



Australia

THE ROLE AND INFLUENCE OF THE NONPROFIT SECTOR IN AUSTRALIA

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Definition Of The Sector

Most Australians acknowledge that nonprofit organizations are different from government and for-profit organizations. However, there is no one title for nonprofit organizations that is universally used or understood. They may be called “not-for-profits”, “charities”, “trusts”, “non-government organizations”, “community organizations”, “collectives”, “co-operatives”, associations”, “clubs”, “societies”, “civil society organizations” or “foundations”. The various names also indicate the various types of organizations that make up the sector.

The term “nonprofit” with regard to a group of organizations in Australia means that it is “nonprofit distributing”, that is, these organizations are prohibited from distributing any profit to members or any surplus assets if the organization is wound up. Many Australians still believe that “nonprofit” means that the organization cannot make a profit. However, organizational sustainability requires that nearly all nonprofit organizations must have a modest profit over the long term.

Nonprofit organizations can be further distinguished into two groups: public-serving and member-serving. Public-serving nonprofits have been formed to help others. Their members and supporters do not anticipate using the organization’s services for themselves. Examples of these organizations would be charities, hospitals, welfare services and overseas aid agencies. Member-serving organizations have been formed to provide a service to their members. However, the distinction between public-serving and member-serving nonprofits is not clear and gives rise to ambiguity. Many member-serving nonprofits provide services that benefit the whole community. Many public-serving nonprofits have organizational structures that are closer in form to the government sector, and the structures of many member-serving nonprofits are closer in form to for-profit firms.

Factors in the Growth and Decline of the Nonprofit Sector in Australia

It is difficult to discuss the growth and decline of the nonprofit sector in Australia at this point in history without acknowledging some of the historical and socio-political factors that have attributed to its development. The history of western society in Australia only spans 226 years. Therefore, Australia has been able to draw on highly sophisticated processes and practices of other long established democratic societies in the development of its political and social systems.

Australia today has an extremely small population (19 million) relative to its land mass. The biggest growth in its population has occurred since the end of the Second World War. The size and slow development of the population in Australia meant that it was not until the middle of the nineteenth century that Australia had sufficient population to support the range of associations representing the different interests in society. These included business interests, sporting clubs, scientific societies, libraries, adult education and performing arts groups. Most of the original immigrants to Australia came from the United Kingdom and brought with them an understanding of how such organizations could benefit the society and knowledge of how to establish and structure such associations. They also brought an understanding of the necessity to establish a highly developed democratic political system that would give stability to the new colony.

For the first 40 years following the establishment of self-government, the political system in each Australian colony was built on factions formed around political leaders. Around the turn of the twentieth century, coinciding with Australian Federation and the formation of a national government, two major class-based political parties emerged—Labor and Liberal. Many nonprofits, particularly those with an advocacy role, became identified with one of these two parties (e.g. the Country Women’s Association, Women’s Christian Temperance Union, business associations and the Protestant Churches with the Liberal/Country Party; and the union movement and Catholic church nonprofits with the Labor Party). Although this strong party identification has been weakening since the 1970s, it did inhibit the growth of a strong and varied community services sector for most of the twentieth century.

Australia has a highly developed economy and is one of the oldest democracies in the world. It has had a strong nonprofit sector since the mid-nineteenth century, and this strength has been significant in a number of fields of human activity. The last period of significant growth in the nonprofit sector occurred in the 1970s when

there was a dramatic increase of government support for community organizations that provided social services, housing and health. Subsequent Australian governments have embraced a philosophy of neo-liberalism that has reshaped the role of government from service funder and provider to creator of markets. Therefore, inequality within the public-serving nonprofit sector has grown. With this shift in philosophy has come a decline in member-based organizations. This is not dissimilar to trends in the United States.

While the government is an important influence on the nonprofit sector, so too is the business sector. Fashions and trends in the business sector tend to overflow into the nonprofit sector. The main pressures for improvement of governance and organizational effectiveness have come from the business sector and have been taken up by many nonprofits, especially the trade associations, large sports associations and the large public-serving nonprofits. The nonprofit sector has many links with the for-profit business sector, especially through nonprofit board members that are also employees or board members of for-profit organizations.

At the present, it is not possible to say whether Australia is seeing a reorganization of the nonprofit sector prior to a new period of growth or a slow decline.

Growth Factors Affecting the Development of the Nonprofit Sector

For the first 150 years of development of western society in Australia, the rate of population growth and the development of the national governance system both contributed to the growth of the nonprofit sector in Australia. Within the system of national governance it was relatively easy to establish a nonprofit organization. As neither the government nor the business sector has ever been able to provide a complete set of services to meet society’s needs, the community realized that they could form self-help groups to provide entertainment, sporting opportunities and services to the poor or the ill. The government understood that nonprofit organizations were necessary to provide the full range of services that they were unable to provide. The high degree of diversity among the population has meant that groups of people who share an affinity, and at the same time feel different from others, have tended to organise around those differences. Historically, the differences have been racial, ethnic or religious. The fact that the nonprofit sector educates one-third of all school children in Australia can be directly traced to the decision of the Catholic Church at the end of the nineteenth century to maintain an independent school system. These differences have formed the basis for the founding of many nonprofits.

on the sector. It has introduced a new competitive framework between nonprofits themselves and between the nonprofit and for-profit sectors. All of this has occurred at a time when government policy has also promoted the use of strategic alliances and partnerships between nonprofit organizations and nonprofit and for-profit entities. So while fostering a collaborative framework on one hand, governments have effected competitive tendering on the other. This has introduced a high level of ambiguity in the relationship between the nonprofit sector and government.

Competitive tendering for government contracts has encouraged the entry of for-profit service providers in areas that previously would have been the sole domain of nonprofit organizations. As many of these competitive tendering models are more focused on efficiency rather than effectiveness, the granting of these contracts to for-profit companies means that the emphasis in service delivery may be low costs rather than the social good of the clients.

Increased competition has meant that some nonprofits have gone out of business. A small number have decided to convert to for-profit firms or have agreed to be taken over by a for-profit firm. However, increased competition and amalgamation within the nonprofit sector itself has meant that many of the large public-serving nonprofits have increased dramatically in size. Their size gives them the internal capacity to quickly focus on new tendering opportunities and redirect existing staff into governmental priority areas of service delivery. This capacity is not shared by smaller nonprofits.

While competitive tendering may have had an overall effect of diminishing the size of the nonprofit sector, it does not follow that there has been a reduction in the amount of service actually delivered. Service is now being delivered by a mix of for-profit and nonprofit organizations and there are a smaller number of nonprofit providers controlling a larger amount of public funding.

Many nonprofit organizations were formed to meet the needs of their membership at a particular point in time. Some of those organizations have been slow or reluctant to change and adapt to new needs and expectations. Therefore, membership of long-established nonprofit organizations, such as the mainstream Christian churches, the labour movement, community service organizations such as the Lions Club, and the political parties are declining markedly. In turn, this has led to the collapse of some nonprofits.

Increasing societal diversity has meant also that the services provided by many of the traditional nonprofits are no longer as appealing. Welfare state expectations that “the state should provide” have hindered some members of the community



Incorporated Association

The most common form of association for nonprofit organizations in Australia is the incorporated association. In 1996, there were about 130,000 incorporated associations in Australia. Every state and territory has its own association incorporation legislation and these differ from one another in minor ways. This legislation was specifically designed for nonprofit associations. Generally, it provides a simpler and cheaper method of incorporation than the “Corporations Act”. An incorporated association must not be formed for trading or profit-making purposes. If an incorporated association makes a profit as a result of its activities, these profits must be used for the association’s purposes and must not be divided among the members.

There are two internal governance difficulties with this form of association, both concerning the processes for the election of the board. Firstly, the enactment of the Associations Acts in each state was usually accompanied by the development of “Model Rules”. Because nonprofit organizations were unfamiliar with such legal processes, most adopted the “Model Rules” in their entirety, even though in fact the board or committee has the power to set the association’s rules. In most cases, these “Model Rules” said that the members of the committee or board should be elected annually. Many incorporated associations have continued to adhere to this practice even though it causes a lack of continuity in the governing process and exacerbates the problem of lack of availability of board members. This situation is a product of a lack of understanding of the governance role by board members rather than the legislation itself.

Secondly, because the general membership elects the committee or board, the choice is often the result of a political process rather than an evaluation of the skills mix and experience required to govern effectively and to carry out the purposes of the organization.

The reporting requirements for incorporated associations vary from state to state. The minimum requirement across all states is for the association to file an address of a registered office or the name and address of a public officer or secretary. The submission of an annual return or financial statement is not required in all states. This is inconsistent with the principles of public administration that require the incorporating authority to monitor the conduct of the body created. However, associations in receipt of external funding (government or a foundation) are required to submit (annually or at the conclusion of the funding agreement) both a narrative report and audited financial statements to the funding body.

are encouraged to participate in the interest of quality management, governance or public accountability. For example, Philanthropy Australia has developed a “Code of Practice” which trusts are encouraged to use.

It is interesting to note that many of these accreditation processes do not include any standards relating to the governance of the organization, i.e. the way in which the board fulfils its responsibilities. Most of the focus has been on issues of direct care and the management processes and structures that support this care. As accreditation agencies recognise the role of the board (governance) as distinct from the management of direct care, governance assessments are gradually being included in the accreditation process.

Partnership Programs

There are two kinds of partnership programs encouraged by governments. One is a government/nonprofit partnership and the other is between the business sector and public-serving nonprofit organizations.

Governments often use the rhetoric of partnership to describe their relationship with nonprofit organizations but no real partnership actually exists. There is no equalisation of power in any of the “partnerships” between government and nonprofit organizations. It would appear that both government and nonprofits use the term “partnership” to describe a pragmatic and useful relationship that is not predicated on equality but is mutually beneficial to both groups. Such “partnerships” resemble a strategic alliance rather than a partnership.

There has been an increasing focus by government to encourage the development of business-community partnerships. The Prime Minister’s Community Business Partnership Program is one such recent initiative. Such programs aim to develop and promote a culture of corporate and individual social responsibility. They do this by recognising and facilitating examples of corporate social responsibility between business and community organizations in Australia.

NONPROFIT SECTOR RESPONSES & INNOVATIVE PROGRAMS

Nonprofit Sector Responses to Questioning and Criticism

Nonprofit sector organizations have responded to criticisms about their inefficiency by increasing their management capacity through the use of consultants and by recruiting chief executive officers and board members from the business sector.

Nonprofits also need to develop a greater capacity to critique new business models and practices rather than adopt such practices because they appear to be successful in the business sector and therefore must be “better”. They need to be able to assess whether such models can really work in nonprofit practice.

To Grow in its own Understanding of the Importance of Civic Responsibility

One of the downsides of a welfare state national identity is that citizens are often slow to recognise their personal responsibility for the development of a truly civil society. Australians may have become complacent in their expectation of a democratic, open and fair society.

Nonprofits are being challenged to strengthen the capacity of citizens and communities to work together to solve societal problems and challenges. This may require that Australians see themselves as citizens rather than consumers. Such awareness may also help to develop Australia’s inadequate understanding of the need for a larger philanthropic base.

To Develop an Understanding of the Importance of Civic Responsibility

A small, ageing and ethnically diverse population means that nonprofits must continue to increase their board and managerial capacity so that they can respond to new needs as they emerge while the human resource base to provide that capacity is shrinking. Boards will need to be especially innovative in attracting members that reflect a diversity of membership, clients and supporters, and that more closely reflects the diversity of Australian society itself.

Volunteerism is fundamental to the development of a civil society. As the need for organizational capacity increases, nonprofits are challenged to balance this need with that of providing satisfying work for those who wish to volunteer and make a meaningful contribution to the nonprofit.

The nonprofit sector in Australia makes a valuable contribution to the development of civil society. This paper discusses the social, political and organizational arrangements that have defined the development and decline of this sector and the structuring and accountability issues that arise in areas of public governance and organizational governance. It also outlines the multiple and ambiguous standards of governance in law and practice. Finally, it outlines the challenges facing the sector if it is to have a certain and productive future.



ANNEXES

Key Informants on Nonprofit Sector and/or Governance in Australia

The following people were interviewed or consulted in the production of this paper:

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