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## The Challenge of Change

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*The conveners of the workshop 'Cross-Sector Working for Complex Problems: Beyond the rhetoric' invited Paul Ronalds, the Chief Executive Officer of Save the Children Australia, to give the closing address enunciating the core cultural and structural hurdles that must be overcome if cross-sector working is to become the 'new normal'. Paul's cogent analysis perfectly complements Peter Shergold's opening address and neatly bookends the presentations given in the four themed sessions. The chapter that follows is from the approved text of Paul Ronalds' address. This can also be viewed on the ANZSOG YouTube channel: [youtube.com/watch?v=hORnOb1JE2o](https://youtube.com/watch?v=hORnOb1JE2o).*

### Introduction

This is an extremely timely workshop: now, more than ever, the three sectors of our society must collaborate effectively if we are to solve some of the most complex social, economic and environmental challenges we face.

When I joined the Department of the Prime Minister and Cabinet in 2010, I had spent more than 10 years advocating to government. I had a strong grasp of constitutional law and had been an active student of politics all my life. I was confident I knew how government worked. However, once on the inside, I quickly realised that I had not really

understood how public policy decisions were made in practice: who had real influence over decisions or an effective veto to stop policy ideas from progressing; the constraints that public servants and politicians faced; and, importantly, the implicit incentives that governed all of the actors' actions. It is this last issue of implicit incentives that I think is particularly important and that I want to make the focus of my address today.

Let me begin by relaying a conversation I had recently with one of Save the Children's youth workers involved in juvenile justice in New South Wales. We know that a trusting relationship with this client group is critical as they transition out of detention. Yet, different funding streams can mean that there is a different worker inside a facility to the one in the community, breaking the relationship with the young person at the most critical time.

We also know that housing is the bedrock on which progress is made with this group. To pay for housing, the young person will need to obtain housing support from Centrelink. To access housing support, you need a bank account, which means you need sufficient identification. Yet, many of these kids do not have even a birth certificate. Who will help them to get a birth certificate, open a bank account, apply for a tax file number, navigate Centrelink, give them driving lessons, help them with a driver's licence and so on, so that they can maintain housing and have any chance of getting a job? The housing provider, the employment agency, the juvenile justice worker, Centrelink? All of these agencies and many more are funded to assist with some of these tasks but young people leaving detention face a dauntingly fragmented system. Is it any wonder that many decide it's easier to return to crime?

Today, I want to suggest to you that the problem we face in overcoming many complex social policy problems is clear. There has also been no shortage of trials and evaluations of approaches that can achieve substantial change in disadvantaged communities.

We know, for example, that services need to be joined up. People with multiple disadvantages need to simultaneously access a number of services to make progress, so services must be integrated (Vinson 2007; McArthur et al. 2010: 33–35). We know interventions must be contextualised to the local community's needs and leverage the

strengths and assets that a local community may have. This requires local people to be empowered to respond to local conditions. We know we must integrate the social aspects of any solution with economic aspects. And we know that funding, measurement and accountability mechanisms must support a joined-up, long-term solution.<sup>1</sup>

There has been no shortage of government and community-supported trials that have adopted some or all of these characteristics (for examples, see Wilks et al. 2015). At the federal level, Communities for Children were established in 2004 and now operate in 45 locations around Australia. They use facilitating partners to develop and implement a whole-of-community approach to enhancing early childhood development.

The *Remote Service Delivery National Partnership Agreement* was established in 2009 to focus on 29 remote service delivery priority communities. It was based on a collaborative working arrangement with state and territory governments and local communities to improve access to and coordination of services, develop better governance and leadership and increase economic and social participation.

During the Rudd and Gillard years, Centrelink established a plethora of place-based trials around Australia to test collaborative approaches to improve access to services. Each of the initiatives focused on specific groups. For example, the Fairfield (in New South Wales) and Broadmeadows (in Victoria) initiatives focused on young refugees, while the Morwell trial in Victoria focused on the very long-term unemployed and youth.

There have also been a large number of state and local government and community-led initiatives. These include Victoria's Neighbourhood Renewal Program, Scanlon Foundation's work in Broadmeadows, the Opportunity Child initiatives around Australia and the Indigenous-led Empowered Communities initiative.

If we have a good understanding of the problem and there have been so many successful pilots, why has progress, as Peter Shergold said this morning, been so 'painfully slow'?

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1 A range of reports has identified these types of problems—for example, APSC (2007); Australian Social Inclusion Board (2011); Walker et al. (2012).

## Our problem is the challenge of change

There are many reasons why change in this area is so difficult.

First, achieving breakthroughs in complex policy problems is hard. I cannot think of a single Organisation for Economic Co-operation and Development (OECD) country that has made significant progress on breaking intergenerational cycles of disadvantage. A good example of the difficulty is illustrated by the recent reforms to the federal government's Indigenous Advancement Strategy.

Tony Abbott promised he would be a prime minister for Indigenous Australia. While I do not doubt the sincerity of this commitment, to make the promise look real, provide a sense of urgency and ultimately achieve some change within the constraints of a three-year electoral cycle, on his election, Abbott immediately set about making massive machinery of government changes, taking responsibility for Indigenous affairs into the Department of the Prime Minister and Cabinet. At the same time as these public service changes were being implemented, and as public servants were understandably concerned about the impact of changes on them personally, the government announced massive funding and service delivery changes.

As Fred Chaney (2014) suggested in his recent Button Oration:

[H]old in your minds the administrative complexity of what the government is undertaking and the management challenge it faces. In the space of one year it is to take 150 existing programs which involve I understand some 1400 organisations and redirect expenditure into five broad streams while at the same time changing the geographic and hence jurisdictional basis of the administrative framework.

Is it surprising that such massive change in one of the most complex policy areas, implemented within a very short period (the electoral cycle), with limited buy-in from stakeholders and conducted in an adversarial political environment where views on what will work are strong and diverse, would have a limited chance of success?

Second, we all focus too little on supporting robust monitoring and evaluation. As a result, we lack the data to support robust policy and program implementation decisions. This was one of the findings of a recent meta-evaluation of place-based trials by the Australian

Institute for Family Studies on behalf of the Department of the Prime Minister and Cabinet (Wilks et al. 2015: 53). It found: ‘High-quality evaluations of international [place-based initiatives] do show that they can be effective and can realise significant cost savings to government. However, among Commonwealth [place-based initiatives], the causal effects and cost-effectiveness of programs have rarely been evaluated.’

There are a number of reasons for this systemic failure.

Program evaluation is not routinely required by governments nor undertaken by non-profits and there are structural barriers that discourage it. In particular, funding to conduct evaluations is often not included in overall program budgets. Save the Children often finds that we have to seek philanthropic support to meet the costs of rigorous evaluation. There is also limited evaluation capability within the Australian Public Service.

Most program evaluations that do occur focus on process, inputs or outputs, rather than outcomes. These evaluations usually begin at the end of a program, rather than being planned during program design and integrated into the program logic and intended outcomes. Evaluations are often of poor quality—because of a lack of independence, transparency and dissemination of results.<sup>2</sup>

Third, there is a skills issue. It is no easy matter to:

- successfully negotiate agreements across governments, communities and the private sector
- provide genuine opportunities for communities to contribute to the design and delivery of local solutions to local issues
- manage the implementation of programs designed to achieve complex social and economic outcomes, often in very difficult physical or politically charged environments.

The 2010 *Ahead of the Game* report into the Australian Public Service (Advisory Group on Reform of Australian Government Administration 2010) provided a plethora of recommendations to improve government service delivery, enhance the Australian Public Service’s policy

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<sup>2</sup> For a useful overview of the methodological, budget, administrative and political constraints of conducting robust evaluations in the Australian setting, see Cobb-Clark (2013). See also Ronalds (2015).

and implementation capability and facilitate cross-sector working. However, after the retirement of Terry Moran as secretary of the Department of the Prime Minister and Cabinet, these recommendations were largely put aside.

As important as these issues are, however, today I want to argue that what we need most of all to make progress is to change the current system's incentives. Only by changing the incentives of politicians, public servants, civil society and the private sector can we hope to achieve the type of progress we are all seeking.

Australia's twenty-first prime minister, Gough Whitlam, once said '[t]he punters know that the horse named morality rarely gets past the post, whereas the nag named self-interest always runs a good race' (Tookey 1989: 18). I think this quote neatly summarises our largest obstacle, but also our most significant opportunity, in achieving real progress in solving complex policy problems through cross-sector collaboration. Too often, we have sought to use rational policy arguments, evidence and moral suasion to argue for improved ways of working. When these fail, we double our efforts, futilely believing that by simply arguing harder, conducting further pilots or gathering more evidence things will change.

They will not.

It's not that these things are not important. It's just that they will not be sufficient. We need to change the system's incentives. This is the challenge of change to making progress with complex problems.

## Government incentives

What is preventing change in government? It's not that public servants do not know that the system can be improved. In a recent global survey of public servants, only 1 per cent of Australian public officials agreed with the option that government was 'highly effective—little room for improvement' (Centre for Public Impact 2015). Interestingly, however, public servants in non-policy roles were less likely than their counterparts in policy positions to answer that government was highly effective or effective.

Those in more senior jobs were more likely to see government as being effective, with those in lower positions most likely to choose the options somewhat or highly ineffective. These findings certainly resonate with my own experience in government. Policy roles were more likely than implementation roles to support career progression. This created a strong incentive for the most capable public servants to move into policy roles. It also created an incentive for senior people to spend more time on policy issues than implementation issues.

In my view, this is the complete opposite of what is required. We need our best staff and most of their effort focused on policy implementation. Our efforts in solving complex policy problems should look like an iceberg, where 10 per cent of the effort goes into developing the policy and 90 per cent into its implementation. Of course, civil society organisations often make the same mistake. As soon as someone shows promise, they are promoted from program implementation to head office. The highest paid roles are not those dealing with program implementation.

### It's also not the lack of opportunity

Accounting firm PricewaterhouseCoopers (2015) estimates that the 'social services market' totals \$420 billion. The Australian and state governments are the two largest primary contributors to this market, providing \$224 billion and \$112 billion in services and funding, respectively. Given the size of this market even a small improvement in productivity would yield enormous returns.

### But the incentives are wrong

At the political level, our politicians are elected based on policy promises, often with very limited investigation of the implementation challenges. Once they are elected and obtain advice on these challenges, they are faced with the choice of abandoning or at least modifying their promises or seeking to implement a policy with little chance of success. Often they decide to do the last, to avoid giving their political opponents an opportunity to claim a broken election promise.

Our Westminster system of government makes ministers responsible for the actions of their departments. This is reinforced by the media. Collaboration with other departments, other governments or

non-governmental organisations can reduce control without changing responsibility. Asking a minister to pool administered funds, for example, increases risk while at the same time reducing political pay-offs such as the opportunity of opening new facilities or the kudos from success.

## What about genuine engagement with community?

Giving communities early involvement in the policy process can create significant political risks: half-formed ideas can be misinterpreted, expectations may be raised, government priorities may change and you are left holding the policy baby. In addition, genuine collaboration requires the investment of significant time and resources—hard for politicians to do in our 24/7 media cycle. Instead, oppositions and even governments are seeking to be ‘small targets’—anathema to genuine reform.

## Similar challenges confront public servants

As a public servant, I was often asked to speed up program implementation to meet a politically convenient deadline at the expense of more careful policy implementation and improved collaboration. I also saw time and time again the system’s disincentives for public servants to push a reform agenda. Public servants quickly understand that Machiavelli (1961: 51) was right when he argued that ‘[t]here is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things’. We know that the long lead times to achieve impact, lack of robust evaluations, policy churn and the turnover of public servants and politicians all mean public servants are unlikely to be held accountable for the failure of programs to achieve outcomes.

## Why attempt the difficult task of service delivery reform?

On the other hand, public servants will be held accountable for the mismanagement of funds or for a failure to follow process. This promotes a risk-averse, compliance-focused culture. The budget rules also act as a strong disincentive. I was astounded when I found out that the fiscal benefits of the outcomes that I was seeking to achieve—

reduced welfare dependence, improved education and employment outcomes, for example—were prohibited from being taken into account by Cabinet on the basis that they were ‘second-round effects’. Can you imagine a private sector reform making investment decisions by ignoring the financial return? As perverse as it may seem, politicians and public servants are generally acting quite rationally in supporting a system that generally fails to deliver the outcomes we seek.

## Community incentives

Are the incentives any better for community organisations? The same system of Westminster government combined with the behaviour of many private funding bodies means that community groups face enormously fragmented funding arrangements. These arrangements themselves promote ‘community and organisational dysfunction’ (Dillon and Westbury 2007: 191).

One of the best descriptions of the system’s structural impediments is contained in the collective impact research work by John Kania and Mark Kramer (2011: 38):

Most funders, faced with the task of choosing a few grantees from many applicants, try to ascertain which organizations make the greatest contribution toward solving a social problem.

Grantees, in turn, compete to be chosen by emphasizing how their individual activities produce the greatest effect.

When a grantee is asked to evaluate the impact of its work, every attempt is made to isolate that grantee’s individual influence from all other variables.

The result is that thousands of community organisations ‘try to invent independent solutions to major social problems, often working at odds with each other and exponentially increasing the perceived resources required to make meaningful progress’ (Kania and Kramer 2011: 38). On the other hand, we know that collaboration is the best way to solve many social problems in today’s complex and interdependent world.

Government tendering also often provides disincentives to collaboration. The recent Department of Social Services and Prime Minister and Cabinet tenders are good examples. The Department

of Social Services grants round opened on 19 June 2014 and closed on 24 July 2014. The Prime Minister and Cabinet Indigenous Advancement Strategy tenders opened on 8 September 2014 and closed on 17 October 2014.

As Robyn Keast argues in her chapter, real collaboration takes far more time to negotiate than the month allowed by these tender periods. In fact, Save the Children found that such short periods increased the strain on local relationships, particularly those with Indigenous organisations.

It is also costly for the organisations involved. In a context where there is significant uncertainty about the outcome, intense competition and a reduced funding pool, devoting time to improved collaboration is a highly questionable investment. Add to this the profoundly negative impact of short-term funding cycles on staff retention and productivity. For Save the Children, the result of the Prime Minister and Cabinet Indigenous Advancement Strategy tenders was uncertain for six months after submission. This created significant anxiousness for staff and communities. Not surprisingly, where opportunities arose, staff decided to seek jobs elsewhere, undermining program delivery.

Even if community organisations succeed in building effective partnerships and demonstrating impact, community sector leaders know that there is at best only a weak correlation between delivering outcomes and increased government funding. Nous Group once undertook a comprehensive review of all of the evidence of homelessness interventions around the world. They ranked the research according to its robustness and developed a clever way to compare the cost effectiveness of different interventions. They found that there was a 250 times difference between the most and least cost-effective intervention.

Armed with such evidence, you would think governments would jump at the chance to increase funding to the most cost-effective programs. Instead, the recommendations were ignored because of the political implications of defunding such a large number of community groups.

## Community groups themselves often encourage such inertia

Community groups can fail to respond to shifting community need and create political pain for politicians and public servants who, despite the barriers, seek reform. Community groups are often not sufficiently economically literate and seldom do they engage with funders in a robust, honest way. We know there are too many community organisations yet there are few real incentives for management and boards to negotiate mergers. None of this behaviour should be a surprise given the incentives that community organisations confront.

## Private sector incentives

What about the private sector? Let me start with some good news. We have come a long way in this area. Many companies today do have strong incentives to improve collaboration around complex social and economic problems. Compare, for example, the Indigenous engagement of today's mining companies with the campaign against land rights in Western Australia in the 1980s, a campaign that saw a black hand building a brick wall across Western Australia to represent the threat to our enjoyment of our mineral riches (Chaney 2014). However, the private sector faces many of the same perverse incentives as the community sector. They face the same fragmented funding with the same pressure to demonstrate their own isolated influence on a desired outcome. The private sector also has little appreciation of how government or the community sector works.

I recently spoke at a private sector forum on shared value and many of the attendees implied in one way or another that we would make progress on complex policy problems if only government would get out of the way. Nonsense on stilts, as Jeremy Bentham once said. The United States has both the largest and most robust community sector and the most global corporate head offices, yet ranks at the bottom of the OECD for solving social problems. Despite the attractiveness of the idea of unleashing the potential of the private sector and local communities through more empowered civil society, we should not lose sight of the fact that government policies are still the main driver of well-being.

We need government to be actively involved in solving entrenched disadvantage, not passive funders of community-based organisations. We also need to overcome the deep disconnect between social and economic policy in this country. This disconnect starts with the lack of coordination (and sometimes disdain) between social and economic departments and is reinforced by a community sector that is often sceptical of the role of the private sector in community, further exacerbated by poor economic literacy.

## The way forward

In the face of such a bleak picture, what is the way forward?

I am very interested in the behavioural insights work of the UK Government, recently also adopted by the NSW Government. Behavioural insights draw on research into economics and psychology to influence choices in decision-making. It seeks to identify subtle changes to the way decisions are framed and conveyed to achieve big impacts on behaviour. One wonderful example of the power of this approach is the toilets at Amsterdam's Schiphol Airport. The image of a small fly etched into each urinal significantly improved the accuracy of men's aim, reducing 'spillage' by 80 per cent (Thaler and Sunstein 2009: 4).

We need to stop simply repeating what we have done before hoping for a different outcome. More pilots of place-based initiatives will not take us forward if we do not address the systemic barriers to improved public sector service delivery. Instead, we need to continue to push for reform of the 'governance of government', particularly funding arrangements.

The actuarial approach being adopted by the National Disability Insurance Scheme is a promising example. It's one of the very few examples in public policy of where a strong incentive has been created to invest in early intervention. Another is the commissioning of outcomes approach discussed a number of times at this conference. Provided governments are prepared to step back from accounting for inputs, it has real promise.

We need tender processes that encourage, rather than discourage, collaboration and make investment worthwhile. A more transparent and consultative process, with longer lead times and longer contracts, is critical. We need to reward community organisations that invest in robust monitoring and evaluation.

We need government and philanthropists to support capacity building and sector consolidation.

We need to ensure we are thinking about the economic underpinnings of social interventions and vice versa.

We need more ‘boundary riders’ in government, in the community sector and in the private sector—people who understand the capacity and limitations of each sector and can successfully navigate them to achieve improved collaboration.

One way to change the incentives would be to require senior public servants to demonstrate significant cross-sector experience before being eligible for promotion. By changing the incentives, non-governmental organisations like Save the Children would be inundated with requests for secondments. Not only would this improve the skills and experience of public servants, it also would simultaneously enhance understanding in the private sector and civil society.

## The pressures provided by a difficult fiscal environment may actually help

A recent speech by New Zealand’s Deputy Prime Minister and Minister of Finance, Bill English (2015), to the Menzies Research Centre argued that the best way to achieve smaller government is to deliver better government. There is a strong case to be made that by focusing on the most disadvantaged—the government’s most expensive clients—and investing more in them, significant savings can be made. Kevin Andrews (2014), as social services minister, highlighted the benefits of such an investment approach, where actuarial calculations of the lifetime cost of social support are used to more ‘effectively target resources up-front’.

## Increased transparency will also help

This starts with more and better evaluations.

During the late 1980s and early 1990s, Australia developed a reputation for a strong evaluation culture in the federal government. Since then, the quality of monitoring and evaluation has deteriorated markedly (Lopez-Acevedo et al. 2012). More and better evaluations, however, will not be sufficient. It also requires increased transparency about outcomes to help change the system's incentives.

Governments around the world have been increasing the amount of data available online. The United States' data.gov website was launched in May 2009; the UK site was publicly launched in January 2010. Australia's efforts were launched following the release of the Rudd Government's Government 2.0 Taskforce report in late 2009 but have proceeded slowly. Given the capacity for increased transparency to change system incentives, we need to provide greater support for this agenda.

We need to do more to highlight successes. This will give politicians more cover to implement reforms. As the evidence mounts and as it becomes easier to access, it will improve the incentives for politicians to lead the sort of service delivery reform that is required—and bring us closer to solving the challenge of change in public sector service delivery.

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