



The following is an extract from a speech by **Tanarra Philanthropic Founder, John Wylie**. The speech was delivered at the Governance Institute of Australia, to open their national conference.

29 November 2018

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### **The Six Questions for Not for Profit organisations to ask themselves.**

So how to make our NFPs work better, achieve their missions more effectively, and improve their governance and leadership?

My experience has taught me six key principles that really make a difference, which I'll phrase today as questions for NFP organisations to ask themselves.

Some of these are unique to the NFP sector, some are common to the corporate world.

They are:

1. **Is the organisation's mission well defined and does that mission come before the interests of the organisation?** Is that mission advancing the interests of the overall cause you seek to serve or is the organisation really engaged in a market share battle with other competitors? If in truth it's the latter, would you be prepared to merge with similar organisations if it would advance the overall cause even if that meant the loss of some existing board or management positions?

This comes back to the need - the imperative in fact – for any organisation to have a simple, clear overarching sense of purpose as to why you exist and how you help, in corporate speak, your customer. I prefer to drop the corporate lingo and talk more simply about the people you serve. It's not about you, it's about them. If you're a charity, it's about the people less fortunate than you whom you exist to help. If you're a peak national sports body, it's the athletes at all levels in your sport, from Olympic levels down to grassroots, and the parents, coaches and volunteers who support them. If it's a Library, it's the people from all parts of the community especially those without the access to resources readily available to people from more socially advantaged backgrounds. Serve these people well, place them first in everything you do, and you'll have the internal organisational integrity that's essential to sustainable success.

This might sound like simple homespun philosophy, but some of the biggest governance debacles in recent times have been the result of respected organisations losing sight of this simple maxim, especially in the private sector. Bankers prioritising personal bonuses over customer interests being a good example. In contrast, companies that exist to make great products or provide outstanding service for their customers tend to make good money as an indirect outcome of their primary goal, often much more so than if their first priority was financial success and shareholder value. This obsession with the customer is precisely how Steve Jobs and Jeff Bezos built trillion-dollar companies, not because they set out to get rich.

The same applies to not-for-profits: the organisations with real longevity, integrity, impact and financial support are the ones that think obsessively about the people they serve and their true raison d'être, not who's on what committees and tickets for test matches.

2. **Is the impact of the enterprise measured? - even if that's hard.** Is customer feedback actively sought out, insightful and acted upon, even if uncomfortable? We're all familiar with the maxim that not everything that matters can be measured and not everything that can be measured matters, but that does not excuse inertia, intellectual laziness, wishful thinking or a lack of real honesty with yourselves. This is especially important now that so many philanthropists approach the question of funding charities in a similar way to they think about investing in venture capital – what's the mission, what's your impact, what does success look like, how do I know if you're achieving it, and what's your business plan? Hoping that donors – particularly ones who can move the needle financially for you – will be happy to cut a cheque and hear occasional emotive anecdotes about what you do no longer cuts it. And nor should it. A whole industry now exists in assessing social return on investment of charities – it's not expensive and it's generally insightful and value-adding. And a host of trip advisor-type organisations are emerging that rate charities transparently on-line across a range of measures of effectiveness. This will impact your fundraising ability, so if someone's going to do it to you, you'd be well-advised to do it to yourself first.
  
3. **Is your Board a high performing board?** which means it:
  - rolls its sleeves up and gets involved; it doesn't for example outsource the hard tasks like fundraising to a foundation and absolve itself from responsibility for contributing. No resume-builders, passengers or responsibility outsourcers please!
  - functions in a manner that leads and enhances the culture and focus of the organisation, for example by mentoring and supporting management
  - evaluates its own performance honestly and bravely, including that of the Chair; and
  - is not obsessed with governance at the expense of helping the organisation in practical ways. A governance culture cannot be allowed to define the Board's and company's approach to leadership. In the corporate sector I'm not convinced the Hayne Commission is pushing business down the right path by placing so much emphasis on boards challenging management and seemingly shaming directors who are not seen to do this enough. Clearly there's a vital role for independent inquiry and challenge, but it's not in the national interest for the environment in board rooms - private sector or NFP - to be one of suspicion and distrust between boards and management, and for directors to be focused on having backside-covering notes written into board minutes.
  
4. **Is the organisation run in an effective and lean manner where admin costs are kept to a minimum?** Generally, in an NFP this should be 20-30% of revenues, maximum. Cost-effectiveness is a particular challenge in micro charities which enjoy the benefit of an inspiring cause and founder but which also lack scale; some of these could benefit from thinking about merging with organisations that seek to achieve similar things. The age of entrepreneurship in

the social enterprise sector is a remarkable and empowering thing, but there are now 48,000 charitable organisations in Australia and you have to ask yourself the question whether the system is well-served at a macro level from so much fragmentation and duplication of mission and cost.

Organisations that receive Govt funding have an additional moral and practical obligation to run themselves in a lean and efficient way. Sometimes this is more an aspiration than a reality. In sport, a significant number of organisations have governance structures that are largely unchanged from the 1970s, stuck in something that resembles a time warp that no longer optimises the interests of those they serve. One sport for example - which is far from an isolated case - has 19 boards, 19 mission statements, 19 CEOs and 19 admin teams nationally, just for the high-performance part of the sport, with each board representing different disciplines within the sport at national and state levels. This is a sport with combined annual turnover of less than \$40m including the funding it receives from SA. You wouldn't buy shares in a company structured like that, so why should the taxpayer fund it? Organisations that don't reform, modernise and run themselves as efficiently as possible shouldn't expect to get a sympathetic hearing when they put their hand out for more public funding. It's your taxes after all.

An associated vital question for charities in this area is whether the culture of reporting admin costs to stakeholders is fully transparent and honest, with no creative accounting to window dress things for donors? I can tell you as a donor that creative accounting is one of the biggest turnoffs for me, it's not only wrong in principle, it usually signals broader cultural issues with the organisation.

5. **Is the culture of the organisation a positive one that promotes collaboration, diversity, honesty, respect and open debate – both internally and externally?** Does it embrace continuous improvement and change, and is time devoted to asking how the organisation can deliver its mission better through new business models, technologies or delivery models? Is there a culture of free and open discussion of any matter with no sacred cows? Are any of the three cultural killers of good organisations rearing their ugly heads in yours, namely hubris, groupthink and complacency? It was complacency that almost killed Fairfax when the internet took off; hubris that seemingly impacted the Australian banks after they heard over and over after how lucky Australia was to have the world's best banking system that got us through the GFC; and groupthink in my view caused the disastrous lapse of judgement for the Australian cricket team in the Capetown dressing room.
6. **Leadership:** it's something of a cliché these days, the importance of good leadership. The word has become one of the most googled words on the internet, but that doesn't make it any less true. The task of management in the NFP just as for-profit sector appears to be getting harder – a truly great leader is a rarity, not the normal. As a board, you need to constantly assess whether your leaders are the right fit with the right skills, and can they achieve your mission for you? Do they support the people under them, encourage and develop them and not dominate or create fiefdoms or sacred cows? And do you as a Board provide the support and mentoring for them that they need, including from outside the organisation?

Just as in VC - too often the failure of an organisation comes down to management – its style and effectiveness.

I've seen the importance of good leadership first hand in sport. In our funding decisions for sporting organisations, we look closely not only at governance structures but also organisation culture and the quality of leadership. Good governance structures are a necessary but not sufficient condition for success; good leadership is also essential. We've paid a lot of attention at Sport Australia to improving the quality of board leadership in our sports organisations - particularly the vital Chair position; leadership that sets a positive tone and example and gets rid of silos, personal fiefdoms and dysfunctional cultures. It pays dividends. And we're happy to see busy business people appointed to board and Chair roles, provided they have the capability, availability and interest, and passion.

The six principles I've outlined to day in the form of questions are by no means a guarantee of success, but they can sharply improve the odds. Have a clear mission that's all about who you serve that you can articulate in 20 seconds to a stranger, have great leadership from your board and management, have a great and positive culture, be lean, and assess honestly your impact, and you'll be a long way down the path to success, fulfilment and feeling that it's all worthwhile.

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