

Myths and Biases Derailing Australian Human Services' Sustainability

Human Services Economic Paper Five

*David Gilchrist and Ben Perks
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The Centre for Public Value is a research entity within the UWA Business School at the University of Western Australia. This economics paper is the fifth in a series of working papers focused on explaining the development, operation, and management of the economics of human services in a mixed economy such as those in Australia or New Zealand. The series is developed and funded by the UWA Centre for Public Value.

The Centre for Public Value seeks to contribute to sustainable policy and practice as a foundation for efficient and effective human services systems. Therefore, our research focuses on achieving sustainable outcomes for the human services sector and governments but is driven by a focus on the impact on service users.

This working paper series has been designed to provide people with skills outside of economics with explanations and commentary relating to important economic topics that effect the sustainability of the human services sector. As such, these working papers draw on, and add to, research and commentary undertaken by the UWA Centre for Public Value and which is available via our website, a link to which is located in the contact information section below.

Summary

Numerous myths have emerged over time in relation to how the Third or Nonprofit sector operates, what its resources needs are and what it contributes to the community. In turn, these myths drive the development and pursuit of unfounded biases in public policy and practice. These unfounded biases in turn serve to distort policy makers', governments' and sector actors' perceptions and understandings of the sector's operational challenges and contributions. These beliefs go largely unchallenged due primarily to the short-term focus applied to the sector and funded programs. As such, they permeate policy making, public opinion and political discourse. These biases rely on assumptions and misperceptions that have real world effects on the quality, timeliness and quantity of human services in Australia—in other words, on the sector's sustainability. This paper highlights these myths, linking them to the biases they inform in policy targeted towards nonprofit human service organisations. The unintended consequences of these biases act to constrain and inject instability into the sector and, we suggest, are the core drivers of many of the adverse conditions experienced. Thus, they are detrimental to the objectives of governments because they limit the sector's ability to respond to need in society. Put another way, a line must be drawn between what is necessary to meet short-term need and the capacity required to generate high quality systematic change so that the Australian nonprofit human services sector can become sustainable and continue to impact the lives of vulnerable Australians positively.

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Reading this document

In developing this document we have primarily focused on the nonprofit human services sector and have used this description throughout. However, we also acknowledge that there are different names and descriptions applied to this sector and which are in use in different sub-sectors and by different people. We had to choose a particular rendition order to complete the paper and to try and reduce complexity. We therefore acknowledge that many will use the terms "Not-for-profit", "charities", "social services", "community services" and many others. We intend for the reader to interpret this paper by accepting that our meaning is the same. Additionally, we have used these words interchangeably at some points in the paper as we felt they were more effective in describing a particular point. Finally, we also focus on human services and supports but maintain that these myths, the biases they cause and the impacts that are subsequent to their acceptance apply equally to all nonprofit activities.

What are myths and biases and why are they relevant?

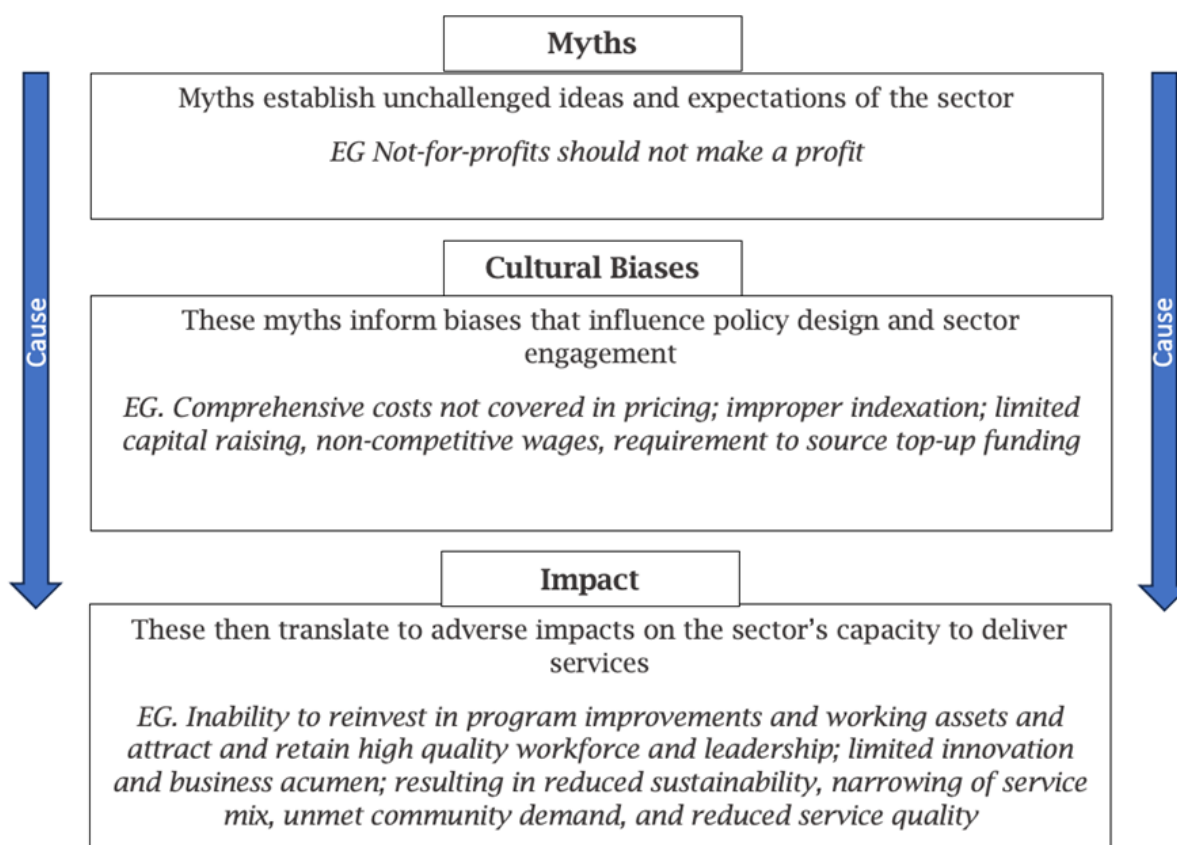
Myths and biases are well-documented and can be recognised and distorted for all manner of purposes. In this paper, we are concerned with identifying myths relevant to the nonprofit human services industry, describing the bias those myths instigate and considering the impact that such behaviour has on policy and practice.

Often thought of as traditional stories that depict the particular origins of a place or tradition, myths constitute a set of symbols and language that are passed down generationally. Although they are most readily associated with supernatural beings and heroism—think of the Gods of Olympus—they are also present in less sensational aspects of our lives. Indeed, many myths exist in our understandings of how the world works, including in relation to the human services sector. These sector-specific myths concern our

understanding of the operation and efficacy of nonprofit organisations. However, many such myths are not recognised and, if they are, are not rectified to the detriment of good policy and practice—this is especially the case in a sector like the Australian nonprofit sector which has developed and changed significantly in the second half of the 20th century as state welfare provision grew post World War II and then reassigned to private organisations with the emergence of neoliberal economic policies from the 1980s onwards.

The creation of mythology is complex and varied. However, for the purposes of this discussion it is the issue that myths are communicated often uncritically between people or within institutions or in society that is most vital. Stories and the underpinning assumptions are disseminated and so thoroughly embedded in how we do things that they become common-sense or unchallengeable.

Figure 1. The relationship between myths, biases and poor impacts on human services and supports



Biases, on the other hand, are inherent preferences that inform our individual thoughts, beliefs and actions. These are unconscious shortcuts people take to understand complex ideas and to supplement available information when making decisions. This includes the tendency to seek out information that confirms existing beliefs, generalising in relation to diverse groups or using a set of predetermined characteristics or attitudes that influence our perceptions. It is widely agreed that bias is an innate part of human thought and is present in some form in every decision we make. As such, much effort and importance is placed on becoming conscious of bias in thought processes and devising ways to minimise its negative effects.

In a very real sense, it is myths, that is our underlying and oft-unchallenged understandings of something that inform our thinking and interactions with that thing. In the case of the nonprofit human services industry, myths surrounding the operation, effectiveness and motivations of organisations have biased how policy makers devise relevant policy; governments handle third sector matters; and indeed, how the public views nonprofits, as well the expectations it places on the sector. These myths, and the biases they drive, impact the sustainability of the nonprofit human services industry negatively, despite there being no evidence or experience that actually supports these myths nor the biases they encourage (see figure 1 above). That said, a strong causal link does exist between these myths, biases and adverse impact to the sector.

What is sustainability?

When we talk of sustainability and the nonprofit human services sector, we are concerned that the sector can continue to deliver appropriate quality services, in the right quantities at the right time. We are not concerned that individual nonprofit organisations survive but that the services and supports are able to continue to be delivered as per the above.

What are the myths and biases in the human services industry?

There are a number of myths and biases that exist in relation to the nonprofit the human services industry, some are easier to discern than others but all adversely impact the sustainability and trajectory of that industry. Like any social phenomena, they interact in complex and contextualised ways, informing and reinforcing each other at iterative stages. However, what is clear is that the sector's myths are considered commonplace and even necessary facets of the sector's identity and operation. What is perhaps less clear is the influence these ideas have on the inconsistencies observed in policy design and public perception that weaken resourcing, stifle innovation, lower program effectiveness and hurt long-term service and support outcomes. In other words, these myths have institutionalised practices and policies that simply do not work.

The table below displays what we see as the dominant myths in the sector, as well as the resultant biases that inform policy and practice. We acknowledge though that further myths and biases could be added, we are keen to highlight the problem in this document. As such, these myths and biases are what we see as the major concerns. These items are not presented in any particular order.

Myths

- Nonprofits should not make a profit
- Nonprofits should not pay competitive salaries to executives/appropriately reward leaders
- Nonprofits are inefficient and non-innovative as compared to the commercial sector
- The government does not have enough money to resource the sector
- It is not necessary for nonprofits to have a strong balance sheet
- All funds can and must be spent directly on programs for short-term return
- The nonprofit sector is a fiscal sink: we should be looking for ways to reduce expenditure into this sector in all instances
- Sacrifice and selflessness are primary and necessary features in sector operation

Biases

- Quasi-markets will elicit efficient and high-quality service delivery
- Competition is required to correct motivation and improve efficiency
- It is not necessary for governments to pay a price for services and supports that represents a profitable financial outcome for a nonprofit
- Consumer Price and Wage Price indices appropriately capture cost changes in services
- Contracting duration and particulars should not contribute to capacity-building and reserves
- Contracting partial funding amounts that do not reflect comprehensive cost of services
- Raising capital and filling expenditure gaps are necessary responsibilities of the organisation
- Government is benevolent and supports the sector rather than relying on service purchasing
- Administration is automatically red tape and must be reduced; administration should not be funded
- Misuse of metrics by government and philanthropic entities
- Downplaying of the overall economic contribution of the sector
- The third sector is considered both distinct and comparable to other sectors

Cause

Cause

How these ideas connect, distort decision-making and impact sector sustainability

Myths and biases translate into policy that constrain nonprofits. The strategies and avenues open to other sectors, as well as the relationship with government, are often denied to the third sector with the alternative resulting in policies and programs that don't work and hold little internal consistency while decreasing sustainability in the short-, medium- and long-terms. It is the misconceptions and unchallenged understandings of the sector that create this environment. As seen in figure 1, each of the sector myths feed into the set of biases that effect policy and sectoral relations with government and the public.

The difficulty in outlining and linking each myth and bias, along with the most noteworthy consequences, lies in the overlapping and complex relationships shared between them. While some channels are perhaps clearer and more robustly understood than others, it does take some effort to consider exactly how pervasive these ideas are in how we perceive the sector. What will become apparent is that these myths can reinforce each other and speak to double standards and ingrained misunderstandings of what a charitable act should encompass and what it should not.

Figure 1 illustrates clearly the connections that effectively portray the channelling effect that is observable in policy design and discourse centring on nonprofit human services industry. It is likely, however, that not all the dynamics are captured here. As will quickly become apparent, numerous of the myths support the notion that organisations should not be comprehensively funded for services or supported to develop capacity and long-term social return.

In the remainder of this document we seek to describe the key issues the myths and biases invoke. Again, we acknowledge that we have not covered off all issues but are highlighting key

issues in order to raise appreciation as to cause and effect.

Nonprofits should not make a profit

Perhaps the most widespread myth is that nonprofits should not make a profit or surplus in the process of furthering their mission. Indeed, this may partially be a misunderstanding attached to the label not-for-profit/nonprofit/charity wherein organisations cannot distribute profit to owners or shareholders or distribute assets on winding up unlike for-profit businesses. However, there is a deeper held view that profitability is antithetical to the social cause of an organisation. Nonprofits, and charities in particular, should not be pursuing profit, as this is not only thought to be at the expense of those in need, it is also seen as a waste of money given the enduring myth of nonprofits as fiscal sinks.

This view, of course, neglects the importance of an organisation generating surplus funds for reinvestment to further its activities and capacity or to replace assets, as well as promoting greater effectiveness, not to mention their need to invest in order to meet changing government policy and ever-increasing demand. It also prevents organisations being able to forward plan and respond to economic and other shocks (EG. Covid and Bushfires). Thus, the myth unnecessarily distinguishes the effective and efficient operation of third sector organisations from those in other sectors to the detriment of service delivery sustainability.

Under resourcing is a familiar issue among human service nonprofit organisations with the majority of providers invariably breaking even or operating at a lossⁱ. The denial of profitability can be seen as creating a bias in how the resourcing of these organisations is approached and what parts of the operation are prioritised. Current practice is for resources to cover only those direct program costs required to deliver a program in the short-term. For example, government contracting, which constitutes the majority of resources receivedⁱⁱ, is often for short durations (EG. one-off, 1 year, 2 year) and can entail strict stipulations of how funds are to be

used. Sometimes, the funds not utilised for program delivery must be returned to the relevant department rather than reinvested into the organisationⁱⁱⁱ. This not only leads to under-investment, it also leads to government purchasers misunderstanding the true cost of service delivery and the appropriate price to be paid.

Tying this back to profitability, contract lengths and particulars are designed to ensure that only the resources required to deliver the immediate service are provided and even then it is highly likely that such resourcing are underprovided. No priority is given to how costs are absorbed by the provider or the commercial importance of capital surplus and cash reserves for building effective service models and maintaining sustainability. On the contrary, the myths suggest that if the generation of profit is inappropriate then by extension the utilisation of surplus on non-direct activities should also be discouraged. Thus, in the same breath, raising capital from other sources for the purpose of improving sustainability and revenue security places organisations into similarly unsavoury territory^{iv}. Collectively the resourcing bias informed by the notion that nonprofits should not make a profit embeds vulnerability and disruption into the human services sector.

Overall, the persistence of this myth, and the subsequent biases perpetuated, impact the sustainability of service delivery as those charged with governance in nonprofit service providers must ensure financial solvency. Service providers cannot change the price or quality levels in most cases and so they must change the quantity (or service mix). These changes often go unperceived by governments and the impact is felt by those needing services and supports in the community. That is, the service user is the shock absorber for the system.

The impact on governments is to increase the risk of cost blow-outs as emergency supports and services as well as replacement services must be provided at some point and the problem becomes exacerbated and thus more expensive to governments in the medium term.

Nonprofits should not pay competitive salaries to executives or reward leadership

A closely related misconception to the denial of profitability is the notion that sector employees, particularly those holding executive roles, should not be competitively remunerated. While differences in remuneration between nonprofit and for-profit organisations can be dependent on characteristics such as size, industry and output type, it is not controversial to say that salary levels between the two types of organisations are often disparate. For instance, a 2019 Pro Bono survey of nonprofit CEO salaries placed the average salary at AUD\$133,260, with an additional approx. AUD\$100,000 being paid to the CEOs of nonprofits with budgets over AUD\$25mil and those operating in the aged cared and disability sectors^v. In contrast, for-profit CEOs received an average of AUD\$420,854 in salary, as well as an average bonus of around \$300,000. Those in the largest Australian companies can take home upwards of \$10mil^{vi}.

Of course, it is unreasonable to compare these salaries forthright. However, the skills and responsibilities are comparable, as are the characteristics of successful individuals and the benefits borne from high quality executive leadership. Arguably, human services provision is higher risk and greater complexity compared to many commercial industries. Notably, the risk and complexity in most nonprofit human services organisations are very significant and any failure in terms of quality and/or quantity can be catastrophic to service users and staff.

As it stands, the best talent cannot be drawn to the sector because of the dual expectations of low pay and high sacrifice expected of the workforce. By way of example, recent MBA graduates are likely to earn around AUD\$55,000 less in the nonprofit sector and career progression is significantly limited^{vii}. Despite the pursuit of competition being a central bias informing much reform in the sector, it is only competition within the sector that is viable and

an inability to invest in talented people limits internal development, the cultivation of new ideas. Put plainly, sector organisations need commercial, social and clinical acumen but cannot approach the incentives necessary to draw in those with the skills and capacities required.

The centring of sacrifice and low pay encourages a number of biases and are reinforced by others. Certainly, public scepticism has grown over the decades towards executive salaries with notions of siphoning funds earmarked for charitable causes^{viii}. When coupled with the myths of no profit and administration spending, it becomes impossible for compensation to ever outweigh the charitable sacrifice required of workers. The perceived inappropriateness of incentivising talent and development speaks to the bias in how we recognise the economic contribution of the sector and the benefits of having the brightest minds working for its betterment, as is the case in every other industry. For-profit organisations understand the return available when they bring in quality employees and invest in them, the nonprofit sector is not given the same advantages^{ix}.

Nonprofits are inefficient and non-innovative as compared to for-profit companies

Another implicit misconception is that nonprofit organisations are inefficient and static with minimal capacity for innovation or improving quality or services. While not always stated explicitly in policy and public discourse, there is a working assumption in policy circles, philanthropic entities, as well as governments, that without a profit motive and without appropriately skilled leadership, nonprofits lack the necessary motivation to pursue cost-effectiveness and investment in improvement. Evidence of this can be gleaned from the Productivity Commission's 2010 report on the contribution of the nonprofit sector. Despite the

report outlining the administrative and resourcing barriers nonprofit organisations face, the Productivity Commission still suggested that the sector was bloated and non-optimal in its delivery or effectiveness^x. What evidence is available on the inefficiency of nonprofit organisations is mixed, albeit largely unresponsive to these claims and utilises comparisons between hospitals rather than diverse human service organisations. Further, it is usually argued that the commercial sector is more efficient and effective though no evidence is available that points to this in reality. That said, commentators suggest that, since surplus must be reinvested into the organisation rather than distributed, and volunteers and donations are such integral features in the sector, that nonprofits may actually exhibit higher levels of efficiency on average^{xi}.

Regardless, it is clear that reform in human services delivery has predominantly involved the introduction of competition in some form to organisations. The resting assumption is that competition over resources will correct the drive among nonprofits towards cost-effectiveness and innovative differentiation of their 'product' because, in the case of quasi-market¹ structures, the consumer has greater control.

A demonstration of this bias is in the preference for quasi-markets to facilitate greater competition. While this has been seen to be effective in select circumstances, social service markets functionally do not exist. Since governments determine program demand through budget allocation and regulation activities and determine the price based on their capacity to pay rather than on the comprehensive cost of service delivery, price signals and commercial flexibility are not present. As quasi-markets continue to be introduced, a slew of common causes of market failure can be identified^{xii}. With sustained government involvement, market set-ups will never be able to provide the efficient level of service delivery; despite the evidence to the

¹ A quasi-market is a market where the government is the sole buyer, determining the price and supply through funding decisions (e.g. NDIS)

contrary, this remains the primary reform aimed at improving service outcomes.

The current resourcing framework disincentivises innovation and risk taking by not affording the stable revenue required for long-term value generation consistent with business best practice. Any attempt to introduce novel ideas or practices can be scrutinised and often punished by means of non-renewal or stricter contracting^{xiii}. Therefore, short-term compliance, regardless of impact or potential, is institutionalised in contracting, indexation and capital raising activities; an attitude that is reflected and reinforced by narrow public tolerance for what is seen as misuse of funds earmarked for service recipients.

The third sector is a fiscal sink

The notion that the third sector is a fiscal sink is a persistent myth that suggests organisations are purely receivers of financial support from which no return is garnered. The myth suggests that money spent in the sector is wasted and focuses policy makers and others on the issue of reducing expenditure rather than considering the quality of the purchase and the economic and social outcomes achieved.

Moreover, since the social issues the sector is tasked with alleviating continue somewhat unabated, the need for further financial support is manifest. Notwithstanding the abundance of economic evidence confirming the broader substantial economic contribution of the sector, this myth is sustained in how funders evaluate and fund organisations. The administrative processes involved in contracting and granting, while to an extent reflect prudent public financial management, also require organisations to expend significant time and nonprofit money to demonstrate the legitimacy of their spending. The starvation cycle is a symptom of this dynamic, as much as it is of ordained competition, since organisations must compete to be considered the least wasteful provider.

Two broad biases stem from the fiscal sink myth. The first is the downplaying or selective recognition of the economic and social contribution of the third sector to the wider community. As of 2023, the Australian Charities and Nonprofit Commission reported that the sector employed 10.5% of the Australian workforce and generated AUD\$190bil in revenue^{xiv}. Further, these charities purchase goods and services from other sectors and can inject funds in local communities in ways that are localised and efficient. Non-monetary or social production spill overs further strengthen the sector's contribution by billions of dollars^{xv}. Certainly, this can be extrapolated to the contribution of those who access services, as well as the cost offsets of emergency and crisis services often directly delivered by governments.

The second bias comes by way of an assumption that has come to underpin the relationship and the language used between governments and the nonprofit sector. Namely, the proposition that nonprofits require support to provide services and the government supports this mission through funding. More accurately, the government is purchasing services from organisations that are offering said services instead of delivering services they are otherwise responsible to deliver. Many of these services are considered non-economically viable for for-profit organisations, thus, would not be delivered in the free market. That said, the government determines the price given for services rather than recognising the comprehensive cost of delivery that would otherwise be paid or required by a for-profit enterprise.

The government does not have enough money to resource the sector

A common cry of governments when approached with proposals to invest more into the human services sector is that there simply isn't the money available in the budget. The pervasive ideology surrounding economic prudence in the management of public funds, as well as in the private sphere of household in- and

outgoings makes this a particularly staunch myth. However, what more often than not underpins budgetary decisions are the priorities of government not budget scarcity. Of course, governments must make trade-offs and balance competing demands on the available resources and by doing so inevitably must prioritise some initiatives over others based on a variety of considerations. However, to say that there is not enough money is misrepresenting the situation—rather, the issue is there is not enough money allocated to human services provision. For instance, in each state and territory, the gaming industry operates with a tax-free threshold of between AUD\$150,000 and AUD\$1,000,000 depending on the jurisdiction. As a result, around AUD\$2.7-5.5 billion² is foregone in tax revenue nationally—thus, governments choose to support the gaming industry to the tune of AUD\$2.7-5.5 billion rather than invest in human services.

Another instance of budget prioritisation is in the use of social sector consultancy. Between 2012 and 2022, the Department of Social Services and Services Australia engaged in 1,334 contracts, amounting to 8% of all contracts over the period and costing the public AUD\$400 million^{xvi}. When including the 3,089 consulting contracts entered into by the Department of Health and Aged Care the total amount spent on consultancy increases to AUD\$943 million—just under \$1 billion. Such contracting practices are prioritised alternatives to forms of direct investment in human services capacity-building the need for which is supported by the already available evidence base.

Priorities towards certain sectors at the detriment of others can occur in less than obvious budget decisions. One such case is the Fuel Tax Credit Scheme which refunds fuel taxes paid on heavy vehicles, machinery and equipment, as well as vehicles used off of public roads. Of the approximately \$7.7 billion the scheme cost in 2022-23, 45% or \$3.465 billion of

the rebate went to the mining sector^{xvii}. An industry that does generate significant value to the Australian economy, yet is also extremely well financially positioned to cover the costs of business and retained super profits.

The not enough money myth influences biases in devaluation of the sector's contribution, the improper measurement of its impact, in addition to preference towards competition and quasi-market structures that exacerbate rather than solve acute and widespread under resourcing. This translates to the distortions in cost structures and service mixes observed repeatedly in the sector and the sweeping reluctance to take the return-on-investment approach held towards those operating in the mining and gaming industries.

All funds can and must be spent on programs

The idea that all funds received by a charity or nonprofit can and must be spent directly on program delivery is well-intentioned but is a myth that warrants careful consideration. This is because such ideas place unrealistic and undue constraints on the practices of those operating programs. Of course, a significant proportion of funds should be allocated to direct program efforts. However, the assumption that this is the appropriate and most effective means of resourcing nonprofit organisations is incorrect. In many cases, this wholly prioritises a short-term service view that, while it may address the initial needs of those in the community, severely limits collective capacity to tackle issues systemically and over time.

The expectation that all available funds are reserved for service delivery biases how we view efficiency and effectiveness within the sector, and in turn, how assessment of these characteristics is undertaken. Many resourcing contracts and grants are closely tied to financial ratios that demonstrate low overheads or indirect costs relative to direct spending. That

² This is an estimation using total gambling expenditure by state and the base and highest tier tax rates relevant to betting. Tax policy varies somewhat across the gambling industry and jurisdiction. That said, it is difficult to see this estimate changing dramatically given the variability observed.

this is now coupled with increased competition among organisations has intensified instances of the 'starvation cycle' whereby providers under-report their overhead requirements in order to secure funding which causes further tightening of indirect spending. A growing body of evidence has confirmed that, not only do funders expect indirect spending levels as low as 10-15% when the median ratio is around 40%, but that these rates are significantly lower than what is considered financially healthy for an organisation in other sectors^{xviii}.

There is currently no evidence of a relationship between cost-effectives and overhead spending with those organisations considered effective exhibiting a range of spending levels^{xix}. Non-program costs, such as administrative overheads, training and development and evaluation assessment serve to bolster the effectiveness of organisations and are an essential component of the operation of any business—they also potentially reduce risk and long-term spending requirements. Despite the underlying notion of charity as a sacrificial act, organisations are expected to operate like entities in other sectors and, unsurprisingly, those practices (marketing, research and development, strategic investment, competitive salaries) that produce positive returns in other sectors would do the same in the nonprofit sector^{xx}. Since this behaviour is embedded in many donor expectations, the ability for organisations to diversify their revenue to fund indirect costs and invest in efficiency technologies is severely restricted. This restriction being an experience felt differently across a diverse sector.

With this in mind, such pervasive, yet inaccurate contractual monitoring furthers the reluctance on the part of institutional funders to recognise the comprehensive costs of service delivery. For instance, it would not be reasonable to expect a construction company to build a bridge having received only 70% of their operating costs, the same thinking should apply when purchasing human services. Instead, systematic underinvesting in indirect costs within the sector has weakened its capacity to provide the

meaningful long-term benefits sought after by providers. These circumstances are likely buttressing notions of inefficiency and fiscal wastage, which further solidifies perceptions that direct program funding is the only appropriate approach to resourcing nonprofit organisations.

Sacrifice and selflessness must be the defining characteristics of the sector

The last myth we tackle (though not the last myth impacting the sector), that nonprofit is synonymous with sacrifice or selflessness, is ubiquitous in the popular understanding of charity. This commonality makes this myth arguably the most subtle and unopposed since it aligns with broader cultural beliefs and norms. Indeed, the set of policy biases mentioned are informed by the notion that those in the sector are required to forego competitive pay, surplus, comprehensive funding and capacity to invest to be considered properly advancing their mission. Government and other donors, thus, support those organisations that are pursuing just causes and through their selflessness cannot resource themselves.

While the heart of the nonprofit sector is resolutely fixed on a commitment to serving the community, it is essential to recognise that nonprofit organisations are professional entities often requiring specialised skills, knowledge and complex organisational and interfacing structures and which operate in high-risk areas due to the care they provide. It is necessary to challenge not the altruistic underpinnings of the sector but the fallacy that this altruism is mutually exclusive to the professionalisation and appropriate resourcing of human services work.

What this amounts to is a relationship between the sector and governments, the public and industry that is extractive rather than cultivating of a sector capable of greater social returns while building on its economic contribution. A sector that is increasingly expected to do more with less, and punished if its attempts to reinvest, strengthen revenue or advocates for resourcing

consistent with the actual costs of service delivery.

Understanding the unintended consequences

The myths and biases present in the sector have far-reaching and largely unintended consequences, many of which have been experienced by organisations and documented by researchers for a considerable time. Firstly, under resourcing through non-comprehensive contracting, strict metrics, limited capital raising and inappropriate indexation leaves organisation's unable to invest, innovate and diversify their revenue streams thus impacting service sustainability negatively to the detriment of service users. Restructuring of expenditure priorities can see organisations needing to narrow their service mix to avert continuity risks, decreasing effectiveness, and threatening quality, in addition to exacerbating sector capacity to meet demand. It is well-understood that unmet need in initial services result in cost spillovers to other sectors, such as emergency services, healthcare, the justice system and safety net welfare programs. These social and economic costs are borne by the public both in terms of civic quality and taxation.

A second consequence of these myths and biases is the continued practice of governments and other donors prioritising short-term outcomes over a return-on-investment approach. Rather than investing in building a robust social infrastructure capable of efficiently and effectively addressing long-term social issues, the focus remains on policy mechanisms that are informed more by myths than the existing evidence. This perpetuates the cycle of myopic thinking, preventing the development of sustainable solutions that can truly address the root causes of societal challenges.

A final notable consequence is the presence of conflicting expectations whereby third sector organisations are treated as both fundamentally

distinct and comparable with commercial businesses in other sectors. On the one hand, the sector holds a unique position in society as it attempts to address the social issues demonstrably beyond the capacity of the market system. With this mission-orientation comes the familiar expectations of charitable sacrifice, as well as inefficiency and suspicion in the absence of a profit motive. Conversely, nonprofits must also navigate the practical expectations and pressures associated with economic principles, competitive contracting and strict performance metrics and accountability. This tension places sizable pressure on a sector that seemingly has the expectations to operate like for-profits yet has extremely limited access to the practices and tools that are commonplace for a successful business. Resultantly, these conflicting expectations trickle down into the quasi-market and resourcing environment, effectively economically isolating human services organisations.

What perpetuates these myths?

It is impossible to attribute the plethora of myths to one source. However, there are two core barriers to a broader movement that would challenge these ideas. The first is the lack of understanding in governments and the for-profit sector of sector operations and its role in the community or how prolific under-resourcing and its consequences are among organisations. To rectify this, a timely and functional array of data is required to challenge the fallacies imposed on the sector through policy bias and facilitate dedicated examination of the myriad of ways a sustainable human services sector can contribute to our shared prosperity and enrich our communities.

The second influence is the absence of sustained political pressure on these myths and biases. Undoubtedly, there is sizable sector advocacy for fairer funding and conditions for service providers. However, resource dependence concerns passively deter organisations from challenging the causes

instead of the immediate symptoms^{xxi}. Instead of opting for particular language and strategies that prolonged the misconstructions driving unsustainable and precarious operation^{xxii}. Within this restraint is an inability on the part of the sector to strategically engage with the media in challenging policy bias, reshaping public opinion, nurturing trust and easing scepticism or suspicion beyond mandatory reporting^{xxiii}.

What should be done?

Challenging the myths and biases related to nonprofit human services providers, and in turn, the impact on the sector necessitates a multi-faceted approach that addresses the motivators of the biases, as well as the negative impact on organisations. The following strategies represent vital steps to dismantling the misconstructions shaping sector policy and sustainability.

- **Development of robust data assets:** To effectively challenge prevailing perceptions of the sector, comprehensive data collection will need to occur. Focus should be placed on performance measurement, economic impact, the building up of detailed organisation profiles and the construction of fit-for-purpose metrics and operating principles. By embracing data asset development, the sector can more confidently communicate its value and counter misconceptions decisively. Currently, there is little functional means of substantiating or challenging these myths that have embedded bias so effectively.
- **A national measurement and evaluation framework:** A related strategy would see the development of a framework to robustly assess the performance and contribution of the sector. At its most effective, this framework would require a

substantial consultative period that involved data-driven development of evaluation metrics and performance benchmarks. Not only would this aid in the communication of sector value, the standardised approach would instil transparency and accountability into the funding relationship that would likely bolster public engagement.

- **Transparent and well-defined goal setting and industry planning:** A critical third strategy would be the development of a set of goals and a long run industry plan for the sector. Integral to this process would be the recognition of the importance and role of the sector in addressing societal change, in addition to its value in stimulating economic growth in the short- and medium-term. A core component would then be the adoption of a return-on-investment approach rather than strictly procurement. Governments can determine a sustainable and evidence-based approach to capacity-building with a clear profile of expected returns (i.e. economic and social) and safeguards.
- **Recognition and commitment to funding the comprehensive cost of services:** Finally, and perhaps most immediate, is the recognition and commitment by funding partners to fully fund the comprehensive cost of service delivery. Despite the limited data available, what evidence is available is clear that when an organisation is adequately funded it is better able to deliver high-quality programs. Changes in funding should encompass those costs covered, as well as the duration of contracts, the appropriateness of indexation and flexibility in resource use to allow for capital raising and strategic investment within an agreed upon context.

Concluding thoughts

The defining result of the proliferation of myths about the human services industry does or should function contributes to substantial cultural biases in policy design and sector engagement. These misconceptions continue to have significant effect on the sustainability of human services delivery, in addition to the industry's ability to reinvest and innovate. As profitability, commercial autonomy and recognition of wider economic and social value are denied organisations, it is reasonable to conclude that the nonprofit sector is becoming increasingly economically isolated from the broader economy. The sector is tasked with addressing complex social problems in an environment where they operate under a different, and often times conflicting set of expectations and rules.

Without the resources and financial stability necessary to dismantle these ideas, the sector finds itself trapped in a cycle of risk and under resourcing. The resultant impacts on service sustainability—that is, the timeliness, quantity and quality of services—will inevitably fall on those the sector is designed to help, the vulnerable and in most need of support.

To overcome these obstacles, a shift in perception is needed, recognising the value of long-term, sustainable investments in the human services infrastructure, in addition to a more nuanced understanding of how nonprofit organisations operate and contribute to the betterment of society. The creation of a comprehensive industry plan would support this process.

Other Economic Papers in this Series

Economic Paper 1: What is Indexation

Gilchrist, D. J., and C.T. Feenan. 2023. "Economic Paper 1: What is Indexation?" Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia.

<https://www.uwa.edu.au/schools/-/media/centre-for-public-value/resources/final-ep-1-indexation.pdf>

Economic Paper 2: Why the CPI and WPI are not Appropriate Bases for Human Services Funding Indexation

Gilchrist, David, J., and Clare T. Feenan. 2023. "Economic Paper 2: Why the CPI and WPI are not Appropriate Bases for Human Services Funding Indexation." Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia.

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Economic Paper 3: Markets and Human Services

Gilchrist, David, J., and Clare T. Feenan. 2023. "Economic Paper 3: Markets and Human Services". Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia. <https://www.uwa.edu.au/schools/-/media/centre-for-public-value/resources/230428-final-ep-3-markets-and-human-services.pdf>

Economic Paper 4: Job Quality Threats to Human Services Sustainability

Gilchrist, David, J., and Clare T. Feenan. 2023. "Economic Paper 4: Job Quality Threats to Human Services Sustainability". Working Paper Series on the Economics of Human Services, Centre for Public Value, UWA Business School, Perth, Australia. <https://www.uwa.edu.au/schools/-/media/centre-for-public-value/resources/230428-final-ep-4-job-quality.pdf>

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