CONTRACTING OUT GOVERNMENT – COLLABORATION OR CONTROL?

NEIL WALKER MEMORIAL LECTURE

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I am very pleased to be given the chance to present this lecture and, in doing so, to honour the memory of Neil Walker.

He was a person committed through his working life to the finest traditions of public service and, in the Victorian Department of Management and Budget, was at the forefront of public sector financial management in the 1980s. His role as the CEO of Tabcorp and then as Managing Director of Frontline Defence Services presented him with the opportunity to set in place many of the reforms he espoused.

In last year's address Wayne Cameron noted Neil's "quiet, genuine and competent manner". Neil was also effective. As the then Minister for Veterans' Affairs, Bruce Scott, noted at Neil's passing in January 2001, Neil had transformed the Department of Defence's Canteen Service from an "ailing organisation into a modern retailer". It was a considerable achievement.

A public servant by inclination, Neil was an accountant by profession. Committed to openness and transparency, he sought to ensure that all those in his workplace – and the wider community – understood the importance of accounting issues. I suspect that it was this enthusiasm that drove Neil to become the National President of CPA Australia. I have no doubt that it was partly through his influence that the organisation became a professional association that truly understands the public sector and the challenges it faces.

The two decades in which Neil worked as a public finance officer were a period of extraordinary change in Australia's public services. The elements of that transformation are well-known: the increased focus on outcomes rather than inputs, the emphasis on measuring the cost of achieving results, devolution of authority to individual agencies, and a more structured approach to performance management and organisational capability. These were central to Neil's working life. In New Zealand, Canada, the UK and the USA, in varying and distinctive ways, similar trends were evident.

Much of this is associated with the late 1980s and 1990s. Somewhat later, as the inherent costs of bureaucratic territoriality and jurisdictional demarcation became more obvious, there was greater focus on creating team-based approaches to 'joined-up' government. In my five years as Secretary of the Department of the Prime Minister and Cabinet, I devoted a great deal of my time trying to build 'whole-of-government' approaches to the development and implementation of public policy. I have to admit that, in spite of best endeavours, I enjoyed only limited success.

In this evening's lecture I want to focus on one fundamental aspect of public service reform, namely outsourcing; to explore the opportunities and threats that development has posed to not-for-profit organisations; and, finally, to bring these two elements together as reflections on collaboration, network governance and democratic participation.

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As I have already indicated, many elements of administrative change in the last generation were focussed on the organisational structures and workplace systems of the Australian Public Service. However, more significantly, and driven in part by the desire to benchmark public service capability and costs, the functions of public administration started to be placed outside public service. Government businesses were privatised or given the freedom to operate as commercialised enterprises. Many of the internal functions of public service – such as security, IT, payroll and catering – were bought from the private sector. Most dramatically, the Commonwealth government, like its State counterparts, created markets for public goods. The

delivery of publicly-funded programs in areas such as labour market placement, skill training, provision of welfare, health and housing services and relationship counselling was outsourced. Services were contracted out through competitive tenders. At least to some extent program recipients were able to choose from a range of providers.

It is important to recognise the scale of the transformation. The Australian Public Service was the first institutional creation of Federation. It was built upon hierarchical coordination, strong supervisory controls and function specialisation. Those who worked within it, in marked contrast to the patronage and nepotism that epitomised nineteenth-century Whitehall, were recruited and promoted on merit (assessed by educational attainment, technical experience and displayed competence). They worked, from top to bottom, in a framework of clear rules - established in law, regulation, administrative guidelines or parliamentary convention – which limited individual discretion, provided impartiality and ensured answerability for decision-making and accountability for the use of public funds.   It was a form of procedural governance which underpinned the ethos of public service and its capacity to serve successive governments with equal dedication. It provided not only high ethical standards but effectively protected citizens from the arbitrary exercise of executive authority.   A distinctive feature was that public service was separated from the private realm of business and the nonprofit activities of charities and benevolent institutions.

In the last 15 years, in the search for a higher performing, less hide-bound, more innovative public service these organisational foundations of the state have been rebuilt. The implementation of government authority, often wielded in the past by public service quasi-monopolies, has to a significant extent been transferred to a range of interdependent public, private and not-for-profit players. Citizens, on occasion, have taken on the role of co-producers and co-funders. Service delivery has become a chain of brokered exchange between intersecting authorities.   The distinctive role of public service in the distribution of political power has been transformed.

In short, this has been a time of 'government renewal, reinvention and restructuring',[1]   Within a generation the distinctive role of public administration in developing and distributing the power of the State has been transformed. Bureaucracy remains a pejorative team but the nature of the organisation which Max Weber so famously characterised has been altered irrevocably. Public interest has been released from the privileged idea of public service.

I was part of this transformation. I was, in the managerial lexicon of the 1990s, a 'change agent'. I was aware of, and sometimes espoused, the language of distinction that was used to convey the idea that the roles of principal and agent were being separated in public administration. I didn't mind the notion of 'governing at a distance' being articulated either in functional terms ('purchasing not providing') or metaphorical terms ('steering not rowing'). I eschewed, however, the vague, poorly-conceived notion of 'third party government' or 'government by proxy', which failed to capture the reality that the state continued to direct policy and to create and manage the framework for its delivery.

I was rather less conscious that the reforms in which I was an active and generally willing participant were spawning a minor academic publishing industry around the them of 'new public management'. (I can't help noting, in parentheses, just how dated much of this language already sounds.) Generally the view from the universities was critical and often hostile. The reforms, I belatedly discovered, were creating an enterprise state that was post-modern and post-bureaucratic; driven by managerialism, contractualism and corporatism; inspired by neoliberal ideology and (a distinctively Australian form of abuse) led by economically rational public servants. I was, I suppose, one of the leaders.

On balance, I thought the change process was a good thing, part of a more wide-ranging micro-economic reform agenda. I didn't think the Westminster traditions were under siege: rather I welcomed the removal of burdensome prescriptive controls that beset management of the Australian Public Service. I saw no significant threat to integrity. The formulation of public service values in legislation enhanced understanding of the complex relationships between assertiveness

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[1] Jonathan Boston ed., The State Under Contract, Bridge Williams, Wellington, 1995, p. ix.

and responsiveness, responsibility and accountability, openness and confidentiality that govern the respective roles of Minister, Parliament and public servant. I was all in favour of getting the best value-for-money from taxpayer funds, whether through improved public service performance or outsourced delivery. I believed that cross-agency teams improved not only public policy but enjoyment of the workplace. If this was post-modern I was for it. It certainly sounded more youthful than the eponymous labels of 'baby boomer' or 'veteran'.

I was not, I should emphasise, uncritical. In private and public forums I expressed my dissatisfaction with treating those who receive government programs as customers. Driven by the best of motives – to improve commitment to service delivery – the private sector language dangerously confuses the nature of the public sector. Customers can choose whether to buy and from whom. Citizens (and I embrace residents in this term) have no such choice. They are being delivered responsibilities as well as rights: the services they receive as entitlements also impose obligations. Public services are not shopping malls.

I also became increasingly concerned that devolution of responsibilities from the centre of government may have gone too far. I had no doubt that the shift had enhanced the performance of individual agencies. My fear was that, embraced uncritically, it could reinforce administrative silos and increase costs. Public services can benefit from economies of scale, administrative as well as financial.

During the years in which I oversighted line agencies I gained considerable experience in contracting out the delivery of publicly-funded programs in indigenous affairs, employment, training and education. I recognised it was not without risk. I saw a danger that public servants might mistakenly believe they could outsource accountability or, worse, hide administrative failure behind a cloak of commercial-in-confident. I thought it was a good thing that the APS integrity network – particularly the Commonwealth Ombudsman and the Auditor-General – were given the powers to bring the same scrutiny to the behaviour of contractors (insofar as their activities related to the use of public funds) as to public servants.

Yet, with eyes wide open, I was committed to the benefits of strategic outsourcing. I do not, from the new perspective given to me by my role as CEO of the Centre for Social Impact, renege on those views. This lecture is not a *mea culpa.* I still think outsourced delivery has improved the cost-effectiveness of public programs. In particular, I remain strongly of the view that providing contracts to not-for-profit organisations has increased the efficiency with which public funds are directed to community need.

It has certainly been important to the economic viability and financial sustainability of not-for-profit organisations. While economic statistics should be treated warily, not least because of the disparate groups within the not-for-profit sector, there is no doubt from the most recent ABS data that the driver of growth in the last decade has been government revenue. ABS figures suggest that between 1995-96 and 2006-07 government funding rose by 136%, more than two-thirds of which derived not from grants but from fee-for-service contracts or quasi-voucher arrangements. Only half that amount came from growth in sales revenue. The charities that are surveyed annually by Givewell Research have seen their financial dependence on government funding rise from around 40% to 50% over the same period[2].

My growing sense of disillusion with outsourcing is fuelled by something entirely different. My concern is that, through lack of vision and temerity, the potential benefits to governments of working with community-based organisations remain largely unfulfilled.

For now, I ask you to hold that thought. It will be central to my conclusion. Before then, I want to examine the changing nature of public administration from the perspective of not-for-profit enterprises. It is in articulating the challenges they face that a different, more exciting future can be envisaged, marked by shared power and collaborative leadership.

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[2] Australian Bureau of Statistics, Not-for-Profit Organisations, Australia, 2006-07; Givewell Survey, Australian Charities Financial Analysis, 2006, November 2007.

In preparing for this oration I went back and looked at some of the key documents that formed (or perhaps reflected) government ambitions for contracting in the mid-1990s. I examined reports from the Productivity Commission, the Industry Commission, the National Commission of Audit and the Administrative Review Council[3]. Two aspects stand out. First, the extent to which the rationale for outsourcing was couched almost exclusively in terms of increasing the administrative efficiency and cost-effectiveness with which programs were delivered. Quality and service were generally mentioned en passant and rarely elaborated[4]. Second, the degree to which the focus was on private providers, with relatively little attention being given to the growing role of not-for-profit institutions or, as they were often described at the time, Community Social Welfare Organisations. Between these two omissions lies a world of lost opportunities.

With the wisdom of hindsight, it is not surprising that not-for-profit institutions have proved so successful at moving from submissions-based funding through government grants (to support their own endeavours) to contracts (to deliver government programs). It is not generally appreciated that Australian charities have always had a strong commercial instinct and mutual associations were born of working-class self-help. Compared to Western European countries, Australian not-for-profits have been far less dependent on private philanthropy and much more reliant on income from fees, membership dues and charges[5]. Long before the emergence of concepts of social enterprise, Australian not-for-profits exhibited a strong taste for business venturing, focussing on ways of building sales revenue rather than depending on donations. Paradoxically, the increased dependence of many community organisations on government funding bears testimony to their commercial nous and willingness to pursue income opportunities.

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[3] Industry Commission Report, <u>Competitive Tendering and Contracting by Public Sector Agencies</u>, Report No. 48, Melbourne, 1996; Productivity Commission, <u>Stocktake of Progress in Microeconomic Reform</u>, Canberra, June 1996; National Commission of Audit, <u>Report to the Commonwealth Government</u>, Canberra, June 1996; Administrative Review Council, <u>The Contracting Out of Government Services</u>, February, 1997. For a later overview see Rose Verspaandonk, "<u>Outsourcing – For and Against</u>", Parliament of Australia, Parliamentary Library, Current Issues Brief No. 18, 26 June 2001.

[4] An exception was the Commonwealth Department of Health and Family Services which, in 1998, argued that contracting could "provide greater flexibility in terms of the scale of operations, employment arrangements, the mix of industry players involved (and) the service delivery approaches including the quantity and mix of services supplied". House of Representatives Standing Committee on Family and Community Affairs, <u>What Price Competition? Report on the Competitive Tendering of Welfare Service Delivery</u>, Commonwealth of Australia, 1998.

[5] Mark Lyons, Susan Hocking, Les Hems and Lester M. Salamon, "Australia" in Lester M. Salamon et al., <u>Global Civil Society: Dimensions of the Nonprofit Sector</u>, Baltimore, 1999, pp. 202-217.

In a competitive market many have prospered on the back of their performance, winning and retaining government business.

The success of not-for-profit organisations in securing government contracts over the last 15 years has not been universally welcomed. Diverse concerns have periodically been expressed about the role of not-for-profits as contractors. Some have been economic: the view that not-for-profits have less incentive to be efficient than private sector providers because cost savings do not accrue as profits, management is less preoccupied with money-making and that in consequence they will be more risk averse. This has not been a view shared by their private sector, profit-maximising competitors, some of whom have argued, before a number of government inquiries, that the beneficial tax status of charities creates unfair competition for them.

Other concerns have been cultural: the perceived danger, for example, that religious charities might combine proselytising with the delivery of social services. A variant, played out in the media from time to time, is that church-based organisations might restrict their clientele to, or employ only staff of, their own faith – behaviours which are excluded both by law and contract.

Even the governments who contracted out their business, and the public servants who administered the tenders, were at times wary of the success of not-for-profit ventures. There has been a generally unspoken fear that community-based organisations might quietly subvert those aspects of policy delivery with which they disagreed. Such concerns are not unjustified. Today, half of the business of Job Network is undertaken by not-for-profits. Yet it has often proved difficult for government to persuade them to participate in the process of breaching welfare recipients who failed to meet their job-seeker obligations, particularly when guidelines were toughened in line with welfare-to-work requirements[6].

In truth, however, the challenges for not-for-profits have been far greater than for governments. Indeed it is the argued view of my colleague at the Centre for Social Impact, Prof. Mark Lyons,

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[6] According to Gemma Edgar, Agreeing to Disagree: Maintaining Dissent in the NGO Sector, Australia Institute Discussion Paper, No. 100, August, 2008, p. 40, "an unreasonable government policy was challenged and a clear statement regarding the independence of NGOs was made". See also R. Harris, "Avoiding the Worst of all Worlds: Government Accountability for Outsourced Employment Services", Australian Institute of Administrative Law, Vol. 55, 2007, pp.3-30.

writing in 2003, that "most of the community are unhappy about the way relations between the sector and governments have changed over the past decade or so"[7]. Even as they have become increasingly successful in winning contracts for service delivery in a widening array of areas, so their fears have risen. As the flow of public funds has grown so have the doubts. To some observers the relationship is portrayed as community organisations entering 'into the lion's den': to others as 'supping with the devil'[8]. It is as if, unwittingly, the not-for-profits have entered into a Faustian bargain with governments that has given them unanticipated riches but taken their very soul, seducing them by the pieces of silver on offer.

From the particular perspective of the third sector I see at least five key challenges for social enterprises entering into contractual relationships with governments.

First, the voice of advocacy may be muted by a need not to criticise overtly the policies of those governments for whom they deliver services. Either explicitly by contract or implicitly by perception, a community-based organisation may feel a need to constrain its espousal of the very views that sustain its endeavours. This is probably the fear that I hear most commonly expressed by not-for-profit leaders. Dissent might be silenced and community voices gagged. In truth, I suspect, it is the danger that might most easily be addressed.

I sense that the relationship that develops between a public sector and its major service providers is not unlike that between a bank and its largest borrowers (or, perhaps more apposite to current circumstances, between governments and a nation's banks). There is a mutual interest in preserving the partnership. A government does not wish to risk an organisation responsible for delivering its programs in a large way from handing back its contract, any more than an organisation heavily dependent on public funds wants to see its contract terminated.

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[7] Mark Lyons, "Improving Government-Community Sector Relations", The Journal of Contemporary Issues in Business and Government, Vol. 9, No. 1, 2003, p.7.

[8] 'Supping with the devil' is the terminology used by Peter Saunders in convening a meeting at the Centre for Independent Studies earlier this year. The alternative characterisation comes from Sarah Maddison and Gemma Edgar, "Into the Lion's Den: Challenges for Not-for-profits in Their Relationships with Government", in Jo Barraket ed., Strategic Issues for the Not-for-Profit Sector, UNSW Press, 2008 who argued, p. 208, that not-for-profits "risk losing their legitimacy and their reputation … (and) their independence from government if they are 'seduced' by high levels of funding … and ultimately risk losing their vision and sense of purpose".

My experience tells me that the larger a provider the greater its capacity to secure access to governments to lobby its cause. At least behind closed doors its importance to government enables it to wield more influence. As Gemma Edgar has noted, the "NGO sector is in a position of considerable power because it is a provider of so many essential services to the community"[9].

Certainly governments need publicly to affirm to not-for-profit groups that the receipt of a grant, or award of a contract, will not mute their capacity to give voice to the community interests they represent. That is why some form of compact or charter of civil engagement needs to underpin the relationship of governments with the third sector. The framework of reciprocity needs to be clear and transparent. I suspect, however, that this will not get to the heart of the problem which is that the larger, more successful not-for-profits, wielding increasing influence with governments, will effectively crowd out and marginalise smaller organisations that fail to win contracts. One does not have to be engaged in the community sector for long before the tensions between the winners and losers of outsourcing become evident.

Second, the costs of regulatory scrutiny may burden the administrative capacity of social enterprises. I have no doubt that organisations that receive public funds and deliver public programs should expect their operations to be transparent and their finances to be audited. Accountability must apply to the expenditure of public funds no matter the vehicle of delivery chosen. Indeed, reporting requirements may significantly benefit not-for-profit organisations by forcing them to identify more fully their real costs of doing business.

There are, however, two ever-present dangers. The first is that the contractual conditions and their monitoring are made unnecessarily burdensome by a risk-averse public service. My experience has been that too often bureaucrats behave as if they are managing a contract rather than a relationship. Conditional requirements cumulate over time. For a national organisation receiving funds from different tiers of government the administrative costs of federalism can seem heavy.

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[9] Edgar, op. cit., p. 40

The second danger is that not-for-profit organisations think that the reporting requirements are an impost – unnecessary evils imposed from outside - that possess no intrinsic value. Rather than seeing administrative rigour as a means to make best use of scarce resources for community benefit, many employees in the third sector come to view the assessment of capability and conduct as a regulatory weight of no intrinsic value. Performance management comes to be perceived as a response to external accountability rather than a driver of mission.

Third, social enterprises which seek government funding may be subject to mission creep. This is a danger that is more subtle and for that very reason more pernicious. The goals that have attracted and sustained support for a community-based organisation – the inspiring vision that brings an organisation voluntary endeavour and philanthropic donations – may be progressively transformed by the desire to secure government funding. Sometimes the organisation will be persuaded to widen its ambit by the availability of funds. The broadened goals will probably still have social value but nevertheless have the effect of diverting an organisation's effort away from its original core mission. Sometimes the organisation will be tempted to expand its activities beyond its capability, accentuating risk of failure. Often the drift occurs without being properly recognised and, too frequently, in the absence of strategic discussion at the Board level. The ultimate danger, as Bronwen Dalton and John Casey have recently argued, is that not-for-profits enter a 'moral minefield' and come to be "seen by the public as more of a business than a social agency"[10].

Fourth, the relationship between governments and the third sector is epitomised by an asymmetry of power. The worthy goal of collaborative government is made more difficult by the fact that governments (and the public services which work to them) have far greater power than the community-based enterprises with whom they contract. It is not just that governments are generally able to harness greater resources of skill and expertise on a continued basis than the organisations with whom they deal: more profoundly, it is the knowledge that governments are far more likely to be able to exercise the power of decision.

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[10] Bronwen Dalton and John Casey, "Money for Mission or Moral Minefield? The Opportunities and Risks of Not-for-Profit Business Venturing", in Jo Barraket, op. cit., p. 154.

The symptomatic feature of this unequal relationship is reflected in the form of contracting. The organisations that win contracts to deliver government services rarely have the capacity or opportunity to negotiate the policies (or even the administrative guidelines) which determine the form of the programs that they are paid to deliver.

Fifth, and perhaps the greatest danger of all, is that social enterprises may come to look first to governments for the wherewithal to deliver their goals. Ironically, organisations founded on community enterprise may start to perceive their future and count their success in terms of winning government funding. To a significant extent, not-for-profit organisations have been able to give hope and direction to welfare-dependent communities that feel marginalised, socially excluded and helpless. It would be a tragedy if those organisations began to place limits on their social entrepreneurship by their own increasing dependence on the public purse. Social innovation is born of creativity, imagination and risk – not qualities that are generally associated with the conditions of government funding.

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Let me now attempt that which I promised so cavalierly earlier in my address and which I now regret: namely, to weave these two distinctive perspectives – that of public administration and not-for-profit management – together. My challenge is not only to elaborate the lost opportunities and unfulfilled vision but, with cautious optimism, to suggest that they can be overcome. It will require governments to set clearer and bolder goals. It will need public servants who can grasp the collaborative leadership necessary to manage human relations rather than contracts. It will mean not-for-profit enterprises being given the freedom to be socially entrepreneurial in the delivery of government services and having the capacity and capability to enjoy that liberation. To the extent that these ambitions can be fulfilled then so do the prospects of building a socially inclusive and sustainable society.

The heart of the problem lies in the extent to which governments continue to articulate the benefits of outsourcing in terms of cost effectiveness and, worse, the unstated assumption that

this means doing what public servants previously did but less expensively. The result is that public servants, working in an environment of fierce political contest, and seeking to minimise risk to the governments they serve, involve themselves in the micromanagement of the outsourced deliverer.

On this my views haven't changed since, April 2001, when I engaged in public debate with Professor Mark Consadine on the performance of Job Network. Mark argued, quite reasonably, that given public money was being spent on public clients, outsiders should be able to look into 'the black box' to examine the details of how contractors operated. I responded, quite forcefully, that this was unnecessary: given that public funds were paid on the basis of employment outcomes, the manner in which different providers used their inputs should be a matter for them[11]. While it is important that public programs, however delivered, are subject to audit scrutiny, probity monitoring, ethical testing and periodic evaluation, contract requirements born of accountability should not be framed so as to constrain the managerial decisions of competing providers.

Although my position hasn't altered, my motivation has. I now more fully appreciate that the prime benefit of outcomes-based government contracts is not cost-saving, nor even service quality, but the ability actively to encourage different approaches to the delivery of public services. Governments should identify the objectives being sought, ensure adequate monitoring of outcomes and evaluate results. They can determine, through the goals set, the extent of discretion allowed to providers. Having done so, they should be careful not to allow their public services to intervene in the way the outcomes are achieved. Otherwise, as Myles McGregor-Lowndes and Matthew Turnour have pointed out, the actual relationship of not-for-profit organisations to governments is closer to an independent contractor than a partner[12].

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[11] Our debate is recorded in Meredith Edwards and John Langford, eds., New Players, Partners and Processes: A Public Sector Without Boundaries? Canberra, 2002, esp. pp. 63-65.

[12] Myles McGregor-Lowndes and Matthew Turnour, "Recent Developments in Government Community Service Relations: Are You Really My Partner?" The Journal of Contemporary Issues in Business and Government, Vol. 9, No. 1, 2003, p. 31. See also Kerry Brown and Neal Ryan, in the same issue, p.22, who argue that "the policy language of partnership and collaboration is inconsistent with legally binding service agreements that use restrictive evaluation and performance management processes to control service delivery". In the following issue (Vol. 9, No. 2) see also Kerry Brown, Sharon Gyde, Adele Renwick and Karyn Walsh, "Government-Community Partnerships: Rhetoric or Reality" and Des Pearson, "Public Sector Contracting of Not-for-Profit Organisations for the Delivery of Community Services".

Governments too often lack the courage of their outsourcing convictions. The prime advantage of contracting not-for-profit organisations to deliver government services should be the opportunity to stimulate social innovation. It's not just that community-based organisations can produce outcomes more cost-effectively than public service agencies but that, collectively, they can trial new, more service-oriented methods of delivery at the community level. Yet governments are often persuaded – by too great an abundance of caution, too narrow a vision or too much fear of public criticism – to prescribe the processes by which outcomes are achieved. Why, one asks, does a government outsource its administration if it acts over time to cast the provider into a shadow of the public service agency it replaced?

Governments need the wisdom to promote outsourcing as a means of generating social innovation. This requires fortitude because, in extolling the virtue of diversity, and in promoting public entrepreneurship, one recognises that not all endeavours will be successful. Indeed it is an inherent characteristic of innovation that it is preceded by trial and error. Unfortunately the virtue of failure in the quest for success is hard to acknowledge in politics.

The opportunity for social innovation is not the only major benefit that can come from outsourcing. So, too, can new forms of 'horizontal' governance in which a wider range of players can be active participants in the development and delivery of government policy. To many critics the privatisation, commercialisation and contracting out of government has created a 'hollow state' which has turned itself into a weak imitation and auxiliary of the market system. I see it differently.

From my perspective, the networking of governance has the potential to involve community-based organisations and individual citizens in decision-making. Far from the state losing power, increased mutual dependence of governments, public services and social enterprises can enhance democratic participation. The inclusion of not-for-profits in government program delivery can strengthen civil society by decentralising service provision and encouraging community ownership of local problems. Unfortunately that possibility has neither been fully recognised nor realised.

I think I oversighted the Job Network competently. So have my successors. It's delivered significantly better value-for-money in terms of placing people into employment than the Commonwealth Employment Service that preceded it. It has proved effective in allowing successive Commonwealth governments to create and manage a market to meet their policy directions[13]. Yet Jenny Stewart was on the money when she argued that it was only a network from the position of the department which administered it[14]. The department is at the hub of a large number of competing players who do not collaborate with each other regularly at a substantive level. It remains, at this stage, a 'managed market' moderated by various consortia, partnerships and an industry association.

This achievement needs to be built upon. It is possible to envisage an evolution to more organic networks of governance in which stakeholders, bound by congruence of public policy interests and common values, engage in mutually beneficial exchange. This would enhance democratic political process.

Not-for-profit organisations need to play a critical role in that transformation. The inclusion of not-for-profit organisations in government service delivery can strengthen civil society by empowering non-government actors who bring different modes of behaviour to the relationship. Whilst their procedural governance and organisational structures may look increasingly similar to for-profit contractors, studies have shown that not-for-profits remain distinguished by much greater commitment to networking. They are more willing to seek inter-organisational collaboration, partnership or co-production. They are more disposed to brokerage and negotiation[15]. A characteristic of successful community-based enterprises is their capacity to look outward and build alliances for advocacy.

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[13] For a summary of the evidence see Michael Keating, Who Rules? How Government Retains Control of a Privatised Economy, The Federation Press, 2004, esp. pp. 91-95.

[14] Jenny Stewart, "Horizontal Coordination: The Australian Experience", in Meredith & Edwards, op. cit. p. 150.

[15] On Australia see Mark Consadine, Enterprising States: The Public Management of Welfare-to-Work, Cambridge, 2001, p. 156. On the USA see Heather McLeod, Grant and Leslie R. Crutchfield, "Crating High-Impact Nonprofits", Stanford Social Innovation Review, Fall, 2007, p.35 which emphasises that "greatness has more to do with how nonprofits work *outside* the boundaries of their organizations than with how they manage their own *internal* operations".

These are qualities from which governments can benefit and the private sector learn. I was at a meeting of the Telstra Foundation last week when a group of the company's senior executives and not-for-profit leaders discussed their 'mentoring' relationship under the Community Leadership Program. Andrew Maiden, Telstra's Director of Media Communications, talked with insight of what he had gained from the relationship. It was apparent that he had learned new skills in advocacy, building consensus, exerting power through influence and negotiation through engagement[16]. Collaboration between the two sectors, it is clear, can enhance the leadership capability of both in a beneficial manner – and can provide a framework of engagement wide enough to embrace governments. Such networks of governance can, "bring to the table a diversity of lived experience and therefore a diversity of 'evidence'" which can generate innovation in the form of new thinking and new solutions[17].

The challenge is for governments to ensure that the not-for-profit organisations that implement their services are provided with a genuine opportunity to influence the policy, and to negotiate the guidelines, under which the program is delivered. Institutional engagement should not assume mutuality of interest. It should not naively assume consensus. The parties will often come to the table with competing viewpoints. Their different perspectives will only be resolved – indeed they will only properly be understood – by interaction and negotiation.

It requires from governments a comprehension that the instrumentalist perception of individual social enterprises as a cheap way of delivering government services is inadequate. They are not just a paid extension of government. Instead, there needs to be recognition, in actions as well as words, of the democratic value of the third sector and the wider social economy in giving voice to community and substance to democratic participation.

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[16] Andrew Maiden emailed me (8 October 2008) his sense of what the private sector can learn from the not-for-profits. "Throughout my career working in government and business I had preconceptions about the non-profit world. I saw non-profit workers as passionate but often lacking rigour, accountability and professionalism. I was used to having authority, telling people what needed to happen, measuring results very quickly, and controlling all the resources I needed. So it struck me as undisciplined that non-profits would rely on seemingly endless meetings, gathering consensus and not quantify results fast. In fact, I came to see that this style of management was required in the world that most non-profits inhabit – a world unlike government and business – where leaders rarely control their resources, can't rely on command-and-control management, and have to persuade others to join their cause. So non-profit leaders weren't weaker or less demanding of accountability, but rather, they were managing in the style that their circumstances required. Moreover, it occurred to me that many of these management qualities would need to be adopted by business as top-down, command-and-control management gives way to collaboration because of technology and the demands of younger workers."

[17] Brian W. Head, "Three Lenses of Evidence-Based Policy", The Australian Journal of Public Administration, Vol. 67, No. 1, 2008, p. 9.

This requires a transformed relationship between government and communities, a partnership premised upon power-sharing. Far from being constrained, not-for-profits need to be encouraged to develop new approaches and have their ownership and intellectual property acknowledged. They need to agree with governments a common understanding of public policy objectives and shared obligations and, on that basis, be given the degree of flexibility necessary to innovate.

The success or failure of collaboration lies not in the emerging network structures of governance or even in the evolving systems by which influences are wielded. It requires new forms of leadership behaviour, particularly on the part of the public servants who remain central to most discussions of public policy and administration. Instead of imposing agendas it needs to negotiate them. It demands public servants who can stand in the shoes of those with whom they deal, can understand their particular perspectives and interests and, by doing so, build trust. And it can be enhanced by a clear indication that public servants will champion the collective decisions of the group – using their disproportionate power on behalf of the collaborative venture[18].

These are not easy steps. Nor are they necessarily sufficient. For governments there is an opportunity not just to empower community organisations but to move further and allow individual citizens to design or tailor services that they need to their own ambitions and circumstance. There is a need to recognise that social benefit can be sought by enterprises that are not defined by their aversion to profit. Nevertheless, the opportunities are as great as obstacles.

The challenge for the future is whether they can be seized.

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[18] For further assessment of the qualities of collaboration see R. Agranoff, "Inside Collaborative Networks: Ten Lessons for Public Managers", Public Administration Review, December, 2006; T. Entwhistle and S. Martin, "From Competition to Collaboration in Public Service Delivery", Public Administration, Vo.. 83, No. 1, 2005.