



NATIONAL HEALTH & HUMAN SERVICES PRACTICE

Community organisations; economic aspirations

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AUDIT / TAX / ADVISORY / GOVERNMENT

Focus of the presentation

Today's presentation will explore:

- **Business development in the context of community organisations**
- **Primary aim of economic development for commercial profit**
- **Secondary aim of leveraging a portion of the profits to help achieve broader community outcomes in the areas of education, health, employment and housing**

Based on research/evaluation work KPMG has undertaken in the areas of:

- **Government-supported Indigenous economic development**
- **Social ventures and not-for-profit organisations**

Case study example – Organisation X

Through-out the presentation I will reflect on this case study to illustrate how the community organisation “X” can achieve its commercial goals

Scenario:

- Government-funded community-controlled organisation
- Provider of health, employment and well-being services for community for 20 years
- The Board and community Elders decides to explore the organisation’s options to develop an enterprise to generate income, create employment, develop community capacity and invest in social and well-being programs without government funding

Topics for consideration

1

Not-for-profit culture & commercial aspirations

2

Characteristics of successful Indigenous economic enterprises

3

Implications for community organisations

Not-for-profit culture & commercial aspirations

Common challenges

876 not-for-profits and social ventures surveyed stated the common challenges in establishing and maintaining a commercial enterprise include:

- **A rigid regulatory environment**
- **Unnecessary financial burdens**
- **Inflexible and multiple reporting requirements**
- **Limited access to capital and infrastructure**
- **Access to appropriate skills through staff and Board members**
- **Lack of skills transfer**
- **Expectations to deliver commercial and social outcomes**

Impacts

Social ventures are more likely to be unsuccessful where they are run from a not-for-profit perspective, which includes:

- where government funding or other grants are non-commercial in nature and not used as leverage for other investment
- profit making is a “negotiable” rather than the priority
- level of return (profit) is reduced by having to respond to social and commercial imperatives simultaneously
- cross-subsidies may be appropriate in some instances – seed funding, government or other grant used as leverage

Successful Indigenous enterprises

Characteristics of successful enterprises

1. **Effective enterprise structure and business practices**
2. **Effective governance**
3. **Congruence between governance arrangements and culture**
4. **Strategic thinking**
5. **Workforce development**

1. Enterprise structure and business practices

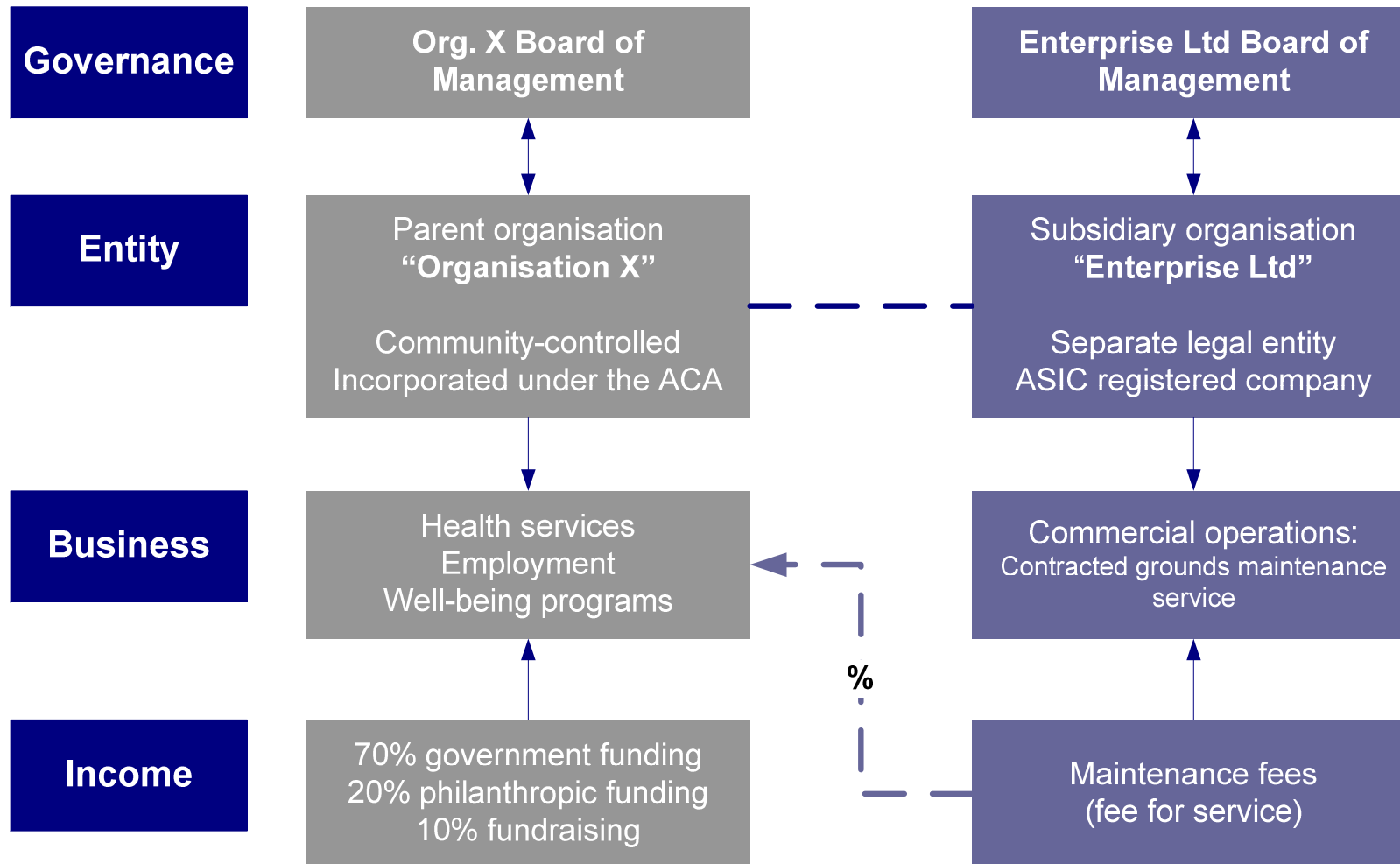
Successful Indigenous economic enterprises are:

- Independent from political and social/community activities - examples
 - economic development arm is a separate legal entity to the parent company/organisation
 - internal governance separation between social enterprise and other activities
- Fully Indigenous owned and operated (either by community or individuals) rather than joint-ventures or private non-Indigenous enterprise in community
- Clear commercial activities and goals

Rationale:

- risk management strategy, tax minimisation, business compatibility

Example – Organisation X



2. Effective governance

Successful Indigenous economic enterprises have:

- Open and transparent decision-making processes and financial management and reporting processes
- Business outcome reporting procedures
- Risk management procedures e.g. OHS, EEO, HR, dispute resolution, commercial risk analysis
- Independence and continuity of board membership (if relevant)

Rationale:

- positive messages to potential investors about enterprise's accountability

3. Congruence between governance and culture

Successful Indigenous enterprises have:

- Cultural match between the structure and practices of the governing body and the community
- Examples:
 - board comprised of a mix of traditional owner representatives, representatives with appropriate technical and business skills
 - board sub-committees comprised of community representatives

Rationale:

- structures that accommodate traditional governance requirements and community decision-making structures will be more sustainable

4. Strategic thinking

Successful Indigenous enterprises:

- Identify short, medium and long term goals for the business
- Consider:
 - Where the business will be in two, five, ten, twenty years time
 - Economic goals of the community and alignment with the business goals
 - Role in assisting community to achieve social, cultural and well-being aspirations
 - Use of profits
 - Level and source(s) of external investment required
 - Reality test
 - Measuring success and how the business will be monitored
 - Building strategic partnerships
 - Leveraging different income streams

A note on leveraging income streams

- **Successful social ventures (i.e. not-for-profit organisations that provide welfare services but have a commercial arm) DON'T differentiate between government and non-government income streams**
- **The distinction they apply is commercial versus non-commercial income – this is based on the premise that all income is good income**
- **Where successful ventures receive government funding, this funding is generally commercial in nature i.e. fee-for-service rather than a grant – this automatically shifts the mindset of social ventures from welfare to commerciality**

5. Workforce development

- **Community-level – assist community to build knowledge and awareness of how to develop economic enterprises**
- **Business-level**
 - Staff training and development
 - Regular skills audits
 - Mentoring and skills transfer
 - Contracting specialist expertise
 - Knowing what you don't know
 - Skills in product/service, business acumen, risk management and governance
 - Succession planning

Rationale:

- **highly skilled workforce results in increased enterprise profitability**

Example – Organisation X

Applying these characteristics, Organisation X would:

1. Develop a comprehensive business plan which clearly identifies its business concept (including products / services), required start-up capital and investment (and sources for that investment), short, medium and long term commercial income targets, SWOT analysis
2. Conduct a skills audit – what knowledge and skill is required to build a successful business?
3. Seek investment – external and/or government
4. Create a separate legal entity or develop a separate internal governance mechanisms for the business operations
5. Recruit people who have business/commercial experience

Implications

What does this mean?

How can enterprises increase success factors and reduce barriers?

- Conduct a skills audit of staff and Board – recruit people with the required skills, develop the capacity of existing staff
- Examine governance structures – create separate legal entities if required
- Reality test the operating model, in particular, income sources – would the enterprise be sustainable without government funding?
- Develop strategic partnerships – in a competitive environment, when all else is equal having strategic business partners can give an enterprise the competitive edge
- View income as commercial and non-commercial in nature – this builds a commercial mindset

Things to consider

1. Timing

- Would the commercial enterprise benefit from incubation within a parent organisation?
- In the med-long term is there a potential for a clash of direction between the parent organisation and commercial operations?

2. Scale

- The risk exposure can be greater for smaller, independent entities

3. Different structure types

- Joint venture
- Incorporated association
- Company limited by guarantee
- Company limited by shares

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