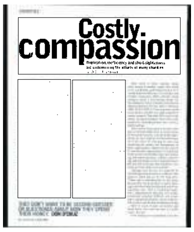
MEDIA MONITORS
INCISIVE INSIGHT



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Costly. compassion

Duplication, inefficiency and short-sightedness are undermining the efforts of many charities.

By Adele Ferguson

Australia's $80-billion not-for-profit sector is a mess. Parts of it are fat, lazy and inefficient. It is also overcrowded. With more than 700,000 not-for-profit organisations scrambling either for government grants, philanthropic donations or access to voluntary labour, it is not surprising that cracks are appearing, at a time when pressures to cut government spending are shifting more of the burden of social programs on to the sector. This trend will intensify as more baby boomers retire and the Federal Government is forced to spend even more of its resources on health care, aged care and pensions.

Despite the size of the not-for-profit sector and its contribution to the economy, the Australian Taxation Office (ATO), which monitors a big part of the sector, has no idea what it is worth nor how many organisations operate in it, or how much tax is forgone each year. When there is such a dearth of information, it is hard to measure efficiency and effectiveness, two matters that go to the heart of the sector. Ultimately, the most important question is: does the money from grants and donations flow from its source to where it will be used as efficiently and effectively as possible? The answer is a resounding no. The chief executive of Nonprofit Australia, Jane Schwager, says the perception is that not-for-profit operators run on a shoestring, yet the reality is that many of them could be managed much more strategically and efficiently, making their revenue go much further and reducing their overheads.

Efficiency is also being hampered by the proliferation of not-for-profit organisations, as their areas of interest overlap and they frustrate donors by fighting for the same dollars. As one trustee of a family foundation says: "This proliferation of organisations in similar areas of interest is wasteful and unnecessary — and annoying. In any one week it is not unusual to be contacted by a handful of different groups, operating in a similar area of interest, asking for money."

For example, each year in Australia an estimated 88,000 people are diagnosed with cancer. About 600 of them are children. At least 20 children's charities are helping these children, including Children's Cancer Institute Australia, Camp Quality, CanTeen, Kids with Cancer Foundation, Cure Our Kids, Malcolm Sargent Fund for Children, Challenge, and Children's Leukaemia & Cancer Foundation. The various cancer councils in each state also dedicate a proportion of their budget to cancer in children. As well, there is a plethora of charities for terminally ill children, including Starlight, TLC for Kids, Ronald McDonald House, Make-A-Wish and Very Special Kids. All of these charities are fighting for precious philanthropic and government dollars, as well as for volunteers. Perhaps there is a strong case for some of them to get together and at least merge their back offices, if not some of the charities themselves. The administrative and labour cost duplication is enormous.

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How some of these charities spend their money is another matter that needs to be scrutinised, particularly because it is closely linked to efficiency. For instance, last October, Consumer Affairs Victoria raised concerns about a fund-raising dinner for the Children's Cancer Institute Australia for Medical Research (CCIA), held in February 2005. Of the $192,114 total proceeds raised at the dinner, only 8% was made available to cancer research. The other 92% went on the dinner and guest speakers. The CCIA's only penalty for misleading donors was to issue a public apology.

This creative destruction of money is also seen at the back-office level. A recent survey by Nonprofit Australia, a not-for-profit organisation set up to improve the financial capacity of the sector by reducing its costs, and improving the quality and transparency of these organisations, looked into the costs of 15 not-for-profit organisations. It found that of the various commodities they used, including telecommunications, utilities, advertising and technology, all were paying between 8% and 25% more than they needed to, even when pro bono deals were involved.

Schwager says she was not surprised by the findings because there is a failure in the sector to think and act for the long term. "There isn't a cost-awareness in the sector because the vast proportion of sector funding is still short-term and directed away from operating costs. This is rendering longer-term organisational planning and proper investment extremely difficult, and resulting in expressed problems of poor information systems and limited leadership training ... There is a lack of skills at executive and board levels. You could say there is a skills crisis," she says.

If the findings are extrapolated across the rest of the sector, billions of dollars of savings could be found.

This is corroborated in a report in *Harvard Business Review*, which argues that the US not-for-profit sector could save about $US100 billion if it were smarter in the way it runs its operations. By changing the way funds are raised, not-for-profits could save about $US25 billion a year. By speeding the distribution of funds, they could put an extra $US30 billion to work. "More than $US60 billion a year could be generated by streamlining and restructuring the way organisations provide services and by reducing administrative costs," the report says.

It says fund-raising costs about 18%, but this should be between 5% and 10%. "What accounts for the high costs? For one thing, soliciting large volumes of tiny contributions, as the majority of [not-for-profits] must do, is inherently inefficient. You tend to incur a lot of labour, marketing and other costs for every dollar you bring in. For another, trying to get your share from a pool of more than 50,000 foundations and millions of individual donors leads to a lot of overlap and waste."

It is not possible to do a similar study in Australia because of the lack of transparency in the sector and lack of information collated by the ATO, the Australian Bureau of Statistics and the Australian Securities & Investments Commission, but similar practices are adopted here as in the United States. Perhaps Australia is well behind the US. In Victoria and New South Wales the state fund-raising commissions put a cap of 40% on fund-raising costs.

Don D'Cruz, a commentator on charities and non-government organisations, has just started a web site, Charity Matters. He says that when the *Harvard Business Review*

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report came out, the sector went berserk and dismissed it without discussion. He says the report gets to the heart of the not-for-profit sector's problem worldwide: "They don't want to be transparent because they don't want to be second-guessed or questioned about how they spend their money." D'Cruz says there is certainly scope in the sector for some rationalisation, given that Australia is not a big country in terms of population and in terms of available private and public funding. "A sector which leverages off the best instincts in people has a moral obligation to adhere to the highest moral and ethical standards."

The chair of the Non-Profit Roundtable Advisory Council, Elizabeth Cham, says the clock is ticking. "We are already seeing cracks. As the demands of the sector get greater and greater, governments expect more with less. We can do that for five years, but five years is up and now these organisations are cannibalising themselves. You only need to look at the sale of nursing homes last year by the Salvos, or the staff shortages in outer services that were run by governments."

A generous nation

The not-for-profit sector touches most Australians in some way. About 87% of adult Australians make donations, 87% of Australians are members of not-for-profit organisations and 41% of Australians volunteer. Education, health, welfare, employment services and advocacy are just some of the areas where the sector dominates society.

BRW estimates that the sector is worth $80 billion a year. But it may be higher. After months of investigating the sector, contacting hundreds of not-for-profit organisations and asking for their financial accounts, *BRW* has compiled a list of the top 200 charities and religious groups in Australia. Between June 30, 2004, and June 30, 2005, the turnover of the 200 charities and related businesses has grown almost 10% to $22.1 billion. This figure excludes clubs, which are worth another $10 billion, and the health funds (another $8 billion). Nor does it take into account arts groups, political parties, unions, mutual societies and most universities. It also misses some religious groups such as the Scientologists and Jehovah's Witnesses, which refused to co-operate.

Most charities do an outstanding job. They have armies of people who volunteer their services or work for less than commercial rates of pay. The result is to make society a better place by providing services and counselling that the commercial sector — and, increasingly, government — ignores.

But that does not excuse the fact that many are inefficient, operate in similar areas, and fail the test of strategic thinking in the manner of their operation. The chief executive of Charities Aid Foundation, Duncan Power, says active work must be done to develop best-practice standards and accountability for all community and not-for-profit organisations. "Recently, I had a retired senior corporate executive tell me how much he had been put off engaging actively in the community sector when he offered a charity $1 million then challenged it to outline a sensible action plan for using the money. To his astonishment, they could not come up with a sensible plan," he says.

Power, who is a qualified accountant and has more than 15 years' experience working with the community sector as an executive, board member and volunteer, says the sector is ignoring the demands of its supporters at great peril. "Lack of transparency and shoddy administration practice is holding back the community sector from being the groundbreaking force it needs to be."

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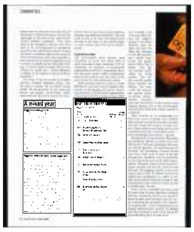

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A mixed year

Biggest revenue rises

The Asian Tsunami Appeal did wonders for the coffers of some of Australia's foreign-aid charities in 2005. Of the top 10 biggest revenue rises, five charities attributed it to successful fund-raising for tsunami victims, These include Caritas Australia, UNICEF, Medecins Sans Frontieres, Save the Children Australia and World Vision Australia. Caritas topped the list with revenue up 175% to $40.6 million, while World Vision had the biggest rise in dollars, raising $109 million for the Asian Tsunami Appeal.

Biggest revenue falls (table page 54)

Some of Australia's charities for the deaf and blind had a tough year in 2005. Vision Australia, Guide Dogs Queensland and the Association for the Blind of Western Australia all reported large falls. Vision Australia suffered the biggest revenue fall in the top 200 charities, down 43% to $66 million, following the merger of the Royal Victorian Institute for the Blind and the Royal Blind Society of New South Wales in June 2004. The Royal Flying Doctor Service in Queensland suffered a 42% fall in revenue, but this was due to a Queensland Government capital grant of $24 million for three new planes that was brought to account in the 2004 financial year. There were no capital grants in 2005.

SPARE SOME CASH?

Biggest revenue falls

RANK IN TOP 200	ORGANISATION	REVENUE 2005 ($m)	CHANGE ON 2004 (%)
51	Vision Australia†	66.4	–42.9
102	Royal Flying Doctor Service of Australia (Qld)	32.0	–42.3
136	Northcott Society	17.4	–27.0
158	Spinal Injuries Association	10.0	–27.0
128	Plan International Australia	22.6	–20.0
190	Wolper Jewish Hospital	6.5	–19.8
21	Sanitarium Health Foods	275.0*	–16.7
191	Association for the Blind of WA	6.4	–14.5
173	Guide Dogs Queensland	8.5	–11.7
200	St Vincent de Paul Society SA	5.9	–11.4

* BRW estimate
† Royal Blind Society, the Royal Victorian Institute for the Blind and Vision Australia Foundation have merged to become Vision Australia

Another longstanding operator in the sector, Keith Roberts, the former chief executive of Epilepsy Australia, says one of the big problems with the sector is a so-called "small community syndrome". "There is no mechanism. In the commercial world we have a merger-and-acquisition mechanism which makes rationalisation easy. There is no mechanism here. It requires people to see sense," he says.

Roberts makes another interesting point: besides there being no mechanism for rationalisation, there is no process to discourage proliferation. He cites the Beattie Government's decision to set up a foundation to raise money for the Cyclone Larry Relief Appeal. Instead of going to a big disaster-relief charity, the Queensland Government set up its own charity, adding to the existing number of charities. "What happens when it runs its course and gets wrapped up?"

A not-for-profit employee who requested anonymity says he was working for the Queensland Government a few years ago and had to consult with various groups representing persons with disabilities. "The number of groups was extraordinary. There were at least four vying to represent persons with vision impairment, including two separate ones for guide dogs.

"I say 'vying' because there was a 'prize'. Whoever was identified as the stakeholder group representing persons with impaired vision got government funding support. So there was an obvious competition between them to achieve that status," Roberts says.

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He says this did not help people who actually had vision impairment. "On that project, we resolved months of argument when we ignored the social worker 'representatives' and spoke directly to a group of disabled persons. They did not feel that the 'charity workers' really spoke for them.

"And some of these charities spend more time and resources on gaining members and funds than on their actual work. One guide dog group had a huge centre with an entire room full of state-of-the-art computers used for direct marketing by mail and telephone. All the staff in it were paid. Yet the most important part of their operation [training the guide dogs] was done free by volunteer families. And you guessed it — blind people complained that there was a shortage of guide dogs and quite a waiting list for them," Roberts says.

Poor reporting

Disclosure standards in the not-for-profit sector remain poor, particularly compared with those applied to business and government. If, for example, businesses raise funds from the public, they must provide a prospectus detailing the purpose, performance targets and proposed allocation of the money. Failure to comply with the prospectus will usually lead to prosecution by regulators.

They also must regularly report to investors. Not-for-profits almost never do so. Most charities provide detail in advance, but no follow-up detail on their fund-raising activities. In fact, most charities provide only promotional material about themselves, none of which is objective or detailed.

Many charities do not even provide the basic data for the public to make informed decisions about charitable giving. Most charities do not disclose the cost of fund-raising, including administration and marketing costs relative to total fund-raising revenue, and it is useless anyway. A survey of 2000 organisations, called *A Better Framework: Reforming Not-for-Profit Regulation*, was carried out in 2004 by the Centre for Corporate Law and Securities Regulation at the University of Melbourne, in collaboration with Philanthropy Australia. It found that almost 25% favored disclosing the cost of fund-raising to the public. In other words, three-quarters of those that responded did not think they should disclose to the public the cost of fund-raising.

BRW attempted to do this in its list of the top 200 charities, but decided against it because there are too many discrepancies between not-for-profit organisations. The reason: there is no one set of accounting standards, so various organisations define their costs in different ways and lump different things into their expense ratio to make it look better for themselves. Any comparison is virtually meaningless and misleading.

Schwager says the absence of agreed accountability and reporting standards is contributing to poor organisational efficiency and effectiveness. In the top 200 not-for-profits that *BRW* scrutinised, 128 charities, or 64%, provided annual reports, the other 72 did not.

The standard of reporting also varied. For example, St Vincent de Paul Society Queensland includes a box on the last page of its annual report summarising its financial accounts. Another example is the Alfred Foundation, which offers even less financial information on the second last page of its 2005 annual report. Others, such as the Salvation Army, go into minute detail, even including the cost of auditing fees.

The lack of information and transparency not only means it is hard to track inefficiencies or better ways of doing business, it also makes it difficult to uncover fraud. A survey conducted earlier this year by the chartered accountants BDO into fraud in the not-for-profit sector found that of 547 not-for-profits surveyed, 65% believe fraud is a problem for the sector. The survey found that 19% of respondents

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had experienced fraud in the past two years. Of those, almost all had experienced multiple cases of fraud. The biggest number of frauds reported were in organisations in the $1–10 million revenue bracket. Cash theft and expense-account fraud were the most common types of fraud.

Reform of the sector is vital. Philanthropy Australia's chief executive, Gina Anderson, says it is inevitable. "It will either be imposed or the sector will wake up and realise it is better to do it itself. Part of the push for reform will come from philanthropists who want more transparent information before they give out money. I think the sector has time to reform itself, but come the next election, if things aren't sorting themselves out, there will be increased scrutiny ... Globally, there is an increasing scrutiny of the sector by media and government, so we [the sector] would be foolish to think that is not going to happen in Australia. I think it will take place after the next election."

The not-for-profit sector is a vital part of society. The management expert Peter Drucker once wrote: "The more economy, money and information become global, the more community will matter. And only the social sector non-profit organisation performs in the community, exploits its opportunities, mobilises its local resources, solves its problems. The leadership, competence and management of the social sector non-profit organisation will thus largely determine the values, vision, the cohesion and performance of 21st-century society." ●

LOOKING UP

Biggest revenue rises

RANK IN TOP 200	ORGANISATION	REVENUE 2005 ($m)	CHANGE ON 2004 (%)
86	Caritas Australia	40.6	175.4
116	UNICEF Australia	28.1	100.8
110	Children's Cancer Institute Australia	29.4	83.1
76	Save the Children Australia	44.0	81.9
124	Medecins Sans Frontieres	24.7	74.0
97	RSPCA Victoria	33.4	72.3
149	Victorian Deaf Society	12.9	61.9
146	Kidney Health Australia*	13.5	56.0
17	World Vision Australia	364.0	55.3
60	Cancer Council NSW†	56.8	54.3

* 18 months to December 31, 2005
† 15 months to September 30, 2005