



# The Sum of the Parts: Collaborations and Strategic Restructuring in the Australian Charities Sector

INDUSTRY RESEARCH REPORT  
JUNE 2019

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## FOREWORD

The changing regulatory and economic landscape of the Australian not-for-profit (NFP) sector is placing unprecedented pressures on charitable institutions impacting how they manage their financial and non-financial resources. While government procurement services has traditionally been the predominant source of revenue for many Australian charities, Australia's governments have placed increasing emphasis on quasi-market procurement arrangements and have changed their procurement and pricing policies. These changes have escalated the pressure on charities' operational and financial models. To meet these challenges and to pursue their goals sustainably, Australia's charities are increasingly seeking opportunities for resource sharing collaborations and strategic restructures—such as mergers, acquisitions and divestments—with the intention of driving down costs, expanding their service offerings and building new skills.

This research report, led by a cross-institutional team from RMIT, the University of Western Australia and Queensland University of Technology, provides insights on the nature and extent of resource sharing collaborations and strategic restructure activities undertaken by Australian charities. Based on a questionnaire survey of the CEOs and directors/committee members of Australian charities, the study offers more nuanced insights into the drivers and outcomes associated with resource collaborations and strategic restructures, taking into consideration organisational size and sectoral features.

Our analysis of 249 survey responses indicate that there is a high level of activity and involvement in formal and informal resource sharing collaborations, while strategic restructures such as mergers, acquisitions and divestments are less common. Nevertheless, while there is much interest in pursuing strategic restructures, calls for legal, financial, and technological support to facilitate change, particularly from smaller charities were made. Transformational leadership by governing boards and

senior executives, as well as, nurturing trust and social capital within resource sharing networks are vital elements for resource management.

Further, we believe the lived experiences of our respondents have much to offer for developing more innovative solutions within a challenging resource environment. We thus take this opportunity to thank all our survey respondents for generously giving their time and their willingness to share their deep and invaluable insights.

Our ultimate vision is for a strong, vibrant and innovative Australian charity sector that is well-resourced. In pursuing this vision, the research team presents this report and looks forward to participating in important critical and debates among those charged with the governance of charities, regulators, academics, policy-makers, and other stakeholders.

## KEY FINDINGS

### Collaborations

- Collaborative arrangements are actively sought by charities.
- Memoranda of understanding (MOU) function as the most common vehicle for agreements between parties.
- The main drivers of collaborations were cost savings and access to human and technological resources
- The types of resources shared vary widely including back office support, logistics and office space
- The majority of respondents report positive outcomes from such collaborations
- While cost savings was the key driver, the major benefits derived include flexibility in both forming and ending agreements and having had the opportunity to better know a potential acquisition or merger partner
- However, the major reasons for dissatisfaction include a lack of mutual understanding on expected commitment to the agreement, changing priorities, resource needs, and lack of organisational culture fit.

### Strategic Restructures – Mergers, Acquisitions & Divestments

- Mergers were the most popular restructure sought by the respondent organisations, followed by divestures and acquisitions
- Merger restructures were more actively sought by medium sized charities
- Large and very large charities reported more positive outcomes which included improvements in programmes, stronger financial sustainability and enhanced ability to fulfil their mission
- Common reasons for not pursuing mergers include incompatibility in social mission and goals, poor due diligence, and differences in organisational values and ‘ways of doing things’
- Divestures were reported to have a positive impact on financial sustainability as well as an improvement in organisational capacity to fulfil mission and reduce in administrative expenses.
- Acquisitions were largely motivated by the desire to expand customer and revenue bases, particularly through expanding service programmes geographically.

### Support needed for enabling collaborations and strategic restructures

- The main sources for information and advice on collaborations and strategic restructuring are sought from professional consultants, followed by the ACNC website and legal advisory services
- Legal advice and financial support and services are essential resources needed to achieve successful collaborative and/or structural change, with small charities feeling more acutely the need for such resources
- Smaller charities find themselves in a more vulnerable, disadvantaged position in terms of finding funding for training, particularly those in regional areas
- There was less agreement that boards have adequate expertise and displayed a proactive, futuristic outlook, while there were expressed concerns that some board members were highly resistant to change.

## BACKGROUND

Australian charities are facing unprecedented challenges in delivering important services in the community. These services are accessed by some of Australia's most vulnerable people and range widely in their scope and nature. They include disability support, health services, aged care, advocacy services, community and social services, and more. Further, evolving economic conditions such as the entry of private service providers, regulatory changes and rising administrative, payroll and infrastructure costs are also threatening the viability of Australian charities' operating models.<sup>1</sup>

It is important to note that collaboration means many things to many people.<sup>2</sup> In this report, we refer to collaborations as arrangements implemented which allow two or more organisations to retain their sovereignty while facilitating their capacity to work together in terms of gaining or sharing tangible and intangible resources. Such resources may include sharing costs, sharing knowledge and technological know-how, and mutually supported service delivery through a simple exchange of letters, a memorandum of understanding (MOU), formal contracts, group purchasing, and joint venture arrangements.

By contrast, strategic restructuring is understood as a group of processes that result in one organisation losing some, or all, of its sovereignty in favour of another organisation. More specifically, a merger occurs when two organisations consolidate to form a new organisation and where the assets, liabilities, and business activities of both organisations are combined while the two merging organisations cease to exist. An acquisition occurs when one organisation takes ownership of the assets and liabilities and subsumes the business activities of another organisation which will then cease to exist. Divestments involve spinning-off, closing or selling some part of the assets or operations of the entity. In the charity sector, a divestment may be as simple as the transfer of contracts for service to another entity without consideration.

Anecdotal evidence indicates structural re-arrangements through mergers, acquisitions, resource-sharing alliances and asset divestments are potential avenues for acquiring and sharing essential resources as well as for widening service offerings and increasing the organisation's client base. Past studies have found that mergers and acquisitions are neither simple nor quick, but need board and CEO leadership, good governance and planning, commitment to honest and open accountability as well as clarity and commitment to the shared social mission.<sup>3</sup>

<sup>1</sup>See: Gilchrist, D. J. and P. Knight, Community Employers Person Centred Care and Individualised Funding – Final Report. A joint report undertaken with Community Employers WA, Perth, September 2014

<sup>2</sup>Butcher, J., J. Phillimore, D. J. Gilchrist and J. Wanna, 2019, Attributes of Effective Collaboration: Insights from five cases studies in Australia and New Zealand, Policy Design and Practice, DOI: 10.1080/25741292.2018.1561815

<sup>3</sup>Subramaniam, N., Lowe, A., West, R., Nama Venkateswaralu, Y., Subramanian, R. & Mayne, K. (2018) Mergers, Amalgamations and Acquisitions in the Australian Not-for-Profit Human Services Sector, RMIT University and CPA Australia: Melbourne, Australia

## RESEARCH DESIGN

A national survey was sent to the CEOs or heads of the governing body of all Australian charities registered with the Australian Charities and Not-for Profit Commission (ACNC). The survey was accessible electronically via Qualtrics survey software from October to December 2018. A total of 249 responses were received, and data analyses are based on the total number of responses (n) for a given question or set of questions.

The next five sections of this report comprise information on:

- **Sample:** Provides the sample organisations' characteristics and the survey respondents' demographics
- **Perceived Challenges:** Describes respondents' concerns regarding financial sustainability, operational efficiency, regulatory pressures, and people issues (i.e. human resources), which are potential drivers of collaborative and restructure activities
- **Collaborations:** Examines collaboration types and strategic restructures together with the reasons respondents provided for choosing such arrangements. Considers the perceived advantages and disadvantages of the various arrangements, and the influence of size and sectoral idiosyncrasies
- **Strategic Restructure:** Examines the types and extent of strategic restructures, and the reasons for choosing the different structural models
- **Information and Support:** Offers an overview of the type of information and support sought from internal and external sources
- **Board and CEO Readiness:** Examines responses related to board and CEO capacity in the context of collaborations and restructures.

### Limitations of the Study

The usual caveats of survey-based research applies to this study, which include:

- The response total of 249 is a small sample of the total number of organisations represented on the ACNC register which number approximately 54,000<sup>4</sup>
- The charities operate across a number of service sectoral areas where operational and financial risks and organisational outcomes are not necessarily comparable
- Self-selection biases are inherent as the respondents were self-selecting (i.e. voluntarily participated, limiting the sample's representativeness of the sector)
- If we consider the ACNC register, small and medium charities are under-represented in the usable responses. Large charities are over-represented in this survey (more than twice the number of other size charities).

<sup>4</sup>See ACNC website: <https://www.acnc.gov.au/for-public/understanding-charities/are-there-too-many-charities-australia>



# THE RESPONDENTS

## ORGANISATION SIZE<sup>5</sup>

(n=142)

SMALL (TURNOVER UNDER \$250,000)



42%

MEDIUM (TURNOVER BETWEEN \$250,000 AND 1M)



13%

LARGE (TURNOVER BETWEEN \$1M AND \$10M)



30%

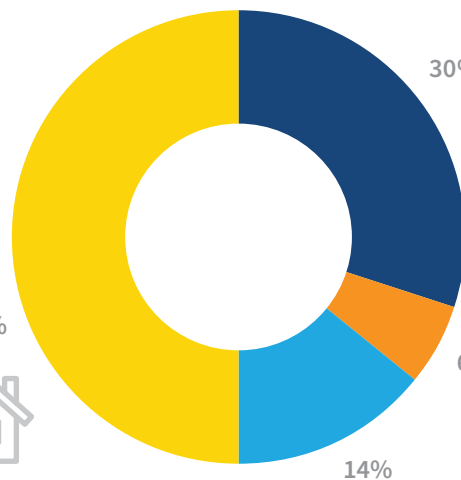
HUGE (TURNOVER OVER \$10M)



15%

## ORGANISATION TYPES SUMMARY

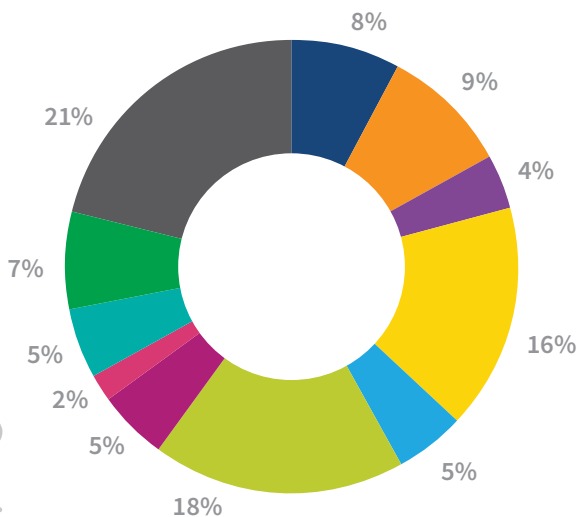
(n=132)



- Charitable Foundation/Trust 14%
- Incorporated Association 50%
- Company Limited by Guarantee 30%
- Other 6%

## SUB-SECTOR COMPOSITION

(n=142)

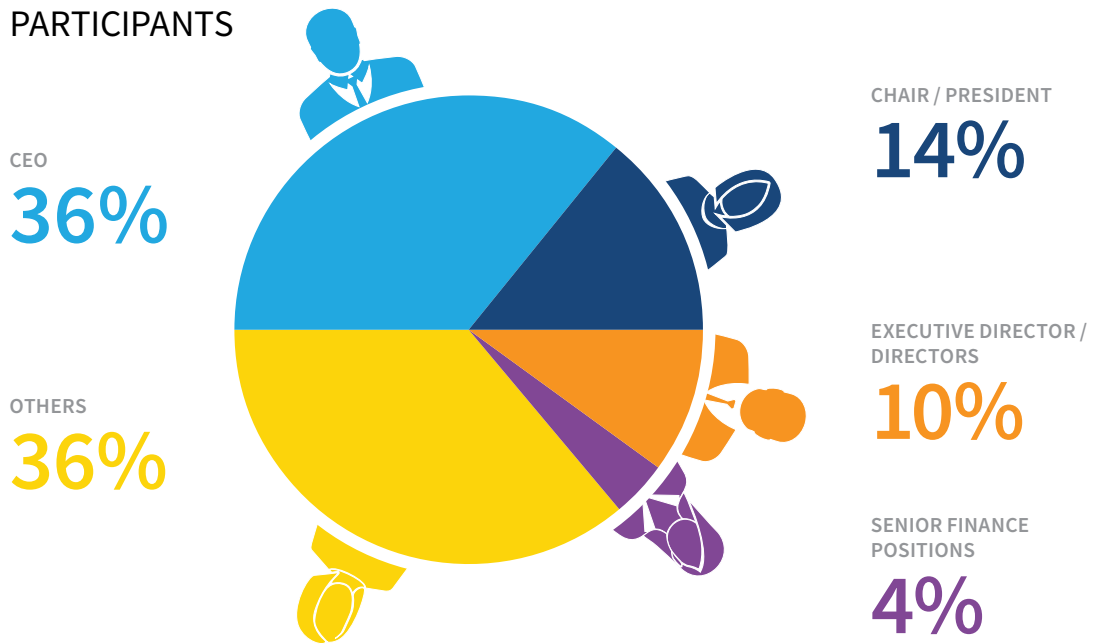


- Culture and Recreation 9%
- Development and Housing 4%
- Education and Research 16%
- Environment 5%
- Health 18%
- International 5%
- Law and Advocacy 2%
- Philanthropic 5%
- Religion 7%
- Social Services 20%
- Other 8%

<sup>5</sup>The ACNC has three size categories based on turnover: Large (turnover \$1 million or more), medium (turnover between \$250,000 and \$1 million), and small (revenue less than \$250,000): [www.acnc.gov.au](http://www.acnc.gov.au)

The personal demographic profile of the respondents: (n=140)

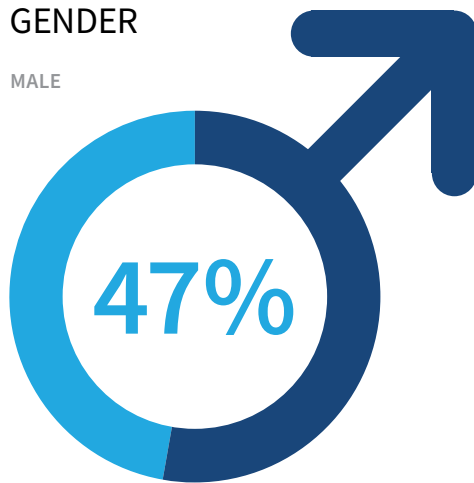
### PARTICIPANTS



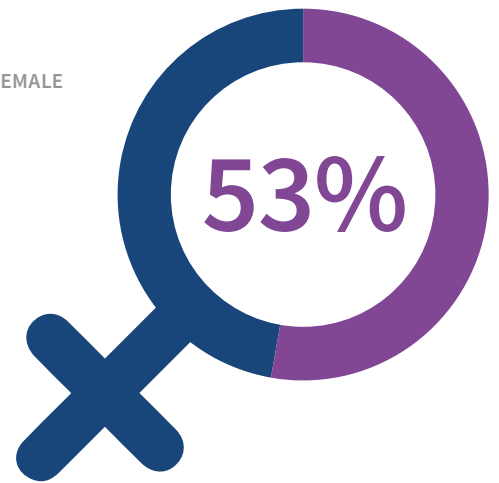
(n=145)

### GENDER

MALE

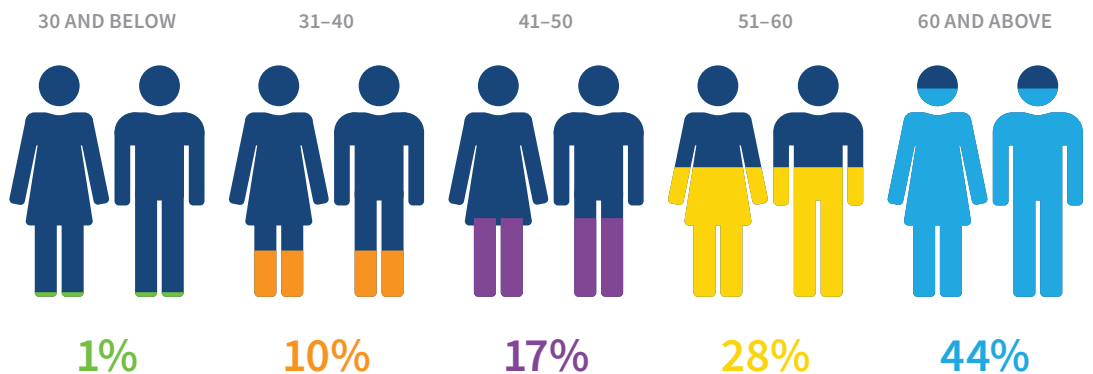


FEMALE



(n=145)

### AGE



# PERCEIVED CHALLENGES

Australian charities face a multitude of challenges in relation to financial, human resource management, meeting mission goals and overall performance. These issues present key motivations for resourcing arrangements and strategic restructuring. Our research assessed the extent to which survey respondents perceived different dimensions of the common challenges faced by their charities.

## Financial Sustainability

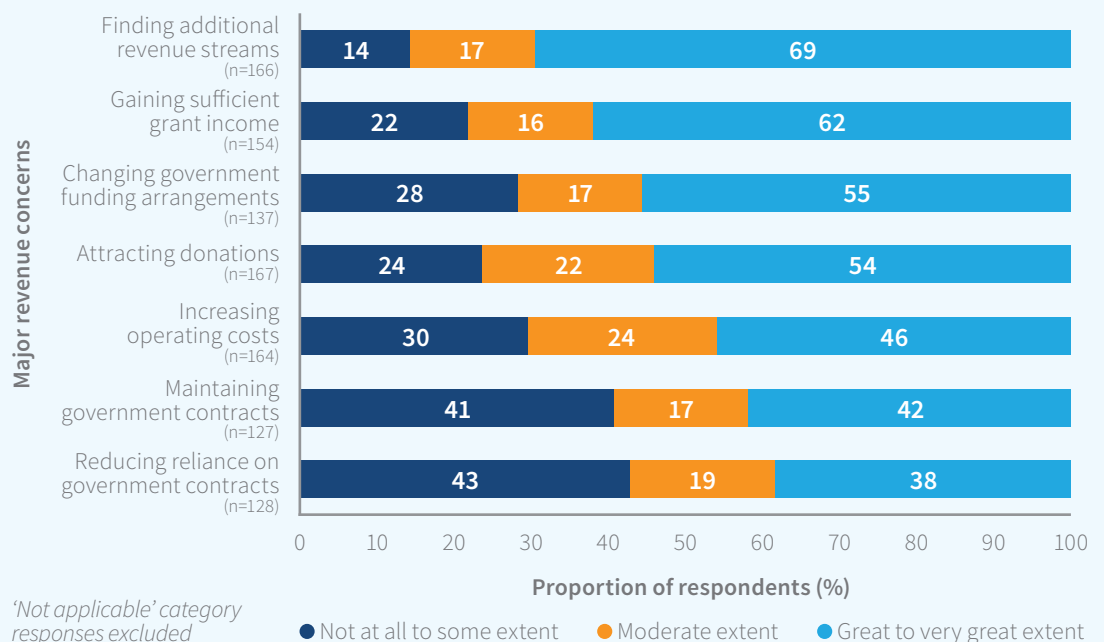
Concerns over financial sustainability were uppermost in the minds of survey respondents with only half those responding agreeing that their organisation was financially strong. See Figure 1 below.

Sixty-nine (69%) of the respondents indicated they have a great or a very great level of concern over the need to source additional revenue streams, followed by concerns over gaining sufficient grant income and changing government funding arrangements (62% and 55% of respondents, respectively). This finding confirms the significant financial pressures faced by charities and underscores leaders' motivations for looking to a wider group of financial resource providers, identifying innovative ways of fundraising, and growing client-directed services.

When reviewing these issues in the context of organisational size, we found small organisations are significantly more concerned about attracting donations than large organisations, while medium sized organisations are significantly more concerned about attracting additional revenue sources than small organisations.

Medium and large organisations are more concerned about changing government contracting arrangements as well as reducing their reliance on government contracts than small organisations. Very large organisations, with more than \$10 million revenue, are concerned about changing government funding policies such as the NDIS scheme.

Figure 1: Responses Relating to Financial Sustainability



## People Issues

Human resources are fundamental to the charity sector. According to the Australian Charities and Not-for-Profit Commission (ACNC), in 2018 the sector employed approximately 10.6% of Australia's workforce. No doubt, the workforce is changing dramatically with increasing pressures related to finding and remunerating skilled workers. Further, the Giving Australia 2016 report estimates that almost 44% of adult Australians volunteer more than 932 million hours on an annual basis, averaging around 55 hours per week.<sup>6</sup>

Nevertheless, a third of respondents indicated that attracting volunteers was an area of great or of very great concern, and nearly half the respondents reported that developing human resources and workforce planning were serious concerns (Figure 2). Interestingly, meeting Equal Remuneration Order (ERO) requirements appeared to be of less concern to the respondents.

Medium and large sized organisations were found to be significantly more concerned about workforce planning than small organisations. On the other hand, small organisations were significantly more concerned about attracting volunteers than medium and large sized organisations.

## Operational and Regulatory Issues

There is increasing emphasis on service quality and service pricing within the charity sector. Particularly with the influx of commercial service providers entering service areas traditionally met by charities and NFPs thus raising competition for clients and services. As shown in Figure 2, meeting social goals and delivering services were of a great or very great concern for at least 45% of respondents.

Regulatory red-tape and meeting compliance requirements can be time consuming and thus resource hungry. Nearly half the respondents reported that the need to reduce with regulatory red-tape and meeting compliance requirements to be of a great or very great concern (49% and 48%, respectively).

*“Restructures have come about as a result of poor management and the failure of fundraising strategies”*

**Respondent Comment**

*“Valuing staff works. De-valuing staff does not work. Integrity of managers/leaders is critical”*

**Respondent Comment**

<sup>6</sup>[www.volunteeringaustralia.org/wp-content/uploads/giving\\_australia\\_2016\\_fact\\_sheet\\_-\\_individual\\_volunteering\\_accessible.pdf](http://www.volunteeringaustralia.org/wp-content/uploads/giving_australia_2016_fact_sheet_-_individual_volunteering_accessible.pdf)

## Meeting Goals and Performance

Mission plays a critical role in framing shared values and work norms within charities. This is reflected in the fact that charities take much pride in their mission, history and reputation.

Almost 90% of the survey respondents either agreed or strongly agreed that their beneficiaries are very satisfied with their service delivery, and that their organisation has a strong and positive reputation.

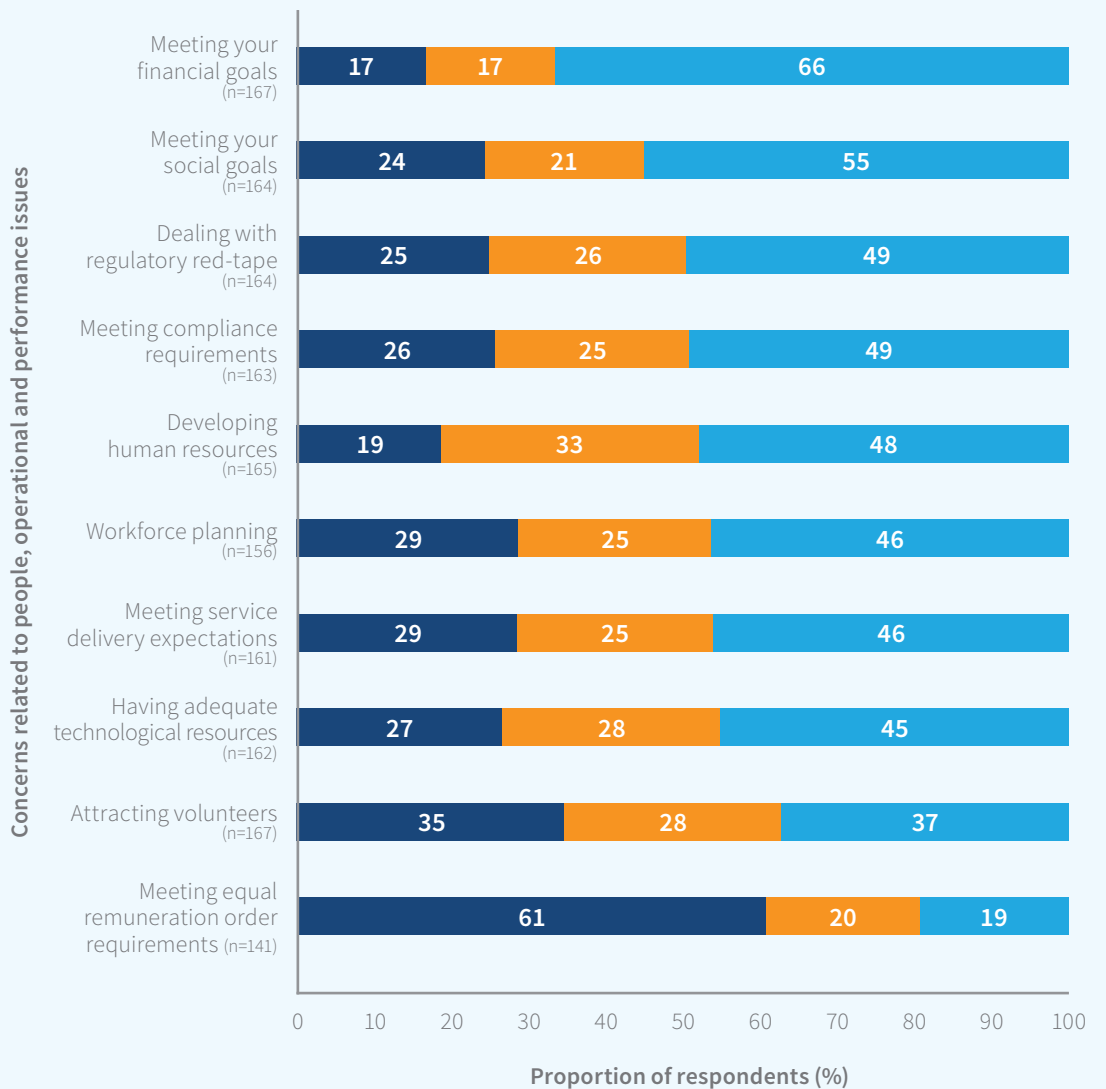
However, only 57% of respondents felt that their organisation was well-respected by the government and a similar proportion felt

that compliance and regulatory reporting requirements were manageable.

More surprisingly, 39 (26%) of the 146 survey participants either disagreed or were neutral in their rating on whether social goals and outcomes predominated decision-making in their organisation.

Given the strong concerns over meeting social goals and service delivery expectations, these issues will need to be considered carefully in any collaborative arrangement and strategic restructure.

Figure 2: Concerns related to People, Operational and Performance Issues



'Not applicable' category responses excluded

● Not at all to some extent ● Moderate extent ● Great to very great extent

## COLLABORATIONS

Collaborations may be formal or informal but generally do not result in a change in the sovereignty of an organisation. They can be very simple arrangements where two organisations agree to support each other in a particular activity and these simpler arrangements generally do not involve the use of a great deal of resources or increased risk. Nevertheless, resource-sharing collaborations can also be complex and significantly risky arrangements when multiple entities are involved and subsequent non-involvement of one of the collaborators can disrupt the whole network.

In all, 92 of the survey respondents reported having some type of shared arrangement with an external organisation, based on signed contracts or MOUs<sup>8</sup> for the purpose of resource sharing related to such activities as back office support, transport and service delivery. Areas where they commonly shared resources are:

- Sharing office space
- Cross-referral arrangements
- Service agreements with contracted suppliers for additional client services delivery
- Outsourced bookkeeping and administrative arrangements to a social enterprise
- IT support services
- Fundraising services
- Professional development and training services
- Joint legal advice sourcing arrangements

*“So far we have one MOU and contract in place for the purposes of resource sharing, transport, our events and with some service delivery. Our goal is to work with other charities and non profits in a similar way.”*

**Respondent Comment**

*“We currently have an MOU with another organisation to undertake due diligence with the prospect and intention of merger. We currently do not share any services, however expect to commence back office sharing whether the merger takes place or not.”*

**Respondent Comment**

Such arrangements were reported to function as a preparatory ground before moving to a more strategic alignment (such as a merger or acquisition) as it allows the parties involved the opportunity to get to know each other’s modus operandi without making irreversible changes.

Almost 75% of respondents reported having at least one or more MOU agreement in place with similar organisations. These firms claim that the MOUs are helpful for service delivery and professional development in areas such as sharing volunteer resources, joint service delivery, back office logistical support, HR support, employee and payroll sharing, joint legal advice on contracting processes, income sharing, bulk purchasing through industry bodies, and media support.

<sup>8</sup> We define a Memorandum of Understanding (MOU) to be a non-legally binding documented agreement of principles and concepts engaged in by two or more sovereign entities.

Informal agreements i.e. verbal agreements often ad-hoc short-term service or resource sharing, were also reported as being helpful where the respondents share spaces and pool resources with other charities. Most organisation seem to be doing this for cost reduction, income growth and resource sharing purposes. These can be established via an exchange of letters for instance. In terms of the arrangements reported by this cohort, 14 respondents reported having shared office space, 20 respondents reported sharing resources like transport, media services, and back office resources, while eight respondents reported having a service delivery MOU with another provider.

In terms of the performance of these types of collaborations, participants' responses were largely positive. As shown in Figure 3 below, forty-six (46)% of respondents who held a collaborative arrangement believed the arrangement to be performing either very well or extremely well, while 18% believed it is working only slightly well or not at all.

*“Looking at the future I recognise that single service outlets are at risk. Consequently I have set about, with four other like minded...providers to enter into a joint venture agreement to maximise opportunities”*

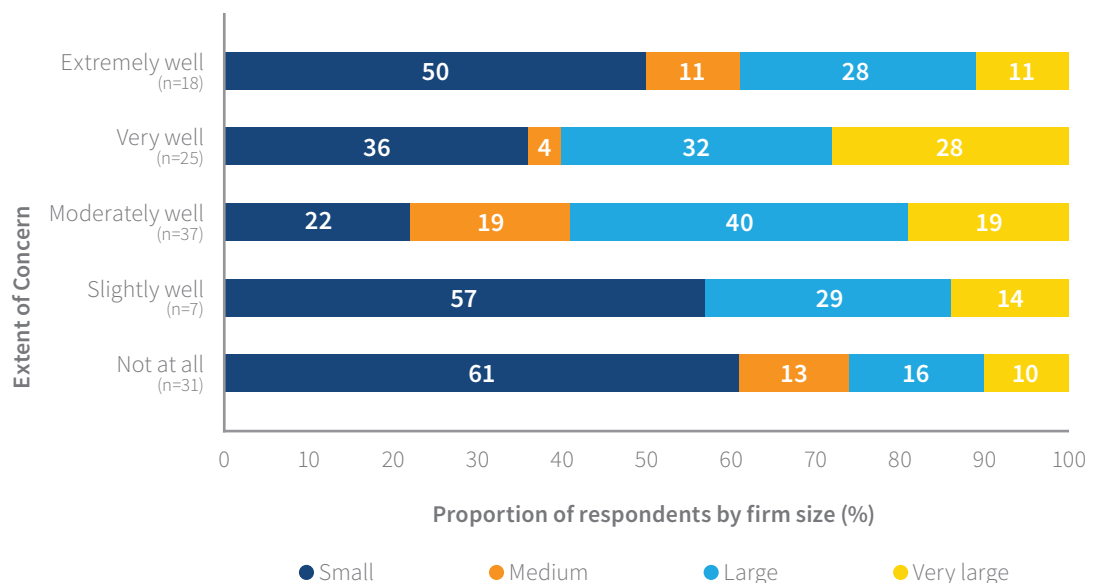
**Respondent Comment**

In one case, regulatory change was viewed as potential threat to some of the arrangements, as reflected in the following quotes: Contracts and MOU's for shared payroll, accounting, legal (back office work) and employee sharing (but this may have to stop depending on if the Labour Hire Act (SA) is repealed)

*“Fully outsourced bookkeeping and finance to a social enterprise run by a colleague organisation – very successful arrangement!”*

**Respondent Comment**

Figure 3 – Perceived level of effectiveness of collaborations



## Reasons cited for not working well or slightly well

A lack of organisational goal alignment, unclear role expectations of each other, and incongruent organisational culture and values are cited as the main reasons for dissatisfaction with collaborative arrangements.

*“One charity I work with is in the process of liquidating a 6-partner cooperative that did not live up to expectations of efficiency gains from shared services, because when the butter met the bread, several of the partners were unwilling to fold their back-office operations into the coop.”*

**Respondent**

In response to lack of legal expertise and experience, one respondent found:

*“...(an inexperienced volunteer) headed the merger who had no knowledge or experience in what the right process should be. It was negligent; all the parties did not have an equal voice nor did they have legal representation to protect members interests. The organisation is still paying the price. Due to the organisation’s significant assets, this had attracted the wrong people, people who have personal agenda’s!”*

**Respondent**

## Resource Needs to Support Collaboration

In terms of resources needed to support collaborative arrangements, legal, financial aid and professional advice on accounting and financial matters were commonly cited. Many of the collaborations were seen to be built on trust, and some respondents highlighted staff training in negotiation techniques and due diligence processes as being important. In a couple of cases, the rural setting of respondent organisations made it difficult to find partners, and even if found, there were difficulties in building trust through open face-to-face discussions and negotiations on desired arrangements.

There was also several responses highlighting the need for more open and effective communication systems, both bottom-up and top-down. In one case, the respondent emphasised the importance of honesty in communications when the relationship does not work any more: Its (a break-up) difficult because no organisation wants to ‘loose face’. Its also difficult when relationships change as the MOU may not have as much meaning to the new person. These are both concerns that I don’t think extra money or legal advice will help solve.

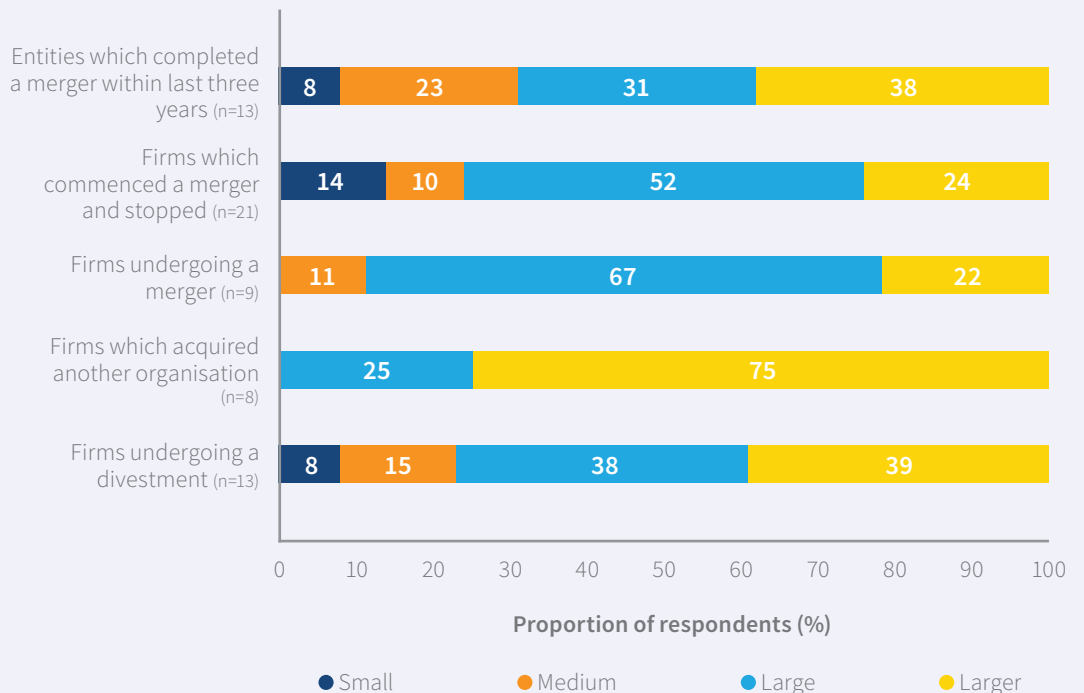


# STRATEGIC RESTRUCTURES

There are many forms of strategic restructure possible for a charity that seeks to re-arrange its organisation in order to make it more fit-for-purpose in terms of its mission. Traditionally, we conceptualise such activities in the context of growing an organisation, say through arrangements such as mergers and acquisitions. Nevertheless, organisations can restructure to become smaller through de-mergers (splitting of organisations)

and divestitures (closing down part of an operation, selling off assets or transferring services). Relative to collaborations, strategic restructure forms can be more difficult and expensive to establish. For instance, due diligence processes can be costly and time consuming. Consequently, they can be also riskier and often more difficult to reverse than collaborations. Figure 4 below provides a breakdown of responses related to restructuring.

Figure 4 – Responses Regarding Restructuring in terms of firm size



It should be noted that some organisations undertook more than one type of restructure

### Mergers

Merger activity was the most common form of strategic restructure sought by the survey respondents. In addition, 68 respondents reported that their organisation had attempted a merger, de-merger, acquisition, or divestment. Of those, 16 (24%) reported that they had completed a merger while 23 (34%) of respondents reported that their organisation commenced but did not complete a merger. Respondents reported that a merger process can take anywhere between 6 months and 2 years.

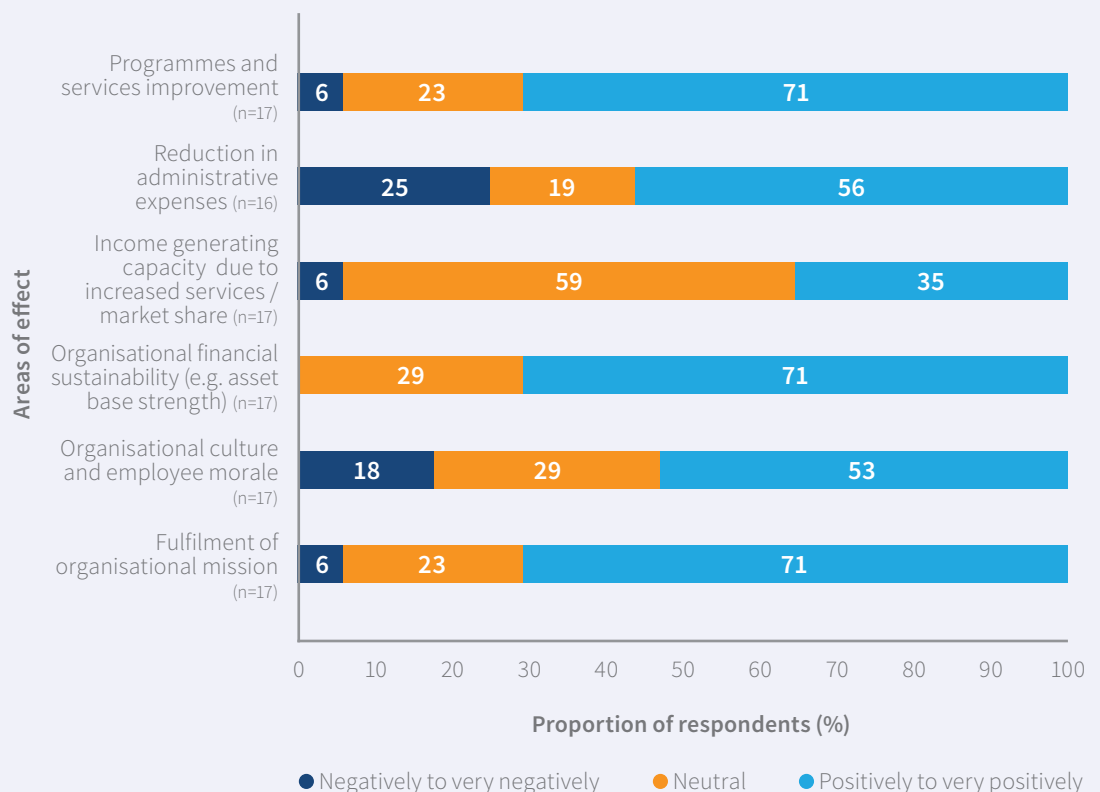
The main reasons cited for either considering or undertaking a merger included: strengthening the organisation’s financial position with the expectation of reducing marginal costs (most cited); achieving long term sustainability through broadening

service offerings; and establishing new, different streams of income. Several respondents saw mergers as a way to gain much needed professional expertise with the ultimate aim of enhancing business capacity.

### Impact of Mergers

There is a risk that restructuring activities may not result in the expected benefits while costing organisations time and money, which are scarce resources. In reviewing the 16 organisations that had completed a merger in the last three years regarding the impact of the merger on their organisation, the top three responses were: improvement in financial sustainability (e.g. asset base strength); fulfilment of organisational mission; and programmes and service improvements (See Figure 5 below).

Figure 5: Perceived outcomes from Merger Activities



There were many negative outcomes as well, mainly related to not achieving the expected 'reduction in administrative expenses' (i.e. the merger did not result in the anticipated savings). In addition, it was reported that there were negative impacts on organisational culture and employee morale as an outcome of merger activity.

These results suggest mergers do not always deliver the cost savings expected of them and in fact can cause harm to employee morale if the cultural values of the merging entities are not aligned or if the merger process itself (change management) is not executed effectively.

Further, when asked "how interested your organisation is in a merger as a pathway for organisational growth and sustainability", of the 151 who responded, 32 (21%) reported that they were very or extremely interested in merger opportunities, while 56 (37%) reported that their organisations are somewhat interested, and the remainder indicated little or no interest.

## Choosing a Merger Partner Organisation

Choosing a partner is not easy. A major risk is the generally irreversible nature of mergers: that is, mergers usually result in permanent, often legal changes that can be costly to undo. Respondents who had either completed or commenced a merger, cited key reasons for choosing their partner because they had similar objectives and mission, and because the potential partner was seen as reputable and financially stable.

Other reasons reported that make organisations attractive as merger partners included: shared client demographics; similarity in service delivery models; opportunities to gain complementary services that combine to provide a more comprehensive set of services; and good cultural fit. Sometimes organisations came together due to the fact that one

was distressed financially but held a strong reputation. While the other was looking to improve their presence in the industry.

*When asked why they undertook merger activity, one respondent said:*

- "1. To gain more skilled volunteers and skilled leadership.*
- 2. Our charity wanted to provide a slightly different service than what it originally was doing. The organisation we amalgamated with has the resources and manpower to run these services.*
- 3. To reach out to more communities."*

Importance of legal advice:

*"All parties MUST HAVE access to legal support and each parties interests must be heard and not just the one's who have the loud voices and who do not know anything..."*

**Respondent**

*"Protecting what is unique to both organisations (and at the heart strings) whilst also recognising shared assets requires tact. There is so much involved in getting it right and respecting relationships."*

**Respondent**



## Those that Did Not Proceed with Merger

Not all merger initiatives progress to completion. There is often considerable time and money spent on the process, especially in the initial phases when undertaking due diligence, before a decision can be made as to whether or not to proceed.

While it is necessary to approach a merger with positive intent, there can be many valid reasons for not proceeding. Indeed, 19 participants who were involved in strategic restructuring did not proceed to finalise a merger, with the top five commonly cited reasons being: incongruent long-term values and goals between the parties; differing expectations of outcomes sought; the merger plan was not clear and/or the path forward was not understood; senior staff lacked commitment to the process; and inequitable distribution of merger costs.

*“Dealing with five GMs (general managers) with very different reasons for the partnership resulted in mixed goals, consequently it (merger) was not progressed”*

**Respondent**

*“Lack of shared values and different expectation on outcomes. We wanted a staged approach, starting with shared resources model, maintaining assets in the organisation for two years to allow for an exit strategy in the first two years. After successful integration of shared services we would complete a full merger. This was not agreed to at the last hurdle”.*

**Respondent**

## De-mergers

Once a merger is complete only time will tell if the strategy is successful. When it is found that the strategy did not work, some arrangements are able to be unwound. Of course, while a de-merger is, something that would be better avoided, it is imperative that the board and executive respond where a merger has not worked and undertakes remedial action. Without such action, the damage to the organisation and, potentially, to clients continues. Three respondents in this study reported having undertaken de-mergers, where the main reasons included:

- Lack of long-term sustainability due to geographic boundaries;
- Ultimate disagreements between the organisations on mixed goals; and
- Different service lines were not mutually beneficial.

*“We did all the work including bearing financial costs but the other party did nothing and expected us to carry them and get equal glory (so to speak)”*

**Respondent**

## Acquisitions

Unlike a merger, an acquisition involves one of the parties being subsumed by the other with the loss of identity and usually legal status.

Eleven (11) respondents reported that their organisation had either acquired at least one other organisation in the last three years or was in the process of doing so. Of these responses, seven organisations had one acquisition, while the remaining four organisations acquired two, three, five and seven other entities, respectively.

The main reasons cited for acquisition included the goals to achieve economies of scale on the basis of shared interests, increase resources and reduce financial constraints, widen geographic footprint and improve services.

In one case, the members had themselves requested the acquirer to take over the services of their entity as it was performing poorly, indicating end-beneficiaries or clients can and do effect change when a charity does not deliver needed services and they opt out.

Four of the organisations acquired by respondents were social enterprises, signalling the attractiveness of commercially-derived income to be an attractive factor. In all, six (63%) of the respondents reported that the acquisition activity had a very positive impact on their organisational mission activities and their bottom-line, and there were improvements in organisational culture and employee morale. Nevertheless there were also a couple of cases where respondents indicated regret in their acquisition, and at times differences in organisational culture and approach to operational procedures.

*“The acquired company was in a mess – if we had known we would not have proceeded – due diligence did not show up poor procedures and lack of records particularly poor employee contract and conditions.”*

**Respondent**

## Divestiture Activity

Divestitures involve organisations segregating a portion of their operations—say a division or a program, and transferring that segment to another operator or closing it down.

Thirteen (13) respondents reported that their organisation had undertaken a divestiture. The main types of divestitures reported were asset sell-offs including a commercial building, a social housing site; and closure of a branch and some service lines.

Respondents reported the major drivers of these divestitures to include:

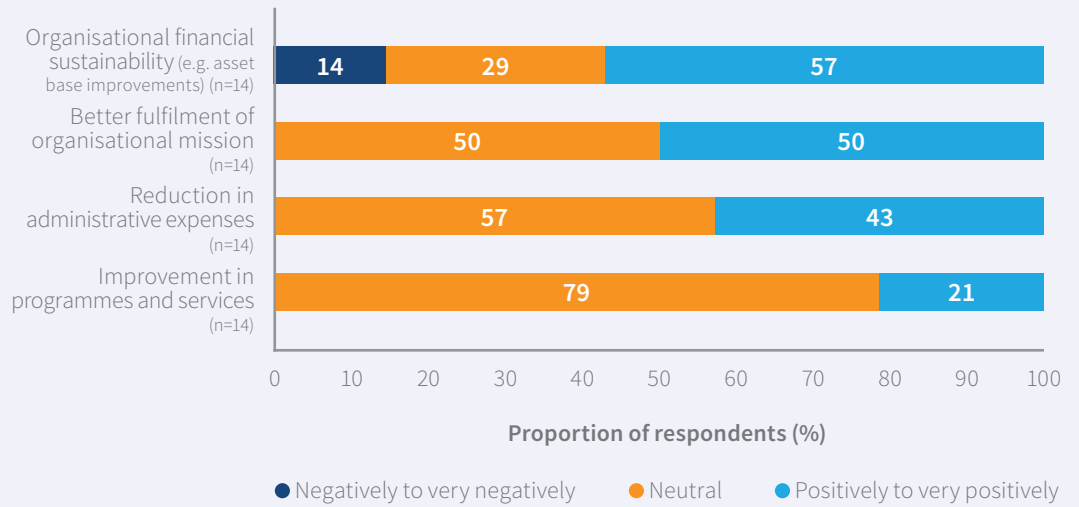
- A response to cost increases (financial pressure);
- Difficulty in raising funds;
- Perceived risk of the operation higher than the organisation’s risk appetite;
- Expected outcomes not being realised; and
- A desire to focus on core objectives.

In terms of outcomes flowing from divestitures, eight of the organisations confirmed that their divestiture had a positive impact on financial sustainability, while five respondents reported that the divestiture improved the organisation’s capacity to fulfil its mission and reduced administrative expenses concurrently. Figure 6 provides further results of the perceived impact of investment divestitures.

*“The acquisition did require... funding change to support continued delivery of the service through our organisation. The previous entity did not have an appetite for innovation, knowledge of alternative service delivery models or [a] desire to lobby for funding changes.”*

**Respondent**

Figure 6: Perceived impact of Divesture activities



### Where do Charities go for information and advice?

Professional consultants and the ACNC website are the two main sources of information that the respondents sought when seeking advice about collaborations and strategic restructuring. Other resource websites—such as ProBono Australia, Social ventures, Community Australia—were also

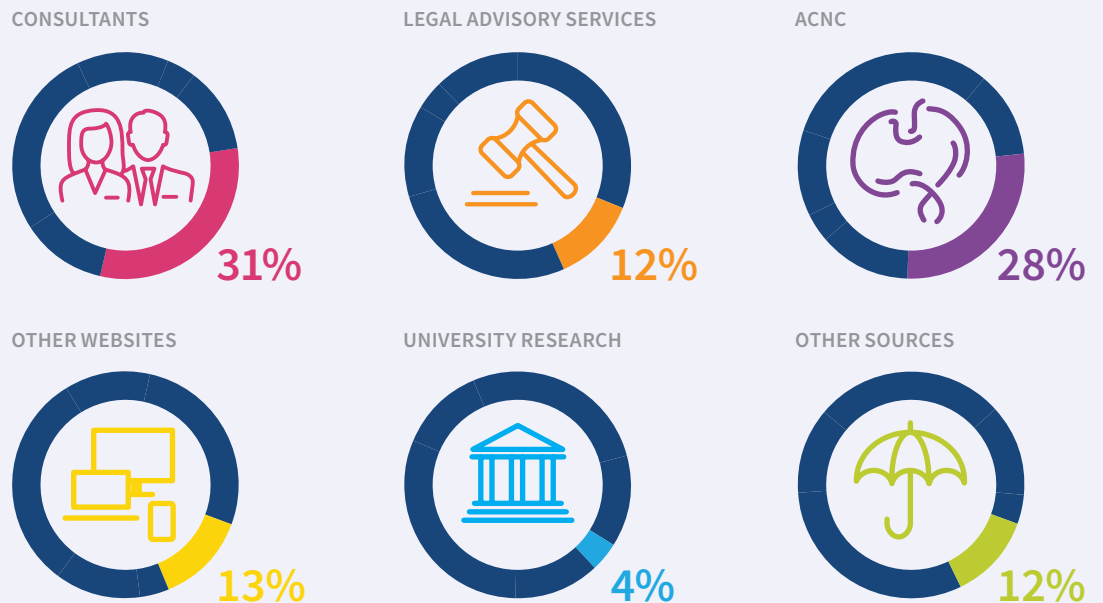
reported as being helpful. Additional training, at a reasonable cost, was identified as a need by some respondents.

*“ACNC webinar was useful; a weekend half day course (Free) in Melbourne inviting new Board members to attend/network would be interesting”*

**Respondent**

### PREFERRED CHOICE FOR SUPPORT

Figure 7: Sources of support



## GOVERNING BOARD AND CEOS

Governing boards and CEOs play a critical role in strategy making and implementation. While conversations on potential collaborations and strategic arrangements can occur at any level of a charity organisation, it is the CEO and the board members who will have to make the decision on the collaboration or restructure form. They will also lead the negotiations and the formal process of evaluation and planning for any strategic arrangement. Having a dynamic leadership team with a proactive stance on innovation, adequate skills and expertise, and an agile and entrepreneurial culture are all important attributes for change-making.

Our evaluation of respondents' perceptions of their board's characteristics varied along several aspects. In general, the respondents' perceptions of their boards were generally positive, with more than 80% of the respondents agreeing that their board has a sound understanding of the vision and mission of their organisation, and that it understands the resource needs of the entity. A slightly lower level of agreement was displayed when around 60% of respondents indicated that their boards were highly interactive, open and took a futuristic and proactive outlook. However, about a third of respondents felt that some members on the board were highly resistant to change.

The written feedback suggests that board composition and dynamics can play a critical part in how strategic re-arrangements are handled. However, there was also distinct calls for boards with specialist knowledge, particularly in legal and finance matters, more training platforms for current board members, affordable board training programmes, members with good business connections, ability to undertake change management, and a more dynamic and efficient board.

*“The Board has just gone through a very difficult period due to lack of understanding of how a company structure can operate in a not for profit environment . . .the over emphasis by governance experts on growth and not mission and on non reliance on government funding have been disruptive.”*

**Respondent**

*“There is strong resistance to change and change management from some members of the board. This is essentially a control issue - derived from the influx of younger members with a markedly different perspective on the goals of the organisation. Government support assistance could be more conditional with respect to incentives for motivating change and change management.”*

**Respondent**

*“How to manage the relevant business and not get bogged down with irrelevant ‘history’, Our board meetings go for far too long and are not productive.”*

**Respondent**

*“We need more board members, with savvy, business networks they can share, professional expertise, time!”*

**Respondent**

*“Our Board of Directors, have developed an excellent working relationship with staff and each member undertakes voluntary work within the organization.”*

**Respondent**



## CONCLUDING REMARKS

The economic, policy and demand environments in which not-for-profits and charities operate are changing. The use of quasi market funding structures, increased focus on client centric service design and client decision making, as well as increasing costs, including those arising from equal remuneration offers, all affect the way organisations operate. However, in making the necessary changes to meet the challenges of the changing environment, those charged with the governance of NFPs and charities must also consider their mission, financial and operational sustainability.

Overall, the findings suggest that the changing environment represents resource challenges for these organisations in such areas as client management, cash flow, investment in change management and investment in technology and staff training. To meet these issues, organisations need time—senior management and staff time—and money. Technology investments, cultural change investments and working capital increases all need to be addressed. At the same time, all Australian governments are challenged by a lack of financial resources and so we all want the dollars to stretch further.

It is clear from this research, that one way Australia's charities and NFPs respond to these challenges is to consider collaboration and restructures. This is entirely appropriate as new environments require new approaches to operations and new investment. It is also an entirely appropriate perspective to consider from an organisational point of view—typically, Australia NFPs and charities do not have inexhaustible supplies of capital for investment and they cannot go to shareholders to source capital.

However, the process of developing collaborations or undertaking a form of restructure can be risky, time consuming and expensive. As such, one of the key issues explored in this study relates to the supports needed by these organisations in order to facilitate such strategic activities.

There is clearly a need for increased templates, exemplars and training materials aimed at all levels of the organisation, from those charged with governance (boards), CEOs and senior staff, to those actually providing the care. Such resources would mitigate some of the risks associated with this type of activity, giving people a heads-up as to what they should be wary of, what has worked in the past and how might a collaboration or restructure be affected in a way that minimises the risks.

In all, the key issue is to reduce the risk to those Australians that rely on the provision of services and support to live their daily lives, to have a chance at a full life, and their families and supporters. Without a strong, robust and reliable NFP and charitable sector, these people will be the shock absorbers for service delivery failure.

## CONFLICT OF INTEREST DECLARATION

The following declarations are made in order to inform readers as to the activities and sources of other research funding received by researchers

**Professor Nava Subramaniam:** Has received funding from the Australian Research Council, CPA Australia, Institute of Internal auditors, several government departments in Queensland and NSW and accounting firms. Contact email: [nava.subramaniam@rmit.edu.au](mailto:nava.subramaniam@rmit.edu.au)

**Dr Craig Furneaux:** Has received funding from various government departments, CRC for Construction Innovation, CRC for Integrated Engineering Asset Management, peak non-profit organisations, the ACNC, private companies and non-profit organisations. Contact email: [c.furneaux@qut.edu.au](mailto:c.furneaux@qut.edu.au)

**Professor David Gilchrist:** Has received research funding from a number of Not-for-profit peak bodies, a number of state and Commonwealth government instrumentalities, the Peoples' Republic of China and from several individual not-for-profits and commercial entities Contact email: [david.gilchrist@uwa.edu.au](mailto:david.gilchrist@uwa.edu.au).

**Professor Adela McMurray:** Has received research funding from the Australian Research Council four times; from the Cooperative Research Centres (CRC) twice; from the Department of Foreign Affairs and Trade (DFAT) twice. Spanning across the for-profit and not-for-profit sectors, this funding led research into fields such as innovation, leadership, organisational culture, recruitment, retention and food agility. Contact details: [adela.mcmurray@rmit.edu.au](mailto:adela.mcmurray@rmit.edu.au)

## ETHICS

This research project was conducted in accordance with the National Statement on Ethical Conduct in Human Research with approval from HREC Committee of RMIT University and agreed to by each participating university. The ethics approval number for this research is 21671 and queries may be made to the Research Ethics Coordinator at [human.ethics@rmit.edu.au](mailto:human.ethics@rmit.edu.au)

# THE AUSTRALIAN NFP-GOV RESEARCH NETWORK

The Australian NFP-Gov Network was established in 2017 following a workshop held at RMIT where senior researchers with an interest in the not-for-profit sector from across Australia came together to review the current state of play regarding research into this critical sector, to build capacity for effective collaboration between scholars and to facilitate the building of practical research in support of better community outcomes.

The objectives of the Australian NFP-Gov Research Network are:

1. To increase the quantum of quality research into the Australian NFP sector by universities and research organisations;
2. To increase the opportunity for cross pollination between researchers to avoid duplication and increase the impact of research; and
3. To increase opportunities for national and international connectivity within the research community and between that community and the NFP sectors that is researched.

Overall, the purpose of the Network is to increase the research focus on the NFP sector and to drive outcomes resulting from research undertaken. It is a democratic group and membership is open to all interested in researching and applying research in relation to the NFP sector.

For further information on the network, please contact David [david.gilchrist@uwa.edu.au](mailto:david.gilchrist@uwa.edu.au). or Nava [nava.subramaniam@rmit.edu.au](mailto:nava.subramaniam@rmit.edu.au)



