact of COVID-19', Australian Institute of Health and Welfare, 2021.

²⁶ Rachel Clun, 'One in five psychologists close books to new patients under pandemic strain', *The Sydney Morning Herald*, September 2021.

²⁷ As discussed in Ian Cook, 'Who is driving the Great Resignation?', *Harvard Business Review*, September 2021; and Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "Great Attrition" or "Great Attraction"? The choice is yours', McKinsey.com, September 2021.

‘My staff will just keep going because of the client, but what they are telling me is, “I’m burnt out and I’m going to fall over.”’

organisations they work for do have tipping points. As one CEO puts it, “My staff will just keep going because of the client, but what they are telling me is, ‘I’m burnt out and I’m going to fall over.’”

The research undertaken for this report suggests that excessive strain on the sector’s people is a burden not only on individuals’ health, but also on organisational health. In the next chapter, we present an in-depth diagnosis of the Australian not-for-profit sector’s current organisational health.²⁸ We show that, despite strong commitment and a deep sense of mission, many organisations need to strengthen operational discipline. Most worryingly, we find that talent growth has largely stalled in the sector; the pressures of the present are getting in the way of building employees’ futures.

Looking ahead: a widening gap, and consequences of underinvestment

While the COVID-19 pandemic amplified pre-existing trends related to disadvantage and vulnerability, it did not create them, and they are not going away. Elevated demand for the sector’s services is unlikely to wane soon. More than ever, Australia is asking the not-for-profit sector to provide more to people in increasingly difficult times.

Heightened demand is likely to persist

The COVID-19 shock has exacerbated economic inequality. Asset prices, especially housing prices, appreciated at record rates, while in 2020 the share of company revenue paid out as wages—labour’s share of income—fell below 50 percent in Australia for the first time in decades.²⁹ Past international experience shows that economic crises have an uneven impact, with the greatest impacts on the factors that drive the wellbeing of those most disadvantaged (such as job security, safety and education).³⁰ Already we are seeing how this could play out in the wake of COVID-19: recovery is expected to take longer in sectors with higher proportions of casual or gig workers (arts, entertainment, recreation, accommodation and food services).³¹ The government’s targeted disaster payments for the young and less wealthy recognised, and went some way towards dampening, these uneven impacts.

The impacts of lockdown and containment have also been uneven. Prolonged lockdowns and remote learning have increased education inequality. It’s estimated that this has resulted in twice as many unfinished months of learning for children from low-income, as compared to high-income, families. For those who fall behind, there will be long-term impacts on earnings.³²

²⁸ Organisational health is an organisation’s ability to align, execute, and renew itself over time.

²⁹ Residential property prices index: Eight capital cities, Australian Bureau of Statistics, abs.gov.au, 2021, and Gareth Hutchens, ‘Why company profits have jumped in Australia during COVID-19 while workers are taking home less’, ABC News, abc.net.au, 3 Sept 2020.

³⁰ Marmot M, Bloomer E, Goldblatt P. ‘The role of social determinants in tackling health objectives in a context of economic crisis’, *Public Health Reviews*, June 7, 2013

³¹ ‘COVID-19 recovery in hardest-hit sectors could take more than 5 years’, McKinsey & Company, July 2020.

³² Emma Dorn, Bryan Hancock, Jimmy Sarakatsannis, and Ellen Viruleg, *COVID-19 and education: the lingering effects of unfinished learning*, McKinsey & Company, July 2021.

We know that cycles of disadvantage are hard to break. Children who have experienced poverty are more likely to experience poverty and financial stress as adults, and have poor mental and general health.³³ Not-for-profit involvement in planning and implementing sustainable and inclusive recovery is critical. Post-disaster reviews have repeatedly confirmed that the non-government sector needs to be fully incorporated into recovery planning at local, regional, jurisdictional, and national levels, as they play a crucial role in recovery efforts.³⁴ COVID-19 confirmed the connection to community-based organisations as an essential part of emergency operations.³⁵

Looking ahead, future shocks will continue to threaten to widen inequality gaps. For example, climate change has already started to increase within-country inequalities, as disadvantaged groups suffer disproportionately from its adverse effects.³⁶ As Australia navigates the challenges of an aging population, decarbonisation, and rapid technological change, it will continue to need the support, advocacy and services that the not-for-profit sector provides.

Resourcing challenges are likely to continue

While heightened demand is likely to continue, the resourcing outlook for the sector should be approached warily. There will be significant pressures on spending as the government balances the needs of an aging population, re-skilling to support workforce participation, and investment into digital technologies to boost productivity.³⁷ The fiscal strategy published by the government in the 2021 budget indicated that budget repair will begin once unemployment reaches target levels.³⁸

Revenue from philanthropic giving is also uncertain. Following the global financial crisis in 2008-09, 42 percent of not-for-profit organisations reported a decrease in philanthropic funding.³⁹ Charitable giving then dropped off for two consecutive years, by a total of 15 percent, and it took six years before total donations recovered to pre-crisis levels.⁴⁰ However, there are tailwinds that could drive growth of philanthropic giving. The combined wealth of Australia's billionaires is over 50 percent higher than it was in December 2019, and Australia is on the cusp of an unprecedented intergenerational wealth transfer of \$1.1 trillion in the next ten years.⁴¹

A moment of choice

We are at a unique moment of choice for Australia. The COVID-19 crisis saw a remarkable willingness in all sectors to collaborate and innovate beyond their normal lanes. There has also been a renewed focus on environmental and social responsibility, both for consumers and businesses, helping to bring attention to issues that the sector already lives and breathes. The not-for-profit sector has the power to shape Australia's path to an inclusive and sustainable future. As the following chapter will illuminate, the sector has both remarkable strengths on which to build, and significant opportunities to boost innovation, improve operational discipline, and foster a performance culture that can develop and challenge talent to achieve more than it thought possible.

³³ Watkins, H., *Children who experience poverty more than three times more likely to be poor as adults*, University of Melbourne, October 2020.

³⁴ *Royal Commission into National Natural Disaster Arrangements—Report*, naturaldisaster.royalcommission.gov.au, October 2020.

³⁵ Sanjiv Baxi, Marie-Renée B-Lajoie, Matt Craven, Mihir Mysore and Matt Wilson, 'The future of emergency operations centres: six shifts to consider from COVID-19', McKinsey & Company, July 2021.

³⁶ Iazrul Islan, S, and Winkel, J., 'Climate change and social inequality', Working paper for United Nations Department of Economic and Social Affairs, October 2017.

³⁷ '2021 Intergenerational Report, Department of Treasury', The Commonwealth of Australia, treasury.gov.au, June 2021.

³⁸ '2021 Budget overview: Securing Australia's recovery', The Commonwealth of Australia, treasury.gov.au, May 2021.

³⁹ 'Impact of the economic downturn', 2009.

⁴⁰ Myles McGregor-Lowndes and Marie Crittall, 'An examination of tax-deductible donations made by individual Australian taxpayers in 2016–17', *Australian Centre for Philanthropy and Nonprofit Studies (QUT)*, 2019.

⁴¹ 'A blueprint to grow structured giving', Philanthropy Australia, philanthropy.org.au, April 2021.



Building the organisational health of the not-for-profit sector

How can Australia harness the power of the not-for-profit sector to drive towards an inclusive and sustainable future? This is the fundamental question at the heart of this research effort. Seeking answers, we conducted in-depth discussions with dozens of leaders across the sector, surveying 4,500 personnel across 37 not-for-profit sector organisations, benchmarked against a global dataset of more than 3 million responses (see “About this research”).

We found that Australian organisations in this sector have many world-class abilities, including being purpose-driven, attracting highly motivated people, and building deep connections with communities and partners. In fact, in this regard, they have much to teach the leaders of Australia’s major corporations and government agencies.

We also saw a striking pattern of three capabilities that the best organisations have developed: growing talent, executing with excellence, and system shaping. Among the leaders we spoke with, there was broad recognition that now is the time for the not-for-profit sector to seize these opportunities, both to navigate funding challenges, and to step up and play a central role in revitalising Australia’s society and economy.

In this chapter, we explore the sector’s relative strengths, and areas for improvement, through the lens of organisational health—that is, how well an organisation aligns around a mission, executes against this ambition, and renews itself over time. To measure organisational health, we used the Organisational Health Index (OHI), a powerful survey-based tool (see “The Organisational Health Index”).

The Organisational Health Index (OHI)

An organisation’s health—its ability to align around and achieve strategic goals—is critical for long-term performance. The Organisational Health Index is a survey-based tool that provides leaders with a clear method to measure and improve organisational health. The OHI is not a measure of sentiment or engagement; rather, it examines outcomes (how healthy is your organisation?) and practices (what behaviours does your organisation adopt to stay healthy?). The OHI database of more than 3 million survey responses enables an organisation to benchmark its own OHI against institutions from around the world, providing specific guidance on strengths to build on and opportunities for improvement, down to the practice and team level.

Decades of research based on OHI has found that the healthiest organisations tend to deliver two to three times the impact of their less healthy peers.⁴² The relationship that this research shows between performance and organisational health holds up across all sub-sectors, from healthcare to technology to service delivery.⁴³ In the private sector, this can be measured by total return to shareholders, customer satisfaction, or return on invested capital. In the not-for-profit sector, however, there is no universally accepted measure of impact or productivity that could so simply underpin a correlational analysis between organisational health and performance (see “Measuring Social Impact”). Nevertheless, it’s fair to say that not-for-profit organisations will be able to deliver significantly greater performance in terms of social impact achieved and beneficiaries supported if they undertake the practices that make organisations healthier. This is the logic underpinning this research.

Measuring social impact

Measuring the positive social impact of the not-for-profit sector is notoriously difficult, whether it involves establishing baselines, agreeing on which metrics to use, aligning comparable metrics across sub-sectors, or apportioning the contribution made towards an outcome.⁴⁴ This challenge is commonly addressed through input measures such as “how much was spent”, or output measures such as “how many bed-nights were occupied”.

Leading not-for-profit organisations combine the tracking of targeted, longer-term outcome measures that show overall impact but may be driven by a multitude of factors (such as recidivism rates), with shorter-term leading indicators, which the organisation has greater control over, and that logically contribute to those outcomes over time (such as program completion rates, proportion of beneficiaries with a job, and self-reported measures of mental health and outlook). The very best organisations then collaborate with others across their issue area to analyse the links between outcomes and leading indicators over time, innovating in their focus or approach when indicators do not have the intended impact on outcomes. Effective outcomes measurement is connected to the mission, integrated into programs, and used to inform decisions and communicate impact. There are many excellent resources which provide step-by-step guidance.⁴⁵

While there is a broad range of impact-measurement approaches across the not-for-profit sector, most measures are not sufficiently informative or comparable across organisations, given the nature and complexity of the issues the sector tackles. Communication of value added by the sector was recognised as a challenge in preparing the 2010 Productivity Commission report; economic measures based on financial and labour inputs do not capture the broader community benefits of the sector, nor the impact of education, research and advocacy on the policy process.⁴⁶

We will not attempt to solve the measurement conundrum in this report. Instead, we use the OHI fact base to show how organisations can build on existing strengths or explore new opportunities based on sector-wide patterns, further substantiated with profiles of organisations that have been successful in achieving both organisational health and exceptional delivery of their mission – however that may be defined.

⁴² Scott Keller and Colin Price, ‘Organizational health: The ultimate competitive advantage’, McKinsey Quarterly, June 2011.

⁴³ *Ibid.*

⁴⁴ Geoff Mulgan, ‘Measuring social value’, *Stanford Social Innovation Review*, Vol 8 No 3, 2010.

⁴⁵ Such as Ramia, I., et al. Roadmap to outcomes measurement: *Your step-by-step guide to planning, measuring and communicating social impact*, Centre for Social Impact, 2021.

⁴⁶ *Contribution of the Not-for-Profit Sector*, Research Report, Australian Government Productivity Commission, pc.gov.au, January 2010.

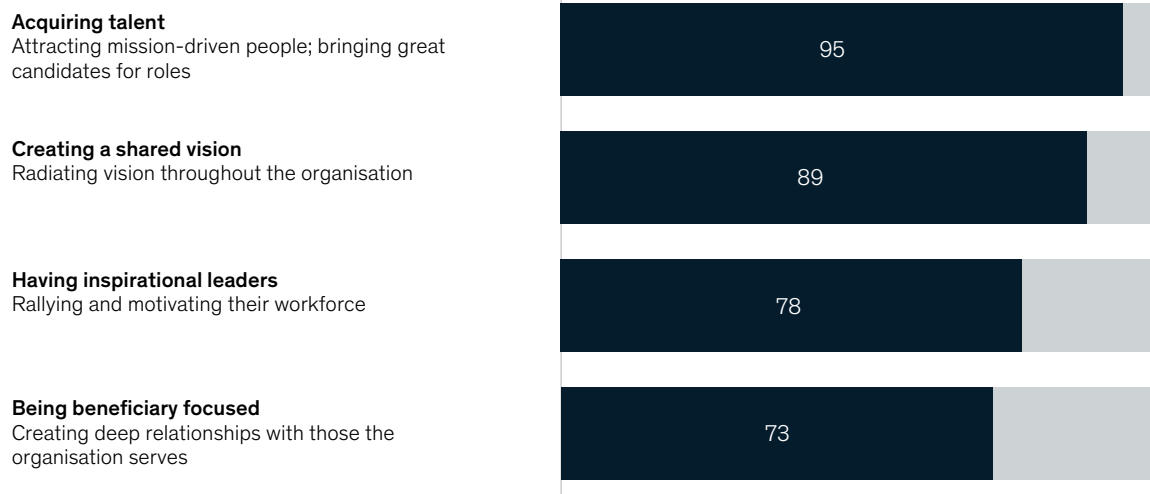
The Australian not-for-profit sector outperforms

The Australian not-for-profit sector is world-class in several areas. When putting Australian not-for-profit organisations alongside all other organisations in our global dataset, they outperform in several areas—including talent acquisition, shared vision, inspirational leaders and understanding of beneficiaries (Exhibit 4).

Exhibit 4

Australia's not-for-profit sector is world class on several dimensions.

Proportion of organisations which are above the benchmark, %



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

The core strength that underpins this performance is a deep focus on purpose and mission. This may seem like a self-evident outcome for a sector that is by definition focused on purpose over profit, but it is worth calling out, as it's not something that all organisations are able to achieve. Indeed, many organisations in the private and public sectors struggle to create a clear and consistent sense of purpose for their employees, despite much leadership focus and organisational investment.⁴⁷

There are three practices that are hallmarks of great purpose-driven organisations:

- *Having a clear purpose and meaningful values*, communicated across the organisation.
- *Translating purpose into clear strategic goals*, and engaging employees in developing these.
- *Celebrating inspirational leaders* who make work more meaningful for their employees and provide them with recognition.

⁴⁷ Naina Dhingra, Andrew Samo, Bill Schaninger, and Matt Schrimper, 'Help your employees find purpose – or watch them leave', McKinsey & Company, April 2021.

As Jennifer Tierney, CEO of Médecins Sans Frontières Australia, puts it, “Our work starts and ends with purpose . . . when you lose that, you start to lose your organisation and your people. Our impact in communities on the ground is so clear for us to see—it’s our driving force.”



Case study: Barnardos

For children’s safety charity Barnardos, defining a five-year strategy that employees and partners could get behind was all about building from purpose: taking the best of their approach to working with vulnerable children and their families, and applying it to themselves.

“Everyone who works at Barnardos is deeply committed to our mission, but in the past, we’ve each tended to tell a different story about exactly what we did”, explains Robert Wojtaszek, Strategy Manager at Barnardos.

“When you work with vulnerable children and families, you spend time upfront clarifying where they want to go, and work with them to prioritise the things that will make the greatest difference to their lives; because you can’t do everything at once. It’s the same with strategy and organisational health,” says Wojtaszek .

This realisation motivated Barnardos to focus on involving employees and stakeholders in building their new strategic vision, embarking on a roadshow to hear directly from staff with frontline experience. Once their strategy had been clarified, Barnardos had an honest conversation about what projects they needed to prioritise. Wojtaszek said, “We had 64 projects on the go, so we laid out all the things in-flight and had to make

decisions about what was possible, and which projects aligned to where we wanted to be.”

To achieve their strategy, they needed to be more collaborative, and work across portfolios. Wojtaszek said, “We don’t tell a family, ‘Mum, you’re only working on X, Dad, you’re working on Y, and Nan, you’re working on Z’—we solve each together”. Barnardos brought this ethos of shared ownership into their executive meetings, moving from individual operational updates to collective problem-solving around issues.

Barnardos has achieved greater transparency, clarity and energy throughout the organisation at the end of the first year of their five-year strategy, which was reflected in improved organisational health results after just 12 months. A staff member new to the organisation reflected that: “[Barnardos] is so transparent. The Executive and my manager tell me what’s going on in the wider organisation, and that gives me the autonomy and flexibility to solve problems as I see them.”

‘Our work starts and ends with purpose ... when you lose that, you start to lose your organisation and your people.’

Opportunities to unlock further impact

Our analysis suggests that the healthiest and most impactful not-for-profit organisations achieve excellence in three capabilities: talent growth, execution excellence and system shaping.

Our research shows that the sector has strengths to build on across each capability, but also opportunities to unlock further impact. Furthermore, strengthening these capabilities comes more easily to some than others. While 60 percent of the organisations we surveyed scored above the global median on system-shaping practices, 40 percent did so in operational excellence. Only 35 percent were above the median when it came to practices required for talent growth and performance management (Exhibit 5).

The collective score of these practices determines an organisation’s health score: those that are weak in all of the above capabilities are in the third to fourth quartile compared to global benchmarks. Having one of these capabilities in place increases the organisation’s health score by a quartile, on average. Two or more typically puts organisations in the top quartile of organisational health.

Exhibit 5

The healthiest not-for-profit organisations excel in three capabilities.

	Talent growth  <p>Creating the performance culture for people to grow more than they thought possible</p>	Execution excellence  <p>Establishing the operational discipline to enable mission execution</p>	System shaping  <p>Shaping society through community connection, collaboration and innovation</p>
Strengths to build on:	Talent acquisition	Role clarity and personal ownership	Partnerships and stakeholder management
Developing this capability includes:	<ul style="list-style-type: none"> • Performance contracts, reviews and consequence management • Opportunities, incentives, recognition 	<ul style="list-style-type: none"> • Operationally disciplined culture • Financial, risk and operational management 	<ul style="list-style-type: none"> • Top-down, bottom-up innovation • Capturing, sharing knowledge and ideas
Organisations above the median benchmark, %	35%	40%	60%

Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

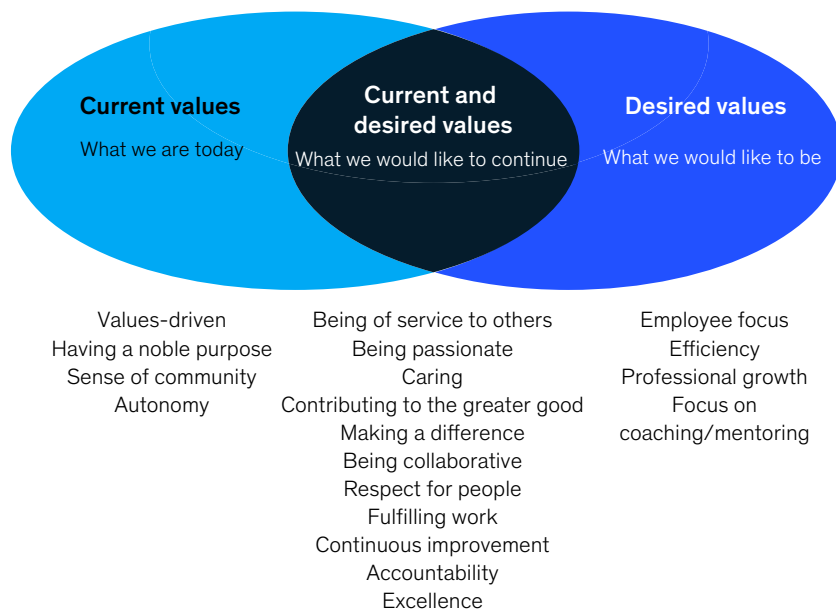
Underscoring this pattern were findings relating to values which already existed, or which were desired, in not-for-profit organisations (Exhibit 6). As expected, many values were already present around care, collaboration and support for others. However, there was also an unambiguous call for a greater focus on growing talent, including additional coaching and mentoring, opportunities for professional growth, and a focus on employee needs. It's worth emphasising that these values, focused squarely on developing people, are what not-for-profit employees themselves most want to see—but *find lacking in their organisations today*.

In the sections that follow, we explore each of these three capabilities in detail, including the kinds of strengths exhibited, variation across function and level, and areas for continued focus. We highlight exemplary cases from the sector. At the end of this chapter, we outline a proven approach for not-for-profit leaders to support their organisations in shifting mindsets and behaviours.

Exhibit 6

Values survey indicates desire for more professional development.

Top current and desired values, ordered by frequency



Source: OHI survey (4,451 responses from 37 organisations)

Capability 1: Talent growth

Recognising, challenging, and extending the natural talent the sector attracts to achieve more than they thought possible.

The not-for-profit sector has an enviable advantage in recruiting talent, given the access it provides to desirable conditions: meaningful work and a strong sense of community in the workplace. This is a huge asset, especially in the current context. Research spanning all sectors has found that the most talented employees' productivity is between two and eight times greater than the average, depending on job complexity.⁴⁸

However, as highlighted earlier, developing talent is an Achilles heel of the sector, and typically seen as “nice to have.” For **two-thirds** of organisations, the talent growth cycle stops. In simplistic terms, employees in the sector typically feel cared for, but they do not feel greatly challenged to grow. Organisations that excel on this dimension create an environment in which their employees feel recognised and valued, and are empowered and expected to extend themselves. This is vital for organisations to prepare individuals for future roles with greater complexity and levels of responsibility. As Tony Stuart, Chair of the ACNC Advisory Board and CEO of UNICEF, reflects: “My concern for my direct reports is that not all have had exposure to the diverse challenges they need, particularly in how to run a sustainable operation. We need to breed a lot more of our own leaders within the sector rather than parachuting people in.”

Perhaps most importantly, growing talent in not-for-profit organisations is ultimately about delivering more for the people those organisations serve. Progress in tackling Australia's deepest social challenges will not occur if staff aren't constantly challenged to reframe and improve their own approach, and held to account when what they deliver doesn't meet the bar. As Fiona Jose, CEO of Cape York Partnership, says, “We're now at 75-100 percent indigenous employment across many of our entities, which is central to our vision ... this wouldn't have happened without real conversations about performance and investing in capability.”

In this capability, the practices that organisations should aim to perform well include the following (Exhibit 7):

- *Setting clear and measurable performance goals* for individuals (referred to in this section as “performance contracts”), and having sector-appropriate consequence management—“carrots” and “sticks” which reinforce the link between performance and consequences.
- *Using regular, formal performance-feedback conversations* and assessments to evaluate, develop, and create individualised development plans.
- *Providing merit-based opportunities*, including training, public recognition, promotion, and financial and non-financial incentives.

‘Addressing poor performance doesn’t take away from having a positive culture.’

⁴⁸ Scott Keller, ‘Attracting and retaining the right talent’, McKinsey & Company, November 2017.

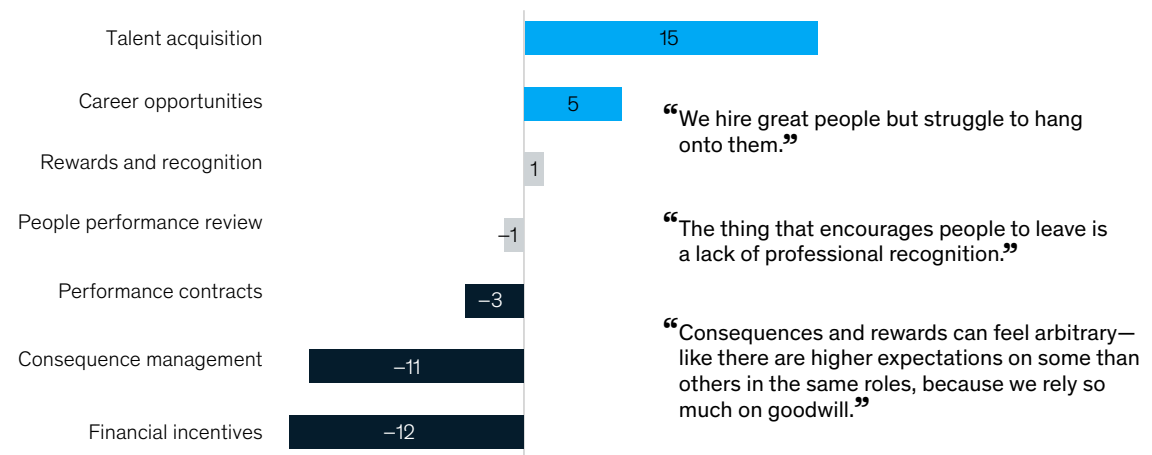
Currently, many practices that contribute to professional growth are infrequently or inconsistently applied in the sector (Exhibit 7). While some practices, such as financial incentives, are largely unavailable given funding constraints, there are many other ways to recognise and reward outstanding performance.

Exhibit 7

While the sector attracts great people, it could do more to support their growth.

Difference between Australian not-for-profit sector and global benchmark

Percentage point difference in OHI practice score



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

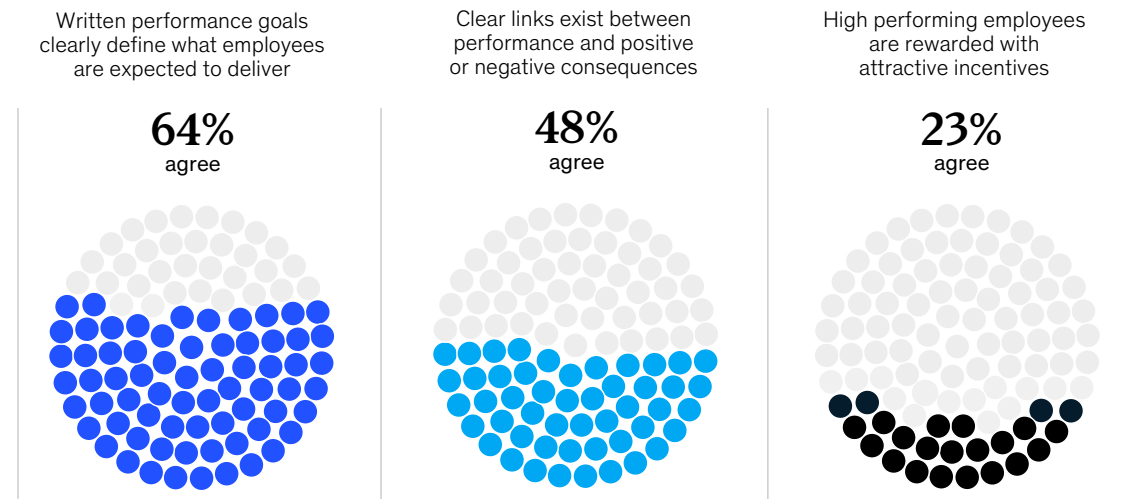
Performance goals exist but are infrequently used with the reinforcing mechanisms that make them most effective (Exhibit 8). Not only do high performers not see personal reward for their effort, but they also become increasingly frustrated with low-performing peers. As one employee explains, “At times we can be too nice, and we waste time by not saying what we mean. Addressing poor performance doesn’t take away from having a positive culture.”

It’s a call that leaders are heeding, while navigating their responsibilities as an employer. As one executive shared: “We have a trusting and supportive culture, but we need to be more comfortable with holding people to account—what must it feel like as an individual who is going above when we don’t hold underperformers to account?”

In the social sector, we also see significantly lower usage of core-talent development tools, such as performance reviews. Only **53 percent** say that performance feedback and review processes collect accurate information about employees’ strengths, weaknesses and potential.

Exhibit 8

Performance goals do not typically flow through to positive or negative consequences.



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

One people and culture executive shared that “the idea that people who are under- or over- performing are called out is alien to us”, and that they face a tension between “wanting to be inclusive and wanting to avoid under-performance.” Another executive similarly reflected that consequence management is “very counter cultural: providing feedback and highlighting great performance is not done frequently, and at the same time, it is also challenging for some of our leaders to have tough conversations.” Notably, many shared the repercussions of not having challenging conversations when needed: “We are getting feedback from our people that we are tolerating what they see as being less than effective behaviour, they are unhappy with our inability to address it.”

The culture of avoidance around recognising and celebrating individual performance is in part driven by fears of not giving the same recognition to all team members. One top team member reflected: “We thank everyone, and as a result we thank no one.” The implication of praise being evenly spread is that only **40 percent** say that those who made a meaningful contribution were given meaningful recognition.

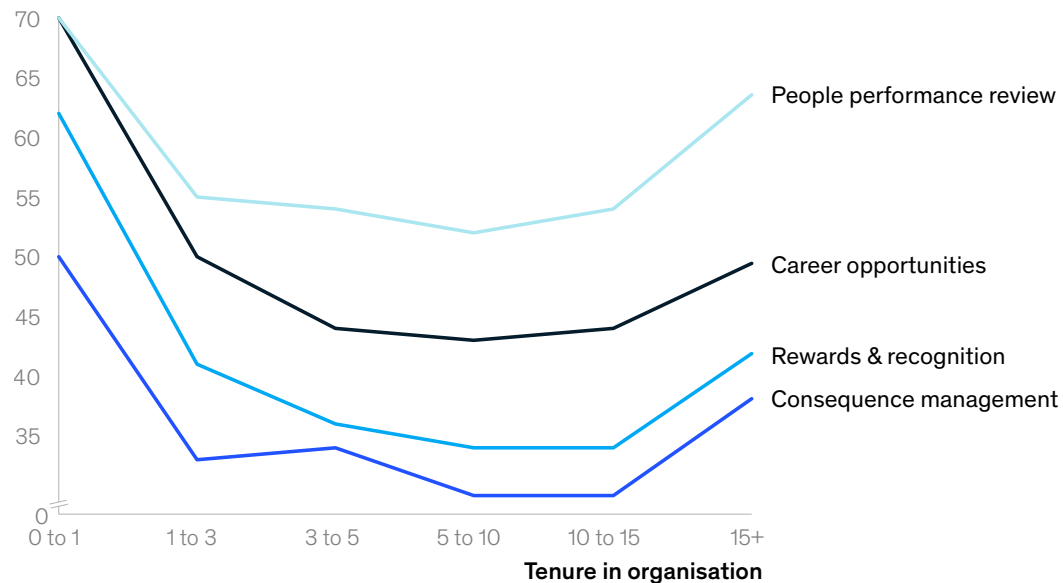
Where promotions are awarded, **58 percent** agree that promotions in the organisation are based on merit, but only **41 percent** feel that top performers get the most attractive career opportunities within the organisation. This indicates an opportunity to think differently about what career opportunities mean. Where organisations in other sectors have flattened their hierarchies, we have seen them increase focus on honing a “craft”, where developing expertise opens up a new set of career opportunities. One executive of a smaller organisation reflected, “We need to create defined learning curves within roles, to recognise and celebrate reaching mastery in the skills that matter most to our clients.” There is thus an unambiguous request for more focus on professional growth, coaching and mentoring in the context of desired values.

Our research found that middle-career employees in the sector have the sparsest career opportunities and recognition. For those who had been in the organisation for between 3 and 15 years, career opportunities were below average (Exhibit 9). For one service delivery organisation, this was a function of the organisation's structure: "Our structure is quite flat, so we don't have incremental advancements, and that lack of clear career paths becomes apparent after three to five years." Without progression upwards, not-for-profit organisations need to create opportunities for in-role development of frontline contributors and managers. "It's at the three to five year mark where coaching and mentoring really need to kick in," one executive shared, "but we struggle to find the funding and coaching capability." These mid-tenure employees were also the group who felt least recognised and rewarded. However, not every organisation follows this pattern, improvement on this is possible.

Exhibit 9

Talent growth practices drop off sharply and return in late tenure.

Respondents who agree the activity is done frequently in their organisation, % responses



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

This is consistent with global research on a once-in-a-generation attrition challenge, which is most pronounced in middle-career roles.⁴⁹ Key requirements for retention of employees include feeling valued by their organisation and manager, a sense of belonging, a caring and trusting environment, and potential for advancement. These requirements are far more important than most employers realise.⁵⁰ While the

⁴⁹ Ian Cook, 'Who is driving the Great Resignation?', Harvard Business Review, September 2021.

⁵⁰ Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "Great Attrition" or "Great Attraction"? The choice is yours', McKinsey.com, September 2021.

sector has an advantage in creating a caring and trusting environment and a sense of belonging, it could risk losing its most talented contributors. CEOs in the sector view this challenge with great concern: “Our staff retention playbook is useless—all the tried and tested things you would do aren't working.”

Providing a culture that shows employees they are valued and allows them to grow professionally can help the sector harness current economy wide trends around attrition, as private-sector employees seek out more meaningful work.

What is driving this reluctance to use proven talent-development techniques? One clue is found in the balance of leadership styles deployed across not-for-profit organisations. They are notably supportive and consultative relative to benchmark; but at or below the benchmark when it comes to challenging and authoritative styles. In a team setting, this is likely to have the effect of keeping team members in their “comfort zone”, rather than creating a more challenging environment for growth (Exhibit 10).⁵¹

Another clue is found in the lack of clarity about what a people-focused organisation really looks like. Organisations in the sector tell their people to go above and beyond for others every day, and be caring and selfless in their actions. As one CEO succinctly puts it, “We care more about our clients than our staff.”

Finally, funding uncertainty can work against leaders investing in developing their teams. One funder, thinking about how to solve this challenge, recognises what the reality can look like: “It’s hard to hire someone and think about growing them if you only have funding security for the year.” (We return to this theme in Chapter 3.)

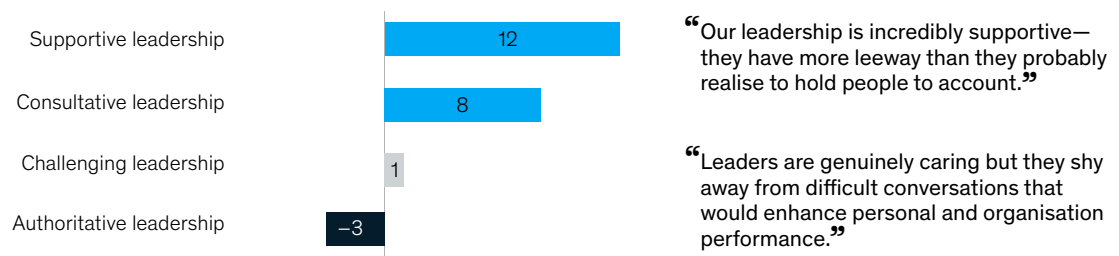
On the surface, prioritising investment of time or resources in their own people before their beneficiaries can feel at odds with something so innate to this sector: caring, advocating, and delivering for others. However, the mindset that these two things are mutually exclusive can and should be challenged. In the section that follows, we set out an approach to changing mindsets and behaviours to respond to staff demand for more growth and development.

Exhibit 10

Leaders generally create a positive team climate, but are less likely to challenge employees to achieve more than they thought possible.

Difference between Australian not-for-profit sector and global benchmark

Percentage point difference in OHI practice score



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

⁵¹ ‘Psychological safety and the critical role of leadership development’, McKinsey & Company, February 2021.

‘It’s hard to hire someone and think about growing them if you only have funding security for the year.’

Critical questions for not-for-profit organisations to consider include:

- ☒ Do team members feel like great performance is recognised and valued?
- ☒ Are expectations clear enough, so people know where they stand?
- ☒ Is it time to have tough conversations with people who aren’t meeting expectations?
- ☒ Are enough resources and attention being invested in developing the potential of our people?

Case study: Goodstart Early Learning



Not-for-profit children’s early-learning provider, Goodstart, set out to raise the standard for development of frontline leaders—recognising how integral this is to delivery of mission, and challenging the idea that to grow professionally you have to move to administrative roles.

“Our core mission is excellence in children’s learning, but we recognised we can’t achieve that without investment in adult learning,” says Jason Renshaw, Chief Learning Officer at Goodstart.

“Our career pathways were a bit one-dimensional – the way to develop was to go into administration, taking our leaders away from working directly with families and children,” Renshaw explains. “We have deliberately focused on inverting that—bringing the focus back to frontline leaders.”

The executive team has backed this approach with real investment: introducing a Chief Learning Officer reporting

directly to the CEO, committing four percent of payroll to L&D by 2025, and focusing on frontline leadership programs first.

“We’re aiming to create a ‘best at getting better’ culture, and so we’re not stopping here,” Renshaw says. “We’re recognising what the research has also been showing—that a lack of professional recognition is the biggest driver of attrition. So rethinking how we are rewarding our best talent is our next horizon of focus.”

Capability 2: Execution excellence

Seeing operational effectiveness as critical to the delivery of social impact at scale

The not-for-profit sector has a seemingly endless supply of new ideas and high-priority topics to address. The greatest organisations combine this creativity and generative quality with the discipline and support to deliver consistently, and adapt as necessary; it's a matter of “and” not “or”. Such discipline is make or break in resource-constrained environments, to ensure that the mission is adapted and scaled. As one CEO puts it, “We need to give ourselves permission to see operational excellence as critical to growth and impact.”

Our research shows that many not-for-profit organisations report significant gaps in this area. Fewer than half of organisations in the sector meet the global median for creating the standards and processes that drive operational discipline in execution. Only two-thirds of not-for-profit organisations surveyed believe that they measure outcomes effectively and take corrective, follow-up action when those outcomes are lacking (though this is partly driven by government funding models being output-focused).

Leading organisations think critically about which outcome measures most clearly drive the social impact they are aiming to achieve, and have an honest retrospective performance dialogue to learn and adapt.

In this capability, the practices that organisations should aim to enhance include (Exhibit 11):

- *Making it clear what everyone is accountable for, then empowering employees to make decisions in pursuit of their objectives.*
- *Defining a set of outcome, operational and financial metrics for performance, and managing performance against these.*
- *Identifying and mitigating anticipated risks, and responding rapidly as they arise.*

Exhibit 11

Building execution excellence requires operational, financial and risk management.

Difference between Australian not-for-profit sector and global benchmark

Percentage point difference in OHI practice score



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

Most of the organisations we surveyed have a defined structure and roles, with 83 percent of respondents agreeing that they understand what is expected of them, and 74 percent agreeing that jobs frequently have clear objectives and accountabilities for outcomes. However, fewer organisations take advantage of this role clarity to empower employees to make decisions: 61 percent of respondents feel that they have sufficient authority to make decisions. This is reminiscent of what we've seen elsewhere in the results: employees feel they share in the vision of the organisation, but not as strongly that they've been engaged in the process of building it.

83%

of respondents understand **what is expected** of them

61%

of respondents feel they have **sufficient authority to make decisions**

Further opportunities exist in creating the culture, standards and processes that drive operational discipline in execution. In operational and risk management, while some organisations perform strongly, the majority are left behind (Exhibit 12).

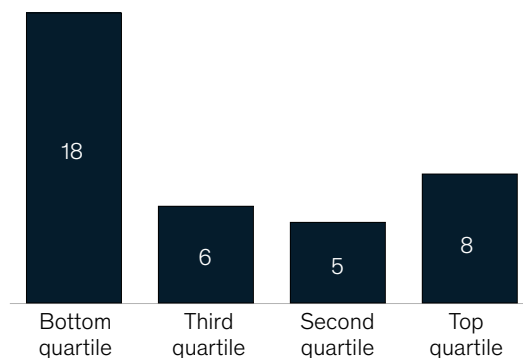
Exhibit 12

Although there are some leaders in executing with excellence, this is an area for many to prioritise.

Distribution of organisations, # of organisations

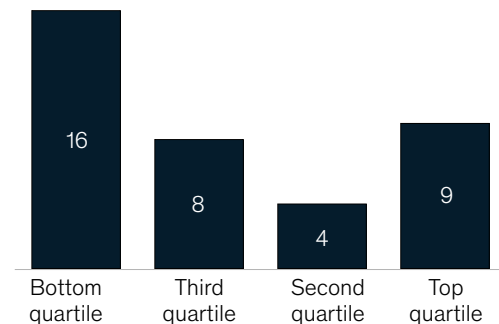
Operational management

The organisation sets explicit outcomes targets, operating goals and metrics to track performance.



Risk management

The organisation encourages employees to identify and escalate risks and is able to manage them before they become major problems.



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

Organisations lack the clear goals across teams that drive operational management. Only 66 percent of respondents feel they are working towards explicit outcomes targets, underpinned by clear operating goals and metrics. As highlighted by one respondent: "We need to stop delivering vast goals poorly and instead deliver fewer, more specific goals well." Where metrics are used, they are not always fit-for-purpose, leading some to feel "hamstrung by our KPIs." Better understanding is needed of what outcomes to measure to track performance against mission, how to use data to measure these outcomes, and how to integrate data into the organisation's DNA.

‘We need to stop delivering vast goals poorly and instead deliver fewer, more specific goals well.’

The organisational capability to identify and mitigate risk is also an area that requires greater focus across the sector. In spite of 77 percent of respondents saying they are encouraged to spot and escalate risks, only 52 percent believe their organisation has the capability and processes to identify potential threats before they become major problems. Paired with insufficient authority for employees to make decisions, these practices leave organisations exposed to threats.

The potential impacts of immature risk management practices have never been more serious for the sector. Organisations are often operating in heightened risk contexts with vulnerable clients and in unstable operating environments. The significance, complexity and public interest in these issues is reflected in the range of recent reviews, to the level of Royal Commission, into many areas in which the sector operates, including aged care, disability, family violence and disaster response.⁵² In addition, there are rapidly growing technological risks associated with digital and cyber security, given increasing frequency and sophistication of cyberattacks.⁵³ Recent research confirms that, while not-for-profit CEOs are aware of risks associated with cybersecurity and data privacy, this has not really translated into prioritisation of necessary mitigations and building organisational skills and capacity.⁵⁴ When such risks materialise, whether internally or externally, they can dramatically impact an organisation’s reputation and capacity to deliver its mission.

The results also show that fundraising and grants teams typically have top-quartile scores in operational and financial management, possibly due to the need to measure and communicate operational and financial outcomes to maintain funding support. Not-for-profit organisations are less likely to have the same rigour in their back office. Policy and program design, operations, and support functions also have third-quartile scores in financial and operational management. As these disciplines work best when targets are easier to measure—such as fundraising—organisations need to find ways to build into trickier areas—such as program design.

Building execution discipline is essential to having, scaling and sustaining impact over time. To deliver the organisation’s outcomes, concrete goals and metrics are required for each organisation unit, which are cascaded into targets for each team. To unlock rapid, informed decision-making, staff need access to the right impact, operational, and financial data, in order to make trade-offs or adjustments, and identify and mitigate threats or issues. This would be supported by having access to shared best practices and better enabling systems, such as relationship management, scheduling, and payroll tools, rather than organisations feeling like they have to “reinvent the wheel.”

One factor that contributes to this is the highly fragmented nature of the sector, with approximately 6,400 not-for-profit organisations having fewer than 10 FTE, and a further 2,700 having between 10 to 50 FTE (excluding those organisations with less than 1 FTE) (Exhibit 13). While there are many reasons for variation in organisation size, given the sheer volume of very small not-for-profit organisations there is real opportunity

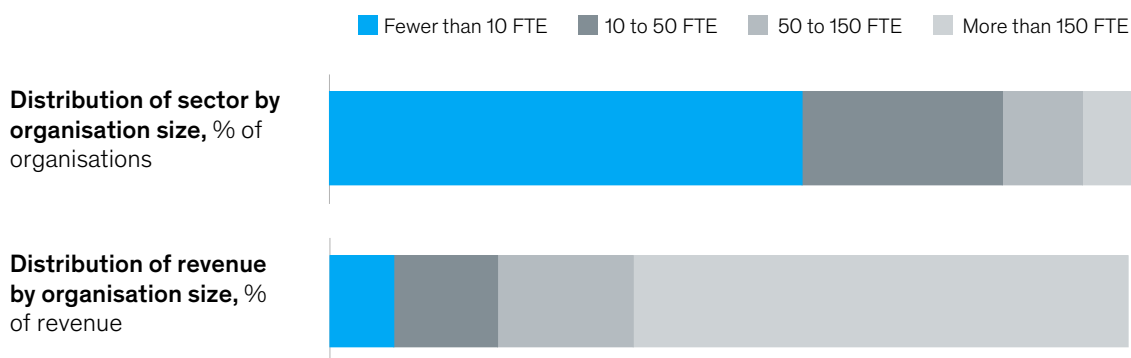
⁵² *Royal Commissions and Commissions of Inquiry*, Parliament of Australia, aph.gov.au, 2021.

⁵³ Maggie Coggan, ‘Let’s talk about charity cyber security’, Probono Australia, probonoaustralia.com.au, 30 September 2020.

⁵⁴ *PwC Australia’s 2nd Annual Not-for-profit CEO Survey: Australian findings*, PwC Australia, pwc.com.au, 2021.

Exhibit 13

There is a long tail of not-for-profits with fewer than 10 FTE.



Note: Includes 10,856 organisations in ACNC database (2019). Excludes organisations whose primary purpose is Primary & Secondary Education, Higher Education and Religious Activities, or who have fewer than 1 FTE.
Source: ACNC database (2019)

in building greater operational capacity through uptake of more standardised and shared enabling or back-office systems and services. As one CEO put it, “For every capability or process that’s not part of our core work, we should be asking ‘who does this better than us who we can use or work with?’ rather than trying to do everything ourselves”.

The challenge of building execution discipline is compounded by the external pressures of funding arrangements, workforce and industrial relations, and the increasing complexity of issues beneficiaries face.

For leadership, this can make it harder to feel they can release control and decision-making authority to their teams. First, most of the activities that the sector carries out are important for their beneficiaries—this is because of their nature as purpose-driven organisations. Second, activities undertaken by organisations are also typically one step removed from the outcome they seek to deliver: for example, improving access to education (activity) to break the cycle of disadvantage (outcome). As a result, trade-offs in decision-making need to account for different scenarios outside the organisation’s control.

To drive change in execution, particularly around financial and risk management, can be counter cultural. It is common to hear, “We don’t have time to worry about process, we have to be focused on impact.” Leaders feel as though they face a tension between “executing today and challenging and improving the operating environment we are working in.” Not-for-profit CEOs also acknowledge that

‘We face a tension between executing today and challenging and improving the operating environment we are working in.’

they are needing more and more to “embrace a business-like mindset to improve our impact, but many in the sector are still ambivalent.”

Critical questions for not-for-profit organisations to consider include:

- ☑ How well equipped are staff with access to the right data to make decisions on progress towards outcomes, risks, and issues?
- ☑ How well are current and emerging risks faced by the organisation understood, and how are they changing?
- ☑ Have the “why, what and how” of key processes been communicated to ensure that people are adhering to minimum standards?

Case study: Access Care Network Australia

Disability and aged-care assessment, coordination and case management services provider Access Care Network Australia (ACNA) has built a world-class outcomes-focused organisation by investing heavily in recruiting people with a passion for continuous improvement—and then giving them the clarity, autonomy and accountability to execute effectively.



“Operational discipline starts with culture,” explains CEO Ricki Smith. “We started not by planning out what type of organisation we wanted, but what type of people.” ACNA sought to hire resilient self-starters, who were interested in innovating and passionate about other people. Even as the organisation grew beyond 200 staff, Smith herself has remained personally involved in recruiting and onboarding all new employees.

ACNA sees transparent performance management as flowing naturally from getting the best talent in. “Every single person knows what’s required of them – we don’t measure our people on time spent, but on outcomes,” says Smith. “It’s about treating people like adults.”

They apply this same outcomes-focused approach to costs, systems and processes. “We clean house all the

time: we’re always saying, ‘Does that activity add any impact in helping us better achieve our mission?’ If not, we try to remove,” explains Smith. “We don’t let costs just ‘creep in’.”

Far from seeing operational discipline as a trade-off with focus on mission or people, ACNA views these as mutual enablers. “We are constantly challenging ourselves to think about the people and processes we need to have in place to operate at scale. We are at \$35 million now, but what would it mean to be a \$100 million or \$200 million organisation? Scale doesn’t drive us, but we’ve found it to be a natural by-product of how we do business, and so we need to keep it front and centre,” she says. For ACNA, investing in operational excellence is in fact one of the most mission-aligned things they can do.

- ☑ Has enough flexibility been preserved for judgement and discretion, when someone's wellbeing may be impacted?

Capability 3: System shaping

Capitalising on deep connections with partners and community to drive greater innovation and entrepreneurship

In the not-for-profit sector, there is a high level of focus on what it takes to shape an environment and a system. Indeed, many organisations that participated in this research would say their core strength is shaping how society thinks about an issue.

Understanding a system involves understanding all the people, issues and events that interact in that environment. Shaping the system builds on understanding the system; it requires being involved in defining the problem, and implementing good solutions that continually update and change as the system evolves.

In a diverse sector, there are many examples of what shaping a system can look like: shaping people's views on an issue, developing new partnership models to collaborate on an issue, or innovating ways of working to deliver a new model of care.

In this capability, the practices that organisations should aim to perfect include:

- *Understanding where they sit in the system*, what the strengths of their services and solutions are, and where to lean on or bring in others.
- *Building mutually beneficial partnerships with stakeholders*, both within the sector and across sectors with public, philanthropic and business partners.
- *Encouraging top-down and bottom-up innovation* and equipping the organisation with the tools for sharing knowledge and capturing best-practice ideas.

Innovation and external orientation are mutually supportive. Grounded in an understanding of beneficiaries' needs, the sector has a strong basis in external orientation, such as a willingness to partner with others and invest in cross-sector relationships. At the Hunger Project Australia, CEO Melanie Noden spends a lot of time thinking about cross-sector partnerships: "While each partner brings something unique, partnerships are most effective when there is a mutual benefit and aligned goals."

‘Knowing the communities that we are in is a strength; spring-boarding from that into the big picture is what challenges us.’

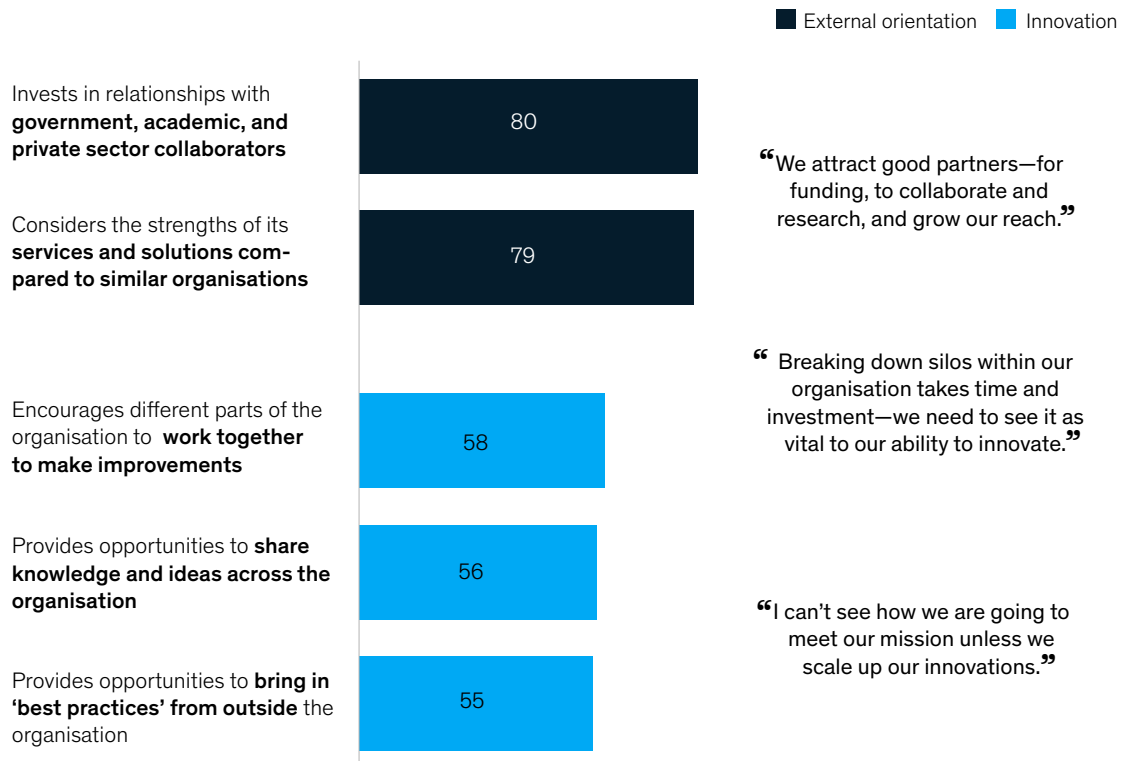
The sector also has a strong focus on keeping abreast of changing policy, regulations, and the funding landscape, to ensure ongoing sustainability. However, when it comes to the practices that enable the organisation to learn from this external orientation, the sector has some way to go (Exhibit 14). Deirdre Cheers, CEO of Barnardos, reflects on what this means: “Knowing the communities that we are in is a strength; spring-boarding from that into the big picture is what challenges us.”

Pairing innovation with external orientation is important for the sector to have an enduring impact. Many not-for-profit organisations are working to break cycles of disadvantage, health, or climate issues, and are constantly looking for new ways to solve problems and effect change, as approaches to date haven’t been enough. Innovation matters, and it matters that this innovation occurs with the same vigour in program design as it does in fundraising.

Exhibit 14

Augmenting partnerships with structured innovation can help shape the system.

Respondents who agree the activity is done frequently in their organisation, % responses



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

Moreover, future challenges will be more cross-cutting and intersectional.⁵⁵ Not-for-profit organisations cannot solve these challenges in isolation. Organisations will need to work with stakeholders within and across sectors. Rob McLean, Director of the Paul Ramsay Foundation, says, “Going forward, to be great at our mission, we have to look beyond our own organisations and create innovative partnerships.” Paul Ronalds, CEO of Save the Children Australia, emphasises the importance of experience across sectors to help identify these opportunities: “The more we have ‘boundary riders’—people that have crossed over between sectors—the better we will be.”

In the results, we also saw that the highest scores on innovation, entrepreneurialism and capturing knowledge and ideas were seen in fundraising and revenue, but were not present to the same degree in program and policy design (Exhibit 15). This suggests incentives for innovation are stronger in how you generate funds, rather than what you do with them: “fundraising is always going to be innovative as it is a necessity rather than an invention.” Moreover, taking risks is looked upon less favourably in program design, hampering innovation.

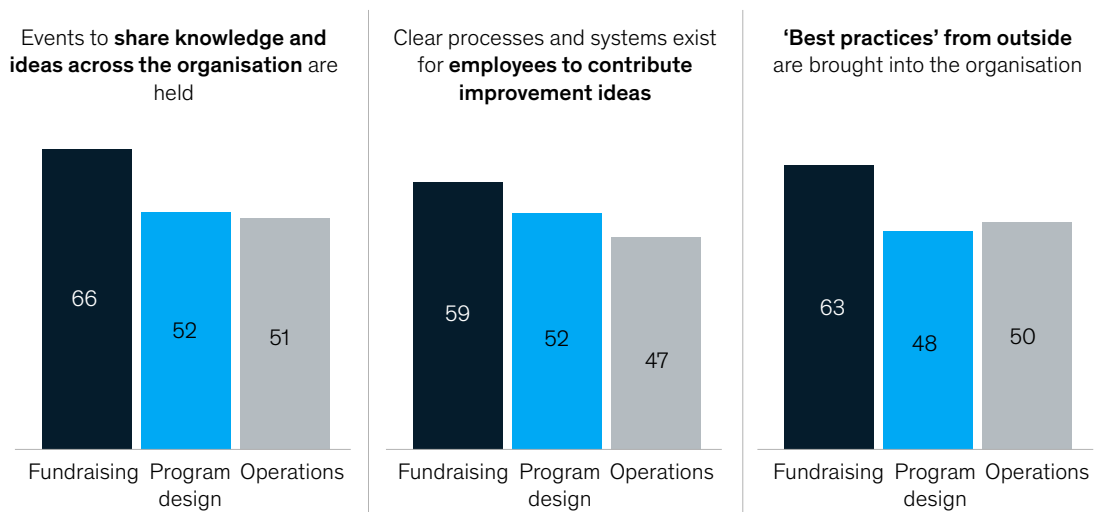
Innovation at scale has typically been a challenge for organisations in the not-for-profit sector. In purpose-driven organisations, the necessities of the day-to-day can make it hard to find the space for, or take a chance on, innovative projects.⁵⁶

In the experience of not-for-profit executives, there is a need to be more judicious on prioritisation, and permission to “regularly revisit prioritisation of BAU activities and in-flight projects, and to have better

Exhibit 15

Innovation and learning are not even across organisations.

Respondents who agree the activity is done frequently in their organisation, % responses



Source: OHI survey (4,451 responses from 37 organisations); Benchmark: Global (n = 2,887,626; no. surveys = 809)

⁵⁵ M. Mazucotti, *Mission economy: A moonshot guide to changing capitalism*, Penguin Books Australia, 2021.

⁵⁶ Ann Mei Chang and Laura Lanzerotti, ‘Twin Engines for Propelling Social Impact’, *Stanford Social Innovation Review*, April 2021.

‘The more we have “boundary riders”—people that have crossed over between sectors—the better we will be.’

trade-off discussions.” Innovation has also typically been born of necessity and scarcity, rather than unconstrained thinking. James Toomey, CEO of Mission Australia, shares his experience: “Scarcity leads to community response, innovation on the ground and creativity of individual staff ... you have to develop partnerships because of that scarcity.”

Compounding this is inconsistency in collaboration and knowledge-sharing systems to disseminate best practice—both within organisations, and across the sector. The result of this is that people often start from scratch, and don’t learn and build on what has come before.

Organisations that are working on similar initiatives can in some cases collaborate very little—on sharing information, data, resources. “Traditional funding models lead to organisations feeling in competition for bids and grants,” shared one executive, “with a more open funding structure we would be able to be less guarded and learn from one another.”

Where these knowledge sharing practices are in place and do lead to new, evidence-based approaches, reaching scale is challenged by traditional funding models that are conservative and inherently risk-averse. These traditional funding models disincentivise innovation. As one CEO puts it: “If you come up with a great evidence-based program, will investors shift their funding across to it? We cannot get people to reuse the tried and tested approach—in part because donors dictate the design and are not interested in the proven, off-the-shelf solution.”

Not all funders approach innovation and change this way. Some, including Sean Barrett, Origin Energy Foundation, are working with not-for-profit organisations to face it head on: “Top of mind for me is understanding whether organisations feel their ‘business model’ is under threat, and whether they have the skills they need in-house to reinvent their operating model and execute that change.”

Driving further system change and innovation (particularly in design and delivery) relies on several shifts in mindset and behaviour.

Critical questions for not-for-profit organisations to consider include:

- ☒ How could “safe-to-fail” experiments be created to learn how to do things differently?
- ☒ Which partners can be engaged to scale the benefits and reduce the risks of trying something new?
- ☒ Are there sufficient resources to “keep the lights on” if the experiment or partnership does not work as planned?



Case study: Generation Australia

The Australian arm of Generation, a global non-profit focused on transforming the education-to-employment systems, captures bottom-up innovation and learning through frontline program delivery, and scales those lessons to shape the system through partnerships.

Generation
AUSTRALIA

“To have impact in education-to-employment pathways, you first need to understand your beneficiaries deeply, and demonstrate what works in shifting outcomes for them,” explains CEO Malcolm Kinns. That is the rationale behind why Generation started with—and still runs—their own education-to-employment pathway programs.

“In shaping the system, though, scale is key,” says Kinns. Recognising the size of the adult education-and-training market, Generation Australia has recently partnered with social-impact investment firm FPIP and RTO operator Catalyst Education to develop and embed programs that utilise the key areas of Generation’s methodology on a larger scale.⁵⁷ At the same time, it is proactively engaging with leaders across government, business and the not-for-profit

sector to translate what it’s learning about what works into sustainable, systemic change.

In this way, Generation Australia deliberately pursues work at three different levels of the system: “Delivered by Generation”, where it is the primary provider; “Powered by Generation”, where it partners with larger external organisations; and “Influenced by Generation”, where it engages with stakeholders across the system. It is the combination of all three that allows Generation Australia to systematically uncover innovations that work on the ground, and rapidly scale them.

“Achieving lasting change is about looking beyond our own organisations and building a pathway for new approaches to scale,” says Kinns. “It’s a prerequisite to impact—not a ‘nice to have’.”

⁵⁷ Generation Australia, ‘For Purpose Investment Partners and Catalyst Education accelerate skills development in Australian aged care sector’, Aged Care Online, agedcareonline.com.au, 29 June 2021.

How not-for-profit organisations can improve their health

Here is one way that not-for-profit organisations can think about taking practical action to improve organisational health, and thus ability to deliver, using a worked example of consequence management

1 Identify where to focus.

The key to improving is prioritising a few practices. These should take into account your organisation's current strengths and areas for development, leadership and strategic priorities, as well as mission and values.

Consequence management is the practice related to defining what good performance means across roles, linking performance to opportunities, and differentiating between stronger and weaker performance. It is an important element of performance management.

Across the sector, this practice is bottom quartile, though it is critical for effectively developing talent, particularly high performers, to enable them to have even greater impact. Not least, it is something that people in the sector are calling for.

2 Define what great looks like.

Define how the practice appears in workplace behaviours today, and what a desired future state behaviours would look like.

Behaviours are what we say and do that is visible to others.

Examples of weak consequence management include poorly understood job requirements, performance reviews executed sporadically or avoided, and the absence of a link between great performance and recognition, or remedial action in the case of underperformance.

Truly great consequence management might include reviews that give specific, actionable feedback on areas of strength; training opportunities tailored to performance needs; and celebration of outstanding performance.

3 Understand the shifts required.

For each behaviour listed in step 2, we need to understand the underlying mindset.

Mindsets are the underlying beliefs we do not see that predispose us to behave in a certain way

For this step, we use the idea of an iceberg, as it nicely captures what we see (the tip) and what lies beneath the waterline (the mass).

From:

What behaviours do our people exhibit today?

To:

What behaviours would we want our people to exhibit in order to better deliver on our mission?

Assuming people are generally smart, hard-working and well intentioned:

- What do they think/feel that causes them to behave in this way?
- What do they believe about themselves and/or the work place that is leading to this thinking?
- What do they perceive as their role?
- What are their hopes and fears?

- What would they have to think/feel differently to choose the desired behaviours?
- What is an alternative belief about themselves and/or the workplace that would cause them to think/feel and therefore behave in the desired manner?
- How could they reframe their role?
- What alternate perspective would breed confidence vs. fear?

The healthiest not-for-profit organisations manage to be both caring and challenging. To achieve this, a mindset shift is needed.

From... "We are a caring organisation, so it feels awkward and uncomfortable to have challenging conversations about performance."

To... "With clear understanding around expectations, and support for those in need, having performance conversations enables my team to do their best work."

4

Design targeted interventions.

Effective interventions help shape organisational context, rather than just individual behaviour. The Influence Model brings together four different approaches to create a reinforcing environment where people are most likely to make lasting changes to their mindsets and behaviour.¹

Below is a range of interventions for consequence management. This list is by no means exhaustive.



Fostering understanding and conviction

- Build the habit of providing in-the-moment feedback and coaching (both positive and developmental)
- Ask others for feedback about your own performance as a leader
- Spend time on personally getting to know high potentials and developing them, even if not direct reports



Role-modelling

- Share stories of good performance being rewarded by profiling a top performer on an opportunity they received
- Share stories of where poor performance has been turned around with coaching and support to improve



Confidence and skill-building

- Invest in pro bono training for leaders on feedback and coaching, holding performance dialogues and difficult conversations and creating individual development plans
- Pair up junior employees and more senior, high-performers to mentor and coach them
- Provide managers with training and/or coaches to share ideas for how to have challenging performance management conversations



Reinforcing with formal mechanisms

- Create a template for an individual development plan
- Get managers to work with employees to complete and review the plan periodically as a standard part of performance reviews
- Create a transparent set of incentives (eg, a conference or leadership development program) and link the criteria for each to performance

5

Commit and evolve.

Leadership teams need to ensure leadership attention, focus and urgency, and direct adequate resources to area of priority.

Audit where executive time, team time and funding is being spent to understand whether priorities are translating into action.

If there is a disconnect between stated priorities and what is being focused on day-to-day, a change needs to occur.

For example, if a capability gap is identified around performance management, an organisation could consider what proportion of managers' time is being set aside for feedback and coaching conversations, and what resources or systems are being put in place to support the shift required.

1. Tessa Basford and Bill Schaninger, 'The four building blocks of change', McKinsey & Company, April 2016.



A collective commitment to an inclusive and sustainable future

Driving an inclusive and sustainable economic and social recovery following the COVID-19 crisis, and future beyond that, is a priority of government, industry and the not-for-profit sector. The consequences of underinvestment are far-reaching: a slower recovery, with the impacts and restrictions of the pandemic lingering and becoming more entrenched, causing greater social and economic dislocation.

In the previous chapter, we outlined the diagnostic of organisational health in the not-for-profit sector, and considered what not-for-profit organisations can do to improve health and performance in their own context. As we've seen, the strategies of the healthiest, most effective organisations focus on their people—how aligned they are with mission, how much they're challenged to grow, how well supported they are by the systems around them, and how much licence they have to innovate.

But even the healthiest organisations can only go so far on their own: they also need to look externally for collaborative solutions. In this chapter, we address the opportunities identified in Chapter 2, setting out **ten ideas for collaborative investment** in people and capabilities, systems and tools, and processes that can increase impact and accelerate progress of the sector, and give it the greatest chance of delivering for all Australians (Exhibit 19).

Exhibit 19

Ten ideas to drive further collaboration at the speed and scale required.

Talent growth



Broadening opportunities for professional development

1. Expand sponsored leadership development for the not-for-profit sector.
2. Invest to increase places in immersive cross-sector leadership programs by tenfold.
3. Expand access to coaching and mentoring on critical practices.

Execution excellence



Enhancing ability to execute on mission

4. Upskill in digital and analytics to unlock the power of data for mission delivery.
5. Take action on key risks, especially cybersecurity.
6. Build foundational skills on streamlined enabling systems.
7. Scale cross-sector secondments to build execution capability.

System shaping



Supporting innovation, collaboration and entrepreneurship

8. Invest in evidence collection and dissemination to improve innovation.
9. Scale outcomes-based contract procurement and management.
10. Quarantine funding for 'issue-centric' collaboration across organisations and sectors.

These ideas are structured around the capabilities that distinguish the healthiest organisations: talent growth, execution excellence, and system shaping. Many of these ideas build on existing proposals; we hope that Australia's current context, along with the findings presented in this report, will create fresh momentum for collaboration and innovation. At the end of this chapter, we explore what can be done to overcome the challenges that hinder collaboration, allowing us to move collectively at speed and scale to ensure an equitable, sustainable and inclusive future, in the face of uncertainty.

Talent growth

Growing talent must be a priority for the sector, both as a critical enabler of impact, and as the support most commonly requested by employees. In particular, support must go to middle- and upper-tenure managers who form the critical executive layer, whom we found had the lowest satisfaction with their career pathways and recognition, and are at highest risk of departure.

Practically, this means increasing the frequency and consistency of development practices, including access to relevant, high-quality training; regular and rigorous performance reviews; recognition and extension of high performers; and the willingness to have challenging conversations about performance if things aren't working. Adults learn best from their peers, and investments are most effective when they enable peers to share across organisational boundaries.⁵⁸ Greater investment in collaborative training efforts would enable sector leaders to re-energise their teams, letting their people do their best work, at a lower cost per organisation. This is an area with numerous existing offerings, many excellent. However, much more can be done.

Idea 1: Expand sponsored leadership development for the not-for-profit sector

There is strong demand for high-quality, relevant training across the not-for-profit sector. The volume of training can be increased, particularly on topics such as building high-performing teams and setting up effective disciplines that drive mission delivery. This effort should target mid-career professionals, with a goal to cascade through organisations in a “train the trainer” style deployment, as well as frontline leaders, in order to create in-role career opportunities.

Scaling this will require increased supply, distributed access and consistent quality control. Private-sector organisations with in-house intellectual property can partner with not-for-profit organisations and provide targeted training, or can reserve seats for sector leaders in training that relates to cross-cutting skills.

It's also critical to grow access with online or remote-learning platforms and micro-credential options. There are a range of providers to support this, including corporates and universities that have significantly expanded commitments to ESG (Environmental, Social and Governance) investment in recent years. Existing intermediaries, such as the Australian Scholarships Foundation, could leverage scaled-up supply to provide tailored learning journeys as an aggregator.

Idea 2: Invest to increase places in immersive cross-sector leadership programs by tenfold

Most of the challenges that not-for-profit leaders face today cut across sector boundaries.⁵⁹ Many CEOs described the challenge of finding settings in which they could work with a cross-section of leaders on delivering their mission, rather than “talking to ourselves”. Immersive, cross-sector leadership programs build essential networks and allow for learning from the best in the country or world, not just the best in sector.

Many leaders cite the major impact of these courses, with their access to connections and resources, on leadership effectiveness and innovation. As a CEO participant reflected: “It was a transformative experience.

⁵⁸ Jeanine Becker and David B. Smith, 'The need for cross-sector collaboration', *Stanford Social Innovation Review*, Winter 2018.

⁵⁹ David B. Smith and Jeanine Becker, 'The essential skills of cross sector leadership', *Stanford Social Innovation Review*, Winter 2018.

It allowed me to develop a different perspective and look at challenges through a new lens.” At CEO level, the potential demand for these courses outstrips supply nine times, and is significantly larger at the senior-manager and executive level.⁶⁰

Scaling requires commitment from organisations that convene executive-level leadership programs. As a norm, each provider could reserve and promote places for not-for-profit organisations, consistent with pro-bono commitments that are becoming standard in large Australian organisations. Private- and public-sector organisations that send their own talent can commit to expanding sponsorship systems, where they match their own attendees with people from prioritised organisations, to improve representation and forge lasting connections between individual leaders. Providers can also adapt offerings for new cohorts, such as young leaders’ programs, or support remote locations.

Profile: James Toomey, CEO of Mission Australia

On his journey from frontline social worker to CEO of the national Christian community-service charity, Mission Australia, James Toomey found it was the coaches who challenged him who most helped him to grow. He believes that investment in expanding not-for-profit leaders’ mindsets through coaching is critical to unlocking impact across the sector.



“The coaching that has had the most impact on me has been where my coach has truly stretched me by setting tasks and follow-ups to address various gaps, lapses and shortcomings in my performance and behaviours, which has been critical to my growth as a leader,” says Toomey.

Coaching adds value to an organisation by skilling both parties. As Toomey says, “I’ve learned just as much from people I’ve coached as I think coachees have learned from me.” An organisation’s approach to coaching should be an ongoing capability, not a one-off session: “Being coached is like any effective training; it needs to be regular and focused, and in between the sessions, you have to be prepared to put the work in.”

For coaching to be successful, mindsets need to shift. Many view coaching as only necessary for underperforming employees, or feel that coaches need to know everything. Toomey notes, “People can tend to see coaching as an expensive extra in terms of time or resources . . . it doesn’t have the same cachet on a resume as a fortnight at Stanford.” Instead, Toomey believes organisations should view coaching as a critical investment to help their people grow, thereby helping to achieve greater impact overall. “Rising to the expectations others have of you, or of the role you occupy, is sometimes a stretch in itself,” he reflects. “Everyone needs the support of others who bring a wide range of viewpoints and experiences to help them fulfill their potential.”

⁶⁰ Australian Scholarships Foundation’s assessment of the market is that, at the CEO level, the current number of scholarships available for CEO-level development opportunities outstrips the potential number of participants by nine times.

Idea 3: Expand access to coaching and mentoring with a focus on critical practices

In talent growth, one of the areas of greatest need is managing variable performance. This is not the kind of skill you learn from a book. Context matters, especially for those dealing with vulnerable populations. There is an opportunity to increase access to in-context coaching for top teams and mid- to senior-level managers, as well as mentoring for CEOs and executives. Drawing in leaders and coaches from other sectors brings different perspectives, but also increases the quantity of mentors and coaches available.

Expansion will rely on organisations committing their leaders' time more deeply, as well as providing a pathway for recently retired leaders to take on more. Supporting this kind of social contribution is increasingly seen by major employers as a benefit for their own employees. Existing coach- and mentor-matching services have scope to grow to serve a greater number of not-for-profit leaders: these services ensure the quality of coaches, mentors, and matches.⁶¹ Resourcing a central facilitator to bring structure could enable wider promotion of the benefits of such an endeavour, with active recruitment of coaches and mentors.

Execution excellence

For organisations that want to have impact at scale, particularly in compliance-heavy domains, well-functioning enabling systems—in areas such as finance, people, risk and digital—are a must. Global research into public-sector delivery found that, on average, the most effective Governments could deliver more than 10 times the improvement in outcomes (per dollar of spend) than the least effective, and that these differences could be substantially explained by the effectiveness of their enabling systems.⁶²

Though this gap is harder to measure in the not-for-profit sector, the disparity is likely to be even higher. First, there is less ability to finance upgrades, due to reduced access to capital as well as low funder willingness to pay for “overheads”. Second, many are working with manual systems, given the nature of the communities they support, who have lower uptake of technology.⁶³ Third, there are barriers to upskilling staff, especially in a non-technical or casualised workforce. As one OHI respondent puts it, “We hate our current system, but at least it's reliable.”

Over the last two years, there has been unprecedented progress in digital service delivery, digital payments and use of digital collaboration platforms. Progress on this issue has been inconsistent across the sector, and additional focus can improve beneficiary outcomes, reduce risk, and simplify processes. Given the competitiveness of the talent market, new approaches are needed to build in-house capability, rather than sourcing externally.

Idea 4: Upskill in digital to unlock the power of data for mission delivery

For many organisations, especially those in social services, technological advances have made it far easier to serve beneficiaries. Digitisation has unlocked opportunities through the power and user-friendliness of data collection, analytics and visualisation. Tools such as Power BI and Tableau now enable advanced functionality that used to be the domain of data scientists, and Canva supports impactful data communication previously accessible only to designers. Many of the organisations that set the industry standard for tools already offer them for free or low rates to not-for-profit organisations.⁶⁴

⁶¹ Kilfinan (kilfinanaustralia.org.au) provides one-on-one mentoring to for-purpose CEOs with leaders from the private and public sector.

⁶² Bjarne Corydon, Richard Dobbs, David Fine, Tera Allas, Andrea Berchowitz, Eoin Daly, Jonathan Dimson, Rajat Gupta, Jonathan Woetzel, and Richard Higgins, *Government productivity: Unlocking the \$3.5 trillion opportunity*, McKinsey & Company, Discussion Paper, April 2017.

⁶³ *Digital inclusion: the Australian Context in 2021*, Australian Digital Inclusion Index, digitalinclusionindex.org.au, 2021.

⁶⁴ PowerBI (microsoft.com); Tableau (tableau.com); Canva (canva.com).

‘We have a next level of duty to our mission and beneficiaries to be thinking about what could put our mission at risk.’

Organisations can support upskilling the not-for-profit sector in defining program impacts and linking to outcomes and leading indicators through theories of change.⁶⁵ Digital literacy programs in the not-for-profit sector can focus on data governance, systematic capturing of data, analysis and evidence-based decision making. Further topics that would be valuable are managing incomplete datasets, assessing data through a cultural and social lens, synthesising and interpreting data, and communicating impactfully to funders and sponsors. For example, SANE Australia is building a data competency training program customised to up-skill mental health staff in data access, management, analytics and reporting to better understand and support those living with complex mental illness and drive measurable impact.

To bring tools and trainings to scale will require additional access, change management and community-based customer support. There is a role for professional services and specialist analytics companies to support integration of these tools, and to increase access to digital literacy upskilling. Once equipped with this, organisations in the sector could collaborate to share proven, best-practice outcomes metrics and measurement.

Idea 5: Taking action on key risks, especially cybersecurity

Our findings demonstrate that there is systematic under-identification of risks before they become major issues or threats across the not-for-profit sector. As one CEO said, “We have a next level of duty to our mission and beneficiaries to be thinking about what could put our mission at risk. We need much more investment in identifying risks—whether its ensuring we trade solvent, or mitigate cyberattacks.” What is needed in this space is much more frequent use of rapid risk diagnostics on potential threats that could put not-for-profits in jeopardy. One such example of this is cybersecurity.

Not-for-profit organisations are vulnerable to cyberattacks due to ageing systems, as we saw in several high-profile attacks this year.⁶⁶ Given the sensitivity of their clientele, organisations urgently need to step up their security infrastructure—perhaps more than staff and leaders currently realise.

Professional service providers could build momentum with a campaign that drives home the urgency and importance of robust cyber-security. This could take the form of a discrete, one-day executive-level intensive low or pro-bono course, and could include an expert demonstrating how easy it is to hack systems, or a CEO sharing their experience of dealing with the aftermath of a crippling cyberattack. Targeting funders and board members in this campaign would be beneficial: their buy-in is required to prioritise and fund the development of cyber resilience, and to challenge management teams on whether they are doing enough.

Idea 6: Build foundational skills on streamlined enabling systems

One of the most common frustrations cited in our survey was the ongoing use of manual, aging, or poorly-executed support systems, or the need to continuously start from scratch—while in the private and public sector, “plug and play” systems are increasingly gaining share. Some of the major barriers are organisational

⁶⁵ Examples include The Centre for Social Impact’s *Roadmap to outcomes measurement*, 2021.

⁶⁶ High-profile examples of healthcare organisations and providers of community infrastructure targeted with ransomware include Anglicare Sydney (September 2020), UnitingCare Queensland (April 2021), and Sunwater (August 2020 to May 2021).

Case study: Cape York Partnership

Cape York Partnership (CYP), a non-profit Indigenous organisation empowering the people of Cape York, recognised an opportunity to scale the impact they could have across their community. This meant aligning their entities around a unifying vision, and investing in shared, enabling systems to support their frontline leaders in bringing that vision to life.



Over the past two decades, CYP has grown rapidly from an initial institute to ten thriving entities, but their success had also resulted in lack of clarity, and duplication in their operations. "To deliver on our mission, we needed to grow," explains CEO Fiona Jose, "but our back-office operations in particular became out of control."

CYP embarked on a five-year journey to bring their entities together around a unifying vision, and consolidate their services. "We realised the positive impacts of scale—in buying power and standardising processes—were critical to freeing up funds to then put to frontline service delivery and reform," says Jose. The process of consolidation also brought to light "how much risk we had been exposed to that we hadn't fully understood".

Critical to this shift was ensuring leaders felt part of the journey, "driving a collective sense of ownership over the whole entity". Collaboration with funders was essential too. "We worked with funders to show that upfront investment now meant they didn't need to continue to fund manual processes later down the track," explains Jose.

While the transition has been tough at times, Jose reflects that: "This model has allowed us to become much more sustainable. It has meant that we can track performance against standard goals, which has built accountability. Real conversations are now happening about performance."

For Jose, the work of consolidating shared services has always been intimately tied to mission. "This change was not about losing people ... it was about freeing up our central services professionals to be able to support and upskill our regional leaders with the operational and financial skills to more effectively have impact." CYP's journey towards operational excellence has ultimately reinforced their purpose. As Jose says, "Let's be clear: we are bold. If you don't think your job is to build the capability of an Indigenous Australian to replace you, you haven't understood our vision."

inertia and the costs of switching systems. To overcome these, we encourage a coalition of technology providers, government and philanthropists to follow a four-step process to promote uptake.

First, work with representative organisations to understand the use cases that have the highest time cost, or create the most organisational pain (such as client relationship management, workflow management, payroll, or HR processes). Second, provide guidance on a range of established, low-risk solutions that exist in the market for organisations to explore, such as Xero (for accounting), Atlassian (for planning, tracking and collaboration), etc. An aggregator could provide central coordination of such offerings to improve transparency and adoption at scale. Third, get all organisations to opt in to access these digital tools, and be matched with a pro-bono partner to help them establish new ways of working via playbooks, coaching or bootcamp-style trainings. Fourth, platforms could leverage community management resources to create a self-service option for organisations seeking to solve similar problems (similar to online communities used in software development and troubleshooting).

Combining support to diagnose pain points across a back-office function, with access to subsidised solutions, may not seem like the most noteworthy contribution that other sectors and organisations could make to not-for-profit causes, but judging by the frequency of these issues raised, it may well be one of the most impactful.

Idea 7: Scale cross-sector secondments to build execution capability

When properly orchestrated, secondments can be one of the best ways to enable cross-sector learning, improving both sides in the process. Secondments can also enable targeted support in a particular area, such as establishing a new delivery system, that is time-bound but requires more intensive commitment than skilled volunteering can provide. At their best, secondments can help provide in-sector opportunities that improve the overall talent pool.

Increasing expectations in the private and public sector—regarding both the duration and numbers of people who would participate in such arrangements—could drive a supply of secondees.

Centralised online platforms or intermediaries that help match organisations with secondees are also a real area of opportunity, as these structures are time-consuming to establish in direct organisation-to-organisation secondment arrangements. Organisations such as On Purpose (UK) show what scaled secondment models could look like, and this could easily be transplanted to Australia.⁶⁷ Intermediaries have already demonstrated success in matching skilled volunteers with not-for-profit needs.⁶⁸

System shaping

Given its deep relationships with beneficiaries, partners and government, the not-for-profit sector is uniquely positioned to support system change. As Rob McLean, Director of the Paul Ramsay Foundation, notes, “It takes radical collaboration to make real progress across a system.”

However, there are numerous institutional norms and incentives tied up in the maintenance of current funding and delivery models, particularly with government partnerships. One CEO in our interviews commented, “Most government grant budgets just roll over, and the reward for finding a way to do things more efficiently is to get your budget cut.” As a consequence, the functions in our survey with the highest innovation scores were the fundraising teams, not program design and delivery.

The tide is turning though, as recognised by Michael Traill, Executive Director at For Purpose Investment Partners: “There’s a growing movement of doing philanthropy more strategically—this is an uncapped opportunity. While there’s apprehension about people not doing it in a traditional way, there’s a lot of entrepreneurialism.” One funder called out the unique role philanthropy can play in incentivising innovation, through “researching, piloting, and testing the ideas that work, so that others can help to scale them up.”

‘It takes radical collaboration to make real progress across a system.’

⁶⁷ On Purpose (onpurpose.org) facilitate more than 100 six-month placements a year, across a network of more than 300 for-purpose organisations, and provide training in parallel to support secondees.

⁶⁸ JumpStart by Supply Nation (jumpstart.supplynation.org.au) and Vollie Skilled Online Volunteering (vollie.com.au) match skilled volunteers with for-purpose organisations.

Australia's toughest social challenges will not be resolved by organisations working alone, or by doing the same things we've always done. With government funding being the most significant source of revenue for not-for-profit organisations, collaboration between the sector and government to design more integrated, outcome-focused models could provide a significant area of opportunity. Philanthropy also has a critical role to play in creating the conditions for experimentation, given their greater funding discretion, access to targeted resources, capability, and ability to provide "sandpits" for the development of novel approaches. COVID-19 has highlighted the possibilities of cross-sector collaboration in ways that were unthinkable even five years ago. Looking ahead five years, collaboration and experimentation could be a norm, rather than an exception.

‘Most government grant budgets just roll over, and the reward for finding a way to do things more efficiently is to get your budget cut.’

Idea 8: Invest in evidence collection and dissemination to improve innovation

Effective experimentation relies on good data collection and evaluation, but there is little appetite to fund this. Globally, there are compelling examples of how to link evidence gathering and program innovation, such as the UK's "What Works" centres. These are funded by government and non-government sources; but unlike standard research bodies, they are closely connected to policymakers, and focus on short-term adoption of findings.⁶⁹

Such bodies can also elevate a successful approach, such as the "What Works Cities" initiative (funded by Bloomberg Philanthropies and Results for America), which awards a certification and resources to local governments who meet criteria for evidence-based policymaking and service delivery.⁷⁰

To bring such an idea to scale, we encourage philanthropic and government funders to reserve a proportion of existing budgets to fund entities that address knowledge gaps and work with partners to translate evidence into action, akin to the What Works approach. The federal and state governments' Australian Education Research Organisation (AERO), launched in 2020, provides a model that could be replicated in other issue areas, such as mental health and gender equality.⁷¹ In addition, we encourage additional funding and awards for local governments that deliver interventions based on evidence-based policymaking and service goals.

⁶⁹ What Works Network, (gov.uk/guidance/what-works-network).

⁷⁰ What Works Cities by Results for America (results4america.org).

⁷¹ Australian Education and Research Organisation (AERO) (edresearch.edu.au).

Idea 9: Scale outcomes-based contract procurement and management

The structure and focus of funding arrangements has been repeatedly raised as a barrier to delivery-model innovation.⁷² As Peter Shergold, former Secretary of PM&C and Chair of CSI, says, “We’ve got to get not-for-profit organisations to be partners in the design of the programs and services they deliver.”⁷³

In the US, outcomes-based service procurement, coupled with active contract management, has been trialled in partnership with state and local governments. This happened by funders restructuring requests for proposals (RFPs) to describe the desired results, rather than specifying the intervention—then proactively collaborating with service providers to gather real-time data, analyse trends, and tweak outcome indicators throughout the life of a contract. In Australia, shifts over the past decade to standardised digital grant-making and contract management in some parts of government and philanthropy give a good base from which more outcomes-based approaches could be trialled.⁷⁴ The key is upskilling on both sides, so all parties feel confident using data to improve performance.⁷⁵

We would encourage all government and philanthropic funders to pilot restructuring at least a portion of their upcoming RFPs or grants in this way—and then to invest in incentivising, training and supporting their own contract managers to actively manage providers or grantees by collaborating with them on data collection, analysis and action, rather than prioritising status updates or activity reports. If pilots achieve desired results over the life of a contract, funders will have started building an upskilled internal talent pool to scale the approach across their organisation.

‘We’ve got to get not-for-profit organisations to be partners in the design of the programs and services they deliver.’

Idea 10: Quarantine funding for “issue-centric” collaboration across organisations and sectors

There is a huge pay-off to getting “upstream” on the problem—identifying and acting on root causes. “What’s odd about upstream work is that, despite the enormous stakes, it’s often considered optional,” remarks Professor Dan Heath.⁷⁶

When done effectively, issue-centric collaboration can be utterly transformational, for example “Built for Zero”, a radically collaborative methodology to tackle chronic homelessness in the US. It brings together a unified, regional team, funded by both local government and not-for-profit organisations, using real-time, person-specific data to design solutions that sit outside the agenda of any one existing organisation. This methodology has allowed several counties to functionally end chronic homelessness in their regions in

⁷² A consistent theme of CEO interviews. To illustrate, the federal government’s *Australian Government Contract Management Guide*, finance.gov.au, November 2019, contains no mention of outcomes in its section on measuring performance (p.30).

⁷³ *impact2021 webinar: Ten years of reform of the not-for-profit sector*, The Centre for Social Impact, csi.edu.au, 5 October 2021.

⁷⁴ SmartyGrants by OurCommunity (smartygrants.com.au)

⁷⁵ *Ibid.*

⁷⁶ Dan Heath, *Upstream*, Penguin Books Australia, 2020.

just two years.⁷⁷ As Data Lead for Rockford, Illinois Angie Walker explains, “One of the main things about this work is just believing that it’s possible.”⁷⁸ In Australia, similar experiments with catalytic, “issue-centric” approaches are gaining traction, such as the Minderoo Foundation’s “Fire Shield” initiative with the goal of being able to “extinguish dangerous fires within an hour” anywhere across Australia by 2025.⁷⁹

Major funders have the opportunity to adjust incentives, from organisation-focused funding alone toward a much higher proportion flowing into issue-focused collaboration. We encourage each philanthropic and government funder to include in their portfolio the convening of time-bound cross-sector “tiger teams” around particular issues.⁸⁰

Case study: ClimateWorks Australia

The most critical enabler of innovation and therefore impact for ClimateWorks Australia, an organisation focused on reaching net-zero emissions, has been having funders who “defined the mission, not the method”. The organisation has embedded this approach internally through a focus on cross-sector experience and shared ownership.



“Our funders’ focus on outcomes has always been a driving force,” explains ClimateWorks Australia CEO Anna Skarbek. “Over many different iterations of our approach, they have held us to account based on whether emissions reduction was actually happening at scale.” For Skarbek, this mindset has helped the organisation stay focused, despite being in a field in which outcomes are difficult to attribute. “It has allowed us to say no to other funding or projects that may have taken us off track,” she reflects. “I remember the choices we didn’t make, as much as the ones we made.”

Skarbek is frank about the imperative for ClimateWorks to see themselves as part of a bigger ecosystem. “We were set up to be mission-oriented; we don’t exist for our own sake,” says Skarbek. “So we start at the end goal, and work backwards to what it will take to get there, and where the biggest gaps are. We ask, ‘is someone already doing this?’, and partner where we can, so we’re only filling the gaps that best fit our skills and where the greatest impact would be from a systems perspective.”

Skarbek recognises that ClimateWorks’ position as a “bridge organisation”, driving new thinking within the ecosystem, necessitates hiring for—and cultivating—cross-sector experience.

“We are in the business of influence, so you have to be in a place of understanding someone’s position to do that.” Employee exposure to new topics and experiences outside the organisation is vital. As Skarbek notes, “Monoculture is not good for biodiversity or intellectual diversity—it is critical for people to get experience elsewhere. We had a golden rule—say yes to experiences that put you in very different environments, particularly ones where the power lies.”

Employees are also empowered to be innovative through a sense of shared ownership and apprenticeship. “Ownership of the outcome means we can give leaders greater autonomy to play to their strengths.” For Skarbek, developing this in younger staff is about coaching on the job. “An apprenticeship model is critical for us—we overinvest in pre-briefing and de-briefing with staff about the context, to build that collective sense of ownership,” she explains. “This means even our most junior staff have a stake, and a strong understanding of our mission and how we seek to achieve it. That empowers them to be solving for it in all the decisions they make.”

⁷⁷ Kaitlyn Ranney, ‘Rockford, Illinois: Function Zero Case Study’, *Community Solutions*, July 13, 2020.

⁷⁸ *Ibid.*

⁷⁹ Minderoo Foundation, ‘Mission: Fire Shield’, 2021.

⁸⁰ ‘Tiger team’ refers to the concept of a cross-functional team convened to solve a specific issue, and originates from NASA’s use of such a team during the Apollo 13 mission. One recent example of this is the Paul Ramsay Foundation’s Peer-to-peer Program, which brought together ten organisations to find ways to reduce disadvantage, bringing different perspectives to pressure-test one another’s proposals and peer-select the grantees; ‘The peer review program tackling disadvantage’, *Philanthropy Australia*, philanthropy.org.au, accessed 28 November 2021.



Conclusion

The COVID-19 pandemic exacerbated the demand for vital social services, such as mental-health services and transitional accommodation, and the not-for-profit sector has distinguished itself by its collective response, rising to the occasion with impressive speed, dedication, and focus. The crucial nature of the work done by the sector in addressing the needs of the vulnerable and ensuring an inclusive and sustainable future is clear and widely acknowledged—even as the resulting strain on its people has worried organisations in the sector. As we highlighted in Chapter 1, continued high demand in the context of constrained resources requires proactive steps by the sector, its funders, and its broader societal partners.

On the positive side, the research presented in this report highlights the significant strengths of the not-for-profit sector, as well as opportunities for growth and innovation. The Australian sector outpaces organisations worldwide in several areas, including communicating a shared vision, attracting talent, focusing on beneficiaries, and forming deep partnerships with the community.

However, even in a sector populated with many world-class organisations and capabilities, there is room for improvement and innovation. Our analysis shows that the healthiest and most impactful not-for-profit organisations are characterised by excellence in three capabilities: talent growth, execution excellence, and system shaping. Excellence in all three areas is required for organisational health, but most organisations in the Australian not-for-profit sector have room for improvement in at least two—particularly talent growth,

the area most often identified by employees as a gap to be addressed. We have identified several proactive steps that organisations can take to improve these three key capabilities.

Finally, we offer ten bold, cross-sectoral ideas for further investment in these capabilities. Government and private-sector organisations have undertaken to support the not-for-profit sector, to ensure that Australia's future and growth is sustainable and inclusive. Now is an opportunity to live up to these bold commitments. Australia can draw on the entrepreneurialism and innovation of the pandemic response to make sure that the not-for-profit sector is empowered to seize new opportunities, shift mindsets, and build on its already formidable strengths.

Leaders can consider what their organisations are best placed to do by reflecting on the following questions:⁸¹

Not-for-profit leaders	<ul style="list-style-type: none"> • Are you extending and rewarding your talent, and having challenging conversations? • Are you equipping your organisation with the data, decision-making authority, systems and processes to execute with excellence? • Are you fostering the culture and practices to collaborate, learn and to innovate, both within and beyond your organisation?
Business leaders	<ul style="list-style-type: none"> • Are you creating time for leaders and employees to participate in cross-sector secondments, sponsorship, mentoring and coaching? • Are you sharing your expertise with the not-for-profit sector, through tailored or existing training programs and leadership forums? • Are you improving access to, and support for, tools and resources your organisation has available, such as digital tools?
Government leaders	<ul style="list-style-type: none"> • Are you providing resourcing for dedicated bodies that address knowledge gaps and work with partners to translate evidence into action? • Are you linking government funding to outcomes rather than activities, and establishing the management systems to support it? • Are you encouraging and convening cross-organisation and cross-sector "tiger teams" to address systemic issues and solutions?
Philanthropy leaders	<ul style="list-style-type: none"> • Are you paying what it takes to ensure organisations have access to required development opportunities and enabling systems?⁸² • Are you practicing outcomes- rather than activity-focused grant making, and establishing the management systems to support it? • Are you channelling funding and using your convening power to drive issue-focused collaboration across organisations?

⁸¹ There are further opportunities for contributions from boards that are outside the scope of this research, which will be returned to in future publications.

⁸² The pay-what-it-takes approach to philanthropy advocates for funders to consider the full cost of achieving impact. Jeri Eckhart-Queenan, Michael Etzel, and Sridhar Prasad, 'Pay-what-it-takes philanthropy', Stanford Social Innovation Review, Summer 2016.



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Appendix: Organisational Health Index (OHI) methodology

Putting equal emphasis on performance and health enables leaders to lead large-scale change successfully. While performance is about what an enterprise does to deliver impact in financial and operational terms, health focuses on how effectively an organisation works together in pursuit of a common goal—that is, how well an organisation aligns its employees, executes with excellence, and renews itself over time. Change initiatives that focus on both increase their odds of success by 49 percentage points, and deliver an average of 1.8 times more impact than those that concentrate disproportionately on one or the other.

The Organisational Health Index (OHI) is a comprehensive survey of about 100 questions that provides a detailed picture of an organisation's health, based on three measurements. It provides an overall OHI score; an evaluation of effectiveness based on nine outcomes linked to alignment, execution and organisational renewal; and 37 management practices associated with those outcomes (Exhibit A1).

Exhibit A1

Outcomes measure effectiveness in areas critical for performance.

The Organisational Health Index compares an organisation to a peer group across nine outcomes



Looking at a subset of these nine outcomes shows us how an organisation...



... Aligns

Are people aligned around the organisation's mission, strategy, culture and values?



... Executes

Can employees deliver on their roles with the current capabilities, processes and motivation level?



... Renews

How does the organisation understand, interact, respond, and adapt to its situation and external environment?

Source: Scott Keller and Bill Schaninger, Beyond Performance 2.0: A Proven Approach to Leading Large-Scale Change. 2019

Outcomes and management practices are assessed independently, and the scale is based on the percentage of respondents who agree or strongly agree with an outcome statement, or indicate that a management practice occurs often or almost always. An example of an outcome statement is, “This organisation’s employees are highly motivated.” One of the management practices associated with this outcome statement might be, “Managers in my organisation provide praise, thanks, or other forms of recognition to those who deliver high impact.”

The results of the survey are benchmarked against a global database, drawing together more than 15 years of research across an estimated 100 countries, 2,000 organisations, and over six million respondents. The benchmarking allocates a quartile for each management practice or outcome, and for the overall health score of an organisation. (See Exhibit A2 for an example.)

Exhibit A2

Example organisation scores top quartile on organisational health overall

OHI Score



- Top Quartile
- Second Quartile
- Third Quartile
- Bottom Quartile

Outcomes & Practices

Direction 79	Shared vision	75	Capabilities 84	Talent acquisition	75
	Strategic clarity	74		Talent development	67
	Employee involvement	54		Process based capabilities	64
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Leadership 80	Authoritative leadership	61	Motivation 78	Meaningful values	67
	Consultative leadership	65		Inspirational leaders	65
	Supportive leadership	78		Career opportunities	50
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Work environment 75	Open and trusting	70	Innovation and learning 74	Top-down innovation	62
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	Operationally disciplined	71		Knowledge sharing	57
	Creative and entrepreneurial	56		Capturing external ideas	55
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Source: Example only

